

**Item No:** 12.2  
**Subject:** **COMMUNITY ENGAGEMENT ON A PROPOSED SPECIAL RATE VARIATION FROM 2023-24**  
**Author:** Sue Meekin, Director Corporate Performance  
**Approver:** Craig Swift-McNair, General Manager  
**File No:** 22/149568  
**Purpose of the Report:** To seek Council's approval to commence community engagement on a proposed Special Rate Variation from 2023-24  
**Alignment to Delivery Program:** Strategy 11.4: Maintain Council's strong financial position.

**Recommendation:**

THAT Council:

- A. Endorse Council staff commencing broad community engagement from 22 August 2022 to 2 October 2022, on the need for and extent of a proposed Special Rate Variation application.
- B. Note that the community engagement on a proposed Special Rate Variation as detailed in Part A above, will include three potential rating scenario options being:

Scenario	Potential Rating Scenario
Scenario One	Rate Peg 2.5% only
Scenario Two	2023/24 - 10.0% SRV + Rate Peg 2.5% 2024/25 - 5.0% SRV + Rate Peg 2.5%
Scenario Three	2023/24 - 15% + Rate Peg 2.5% 2024/25 - 9% + Rate Peg 2.5% 2025/26 - 3.5% + Rate Peg 2.5%

- C. Note that potential rating scenarios two and three as detailed in Part B above, will assist in securing Council's long-term financial sustainability and provide additional funding to address identified community priority areas.
- D. Note that a further report to consider the community feedback on the proposed SRV and next steps will be tabled at Strategic & Corporate Committee meeting of Council on 17 October 2022.

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**Executive Summary:**

The purpose of this report is to seek Council endorsement to undertake broad community engagement on a proposed Special Rate Variation (SRV) that if applied for, would commence from 1 July 2023.

Council needs to maintain a financially sustainable position over time so that it can continue to provide infrastructure and services for the benefit of our community. Over the last five years, it has become increasingly difficult for Council to continue to maintain a financially sustainable position, as a range of factors (only some of which Council is able to control or change), has affected Council's financial position. This has resulted in operating budget deficits over recent years.

This report details the efforts made by Council over the past 18-24 months to address Councils long-term financial sustainability. Importantly, this report also explains that one further measure that Council could take to support its future financial sustainability is to apply to the Independent Pricing & Regulatory Tribunal (IPART) for an SRV. If approved by the IPART, the SRV would provide funds to not only provide for and assist with the future financial sustainability of Council, but also allow Council to deliver some much-needed projects and increased levels of service across the Local Government Area (LGA).

When considering applying for an SRV, Council must ensure that the community is aware of the need for and extent of a potential SRV. This means actively seeking out and listening to the community's views. In line with the above, it is proposed that community engagement be undertaken for a period of six weeks commencing 22 August 2022 and ending on 2 October 2022 in relation to three potential rating scenarios, one of which is a base scenario and two of which include an SRV.

It is important to note that this report is not seeking Council endorsement to apply for a proposed SRV. As detailed above, the purpose of this report is to seek Council endorsement to undertake broad community engagement on a proposed SRV only. Any future consideration by Council in relation to moving forward with any proposed SRV application would come later in 2022, post the community engagement period.

#### **Discussion:**

The utilisation of cash reserves has enabled Council to maintain our levels of service to the community and to continue to maintain our public assets over the past 18 months or so. However, as noted in the recently adopted 2022-23 Budget (27 June 2022) and in Quarterly Budget Review reports during 2021-22 and 2022-23, this approach and position is not sustainable in the longer term.

Action already undertaken by Council to address this deficit position has seen the annual operating deficit reduce by **\$3.8m** from the 2021-22 original adopted budget deficit of \$4.1m to an anticipated deficit of **\$0.3m** in 2022-23. Whilst the 2022-2023 budget sees Council with a vastly improved budget result, this still does not provide Council with the financial flexibility it needs. Therefore, further measures will be required to bring Council into surplus to ensure a long-term financially sustainable position. The Long Term Financial Plan (LTFP) adopted by Council on 27 June 2022 reaffirmed this, by identifying that without further corrective measures, Council does not achieve a financially sustainable position (whilst maintaining our current service levels), over the 10-year life of the LTFP.

One measure that Council can give consideration to is a potential application for an SRV that if approved by the IPART, would be effective from 1 July 2023. An SRV would not only assist in securing the future financial sustainability of Council, it would also provide Council the opportunity to address a number of priority initiatives, which otherwise would not be funded without a corresponding reduction in existing service levels.

As noted earlier, when considering applying for an SRV, Council must ensure that the community is aware of the need for and extent of a potential SRV. The proposed community engagement from 22 August 2022 to 2 October 2022 will include information in relation to three potential rating scenarios, including a base scenario and two of which include an SRV.

Scenario One is known as the base model, with the only increase being the rate peg that is approved every year by the IPART. This Scenario has no SRV and as detailed further in this report, this does not achieve a long-term financially sustainable position for Council. Scenarios Two and Three however, do both assist in achieving long-term financial sustainability to varying degrees, as well as provide additional funds to address some key priority initiatives. Following is a snapshot of the three SRV scenarios:

Scenario	Rate Modelled
Scenario One	Rate Peg 2.5% only
Scenario Two	2023/24 - 10.0% SRV + Rate Peg 2.5% 2024/25 - 5.0% SRV + Rate Peg 2.5%
Scenario Three	2023/24 – 15% + Rate Peg 2.5% 2024/25 – 9% + Rate Peg 2.5% 2025/26 - 3.5% + Rate Peg 2.5%

The SRV in both Scenarios Two and Three would be permanent increases, meaning that these increases would remain permanently in the rate base.

What is a Special Rate Variation (SRV)?

Councils can only increase their rates each year by up to the rate peg limit determined by the IPART; this is known as rate pegging. Rate pegging is one of the key factors that can constrain a Council from being able to raise sufficient revenue with which to be able to provide ongoing and improved services to the community.

This was evidenced by the most recent rate peg determination by the IPART for Woollahra Council (and many other Councils in NSW) for 2022-2023 of 0.7%, which was the lowest rate peg for approximately twenty years.

Following advocacy by the NSW Office of Local Government (OLG), Local Government NSW (LGNSW) and others, the IPART introduced a one off process for 2022-23 only. This process allowed Councils (including Woollahra Council) to be able to apply to increase its rates for 2022-23 by a total of 2% (which is now reflected in the recently adopted 2022-23 budget) to counter the original IPART rate peg determination. However, even at 2%, this is still significantly lower than the inflation rate for 2021-22 financial year which was 6.1%.

NSW Councils are able to apply to the IPART for increases beyond the annual rate peg limit and this is known as an SRV. An SRV application can be made for either a fixed term or permanent increase in rates. An SRV can also provide Council the opportunity to address a number of priority spend initiatives which otherwise would not be funded without a corresponding reduction in existing service levels.

The Need for an SRV

Council adopted its 2022-23 Budget and LTFP on 27 June 2022. The 2022-23 Budget showed a reduction in Councils operating deficit from an original deficit of \$4.1m in 2021-22 to an anticipated operating deficit in 2022-23 of \$0.3m. The \$3.8m reduction was a result of a number of budget improvement initiatives undertaken by Council, which are detailed further below. Whilst the 2022-2023 budget certainly sees Council with a vastly improved budget result, it still does not provide the financial flexibility Council needs, so further measures will be required to bring Council into surplus to ensure a long term financially sustainable position.

Council's LTFP reaffirmed this position, highlighting that without further corrective measures Council would not achieve a financially sustainable position without impacting on our current service levels, over the 10 year life of the LTFP.

Further, Quarterly Budget Review reports reported to Council over the last 18 months and at several Councillor Budget Briefings, it has been highlighted that Council has been fortunate to have cash reserves to draw on to fund its current operating deficit position and maintain current services, however this is not sustainable in the longer term.

### Budget Improvement Initiatives

Council has taken very seriously the matter of future financial sustainability and as such, prior to asking the community to give consideration to a proposed SRV, Council has undertaken a range of budget improvement initiatives. This proactive approach over the last 18 months to improve Council's financial position has included the following budget repair actions:

- In April 2021 Council resolved to refinance our Loan for Kiaora Place (the Council-owned Double Bay commercial centre), resulting in:
  - Decreased annual interest expenses by \$700,000
  - Total savings of \$7.87 million over the life of the loan (net of the one-off break costs of \$6.45million).
- During 2021, Council extended the replacement of our passenger vehicles from a 2.5-year replacement cycle to a 4-year replacement cycle. This is expected to save \$3.5million over 10 years.
- Councillors and Council staff identified and implemented a range of expense efficiencies of \$500,000 in 2021-22.
- During February – April 2022, Council undertook a major staffing review / redundancy program that saw Council realise savings of \$2.75million, which are reflected in the adopted 2022-23 budget. This action has been achieved without impacting adversely on the services currently provided to the community. It should be noted that any further staff reductions without a broader review of the entire suite of services Council provides will likely result in an impact on the services Council provides to the community.
- Council continues to look at opportunities to increase income, with potential additional income of around \$2 million per annum from areas such as bus shelter advertising. This income is phased in to the LTFP over three years commencing with \$500,000 in 2022-23. This is subject to changes in the Local Environment Plan and future resolutions of Council.

### Unfunded Priority Areas

Community engagement undertaken over recent years has identified a number of key priority areas for the community, which are unable to be funded within Council's current budget. These include:

- Protecting our heritage through the implementation of projects as identified in Council's Heritage Gap Analysis
- Improving Council's parks and recreational areas
- Maintaining the large number of fig trees within the Woollahra LGA
- Mitigating the impacts of climate change
- Improving our existing footpaths
- Improvements to parking
- Making active transport a safe, easy and healthy option
- Improve our customer's experience and be more responsive to the community

In addition to securing Council's long-term financial sustainability, an SRV provides the opportunity to raise additional funds to address some of these community's priority areas. Further details relating to specific priority areas and projects that might be able to be funded via the SRV will be provided throughout the community engagement process.

Potential Rating Scenarios

As noted above, the LTFP adopted by Council on 27 June 2022 confirmed that without further corrective measures, Council does not achieve a financially sustainable position (whilst maintaining our current service levels), over the 10 year life of the LTFP. In line with this and as detailed earlier in this report, one measure that Council can consider is a potential SRV commencing 1 July 2023.

In line with SRV guidelines produced by the OLG, Council has developed three potential rating scenarios detailed below:

Scenario	Rate Modelled <sup>1</sup>	Priority Spending	Additional Priority Funds	Average Rate After 10 Years (2022/23=\$1,480)	Average rate increase over 10 years
Scenario One	Rate Peg 2.5% only  <i>Cumulative increase over 3 years: 7.69%</i>	No additional spend for priorities identified	\$nil	\$1,848	\$368
Scenario Two	2023/24 - 10.0% SRV + Rate Peg 2.5%  2024/25 - 5.0% SRV + Rate Peg 2.5%  <i>Cumulative increase over 3 years: 23.96%</i>	Partial additional funding for priorities identified	\$49m	\$2,128	\$648
Scenario Three	2023/24 – 15% SRV + Rate Peg 2.5%  2024/25 – 9% SRV+ Rate Peg 2.5%  2025/26 -3.5% SRV+ Rate Peg 2.5%  <i>Cumulative impact over 3 years of SRV: 38.87%</i>	Full funding of priorities identified	\$73m	\$2,384	\$904

<sup>1</sup> IPART have advised that a rate peg of 2.5% should be assumed in modelling, however this is subject to change

It should be noted that:

- Scenario One does not secure Council’s long-term financial sustainability.
- Scenarios Two and Three both contribute to securing Council’s long-term financial sustainability and provide additional funds to enable Council to address a number of unfunded priority areas. The difference between Scenarios Two and Three is the number of priority areas that can be addressed, depending on the available funding.

### Community Engagement on a Potential SRV

As noted earlier in this report, Council needs to ensure and be able to demonstrate that the community is aware of the need for and extent of a potential SRV / rate rise and to actively seek out and listen to the community's views. The IPART Special Rate Variation Guidelines include:

*"In particular, councils need to communicate the full cumulative increase of the proposed Special Variation (SV) in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur."*

Councils community consultation needs to reach as many people in the Woollahra LGA as possible, including both ratepayers and the broader community and provide them with information that ensures they are aware of the need for and extent of a potential SRV. A communications and engagement plan has been developed that uses a diverse range of channels to share the key messages and promote community feedback. An outline of these activities can be found at **Attachment 1**.

It is proposed that community engagement is undertaken for a period of six weeks commencing 22 August 2022 and ending on 2 October 2022 in relation to three potential rating scenarios outlined earlier in this report.

#### **Options:**

Council may resolve to approve the commencement of community engagement on a potential SRV or may resolve in some other manner.

#### **Community Engagement and / or Internal Consultation:**

A Communications and Engagement plan in relation to a potential SRV has been included at **Attachment 1**.

#### **Policy Implications:**

There are no direct policy implications arising from this report.

#### **Financial Implications:**

Council adopted its 2022-23 Budget and LTFP on 27 June 2022. The 2022-23 Budget showed a reduction in Councils operating deficit from an original deficit of \$4.1m in 2021-22 to an anticipated operating deficit in 2022-23 of \$0.3m. The \$3.8m reduction was a result of a number of budget improvement initiatives undertaken by Council as detailed in this report. Whilst the 2022-2023 budget sees Council with a vastly improved budget result, it still does not provide the financial flexibility Council needs, therefore, further measures will be required to bring Council into surplus to ensure a long term financially sustainable position.

#### **Resourcing Implications:**

There are no direct resourcing implications arising from this report.

### **Conclusion:**

Council needs to maintain a financially sustainable position over time so that it can continue to provide infrastructure and services for the benefit of our community. Over the last five years, it has become increasingly difficult for Council to continue to maintain a financially sustainable position as a range of factors (only some of which Council is able to control or change), have affected Council's financial position, which has resulted in operating budget deficits over recent years.

As detailed in this report, one further measure that can be considered by Council to assist in securing a financially sustainable future is to apply for an SRV that if approved by the IPART, would be effective from 1 July 2023. An SRV as detailed in this report would also provide Council the opportunity to address a number of priority spend initiatives which otherwise would not be funded without a corresponding reduction in existing service levels.

The proposed community engagement program is to ensure that Council communicates clearly to the community the need for and extent of a potential SRV. As per the recommendation included in this report, it is proposed to undertake community engagement for a period of six weeks commencing 22 August 2022 and ending on 2 October 2022 in relation to three potential rating scenarios. A further report to consider the community feedback on the proposed SRV and next steps will be tabled at Strategic & Corporate Committee meeting of Council on 17 October 2022.

### **Attachments**

1. Communications & Engagement Plan for a Potential SRV