

# ITEM P&S - 26/11/18 - SPECIAL RATE VARIATION NOTIFICATION OF INTENTION TO IPART

REPORT BY: DIRECTOR PEOPLE AND SERVICES

## REFERENCE

Min No 18-96 Ordinary Meeting of Council held on 23 April 2018  
 Min No 18-165: Ordinary Meeting of Council held on 25 June 2018  
 Min No 18-227: Ordinary Meeting of Council held on 27 August 2018  
 Min No 18-262: Ordinary Meeting of Council held on 24 September 2018

## SUMMARY

At the Council meeting held on 23 April, Council resolved **THAT:**

3. Council confirm Long Term Financial Plan Scenario 3 as its preferred option for financial sustainability and notify the Independent Pricing and Regulatory Authority (IPART) of its intention to prepare an Application for a Special Variation based on the table below:

<b>SRV Information</b>	<b>Proposed Application</b>
Type of Special Rate Variation	Application under Section 508(2) of the NSW Local Government Act – being an increase in a single year.
Percentage increase	9% in 2019/20 (to replace the expiring 4.77% SRV in 2019/20).
Permanent or temporary increase	A permanent increase which is retained within the rate base.
Purpose of the Special Rate Variation	Primary purposes (based on IPART categories): <ul style="list-style-type: none"> <li>• Improvements in financial sustainability; and</li> <li>• Reductions in backlogs for asset maintenance and renewal.</li> </ul>

4. Council staff prepare an Application for a Special Rate Variation and submit the draft application for endorsement prior to the 2018/19 SRV deadline.

This report provides information regarding Council's Notice of Intention to IPART to apply for a permanent 9% per year (plus the annual rate peg) Special Rate Variation from 2019/20 as follows:

*Maintain the current SRV + rate peg + one-off (permanent) 4.23% SRV*

Council proposes to apply to retain the current SRV of 4.77% which expires on 30 June 2018. 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 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.

## COMMENTARY

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.

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.

The table 1 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%

### Changing the way we do things

#### Transport and stormwater infrastructure

Council currently spends approximately \$19 million on asset maintenance and renewal each year however we should be investing an additional \$1.1 million per year.

In 2016/17 Council undertook a review of its works program with the aim of reducing Council's ongoing asset depreciation costs. Percentages of maintenance funding were reallocated to renewals projects. The allocation is based on the expected percentages of renewal works required over a 12 month period based on analysis of the previous 5 years of maintenance expenditure data. Included in this analysis is a breakdown of salary, plant and materials expenses to more accurately break down the requirements.

The purpose of this renewal budgeting in addition to maintenance funding is to ensure allocation of recurrent maintenance funds to works that extend the life of an asset rather than simply maintain an asset to its expected end-of-life. Typically, these works would be conducted based on best practice intervention points, ensuring works are performed prior to capital reconstruction being required. This process comes with two main benefits, the first being a reduction in capital expenditure over time due to extended asset life spans and the second a reduction in ongoing asset depreciation rates if intervention points are followed.

Stormwater improvements are of major significance, particularly within the urban Lithgow area. Currently, Lithgow is subject to substantial new development which is causing an increase in stormwater flow through aging infrastructure installed anywhere between 10 and 70 years ago. This issue is causing flood-related problems downstream. Previously, Council's aging stormwater infrastructure was not acknowledged during the scoping and budgeting phase of the capital works planning process. This partly resulted in the over spend on Council's resheeting program. Additional resources will be provided to stormwater locating during the project scoping phase into the future. This will ensure that a holistic approach is taken to road and stormwater management.

### Buildings

Council through its public toilet improvement program is replacing a number of aged non-compliant public toilets with modern Exeloo type facilities. These structures are self-cleansing and electronically controlled so that they can be opened and closed at pre-set times. Cost to the community is reduced through a reduction in call-outs for additional cleaning, less staff time on repairs resulting from vandalism and opening and closing the facility. It also provides a modern, clean toilet facility for use by ratepayers and visitors to Lithgow.

Improvements have already been completed to the Administration Centre and the Centrelink Office with the installation of computer controlled Building Management Systems for the operation of the heating and cooling systems in these buildings. This is aimed at reducing overall operating cost and overall energy consumption through reduction in gas and electricity usage in these buildings.

New LED lighting has been installed in the Administration Centre and Centrelink to also reduce the greenhouse footprint and overall operating costs.

### **2019-2029 Long Term Financial Plan – Sustainable Assets Scenario**

The 2019-2029 Long Term Financial Plan (LTFP) includes a Sustainable Assets Scenario, which locks in further organisational improvements and identifies the need to apply to replace the existing infrastructure special rate variation (SRV) of 4.77% when it expires. In the 2019-29 LTFP scenario, a replacement SRV is planned to commence in 2019/20. It is proposed to apply for a replacement SRV to commence in 2019/20, following the expiry of the current SRV.

If Council is successful in an application for a new permanent SRV of 9% to commence in 2019/20, together with the proposed 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, plus the rate peg of 2.7%. This, when combined with other improvement measures, enables Council to operate with a 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 budget 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 ongoing 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% plus the rate peg. 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 is 2.7% for 2019/20) would be applied to the lower rate base resulting in a net decrease in rates of approximately \$624,000. In the SRV Scenario, 2019/20 ratepayers will receive a further 4.23% increase in that year plus the

rate peg. Council will continue its efforts to find further improvements to reduce the reliance on the additional SRV application.









Another benefit of the LTFP Scenario is that the cash reserve balance for general fund trends upwards from 2024. This places Council in a sound cash position with ongoing capacity to fund asset renewals.

Table 1 - Proposed allocation of additional revenue obtained from Special Rate Variations commencing 2019/20 (subject to annual review of Service and Asset Management Plan priority risk assessment and best value resource allocation to achieve service level targets).

Service	Option 1 Service Levels Improved	Option 2 Service Levels Reduced
Transport Service Levels	<p>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 2.7% rate peg will also be added. The impact on ratepayers will be a new 4.23% SRV plus the rate peg. The project total SRV income from maintaining the current SRV plus adding the new SRV is estimated at \$1.178 million for the 2019/20 year.</p> <p><b>\$4,913 per annum</b></p> <ul style="list-style-type: none"> <li>Funding the shortfall between Council's existing budget and works required to return Council's sealed and unsealed road assets to a serviceable standard.</li> <li>Provide the funding required to effect sealed and unsealed road asset improvements such as increases to width, pavement strengthening and drainage reconstruction to increase longevity of such assets.</li> <li>Funding required renewal of footpath and bridge assets while continuing to maintain service levels across other assets.</li> </ul>	<p>On 1 July 2019, the current 4.77% SRV expires. A 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.</p> <p><b>\$4,383 per annum</b></p> <p><b>As for Option 1 but with \$530k less funding for required work:</b></p> <ul style="list-style-type: none"> <li>Renewal and maintenance of sealed road network.</li> <li>Reduced ability to effect transport asset improvements to increase longevity and effectiveness of expenditure.</li> <li>Increased requirement to defer essential asset improvements to future Operational Plans.</li> </ul>
Stormwater Drainage Service Levels	<p><b>\$207,000 per annum</b></p> <ul style="list-style-type: none"> <li>Stormwater management infrastructure gaps.</li> </ul>	<p><b>\$107,000 per annum</b></p> <p><b>As for option 1 but with \$107k less funding for required work:</b></p> <ul style="list-style-type: none"> <li>Stormwater management infrastructure</li> </ul>
Building Service Levels	<p><b>\$1.051 million per annum</b></p> <ul style="list-style-type: none"> <li>Improve building compliance</li> <li>Public toilet upgrade in town centres</li> <li>Building renewal.</li> </ul>	<p><b>\$957,000 per annum</b></p> <p><b>As for option 1 but with \$94k less funding for required work:</b></p> <ul style="list-style-type: none"> <li>Public toilet upgrade in town centres</li> </ul>
Business	<b>Approximately \$100,000 per annum</b>	<b>No specific budget</b>

Improvement Service Levels	<ul style="list-style-type: none"> <li>Initiatives which will either generate additional revenue or reduce long-term costs.</li> </ul>	<ul style="list-style-type: none"> <li>Limited improvements within existing budget constraints.</li> </ul>
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Table 4: Likely impact of Options on Key Financial Performance Measures

Measure	Option 1 - Service Levels Improved	Option 2 Service Levels Reduced
<p><b>Operating Performance Ratio:</b></p> <p>Measures Council's achievement of containing operating expenditure within operating revenue (including depreciation)</p> <p><i>Benchmark: should be &gt; zero</i></p>	<p><b>By 2019/20</b></p> <p style="text-align: center;"></p>	<p style="text-align: center;"></p>
<p><b>Assets Renewal Ratio:</b></p> <p>The Council's ability to renew built assets relative to rate at which they are depreciating.</p> <p><i>Benchmark: should be 100%</i></p>	<p><b>By 2019/20</b></p> <p style="text-align: center;"></p>	<p style="text-align: center;"></p>
<p><b>Infrastructure Backlog Ratio:</b></p> <p>The proportion of the backlog against the total value of Council's infrastructure.</p> <p><i>Benchmark: should be &lt;2%</i></p>	<p><b>Over the 10 Years of the LTFP</b></p> <p style="text-align: center;"></p>	<p style="text-align: center;"></p>
<p><b>Debt Service Ratio:</b></p> <p>The percentage of Council revenue used to service debt.</p> <p><i>Benchmark: should be below 10%</i></p>	<p><b>By 2019/20</b></p> <p style="text-align: center;"></p>	<p style="text-align: center;"></p>
<b>Summary</b>	<p>Significant improvement in most key financial performance measures (particularly the Operating Performance Ratio and the Asset Renewal Ratio) with a need to continue addressing the infrastructure backlog.</p>	<p>Unsustainable financial position with significant deterioration in built infrastructure and reduction in service levels.</p>

#### How has the Council considered the capacity of the community to pay?

- The Council has completed a full analysis of the community's capacity to pay additional rates and this will be detailed in the Long-Term Financial Plan 2019-2029 being publicly exhibited from 27 November - 11 January.
- Within available funding, the Council is committed through its integrated planning to building a sustainable future for the Lithgow Local Government Area that supports the creation of a vibrant economy / town centres providing increased local employment opportunities and advocating for the provision of services and facilities that meet the needs of all age groups and special needs groups.
- The Council has a Hardship Policy to accommodate the special needs of those unable to pay their rates in full on time. The Council is committed to working with such ratepayers to agree on affordable payment plans.

- Council has developed a Rates Calculator which is available on the Have Your Say website, [www.haveyoursay.lithgow.com](http://www.haveyoursay.lithgow.com). To use the calculator you will need to know the valuation of your property that is set by the Valuer General. This value is based on the land value only and does not include any improvements such as buildings. The valuation of your property can be found in the financial details section of your rate notice.
- Please Note:
- This rates calculator is only for the base property rates and does not include other charges such as waste, sewerage or water charges.

*Likely impact of Scenario 1 and Scenario 2 on average rates*

Impact on average rate	Average Rate 2018/19 \$	Average Rate 2019/20 \$	Variance \$ per annum	Variance \$ per week
<b>Residential Rates</b>				
Scenario 1	763.00	745.00	-18.00	
Scenario 2	763.00	814.00	51.00	1.00
<b>Business Rates</b>				
Scenario 1	3,950.00	3,860.00	-90.00	
Scenario 2	3,950.00	4,217.00	267.00	5.13
<b>Farmland Rates</b>				
Scenario 1	1,439.00	1,407.00	-32.00	
Scenario 2	1,439.00	1,536.00	97.00	1.86
<b>Mining Rates</b>				
Scenario 1	160,461.00	156,819.00	-3,642.00	
Scenario 2	160,461.00	171,260.00	10,799	207.67

### Community Engagement

A detailed Community Engagement Action Plan is included in the Special Rate Variation Community Engagement Strategy available on the [www.haveyoursay.lithgow.com](http://www.haveyoursay.lithgow.com). However, the following is a summary of key dates (including IPART deadlines) for Councillors to inform them of the process moving forward.

Action	Date
Report to Extra Ordinary meeting of Council for adoption for exhibition of the: <ul style="list-style-type: none"> <li>• Supplementary Combined 2017-21 Delivery Program &amp; 2018/19 Operational Plan.</li> <li>• Revised document suite for the Resource Strategy; Supplementary 2019-2029 Long Term Financial Plan, Supplementary 2018-2028 Strategic Asset Management Strategy and Supplementary 2018-2022 Workforce Plan.</li> <li>• Endorsement of proposal to submit an application for Special Rate Variation.</li> </ul>	26 November 2018
Exhibition of IPR supplementary document suite and Community Engagement for Special Rate Variation.	26 November – 11 January
Notification to IPART of Council's intention to apply for a special rate variation or minimum rates increase.	30 November 2018
Extra Ordinary Meeting of Council for final endorsement of the 2019/20 Special Rate Variation Application to IPART.	29 January 2019
Special Rate Variation applications due to IPART	11 February 2019
Determinations announced for Special Rate Variation and Minimum Rate Variation by IPART	14 May 2019

In April 2018, as part of the exhibition of the Draft 2018/19 Operational Plan, Council commenced engaging with the community on the proposed Special Rate Variation and the report to the Council meeting in June, identified community submissions received regarding the proposal. Since then Council has continued to engage the community using the following methods:

- Have Your Say Website – Special Rate Variation microsite includes:
  - Fact sheets
  - Link to key council plans and strategies
  - Rates Calculator
  - Asset Management Study information pack and survey results
- Media releases
- Social media posts and monitoring
- Asset Management Study telephone survey undertaken by Micromex Consulting
- Service Review Community Reference Panel
- Information published in Council eNewsletters; Council Connections (weekly) and Have Your Say (monthly)

Moving forward, Council will be undertaking the following community engagement activities between 27 November and 11 January:

- Exhibition of the following documents on Have Your Say Website:
  - Supplementary Combined 2017-2021 Delivery Program and 2018/19 Operational Plan.
  - 2019-2029 Long Term Financial Plan, Supplementary 2018-2028 Strategic Asset Management Plan and Supplementary 2017-2021 Workforce Strategy.
- Micromex Consulting to undertake random telephone survey to gauge levels of community support for the SRV at the beginning of December.
- Listening Post to be conducted in Cook Street Plaza.
- Community Survey on Have Your Say Website (following Micromex telephone survey until 11 January)
- Promotion by Media release, social media, eNewsletters (Council Connections and Have Your Say), Council Column.
- Fact Sheets/Infographs/Case Studies on Have Your Say website.
- Information video by the Mayor on the website.
- Letter from the Mayor mailed to all ratepayers at the beginning of December.
- Rates Calculator on the Have Your Say Website.

## **POLICY IMPLICATIONS**

Nil

## **FINANCIAL IMPLICATIONS**

### **Community Survey**

- Budget approved - \$66,000
- Cost centre - 600076
- Expended to date - \$45,713.64
- Future potential impact - Nil

### **Service Review**

- Budget approved - \$133,024
- Cost centre - 700048
- Expended to date - \$34,316.25
- Commitments - \$15,710.85
- Future potential impact - Nil

**LEGAL AND RISK MANAGEMENT IMPLICATIONS**

Nil

**ATTACHMENTS**

1. Supplementary Combined 2017-21 Delivery Program and 2018/19 Operational Plan
2. Supplementary 2017-21 Workforce Plan
3. 2019-29 Long Term Financial Plan
4. 2018-28 Strategic Asset Management Plan

**RECOMMENDATION****THAT**

1. Council 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 9% increase in 2019/20 (to replace the expiring 4.77% Special Rate Variation in 2019/20) for the primary purposes (based on IPART categories) of:
    - a. Improvements in financial sustainability; and
    - b. Reduction in backlogs for asset maintenance and renewal.
  2. The following documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
    - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
    - b. 2019-2029 Long Term Financial Plan
    - c. Supplementary 2017-2021 Workforce Plan
    - d. 2018-2028 Strategic Asset Management Plan
  3. The closing date for submissions is Friday 11 January 2019.
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26 November 2018 MINUTES – ORDINARY MEETING OF COUNCIL

**ITEM-27 P&S - 26/11/18 - SPECIAL RATE VARIATION NOTIFICATION OF INTENTION TO IPART**

**MOTION****THAT**

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  - a. Improvements in financial sustainability; and
  - b. Reduction in backlogs for asset maintenance and renewal.
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  - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
  - b. 2019-2029 Long Term Financial Plan
  - c. Supplementary 2017-2021 Workforce Plan
  - d. 2018-2028 Strategic Asset Management Plan
3. The closing date for submissions is Friday 11 January 2019.

**MOVED:** Councillor C Coleman **SECONDED:** Councillor D Goodsell



## **AMENDMENT THAT**

1. The following documents be placed on public exhibition for a minimum of 28 days. This will include the following documents:
  - a. Supplementary combined Delivery Program 2017– 2021 and Operational Plan 2018/19.
  - b. 2019-2029 Long Term Financial Plan
  - c. Supplementary 2017-2021 Workforce Plan
  - d. 2018-2028 Strategic Asset Management Plan
2. The closing date for submissions is Friday 11 January 2019.

**MOVED:** Councillor S Lesslie **SECONDED:** Councillor

The Amendment was withdrawn by Councillor Lesslie.

## **18 – 352 RESOLVED**

### **THAT**

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**MOVED:** Councillor C Coleman **SECONDED:** Councillor D Goodsell

**CARRIED** – Unanimously

### **FOR**

Councillor W McAndrew  
 Councillor C Coleman  
 Councillor D Goodsell  
 Councillor D Goodwin  
 Councillor S Lesslie  
 Councillor S Ring  
 Councillor J Smith  
 Councillor M Statham

### **AGAINST**

NIL