



SUBJECT: *PROPOSED SPECIAL RATE VARIATION*

RESPONSIBLE OFFICER: *Integrated Planning & Strategic Property Manager - Bronwyn Rumbel*

SUMMARY

As Council's integrated planning improves there is better information to make decisions about the organisation's future, in particular its financial sustainability.

One part of Council's response to the financial challenges it faces, is a special rate variation strategy.

The existing Section 508(2) special rate variation of 6.05% was extended in 2012-13 for a further twelve months and expires on 30 June 2014. This will reduce Council's annual rate revenue by approximately \$1.725 million from 2014-15 onwards.

This report outlines a special rate variation strategy and proposes that Council undertake community engagement to raise awareness of the need for, and extent of, a permanent special rate variation application for 2014-15.

RECOMMENDATION

- 1. That Council endorse the community engagement strategy to raise awareness of the need for, and extent of, a permanent special rate variation for 2014-15.**
- 2. That Council receive further briefings on the second phase of the special rate variation strategy.**

BACKGROUND

Council's key challenge is to be a financially sustainable organisation, so that it can continue to provide infrastructure and services to the community.

Council's asset and financial modelling demonstrates that the organisation faces financial challenges.

State of Council's Assets

Special Schedule 7 from Council's 2012 General Purpose Financial Statements shows an estimated cost of almost \$115m to bring its infrastructure (including roads, bridges, drainage, buildings and parks) up to a satisfactory standard. Of this total, it is estimated that it would cost \$88m to bring the local government area's 1,000km of roads up to a satisfactory condition – and another \$13m for the kerb and gutter, footpaths, road furniture and bus stops.

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State of Council's Finances

In April 2013, Council received an assessment from the NSW Treasury Corporation (TCorp) of the financial capacity and sustainability of all 152 Councils in NSW.

Cessnock City Council was assessed as having a Financial Sustainability Rating of Moderate. This means that:

- Council has an adequate capacity to meet its financial commitments in the short to medium term and an acceptable capacity in the long term;
- Council has reported minor to moderate operating deficits;
- Council is likely to be able to address its operating deficits, manage unforeseen financial shocks and any adverse changes in its business, with moderate revenue and/or expense adjustments;
- These expense adjustments are likely to result in a number of changes to the range of and/or quality of services offered; and
- Council's capacity to manage core business risks is moderate.

TCorp also assessed Council as having a Negative Outlook. This means that as a result of a foreseeable event or circumstance occurring, there is the potential for deterioration in Council's capacity to meet its financial commitments (short and/or long term) and a resulting change in its rating. However, it does not necessarily indicate that a rating change may be forthcoming.

A Council, like Cessnock, with a Financial Sustainability Rating of Moderate and an Outlook of Negative, is assessed as being in a deteriorating position or at risk of being downgraded from Moderate to Weak.

Therefore, Council needs to be considering options for addressing the areas of poor performance that are contributing to its assessed Rating and Outlook.

Financial Pressures

The Local Government NSW survey on the impact of cost shifting found that cost shifting by the Federal and NSW Government on to NSW local government in the financial year 2010-11 was estimated to amount to \$499m or 5.72% of local government's total income before capital amounts.

In addition, Council also has to contend with increasing prices, well above the rate peg allowance. For example, over the past five years (since 2008-09) Council's contribution to street lighting has increased by \$500,000 to over \$1m in 2013-14.

Financial Forecasts

Council's long term financial plan (including the assumption that the current special rate variation will continue) shows operating deficits and a total reduction in cash reserves of \$12.6m over the next four years.

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Financial Strategy

Council is undertaking a multi-pronged approach to addressing its financial challenges.

The first aspect is a review of Council operations and levels of service. This task will take into account previous community research which has shown that the community considers all of the services provided by Council as being important – varying from “somewhat important” to “very important”.

The second aspect is to continue to improve productivity and find cost savings. This work-in-progress has, so far, identified 34 initiatives totalling one-off savings of \$1m and ongoing savings of \$1.1m per year.

The final aspect is to increase revenues by investigating investment in revenue-generating activities and investments (although any additional revenue streams are unlikely to be realised in the short-term) and by adopting a special rate variation strategy.

Council's Rates

Revenue from ordinary rates comprises around 44% of Council's annual revenues. The balance of Council's revenue comes from annual charges, user charges, fees, investment income, government grants and developer contributions.

The State Government has regulated rating levels for all councils in NSW, since the early 1980s, by setting a statutory limit on annual increases in council rates (the “rate peg”).

Rate pegging has restricted the ability of local councils to raise sufficient income to keep pace with rising costs, let alone expand their services and maintain the condition of their assets. In some instances, the percentage increase allowed by the rate peg has been less than the salaries and wages increases in the Local Government Award (for example, in 2004-05 the rate peg was 3.5% while the Award increase was 4.0%).

Cessnock City Council has had four special rate variations approved since 2001. The first increase of 2.31% was approved in 2001 for a five year period. All of the funds from that increase were targeted towards road infrastructure improvements.

The second increase was 6.05% per year for a five-year period commencing in 2006-07 and expiring in 2010-11. The money raised from this special rate variation was spent in three major areas:

- Resealing an additional 67 roads across the Local Government Area;
- Major road rehabilitation across the Local Government Area; and
- Replacement or major refurbishment of recreation buildings.

The third increase of 6.05% per year was granted under Section 508(2) of the Local Government Act for a two year period commencing in 2011-12 and expiring in 2012-13. The money raised from this special rate was spent on resealing, heavy patching and rehabilitation of regional roads, urban collector roads, and rural collector roads in the local government area.

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The most recent increase was an extension of the Section 508(2) special rate variation of 6.05% for a further twelve months expiring on 30 June 2014.

Special Rate Variations

The Independent Pricing & Regulatory Tribunal (IPART) is responsible for:

- Setting the annual rate cap (or “rate peg”);
- The assessment and determination of councils’ applications for special rate variations; and
- The assessment and determination of councils’ applications to increase ordinary and/or special rate minimums above the statutory limit.

The Independent Pricing & Regulatory Tribunal (IPART) is expected to announce the general increase in 2014-15 rates for all NSW Councils in December 2013.

The Division of Local Government (DLG) issued “Guidelines for the preparation of an application for a special variation to general income” on 30 September 2013 which set out the assessment criteria for special rate variation applications.

There are two types of special rate variations that Council can apply for:

Section 508(2)

This is a one-off percentage increase (greater than the rate peg) that remains permanently in the rate base or a one-off percentage increase (greater than the rate peg) for a fixed period after which the rate base is adjusted back to the rate peg path.

Section 508A

Under a Section 508A variation, a Council is able to phase-in a potentially significant rate increase over 2-7 years (rather than have a substantial increase in rates in the one year) and this increase then remains permanently in the rate base.

The guidelines emphasis a preference for councils to re-engage with the community every four years with a view to aligning special rate variation applications with the four-year integrated planning and reporting cycle.

The assessment criteria for special rate variation applications are:

- Need for the proposed rate increase;
- Community awareness of the need for and extent of a rate rise;
- Reasonable impact on ratepayers;
- Realistic assumptions in the proposed Delivery Program and Long-Term Financial Plan; and
- An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special rate variation period.

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REPORT/PROPOSAL

The existing Section 508(2) special rate variation of 6.05% annual rate increase, granted in 2012-13 for a duration of twelve months, expires at the end of the current financial year. This will reduce annual rate revenue by approximately \$1.725 million from 2014-15 onwards.

It was foreshadowed in Council's 2013-14 special rate variation application, that Council would be seeking a further special rate variation for 2014-15.

Councillor Briefings held during September and October have outlined a two-phase special rate variation strategy, comprising:

- For 2014-15: Apply to make the existing 6.05% special variation permanent; and
- For 2015-16: Apply for a further permanent variation to be phased in over four years.

Table 1 (below) summarises the key milestones for applications for special rate variations for 2014-15.

Table 1: 2014-15 Special Rate Variation Applications – Timetable

Task	Timeframe
Councils to notify of their intention to apply for a special rate variation	13 December 2013
Applications for special rate variations due to IPART	24 February 2014
IPART determines applications	Mid-June 2014

Community Engagement Strategy

The objective of the engagement strategy is to ensure that there is community awareness of the need for and extent of a rate rise.

Engagement activities vary across a spectrum of informing, consulting and engaging.

The engagement strategy for the 2014-15 special rate variation will focus on informing ratepayers – so that there is awareness of the need for and extent of the proposed variation.

The information campaign will incorporate:

- Media releases;
- Newspaper advertising;
- Promotion via social media and Council's website; and
- Rates notice insert.

The information campaign will take place during the period November 2013 to January 2014.

While phase 2 of the special rate variation strategy (the application for 2015-16) will be for a more substantial increase; it will necessarily involve more extensive consultation and incorporate:

- Direct mailouts to households
- Community forums
- Staff forums

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- Media releases
- Newspaper advertising
- Promotion via social media and Council's website
- Rates notice insert.

OPTIONS

Council could choose not to apply for a further special rate variation. This will result in the cessation of the additional road works currently being funded by the current Section 508(2) variation.

CONSULTATION

Councillors
General Manager
Leadership Group
Integrated planning staff
Strategic asset planning staff
Financial services staff

STRATEGIC LINKS

a. Delivery Program

This report aligns with the community's desired outcome of *Civic Leadership and Effective Governance* – in particular, the strategic direction that Council's processes are efficient and transparent.

b. Other Plans

The proposed special rate variation (for 2014-15) is consistent with Council's adopted Long-Term Financial Plan.

IMPLICATIONS

a. Policy and Procedural Implications

N/A

b. Financial Implications

If Council does not apply for, or is unsuccessful with, the special rate variation application, it will lose the additional rate income it has been receiving for the past seven years (approximately \$1.725 million in the 2013-14 year).

This will result in a reduction in spending on Council's road network or a reduction in the other services provided by Council.

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c. Legislative Implications

Councils that want to increase their rates above the statutory limit in order to fund the service levels required to make application for a special rate variation under Section 508A or 508(2) of the Local Government Act.

Section 508(2) applications enable a one-off percentage increase that remains permanently in the rate base or a one-off percentage increase for a fixed period after which the rate base is adjusted back to the rate peg path.

Under a Section 508A variation, a Council is able to phase-in a potentially significant rate increase over 2-7 years (rather than have a substantial increase in rates in the one year) and this increase then remains permanently in the rate base.

The guidelines for special rate variations recommend that Section 508A increases be phased-in over periods not exceeding four years – to ensure that there is regular, ongoing engagement with the community (and to align with the integrated planning and reporting cycle).

d. Risk Implications

Failure to adequately inform the community will jeopardise the likelihood of the special rate application being approved by the IPART.

e. Other Implications

N/A

CONCLUSION

In order to be a financially sustainable organisation that is able to continue to provide the expected level of services to the community and maintain its infrastructure at a satisfactory standard, Council needs to make application for a special rate variation (to make its current special rate variation of 6.05% permanent) as the first phase of its special rate variation strategy.

ENCLOSURES

There are no enclosures for this report