

APPLICATION FOR SPECIAL RATE VARIATION

ATTACHMENTS:	<ol style="list-style-type: none">1. IMPLICATIONS2. AVERAGE AND MINIMUM RATE INCREASES BY MAJOR RATING SUB-CATEGORY FROM 2024-2027 IF SRV APPLICATION IS LODGED AND APPROVED3. DRAFT IPART APPLICATION FORM4. ENGAGEMENT OUTCOMES REPORT5. RESPONSES TO KEY ENGAGEMENT THEMES6. REVISED LONG TERM FINANCIAL PLAN 2023-2033 FOR ADOPTION7. REVISED DELIVERY PROGRAM 2022-26 FOR ADOPTION8. PROPOSED POST-EXHIBITION CHANGES TO LONG TERM FINANCIAL PLAN 2023-2033 AND DELIVERY PROGRAM 2022-269. UPDATED CAPACITY TO PAY REPORT
RESPONSIBLE OFFICER:	DEBRA JUST – CHIEF EXECUTIVE OFFICER
AUTHOR:	MARK SKELSEY – SPECIAL RATE VARIATION PROJECT MANAGER
CITY STRATEGY OUTCOME:	5.6 – ENSURE VALUE FOR MONEY AND FINANCIAL SUSTAINABILITY
MEETING DATE:	30 JANUARY 2024

1. PURPOSE OF REPORT

To seek Council's approval to revise Council's *Long Term Financial Plan 2023-2033* and *Delivery Program 2022-26* and concurrently support the lodgement of a Special Rate Variation application to the Independent Pricing and Regulatory Tribunal.

2. OFFICER'S RECOMMENDATION

That Council:

1. Endorse an application to the Independent Pricing and Regulatory Tribunal for a 15% rate increase in 2024/25, including a 10% Special Rate Variation which will first apply in the 2024/25 financial year and then stay in place in Council's rate base on a permanent basis.
2. Endorse the revised *Long Term Financial Plan 2023-2033* at Attachment 6 and *Delivery Program 2022-26* at Attachment 7.
3. Delegate authority to the CEO to lodge an application for a Special Rate Variation to the Independent Pricing and Regulatory Tribunal, which is consistent with the draft application at Attachment 3 and the revised *Long Term Financial Plan 2023-33* and *Delivery Program 2022-26*.
4. Publish Council's Special Rate Variation application to the Independent Pricing and Regulatory Tribunal on Council's website, immediately after lodgement.

5. **Inform all community engagement participants of this resolution and thank them for their contribution.**

3. BACKGROUND

On 27 November 2023, Council resolved as follows:

“That Council:

- 1. Note that community engagement activity undertaken between 25 September and 5 November 2023 shows there is strong overall community support for a Special Rate Variation (SRV).*
- 2. Endorse Option 3 – Increase Services (15% rate rise) as its preferred 2024/25 rate rise option to inform the preparation of a SRV application to the Independent Pricing and Regulatory Tribunal (IPART).*
- 3. Endorse the public exhibition of the Long Term Financial Plan (LTFP) and Delivery Program 2022-26 changes which are applicable to Option 3 – Increase Services (15% rate rise) at Attachment 9.*
- 4. Authorise the Chief Executive Officer to make amendments to the LTFP to update the document to integrate the IPART 2024/25 rate peg announcement made on 21 November, and other changes to the LTFP and Delivery Program 2022-26 changes which do not alter the intent or result in material changes to these documents in preparation for public exhibition of the same.*
- 5. Agree to hold an additional Council meeting at 7.00pm on Tuesday, 30 January 2024, to consider the outcome of the public exhibition of the LTFP and Delivery Program 2022-26 changes, and the lodgement of a SRV application to IPART, should Council resolve to support a SRV option at this meeting.*
- 6. Notify engagement participants about Council’s decision in this matter and thank them for their valued contribution.*
- 7. That Council ensures that irrespective of how rate payers receive their rate notifications (e.g. physically or electronically) that it is clear and obvious that there are hardship provisions available to access and that this information is accessible.”*

This report outlines how Council has implemented the 27 November 2023 Council resolution relating to the Special Rate Variation (SRV) project, and seeks Council endorsement for the *Long Term Financial Plan 2023-2033* and *Delivery Program 2022-26* referred to in the resolution and to lodge an application for the SRV.

The report also concludes the extensive work which has been undertaken by Council, since November 2022, to develop a proposed SRV. This work has included:

- Holding nine Councillor briefings
- Publishing six Council reports
- Delivering 30,067 letters to ratepayers, issuing 73,000 emails, generated 229,500 social media post impressions, receiving 2,349 survey responses including 1,585 comments, and hosting 14 community information sessions, and generating 6,682 website visits to the SRV web page.

4. DISCUSSION

Detail of proposed 15% rate increase

On 27 November 2023, Council considered a report which detailed:

- The outcomes of extensive community engagement conducted between 25 September and 5 November 2023 on four rate rise options; and

- The findings of research which examined the general capacity of Willoughby's ratepayers to pay the various rate rise options.

After considering this report, Council resolved to support a preferred 15% rate increase for the financial year 2024/25 (known as the *Increase Services* option).

The report stated that, when combined with a \$2m efficiency target, the increase:

- Significantly improves the financial sustainability of Council
- Was in line with overall community sentiment in favour of a special rate rise
- Was the most highly ranked option among representative survey respondents who supported an SRV and was cited as an "affordable option" by these respondents
- Would allow Council to continue to deliver highly valued services to the community
- Delivers surpluses in all nine years between 2024/25 and 2032/33, with an average annual surplus of \$4.77m. These surpluses, subject to future financial shocks such as inflation increases, could be re-invested in community services and projects
- Allows Council to allocate an additional \$2 million a year for public area maintenance, chiefly to allow Council to invest in additional cleaning, care and beautification projects in parks, cycling and walking routes and town centres, and planting programs to boost Council's urban tree canopy. The above initiatives have been strong priorities in this term of Council (including via a resolution at the March 2023 meeting recommending an increase in the maintenance budget to be considered in the budget process). The initiatives also feature among the services rated as most important in Council's Community Perception Survey
- Increases Council's ability to absorb future financial, extreme weather and growth shocks; and
- Provides a stable work environment for staff attraction and retention.

The reports to the November 2023 Council meeting, including the engagement outcomes report, can be found [at this page](#).

The 15% rate increase comprises a 10% SRV (for which Council needs to apply to the NSW Government) and a 5% rate peg increase (prescribed by the NSW Government to Council on 21 November 2023).

The SRV application would be made under Section 508(2) of the *Local Government Act* and would involve a one-off increase to rates in 2024/25, whereby rates would increase by the approved SRV (10%) and rate peg amount (5%).

The SRV amount would then stay in Council's rates base in future years, when rates would typically only increase in line with the NSW Government rate peg.

The average residential rate will increase by \$163.18 in 2024/25, or \$3.14 a week, with the average business (general) average rate increasing by \$972.82 (\$18.71 a week) and the Chatswood Town Centre average rate increasing by \$1,170.42 (\$22.51 a week). The actual and projected average and minimum rate increases, by major rating sub-category, which would apply from 2024/25 to 2027/28, are outlined in **Attachment 2**.

Following the proposed 15% rate increase, in 2024/25:

- Council's average residential rate will be \$1,251 and will be the third lowest average residential rate out of the eight Northern Sydney Regional Organisation of Councils (NSROC) councils and will remain below NSROC average (\$1,508).
- Council's average business rate will be \$8,481 and will remain the second highest in NSROC, and above the NSROC average (\$5,510). It should however be noted, that Willoughby's average business rate is inflated by large rate amounts paid by some individual landowners, with around 50% of Council's business ratepayers paying \$2,000 or less.

Application to Independent Pricing and Regulatory Tribunal

Should Council support the submission of an application to the Independent Pricing and Regulatory Tribunal (IPART), a comprehensive application will be submitted which will include the following:

- CEO covering letter
- IPART Form A, which is a detailed spreadsheet that includes numerical information on matters such as future notional and permissible income, minimum and average rates and the expenditure program to be funded by the SRV and Council's future projected financial results
- IPART Form B which is a written response to the six criteria which Council needs to address to meet the relevant Office of Local Government guidelines for SRVs
- A range of attachments to Form B, including information on Council's workforce efficiency and recent productivity gains over time, any research on the capacity of Willoughby's ratepayers to pay the 15% increase
- The revised *Long Term Financial Plan 2023-2033* and *Delivery Program 2022-26* attached to this report for approval; and
- Compendiums of existing community engagement material and reports.

All the above material has not been completed at the time of publication. However, a draft of IPART Form B is available at **Attachment 3** for the information of Councillors.

Next steps

If Council resolves to lodge an SRV application, the next steps will include:

- Lodge the application on or before 5 February 2024
- IPART will then exhibit Council's application (and attachments to this application) between February and March 2024, which will give another opportunity for community members to provide feedback directly to IPART
- Council preparing its 2024/25 budget which assumes the SRV application is successful (see more detail below) and preparing for the communication implications of the application (see more detail below)
- IPART, in May 2024, making a public announcement either approving, modifying or refusing this application; and
- If the application is approved by IPART, the increased rates being reflected in the July 2024 rates notices sent to all ratepayers.

Revised Long Term Financial Plan and Delivery Program

From 30 November 2023 to 14 January 2024, Council exhibited a revised *Long Term Financial Plan 2023-33* (LTFP) and *Delivery Program 2022-26* (Delivery Program) which incorporated the proposed 15% rate increase. The exhibition of these key documents embeds the SRV in Council's Integrated Planning and Reporting Framework, fulfils a requirement of the IPART application process and allows the community to provide feedback on Council's long term financial sustainability.

The following awareness-raising activities were undertaken in relation to these documents:

- Sending an email notification, or posted letter, to 1,873 community members who had either completed the online survey, or lodged an email comment or posted letter, in relation to the rate rise option engagement activity
- Sending an email to all 8,777 registrants to Council's *Have Your Say* database, which outlined all Council projects out for consultation during December, including this project
- Issuing a media release about Council's decision and the commencement of the exhibition on the LTFP and Delivery Program.

- Placing a public notice in the North Shore Times
- Issuing a Council News newsletter, which outlined the exhibition, to 1,904 subscribers, and issuing a Council social media post.

The exhibition process attracted 39 participants who generated some 61 separate comments, including 56 *Have Your Say* survey comments, four emails and one posted letter.

Some 67% of the participants made comments opposing the 15% rate increase, with the other 33% either supporting a SRV increase or not making a specific comment on it.

Of the 61 comments, only six comments were received which responded to specific aspects of the two documents on exhibition, including concerns about increasing cash levels during the life of the LTFP and a range of comments on street tree planting.

A detailed engagement outcomes report is available at **Attachment 4**, while a response to key engagement themes is available at **Attachment 5**.

It is not recommended that any changes are made to the LTFP or the Delivery Program following community consultation. This is primarily because:

- Council's decision (on 27 November 2023) to support a 15% rate increase came after an extensive community engagement process regarding SRV options between September-November 2023, which included a representative (or randomly selected) survey. The level of feedback received during the SRV options process was far more extensive than the relatively smaller number of comments received on the LTFP and Delivery Program; and
- The comments on specific aspects of the two documents do not raise any relevant new issues which require changes to the documents.

While no changes are proposed as a result of community feedback, staff have identified a number of minor post-exhibition changes which should be made to both documents. These changes do not alter the overall intent of the documents.

The most significant of these changes relate to the publication of Office of Local Government infrastructure asset ratios. The LTFP as exhibited did not include two of these ratios, namely the Asset Maintenance Ratio and Infrastructure Backlog Ratio. An examination of the IPART application form shows that these ratios need to be included in the LTFP, and therefore they have been included in the final version.

The LTFP presented for adoption is at **Attachment 6** and the Delivery Program at **Attachment 7**. A full analysis of all proposed post-exhibition document changes, and the reasons for these changes, is available in **Attachment 8**.

If Council declines to lodge the SRV application at this meeting, it does not need to endorse the revised LTFP or Delivery Program.

Budget planning process

Council is currently preparing a draft Operational Plan, Fees and Charges schedule and revised LTFP, which make-up Council's budget for 2024/25. Councillor workshops to discuss the budget will be held in February and March 2024, with the draft budget itself to be formally reported to Council at its April or May 2024 meeting.

If Council chooses to lodge a 15% rate increase application at this meeting, the budget will be prepared on the assumption that the SRV application will be successful. Given IPART's decision is not expected to be known at the time of the April 2024 meeting, the budget will also include an alternative budget profile (based on the rate peg only option in the LTFP) in the event IPART does not approve the application.

In addition, if Council chooses to lodge a 15% rate increase application, further workshops with Councillors and staff will need to consider the funding breakdown of the:

- Additional \$2m in public area maintenance; and
- \$2m efficiency target for 2024/25. This target formed part of the *Increase Services* proposal presented to the community between September-November 2023, and is designed to limit the overall size of the rate increase and assist Council's financial position by continuing Council's current practice to find efficiencies and savings and generate non-rate revenue.

Apart from increased public area maintenance, the proposed 15% rate increase (and associated \$2m efficiency target) will allow Council to be able to repair its budget (turning an expected 2024/25 operational deficit into a surplus), maintain highly-valued existing services and be able to deliver a moderate increase in infrastructure spending which would otherwise be at risk.

Even with a 15% rate increase, fiscal discipline will continue to be required in the 2024/25 budget planning process, to allow Council's finances to recover from recent inflation impacts, COVID-19 revenue losses, mandated staff wage increases and the cessation of the Infrastructure Levy in 2022.

If Council declines to lodge an SRV application at this meeting, the budget will be prepared on the basis of the no SRV 'base case' included in the draft LTFP attached to this report.

This 'base case' involves:

- Rates increasing by the 5% rate peg in 2024/25
- A significant (\$2m across 2024/25 and 2025/26) reduction in services provided by Council, and the need to generate \$500,000 in additional non-rate revenue during the same period
- A work environment which may be less conducive to staff attraction and retention, due to the internal disruption caused by the need to reduce services and perceived continuing financial instability
- No ongoing buffer to manage future extreme weather events or financial shocks, placing Council in a financially fragile position
- Given this lack of a buffer, a significant risk is that there will be no accumulation, over time, of funds for increased community services or projects or future growth; and
- The likelihood that Council will need to apply for special rate increases in the future.

Communication

If Council resolves to lodge an SRV application to IPART, Council will:

- Make this application available on Council's website (as is required by IPART); and
- Prepare a communication plan explaining how the benefits and impacts of the SRV will be relayed to community members (particularly ratepayers) concurrently with the publication of the first rates notice of 2024/25. This will include a proposed response to Point 7 of Council's resolution of 27 November 2023, relating to the transparency of Council's hardship provisions.

Capacity to pay report

At its November 2023 meeting, Council considered a report prepared by management consulting firm Morrison Low which analysed the general capacity of Willoughby's ratepayers to pay the increases contemplated under the four rate rise options. Among other things, this report compared Willoughby's average residential and business rates with those from other major metropolitan Sydney councils.

This report has now been updated so that Willoughby's average rates under the no SRV option, and the average rates of other Sydney councils, reflect the announced 5% rate peg, rather than the assumed 3.5% increase at the time of the original report's preparation.

In addition, the report has been updated to reflect Willoughby's average business rate inclusive of rates paid by major shopping centres. These changes do not alter the report's conclusion that there is a general capacity to pay the proposed SRV. The report will form part of the IPART application package.

5. CONCLUSION

Following extensive analysis, scenario modelling, research and consultation with Councillors and community engagement, Council's endorsement is sought to lodge (on or before 5 February 2024) an application to IPART for a 15% rate increase for 2024/25, including a one-off 10% Special Rate Variation and 5% rate peg increase.

Endorsement is also sought to adopt the revised *Long Term Financial Plan 2023-2033* and changes to Council's *Delivery Program 2022-26*, to accompany the IPART application.

This application, if approved, will place Council in a strong position to be financially sustainable, maintain highly-valued services, improve public area maintenance and withstand future financial shocks.

IMPLICATIONS	COMMENT
<p>City Strategy Outcome</p> <p>Business Plan Objectives, Outcomes / Services</p>	<p>5.6 – Ensure value for money and financial sustainability</p> <p>This report has considered Council’s Strategic Financial Objectives to deliver financial sustainability, as outlined in the <i>Long Term Financial Plan 2023-2033</i>. It is also in line with an action in the <i>Delivery Program 2022-26</i> to “conduct community engagement on options to deliver ongoing financial sustainability, including a potential Special Rate Variation”.</p>
Policy	<p>Community engagement on the <i>Long Term Financial Plan 2023-2033</i> and <i>Delivery Program 2022-26</i> was conducted in line with Council’s <i>Community Engagement Policy</i> and <i>Community Engagement Strategy</i>.</p>
Consultation	<p>The report and Attachments 4 and 5 refer to consultation which has taken place in relation to the exhibition of the LTFP and Delivery Program. Widespread consultation also took place on four rate rise options between September-November 2023.</p>
Resource / Budget	<p>The development of this report and SRV application has been met within the existing budget as allocated in August 2023.</p>
Risk	<p>As outlined in this report, without a successful SRV, Council’s financial position will be significantly weakened from 2024/25 onwards and services will need to be reduced.</p>
Legal / Legislation	<p>This report has considered the relevant statutory framework for SRVs, as outlined in the <i>Local Government Act 1993</i> and supporting guidelines and documents.</p>