9.7 ENDORSEMENT OF SPECIAL VARIATION COMMUNICATION PLAN AND PUBLIC EXHIBITION OF REVISED LONG TERM FINANCIAL PLAN

DIRECTORATE: **OFFICE OF THE GENERAL MANAGER**
AUTHOR: **Rami Abu-Shaqra, Chief Financial Officer**

5 ANNEXURES ATTACHED
1 CONFIDENTIAL ENCLOSURES ENCLOSED

RECOMMENDATION

That in relation to the report "Endorsement of Special Variation Communication Plan and Public Exhibition of Revised Long Term Financial Plan", Council:

(i) endorse the draft Long Term Financial Plan as part of the Updated Resourcing Strategy, ATTACHED, refer ANNEXURE 1, for public exhibition for a period of 28 days, commencing 17 September 2023;
(ii) endorse the undertaking of community engagement on a potential application to the Independent Pricing and Regulatory Tribunal for a proposed permanent Special Variation (SV) of 18.5 per cent in 2024-2025 (including the forecasted rate peg of 3.5 per cent) and 15.0 per cent in 2025-2026 (including the forecasted rate peg of 2.5 per cent), representing a cumulative Special Variation of 36.3 per cent over two years, which is the Sustainability Scenario – Two-year SV option in the draft Long Term Financial Plan; and
(iii) receive a further report regarding the outcome of community engagement undertaken to determine any final application to be made to the Independent Pricing and Regulatory Tribunal for a Special Variation.

SUMMARY

Council has supported a steadily growing population and maintained its infrastructure and services within the scope of its revenue growth in line with the rate peg increases set by the State Government. However, in recent years this has become increasingly difficult.

The recent COVID pandemic, impacts on infrastructure of recent weather events, historic low interest rates returning low investment returns, and the current highly volatile inflationary environment have increased Council's costs faster than its revenue growth. These issues have continued to put pressure on Council's budget.

Council has implemented several cost optimising and revenue enhancement initiatives that have resulted in net benefits. Council is also embarking on a Digital Strategy and Roadmap to find further efficiencies and improve customer experience.

With costs continuing to out strip revenue, resulting in operating deficits, Council has reduced infrastructure renewal and maintenance to ensure a balanced budget. In some areas, Council has been able to utilise State and Federal Grants, as well as loans, to fund infrastructure renewal and operations. However, these sources of funds are unreliable and unsustainable. Servicing and paying back loans is also becoming more costly. Council must now consider increasing rates revenue to adequately fund its current services and ongoing infrastructure needs.

From several scenarios considered by the Council, the Sustainability Scenario – Two-year SV is the preferred option as it balances Council's sustainability needs with reducing the impact to household budgets through implementing the SV over two years. Under this scenario, Council would apply to the Independent Pricing and Regulatory Tribunal (IPART) for a permanent cumulative rate increase of 36.3 per cent over two years from 01 July 2024. If secured, this SV would assist Council in

maintaining surpluses, meeting operating expenditure, and ensuring sufficient investment in infrastructure. Council must now undertake comprehensive community engagement as part of its consideration for applying for an SV.

COMMENTARY

Background

The Community Strategic Plan (CSP) has been developed and endorsed to deliver on the Blueprint 100, Tamworth Regional Council's (Council) strategy to grow Tamworth to a region of 100,000 by 2041. Since its adoption in 2020, Council has delivered the actions in these strategies to actively encourage population and economic growth in the Tamworth Region.

Council has supported a steadily growing population and maintained its infrastructure and services within the scope of its revenue growth in line with the rate peg increases set by the State Government. The rate peg determines the maximum percentage amount by which a council may increase its general income for the year. For 2023/2024, for Tamworth the rate peg has been set by the NSW Government at 3.7%. However, for years before, the rate peg applied by Council has not been higher than 2%.

As a result of years of rate pegging at this rate, Council's income has not kept pace with the costs of providing services and maintaining its $2 Billion worth of infrastructure.

The Financial Challenge

Council's cost of doing business has been affected by global inflationary pressures such as elevated oil prices and supply chain disruptions. Over the 12 months to June 2023, the Consumer Price Index (CPI) rose by 6%. It rose by 7.8% over the 12 months to December 2022. Despite the recent cooling, the RBA expects CPI to remain above the target range of 2 – 3% by the end of 2024 citing energy prices forecast to add significantly to inflationary pressures over the coming year. Council's material and plant expenditure, being almost one-third of total spend, have seen bigger hikes than the average CPI.

The financial challenge is not all about inflation, the recent weather events led to more than usual work orders to fix and maintain our large road network. Emergency grant funding has helped alleviate the immediate impact however, those conditions are expected to remain and the bill for renewing and maintaining our infrastructure will continue to growing.

Council is still struggling with attracting and retaining a skilled workforce. With record unemployment and recent wage increases, the cost of payroll is expected to remain above 3% for the foreseeable future.

The above increased costs of doing business for Council coincided with years of flat revenue streams. In addition to the limited increase in rate revenue due to rate pegging, other revenue sources have either declined or even dried up in two years of COVID; examples include airport and events and economic operations. Council's investment return (interest on its deposits) also declined significantly due to the RBA's decision to lower cash rates to record lows. State and Federal grants continued to supplement Council's income but mostly for restricted capital projects, where Council is expected to make some contribution. Even the unrestricted Federal Assistance Grant (FAG) increases have not kept pace with the recent inflationary pressures and Council's growth in services and assets. Finally, cost shifting continued with the recent removal of the state government subsidy of the Emergency Services Levy (ESL).

Council's Response

The above issues have continued to put pressure on Council's budget. Over the past few years, Council has followed a conservative financial policy with measures of cost optimisation and revenue enhancement. Council has implemented 189 initiatives to delivery cost savings and efficiencies, including finding $7.9 million in annual savings and $3.2 million in one-off savings. Council staff have identified a further 24 initiatives, with $1.6 million in annual net benefits and $2.2 million in one off benefits. Additional information is contained in the Organisational Sustainability Review and Improvement Plan **ATTACHED** refer **ANNEXURE 2**. The Organisational Sustainability Review and Improvement Plan refers to Appendix A. This Appendix is now **ENCLOSED**, refer **CONFIDENTIAL ENCLOSURE 1.**

Council has also started to benefited from increased economic activities approaching pre-COVID levels. The organisation is now embarking on a Digital Strategy and Roadmap that is expected to introduce considerable productivity and efficiencies over the coming decade and elevate the community and customer experience when dealing with Council.

As stated in the report summary, cost increases continue to out strip revenue, resulting in operating deficits. Council has reduced infrastructure renewal and maintenance to ensure a balanced budget. While Council has been able to utilise State and Federal Grants, as well as loans, to fund infrastructure renewal and operations these sources of funds are unreliable and unsustainable. Servicing and paying back loans has become more costly. Council must now consider increasing rates revenue to adequately fund its current services and infrastructure needs.

Council's Recommended Course of Action

In its 2023-2025 Delivery Program, Council identified the need to consider an SV for rates to ensure its ongoing financial sustainability. In the 2023-2034 Long Term Financial Plan (LTFP), a draft of which will be exhibited in line with community engagement on the SV, Council commenced the process of modelling an SV in its financial planning scenarios.

Council's LTFP provides a framework to assess its revenue building capacity to meet the activities and levels of service outlined in its Community Strategic Plan, Delivery Program and Operational Plans. The LTFP is required to be reviewed annually with a detailed review every four years, and cover a minimum period of 10 years.

Since June 2023, further analysis has been undertaken in relation to Council's long term financial position and has established that an SV is required to achieve Council's financial sustainability and maintain fit-for-purpose infrastructure. Accordingly, Council's draft 2023-2034 LTFP has been developed and included as part of an updated Resourcing Strategy and is **ATTACHED**, refer **ANNEXURE 1**.

The draft LTFP has been prepared in accordance with the *Integrated Planning and Reporting Guidelines* issued by the Office of Local Government and prescribed under the Act, and includes three financial modelling scenarios. In addition to a base case scenario that is modelled on the rate peg only, the LTFP models two Special Variation scenarios to address Council's ongoing financial sustainability. The two SV options that were designed to ensure Council can successfully:

- generate an operating surplus, before capital income;
- fully fund all required asset renewals and maintenance;
- return to and maintain a positive unrestricted cash position; and
- deliver all improvement program initiatives.

The proposed SV increases in each of the two scenarios are largely similar; the key difference is the number of years required to implement the full extent of the rate increase.

Table 1, below, summarises the two scenarios:

SV Options	2024-2025	2025-2026	Cumulative increase over SV implementation period
Base Case	3.5%	2.5%	6.1%
Sustainability Scenario – One-year SV	30.0%		30.0%
Sustainability Scenario – Two-year SV	**18.5%**	**15.0%**	**36.3%**

Of the above scenarios, **the Sustainability Scenario – Two-year SV** is the preferred option as it balances Council's sustainability needs with reducing the shock to household budgets through implementing the SV over two years. Under this scenario, Council would apply to the Independent Pricing and Regulatory Tribunal (IPART) for a permanent cumulative rate increase of 36.3 per cent over two years from 01 July 2024. If secured, this SV would assist Council in maintaining an adequate surplus, meeting operating expenditure, and ensuring sufficient investment in infrastructure. Additional and more detailed information on the proposed SV is contained in the Special Variation Background Paper **ATTACHED**, refer **ANNEXURE 3.**

Impact on Rate Payers

Table 2, below, provides the annual rates increase likely to be experienced by the ***average*** land value for each rating category, should the proposed SV be secured. The information provided is an average across the whole of Council including smaller towns and villages. More detailed information on average increases for individual locations is available in the Capacity to Pay Report **ATTACHED**, refer **ANNEXURE 4.**

Rating category	2023-24	2024-25	2025-26	Cumulative increase
Residential	$1,197.28	$1,418.78	$1,631.59	$434.31
Business	$4,154.07	$4,922.50	$5,660.88	$1,506.87
Farmland	$2,147.96	$2,545.33	$2,927.13	$779.17
Mining	$10,073.39	$11,936.97	$13,727.51	$3,654.12

Alternative Course of Actions

a. **Doing nothing**
This is the Base Case where rate revenue is subject to the rate peg, forecasted at 3.5% in 2024/2025 and 2.5% thereafter. The Base Case will

not enable Council to be fit for the future and will negatively impact its service levels and assets renewal and maintenance programs. As a result, Council is likely to find itself in a worse situation in future years and be forced to either scale back services and/or go back to its community with a request for alternative financial measures. This is not recommended.

b. **Sustainability scenario – one year SV**
This scenario will address Council's sustainability needs but it will hit the community with one significant rate increase in a single year. Such an increase will affect many ratepayers' capacity to pay in the current economic climate and add undue pressures to their household budgets. This is not recommended.

c. **Sustainability scenario – more than two years SV**
Sustainability scenarios for more than two years have not been modelled. As per our discussions with IPART and experience of past SV applications of other councils, IPART does not look favorability at requests for longer years of consecutive permanent SV. Furthermore, rate pegs in the future, although unpredictable, are expected to be more aligned with increases in councils' cost of doing business as IPART makes recommendations to change the rate peg methodology.

IPART have been tasked by the NSW Government to undertake a review of the rate peg and look at new approaches to setting the rate peg that reflect, as far as possible, changes in inflation and local government costs, while continuing to protect ratepayers from excessive rate increases. IPART has issued its draft report in June and consulted with the sector and was planned to submit their Final Report to the Minister on 31 August 2023. Therefore, Council requesting a permanent SV over longer years will increase the risk of missing out on potentially "better" rate pegs in the future. This is not recommended.

(a) Policy Implications

Nil

(b) Financial Implications

Consideration of the subsequent lodgement of an SV application to IPART will be the subject of a further report to Council following the community engagement process. The forecast financial implications of the approval or rejection of the proposed sustainability scenarios are outlined in this report and accompanying **ATTACHMENTS,** refer **ANNEXURES 1,2,3** and **4**.

(c) Legal Implications

Nil

(d) Community Consultation

In making an application for an SV, Council must demonstrate that it has effectively informed and consulted the community on the possibility of an SV, including impact of both the proposed SV as well as not applying for an SV. Accordingly, a Communication Plan has been developed to form the basis for this community engagement process **ATTACHED**, refer **ANNEXURE 5**.

The Communication Plan clearly outlines the various tools that will be used to inform and engage with the community about the proposed SV. Consistent with Council's Community Engagement Strategy, it is proposed that a suite of print, online and face-to-face engagement mechanism be used to support the delivery of the community engagement.

The community engagement will commence Monday, 18 September 2023 and conclude Monday, 30 October 2023. Following conclusion of that process, a report on the community engagement and feedback received via that process will be prepared and submitted to Council for consideration at its Ordinary Meeting scheduled for 28 November 2023.

It should be noted that, should Council proceed in making application to IPART for an SV, IPART will seek its own community feedback separate from Council's processes and invite submissions from members of the public. This process is typically undertaken in the subsequent February/March.

(e) Delivery Program Objective/Strategy

Focus Area 9 - Open and Collaborative Leadership