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city of innovation

WOLLONGONG CITY COUNCIL

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Local Government Team
Attention: Mr Edward Jenkins
Independent Pricing and Regulatory Tribunal
Email: edward_jenkins@ipart.nsw.gov.au

Our Ref: Z22/76845
File: INI-030.10.207
Date: 28 April 2022

Dear Mr Jenkins

APPLICATION FOR ADDITIONAL RATE VARIATION TO GENERAL INCOME 2022-2023

Please accept Wollongong City Council's application for a permanent special variation of 1.8% under section 508(2) of the Local Government Act.

Wollongong City Council and its community have worked together over the past decade to achieve a financially sustainable future for our City and Council operations. Like it has been for many councils, the period from late 2019 to the current period has been an exceptionally challenging time for Wollongong City Council with significant impacts from fire, COVID-19 and flooding. During this time, Council has been able to broadly maintain its financial strength and has worked hard to exceed its expectations in some areas that has allowed some reserves that were used to fund these disasters, to be re-established for agreed future use.

At the same time, there are now significant external risks that are impacting the degree of certainty over the financial results and forecasts. These risks include increasing inflation and costs to Council, the rate income increase being well below increasing costs of providing service, existing and further proposed variations to the allocation of Council's Financial Assistance Grant and additional historical Defined Benefits Superannuation Scheme costs. With these changes, it is likely Council will incur further shortfalls for at least the first three years of this Delivery Program 2022-2026.

To operate sustainably, Council needs our future rates and other revenue to keep pace with future costs to enable Council to provide the service level that is expected and has been committed to. Council has considered that the impact on ratepayers and the community under this proposal would be reasonable and is consistent with the forward budget projections that were exhibited for community comment as part of the 2021-2022 Operational Plan and Budget.

Our community engagement has provided clear evidence of the desire for increased service and improved levels of service across several Council operations. To operate sustainably and meet these expectations, Council needs our future rates and other revenue to keep pace with future costs. In addition to this application for a budgeted rates increase; Council will be further reviewing its Financial Strategy over the coming period with the view to creating greater capacity to do more.

The following documentation is provided as per IPART's requirements:

1. IPART Application for Additional Special Variation to General Income 2022-2023 (attached)

2. 4 April 2022 Council report 'Application to Apply for Budgeted Rate Variation'

A Council report on 4 April 2022 sought endorsement to apply for the special variation. It was unanimously resolved that:

> '1 *Council make application to IPART for a permanent additional special variation, under the process announced by the Minister for Local Government on 8 March 2022, for the use of the 1.8% general income increase in 2022-2023 as adopted in Council's budget in June 2021.*

2 *Council officers participate in the proposed review of the calculation of the Rate Peg for future year.'*

Please refer to report full report Agenda of Ordinary Meeting of Council - 4 April 2022 (nsw.gov.au) and minutes page 3 - Minutes of Ordinary Meeting of Council - 4 April 2022.

3. 2 May 2022 Council Report 'Public Exhibition - Draft Our Wollongong Our Future 2032 Integrated Planning Documents'

A report to Council recommending public exhibition of Wollongong City Council's Integrated Planning and Reporting (IP&R) will be considered at its meeting on 2 May 2022 recommending:

'1 *Council endorse the Draft Community Strategic Plan 2032, Draft Delivery Program 2022-2026 and Operational Plan 2022-2023, Draft Resourcing Strategy 2032, Draft Budget 2022-2023, Draft Infrastructure Delivery Program 2022-2023 – 2025-2026 and Draft Revenue Policy, Fees and Charges 2022-2023 to be placed on public exhibition from 4 May to 31 May 2022.*

2 *Council note and approve that the Plans endorsed for exhibition as part of Recommendation 1 include the preferred scenario of a permanent special variation of 1.8% under section 508(2) of the Local Government Act. If the variation is approved, Council will receive additional income of $1,445,477 above the IPART rate peg of 1% in 2022-2023, indexed annually. This is required for the City to meet its obligations set for 2022-2023 and future years and to maintain financial sustainability. Council considered the impact on ratepayers and the community was reasonable and consistent with the forward budget projections that were exhibited for community comment as part of the 2021-2022 Operational Plan and Budget.*

3 *Following public exhibition, the Draft Community Strategic Plan, Draft Delivery Program 2022-2026 and Draft Operational Plan 2022-2023, Draft Resourcing Strategy 2032, Draft Budget 2022-2023, Draft Infrastructure Delivery Program 2022-2023 – 2025-2026, Draft Revenue Policy, Fees and Charges 2022-2023 be presented to Council for adoption.'*

Please refer to pages 9 – 663 of Council Business Paper 2 May 2022 for the report and draft documents for public exhibition.

For the financial year 2022-2023, Council is proposing that our rates income is indexed by 1.8% in line with Council's budgeted increase included in last year's forward financial estimates adopted by Council in June 2021. This rate is higher than the initial IPART Rate Peg of 1.0% (inclusive of a 0.3% population growth) and, therefore, requires application and approval by IPART before it can be formally adopted in June 2022.

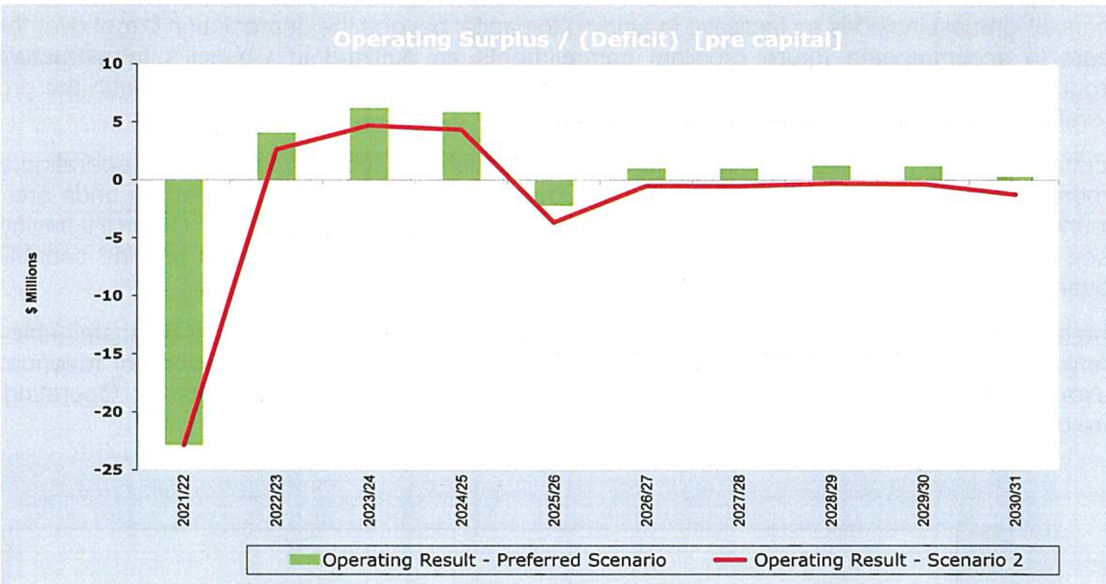
Council has included alternate scenarios based on Council's preferred rate of 1.8% (Scenario 1) and Scenario 2 that includes a 1.0% rate indexation. If the variation is approved (Scenario 1), Council will receive additional income of $1,445,477 above the IPART rate peg of 1.0% in 2022-2023, indexed annually. This is required for the City to meet its obligations set for 2022-2023 and future years and to maintain financial sustainability.

References included throughout the documentation relating to the proposed special variation have been listed in the table below.

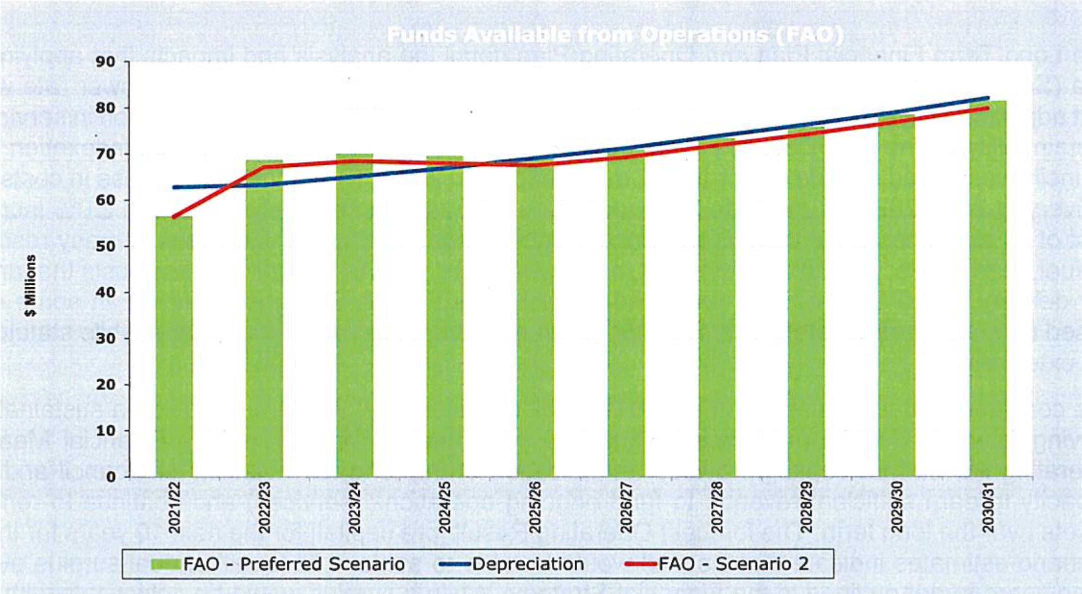
Document References to Additional Rate Variation	**Page/s**
Draft Delivery Program 2022-2026 and Operational Plan 2022-2023	18 & 120
• Attachment 1 – Draft Budget 2022-2023	4 – 6, 8 – 10, 13 – 22, 24 – 26 & 53-54
• Attachment 3 – Draft Revenue Policy Fees & Charges 2022-2023	I - ii
Draft Resourcing Strategy 2022-2032 • Draft Long-Term Financial Plan	17 23, 27 - 31, 36 – 47, 57-58.

The Long Term Financial Plan and Operating Plan detail the analysis and impacts that applying the lower rate (Scenario 2) would have on Council's financial sustainability. Effectively, the lower rate would mean that adjustments will need to be made to future revenues, costs of services, or reduction in services to retain sustainability in line with Council's Financial Strategy. The IPART determined rate indexation of 0.7% for councils was based on indexes for the 12 months to June 2021. The estimated increase in costs for Council delivery in 2022-2023 far exceeds that index. Council has conservatively forecast a 2.0% increase in the cost of its resources while there is evidence in recent months of higher increases in many resources such as fuel, road works, plant and equipment, employee costs, etc. As a result of these costs that are central to our delivery, a 2.0% increase is proposed for Council's Fees & Charges generally. In some cases, fees based on market rates, rate of return or full recovery, have been varied specifically, while statutory fees are set externally.

It is considered that Scenario 2 (the IPART 1.0% rate increase) would not provide a sustainable position moving forward. Council measures its financial sustainability through its Key Financial Measures. The Operating Result [pre capital] provides an indication of the long term viability of Council and its earning capacity to earn sufficient revenue to fund ongoing operations (services) and continue to renew existing assets over the long term. The forecast Operating Result [pre capital] for the next 10 years for the preferred scenario estimates indicate that Council would be able to achieve its 'small annual surplus average over three years target outlined in the Financial Strategy. While a surplus would be achievable with Scenario 2 in the early years, forward years would not be sustainable.



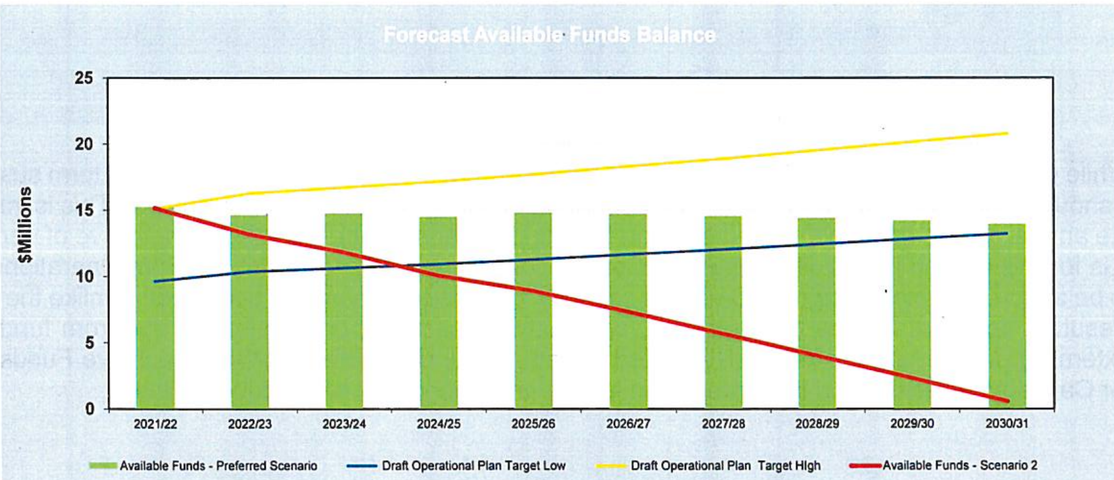
While Operating Result [pre capital] is a Key Financial Measure financial indicator of long term sustainability, it should usually be viewed over a longer period to get a true indication of performance. This is important as the annual results can be impacted by short term timing transactions that are not indicative of performance. It is for this reason that Wollongong City Council considers our Funds Available from Operations indicator to be a more reliable indicator of Council's capacity to manage its services and assets. Unlike the Operating Result, it does not include timing issues, non-cash transactions, or transfers to and from funds that are externally or internally restricted (Restricted Assets). Council's current goal is to achieve Funds Available for Capital to at least equal its depreciation, or the annualised cost of capital over its life.



The graph above shows Council's forecast Funds Available from Operations position for each scenario. The financial forecast includes an increase in funding to capital beyond the depreciation target over the next four years to accommodate future program commitments as outlined in Council's Infrastructure Delivery Program. It is proposed that the program committed would be maintained as is through the program and therefore would be unchanged under each scenario.

Scenario 2 would not provide sufficient funds from annual operations to fund the full operating and capital programs, which would create a reduction in Council's Available Funds. Available Funds are funds that Council has earned but not allocated to specific expenditure. They are held as Council's savings and are used to act as a buffer against unanticipated future costs or can be used to provide capability to take advantage of opportunities that may arise.

The table below shows that Scenario 2 (the IPART 1.0% rate increase) would not be sustainable and would create a requirement for significant variation to future program delivery, operations or revenue. Council's sustainability target is to maintain Available Funds between 3.5% and 5.5% or Operating Revenue [pre capital].



Financial details for the 2022-2023 revised long term financial estimates have been included in the attached IPART worksheets [WK* - LTFP, LTFP Extract (Adjusted)] for information, as Council's financial position and forecasts have moved negatively since the adoption of the 2021-2022 Operating Plan and long term estimates. These new 2022-2023 estimates, based on currently available data and experience including the requested 1.8% General Income increase, still show that revenue increases will be set below the anticipated increases in the cost of providing service.

In addition to general economic conditions, Council has been advised of additional impacts through proposed changes to the Financial Assistance Grant funding and the Local Government Superannuation Defined Benefits Scheme (now Active Super) that have a significant and recurrent negative effect on Council's results.

The allocations of the Financial Assistance Grant, a Federal Government Grant allocated in NSW by the Grants Commission on behalf of the State Government, is being changed to better advantage councils in the greatest relative need in NSW. The impact of this change is that Wollongong will not experience the expected real growth in its funding and may experience an actual decrease in funding over time. The Grants Commission is not able to forecast future grants although have advised their direction and its potential negative impact on Wollongong City Council. While a decision has not been made on a change to the allocation methodology that would allow reductions in future grants, it is considered prudent to budget for zero increases for at least four years of this plan while the methodology and its impacts are better determined. The Financial Assistance Grant is a substantial portion of Council's revenue and this variation would have an annual negative impact of $0.4M in year one and $1.7M per annum by year four.

Active Super manage a defined benefits scheme on behalf of Local Government that has insufficient contributions to maintain a sound financial position without additional Council payments. The Scheme which closed in 1993 has required councils to fund a catch up payment that has been in place since 2009. While it was envisaged that this would be a short term requirement, the Scheme will now require additional payment for the fourteenth year. Council had not funded this extension into future years in the expectation that it would cease, however, recent correspondence has indicated a payment of $1.0M (half of previous payments) would still be required in 2022-2023. As this has been a year by year proposition for an extended period, it has now been factored in to future costs of this plan, creating a further negative impact on Council's result.

The extent of the losses and the ability of Council to be able to retain its Financially Sustainable position will depend on the outcome of the request to apply a 1.8% rate increase that was forecast in our 2021-2022 Operating Plan. Please refer to pages 18 and 19 - Attachment 1 Budget 2021-2022.

Please do not hesitate to contact Council's Chief Financial Officer, Brian Jenkins, on [redacted].

Yours faithfully

[redacted]

Greg Doyle
General Manager
Wollongong City Council
Telephone [redacted]