

9.4.2. FIN - 28/11/2022 - Options for a Sustainable Future - Notification to IPART

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Reference

Min. No. 22-147 Ordinary Meeting of Council held on 25 July 2022.
Min No. 22-180 Ordinary Meeting of Council held on 26 September 2022.

Summary

This report canvases the outcomes from community engagement on two Options for a Sustainable Future.

The report also provides details of post-consultation changes to Option 1 – Service Levels Maintained which include a proposed future fund to support the community through economic transition. This has resulted in a lower overall SRV amount and refinements to the proposed SRV funding allocations.

The changes to the Option 1 – Service Levels Maintained have been included in a post-consultation LTFP update which is recommended for endorsement to be placed on public exhibition for 28 days.

The report recommends that Council notify IPART, by their deadline of 29 November 2022, of the intention to apply for a Special Rate Variation (SRV).

Commentary

Background

At the Ordinary Meeting of Council held on 25 July 2022, it was resolved:

22 -147 RESOLVED

THAT Council:

1. Receive the report on Our Place Our Future.
2. Endorse the findings related to considering a special rate variation included in the Rating Review Technical Paper.
3. Resolve to commence community engagement on the two options outlined in this report, in accordance with the Communications Strategy.

Council has completed community engagement on two options for a sustainable future:

Option 1 – Service Levels Maintained

Council would apply for a permanent increase in general rate income (a Special Rate Variation) above the peg rate set by IPART.

The external rating review identified a shortfall of \$4.7M in Council's annual general revenues after taking into account proposed productivities, savings and other revenues of \$1.3M. Additionally, \$1.25M of funding was recommended to ensure Council's ongoing financial sustainability for building capacity within the organisation and facilitating economic resilience in the local government area.

The addition of \$6 million to Council's annual general revenues equates to a 42% overall increase in land rating. Great care has been taken, however, to distribute the rating as fairly as possible amongst the various rating categories, and, as a result, the impact on residential, business and farming land rating under this proposal would typically be 27.7% (including rate peg).

Option 2 – Service Levels Reduced

If Council chooses not to proceed with a special rate variation or IPART determines not to approve Council's application, Council will need to undertake a comprehensive review of its services and present a plan to the community for a reduction in levels of service of around \$4.7M annually.

Council will prioritise the maintenance of essential services over more discretionary services in any level of service cuts. Council anticipates that this process would take approximately twelve months and will again involve extensive community engagement. It will also require significant funding and resources.

Community Engagement Feedback

Over the period 1 August – 10 October, Council conducted a comprehensive community engagement campaign on the two options to ensure the long-term financial sustainability of the city. The engagement process undertaken was developed to ensure the community was well informed about the facts and had an opportunity to shape the pathway forward through their submissions.

The communications and engagement program was built on the core principles and descriptors included in the IAP2 Spectrum of Public Participation. Council also engaged in face-to-face discussions with representatives of quarries, mining operations and utility energy generators who were being asked to pay higher overall percentage increases.

At the end of the community awareness campaign, Council engaged Micromex Research to undertake an independent and statistically relevant and random survey of residents across the local government area.

The results of the survey found that:

- 85% of residents were aware of the proposed Special Rate Variation. This matters as, should Council apply for an SRV, it is important to demonstrate that the community were aware of the proposal and had a fair opportunity to provide their feedback,
- 80% of residents believe that improving/maintaining roads and kerb & guttering is a key priority for Council in the local area,
- 42% of respondents supported Option 1 while 58% supported Option 2, and
- Reasons for the preference of Option 2 centred on affordability/cost considerations (24%) and a lack of confidence in Council financial management (24%).

The Community Engagement Strategy Feedback Report is included as an attachment to this report.

Post-consultation Changes to Option 1 – Service Levels Maintained

During the consultation period, Council engaged extensively with quarrying, mining and power generation ratepayers. There was a general appreciation by major industry of Council's collaborative and extensive engagement. As an outcome of that engagement, there was an almost universal acceptance of the need for the proposed special rate variation. There was a recognition that major industry should contribute its fair share to the overall increase. Major industry was also very keen for close collaboration to continue and felt the best way to manage future economic and social challenges was with major industry, Council and others working together. Major industry desired to make their contributions more directly and with more involvement and collaboration in outcomes.

As a result of the consultation and collaboration, power generation and mining ratepayers have proposed to make part of their increased contributions (\$1.092M) directly into a future fund to support the community through economic transition. This would reduce the special variation

amount from \$6.2M (based on 2022/23 notional yield) to \$5.1 million. Importantly, it does not significantly impact Council's financial sustainability under Option 1. Asset maintenance and renewal is fully funded for all asset classes.

Management recommends adopting the changes proposed by these sectors in their submissions. Some of the benefits of proceeding in this way include:

1. leading practice transitions management requires strong and accountable collaborations between the private sector, governments, knowledge providers and others,
2. Collaboration caters for a transfer of knowledge/expertise and increased intellectual investment in economic transition, well over and above that which council could achieve on its own,
3. the ability to value add to existing funds for economic transition by matching or leveraging industry contributions with grants,
4. building cross-sectoral and government trust and alignment across Lithgow in the economic transition vision.

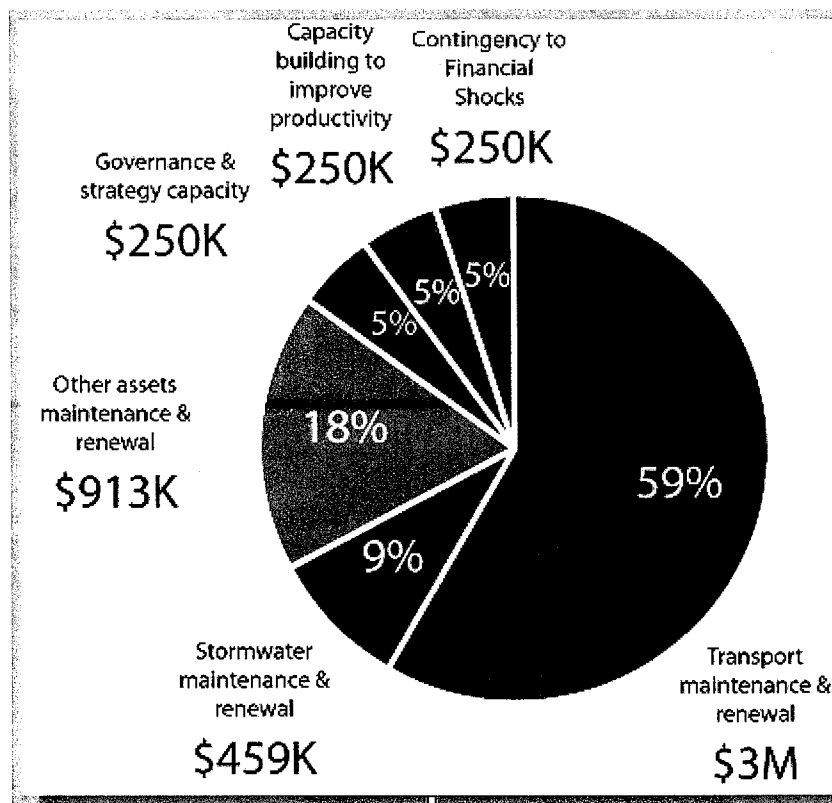
In the event the future fund proposal is not finalised prior to any SRV application to IPART being completed in January 2023, Option 1 would return to Council's original proposal of a 42% SRV (plus 3.7%) with \$1.092M added back to the power generation and mining rating categories. The progress towards establishing a future fund will be reported to the January 2023 Ordinary meeting.

The overall SRV percentage for Option 1 – Service Levels Maintained decreases to 34.3% plus 3.7% rate peg with the post-consultation changes. **There is no change to the SRV percentage of 27.7% for the residential, farmland and business rating categories.** The changes are shown in the table below:

Category or Sub-Category	Rev Policy Yield	Proposed Yield with 3.7% rate peg	Percentage Change
Residential – Urban	\$6,394,461	\$8,165,727	27.7%
Residential – Other	\$2,286,985	\$2,920,480	27.7%
Farming	\$2,208,193	\$2,819,862	27.7%
Business – Urban	\$2,006,083	\$2,561,768	27.7%
Business	\$ 121,137	\$ 154,692	27.7%
Business – Power Generation	\$45,699	\$ 187,025	309%
Business – Quarrying	\$ 43,049	\$ 474,580	1002%
Mining	\$1,854,128	\$3,361,927	81%
Total	\$14,959,735	\$20,646,061	38%

The proposed SRV allocation has also been updated to be consistent with the change to the SRV amount. Depreciation and asset renewals in all asset categories is fully funded. This means that the condition of all assets (including roads) will improve significantly over time. Most significantly, however, legacy financial challenges will not be left for future generations because of a lack of recurrent and adequate funding for asset renewal and maintenance. This accords with Council's obligations for inter-generational equity.

Asset funding includes \$500K p.a. for reducing the roads infrastructure backlog. The post-consultation proposed SRV allocation is shown in the chart below:



Post-consultation LTFP Update

Due to the changes to Option 1 – Service Levels Maintained, the Long Term Financial Plan (LTFP) required an update. In the post-consultation LTFP update, Scenario 3 has been amended with the lower overall SRV amount and the inclusion of income and expenditure from the planned economic transition fund. At the same time, the capital works program (funding sources and expenditure) has been refined for all three scenarios.

A summary of the LTFP update scenarios is provided below:

- **Scenario 1 – Base case** – a “do nothing approach” which would see Council in an unsustainable financial position,
- **Scenario 2 - Service Levels Reduced** – to implement this scenario, Council will need to undertake a comprehensive review of its services and present a plan to the community for a reduction in levels of service, and
- **Scenario 3 – Service Levels Maintained** – Council would apply for a permanent increase in general rate income (an SRV) above the peg rate set by IPART. The addition of \$5.1 million to Council’s annual general revenues equates to a 38% overall increase in rates (including rate peg of 3.7%). Great care has been taken to distribute the rating as fairly as possible amongst the various rating categories, and as a result the impact on residential rating under this proposal would typically be 27.7% (including expected rate peg). Economic transition fund income and expenditure of \$1.1M has also been included in Scenario 3.

The LTFP has been included in an updated Resourcing Strategy 2022-2032 which is recommended for endorsement to be placed on public exhibition for 28 days together with the Supplementary Community Strategic Plan 2035 and Supplementary Combined Delivery Program 2022– 2026 / Operational Plan 2022/23.

Consideration of the Community's Capacity and Willingness to Pay an SRV

Affordability and intergenerational equity were critical considerations in the external review of the rating burden. The review considered issues relating to the capacity to pay for various existing and potential rating categories and sub-categories. Comparative analysis was undertaken as a means of validating the outcomes rather than for the purpose of sourcing an answer.

The rating review recommended that a higher incidence of increased rating be placed on heavy industries (mining, quarrying, power generation) which have historically had lower rates than comparable Councils. This action would enable a lower incidence of increased rating to be placed on the residential, farmland and business rating categories which are most impacted by current cost of living pressures. As part of the refinement of the SRV scenario, it was determined that the pensioner concession would be increased by \$50 to \$300 p.a. to further reduce the incidence of increased rating on pensioners.

A range of indicators have been considered to assess whether the proposed rate increases would be affordable for the community. The indicators considered in reaching conclusions on the community's capacity to pay an SRV include:

- Socio-Economic Indexes for Areas (SEIFA);
- Office of Local Government Time Series Data – comparative average rates and average taxable income;
- Valuer-General's report on land values 1 July 2021;
- Outstanding rates ratio;
- Individual income levels; and
- Council's Hardship Policy.

Reasons for Recommending That Council Endorse Option 1 – Service Levels Maintained

Management recommends that Council endorse Option 1 – Service Levels Maintained for the following reasons:

- The external Rating Review recommended that Council apply for a single year permanent SRV from 1 July 2023 to address a structural annual shortfall in Council's General Revenues of \$6.018M at existing agreed levels of service before adopting available productivity, savings and other measures.
- Option 1 will increase Council's capacity to make productivity and efficiency improvements. The Rating Review found that the lack of specialist resourcing in some areas of Council means that Council is absorbing unnecessary risk and expense.
- Strategic additional levels of service in governance, strategy and capacity building will enable Council to achieve statutory compliance and best practice across the organisation, as well as a strategic and disciplined program dedicated to capacity building.
- The incidence of the proposed rates increase has been carefully considered with a lower increase (27.7% including rate peg) proposed for residential, business and farmland rates and a higher increase proposed for heavy industries which have a greater capacity to pay.
- A \$50 increase in the pensioner concession rebate will alleviate the rating increase for pensioners.
- The community has shown a reasonable level of support for Option 1 with 42% of telephone survey respondents agreeing with Option 1.
- Quarrying, power generation and mining ratepayers have indicated an acceptance of the overall increase and their proposed contribution to it, on the basis of continuing close collaboration in the City's future.

- Option 2 requires achieving approx. \$4.7M in General Fund operational expense reductions in order to meet OLG's the definition of financial sustainability. All the liberated revenue is required for asset renewal and roads maintenance.
- The process of identifying potential levels of service savings will itself require significant additional resourcing.
- While some levels of service are discretionary, the vast majority are determined by statute. Financial reporting, corporate planning and community consultation, land-use planning and development assessment are all examples of levels of service essentially set by statute.

Special Rate Variation Assessment Criteria

IPART assesses SRV applications based on the following criteria:

1. The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents.
2. Evidence that the community is aware of the need for and extent of a rate rise.
3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation.
4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.
5. The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.

Action taken in recent months ensures that each SRV assessment criterion can be addressed in an SRV application.

Timeline

The following is a summary of key dates (including IPART deadlines) for the SRV process moving forward.

Action	Date
Council decision to notify IPART of Council's intention to apply for a special rate variation or minimum rates increase – this being required to meet IPART's 29 November deadline.	28 November 2022
Council decision on final endorsement of special rate variation application to IPART.	January 2023
Special Rate Variation applications due with IPART	February 2023
Determinations announced for Special Rate Variation and Minimum Rate Variation by IPART	May 2023

Policy Implications

Nil.

Financial Implications

As detailed in this report.

Legal and Risk Management Implications

Prudent action is required to manage extreme risks to Council's long-term financial sustainability.

Attachments

1. Community Engagement Feedback Report [9.4.2.1 - 76 pages]
2. CSP Draft November 2022 [9.4.2.2 - 82 pages]

3. Delivery Program 2022 2026_ November 2022 [9.4.2.3 - 134 pages]
4. Workforce Management Strategy November 2022 [9.4.2.4 - 29 pages]
5. Lithgow Draft LTFP Post- Consultation Update - November 2022 [9.4.2.5 - 54 pages]
6. Draft Strategic Asset Management Plan 2022 [9.4.2.6 - 66 pages]

Recommendation

THAT Council:

1. Authorise the General Manager to notify the NSW Independent Regulatory and Pricing Tribunal of its intention to lodge an application under Section 508(2) of the NSW Local Government Act for a permanent Special Rate Variation (SRV) 34.3% increase (plus 3.7% rate peg) in 2023/24 for the primary purposes (based on IPART categories) of:
 - a. Improving financial sustainability;
 - b. Maintaining existing services; and
 - c. Reducing infrastructure backlogs for asset maintenance and renewals.
2. Commit to limiting any increase in the residential, farming and business (general) rating categories to 27.7% (including the 3.7% rate peg) with the balance of the SRV funds required to be levied against the business power generation sub-category, mining category and a new quarrying business sub-category or sub-categories.
3. Note that, in the event that the future fund proposal is not finalised prior to any SRV application to IPART being completed in January 2023, Option 1 would return to Council's original proposal of a 42% SRV (plus 3.7%) with \$1.092M added back to the power generation and mining rating categories.
4. Endorse the updated Integrated Planning & Reporting documents to be placed on public exhibition for 28 days. This will include the following plans:
 - a. Supplementary Community Strategic Plan 2035.
 - b. Supplementary Combined Delivery Program 2022– 2026 and Operational Plan 2022/23.
 - c. Updated 2022-2032 Long Term Financial Plan.
 - d. Updated 2022-2026 Workforce Plan.
 - e. Updated 2022-2032 Strategic Asset Management Plan.
5. Note the Community Engagement Strategy Feedback Report which is included as an attachment.