Clarence Valley Council

Proposal for 8% Special Rate Variation (SRV)

SRV to apply from 1 July 2018

PURPOSE OF THIS SESSION:

- Background information
- Our current financial challenges
- Explanation of the proposed SRV
- Impact of SRV on ratepayers
- Where to next?

BACKGROUND:

- NSW Government reform agenda for local government – “Fit for the Future”
- October 2015 IPART assessed Council as “NOT FIT”.
- A revised Fit for the Future Improvement Plan was submitted in June 2017.
- Seven (7) key financial benchmarks Council must comply with by 2020/21
- Council currently does not meet five (5) of the seven (7) benchmarks
- In 2016/17 IPART Council submitted a SRV application of 6.5% p/a for 5 years. This was only approved for 1 year, and concluded 30/6/17, with rates reducing in 17/18.
- The current proposal is for an SRV of 8% per year for 3 years, with the strategy to include a range of efficiency measures in conjunction with an SRV to meet the projected four year $15.3m operational shortfall

FIT FOR THE FUTURE – KEY INDICATORS

Sustainability Indicators:

- Operating Performance Ratio (balanced operating result)
- Own Source Revenue Ratio (60% target)
- Building and Asset Renewal Ratio (renew assets at the same rate at which they are deteriorating)

Infrastructure and Service Management Indicators:

- Infrastructure Backlog Ratio (backlog to be less that 2% value of infrastructure)
- Asset Maintenance Ratio (spend the required amount on maintaining assets)
- Debt Service Ratio (% of revenue spent on debt service less than 20%)

Efficiency

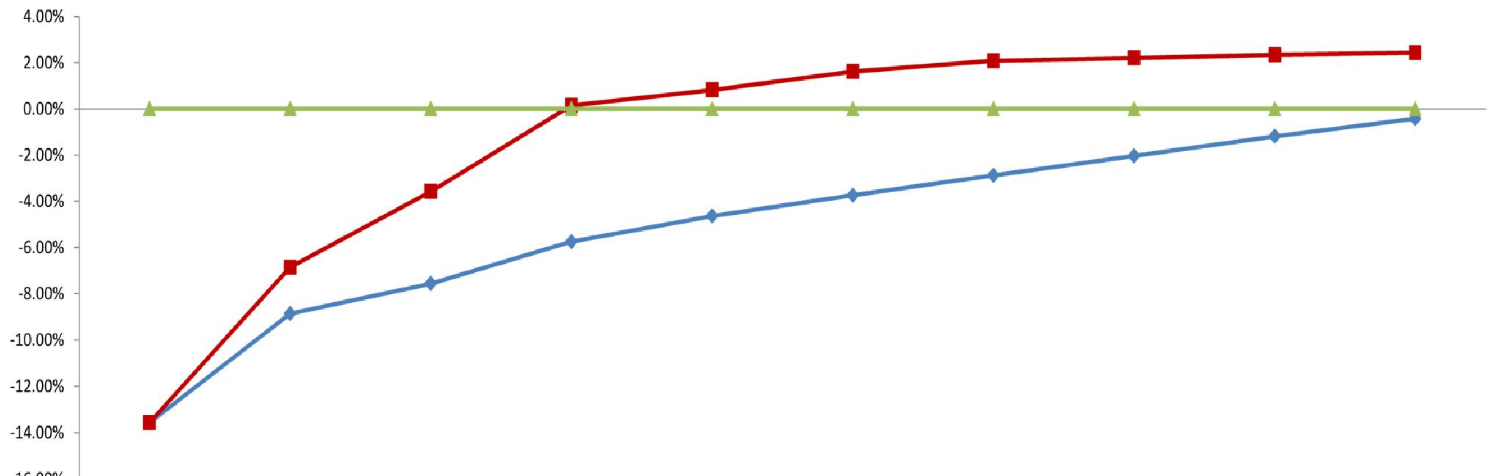
- Real Operating Expenditure (operating costs per head of population – decreasing over time)

FIT FOR THE FUTURE TARGETS – CURRENT vs SRV

Benchmark/Measure (to be achieved within 5 yrs)	Current	Proposed
Operating Performance Ratio (breakeven)	N	Y
Own Source Revenue Ratio (over 60%)	N	Y
Building and Asset Renewal Ratio (100% or show improvements)	N	(achieved 2024/25)
Infrastructure Backlog Ratio (less than 2%)	N	(achieved 2023/24)
Asset Maintenance Ratio (100%)	N	N (constant improvement from 21/22)
Debt Service Ratio (less than 20%)	Y	Y
Real Operating Expenditure (Decrease)	Y	Y

Fit for the Future:

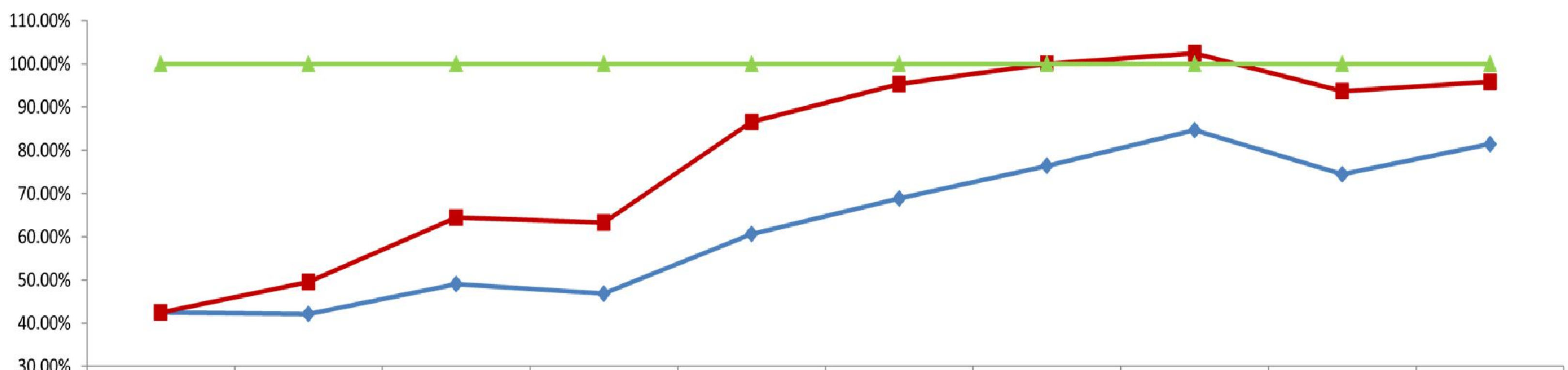
Operating Performance Ratio



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Base Case	-13.57%	-8.86%	-7.56%	-5.75%	-4.64%	-3.74%	-2.88%	-2.04%	-1.19%	-0.42%
Base Case Plus SRV	-13.57%	-6.86%	-3.58%	0.14%	0.82%	1.62%	2.08%	2.20%	2.34%	2.43%
OLG benchmark	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Fit for the Future:

Building & Infrastructure Renewals Ratio



	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Base Case	42.45%	42.13%	49.03%	46.81%	60.64%	68.85%	76.40%	84.67%	74.45%	81.44%
Base Case Plus SRV	42.45%	49.49%	64.45%	63.29%	86.56%	95.32%	100.03%	102.46%	93.69%	95.83%
OLG benchmark	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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VALLEY COUNCIL

Our Financial Position

- Short Term position OK

However…..

- Our Long Term Financial Plan indicates we are unsustainable.

- TCorp's assessment of Council's financial position is WEAK with a NEUTRAL outlook.

Our General Fund Financial Position

- In order to achieve a balanced operating result by 2020/21 we have to find $15.3m in additional revenue and/or cost savings
- We have an infrastructure backlog of $57m To meet the benchmark of <2% we must reduce the backlog by $35m to $22m
- Annual maintenance shortfall approx $7m (16/17). Required $20.2m vs Actual $13.2 – ratio of 6.5

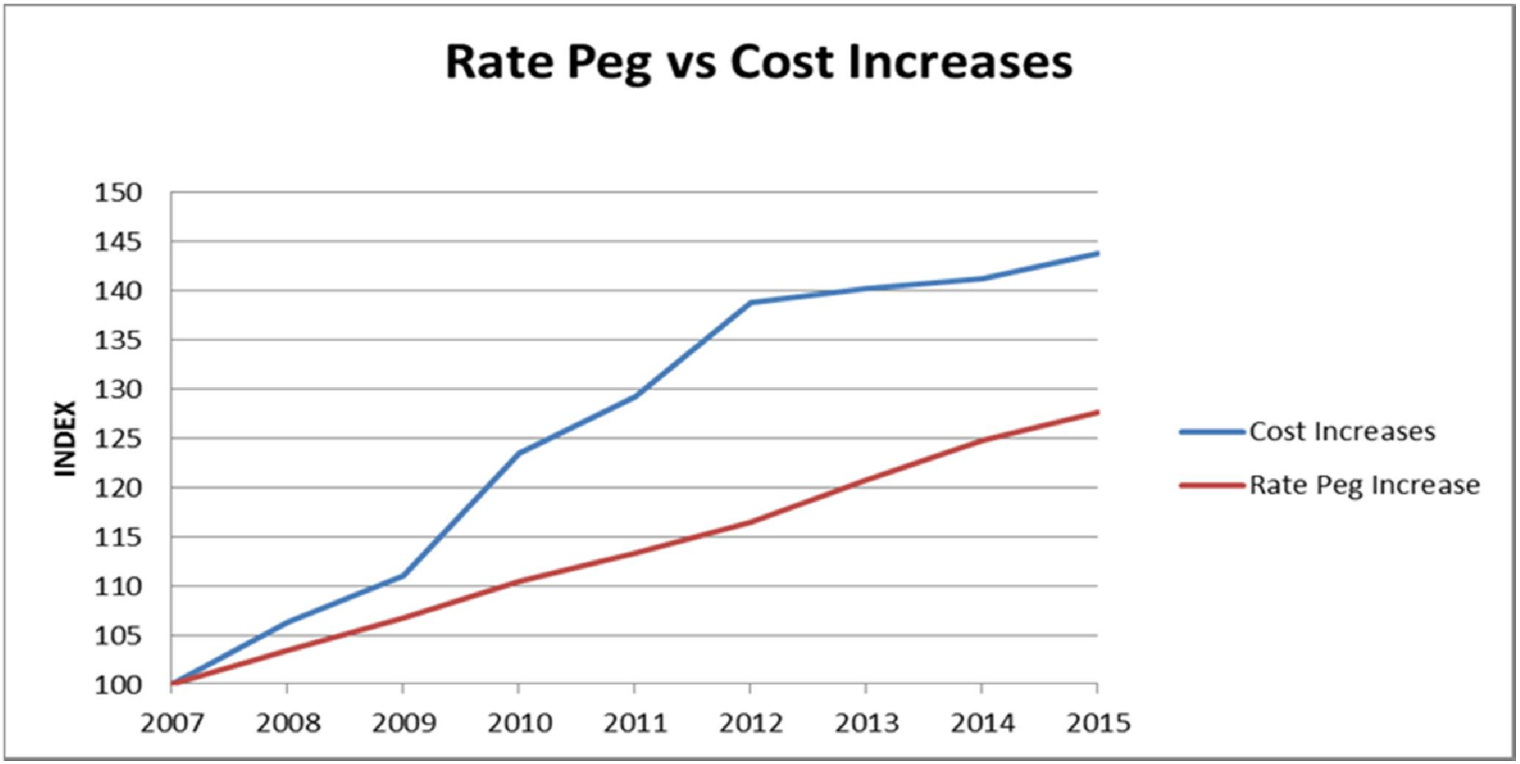
FINANCING OUR FUTURE

Ongoing Maintenance of Assets (valued at $2.1 Billion) includes:

- 1,170ha of parks, sportsfields and reserves
- 3 indoor sports centres
- 5 public swimming pools
- 2 community centres and 37 community halls
- 4 public libraries
- 2,444 km of local roads (sealed and unsealed)
- 285 bridges (135 timber & 150 concrete)
- 383 km of regional roads (sealed and unsealed)
- 1 regional art gallery
- 1 regional airport
- administration buildings
- depots

FINANCING OUR FUTURE

Operating Costs continue to exceed our Revenue



Proposal for 8% SRV to commence from 1 July 2018

- The one year 6.5% approved SRV expired 30 June 2017 with rates reduced in the current year
- Proposal being considered is a 8% SRV (includes 5.5% plus estimated Rate Peg for 2018/19 of 2.5%) each year for three years
- The SRV would be permanently retained in Council's Rate Income
- Over the 3 years commencing July 2018, the new SRV will add around $10m rate revenue above the rate peg (2.5%)
- In November Council will resolve whether or not to apply to IPART. SRV application due February 2018.

SRV funded works program $10m

- Road pavement & resurfacing $6m
- Culverts & Drainage $2.1m
- Shoulder grading and widening $0.4m
- Flood Mitigation $0.3m
- Sports Facilities $1.2m

Efficiency Measures

In isolation the proposed SRV does not provide sufficient revenue to close the $15.3m four year operating deficit. A range of efficiency measures totalling some $8.6m have been identified and were adopted by Council in June. These include:

- Reduction of 27 staff positions from the organisational structure. This includes reducing middle management structure 11 to 7.
- Cost savings from the new centralised depot from January 2018
- Improved work practices in relation to delivery of infrastructure services
- Cost savings in tourism services, community centres, customer payment options and regional art gallery.
- Increased revenue streams from various activities including cemeteries, regulatory services, water fund dividend and DA lodgements

Loan Borrowings

- **No new loan borrowings planned for the next 10 Years**
- **Sustainable Debt Level – Now $131M (Ernst & Young review - Oct 16)**

Loan Liability at 30 June 2017 - $124M ($129.758M 30/6/16)

General Fund - $18.255M

Water Fund - $24.257M

Sewer Fund - $74.574M

Domestic Waste - $6.874M

The interest & principal repayments on 85% of Council's Loan Liability is funded by User Charges.

Financial Sustainability

- Each of the strategies and actions on their own will not enable Council to achieve long term financial sustainability.
- The goal and challenge for Council will be to achieve the optimum mix of these strategies and actions which will see Council be deemed “Fit for the Future”.

NSW GOVERNMENT | Fit for the Future

SRV IMPACT

On average the increase over the four years 17/18 to 20/21 is approximately 25.97% (including rate peg 7.7%). For example, average Grafton residential rates for current year $1,060. By 2020/21 - $1,142 (rate peg only) or $1,335 (including SRV).

Tools to assist ratepayer:

- Facts sheet on rating categories
- On-line rates estimator

Submissions – have your say

You can complete an online survey via a link www.clarence.nsw.gov.au "SRV Proposal"

All submissions on the proposed SRV must be made in writing, addressed to the General Manager and marked **"SRV Submission".**

They can be:

- Delivered to Council's Offices at Grafton and Maclean
- Sent by post to Locked Bag 23, Grafton NSW 2460
- Emailed to council@clarence.nsw.gov.au

Public submissions close 4pm on 3rd November 2017.

ANY QUESTIONS?

www.clarence.nsw.gov.au