

PRESENT:

APOLOGIES:

DISCLOSURE OF INTERESTS:

General Manager Report

Item C – 1 SPECIAL RATE VARIATION

File number: 130

Reporting Officer: Acting General Manager

Operational Plan Objective: Pillar 6: Our Leadership – Provide good governance, prudent financial management and effective support services for all its activities.

Officer Recommendation:

- (1) That Council lodge an application with IPART for a Special Rate Variation (Option 3) to commence 2018/19 whereby Council seeks a permanent SRV of 10%, including the rate cap per year for seven years commencing in 2018/19 with the additional rates income from the new mineral sand mines and solar farming activities.**

- (2) Council issue a press release detailing its decision and reasons FOR seeking the SRV**

Purpose of Report

To report to Council on the proposal to make an application to IPART for a Special Rate Variation (SRV) commencing in the financial year 2018/19.

Report

EXECUTIVE SUMMARY

Council has been striving to improve its financial sustainability through a range of initiatives. These include a review of its rating structure and the opportunity to create new mineral sands mining and solar farming rates; creation of a viable Long Term Financial Plan (LTFP) including a proposed Special Rate Variation (SRV); and seeking community feedback on these future options.

Balranald Shire Council has a very low rate base to anchor the various services required of a modern council. Lack of finance is a major issue. As a consequence, there is the reality of Balranald Shire Council struggling with compliance and legislative obligations. Council's location and size significantly increases the cost of service delivery.

In responding to these challenges and the requirements of state government, Council put in place the following approach to explore and understand a range of options to generate a roadmap to financial sustainability.

1. Understand issues and opportunities with current rating structure, including mineral sands mining rates – September 2017
2. Develop a sustainable LTFP with 3 Scenarios – October 2017
3. Assess the extent of a proposed SRV – October 2017
4. Adopted a LTFP for community consultation, including a proposed SRV - October 2017 Council meeting
5. Undertake Community Consultation and consider feedback report – November 2017
6. Notify IPART of Councils intention to submit an SRV – **15 Dec 2017**
7. Complete the SRV Application by **12th February 2018**
8. Consider IPART's determination of the SRV application on **15th May 2018**
9. Determine whether to include proposed SRV into to 2018/19 IP&R documents for further community consultation – **May/June 2018**
10. Make final determination on SRV – **June 2018**

Background

Council was issued with a Performance Improvement Order in April 2017 by the Minister for Local Government. Council has submitted a Performance Improvement Implementation Plan, which was further extended following the advisor's report to the Office of Local Government.

Following the issue of the Performance Improvement Order 39 actions have been identified to address this order. One of the key actions is that Council finalise and adopt a LTFP that has clear links to Council's asset management plans and strategies to improve their financial position. Balranald Shire Council agreed to adopt a revised LTFP, in October 2017.

Council appointed Consultants Morrison Low in July 2017 to assist Council to address two of the key reasons why the PIO was issued, namely:

"1. Failure of Council to meet its legislative responsibilities in respect of its financial obligations.

2. Council has budgeted for and subsequently run large operating deficits over a number of years. At the same time, Council has not had a reliable Long Term Financial Plan (LTFP) to provide a path to achieve a break-even result or an operating surplus in the future"

Council's objective is to deal with the financial elements of the PIO by creating a sustainable organisation that can continue to deliver services and management fit for purpose assets.

Council at its Ordinary Meeting on the 17th October 2017 considered the Long Term Financial Plan and Special Rate Variation Proposal and resolved;

That Council:

1. *Adopt the draft long term financial plan for community consultation and Council further consider the plan at the November meeting.*
2. *Adopt the Special Rate Variation Community Engagement Plan and appropriately resource the delivery of it.*
3. *Note the Rating Review report for further consideration as part of the IP&R process for 2018/19.*

Council commissioned Morrison Low to provide a number of reports namely the Rating Review Report, the Long Term Financial Plan and the Community Engagement Report to help inform Council.

Council has been previously issued with a copy of these reports for consideration and determination where required.

The Minister for Local Government Gabrielle Upton MP on 19TH December 2017 wrote to Council advising that:

“Council must now adopt the Implementation Plan and provide me with a written report on its progress against the implementation plan within 12 weeks of the date of the letter (compliance report 2).”

OLG recommendation No 20 of the Implementation Plan requires:

“That preparations commence for a general Special Rate Variation (SRV) and that Council look at the possibility of SRVs for mines and solar farms approved or planned.”

Councils adopted LTFP includes a successful application for a SRV.

Long Term Financial Plan (LTFP)

Council is required to have in place a LTFP that reflects the financial sustainability and capacity of Council over a ten year period, integrating the resourcing requirements for service delivery and sound asset management.

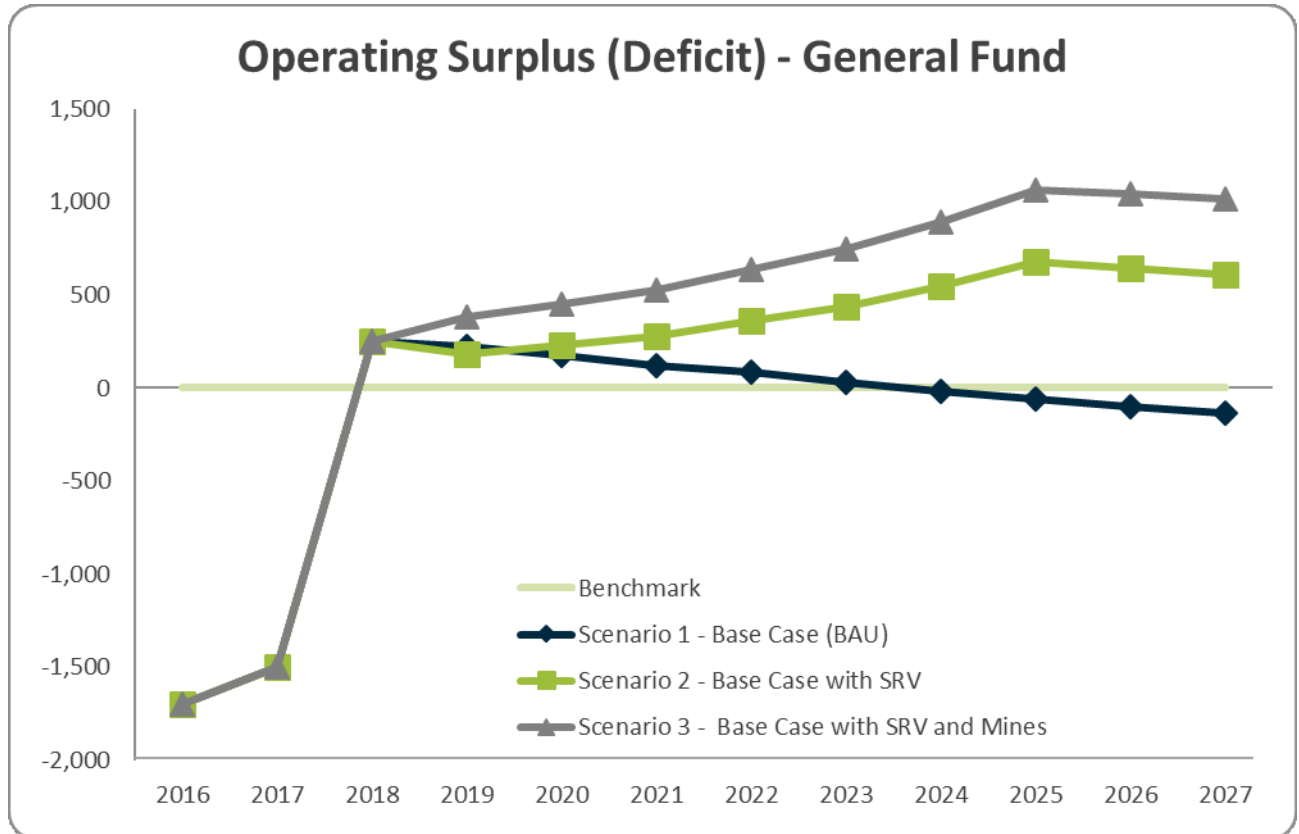
The revised LTFP document provides a base case scenario along with two other scenarios related to a Special Rate Variation (SRV) and proposed mineral sand mines and solar farm rates. The LTFP document highlights the Fit For The Future (FFTF) performance ratio's improvement targets and details strategies to achieve these targets, including a proposed Special Rate Variation (SRV).

Scenario 1 - Base Case: Council has not been able to generate a sustained operating surplus. Council has taken the approach to reflect the current financial state, including the depreciation savings of \$2 million resulting in a very small surplus of \$252,000. Operating surpluses are not sustained beyond 2020/21. More importantly the current LTFP forecasts do not address the asset management challenges the Council faces with all indicators trending in the wrong direction.

Scenario 2 – Base Case with SRV: This takes the base case and adjusts the financial projections to include rating for solar farm activities and a proposed permanent SRV of 10% per year (including rate capping) each year for 7 years commencing in 2018/19. Applying the 10% SRV to Council's current rate base will generate an estimated \$133,390 in 2018/19 rising to \$236,309 in the seventh year. Productivity improvements from the service review program and review of the aged care facility operations have also been considered along with the 39 actions to address the PIO. Based on the premise that the SRV is approved and the new solar farm activities commence in 2018/19 additional expenditure has been included for asset maintenance and renewal to address the FFTF asset ratios.

Scenario 3 – Base case with SRV and Mines: In this option it takes scenario 2 and adjusts the financial projections to include rating for mineral sand mine activities from 2018/19. A proposed permanent SRV of 10% per year (including rate capping) each year for 6 years commencing in 2019/20 for the mineral sands mine rates income. These are significant new activities where Council has to determine the impact on its operation and the level of rates these activities should contribute. As a result, expenditure to meet the demand of extra service provision, infrastructure operation and maintenance has been included. In addition, each of the mines have agreed to a road contribution which has been deducted from the gross rate amount.

The following graph illustrates the operating results for each scenario



The preferred option is scenario 3 where Council seeks a permanent SRV of 10%, including the rate cap, per year for seven years commencing in 2018/19 with the additional rates income from the new mineral sand mines and solar farming activities. The major reason for the SRV application is to build unrestricted cash, as currently Council has very limited financial capacity to meet ongoing commitments let alone unplanned opportunities. Also a SRV will allow Council, to have sufficient resources to employ additional staff in order to deliver current services. Finally, to increase asset maintenance and capital renewal expenditure to address two of the key asset FFTF performance targets.

This, when combined with the other improvement measures included in Scenario 2, enables Council to operate with a small surplus for General Fund which provides additional cash resources to help fund extra infrastructure renewals. This enables Council to meet 5 of the seven FFTF benchmarks, with the exception of own source revenue and real operating costs per capita.

The Scenario 3 option will also deliver increase in total cash but more importantly unrestricted cash. Council's cash position for general fund is predicted to move from \$2.5 million in 2016/17 to an estimated \$15.4 million in 2026/27.

The uncertainty for Scenario 3 is whether the new mineral sand mines activities will commence in 2018/19. If this is not the case Scenario 2 can be implemented resulting in the generation of a small operating surplus for each of the 10 years. The backlog ratio is largely achieved but is starting to trend upwards in year 10. The asset maintenance ratio is trending positively; however the real operating expenditure per capita is trending upwards.

Rating Review Report

Balranald Shire Council has sought a review of its current rating structure due to a range of factors, namely a potential inequity between rating categories, the impact of the mineral sand mines and solar farms, the need to have appropriate categories and subcategories to manage any change in rating categories, and to address Council's overall financial position and long term financial sustainability.

Council was of the view that its current rating structure had some potential inequities between the rating categories. An analysis was undertaken which allocates the operating costs for each service (the benefit) to a rating category through a rates benefits model which compares the rates paid to benefits received. The results of the analysis indicated that there is inequity as the farmland rating category is paying more rates than the benefit received and the residential ratepayers less rates than the benefit received. The rates benefit model should only be used as a general guide to illustrate to Council a potential issue in the current rating structure.

Further, a comparison of the average ordinary rates for Balranald and its neighbouring councils shows that residential and business properties in Balranald pay lower average rates than those in neighbouring councils, with Balranald's average residential rate significantly lower than other councils.

Given the number, range and complexity of potential changes to the rating system, it is recommended that the rate structure should be reviewed for the start of the 2019/20 financial year with consideration given to rebalancing the contributions from different categories to the rate base income.

One of the key challenges is for Council to understand and quantify what the impact of mineral sand mines and solar farming activities will have on the local community and on the Council. The change in use will see these properties re-categorised resulting in an increase in Council total allowable 'notional income'. It's critical to note that the mineral sand mine rates are temporary, so Council needs to be mindful when employing additional resources to service the impact of these activities.

The rationale in determining the increase in rate income is based on increased demand and use of Council services and infrastructure. The basis of the cost impact assessment includes estimated population growth, recognition of location, access and use of Council services and infrastructure and potential benefits of economies of scale. The assessment also acknowledges the estimated road contributions which have been slightly discounted to recognise that staff, contractors and suppliers will use and consume the broader infrastructure of Council.

The recommended additional rate yield for these new activities is:

- Category - Business: Subcategory - Mineral Sands Balranald - \$605,000
- Category - Business: Subcategory - Mineral Sands Atlas-Campaspe - \$490,000
- Category- Business: Subcategory - Solar Farming - \$70,000

In order to collect the additional rate yield, Council needs to make a rate for the new subcategories. The major issue is that there is a strong likelihood that the mineral sands valuations for rating purposes may not be available to meet this timeline. The report recommends that Council make the rate based on the estimated value provided by the Valuer General.

Community Engagement Report

Balranald Shire Council engaged with the community on its current financial situation and options to address the challenges facing Council and the Community. Council considered a range of reports at Council meetings to determine its options for community consultation and engagement. The Council endorsed community engagement program comprised of provision of information, focus group sessions, written submissions and a community survey.

The engagement involved the provision of information by direct mail to all residents and access to information on Council's website. This information included an information leaflet, including a "Have your say- Submission Form", Frequently Asked Questions and access to staff to respond to community questions.

Council conducted five focus group sessions with 153 individuals attending in total. These sessions provided an opportunity for community members to provide feedback, seek clarification and ask questions. Each focus group session received a presentation and was provided with the opportunity to respond to 4 key questions - sustainable Council, satisfaction with current services provided by Council, preference of the rating options and ideas to make Council more sustainable over the long term.

Following is a summary of these sessions.

There was unanimous agreement from all focus group sessions that Council should be sustainable. It was clear from the focus group sessions that there is strong opposition to the proposed rate increase of 10% per year including the rate peg for seven years. A small number of participants suggested a lower rate increase subject to Council making some savings and efficiency improvements. The question of affordability of the proposed rate increase, due to low wages, was raised in most sessions.

All focus group sessions were largely satisfied with current services provided by Council with the exception of roads. In some cases this was the only key service that participants received and in these cases, all focus groups were dissatisfied. Other comments suggested reviewing Council services, disposing of some of the road equipment and looking at using contractors to deliver some services.

A range of ideas were suggested for Council to become more sustainable over the long term. There was a consistent theme that Council needs to improve its operational performance. Other ideas include:

- Seek to increase grant income
- Sell or outsource services e.g. Caravan Park, Discovery Centre, Bidgee Haven Hostel, Swimming Pool
- Review the level of Council debt
- A major restructure of Councils in Western Division
- Council to deliver efficiency improvements and lift their game
- Council being more transparent and consult with community more often
- A rating structure that reflects service benefits

As part of the distribution of the information leaflet was the provision for community members to provide written submissions. 187 submissions were received. Of these 155 did not support increasing the rates above the rate peg limit and 14 supported the proposed SRV with a further 9 respondents suggesting a lower SRV increase. 9 respondents had no preference.

It is clear from the written submissions, that the majority are dissatisfied with Councils transparency and performance which influenced their view of the need for a special rate increase. Respondents expressed concern at what they believe was poor governance and inefficient management, lack of services provided, particularly related to road maintenance, poor communication between council and community and lack of accountability.

There was a number common themes for improvement namely, reducing Council staff and overheads, sell off assets to pay for services and be more transparent with the community.

Council developed an online community feedback survey for the proposed SRV and it was accessible from Councils' website. Fifteen people responded to the survey with over 90% of respondents agreeing that it's important that Council is sustainable. 40% of the respondents were satisfied with the current services provided by Council and a further 40% somewhat satisfied.

In relation to the proposed SRV, 11 of the 14 people who responded to this question indicated their preference as Option 2 - no increase in rates above the rate peg limit.

Council has received a letter (Confidential) from a mining company seeking information on the proposed SRV and how it would apply to its mining operations and the methodology used to determine the rate. The company also offers an objection to the SRV on farmland as it considers the 10% increase for seven years excessive. Particularly in the circumstances that BSCs own analysis has identified the current inequity of the farmland rating category.

Copies of all the written submissions are available for review by Councillors at the Chambers. A data base is being compiled to enable a written response to be sent detailing Councils decision on the SRV.

Council notified IPART on 15th December 2017 of its intention to submit an SRV if it is to achieve its adjusted LTFP which includes the SRV.

NEXT STEPS

IPART has formally been advised by notification letter on the 15th December 2017 in accordance with Councils resolution 10.17.4110.

Council has received a confirmation email that the letter has been received by IPART. Following a review by IPART, the notification letter will be uploaded onto the IPART website.

Should Council resolve to submit a SRV application it needs to be completed by 12th February, 2018.

The Guidelines for the preparation of an application for a special variation to general income were attached as Appendix A to the report presented at the Ordinary December 2017 meeting.

A workshop was convened on the 10th January to discuss the SRV and other strategic matters and the General Manager will provide a update on discussions

IPART's assessment approach to special rate variation applications are detailed in the Guidelines. It is a merit base assessment against the assessment criteria taking into consideration the Councils' size, resources, current and previous rate levels and purpose of the variation.

A typical application for a SVR to IPART could include the following attachments:

- Community Strategic Plan Extracts
- Delivery Program
- LTFP
- TCorp Financial Assessment
- Community Engagement Materials
- Community Feedback
- Hardship Policy
- Resolution to apply for the special variation
- Asset Management Plan Extracts
- Certification
- Council Improvement Plan

Once IPART has made a determination of the SRV application, which is due on 15th May 2018, it will advise Council accordingly. IPART will also publish on their website the reasons for its decision. Should the application be approved in full or part Council will be issued with an instrument setting out the amount approval and any conditions including the minimum annual reporting requirements.

Once Council has received the approval advice, Council will need to incorporate its decision on the proposed SRV into the 2018/19 IP&R documents for further community consultation. The consultation is part of the annual IP&R process and usually takes place over the May/June period. Following the closure of public consultation Council needs to make the final decision to include the SRV amount into its rate base and make the rates for 2018/19.

Given the range on current issues facing Council there are number of other options that Council may wish to consider. These include:

- Once Council notifies IPART of its intention to make an application, the application can be different but less than what is currently in the adopted LTFP that Council consulted on, by amending the LTFP accordingly.
- Should Council be successful with this SRV application Council could delay the commencement for a year to 1st July 2019. Further Council may choose not to apply an increase in a particular year.
- Council could also delay the SRV application process by one year and make application effective from 1st July 2019.

Conclusion

Council has engaged the community to ensure it is aware of the need for and the extent of the SRV being sought. The number of responses is testament to the community's awareness of the proposal.

No one wants increased costs but the reality is that Council must increase its revenue base through a SRV if it is to achieve financial sustainability and this has been recognized by OLG and IPART Assessments.

The public submissions received highlighted many community concerns about Councils past operations and governance. The Improvement Order issued by the Minister and the adopted Implementation Plan will address many of these concerns. The challenge for Councils elected representatives will be communicating the progress of the Implementation Plan and its ongoing benefits to improving business and governance.

The SRV application is only one part of Councils ongoing Improvement Plan (39 actions) to improve its financial sustainability and its operations at all levels. Council s recognizes that there are inequities in the current rate structure and this should be reviewed at the start of the 2019/20 financial year with consideration given to rebalancing the contributions from the different categories to the rate base income.

Balranald Shire Council
Agenda Extra-Ordinary Meeting Wednesday 10th January 2018

<u>Financial Implication</u>	A successful SRV application is a critical component to Council achieving long term financial sustainability to meet the asset and service delivery requirements of its community.
<u>Legislative Implication</u>	Compliance with the Local Government Act 1993, Local Government (General) Regulation 2005, Ministers Improvement Order, Circular 17-35 Special Variation and Minimum Rate Variation Guide and Processes for 2018/19 and IPART Guidelines.
<u>Policy Implication</u>	Nil
<u>Attachments</u>	Nil