



How will the SRV impact my rates?

**Financial Information
Fact Sheet**

Financial Information | Special Rate Variation

What is the Rate Peg?

As things currently stand, Council's revenue is regulated under the rate peg. The Independent Pricing and Regulatory Tribunal (IPART) sets a rate peg which limits the amount by which councils can increase their rate revenue from one year to the next.

For many years, the rate peg limit has not kept pace with the funding needs of Councils in NSW, including costs shifted from other levels of government, and residents' needs for appropriate services.

What is a Special Rate Variation?

After IPART announces the rate peg for the upcoming year, Councils can then have a conversation with the community as to whether the increase is sufficient to continue to deliver the existing range and standard of services available, whilst also ensuring there are sufficient funds to maintain and renew infrastructure. If they feel the increase is insufficient, Council can request an increase above the rate peg limit. These increases are known as a Special Rate Variation (SRV).

Applications for increases above the rate peg limit are assessed by IPART. IPART has stringent criteria which a Council must meet before approving any application. This includes extensive community consultation and clearly showing to the community the impact of the proposal on ratepayers.

The proposal to apply for an SRV was included as "Scenario 3 – Sustainable Assets" in Council's 2017-2027 Long Term Financial Plan (LTFP), which was placed on public exhibition in May 2017 and adopted by Council in June 2017.

On 26 November 2018, Council adopted the 2019-2029 Long Term Financial Plan and 2019-2029 Strategic Asset Management Plan for public exhibition. Financial modelling for the 10 year period has been updated in these documents based on the proposal to apply for a Special Rate Variation. Submissions will be accepted until 11 January 2019 and the documents are available for viewing on Council's website <http://www.haveyoursay.lithgow.com/document-library/>

Why is Council Considering a Special Rate Variation?

Like many other NSW Councils, our roads, footpaths, buildings, drainage and other community assets are ageing and need to be renewed or upgraded. We know that our community places a high value on these assets, in particular our road network. Our assets in their current state are continually deteriorating and need costly maintenance. To improve our public assets we need to spend more money on maintaining and renewing these assets to ensure that they meet the needs of our community.

The proposed Special Rate Variation is an important step to help maintain and manage our current assets to ensure that we deliver services in line with community expectations and remain financially sustainable into the future.

What is 'Fit for the Future' all about?

In 2014 the NSW State Government initiated its 'Fit for the Future' (FFTF) local government reform program that required all NSW councils to submit a proposal demonstrating plans to achieve long term financial sustainability and meet seven asset and financial benchmarks.

As a part of our 'Fit for the Future' process we reviewed the condition of our assets and detailed long term financial modelling. We currently spend around \$19 million on the maintenance and renewal of community assets each year; we have a funding gap and need to invest an additional \$1.1 million per year. This additional investment will ensure that the number of assets in poor condition does not continue to grow.

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, then Minister for Local Government, the Hon. Paul Toole, MP. The Minister identified a number of reasons for issuing the Notice including:

- 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.
- Reporting of annual deficits in the financial statements over the past five financial years.
- Consistently forecasted deficits in Council's Long Term Financial Plan (LTFP) for the next ten years until 2024-25.
- Council's FFTF reassessment proposal forecast to meet the financial sustainability criteria relied heavily on two proposed SRV's.
- Council did not have a documented strategy to meet its forecast operating performance ratio to ensure its long term financial sustainability did not include a SRV.
- Council did not provide substantive evidence of strategies implemented since the IPART review to move Council towards long term financial sustainability.
- The financial sustainability ratios forecast in Council's FFTF reassessment submission (General Fund) did not align with the ratios forecast in Council 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 LTFP to incorporate a Fit for the Future Improvement Plan and strategies.
- Reviewing Council's Asset Management Plan and Financial Statements Assets 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 (IPR) and the actions identified support the following objective in the Community Strategic Plan 2030:

- *GL2 – Moving towards a sustainable Council.*

Strategies identified in the Fit for the Future Improvement Plan are included in Council's Supplementary 2018/19 Operational Plan. In addition to this 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 the 2018/19 fees and charges to optimise revenue.
- Service reviews to determine affordable levels of service (commenced in 2018/19).
- Implementation of asset management and financial management improvement plans.
- Applications for grants and seeking corporate sponsorship.

Why can't my current rates pay for the additional maintenance and renewal works?

The role of local Councils has come a long way since the days of roads, rates and rubbish. Today, we now fund many more services to meet our community's needs and expectations. Some of these include:

- parks, sports grounds, playgrounds and community halls;
- libraries, arts and culture;
- community development services for children, youth, older people, people living with a disability and Aboriginal and Torres Strait Islander People;
- public and environmental health;
- environmental sustainability projects and invasive species management;
- transport services including roads, footpaths, car parks, road safety and traffic facilities;
- business development, events and tourism;
- development services, such as development applications and certification;
- land use and natural environmental planning;
- stormwater and flood management;
- emergency management;
- community and council strategic planning;
- executive, communication and support services

The cost of providing all of these services comes from existing rate income. The restrictions placed on Council to increase its rate income above rate pegging simply do not allow Council to allocate additional funding to infrastructure maintenance and renewal. Council for many years has reported annual deficits in the financial statements, meaning we have been living beyond our means.

What are the options Council is considering?

There are two options that we would like you to consider; each option will have varying impacts on our assets and service quality.

Scenario 1 – Current SRV expires + rate peg

On 1 July 2019, the current 4.77% SRV expires. An estimated 2.7% rate peg would be added to the lower rate base. The projected loss of rates revenue due to the expiry of the current SRV is estimated at \$624,000 for the 2019/20 year.

Scenario 2 – Maintain the current SRV + rate peg + one-off (permanent) 4.23% SRV

Council proposes to apply to retain the current SRV of 4.77%. Council also plans to request an additional one-off SRV of 4.23%. The total SRV application will be for a 9% increase in rates revenue (i.e. the current 4.77% SRV plus a new 4.23% SRV). The estimated 2.7% rate peg will also be added. The impact on ratepayers will be a new 4.23% SRV plus the rate peg. The projected total SRV income (from maintaining the current SRV plus adding the new SRV) is estimated at \$1.178 million for the 2019/20 year.

Council is proposing to increase funding for the following assets.

- Transport (sealed roads, unsealed roads, footpaths, cycleways, bridges and road drainage)
- Stormwater Drainage
- Buildings

Increasing the level of funding for these assets will allow council to renew those which are currently in a poor condition. It will also ensure that the number of assets in poor condition does not continue to grow. It is essential that our community assets are safe, in working order and meet community expectations. The expenditure will ensure that the Fit for the Future asset benchmarks are met over time.

The remainder of the increased funding (approx. \$100,000 p.a.) will be spent on business improvement initiatives which will either generate additional revenue or reduce long-term costs.

What is the proposed increase in funding?

The table below shows the current amount of funding allocated each year, towards renewal and maintenance work across our main asset types, as well as recommendations for increases to improve their condition.

| Asset Type | Current Maintenance & Renewal Budget (\$'000 p.a.) | Proposed increase in Investment (\$'000 p.a.) | Proposed Total Investment (\$'000 p.a.) | Proposed % increase in investment |
|---------------------|--|---|---|-----------------------------------|
| Transport | 4,188 | 725 | 4,913 | 17% |
| Stormwater Drainage | 107 | 100 | 207 | 93% |
| Buildings | 831 | 250 | 1,051 | 26% |

How will this impact on my rates?

The impact of each of these options on average rates is shown in the tables opposite and over page.

| Impact on average rate | Average Rate | Average Rate 2019/20 | Variance \$ per annum | Variance \$ |
|--------------------------|--------------|----------------------|-----------------------|-------------|
| Residential Rates | | | | |
| Scenario 1 | 763.00 | 747.00 | -16.00 | |
| Scenario 2 | 763.00 | 815.00 | 52.00 | 1.00 |
| Business Rates | | | | |
| Scenario 1 | 3,950.00 | 3,868.00 | -82.00 | |
| Scenario 2 | 3,950.00 | 4,225.00 | 275.00 | 5.29 |
| Farmland Rates | | | | |
| Scenario 1 | 1,439.00 | 1,410.00 | -29.00 | |
| Scenario 2 | 1,439.00 | 1,539.00 | 100.00 | 1.92 |
| Mining Rates | | | | |
| Scenario 1 | 160,461.00 | 157,139.00 | -3,322.00 | |
| Scenario 2 | 160,461.00 | 171,581.00 | 11,120 | 213.85 |

The impact of each of these options on base rates for land value ranges is shown in the tables below:

| Residential | | | |
|------------------------|--------------------|--------------------|--------------------|
| | Base | Scenario 1 | Scenario 2 |
| Rateable Value | Average 2018/19 \$ | Average 2019/20 \$ | Average 2019/20 \$ |
| \$0 -> \$100,000 | 620 | 608 | 658 |
| \$100,000 -> \$200,000 | 934 | 911 | 1,002 |
| \$200,000 -> \$300,000 | 1,060 | 1,033 | 1,138 |
| \$300,000 -> \$400,000 | 1,328 | 1,293 | 1,431 |
| \$400,000 -> \$500,000 | 1,849 | 1,797 | 2,002 |
| \$500,000 -> \$600,000 | 2,725 | 2,641 | 2,971 |
| \$600,000 -> \$700,000 | 4,291 | 4,150 | 4,710 |
| \$700,000 -> \$800,000 | 3,630 | 3,517 | 3,967 |
| \$800,000 + | 6,054 | 5,860 | 6,629 |

| Business | | | |
|--------------------------|--------------------|--------------------|--------------------|
| | Base | Scenario 1 | Scenario 2 |
| Rateable Value | Average 2018/19 \$ | Average 2019/20 \$ | Average 2019/20 \$ |
| \$0 -> \$100,000 | 1,309 | 1,285 | 1,381 |
| \$100,000 -> \$200,000 | 3,204 | 3,134 | 3,413 |
| \$200,000 -> \$300,000 | 4,769 | 4,659 | 5,097 |
| \$300,000 -> \$400,000 | 6,878 | 6,716 | 7,358 |
| \$400,000 -> \$500,000 | 9,226 | 9,001 | 9,893 |
| \$500,000 -> \$600,000 | 8,524 | 8,319 | 9,129 |
| \$600,000 -> \$700,000 | 9,340 | 9,114 | 10,009 |
| \$700,000 -> \$800,000 | 8,099 | 7,901 | 8,686 |
| \$800,000 -> \$900,000 | 20,848 | 20,345 | 22,340 |
| \$900,000 -> \$1,000,000 | 23,940 | 23,361 | 25,658 |
| \$1,000,000 + | 23,272 | 22,691 | 24,996 |

What other factors could impact on how much rates I have to pay?

Council rates are calculated based on the value of your land, as determined by the NSW Valuer General. Updated land values are provided to Council every three years. The last general revaluation of land valuations to properties throughout the LGA came into effect from 1 July 2016. Any significant fluctuation in your land valuations will also have an impact on the amount of rates you pay.

| Farmland | | | |
|--------------------------|--------------------|--------------------|--------------------|
| | Base | Scenario 1 | Scenario 2 |
| Rateable Value | Average 2018/19 \$ | Average 2019/20 \$ | Average 2019/20 \$ |
| \$0 -> \$100,000 | 491 | 487 | 501 |
| \$100,000 -> \$200,000 | 876 | 860 | 921 |
| \$200,000 -> \$300,000 | 1,113 | 1,091 | 1,180 |
| \$300,000 -> \$400,000 | 1,398 | 1,367 | 1,491 |
| \$400,000 -> \$500,000 | 1,671 | 1,631 | 1,789 |
| \$500,000 -> \$600,000 | 1,991 | 1,941 | 2,138 |
| \$600,000 -> \$700,000 | 2,239 | 2,181 | 2,409 |
| \$700,000 -> \$800,000 | 2,540 | 2,474 | 2,738 |
| \$800,000 -> \$900,000 | 2,827 | 2,751 | 3,050 |
| \$900,000 -> \$1,000,000 | 3,148 | 3,063 | 3,401 |
| \$1,000,000 + | 4,988 | 4,845 | 5,409 |

| Mining | | | |
|------------------------|--------------------|--------------------|--------------------|
| | Base | Scenario 1 | Scenario 2 |
| Rateable Value | Average 2018/19 \$ | Average 2019/20 \$ | Average 2019/20 \$ |
| \$0 -> \$100,000 | 13,781 | 13,691 | 14,049 |
| \$100,000 -> \$200,000 | 27,964 | 27,530 | 29,251 |
| \$200,000 -> \$300,000 | 30,652 | 30,153 | 32,131 |
| \$800,000 -> \$900,000 | 92,911 | 90,904 | 98,860 |
| \$1,000,000 + | 259,142 | 253,110 | 277,026 |

What if I have difficulties in paying my rates?

Council acknowledges that any rate increase may adversely impact some community members. Council has mechanisms in place to assist ratepayers should they incur difficulty in keeping up with their rates payments, including a Financial Hardship Policy, Policy 8.1. Visit <http://council.lithgow.com/policies1/> for more information.

Where can I find more information about rates?

You can learn more about rates on the Office of Local Government website:

- www.olg.nsw.gov.au/content/rates-and-charges-frequently-asked-question