

9.8 PROGRESSION OF A SPECIAL RATE VARIATION APPLICATION FOR 2024/2025 AND ADOPTION OF AN UPDATED RESOURCING PLAN INCLUDING THE 2023/2024 - 2033/2034 LONG TERM FINANCIAL PLAN AND ASSET MANAGEMENT STRATEGY AND PLANS

DIRECTORATE: OFFICE OF THE GENERAL MANAGER
AUTHOR: ██████████, Chief Financial Officer

Reference: Item 9.3 to Ordinary Council 29 June 2023 - Minute No 144/23
Item 9.7 to Ordinary Council 12 September 2023 - Minute No. 228/23

6 ANNEXURES ATTACHED

RECOMMENDATION

That in relation to the report “Progression of a Special Rate Variation Application for 2024/2025 and Adoption of an Updated Resourcing Plan including the 2023/2024 - 2033/2034 Long Term Financial Plan and Asset Management Strategy and Plans”, Council:

- (i) receive and note this report and the Community Awareness and Engagement Strategy Outcomes Report ATTACHED, refer ANNEXURE 1. The report provides details of the outcome of the public exhibition process conducted between 13 September 2023 and 31 October 2023, in respect of Council’s intention to make application for a Special Variation (SV) for the 2024/2025 financial year and the exhibition of Council’s draft Long Term Financial Plan (LTFP) for 2023/2024 to 2033/2034;*
- (ii) make an application to the Independent Pricing and Regulatory Tribunal (IPART), under section 508A of the Local Government Act 1993 for an SV from the 2024/2025 financial year representing a permanent cumulative increase of 36.3 per cent over two years in the following manner:*
 - 1) a permanent 18.5 per cent increase for 2024/2025 (inclusive of the forecast 3.5 per cent rate peg for that year); and*
 - 2) a permanent 15.0 per cent increase for 2025/2026 (inclusive of the forecast rate peg of 2.5 per cent for that year);*
- (iii) implement the following adjustments to Council’s pensioner rate concessions, subject to the approval of the SV application by IPART:*
 - 1) increase the pensioner rate concession for eligible pensioner card holders for the 2024/2025 financial year by \$50;*
 - 2) increase the pensioner rate concession for eligible pensioner card holders from the 2025/2026 financial year by another \$50 (i.e. a total of \$100 increase from 2023/2024 base) per annum; and*
 - 3) review the voluntary component of pensioner rate concession annually.*
- (iv) adopt the Long-Term Financial Plan (LTFP) for 2023/2024 to 2033/2034 and the Asset Management Plan (Strategy) as part of Council’s updated Our Resourcing Plan, ATTACHED, refer ANNEXURE 2, and publish the updated Our Resourcing Plan on Council’s website;*
- (v) adopt the updated supporting Asset Management Plans for Transport, Building*

and Information Technology, ATTACHED, refer ANNEXURE 3, ANNEXURE 4, and ANNEXURE 5 respectively, and publish these on Council's website; and

(vi) receive and note the content of the Capacity to Pay Report, ATTACHED refer ANNEXURE 6.

SUMMARY

On 12 September 2023, Council resolved to:

- undertake community engagement for 28 days on a potential application to the Independent Pricing and Regulatory Tribunal (IPART) for a permanent Special Variation (SV) of 18.5 per cent in 2024/2025 and 15.0 per cent in 2025/2026.
- publicly exhibit the 2023/2024 to 2033/2034 Long Term Financial Plan (LTFP) as part of an updated Resourcing Plan for the same period.
- receive a further report regarding the outcomes of the community engagement before determining whether to make any SV application to IPART.

Since the community engagement concluded on 31 October 2023, all submissions and feedback have been reviewed and the outcomes presented in the Community Awareness and Engagement Strategy Outcomes Report **ATTACHED** refer **ANNEXURE 1**.

On the basis of the information in these reports, together with the information already contained in the updated Our Resourcing Plan, a permanent cumulative SV increase of 36.3 per cent over two years commencing in the 2024/2025 financial year provides Council the opportunity to secure its longer term financial sustainability

COMMENTARY

Background

The Community Strategic Plan (CSP) has been developed to deliver Blueprint 100, Tamworth Regional Council's (Council) strategy to grow Tamworth to a region of 100,000 by 2041. Since adoption in 2020, Council has worked on delivering the actions in these strategies to actively encourage population and economic growth in the Tamworth Region.

Council has supported a steadily growing population and maintained its infrastructure and services within the scope of its revenue growth in line with the rate peg increases set by the State Government; in recent years this has become increasingly difficult.

The COVID pandemic, impacts on infrastructure due to recent weather events, historic low interest rates returning low returns on investments, and current inflationary pressures have increased Council's costs faster than its revenue growth. These issues have put considerable pressure on Council's budget.

In June 2022 following extensive community consultation, Council adopted its Integrated Planning and Reporting (IP&R) suite of documents. Those documents, the 2023/2025 Delivery Plan and 2023/2024 Annual Plan and Budget, expressed clearly the financial challenge ahead. Unrestricted cash funds for Council's General Fund are predicted to start declining from year two onwards. To counter this, Council explored all options available to it including the feasibility of a special rate variation.

The Financial Challenge

The IPART rate peg, for many years, has not been higher than 2-2.5% with the exception of 2023/2024 when it was 3.7%. As a result of years of rate pegging at these low rates, Council's financial performance was one of relatively persistent deficits. Its \$2B assets'

renewals were not funded sufficiently to maintain their current conditions and its unrestricted cash balances for day to day operations, has reduced over time. As it stands today, Council is projecting a General Fund average annual operating deficit, before capital grants and asset sales, of \$1.24M for the 10-period of 2024/2025 to 2033/2034 (LTFP - Base Case, **ATTACHED**, refer **ANNEXURE 2**).

In addition to the aforementioned deficit, Council needs to address its asset renewal program. In particular, there is a significant unfunded asset management gap in roads infrastructure. The annual capital renewal gap for the latter averages \$4.7M over the ten year forecast period. The annual operating expenditure gap for maintenances and operations averages \$4M over the forecast period. To counter this and provide adequate funding for its programs, Council has modelled a sustainability program. Without an SV, the Sustainability Scenario assumptions are not viable. Council would experience an average operating deficit of \$11M over the forecast period and run out of unrestricted cash around 2025/2026 (LTFP – Sustainability Scenarios, **ATTACHED**, refer **ANNEXURE 2**).

Council is not alone in this, many other councils in NSW are facing serious financial challenges just to maintain current service levels. As a result, IPART have just revealed significant changes to rate peg calculations to include more forward thinking indicators, a base rate calculation, and the introduction of components that impact councils' finances. Future calculations will also factor in Emergency Service Levy (ESL) adjustment components.

IPART announced on 21 November 2023 the rate peg for 2024/2025 using the new methodology. For Council, it will be 4.9% although Council has not been formally notified at the time of writing this report.

While these changes are welcomed, they will not address Council's financial challenge due to accumulated past rate peg mismatches.

Council's Response

Over the past few years, Council has implemented several cost optimising and revenue enhancement initiatives that have resulted in, and will continue to deliver, net benefits. Council has reconsidered key projects in its growth agenda pending further studies and grant funding. Unfortunately, these saving alone are not enough to bridge the projected deficit in the General Fund. Council must now consider increasing rates revenue to adequately fund its sustainability scenario.

In its 2023/2025 Delivery Program, which was adopted at the Ordinary Council Meeting of 29 June 2023, Council identified the need to consider an SV for rates to ensure its ongoing financial sustainability. Since then, further analysis has been undertaken in relation to Council's long term financial position and has established that an SV is required to achieve Council's financial sustainability and maintain fit for purpose infrastructure. Accordingly, Council's draft 2023-2034 LTFP has been developed and included as part of a revised Resourcing Strategy to reflect this further analysis and the options considered and is **ATTACHED**, refer **ANNEXURE 2**.

The draft LTFP has been prepared in accordance with the *Integrated Planning and Reporting Guidelines* issued by the Office of Local Government and prescribed under the Act, and includes three financial modelling scenarios. In addition to a base case scenario that is modelled on the rate peg only, the LTFP models two Special Variation scenarios to address Council's ongoing financial sustainability. The two SV options that were designed to ensure Council can successfully:

- generate an operating surplus, before capital income;

- fully fund all required asset renewals and maintenance;
- return to and maintain a positive unrestricted cash position; and
- deliver all improvement program initiatives.

The proposed SV increases in each of the two scenarios are largely similar; the key difference is the number of years required to implement the full extent of the rate increase.

Table 1, below, summarises the two scenarios:

SV Options	2024-25	2025-26	Cumulative increase over SV implementation period
Base Case	3.5% ¹	2.5%	11.5%
Sustainability Scenario – One-year SV	30.0%		30.0%
Sustainability Scenario – Two-year SV	18.5%	15.0%	36.3%

¹ At the time of writing this report, IPART published a rate peg of 4.9% for Tamworth Regional. Council has not yet been officially notified of this rate peg.

Table 1: Special Variation options considered by Council

On 12 September 2023, Council resolved to undertake community engagement on its preferred option, the **Sustainability Scenario – Two-year SV**. This is the preferred option as it balances Council's sustainability needs with reducing the shock to household budgets through implementing the SV over two years. Under this scenario, Council would apply to IPART for a permanent cumulative rate increase of 36.3 per cent over two years from 01 July 2024. If secured, the SV would assist Council in maintaining surpluses, meeting operating expenditure, and ensuring sufficient investment in infrastructure in the short to medium term.

Outcomes of Community Engagement

Consistent with Council's resolution on 12 September 2023, a comprehensive engagement and communications program was delivered to raise awareness of the need for an SV and the preferred SV option, being the Sustainability Scenario – Two-year SV.

During the engagement period, Council facilitated eight community information sessions, comprising six face to face sessions at Barraba, Manilla, Moonbi and Tamworth, respectively, along with two online webinar sessions.

Over the engagement period, various materials and resources in relation to the proposed SV were made available from Council's online consultation platform, MyTRC Online Community, including:

- engagement timeline;
- community fact sheet;
- frequently asked questions (FAQ) and responses to those FAQ;
- rates calculator;

- SV Background paper;
- SV Capacity to Pay report; and
- Organisation Sustainability Improvement Plan.

Central to the engagement program was an online survey, which allowed members of the community to provide feedback on the proposed SRV. In total, 872 responses to the survey were received. Key results of this survey include:

- 89 per cent of respondents indicated they understood why an SV was under consideration, compared to 11 per cent who did not;
- 97 per cent of respondents expressed opposition to the proposed SV, compared to 3 per cent who expressed support; and
- of the 97 per cent of respondents opposed to the proposed SV, all (100 per cent) understand that Council will need to review and potentially reduce services, service levels and asset conditions should an SV not be implemented.

The Community Awareness and Engagement Outcomes Report, **ATTACHED**, refer **ANNEXURE 1**, provides an overview of the engagement program delivered and communications activities undertaken to promote the engagement program, as well as the engagement findings and key issues raised.

Feedback on and Changes to 2023/2024 – 2033/2034 LTFP

Council received 30 submissions directly related to the exhibited LTFP, all of which related to feedback on the proposed SV, which has been included in the Community Awareness and Engagement Strategy Outcomes Report.

A key aspect of the feedback from the community engagement was concern over whether those with a fixed income were able to afford the proposed rate increases. This was particularly an issue in relation to pensioners who have a limited and fixed income, even though they may be significantly impacted by the proposed rate rise as a result of the land value in their homes. In addition to reviewing and updating its hardship policy, Council has undertaken further modelling on the impacts of increasing the voluntary component of the pensioner rate rebate to address specific concerns on the pensioners capacity to pay for the proposed increases.

Should Council resolve to proceed with an SV application and IPART approves the proposed rate increase, it is proposed that Council increase the voluntary component of the pensioner rate concessions as follows:

- increase the ordinary pensioner rate concession for eligible pensioner card holders for the 2024/2025 financial year by \$50.00 to \$300.00; and
- increase the ordinary pensioner rate concession for eligible pensioner card holders from the 2025/2026 financial year by another \$50.00 (i.e. total increase \$100.00) per annum to \$350.00.

These proposed increases will increase operating cost in 2024/2025 by \$221,600.00 and from 2025/2026 by \$443,200.00 annually. It is proposed that Council will apply those increases prospectively (i.e. no retrospective application for first time pensioners) and will continue to review the voluntary component of the ordinary pensioner rate concessions annually to ensure that it remains effective and affordable.

The final LTFP has been updated to reflect these proposed increases in the pensioner rate concessions.

Asset Management Plans

Council has updated its overarching Asset Management Plan (Strategy), which forms part of Council's Resourcing Plan, to ensure it aligns with both the timeframe and expenditure projections in the LTFP. To support the overarching Strategy, more detailed Asset Management Plans for Buildings, Transport and Information Technology have also been updated, **ATTACHED**, refer **ANNEXURE 3**, **ANNEXURE 4** and **ANNEXURE 5**, for Council's adoption.

Rate Payers' Capacity to Pay

The Capacity to Pay Report, **ATTACHED** refer **ANNEXURE 6**, examines the potential capacity of ratepayers to pay within Tamworth Regional Local Government Area (LGA) in relation to the proposed SV. The report provides an analysis and evaluation of the relative wealth and financial capacity of the community and the financial vulnerability and exposure of different community groups.

In summary, the report concludes that when compared to similar councils, Tamworth has relatively average levels of rates income as a percentage of operating expenses, indicating potential capacity for ratepayers to absorb rises. Council also has low levels of outstanding rates (it has been at 7% for 2021/2022 and the two previous financial years) and has been consistently below regional benchmarks (10%), indicating capacity and potential willingness to pay. This is also backed up by Council's community satisfaction survey which indicates that there is some willingness to pay increased rates, particularly in relation to improved economic outcomes within the LGA.

(a) Policy Implications

Nil

(b) Financial Implications

The 2023/2025 Delivery Plan and 2023/2024 Annual Plan and Budget express clearly the financial challenge ahead. Unrestricted cash funds for Council's General Fund are predicted to start declining from year two onwards. Without an SV, the Sustainability Scenario assumptions are not viable. Council would experience an average operating deficit of \$11M over the forecast period and run out of unrestricted cash around 2025/2026.

As shown in this report, and the Quarterly Budget Review Statement (QBRs) for the September 2023 quarter, operating performance ratio, unrestricted funds, assets renewal ratio and other performance indicators are under pressure and projected to get worse if no action is taken.

Section 8b of the *Local Government Act 1993* (the Act) requires Council to apply principles of sound financial management. 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; and
- Council must maintain its asset base 'fit for purpose'

Each year that Council does not take decisive action to address the systemic funding and asset maintenance backlog issue, it becomes more expensive to address and thus the problem only grows, leaving a burden for future generations to inherit, and negatively impacting the economic performance of the region.

(c) Legal Implications

Nil

(d) Community Consultation

In making an application for an SV, Council must demonstrate that it has effectively informed and consulted the community on the possibility of an SV, including impact of both the proposed SV as well as not applying for an SV. In accordance with Council's resolution on 12 September 2023, a comprehensive engagement and communications program was delivered to raise awareness of the need for an SV and the preferred SV option, being the Sustainability Scenario – Two-year SV. Refer to above section on outcome of community consultation.

It should be noted that, should Council proceed in making application to IPART for an SV, IPART will seek its own community feedback separate from Council's processes and invite submissions from members of the public. This process is expected to take place in February – April 2024.

(e) Delivery Program Objective/Strategy

Focus Area 9 - Open and Collaborative Leadership

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DIRECTORATE: OFFICE OF THE GENERAL MANAGER
AUTHOR: [REDACTED], Chief Financial Officer
Reference: Item 9.3 to Ordinary Council 29 June 2023 - Minute No 144/23
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MOTION

Moved Cr Coates/Cr Southwell

That in relation to the report “Progression of a Special Rate Variation Application for 2024/2025 and Adoption of an Updated Resourcing Plan including the 2023/2024 - 2033/2034 Long Term Financial Plan and Asset Management Strategy and Plans”, Council:

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Resourcing Plan, ATTACHED, refer ANNEXURE 2, and publish the updated Our Resourcing Plan on Council's website;

- (v) adopt the updated supporting Asset Management Plans for Transport, Building and Information Technology, ATTACHED, refer ANNEXURE 3, ANNEXURE 4, and ANNEXURE 5 respectively, and publish these on Council's website; and
- (vi) receive and note the content of the Capacity to Pay Report, ATTACHED refer ANNEXURE 6.
- (vii) continue with regular formal or informal education with the community as well as answer any ongoing questions

COUNCILLORS WHO VOTED **FOR**
THE DECISION

COUNCILLORS WHO VOTED **AGAINST**
THE DECISION

■ [REDACTED]
■ [REDACTED]
■ [REDACTED]
■ [REDACTED]
■ [REDACTED]
■ [REDACTED]
■ [REDACTED]

■ [REDACTED]
■ [REDACTED]

305/23 RESOLVED

