

## **Clause 14a – Special Rate Variation 2013-14**

**FILE: R2-13 AOP REFERENCE: 3.1 ATTACHMENT: YES (PAGE 103-129)**

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### **Purpose**

To determine if Council applies to IPART for a Special Rate Variation, to commence in 2013-14, and if so, if it is a 508(A) or a 508 (2) application, what rating categories will carry the burden and what the funds will be used for.

### **Background**

At the 4 October Extraordinary Council meeting, Council resolved to seek community feedback on two SRV proposals:

- A one off rise of 25% and
- A multi year increase of 13% per annum for seven years.

Council also determined to retain the current rating differentials between the categories and to use the additional funds to assist with meeting the operational costs of the swimming pool and for asset maintenance, primarily that of the road network.

Council also adopted a Community Engagement Strategy which set out how Council was going to inform the community, receive feedback from them and then use that feedback. These Council papers are attached, as are the minutes of the meeting.

### **Issues**

As previously discussed, there are two options for a SRV application. A one-off increase or a multi year increase. Previously, the criteria have been different for the two options, however this year the criteria that the application will be judged against is the same, with the emphasis moving away from community agreement to a rate rise towards ensuring it is outlined and agreed to through adoption of the IP&R documentation. Staff are currently updating these documents (in accordance with government requirements which outline that they must be updated by 30 June 2013 due to the Council elections held in September this year). These updated documents will go Council in February 2013. The main changes will be in the Resource Strategy (LTFFP and Asset Management Plans).

Council has undertaken two months of community consultation, in accordance with the 4 October Council resolution to get feedback on the options put forward.

### **Community Consultation**

11 separate community information sessions were held across the Shire, with 313 people attending. All attendees were presented with a survey form to complete and three fact sheets (all attached). These were also available to members of the public from the Administration Building or via email request (and the fact sheets were on

Council's website). All ratepayers received a flyer on the SRV with their October rates notices (copy attached).

Other than the Euabalong meeting, all sessions were positive regarding the need for a rate rise with attendees generally understanding that Council's resources are limited and that to continue to provide the current services will require an increase in Council's income.

The main issues all attendees, including those from Euabalong wanted to make, was that they did not want to suffer a fall in any of the services Council provides. There was good support from rural and village ratepayers for an increase in road expenditure. Council cannot maintain the existing service levels without an increase in income.

### Survey Results

Council received 113 responses to the survey (at the time of writing). The survey was distributed in paper form and was not available on Council's website, as people were encouraged to attend an information session prior to completing the survey. A summary of the results are below.

Nearly 80% of respondents had attended an information session. 65% were aged over 50 years of age. 56% were from Cobar town and 20% were from the Euabalong area, with another 11% being rural ratepayers. Nearly 80% of respondents have lived in the Shire for over 10 years.

By far the most important service Council provides that is important to the quality of life in the Shire is the roads network with 67% of responses finding it very important.

The majority of respondents wanted all services to be maintained at existing levels except for roads, where 58% wanted that service provided at a higher level. 61% of respondents did not think Council received enough income to maintain current services, with another 20% not knowing. 53% believed rates needed to rise above the peg to continue to provide existing services, with 32% disagreeing.

45% of respondents wanted a one off 25% rate rise, 34% did not want a rate rise at all and 21% wanted a 13% annual rate rise each year for 7 years. Of those not wanting a rate rise, at least two thirds came from the Euabalong area.

### Use of any SRV funds raised

There was community support for the additional revenue raised through the SRV to be used for sustainability purposes (such as covering the cost of operating the swimming pool) and for asset maintenance (such as increasing road maintenance expenditure).

The updated long term financial plan modelling is not yet available. The expenditure break-up of the additional funds will be set out in that plan. Council will then be responsible for reporting annually to the community on how the funds were expended to ensure the funds are used as agreed. This is a very important transparency activity.

Residents wanted to make sure that Council uses the additional funds for the purposes as discussed at the public forums (ie financial sustainability and road asset maintenance).

### The long term solution

As explained to all attendees at the information session, the SRV is just one piece of the puzzle and will not solve Council's current financial situation. Council must continue to closely monitor expenditure levels and find cost savings where possible. More importantly, Council must step up lobbying efforts to ensure equitable regional roads funding, as this could amount to a similar amount of increased income to Council as a SRV application and will assist Council to address the key asset maintenance gap in part of the road network. In addition, Council needs to find a solution to the running of the Lilliane Brady Village as this asset and service has the ability to cost ratepayers significantly in future years if another funding source or management model is not found.

These are critical factors in ensuring that Council is not back at IPART in three years time seeking an additional SRV. A 25% one-off SRV gives Council time to work through these other issues and to seek additional funding sources. A 13% annual increase for 7 years will allow Council to achieve a longer term financial sustainable position without the prospect of a future SRV application.

### Burden

It is assumed that Council will honour their October 4 resolution to share the burden equally between the rating categories of any rate rise. This strategy was not challenged from the public at the various public forums.

### *Legal Situation*

Council must report to IPART by 14 December 2012 if they wish to undertake a SRV in 2013/14. The full business case must be presented to IPART by 11 March 2013. IPART will make a determination around May 2013 and any SRV will come into effect on 1 July 2013.

### *Policy Implications*

The level of the rate rise will impact Council's ability to provide services. Council has previously factored in a multi year rate increase of 10% a year for 7 years when adopting the Long Term Financial Plan, Delivery Program and Annual Operational Plan 2012/13. This was the only scenario developed at the time that showed Council to be sustainable.

The 2012/13 AOP and current IPART guidelines require Council to undertake community consultation so that residents can participate in decision making. This has occurred. Strategy 3.1.1 of the Annual Operational Plan is to increase Council's

income stream, with Action 3.1.1.1 to apply for a SRV to improve the sustainability of Council's assets and services.

### **Financial Implications**

IPART has determined that the rate peg will be 3.4% in 2013/14. Our modelling has assumed a 3% annual rate peg.

A one-off 25% rate rise in 2013-14, followed by an annual rate peg of 3%, results in a 52% increase in rates income for Council from \$2.66m in 2012/13 to \$4.03m in 2019/20.

A 13% annual increase each year for 7 years results in a 138% increase in general rate revenue from \$2.66m in 2012/2013 to \$6.35m in 2019/2020.

Sticking to the rate peg of around 3% annually results in a 23% increase in rates over seven years, from \$2.7m in 2012/2013 to \$3.3m in 2019/2020 i.e. \$700,000 less than the end result of a 25% one off increase in 2013/14. Council will need to make some big changes to meet rising costs and achieve a balanced budget. Council can no longer afford a deficit budget. Maintenance of assets and infrastructure will decrease. This will include less frequent mowing, weed removal and spraying, reduced road maintenance works and reduced maintenance on Council owned buildings. Provision of community facilities will fall, with opening hours or operation of facilities such as the pool, library, museum and youth and fitness centre to be significantly reduced or closed. Staff losses are likely with a resulting fall in customer service to residents.

### **Risk Implication**

There is a significant financial and sustainability risk to Council of not undertaking a rate rise. Council must find the additional \$650,000-\$700,000 annually from elsewhere in the budget. Council is currently working through the community service aspects of the business which are generally showing little room for significant savings. Council recently expressed a wish not to reduce road expenditure.

Undertaking a one-off rate rise of 25% may not be enough to attain long term financial sustainability. Other strategies to raise income from alternative sources, primarily government sources, will need to be pursued with vigour. Council may need to go back to IPART in 3-5 years time seeking another rate rise if other income sources are not secured.

IPART has noted that this strategy is a high risk one, and that Council's business case will have to be very strong in order to be fully successful. IPART could choose to accept a lower percentage increase than Council applies for and the application cannot be transferred to a multi- year application (ie Council must apply for EITHER a one-off increase OR a multi-year increase and IPART must make a determination based on that).

Applying for a multi-year increase of 13% annually for 7 years will not be popular with residents but will increase Council's longer term financial sustainability. Many residents who have agreed to a 25% increase have done so on the basis of there not

being a larger or successive increase. This is a lower risk strategy in terms of IPART's determination, as they may choose to reduce the annual percentage increase, or the number of years it is approved for. IPART has 'room to move'.

A multi year increase of a lower value or for fewer years will increase Council's sustainability and allow some additional asset maintenance and may reduce the likelihood of seeking an additional SRV in the future. There could be some merit in undertaking a four year increase, in line with Council's term. The initial injection of funds will not be received and it will be two to three years before Council receives the same annual increase in rates as the 25% increase, but the end point could be higher, eg a 13% increase each year for four years. This may be a lower risk strategy than a one-off 25% rate rise in terms of IPART's determination.

### **Options**

Council has a number of options to consider:

- A one-off 25% rate rise in 2013/14;
- A multi-year increase of 13% annually for 7 years, starting in 2013/14;
- A compromise of a multi-year increase of fewer than 7 years, such as 4 years;
- No rate rise and preparing a strategy to reduce service levels and find the additional \$700,000 in the budget.

Council must determine how the funds are spent. There are few options, as Council must seek financial sustainability through this initiative.

### **RECOMMENDATION**

- 1. That Council applies for a one-off 25% increase in rates, in line with a 508(2) application to IPART for 2013/14.**
- 2. That these funds are used for the purposes of financial sustainability and asset maintenance.**
- 3. That Council informs IPART of their intentions.**

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**322.12.2012**

**RESOLVED:** That Council applies to:

1. Apply for a one-off 25% increase in rates, in line with a 508(2) application to IPART for 2013/14.
2. That these funds are used for the purposes of financial sustainability and asset maintenance.
3. That Council informs IPART of their intentions.

***Clr Sinclair/Clr Maxwell***

**CARRIED**

Councillor Marsden requested that his name be recorded as voting against the motion.

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