



# Proposed Special Rate Variation Fact Sheet

# Proposed Special Rate Variation

## Why is Council Considering Increase in rates?

The following actions have commenced to improve service delivery, cut costs and reduce reliance on rates revenue:

- Implementation of a range of initiatives to generate operational efficiencies.
- Review of fees and charges to optimise revenue.
- Service reviews to determine affordable levels of service (to commence in 2018/19).
- Implementation of asset management and financial management improvement plans.
- Applications for grants and seek corporate sponsorship.

The improvement initiatives and service adjustments have helped to reduce the planned operating deficit (before capital) in the 2018/19 Operational Plan.

For Council to improve its financial sustainability, fund infrastructure renewals and fund asset maintenance it will be necessary to apply for a Special Rate Variation (SRV) of 9% to commence in 2019/20. This will extend the current SRV of 4.77% (which ends in 2018/19) with an increase of 4.23%.

The only alternative to an SRV application is to make further cuts to services to deliver a balanced operating result (before capital), consistent with 'Fit for the Future' requirements.

We need to ensure Council is 'Fit for the Future'. The NSW State Government established its 'Fit for the Future' Program in 2014, where it asked all councils in NSW to identify how they would comply with a range of financial criteria to demonstrate that the council was financially sustainable, efficient and was managing its assets.

On 6 December 2016, Council received a 'Notice of intention to issue a Performance Improvement Order to Lithgow City Council under Section 438A of the Local Government Act 1993' from the Minister for Local Government.

The Minister identified the following reasons for issuing the Notice:

- The reassessment of Council's 'Fit for the Future' (FFTF) proposal by the Office of Local Government identified a failure by Council to follow the principles of sound financial management with respect to ensuring that Council's forecast spending is responsible, sustainable, aligning general revenue and expenses.
- Council had reported annual deficits in its financial statements over the past five financial years, and consistently forecasted deficits in its Long Term Financial Plan (LTFP) for the next ten years until 2024-2025.
- Council's FFTF reassessment proposal forecast to meet the financial sustainability criteria relied heavily on two proposed Special Rate Variations (SRV's). Council did not have a documented strategy to meet its forecast operating performance ratio to ensure its long term financial sustainability which did not include a SRV.
- Following IPART's determination that Council is 'not fit', Council did not provide substantive evidence of strategies implemented since the IPART review to move Council towards long term financial sustainability.
- Following re-assessment by the Office of Local Government against the IPART Criteria, it was identified that financial sustainability ratios forecast in Council's FFTF reassessment submission (General Fund) did not align with the ratios forecast in Council's LTFP (Consolidated Fund).

In response, Council engaged the services of specialist consultants, Morrison Low to develop a Performance Improvement Plan that would position Council for a sustainable future by:

- Reviewing and developing Council's Long Term Financial Plan (LTFP) to incorporate a Fit for the Future Improvement Plan and strategies.
- Reviewing Council's Asset Management Plan and Special Schedule 7.

- Preparing a Financial Management Maturity Assessment to understand Council's Financial Management Maturity Status and developing an Improvement Plan with specific priority actions.

This work was completed as part of Council's Integrated Planning and Reporting Framework (IP&R) and the actions identified support the following objective in the Community Strategic Plan 2030:

- GL2 – Moving towards a sustainable Council.

The work undertaken by Morrison Low to position Council for a sustainable future provides a range of long term benefits and value for Council and the community in the form of:

- A robust financial plan with improvement options for longer term sustainability.
- An opportunity for Council to provide improved services to the community.
- Good practice financial management governance, procedures and process.
- It satisfies the additional Integrated Planning and Reporting requirement for the Asset Management Plan and asset service levels.
- Building confidence in the community that Council is financially sustainable to deliver on the Community Strategic Plan outcomes, key programs and projects.
- Meeting all statutory obligations and being in a position to maintain stewardship of the community's resources.
- Ensuring transparent annual planning and reporting processes through the IP&R Framework which shows the implementation of the Performance Improvement Plan.

Morrison Low have identified in the Financial Management Maturity Assessment and the Long Term Financial Plan 2017-2027 the following actions which will impact both Council and the Community but are crucial to ensuring that Lithgow Council is 'Fit for the Future'. They are:

1. The development of a Service Review Framework. And
2. To apply for a new permanent Special Rate Variation of 9% from 2019/20.

Lithgow Council, in responding to this program, as well as identifying efficiency measures, proposes to apply to replace the existing infrastructure special rate variation (SRV) of 4.77% when it expires. In the 2017-27 LTFP scenario, a replacement SRV was planned to commence in 2019/20. It is proposed to proceed with an application for a replacement SRV to commence in 2019/20, following the expiry of the current SRV.

If Council is successful in its application for a new permanent SRV of 9% to commence in 2019/20, together with the ongoing improvement measures included in the LTFP, Council will be assured of its financial sustainability and will be able to meet all of the Fit for the Future (FFTF) ratios over the 10 year term of the LTFP. The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23%. The ongoing identification of organisational efficiencies, cost savings and maximisation of revenue will assist Council to overcome its financial sustainability challenges with the lowest possible impact on ratepayers.

The preferred scenario is that Council seeks an SRV of 9% when the existing SRV for infrastructure improvements expires at the end of 2018/19. The new SRV in 2019/20 will mean an additional increase of 4.23% for ratepayers at that time. This, when combined with other improvement measures, enables Council to operate with a small surplus which provides additional cash resources to help fund extra infrastructure renewals. These financial results make the Council 'fit' in accordance with the Office of Local Government guidelines. In the LTFP Scenario, Council is able to meet the operating performance ratio from 2019/20 onwards. Council will closely monitor its operating result and amend the timing of FFTF Improvement Plan actions to ensure an operating surplus is retained. This means that Council will continue to operate largely within its existing funding levels and implement a number of improvement initiatives, including service reviews, to ensure ratepayers receive an agreed affordable level of service and that the services are provided in an efficient and cost effective manner.

While the LTFP Scenario does mean that Council will seek another SRV of 9% from 2019/20, the actual impact on ratepayers is only an additional 4.23%. If there was no approved SRV in 2019/20, ratepayers could expect a fall in their rates of 4.77%. Without a new SRV, the rate peg (which was 2.3% for 2018/19) would be applied to the lower rate

base resulting in a net decrease in rates of approximately 2.47%. In the SRV Scenario, 2019/20 ratepayers will receive a further 4.23% increase in that year.

Another benefit of the LTFP Scenario is that the cash reserve balance for the general fund trends upwards from 2023. This places Council in a sound cash position with ongoing capacity to fund asset renewals.

It is proposed that the extra rate income is to be expended on increased infrastructure renewal works for items such as road and drainage reconstruction, the replacement of playground equipment and sports ground facilities, and building maintenance. Council has an extensive asset renewal program and the additional income means that our existing infrastructure will be renewed in a timelier manner and there is less likelihood of those assets deteriorating over time. The SRV may also be used for improvement initiatives that will provide long-term savings.

## **What is asset renewal?**

Council is responsible for the management of over \$750,000 worth of assets (gross carrying value at 30 June 2017). These assets deteriorate at varying rates dependent on their use and construction type. If assets are not renewed in a timely manner we are faced with increased maintenance expenditure and the service level we provide to the community can also decrease. For example, we all prefer to drive on smooth roads rather than ones full of potholes.

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## **Where have previous rate rises been invested?**

Council applies for special rate variations to deliver projects that are above and beyond normal maintenance and service programs. Special rate variations are generally invested in projects and services that would not normally go ahead without the increased revenue that Council receives from the rate increase.

The existing 4.77% SRV expires in 2018/19 and was applied to improvement works for roads throughout the LGA, Lithgow and Portland lanes and community buildings. The following table shows projects for 2017/18 and 2018/19 that have been fully or partly funded by this special rate variation.

For the purposes of this special variation we are aiming to improve the rate at which we renew our key infrastructure classes of roads, stormwater, community buildings, open spaces, playgrounds and sports fields. We currently have annual budgets for the renewal of these items but unfortunately the rate of renewal is proving to be insufficient to allow us to maintain or improve current standards. The additional revenue from the special rate variation will help us to maintain current standards and improve those standards over time.

## **What percentage increase are we talking about?**

Councils in NSW are subject to rate pegging. This means that the NSW Government only allows councils to increase rates by a set percentage every year. This is determined by the NSW Independent Pricing and Regulatory Tribunal (IPART) on behalf of the State Government. If a council wants to increase the total rate income by more than the set percentage it must apply to IPART. IPART then determines whether an application should be approved. IPART has advised that the standard rate peg for all councils is 2.3% for 2018/19.

We are seeking to apply for an SRV of 9% to commence in 2019/20. This will extend the current SRV of 4.77% (which ends in 2018/19) with an increase of 4.23%. This income would be a one-off permanent increase.

**Proposed Infrastructure Levy: Special Rate Variation**

**s508 (2) of the Local Government Act 1993**

<b>Improve the condition of the following roads, streets &amp; lanes.</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Measurement</b>	<b>Reporting</b>
<b>Roads</b>	<b>\$</b>	<b>\$</b>		
Cripps Avenue, Wallerawang	50,000		Road works completed.	Report 'on-the-ground' works undertaken in the Quarterly Progress Report and Annual Report.
Carlton Road, Portland	50,000			
Lyon Parade, & Hume Avenue, Wallerawang	81,318			
Cullenbenbong Road, Kanimbla	50,000			
Ellen Close, Portland	40,000			
Valley Drive, Lithgow	50,000			
Brays Lane, Wallerawang	65,000			
Forty Bends Road, South Bowenfels		176,390		
Bathurst Street, Wallerawang		75,500		
Lett Street, Portland		36,865		
<b>Improve the condition of the following roads, streets &amp; lanes.</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Measurement</b>	<b>Reporting</b>
<b>Lithgow/Portland Lanes</b>	<b>\$</b>	<b>\$</b>		
Ivatt Street Lane, Lithgow	20,000		Road works completed.	Report 'on-the-ground' works undertaken in the Quarterly Progress Report and Annual Report.
Tank/Union Lane, Lithgow	20,000			
Williwa Lane (CBD), Portland	12,000			
Jamison/High Lane, Portland	\$15,000			
Langbein Lane, Portland	\$25,000			

## Proposed Infrastructure Levy: Special Rate Variation

### s508 (2) of the Local Government Act 1993

Improve the condition of the following roads, streets & lanes.	2017/18	2018/19	Measurement	Reporting
Bate/Piper Lane, Portland	19,000			
Falnash/Ilford Lane, Portland	19,000	15,500		
Commonwealth/Portland Lane, Portland		35,500		
Williwa/Commonwealth Lane, Portland		40,500		
<b>Total Road Improvements</b>	<b>496,318</b>	<b>380,255</b>		
Improvement works to the following buildings: .	2017/18	2018/19	Measurement	Reporting
Buildings	\$	\$		
Mick Moore Pavilion	30,000			
LINC Grease Trap	20,000			
Kremer Park Toilets	100,000			
Daintree Lane Toilets	150,000			
General Asset Building Maintenance	7,217	71,110		
<b>Total Building Improvements</b>	<b>307,217</b>	<b>71,110</b>		
<b>TOTAL EXPENDITURE SPECIAL RATE</b>	<b>803,536</b>	<b>451,365</b>		

### What happens if this proposal doesn't succeed?

Over time, the current condition of our key infrastructure such as roads, community buildings and playgrounds will deteriorate to a level that will result in operational inefficiencies and increased maintenance expenditure.

Eventually, there will be poorer levels of service, and a backlog of work to improve our assets. Unless we proactively increase funding now, we will be leaving future generations with significant liabilities. Lithgow City Council has always focused resources on the careful management of our assets, and we want to ensure this continues into the future by having an adequate revenue base to fund asset renewal.

The proposed SRV represents the continuation of the existing 4.77% SRV together with a further 4.23% to ensure Council becomes financially sustainable by meeting all of the Fit for the Future benchmarks by the end of the LTFP period. The impact of the proposed SRV on rates is summarised in the table below:

*Table 1: Proposed SRV Impact on Rates*

<b>ANNUAL RATE INCREASE (%)</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2020/22</b>
Rate Peg (estimate)	2.5%	2.5%	2.5%
Additional Special Rate Variation	6.5%		
<b>Total Annual Increase</b>	<b>9.0%</b>	<b>2.5%</b>	<b>2.5%</b>
* Expiring Special Rate Variation	-4.77%		
<b>Net Impact on Rates</b>	<b>4.23%</b>	<b>2.5%</b>	<b>2.5%</b>

\* If there was no additional Special Rate Variation in 2019/20, ratepayers would experience a 4.77% decrease in rates, then the rate peg would be applied.

As detailed in the adopted LTFP, without an SRV the Council “is not able to generate an operating surplus nor achieve the Operating Performance Ratio. The backlog ratio has not improved significantly and does not achieve the target.” (LTFP Scenario 2 – p23). Operating costs are rising faster than the Council’s ability to generate operating revenue. The only alternative to an SRV application is to make further cuts to services to deliver a balanced operating result (before capital), consistent with Fit for the Future requirements. Any future service reductions would occur in consultation with the community.

## What is the Rate Peg?

Councils in NSW are subject to rate pegging. This means the NSW Government only allows councils to increase rates by a set percentage every year. This is determined by the NSW Independent Pricing and Regulatory Tribunal (IPART) on behalf of the State Government.

If a Council wants to increase the total rate income by more than the set percentage it must apply to IPART. IPART then determines whether an application should be approved. IPART has advised that the standard rate peg for all NSW councils is 2.3% for 2018/19.

## What is the next step?

Council has engaged Micromex Consulting to develop an Asset Management Study. Members of the community will be randomly contacted from across the Local Government Area to be involved in the study which will measure your priority and satisfaction with Council’s assets along with what you feel should be Council’s level of investment on asset groups.

We will then, undertake an assessment of the data collected to identify what areas you feel should be included in the Special Rate Variation (SRV). A second, random telephone survey will then be conducted to identify community support for the SRV. Council is required to notify IPART of its intention to submit an application in December 2018. The final application will be submitted in February 2019 for assessment by IPART. See the attached Proposed Special Rate Variation Process Chart.

# PROPOSED SPECIAL RATE VARIATION PROCESS

