

DIRECTOR CORPORATE SERVICES' REPORT

7.1. SPECIAL RATE VARIATION

AUTHOR Director Corporate Services

MOTION *Moved by Councillor Hooke*
Seconded by Councillor McArthur

MOTION:

That:

1. Council commits to proceeding with a section 508(A) permanent Special Rate Variation (SRV) in order to address Gunnedah Shire Council's financial sustainability, and maintain essential community infrastructure and service levels.
2. Council acknowledges the feedback received during the community engagement period from Friday, 2 August to Friday, 6 September 2024 on the proposed permanent two-year 38.88% cumulative (26% above the estimated rate peg) SRV.
3. In response to the community feedback, Council determine a position on the SRV as follows:
 - a. An SRV application be made to IPART under section 508(A) be endorsed at 37.67% cumulative to be phased in over two (2) years and retained permanently commencing in 2025-2026.
 - b. Council note that the structure of the revised SRV ensures that Residential, Business and Farmland rating categories do not increase more than 32.25% cumulative with the balance to be sourced from the Mining category.

4. Make application to IPART under section 548 of the *Local Government Act 1993* for the Maximum value of the Minimum ordinary rate for Residential, Business and Farmland categories to be set as follows to match the section 508(A) permanent SRV application value:

Category	2025-2026	2026-2027
Residential – Ordinary		
Residential – Rural	\$638.00	\$733.00
Residential – Gunnedah		
Business – Gunnedah	\$625.00	\$718.00
Farmland	\$638.00	\$733.00

5. Council, prior to 29 November 2024, formally notify the NSW Independent Pricing and Regulatory Tribunal (IPART), via a non-binding letter, that Council intends to submit a Special Rate Variation application for the 2025-2026 financial year.
6. Council undertake any required community engagement on the revised SRV proposal and associated minimum rate increases.
7. Council's Integrated Planning & Reporting (IP&R) documentation be updated, including the Delivery Program and Long-Term Financial Plan, to meet the SRV application requirements and the amended IP&R documents be presented to a future Council meeting for the purpose of

being endorsed by Council for public exhibition.

8. Council convene an Extraordinary Council meeting in January 2025 for the purpose of receiving any submissions on the revised IP&R documentation and to endorse the SRV application, including Council's approach to continuous improvement, efficiency gains and operational savings, prior to submission to IPART by 3 February 2025.
9. Council strives to find \$930,000 through efficiency gains and operational savings over the 3 year period 2025 to 2028 with a report to Council by May 30th annually during this period.

An Amendment was Moved by Councillor Hoddle, Seconded by Councillor Moore:

AMENDMENT:

That:

1. Council commits to proceeding with a section 508(A) permanent Special Rate Variation (SRV) in order to address Gunnedah Shire Council's financial sustainability, and maintain essential community infrastructure and service levels.
2. Council acknowledges the feedback received during the community engagement period from Friday, 2 August to Friday, 6 September 2024 on the proposed permanent two-year 38.88% cumulative (26% above the estimated rate peg) SRV.
3. In response to the community feedback, Council determine a position on the SRV as follows:
 - a. An SRV application be made to IPART under section 508(A) be endorsed at 38.88% cumulative to be phased in over three (3) years and retained permanently commencing in 2025-2026.
 - b. Council note that the structure of the revised SRV ensures that Residential, Business and Farmland rating categories do not increase more than 33.1% cumulative with the balance to be sourced from the Mining category.
4. Make application to IPART under section 548 of the *Local Government Act 1993* for the Maximum value of the Minimum ordinary rate for Residential, Business and Farmland categories to be set as follows to match the section 508(A) permanent SRV application value:

Category	2026-2027	2027-2028
Residential – Ordinary		
Residential – Rural	\$669.00	\$735.00
Residential – Gunnedah		
Business – Gunnedah	\$656.00	\$721.00
Farmland	\$669.00	\$735.00

5. Council, prior to 29 November 2024, formally notify the NSW Independent Pricing and Regulatory Tribunal (IPART), via a non-binding letter, that Council intends to submit a Special Rate Variation application for the 2025-2026 financial year.
6. Council undertake any required community engagement on the revised SRV proposal and associated minimum rate increases.
7. Council's Integrated Planning & Reporting (IP&R) documentation be updated, including the

Delivery Program and Long-Term Financial Plan, to meet the SRV application requirements and the amended IP&R documents be presented to a future Council meeting for the purpose of being endorsed by Council for public exhibition.

8. Council convene an Extraordinary Council meeting in January 2025 for the purpose of receiving any submissions on the revised IP&R documentation and to endorse the SRV application, including Council's approach to continuous improvement, efficiency gains and operational savings, prior to submission to IPART by 3 February 2025.
9. Council note that it would be necessary for Council to identify approximately \$930,000 in reduced expenditure or increased (untied) revenue (efficiency target) in the first three years.

SUSPENSION OF STANDING ORDERS INTO COMMITTEE OF THE WHOLE

A Motion was Moved by Councillor Hooke, Seconded by Councillor McArthur to move into Committee of the Whole.

RESOLUTION OUT OF COMMITTEE OF THE WHOLE

A Motion was Moved by Councillor McGrath, Seconded by Councillor Luke to move back into Standing Orders.

A Procedural Motion was Moved by Councillor Luke Seconded by Councillor McArthur that the Amendment be put.

The Amendment on being put to the meeting was Lost.

A Procedural Motion was Moved by Councillor Luke Seconded by Councillor McGrath that the Motion be put.

The Motion on being put to the meeting was Carried.

2.11/24 COUNCIL RESOLUTION:

That:

1. Council commits to proceeding with a section 508(A) permanent Special Rate Variation (SRV) in order to address Gunnedah Shire Council's financial sustainability, and maintain essential community infrastructure and service levels.
2. Council acknowledges the feedback received during the community engagement period from Friday, 2 August to Friday, 6 September 2024 on the proposed permanent two-year 38.88% cumulative (26% above the estimated rate peg) SRV.
3. In response to the community feedback, Council determine a position on the SRV as follows:
 - a. An SRV application be made to IPART under section 508(A) be endorsed at 37.67% cumulative to be phased in over two (2) years and retained permanently commencing in 2025-2026.
 - b. Council note that the structure of the revised SRV ensures that Residential, Business and Farmland rating categories do not increase

more than 32.25% cumulative with the balance to be sourced from the Mining category.

4. Make application to IPART under section 548 of the Local Government Act 1993 for the Maximum value of the Minimum ordinary rate for Residential, Business and Farmland categories to be set as follows to match the section 508(A) permanent SRV application value:

Category	2025-2026	2026-2027
Residential – Ordinary		
Residential – Rural	\$638.00	\$733.00
Residential – Gunnedah		
Business – Gunnedah	\$625.00	\$718.00
Farmland	\$638.00	\$733.00

5. Council, prior to 29 November 2024, formally notify the NSW Independent Pricing and Regulatory Tribunal (IPART), via a non-binding letter, that Council intends to submit a Special Rate Variation application for the 2025-2026 financial year.
6. Council undertake any required community engagement on the revised SRV proposal and associated minimum rate increases.
7. Council's Integrated Planning & Reporting (IP&R) documentation be updated, including the Delivery Program and Long-Term Financial Plan, to meet the SRV application requirements and the amended IP&R documents be presented to a future Council meeting for the purpose of being endorsed by Council for public exhibition.
8. Council convene an Extraordinary Council meeting in January 2025 for the purpose of receiving any submissions on the revised IP&R documentation and to endorse the SRV application, including Council's approach to continuous improvement, efficiency gains and operational savings, prior to submission to IPART by 3 February 2025.
9. Council strives to find \$930,000 through efficiency gains and operational savings over the 3 year period 2025 to 2028 with a report to Council by May 30th annually during this period.

There being no further business, the meeting concluded at 05:13 pm.

Councillor C Fuller
MAYOR

Director Corporate Services' Report

ITEM 7.1	Special Rate Variation
MEETING	Extraordinary Meeting - 6 November 2024
DIRECTORATE	Corporate Services
AUTHOR	Director Corporate Services
POLICY	2024/25 Operational Plan
LEGAL	Local Government Act 1993 OLG Guidelines for preparation of an application for a special variation to general income
FINANCIAL	As outlined in the report
STRATEGIC LINK	Community Strategic Plan 1.2.4 Improve Council's financially sustainable position, delivering value-for-money services to the community. Delivery Program / Operational Plan 1.2.4.3 Deliver financial management services across the organisation, including systems and controls to communicate and manage Council's financial performance.
ATTACHMENTS	Attachment 1 - SRV Community Engagement Report Attachment 2 - SRV Community Engagement Report - Appendices Attachment 3 - Written Submissions & Responses

OFFICER'S RECOMMENDATIONS:

That:

1. Council commits to proceeding with a section 508(A) permanent Special Rate Variation (SRV) in order to address Gunnedah Shire Council's financial sustainability, and maintain essential community infrastructure and service levels.
2. Council acknowledges the feedback received during the community engagement period from Friday, 2 August to Friday, 6 September 2024 on the proposed permanent two-year 38.88% cumulative (26% above the estimated rate peg) SRV.
3. In response to the community feedback, Council determine a position on the SRV as follows:
 - a. An SRV application be made to IPART under section 508(A) be endorsed at _____% cumulative to be phased in over _____ years and retained permanently commencing in 2025-2026.
 - b. Council note that the structure of the revised SRV ensures that Residential, Business and Farmland rating categories do not increase more than _____% cumulative with the balance to be sourced from the Mining category.
4. Make application to IPART under section 548 of the Local Government Act 1993 for the Maximum value of the Minimum ordinary rate for Residential, Business and Farmland categories to be set as follows:
 - a. \$_____ for 2025-2026 (including the rate peg), \$_____ for 2026-2027 (including the rate peg) and \$_____ for 2027-2028 (including the rate peg) to match the section 508(A) permanent SRV application value.
5. Council, prior to 29 November 2024, formally notify the NSW Independent Pricing and Regulatory Tribunal (IPART), via a non-binding letter, that Council intends to submit a Special Rate Variation application for the 2025-2026 financial year.

6. Council undertake any required community engagement on the revised SRV proposal and associated minimum rate increases.
7. Council's Integrated Planning & Reporting (IP&R) documentation be updated, including the Delivery Program and Long-Term Financial Plan, to meet the SRV application requirements and the amended IP&R documents be presented to a future Council meeting for the purpose of being endorsed by Council for public exhibition.
8. Council convene an Extraordinary Council meeting in January 2025 for the purpose of receiving any submissions on the revised IP&R documentation and to endorse the SRV application, including Council's approach to continuous improvement, efficiency gains and operational savings, prior to submission to IPART by 3 February 2025.

PURPOSE

To present Council with the feedback provided by the community during the community engagement period on the proposed Special Rate Variation (SRV) and to obtain a determination from Council on which course of action it wishes to take to secure the financial sustainability of Gunnedah Shire Council through a Special Rate Variation and other potential measures.

BACKGROUND

Council is in a similar position to that of many NSW councils facing a poor financial outlook caused by a perfect storm of negative impacts resulting from natural disasters, high inflation and legislative 'cost-shifting' by the NSW and Australian governments. These impacts have resulted in a financial outlook that is not financially sustainable and action is necessary to ensure that a sustainable path can be determined to support Council's future.

Without additional funding, the current outlook will require cuts to services and a decline in the condition of infrastructure assets, such as roads, will be a consequence. The forecast for the General fund excluding Domestic Waste Management is for large operating deficits, and the following issues exist and need to be addressed:

- Forecast deterioration in the unrestricted cash position;
- Insufficient funding for the ongoing maintenance and renewal of assets;
- Inability to take on additional borrowings without creating further financial stress; and
- High reliance on grant funding for core asset renewal programs.

To maintain current service levels requires an increase in revenue. Alternatively, no increase in revenue will see the need for service levels to decrease. To address this challenge, Council has explored the available options and determined that a need for a for a Special Rate Variation exists. As a result, at Council's Ordinary Meeting on 19 June 2024, Council endorsed the 2024/25 Operational Plan that included the action to start a conversation with the community about a potential SRV.

Following the adoption of the 2024/25 Operational Plan Council undertook community engagement on the following proposed permanent SRV:

	2025/2026	2026/2027	Total
Rate Peg	5.0% (estimated)	5.0% (estimated)	10.00%
SRV Above Rate Peg	19.00%	7.00%	26.00%
Total SRV	24.00%	12.00%	36.00%
Cumulative SRV over two years			38.88%

This SRV proposal was identified as being capable of addressing the following key aspects of Council's financial sustainability.

Year 1 (2025/2026):

- Address the significant ongoing operating deficit currently being forecast for the General fund excluding Domestic Waste Management over the life of the Long Term Financial Plan (ten years)
- Ensure Council's unrestricted cash does not move into a negative position (currently forecast to occur within three years)
- Enable Council to continue to deliver services, at existing levels, as outlined in the adopted Integrated Planning and Reporting documents
- Provide sufficient funding to meet asset/infrastructure renewal funding requirements
- Meet compliance obligations under the *Local Government Act 1993* and other legislation relevant to the local government sector

Year 2 (2026/2027):

- Generate financial capacity to commence addressing Council's infrastructure backlog of works

The above SRV proposal was forecast to generate approximately \$6.2 million over a two-year period, which included approximately \$1.7 million associated with general cost increases associated with ordinary increases in costs associated with employees, materials and contracts.

In response to community feedback, Council was subsequently provided with the following revised SRV proposal at the October Council meeting (30 October 2024):

	2025/2026	2026/2027	2027/2028	Total
Rate Peg	4.7% (actual)	3.5% (estimated)	3.0% (estimated)	11.20%
SRV Above Rate Peg	7.70%	8.90%	9.40%	26.00%
Total SRV	12.40%	12.40%	12.40%	37.20%
Cumulative SRV over three years				42.00%

Spreading the SRV over a three-year period rather than a two-year period meant that the third year 'rate peg' needed to be incorporated, which Council has estimated will be 3.0%. This then increases the SRV percentage as the rate peg must be included in the SRV calculation.

This proposal also included a condition that the structure of the revised proposed SRV ensured that Residential, Business and Farmland rating categories do not increase more than the permanent 38.88% cumulative SRV previously consulted on with the balance of the revised proposed permanent SRV of 42% cumulative to be sourced from the Mining category.

Council resolved to defer a decision on the SRV to allow time for a further workshop to occur and further information to be considered.

COMMENTARY

SRV Scenarios

Council has considered the extensive community feedback provided via the community engagement process and has considered a number of scenarios. These are outlined below.

Scenario 1 - No SRV - Rate Peg Only

This scenario was reconsidered and it was determined that Council would face the following issues if no SRV was implemented:

- Council's unrestricted cash position would become negative within three years without a significant reduction in expenditure and/or increase in revenue
- A reduction in expenditure to the level needed would result in a significant reduction in service levels
- A reduction in service levels would result in a lower level of access by the community to important services and the condition of assets would further deteriorate

- Council would not have cash reserves to deal with unexpected issues such as natural disasters
- A high risk would exist that Council would be non-compliant with minimum service standards and legislative requirements
- While the community feedback did indicate that many people did not want an increase in rates, most people also said they did not want a drop in services and many people want Gunnedah to grow and expand

For these reasons, the option of not proceeding with an SRV is not being considered.

Scenario 2 - Original SRV Proposal - permanent 38.88% cumulative SRV over two years | SRV applied equally to all rating categories

This was the SRV proposal consulted on with the community and it was subsequently reviewed following community feedback. It is provided for completeness so that all the options considered are shown.

	2025/2026	2026/2027	Total
Rate Peg	5.0% (estimated)	5.0% (estimated)	10.00%
SRV Above Rate Peg	19.00%	7.00%	26.00%
Total SRV	24.00%	12.00%	36.00%
Cumulative SRV over two years			38.88%

Key community feedback on this scenario was that the increase of 24% in Year 1 was deemed to high and that the SRV needed to be spread over a longer period of time. Detailed community feedback on this scenario is outlined later in this report. A number of variations on this scenario are provided below for Council's consideration.

Scenario 3 - Revised SRV Proposal - permanent 42.00% cumulative SRV over three years | SRV capped at 38.88% cumulative for Residential, Business and Farmland rating categories

This scenario was recommended to Council at the meeting held 30 October 2024. Council determined that a further workshop was needed to consider further information.

	2025/2026	2026/2027	2027/2028	Total
Rate Peg	4.7% (actual)	3.5% (estimated)	3.0% (estimated)	11.20%
SRV Above Rate Peg	7.70%	8.90%	9.40%	26.00%
Total SRV	12.40%	12.40%	12.40%	37.20%
Cumulative SRV over three years				42.00%

This scenario proposed to amend the SRV implementation timeframe from two years to three years, with the addition of the third year's rate peg value, in order to allow for the impact from the SRV to be spread over a longer period of time. This would help alleviate the financial impact of the SRV on ratepayers that may already be impacted by other cost of living pressures.

This would have amended the original SRV proposal from a permanent two-year 38.88% cumulative (26% above the estimated rate peg) SRV to a permanent three-year 42% cumulative (26% above the estimated rate peg) SRV due to the inclusion of an estimated rate peg value of 3% in the third year.

Further, to reduce the compounded effect impact of the SRV, the scenario also proposed to cap the Residential, Business and Farmland rating categories to the 38.88% cumulative SRV previously consulted on with the balance of the revised proposed SRV of 42% cumulative to be sourced from the Mining category. This scenario is in line with community feedback that the Mining category should make a greater contribution by way of rates, notwithstanding that Council recognises that the mining sector makes an overall positive contribution to the economic prosperity of the Gunnedah LGA.

Under this scenario the cumulative increase to the Mining category would be approximately 70% over

three years.

Scenario 4 - Revised SRV Proposal - permanent 38.88% cumulative SRV over three years | SRV capped at 33.1% cumulative for Residential, Business and Farmland rating categories

This scenario keeps the overall SRV at 38.88% cumulative and spreads it over three years. It also caps the Residential, Business and Farmland rating categories to an SRV of 10% per annum (33.1% cumulative) with the balance of the revised proposed SRV of 38.88% cumulative to be sourced from the Mining category.

	2025/2026	2026/2027	2027/2028	Total
Rate Peg	4.7% (actual)	3.5% (estimated)	3.0% (estimated)	11.20%
SRV Above Rate Peg	6.87%	8.07%	8.57%	23.51%
Total SRV	11.57%	11.57%	11.57%	34.71%
Cumulative SRV over three years				38.88%

This scenario provides greater relief from the compounded effect impact of the SRV on Residential, Farmland and Business properties than scenario 3, however, this burden is then shifted to the Mining category.

Under this scenario the cumulative increase to the Mining category would be 92% over three years.

Under this scenario Council would collect a lower amount of revenue as shown below.

Scenario	2025/2026	2026/2027	2027/2028	Total (3 Years)
42% cumulative	\$17,987,075	\$20,217,464	\$22,724,418	\$60,928,957
38.88% cumulative	\$17,854,267	\$19,920,020	\$22,224,761	\$59,999,048
Difference	-\$132,808	-\$297,444	-\$499,657	-\$929,909

It would be necessary for Council to identify approximately \$930,000 in reduced expenditure or increased (untied) revenue (efficiency target) in the first three years to achieve the same outcome as scenario 3.

Risks inherent in all scenarios include:

- That the rate peg actually ends up being higher than forecast. If this occurs, Council must use the estimated rate peg from the SRV and not the actual rate peg.
- That inflation ends up being higher than forecast.

Additional risks inherent in this scenario include:

- That Council will have reduced capacity to absorb any additional unexpected costs that may be associated with State Government cost shifting.
- That no financial capacity is generated to manage growth-related infrastructure.
- That proposals for cost savings and efficiencies are not accepted by Council due to the impact they may have on services and/or the community and the efficiency target cannot be met.
- That funding available to commence addressing the backlog of works in infrastructure is reduced and the condition of assets worsens as a result.

Scenario 5 - Revised SRV Proposal - permanent 37.67% cumulative SRV over two years | SRV capped at 32.25% cumulative for Residential, Business and Farmland rating categories

This scenario spreads the SRV more evenly over two years and caps the Residential, Business and Farmland rating categories to an SRV of 15% per annum (32.25% cumulative) with the balance of the revised proposed SRV of 37.67% cumulative to be sourced from the Mining category.

	2025/2026	2026/2027	Total
Rate Peg	4.7% (actual)	3.5% (estimated)	8.20%

SRV Above Rate Peg	13.30%	13.17%	26.47%
Total SRV	18.00%	16.67%	34.67%
Cumulative SRV over two years			37.67%

Under this scenario the cumulative increase to the Mining category would be approximately 87% over two years.

The advantage of this scenario is that it would achieve a similar outcome to the SRV proposal that was consulted on once it has been implemented but the rating impacts would be higher during the two-year scenario implementation than a three-year scenario.

Scenario 6 - Revised SRV Proposal - permanent 42.00% cumulative SRV over three years | SRV capped at 36.8% cumulative for Residential, Business and Farmland rating categories

This scenario caps the Residential, Business and Farmland rating categories to an SRV of 11% per annum (36.8% cumulative) with the balance of the revised proposed SRV of 42% cumulative to be sourced from the Mining category.

	2025/2026	2026/2027	2027/2028	Total
Rate Peg	4.7% (actual)	3.5% (estimated)	3.0% (estimated)	11.20%
SRV Above Rate Peg	7.70%	8.90%	9.40%	26.00%
Total SRV	12.40%	12.40%	12.40%	37.20%
Cumulative SRV over three years				42.00%

Under this scenario the cumulative increase to the Mining category would be 92% over three years.

The advantage of this scenario is that it would achieve a similar outcome to the SRV proposal that was consulted on once it has been implemented.

Transferring rate burden to the Mining Category

Currently, the Mining category contributes approximately 10% of the total yield from rates or around \$1.6 million. This is in addition to other contributions that may be made by way of Voluntary Planning Agreements and other agreements. However, there is a large impact from mining across the region and, apart from rates and contributions, funding that was previously available by way of programs like Resources for Regions are no longer available to resource-impacted councils in NSW.

The community feedback received, mainly through face to face consultation and in written submissions, also reflected that some people felt that the mining sector should make a larger contribution to the rate base.

Under the scenario where the SRV is applied equally to all rating categories, the percentage contribution that the Mining category makes stays at around 10% but obviously the dollar value increases.

Under the scenarios where the SRV is not applied equally, the Mining category contribution increases. Scenario 3 would see the contribution from the Mining category increase to around 12% and scenarios 4-6 around 14%.

Original SRV Proposal

Following the adoption of the 2024/25 Operational Plan Council undertook community engagement on the following proposed permanent SRV:

	2025/2026	2026/2027	Total
Rate Peg	5.0% (estimated)	5.0% (estimated)	10.00%
SRV Above Rate Peg	19.00%	7.00%	26.00%
Total SRV	24.00%	12.00%	36.00%

This SRV proposal was identified as being capable of addressing the following key aspects of Council's financial sustainability.

Year 1 (2025/2026):

- Address the significant ongoing operating deficit currently being forecast for the General fund excluding Domestic Waste Management over the life of the Long Term Financial Plan (ten years)
- Ensure Council's unrestricted cash does not move into a negative position (currently forecast to occur within three years)
- Enable Council to continue to deliver services, at existing levels, as outlined in the adopted Integrated Planning and Reporting documents
- Provide sufficient funding to meet asset/infrastructure renewal funding requirements
- Meet compliance obligations under the *Local Government Act 1993* and other legislation relevant to the local government sector

Year 2 (2026/2027):

- Generate financial capacity to commence addressing Council's infrastructure backlog of works

The above SRV proposal was forecast to generate approximately \$6.2 million over a two-year period, which included approximately \$1.7 million associated with general cost increases associated with ordinary increases in costs associated with employees, materials and contracts.

Community Engagement

The community engagement period ran from Friday, 2 August 2024 through to Friday, 6 September 2024. A comprehensive report outlining all engagement activities undertaken and feedback received from the community is contained at Attachment 1 with the report appendices at Attachment 2.

Council used the following methods to engage with the community during this period:

- Face to face sessions in villages throughout the shire, a Town Hall style meeting and information stands in the main street
- Social media including Facebook, LinkedIn and Instagram
- A phone survey independently run by a research house
- Council's website with associated QR code access
- Radio
- Newspaper
- Media releases
- Councils' operational plans
- An online survey accessible from Council's website
- An online rates calculator accessible from Council's website
- Internal staff briefings

Proposed SRV Media Activity Report

2 August - 6 September, 2024



Throughout the engagement process, Council achieved the following reach:

Type of Engagement	Reach
Internal Staff briefings	140
Face to face community sessions	420
Council SRV webpage	1,144 views by 678 visitors
Webpage Rates calculator	821 views by 632 visitors
Social Media	<ul style="list-style-type: none"> 37,500 post reach 75 Direct shares A reel discussing the SRV and showcasing the Rates Calculator available on Council's website was played 2,400 times with a reach of 1,400.
News articles	>20 articles across radio, TV and print
Media releases and media calls	Significant community reach

The key feedback regarding the potential SRV of 38.88% implemented over two years was;

- The community does not want to pay more rates (noting current difficult times and costs).
- The community does not want to see a reduction in service levels and wants to see an increase in some areas (especially in the condition of Council's roads).
- If an SRV is required, then it should be phased in over a longer period to reduce the single year impact on residents and ratepayers (especially those on fixed incomes).
- The split of how an SRV is applied should be reviewed so the balance is right between farmland and residential rates to be more of a user pays model.
- The mining sector should be paying a larger portion of Council's rate base.
- Council needs to ensure it is transparent in its decision making, engaging with the community and operating as efficiently as possible, with the right balance of indoor and outdoor staff along with ensuring that current funds and resources are being maximised for the shire.

- Only 26% of the 38.88% is above the rate peg that will occur regardless of the SRV.
- Council needs to look at non-rate revenue that can help address the asset renewal gap without large rate rises being required and find a solution so large SRVs are not needed in the future.

The highest support for the SRV came through the phone survey, which is also the most independent and community wide aspect of the engagement, with 39% of phone survey respondents “**somewhat supportive**” of the proposed SRV option. The phone survey included 300 participants and, based on Gunnedah LGA's population size, provides a 95% confidence level in broader community sentiment.

The online survey, which used the same format and questions as the independently run phone survey, was completed by 137 participants with 18% of respondents preferring the SRV option.

Council also include reference to questions regarding support for the community paying more, over and above the proposed SRV, to improve service levels. There was a level of support for this indicated from the phone survey results in the following areas:

- 43% are at least somewhat supportive of paying above the proposed SRV to see service levels improve for local roads
- 41% are at least somewhat supportive of paying above the proposed SRV to see service levels improve for parks and gardens
- 31% are at least somewhat supportive to paying above the proposed SRV to see service levels improve for the Cultural Precinct

Written Responses

Apart from the face-to-face, phone and online survey options to provide feedback, the community had the ability to provide Council with submissions in writing to put their views forward. Council received 26 submissions during the community engagement period. The submissions are included in the community engagement report appendices and a summary of these and Council's responses is included as Attachment 3.

Response to Community Feedback

While it is acknowledged that many of the participants that opted to participate in the community engagement process indicated that they did not want an SRV, there was also strong support for levels of service to at least be maintained or even improved, which will not be possible without an SRV.

Council also has compliance obligations under the *Local Government Act 1993* (the Act) to ensure that Council is financial sustainable and also "to provide guidance to enable councils to carry out their functions in a way that facilitates local communities that are strong, healthy and prosperous" (section 8 of the Act).

However, Council is cognisant of the cost of living pressures facing the community and the impact that an increase in rates will have for ratepayers in the current economic climate. While there certainly are some positive indicators in the local economy including a low unemployment rate, relatively affordable housing costs compared to coastal and urban areas and strong construction and mining industry activity, it is recognised that Council's proposal for an SRV will be an added impost to any households or businesses that are already struggling financially.

Revised SRV Proposal

In response to the community feedback on the SRV, Council has considered a range of SRV scenarios as outlined in this report. It will be necessary for the Council to determine a preferred scenario at the meeting.

The SRV Process

Applications for SRVs are made to the Independent Pricing and Regulatory Tribunal (IPART) and IPART review the applications based on the guidelines outlined on their website. Applications for the 2025-26 financial year are required to be submitted by 3 February 2025 and details on the process for SRV applications can be found at the following link - [Special Variations & Minimum Rates 2025-26 | IPART](#).

For Council to make a submission by 3 February 2025, it will have to undertake the following actions.

Timeframe	Actions
October 2024	<ul style="list-style-type: none"> • Present findings of July – September consultation to newly elected Council • Council resolution with intent to make SRV application and outline the revised proposed increase
November 2024	<ul style="list-style-type: none"> • Finalise updated asset management plans • Undertake public exhibition and Community Consultation as required on the revised SRV proposal • Submit (a non-binding) letter to IPART with intent to proceed with an SRV application for the 2025-26 financial year • Present updated IP&R documents to Council to go on Public exhibition <ul style="list-style-type: none"> • Updated CSP, DP, and resourcing strategy (LTFP, AMPS & Workforce Plan).
December 2024	<ul style="list-style-type: none"> • Provide Councillor workshop on the Community Consultation of the revised proposal • Write draft application
January 2025	<ul style="list-style-type: none"> • Adoption of updated IP&R documents (at an extraordinary meeting of Council with date to be determined) • Presentation and adoption of the draft SRV application
February 2025	<ul style="list-style-type: none"> • Lodge SRV application (by 3 February 2025)
March/April 2025	<ul style="list-style-type: none"> • IPART undertake community consultation • Council prepares two 2025/26 budgets (one including SRV and one excluding SRV)
May/June 2025	<ul style="list-style-type: none"> • IPART provide SRV determination • Adoption of 2025/26 budget

FINANCIAL IMPLICATIONS

Local Government Act Requirements

Section 8b of the Act requires Council to apply principles of sound financial management including:

(a) Council spending should be responsible and sustainable, aligning general revenue and expenses.
(b) Councils should invest in responsible and sustainable infrastructure for the benefit of the local community.

(c) Councils should have effective financial and asset management, including sound policies and processes for the following:

- (i) performance management and reporting,
- (ii) asset maintenance and enhancement,
- (iii) funding decisions,
- (iv) risk management practices.

(d) Councils should have regard to achieving intergenerational equity, including ensuring the following:

- (i) policy decisions are made after considering their financial effects on future generations,
- (ii) the current generation funds the cost of its services.

All NSW councils are required under the Act to apply these principles in order to ultimately achieve a financially sustainable position. Application of these principles means:

- Council must achieve a fully funded operating position.
- Council must maintain sufficient cash reserves.
- Council must have an appropriately funded capital program.
- Council must maintain its asset base 'fit for purpose'.
- Council must have adequate resources to meet ongoing compliance obligations.

Gunnedah Shire Council's Financial Position

Council is currently in a similar position to that of many NSW councils facing a poor financial outlook caused by a perfect storm of negative impacts resulting from natural disasters, high inflation and legislative 'cost-shifting' by the NSW and Australian governments. The current financial outlook is not financially sustainable and action is necessary to ensure that a sustainable path can be determined to support Council's future.

Without additional funding, the current outlook will require cuts to services and a decline in the condition of infrastructure assets, such as roads, will be a consequence. The forecast for the General fund is for large operating deficits, and the following issues exist and need to be addressed:

- Forecast deterioration in the unrestricted cash position;
- Insufficient funding for the ongoing maintenance and renewal of assets;
- Inability to take on additional borrowings without creating further financial stress; and
- High reliance on grant funding for core asset renewal programs.

In Council's 2024/25 Operational Plan, the following financial projections were shown that are relevant to this issue.

Operating Result

The operating result is the net result after operating expenses are deducted from total income or revenue (excluding all capital amounts). An operating deficit occurs when total expenses are greater than operating revenue and an operating surplus occurs when total expenses are less than operating revenue. Councils are encouraged to budget for a breakeven result or an operating surplus.

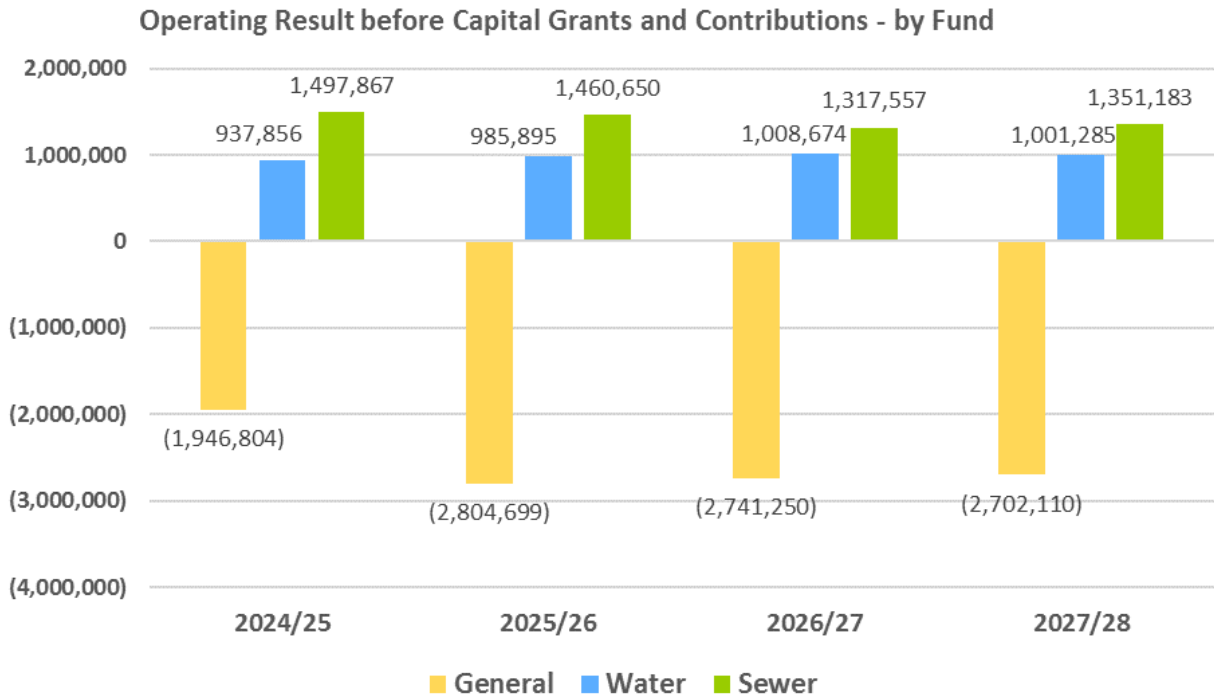
In the table below is a breakdown of the Consolidated operating result categorised by fund: General, Water and Sewer. This breakdown enhances clarity in assessing each fund's performance. The results shown in (brackets) below represent operating deficits.

Operating Result before Capital Grants and Contributions - by Fund 2024/25 – 2027/28				
Fund	Budget	Projected Years		
	2024/25	2025/26	2026/27	2027/28
	\$	\$	\$	\$
General	(1,946,804)	(2,804,699)	(2,741,250)	(2,702,110)
Water	937,856	985,895	1,008,674	1,001,285
Sewer	1,497,867	1,460,650	1,317,557	1,351,183
Total	488,919	(358,154)	(415,019)	(349,642)

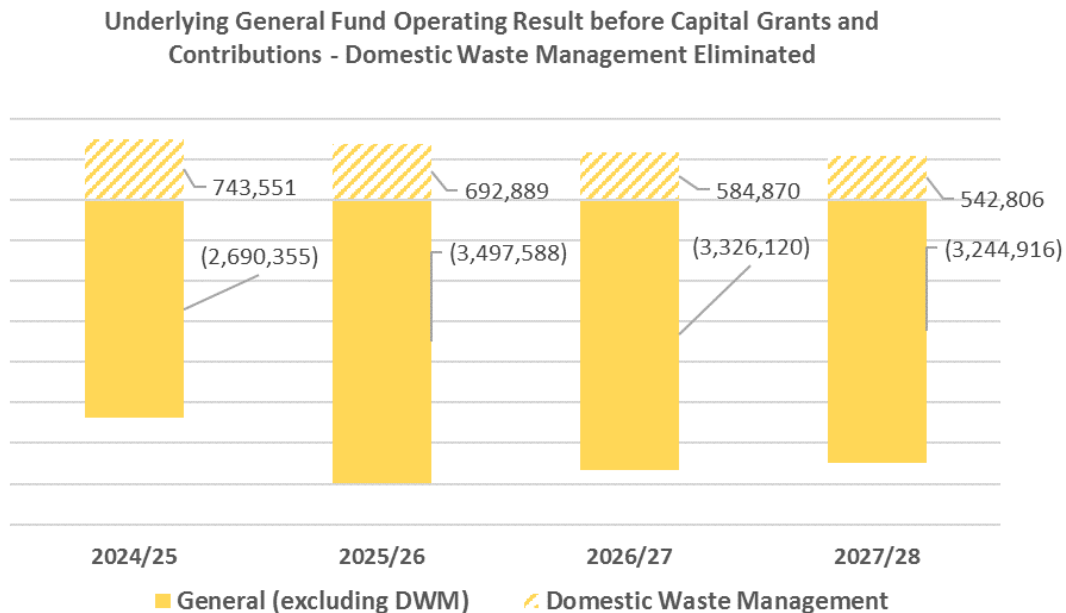
This analysis is important as funding generated by Water and Sewer activities are restricted by law for the purpose the funds have been raised for. This means that Council cannot use these funds for any other purpose.

The General fund represents funding for all of Council's services other than Water and Sewer. This includes roads, buildings, parks, sporting grounds, swimming pools, footpaths, stormwater and many other services, which are supported by infrastructure that Council must maintain and renew.

The graph below shows that the General fund is recording large operating deficits once operating surpluses relating to Water and Sewer funds are excluded from the Consolidated operating result.



The General fund operating deficit can be analysed in more detail in the table below, by excluding the Domestic Waste Management (DWM) operating result. Similar to Water and Sewer, funding generated by DWM activities are restricted for the purpose the funds have been raised for i.e. waste management activities. This exclusion highlights a greater underlying deficit in the General fund. The graph below illustrates the breakdown of the total General Fund deficit between DWM and other business units.



A break-even operating result indicates that a council can fund asset maintenance and renewals required by the consumption of assets i.e. as measured by depreciation. Sustained operating deficits are not financially sustainable and indicate that Council is not able to generate sufficient funding to undertake adequate investment in the maintenance and renewal of infrastructure.

This is important as Council is responsible for a vast network of infrastructure assets and maintenance and renewal of the infrastructure is necessary to ensure that it remains in a fit-for-purpose condition for use by the community. Under investment in asset maintenance and renewal will lead to a greater financial liability being incurred that future generations of ratepayers will need to pay for.

Cash Result

Another important result for Council is the cash position of each fund. As can be seen from the table below, Council's unrestricted cash position is forecast to deteriorate to a cash deficit by 2026/27.

Cash Balances 2024/25 – 2027/28				
	Budget	Projected Years		
	2024/25	2025/26	2026/27	2027/28
	\$	\$	\$	\$
Externally Restricted Cash	44,873,707	44,578,633	47,612,422	48,083,006
Internally Restricted Cash	24,133,453	24,661,798	25,131,931	25,432,897
Unrestricted Cash	1,412,739	477,131	(208,194)	(520,634)
Total General	70,419,899	69,717,563	72,536,158	72,995,269

Unrestricted Cash

Unrestricted cash represents the residual funds once allocations have been made to external and internal reserves. These are funds which are available to be used to cover unforeseen budget shock, where expenses are not provided for in the annual budget and not covered by the external and internal restricted reserves. An example of this would be a natural disaster. These funds are also available to:

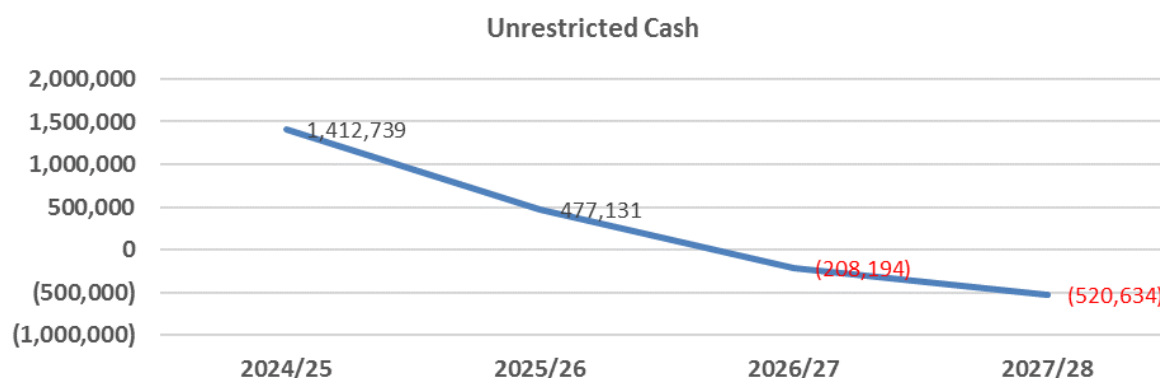
- boost Council's financial liquidity in paying suppliers, providing services and retaining staff;
- meet short term cash flow requirements to fund capital works projects; and
- support Council's long-term financial sustainability.

Council is forecasting an unrestricted cash position of around \$1.4 million by 30 June 2025. This would only cover Council's operational expenses for approximately 2 weeks if a situation occurred where Council was unable to receive payments.

A negative unrestricted cash balance means that Council cannot afford to fully fund the allocations to be made to external and internal reserves.

The projected reduction of unrestricted cash is due to an unsustainable level of forecast expenditure. This forecast outcome will require intervention in the short term to either reduce the level of forecast expenditure or increase revenue, or a combination of both.

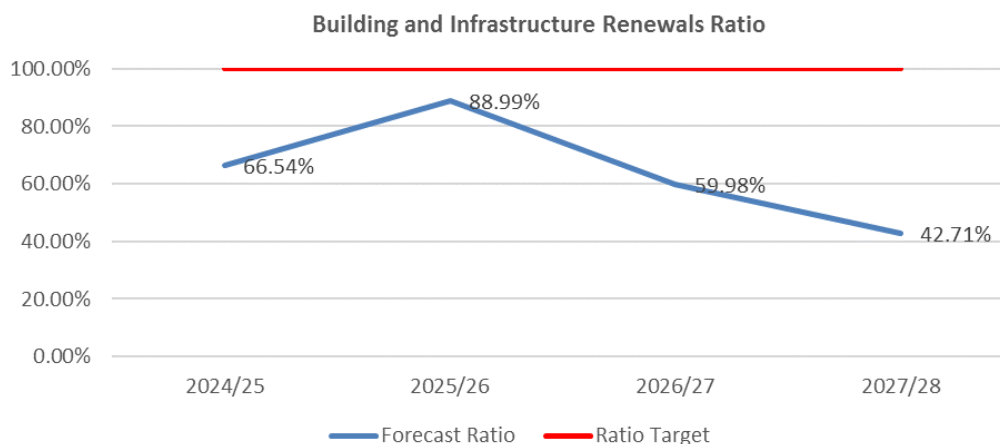
The graph below illustrates the deterioration in the unrestricted cash position.



Infrastructure Renewal

As part of the annual reporting compliance process, Council is required to report a Building and Infrastructure Renewals Ratio. This ratio is an assessment of the rate that these assets are being renewed relative to the rate at which they are depreciating. It is important to note that "renewals" represent the replacement and/or refurbishment of existing assets to an equivalent capacity as opposed to the acquisition of new assets.

The Building and Infrastructure Renewals Ratio is calculated by dividing the estimated spend on asset renewals by depreciation. A result of greater than 100% is considered satisfactory and the renewal ratio may fluctuate based on council priorities. Council is forecasting the Building and Infrastructure Renewals Ratio outcomes below, which demonstrates a consistent under investment in the renewal of infrastructure.



Contributors to Decline in Financial Position

Council's General Fund financial performance has been trending downwards for several years. However, a proposal for an SRV is significant with obvious impacts on the community. Council has been cognisant of the need for additional funding for some time and has been proactively lobbying State and Federal Government through various mechanisms for an increase in funding. Up until this point Council has been able to manage within the available funding as it has had access to significant levels of non-recurrent grant funding and had built up internal cash reserves for infrastructure renewal and replacement. However, the point has come where grant funding has significantly declined and the internal cash reserves have been utilised and are not able to be replenished. These factors have been exacerbated by:

- Low historic rate pegs being set by IPART in previous years that do not cover the increase in Council's costs. As an example, the 2022/23 base rate peg was set at a historic low of 0.7%, with permission to apply for up to 2.5% against a consumer price index (CPI) increase of 6.6% (Sydney CPI) in the 12 months to June 2023.
- Council has experienced significant costs increases of a greater rate than CPI particularly in relation to the cost of construction materials, including gravel and bitumen. Electricity and insurance costs have also increased significantly.
- The market for construction contractors has been squeezed due to the high volume of disaster recovery works across the state and the limited availability of materials, driving up project costs.
- Multiple extreme weather events impacting on infrastructure.
- A low population density relative to the asset base to be maintained.
- Cost-shifting from the State Government to local councils. In 2021-22 Council had an estimated \$2.4 million in additional costs just relating to cost shifting. Subsequently, additional costs have been incurred from a range of increased regulation on activities including the local government election (was previously run in-house but Council is now required to use contractors), audit costs have significantly increased, the emergency services levy has increased, cyber security, asset management and Council now has increased crown land management and native title assessment responsibilities.
- Declining levels of grant funding from other levels of government, in particular, financial assistance grant funding, provided by the Federal Government and administered by the NSW Government, has fallen from 1% of Commonwealth taxation revenue to 0.53% and many of NSW council fees and charges are also now regulated by NSW government legislation, particularly in areas like planning and development. In real terms, all NSW council major funding sources have been declining over time as compared to the cost of providing services.

Efficiency and Productivity

Council has implemented a range of efficiency and productivity measures resulting in direct savings in insurance and electricity costs, and improved productivity in areas such as unsealed roads maintenance, parks and gardens, IT and library services.

Council is also running a service review program, which commenced in the 2023/24 financial year and has completed service reviews on Parks and Gardens and Unsealed Roads. Council has not made any changes to the level of service following these reviews and is currently in the process of evaluating feedback from community survey processes to determine if any change to service levels is warranted. Certainly, no increase in service levels would be possible without an increase in the level of funding available. A service review framework has also been developed to help prioritise areas to be subjected to a service review. The overall program contains 25 distinct review areas further comprised of a number of functions, which is an indication of the diversity of Council's service delivery and the complexity of the local government industry.

Apart from the above, a range of projects are underway to improve Council's operations and efficiency including an asset management transformation project, customer request system upgrade, website upgrade and enterprise risk management framework review. Council is also overseen by the Audit, Risk & Improvement Committee (ARIC) who have responsibility for oversight of Council's strategic planning, service reviews and business improvement.

Impact of Property Valuations

Council is due to receive new property valuations from the NSW Valuer General which are to be used in conjunction with Council's adopted rate structure for calculating the rates payable by individual property owners from 1 July 2025. Revaluations may result in the value of some land in the Shire increasing or decreasing more than other land. When this occurs the rate burden between individual rate assessments shifts, meaning that rates payable on some land may increase and some may not change very much, or even decrease. The total rate income to Council doesn't change, but how it is allocated to residents changes based on valuation changes within each rate category.