

---

<b>ITEM NO</b>	: 4.4
<b>SUBJECT</b>	: SPECIAL VARIATION (SV) TO RATES COMMUNITY ENGAGEMENT REPORT AND RECOMMENDATION
<b>STRATEGIC OUTCOME</b>	: COUNCIL IS FINANCIALLY SUSTAINABLE
<b>ACTION</b>	: COUNCIL'S RATING STRUCTURE IS REVIEWED TO INCLUDE THE OPTION OF APPLYING FOR A SPECIAL RATE VARIATION (SRV)
<b>REPORTING OFFICER</b>	: ANNIE GOODMAN

Ref:541930

## PURPOSE

The purpose of this report is to:

1. Outline feedback received from property owners regarding 4 rating options addressed in Council's 10-year Long-term Financial Plan FY2021-22 and recommend a preferred option.
2. Provide the timeframes associated with the consideration of any Special Variation (SV) in line with IPART's requirements.
3. To Outline asset levels of service and provide further information regarding loan financing options.

## RECOMMENDATION

1. That Council apply to IPART for a Special Variation to Rates outlining Option 2 as the preferred scenario.
2. That Council notify property owners of Council's decision in relation to the application.
3. That the Long Term Financial Plan (LTFP) and Asset Management Plan be updated to reflect the new rating option.
4. That Council note the Levels of Service for renewal of assets as outlined in this report and in Council's Resourcing Strategy – 10 Year Asset Management Plan.
5. That Council's Long-Term Financial Plan for FY2022-23 include scenario analysis for loan finance options to fund the difference between Options 2 and 3.

## BACKGROUND

In 2015 the NSW State Government required all councils in NSW to submit a Fit for the Future application to IPART. Included in the submission was a compulsory 'Council Improvement Proposal'. This document required all councils to outline financial improvement strategies and potential outcomes. The Hunter's Hill Council submission identified the need to continue to implement Special Variation to Rates to ensure the ongoing effective maintenance and renewal of valuable community infrastructure.

Subsequently to this, in 2019 Council applied for a continuation of the Community Facilities SV for a further period of 10 years. When Council met with IPART to discuss this application IPART recommended that Council consider merging its temporary SV's and placing them permanently into the rate base.

## REPORT

In line with the Office of Local Government and the IPART's requirements we have sought feedback from property owners on 4 rating options (set out in more detail below). The close off date for all public submissions was 30 September 2021.

Micromex Research, who have completed an online and telephone survey have briefed Councillors on the outcomes of the independent survey. Approximately, 100 ratepayers responded to the online survey and 400 ratepayers took part in the telephone survey.

### What were the 4 rating options considered by ratepayers?

The 4 options we sought feedback on are:

- **Base Case – RATE DECREASE**

No special variation. Existing SVs expire with only an annual statutory rate peg increase. Roads and our other assets will decline.

- **Option 1 – NO CHANGE TO RATES**

Existing SVs continue permanently in the rate base with an annual statutory rate peg increase of 2.5%.

\* The total advertised percentage including existing SVs and the rate peg will be 14.57% above the rate base. Existing asset backlog levels continues to increase in future years.

- **Option 2 – AN INCREASE TO RATES**

Existing SVs continue permanently in the rate base with an additional 9.53% and the annual 2.5% statutory rate peg increase to improve roads, footpaths, environmental management, playgrounds, kerbs and gutters, seawalls and parks and reserves.

\* The total advertised percentage increase, including existing SVs and the rate peg will be 24.1% above the rate base.

- **Option 3 - AN INCREASE TO RATES**

Existing SVs continue permanently in the rate base with an additional 15.27% and the annual statutory rate peg increase. Not only will this option improve roads, footpaths,

environmental management, playgrounds, kerbs and gutters, seawalls and parks and reserves, it will also help to clear the backlog.

- \* The total advertised percentage increase, including existing SVs and the rate peg will be 29.84%.

### **Why is Council considering a SV rate increase?**

The ability to deliver on the Community Strategic Plan is key to ensuring that the community's needs and aspirations are met, in terms of service delivery and projects. This also needs to be considered within the context of Council's Long Term Financial Plan and Digital Asset Management Plan.

The Long Term Financial Plan (LTFP) includes strategies relating to rates and assets. These strategies are not new and were included in previous year's iterations of the LTFP and in previous SV applications.

Council's reliance on rates, given that 41% of Hunters Hill has non-rateable parcels of land will continue even with the success of our LTFP strategies, such as increased grant funding and any potential benefits gained from the development of a Property Strategy.

Though a small local government entity, Hunter's Hill Council is responsible for the management of \$212,000,000 worth of assets. Overtime, the condition of our key infrastructure such as roads, footpaths, kerbs and gutters, seawalls, parks, reserves and playgrounds will deteriorate to a level that will result in operational inefficiencies and increased maintenance expenditure, if sufficient funds are not provided to effectively maintain and renew. This will eventually lead to lower levels of service, and a backlog of work to maintain and improve community assets. As such there needs to be a proactive increase in funding now, to ensure that future generations are not left with significant liabilities.

The proposal to permanently retain SVs will assist in improving the level at which Council is able to renew local infrastructure.

### **What levels of service should we use for our assets to ensure community benefit of a SV?**

Modelling for the Special Rate Variation Scenarios, the Long Term Financial Plan and the Capital Works Program is reliant on a condition based levels of service. The rating scale used is outlined below:

<b>Condition Score</b>	<b>Condition Description</b>
1 – Very Good	Very good overall condition, with only minor evidence of ageing and very limited superficial defects.
2 – Good	Superficial defects may be present requiring minor maintenance, in addition to cyclical routine maintenance
3 – Fair	Moderate deterioration. More frequent maintenance is required in addition to cyclical routine maintenance, in order to maintain adequate serviceability.
4 – Poor	High deterioration is evident. Maintenance costs rising in order to maintain serviceability. The asset is at the point where it can be considered for renewal.

5 – Very poor	Evidence of high level of deterioration affecting serviceability. Maintenance cost is high. The asset is now nearing the end of its useful life and should be considered for renewal.
---------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

The specific level of service used for each asset class is:

- Paths - treatment at condition  $\geq 4$
- Kerb - treatment at condition  $\geq 4$
- Buildings – treatment at condition  $\geq 5$
- Marine Structures – partial renewal at 4 / full renewal at 5
- Open Space - treatment at condition  $\geq 5$
- Stormwater pits - treatment at condition  $\geq 4$
- Roads
  - Years 1 – 4 - Field validated 4 year works program prepared by specialist condition assessment contractor, using all available distress data (e.g., cracking, ravelling, roughness, etc.).
  - Years 5 – 10
    - AC Resheet: Surface Condition Index (SCI)  $\geq 4$  and Pavement Condition Index (PCI)  $\leq 4$ .
    - Pavement Rehabilitation: Surface Condition Index (SCI)  $\geq 3$  and Pavement Condition Index (PCI)  $\geq 5$

### How did Council seek feedback from property owners?

Council's engagement with the community and property owners consisted of:

- delivery of an SV Information booklet to every household and property owner
- placement of information in Councils newsletter and e-newsletter
- telephone survey of 400 residents (Micromex – report attached)
- online survey of 100 residents (Micromex – report attached)
- placement of advertisements in local newspapers
- editorial in local newspapers
- email feedback
- written feedback
- telephone feedback
- placement of information on Council's website and social media platforms.

### What feedback did Council receive from property owners?

The feedback received from the online and telephone survey is attached to this report.

In summary the results are:

Online survey:

Option	Preference
Base Case (Let existing SVs expire)	33%

Option 1 (Continue existing SVs)	33%
Option 2 (Continue existing SVs + 9.53% + rate peg)	17%
Option 3 (Continue SVs + 15.27% + rate peg)	17%

## Telephone survey:

Option	Preference
Base Case (Let existing SVs expire)	19%
Option 1 (Continue existing SVs)	38%
Option 2 (Continue existing SVs + 9.53% + rate peg)	24%
Option 3 (Continue SVs + 15.27% + rate peg)	19%

\* It should be noted that there is always a significant difference between online and telephone survey results. Telephone surveys enable the interviewer to explain the differences between each option. Micromex spent on average 16 minutes for each telephone survey interview.

In addition, Council received 2 written responses:

Ratepayer comment	Council response
<p>Dear Sir/Madam,</p> <p>Reference is made to the recently received brochure outlining Hunters Hill Councils proposed three options for rate increases in 2022/23.</p> <p>With the impact of the current pandemic on the community resulting in people being unemployed, reduced hours of work and businesses closed, how can council propose options for rate increases of 14.5%, 24.1% and 29.84%, all of which are well above the inflation rate and official interest rate.</p> <p>Council already has Special Variations in place and these coupled with Increases in land valuations over which rate payers have no say, and the annual rate peg, result in a gain for council by way of rate increases.</p> <p>It is understood that existing SV's will expire in time, but council needs to operate within the limits of the annual rate peg rather than opting to continually seek to introduce new Special Variations.</p>	<p>Thank you for your recent email regarding Council's consideration of 4 rating options. We appreciate your feedback, which assists us in understanding the perspectives of our property owners.</p> <p>As you mentioned, Covid has been particularly difficult for many people in our community. Council didn't take the decision lightly to ask our community about the possibility of a rates increase.</p> <p>There is currently an online survey available through Council's website, which gives people the opportunity to list their rating preference. We also have a telephone survey being undertaken at the moment, which is also asking residents about their preferred rating option. Later next week we will compile all of the information we have gathered and present the findings to our Councillors. We will also include all of the information and feedback we have received in writing via email and letters from residents (names and addresses will be redacted for privacy purposes). This will give our Councillors the opportunity to make an informed</p>

<p>Further the interest rate on term deposit investments is practically zero which is impacting particularly on self-funded retirees income, and those with jobs are highly unlikely to get a wage increase (if any) anywhere near the rate percentage increases proposed by council.</p> <p>My recommendation being for continuation of the base case.</p> <p>Your reply to this email will be appreciated.</p>	<p>decision about rates based on the needs and issues facing property owners.</p> <p>The last meeting of this term of Council will be held on 18 October 2021. Council will consider community feedback and make a decision as to whether to apply to IPART for a special variation to rates at this meeting. If you would like to address Council, please let me know and I can arrange that for you, alternatively please be assured that your feedback will be passed on for consideration about this important issue.</p>
<p>Good afternoon,</p> <p>With the works around Boronia Park seemingly concluded, can you please advise whether council still intends to implement the launching jetty for kayaks, which is referred to in the Management Plan (link below) as a "high" priority?</p> <p>I note that Council is proposing an SV for community facilities and there is no mention of any further work at Boronia Park.</p> <p>The jetty would be great for local residents to more safely use the facilities - can you please clarify its status?</p>	<p>Thank you for your email regarding the pontoon in the Boronia Park Plan of Management and its relationship to the recent special variation (SV) to rates information that is currently being circulated by Council.</p> <p>I previously worked with Gondwana Consulting to update the Boronia Park Plan of Management and remember many residents in favour of a pontoon at the eastern end of Princes Street. More recently, I have been coordinating the liaison with residents about the possibility of a special variation to rates, so I can certainly assist you with your enquiry.</p> <p>Firstly, in regards to the pontoon, Council has not yet prioritised the pontoon into its works schedule. However, please be assured in the coming months Council will be scheduling many of the actions from its Plans of Management (including Boronia Park) over coming years. The pontoon project is listed in the Boronia Park Plan of Management as a 'low' priority, so whilst this project may not be completed in the short term (1-2 years), it is definitely something that is on our radar to happen in the medium (3-5 years) to long term (5-10 years). Also, given our community's need of recreational facilities, this project could potentially be suitable for grant funding.</p> <p>Secondly, in regards to the special variation to rates and for your information there is currently an online survey available through Council's website (that ends today), which gives people the opportunity to list their rating preference. We also have a telephone survey being undertaken at the moment, which is also asking residents about their preferred rating option. Later next week we</p>

	<p>will compile all of the information we have gathered and present the findings to our Councillors. We will also include all of the information and feedback we have received in writing via email and letters from residents (names and addresses will be redacted for privacy purposes). This will give our Councillors the opportunity to make an informed decision about rates based on the needs and issues facing property owners. Many of our property owners, like yourself are including projects that they would like Council to undertake or complete in their feedback.</p> <p>The last meeting of this term of Council will be held on 18 October 2021. Council will consider community feedback and make a decision as to whether to apply to IPART for a special variation to rates at this meeting. If you would like to address Council, please let me know and I can arrange that for you, alternatively please be assured that you feedback will be passed on in regards to project prioritisation and the pontoon.</p> <p>Once again, thank you for your email.</p>
--	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### What is the IPART timeline?

Notification of Council's intention to apply for a special variation or minimum rates increase due	27 November 2020
Special Variation applications due	8 February 2021
Determinations announced for Special Variation and Minimum Rate Variations	May 2021

### Future Loan Funding Options – to eliminate the asset backlog – funding Option 3

Councils have the ability to borrow funds from the NSW Treasury Corporation (TCorp) for approved community infrastructure which form part of a council's annual capital expenditure programme, for example, roads, buildings, stormwater drainage, water and sewerage networks.

The conditions of borrowing, which are published in the *TCorp Loan Facilities Guidelines for Local Councils*, include:

- The minimum loan facility is \$1m. The maximum is capped to council's annual overall borrowing programme not exceeding 80% of its annual capital expenditure (Hunter's Hill annual capital program averages between \$3.5m to \$4m each year).

- Loans are not able to be used to finance operating activities or recurring expenditure such as annual asset maintenance.
- TCorp assess each application using standard credit criteria (including review of investments). The source documents for assessment include:
  - Audited financial statements for the last five years
  - Current 10-year long term financial plan and capital expenditure programme
  - Integrated planning and reporting documents
  - Investment and debt policies
  - Current investment report.

On the basis of the above conditions, Council's financial position precluded the scenario of Council being able to forward fund its capital program, and clear its asset backlog, exclusively through loan borrowings (rather than applying for a SV i.e. base case as described above).

However, on the basis of potential loan borrowing capacity, Council may elect to fund further capital works, over and above Option 2, which would considerable address asset backlogs in roads and open space assets.

At the time of writing, TCorp confirmed they could lend to Council at the following rates:

- 10 year fixed rate amortising semi-annual loan rate at 2.04%
- 20 year fixed rate amortising semi-annual loan rate at 2.85%.

Council's loan borrowing capacity would be approximately \$2.8m. Over a 10 year period, Council's indicative repayment schedule would be:

- 6 monthly payments of \$158,140.82. In Year 1, the principal due would be \$259,498.95 with annual interest payable of \$56,782.47. Over the life of the loan, the total interest payable is 314,816.33.

It is recommended that further scenario analysis is conducted through the next iteration of Council's Long-term Financial Plan (FY2022-23) which addresses funding the difference between options 2 and 3. Furthermore, the 10-year Asset Management Plan would be updated to recommend the staging of capital works program which best utilises this additional source of funding.

## **CONCLUSION**

In order for Council to be financially sustainable into the future there is a need to address the long term deficit on the operational budget and reduce the asset maintenance backlog.

Option 2 will see an improvement to our levels of service for roads, footpaths, environmental management, playgrounds, kerbs and gutters, seawalls and parks and reserves. It will also reduce the asset backlog to 5.5m by 2030-31.



Whilst the advertised total percentage of this option is 24.1%, the actual increase to existing rates will be 9.53% plus the rate peg of 2.5%. This will see a weekly increase to the average rate of approximately \$3.50 and an annual increase to the average rate of approximately \$180.00.

We have also considered that Hunter's Hill Council is 10<sup>th</sup> in Australia on the Socio-economic Index for Areas (SEIFA) rankings database for one of the most advantaged areas in Australia. Even though a majority of residents in Hunters Hill are socio-economically advantaged, there are still some residents who may be in a financially vulnerable position. Council has a Financial Hardship Policy in place, which provides a framework for ratepayers experiencing genuine hardship for assistance with the payment of their rates and charges. In addition, there are also pensioner concessions in place.

The Option 2 SV will compliment and support Council's Long Term Financial Plan initiatives of shared services, implementation of the Digital Asset Management Plan, diversification of revenue growth, investment in improved technologies, increase in State and Federal Government grants, and a varied rating base, all of which will continue to improve our financial position.

#### **FINANCIAL IMPACT ASSESSMENT**

There is no direct financial impact on Council's adopted budget as a result of this report for FY2021-22.

#### **ENVIRONMENTAL IMPACT ASSESSMENT**

There is no direct environmental impact on Council arising from Council consideration of this matter.

#### **SOCIAL IMPACT ASSESSMENT**

There is no direct social impact on Council arising from Council consideration of this matter.

#### **RISK ASSESSMENT**

There are no direct or indirect risks impacting on Council arising from consideration of this matter.

#### **ATTACHMENTS**

1. SV Micromex Telephone Survey Report [↓](#)
2. SV Micromex Online Survey Results [↓](#)