
APPLICATION FOR SPECIAL RATE VARIATION

Purpose:

To seek Council's endorsement to apply to the Independent Pricing and Regulatory Tribunal (IPART) for a community wide Special Rate Variation (SRV) over three years commencing 2014/2015.

Description of Item:

Coffs Harbour City Council at its meeting of 28 November 2013 resolved to notify IPART of its intention to make an application for a SRV under Section 508(A) of the Local Government Act. This resolution also included a need for further community engagement regarding the proposed steps for Council to establish a financially sustainable position, including the application for a SRV.

Staff notified IPART of the Council's intention to lodge a SRV. Staff have also continued a community engagement process in regards to the proposed steps to adopt a financially sustainable position, including a proposed 'rate rise' over three years. Details and results from the community engagement process are included under the 'Consultation' heading in this report.

The proposed SRV is a key element of Council's funding strategy to ensure the sustainable management of Council's infrastructure assets. All additional revenue generated by the SRV (above rate pegging allowances) will be allocated to funding asset maintenance and renewal works. More specifically, Council has an approximate \$6.2 million per annum shortfall in asset maintenance and renewal to adequately support the services desired by the community.

The proposed SRV is a permanent multiple year increase over a three year period commencing from 2014/2015.

The following table shows the impact of the proposed SRV (inclusive of rate pegging) on Council's approximate annual ordinary rate yield and additional annual expenditure for asset maintenance and renewal.

Proposed Funding Levels	2013/14	(YEAR 1) 2014/15	(YEAR 2) 2015/16	(YEAR 3) 2016/17
Ordinary Rate Yield	\$36.1M	\$38.9M	\$42.05M	\$45.45M
Ordinary Rate Yield Increase <i>(including rate pegging %)</i>		\$2.8M	\$3.15M	\$3.4M
Additional Annual Ordinary Rate Yield <i>(above rate pegging %)</i> for Asset Maintenance & Renewal		\$2M	\$2.06M	\$2.12M
Additional Annual Funds Allocated to Asset Maintenance & Renewal		\$2M	\$4.06M	\$6.18M

As shown above the proposed SRV will yield an additional \$6.2 million (approximately) in the third year (2016/17) to be used for additional asset maintenance and renewal of community assets. As the proposed SRV is a permanent increase to Council's rate base the \$6.2 million after the third year (2016/17) will then increase in future years by the rate pegging allowance.

Sustainability Assessment:

- **Environment**

There are no environmental impacts as a result of the recommendations in this report.

- **Social**

Whilst Council currently delivers an extensive range of services achieving social, environmental and economic outcomes, its ability to do so into the future is dependent upon it being financially sustainable. The proposed Special Rate Variation is an important component of Council's future funding strategies to achieve long term financial sustainability.

- **Civic Leadership**

Council being financially sustainable, and therefore maintaining current levels of service delivery, works towards achieving a number of the outcomes identified within the *Coffs Harbour 2030* Community Strategic Plan and is directly connected to the themes "Looking after our Community", "Moving Around" and "Places for Living".

Relevant strategies include:

- Build pride and identity in Coffs Harbour as a community and a place;
- Ensure adequate maintenance and renewal of roads, footpaths and cycleways;
- Provide infrastructure that supports sustainable living and is resilient to climatic events;
- Provide public spaces and facilities that are accessible and safe for all;
- Provide safe and accessible play spaces for our children within each community;
- Improve the effectiveness of the existing transport system.

- **Economic**

Broader Economic Implications

Sustainable service delivery through the generation of savings, improved productivity efficiency and additional rate revenue has broad positive growth and economic impacts for the entire City for the future. The impact of the proposed rate increase on ratepayers needs to be balanced against the positive economic impact of maintaining Council programs and services across the local government area.

Delivery Program/Operational Plan Implications

Council's current adopted 2013-2014 Operational Plan and 2013-2017 Delivery Program provide commentary on Council's resourcing challenges and the future decline in levels of service if Council's annual 'infrastructure gap' is not addressed.

The following excerpt is from Council's 2013-2014 Operational Plan:

Options to meet Resourcing Challenges from 2014-2015

Council's Asset Management Strategy and Long Term Financial Plan demonstrate that the organisation needs additional resourcing of about \$8 million a year to achieve a sustainable financial position. This might be achieved through productivity improvements, changes to levels of service, new revenue streams and/or additional rate income.

A strategy is to be pursued during 2013/2014 – in consultation with the community – to develop measures to address this resourcing challenge from 2014/2015 onwards.

The following excerpt is from Council's 2013-2017 Delivery Program:

Level of Service for Assets

Recent asset data places Council's annual 'infrastructure gap' (for the General Fund) around \$6.2 million. If this infrastructure gap is not addressed, asset service levels will decline as community assets deteriorate.

This annual funding gap has an impact on Council's ability to meet community strategies captured within the reviewed Community Strategic Plan.

The following asset-specific strategies from the reviewed Coffs Harbour 2030 Plan are impacted by the amount of Council's General Fund asset maintenance and renewal spends.

- *Provide infrastructure that supports sustainable living and is resilient to climatic events*
- *Provide public spaces and facilities that are accessible and safe for all*
- *Provide safe and accessible play spaces for our children within each community*
- *Improve the effectiveness of the existing transport system*
- *Ensure adequate maintenance and renewal of roads, footpaths and cycleways.*

Addressing the Funding Challenge

The 2013-2017 Delivery Program is based on an asset service level described as "Sustainable Model Version 1" in Council's Long Term Financial Plan. This level of service will require additional funding to eliminate the annual General Fund infrastructure gap (\$6.2 million) as well as projected General Fund budget deficits which grow to \$3.5 million in 2022/2023.

Council's draft 2014-2018 Delivery Program will again have a focus on a range of funding options to close the remainder of the 'gap' to financial sustainability (as detailed in Council's Resourcing Strategy) including the Transformation to Sustainability Project and continued emphasis on Asset Management.

Risk Analysis:

The Integrated Planning and Reporting (IPR) Framework provides an approach to assist Council move to financial sustainability, particularly through long term financial planning to fund strategic actions and levels of services. The requirement for additional revenue to maintain the current levels of service is clear from Council's IPR documents. Therefore, there is a significant financial risk for Council to manage if the application for a Special Rate Variation is not approved. Levels of service would need to be revisited with reduction of and/or removal of services considered.

Consultation:

Council at its meeting of 26 September 2013 endorsed a 'Level of Service – Community Engagement Process' which included a Community Engagement Strategy for levels of service. The objective of the engagement strategy was to seek community feedback on preferred levels of service and proposed funding solutions to meet that service level.

Community engagement was undertaken in a two-phase process with the first phase assessing preferred levels of service and a willingness to pay more rates via submissions made through Council's 'Budget Allocator' survey. Details and results from the first-phase of engagement were previously reported to Council on 28 November 2013.

The second phase of the engagement process sought community feedback on proposed steps to be taken to adopt a financially sustainable position, including the proposal for a SRV and further funding options to close the remainder of the 'gap' to financial sustainability.

Council in phase two engaged the community through various media releases, a mail-out to all ratepayers, e-newsletters, two information stalls (Growers Market and Harbourside Market) and Council's page in *The Coffs Coast Advocate* – all of which had a focus on seeking feedback via a 'proposed rate rise' survey.

The survey (which was made available in both on-line and hard copy formats) also allowed participants to add additional comments in regards to their survey response.

The survey had a simple approach and asked if the Community would support Council applying for a rate increase over the next three years to help pay for ongoing renewal and maintenance of the assets needed to deliver services to the community.

The survey was open for nearly seven weeks from the 9 December 2013 to 24 January 2014.

In total, 912 people completed the 'open public' survey. The results (Graph 1) from the open survey are included in the issues section of this report.

In addition to the comments received via the survey, Council received 46 written submissions on the funding proposals put forward. Approximately 90% of these submissions included comments opposing the SRV proposal.

Community Reference Panel

In addition to the 'open public' survey, Council separately engaged its recently established 'community reference panel' with the same survey to provide Council with added confidence that the feedback received was representative of the community as a whole.

Out of a total of 467 panel members, 205 (or 52%) members completed the same survey.

The feedback from the reference panel (Graph 2) is included in the issues section of this report, separately identified from that of the 'open public' survey results.

Based on an approximate LGA population of 70,000, the reference panel survey results have a margin for error of approximately +/- 6% at the 95% confidence level.

It is important to note that the 'open public' results can in no way be considered statistically random (and therefore representative of the general community) because it is subject to bias by particular interest groups, a sampling error cannot be applied.

Related Policy and / or Precedents:

Section 508(A) of the Local Government Act 1993 applies.

Statutory Requirements:

Council will need to make a SRV application, under Section 508(A) of the *Local Government Act*, to IPART for determination. The application to IPART will be based on a proposed increase to Council's 'Notional General Income' (which includes only revenues generated from the ordinary rate and environmental special rate). In this regard the following table shows the proposed increase to Council's the Notional General Income over the next three years.

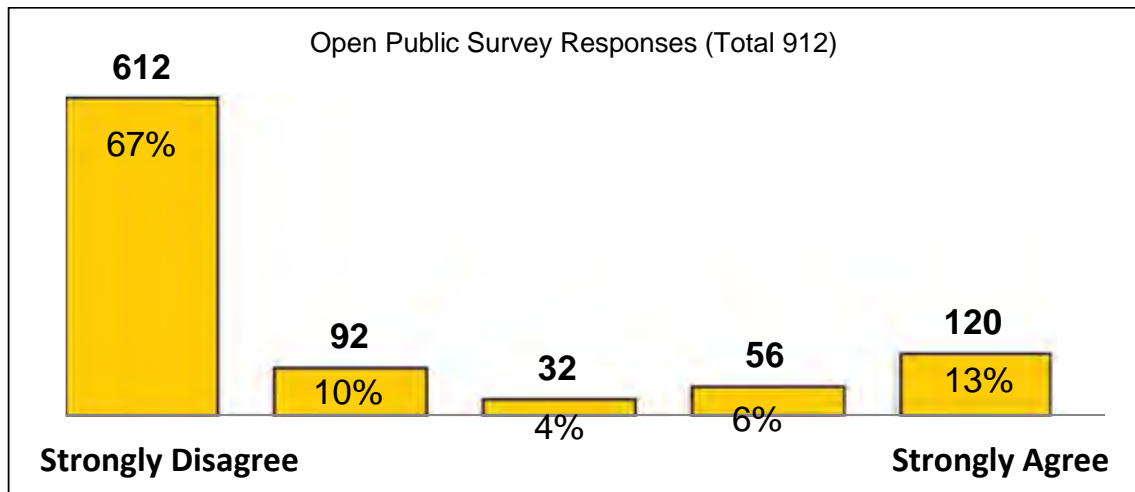
Financial Year	Percentage Increase	Additional Notional General Yield
2014/2015	7.90%	\$2.83 million
2015/2016	8.14%	\$3.17 million
2016/2017	7.75%	\$3.27 million

Issues:

Results from 'Open public' survey

The following graph (Graph 1) shows results from the 'open public' survey. As you can see 67% of respondents strongly disagree with the proposed SRV while 13% strongly agree.

Graph 1 – Results from Open Public Survey



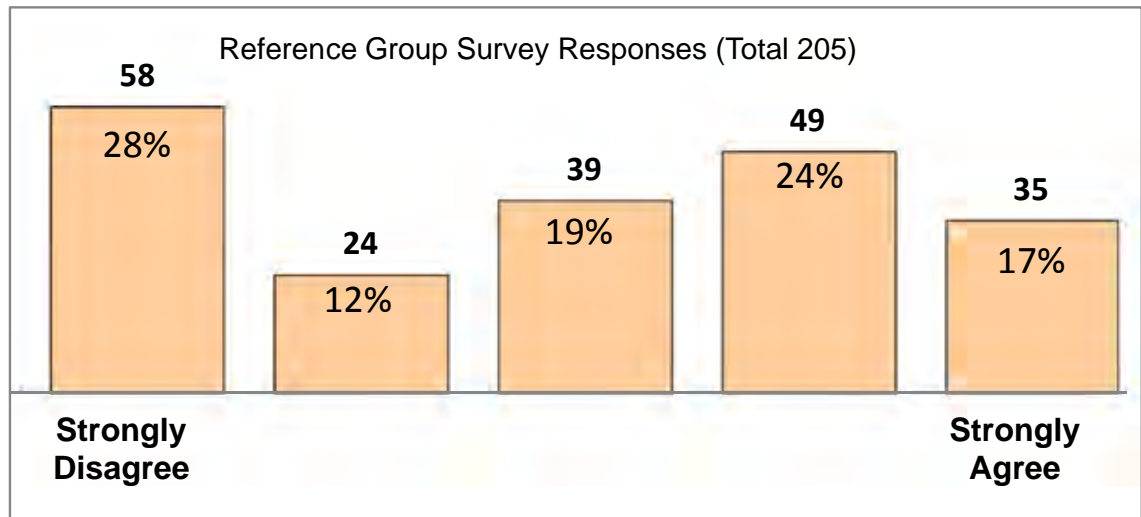
The following table shows a summary of the type of comment received from the open public.

Request for Council Expenditure Cuts	36%
Concerns about Affordability	19%
Support Proposal - With Comments & Suggestions	15%
Reallocation of Funding to 'Core Services'	11%
Can't see Value for Rates for their Property	10%
Lack of Services for Red Rock, Mullaway, and Corindi Areas	5%
Approach State/Federal Government for Assistance	2%

Results from the Reference Panel

The following graph (Graph 2) shows results from the Reference Panel completing the same survey as the 'open public'. As you can see from this graph there seems to be a more balanced response to the survey question.

Graph 2 – Results from Reference Group (same survey as open public)



The following table shows a summary of the type of comment received from the Reference Panel.

Support Proposal	33%
Request for Council Expenditure Cuts	26%
Concerns about Affordability	22%
Can't see Value for Rates for their Property	9%
Reallocation of Funding to 'Core Services'	8%
Lack of Services for Red Rock, Mullaway, and Corindi Areas	1%

Proposed Impact on Ratepayers

The impact of the proposed SRV (staged over three years) on the average residential property is best demonstrated by comparing the total annual rate bill 'with' and 'without' the SRV.

Comparisons involving the total rate bill have been used throughout the community engagement process so that impacts of projected increases of all charges – water, sewerage and waste as well as the services funded by the ordinary rate – can be considered.

In simple terms, the total annual rate bill (inclusive of all annual and usage charges) for the average residential property would increase by around 5% per year for the next three years under the proposed SRV rather than around 3.5% per year without the SRV.

The tables below clarify the actual dollar increases under the two scenarios. Full details of the calculations are provided in the attachment.

Scenario	Increase in total rate & charges bill per annum			Totals
	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	
Rate peg only (2.3% for 14/15 & projected 3% for 15/16 & 16/17)	\$101.84	\$112.72	\$114.62	\$329.18
With Special Rate Variation	\$155.30	\$167.83	\$171.35	\$494.48
Difference	\$53.46	\$55.11	\$56.73	\$165.30

Scenario	Increase in total rate & charges bill per annum (\$ / week)			Totals
	Year 1 (2014/15)	Year 2 (2015/16)	Year 3 (2016/17)	
Rate peg only (2.3% for 14/15 & projected 3% for 15/16 & 16/17)	\$1.96	\$2.17	\$2.20	\$6.33
With Special Rate Variation	\$2.99	\$3.23	\$3.30	\$9.52
Difference	\$1.03	\$1.06	\$1.10	\$3.19

Put another way, when the full amount of the SRV is implemented in the third year, residents will be paying \$165.30 per year (\$3.19 per week) more than if Council limits ordinary rate increases to the rate peg amount (allowing for a projected rate peg increase of 3% p.a. for 15/16 & 16/17).

At the end of three years, assuming Council has been able to “bridge the gap” to sustainability in other ways, future ordinary rate increases would be limited to the annual rate peg increase.

The attachment also shows the proposed impact on the ordinary rate (only) for the average farmland and business property.

Proposed Allocation of Additional Rate Funds

The proposed SRV will generate additional ordinary rate funds (above the pegging increase) in the third year of approximately \$6.2 million to address Council’s annual infrastructure maintenance and renewal gap. The following table shows the proposed allocation of these additional funds for the first three years across particular asset categories and expenditure.

Detailed programs of works supporting this allocation are currently being finalized in conjunction with new Asset Management Plans.

Asset Expenditure	2014/2015	2015/2016	2016/2017
	Year 1	Year 2	Year 3
Road Pavements and Surfacing	\$660,000	\$1,320,000	\$2,000,000
Road Maintenance	\$190,000	\$390,000	\$600,000
Other Transport Assets	\$190,000	\$390,000	\$600,000
Building Renewals	\$480,000	\$980,000	\$1,481,800
Building Maintenance	\$160,000	\$330,000	\$500,000
Recreation Services Renewals	\$260,000	\$520,000	\$800,000
Asset Management	\$60,000	\$130,000	\$200,000
Totals	\$2,000,000	\$4,060,000	\$6,181,800

Implementation Date / Priority:

An application for a SRV is required to be submitted to IPART by 24 February 2014. Once adopted, the proposed SRV will be used to inform the development of Council's Draft 2014/2018 Delivery Program (due for release for public exhibition in April 2014).

Recommendation:

That Council makes a Special Rate Variation Application to IPART for a permanent rate increase to be phased in over three years, pursuant to Section 508(A) of the Local Government Act, 1993 which will result in Council's Notional General Income increasing by 7.90% for 2014/15, 8.14% for 2015/16 and 7.75% for 2016/17.

Proposed SRV Impacts – Average Residential Property

**Projected Increase in Total Rate Burden for the AVERAGE Residential Property for the next 3 Years (with Rate Peg Increase Only)
Average Residential Property (Based on a land valuation of \$183,700)**

Rates & Charges	CURRENT	Year 1	Year 2		Year 3		3 Year Compound Increase from 2013/14					
	2013/14	2014/15	Increase Year 1	2015/16	Increase Year 2	2016/17	Increase Year 3	(\$)	%			
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	%			
Residential Ordinary Rate	930.65	952.58	21.93	2.36%	981.11	28.53	3.00% **	1,010.52	29.41	3.00% **	79.88	8.58%
Environmental Levy	38.31	39.22	0.91	2.38%	40.41	1.19	3.03%	41.62	1.21	2.99%	3.31	8.64%
Sewer, Water, Waste & Stormwater Charges	2,118.50	2,197.50	79.00	3.73%	2,280.50	83.00	3.78%	2,364.50	84.00	3.68%	246.00	11.61%
Totals	3,087.46	3,189.30	101.84	3.30%	3,302.02	112.72	3.53%	3,416.64	114.62	3.47%	329.19	10.66%
Increase per Week (\$)			1.96			2.17			2.20		6.33	

The Rate Peg for 2014/15 has been set at 2.3%. **An estimated Rate Peg of 3% has been used for 2015/16 & 2016/17.

The Rate Peg % does not apply to Sewer, Water, Waste or Stormwater charges. Water charges include 250 KL of water usage for a year.

**Projected Increase in Total Rate Burden for the AVERAGE Residential Property for the next 3 Years (with Rate Peg + Proposed Additional Rate Increase)
Average Residential Property (Based on a land valuation of \$183,700)**

Rates & Charges	CURRENT	Year 1	Year 2		Year 3		3 Year Compound Increase from 2013/14					
	2013/14	2014/15	Increase Year 1	2015/16	Increase Year 2	2016/17	Increase Year 3	(\$)	%			
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	%			
Residential Ordinary Rate	930.65	1,006.03	75.39	8.10%	1,089.67	83.64	8.31%	1,175.81	86.14	7.91%	245.17	26.34%
Environmental Levy	38.31	39.22	0.91	2.38%	40.41	1.19	3.03%	41.62	1.21	2.99%	3.31	8.64%
Sewer, Water, Waste & Stormwater Charges	2,118.50	2,197.50	79.00	3.73%	2,280.50	83.00	3.78%	2,364.50	84.00	3.68%	246.00	11.61%
Totals	3,087.46	3,242.75	155.30	5.03%	3,410.58	167.83	5.18%	3,581.93	171.35	5.02%	494.48	16.02%
Increase per Week (\$)			2.99			3.23			3.30		9.51	

The SRV does not apply to Sewer, Water, Waste or Stormwater charges. Water charges include 250 KL of water usage for a year.

Proposed SRV Impacts – Average Farmland & Business Property

Projected Ordinary Rate Increase for the next 3 Years (with Rate Peg Increase Only)

Ordinary Rate ONLY - (Not including Environmental, Sewerage, Water, Waste or Stormwater charges)

Average Land Value for Farmland Property	\$412,100
Average Land Value for Business Property	\$411,550
Average Land Value for city Centre Business Property	\$663,000

Ordinary Rate ONLY	CURRENT	Year 1		Year 2			Year 3			3 Year Compound Increases from 2013/14		
	2013/14	2014/15	Increase Year 1		2015/16	Increase Year 2		2016/17	Increase Year 3		2013/14	
	(\$)	(\$)	(\$)	%	(\$)	(\$)	%	(\$)	(\$)	%	(\$)	%
Average Farmland Property	1,708.53	1,749.03	40.50	2.37%	1,801.23	52.19	2.98% **	1,855.40	54.17	3.00% **	146.87	8.60%
Average Business Property	3,264.62	3,341.17	76.55	2.34%	3,441.79	100.62	3.01% **	3,545.22	103.42	3.00% **	280.59	8.60%
Average Business - City Centre Property	7,251.96	7,423.28	171.32	2.36%	7,647.04	223.76	3.01% **	7,876.77	229.73	3.00% **	624.81	8.62%

The Rate Peg for 2014/15 has been set at 2.3%. **An estimated Rate Peg of 3% has been used for 2015/16 & 2016/17

Projected Ordinary Rate Increase for the next 3 Years (with Rate Peg + Proposed Additional Rate Increase)

Ordinary Rate ONLY - (Not including Environmental, Sewerage, Water, Waste or Stormwater charges)

Ordinary Rate ONLY	CURRENT	Year 1		Year 2			Year 3			3 Year Compound Increases from 2013/14		
	2013/14	2014/15	Increase Year 1		2015/16	Increase Year 2		2016/17	Increase Year 3		Amount (\$)	%
	(\$)	(\$)	(\$)	%	(\$)	(\$)	%	(\$)	(\$)	%		
Average Farmland Property	1,708.53	1,846.57	138.04	8.08%	2,000.01	153.44	8.31%	2,158.44	158.43	7.92%	449.91	26.33%
Average Business Property	3,264.62	3,528.41	263.79	8.08%	3,821.68	293.28	8.31%	4,123.85	302.16	7.91%	859.23	26.32%
Average Business - City Centre Property	7,251.96	7,838.98	587.02	8.09%	8,490.05	651.07	8.31%	9,161.67	671.62	7.91%	1,909.71	26.33%