

AMENDED ITEM

Item No: 2.1
Title: Securing Your Future: Consideration of Rate Rise
Department: Chief Executive Officer's



8 February 2021 Ordinary Council Meeting

Reference: F2020/03181 - D14425719
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Report purpose

The purpose of this report is for Council to consider a special variation of 15% to meet the needs identified in the revised Long-Term Financial Plan. In addition, a draft Debt Recovery and Hardship Policy is presented to Council for consideration.

Executive Summary

Council continues to have a serious financial situation.

Council has already commenced a number of measures to manage costs and increase income to address the situation and long-term financial sustainability. These include significant staff reductions (\$31M), restrictions on spending (\$22M), and the proposed sale of assets (\$49M). The spend on infrastructure has also been reduced from \$225M to \$170M annually. These steps achieve 70% of the \$76M annual savings target needed to action the financial recovery.

The remaining 30% (\$23M excluding rate peg) will need to come from additional income to pay back the restricted funds unlawfully accessed. This income target can only be achieved with a 15% rate peg. It is for this reason that it is now recommended that Council proceed to apply to IPART for a rate increase of 15% (13% special rate increase and 2% rate peg increase).

Council resolved to consult on a 10% one-off special rate variation staying in the rating base for 7 years and a permanent rate variation of 15% one-off. This consultation was undertaken with most respondents not supporting any rate rise. Of those who did support a rate rise, when presented with the three options, 15% was preferred more than 10%.

It is clear from the community feedback that any decision to increase rates will be unpopular as our community are rightly concerned about this increase.

The primary purpose of the Special Variation application is to deliver financial sustainability by reimbursing the unlawfully accessed restricted funds that have been spent on projects and infrastructure brought forward over the past two years, delivering significant benefits to the community. Council have a legal obligation to reimburse the restricted funds.

Council's revised Long-Term Financial Plan shows that with a 15% variation, Council will be able to repay approximately \$100M of the externally restricted funds within 10 years, with the remainder being reimbursed from asset sales and internal restriction write-offs. Council's revised Long-Term Financial Plan shows that with a one-off 10% variation remaining permanently in the rate base for seven years, Council will be unable to repay the externally restricted funds and will return to a deficit budget in 2026-27. There is a very real risk that should Council not obtain a 15% increase it will impact the status of the bank loans with a potential early call on these loans.

A rate increase is the final option being considered as part of Council's financial recovery. Council has obtained loans, reduced spending and cut staff. Without a rate rise of 15% Council may find itself again in a dire financial situation. It is recommended that Council resolve to apply to IPART for a 15% one off permanent special variation increase.

Chief Executive Officer's Recommendation

- 1 *That Council resolve to apply to IPART for a 15% one off permanent special rate increase.*
- 2 *That Council adopt the revised Long-Term Financial Plan (General Fund) for the purpose of public exhibition.*
- 3 *That Council adopt the draft Debt Recovery and Hardship Policy for the purpose of public exhibition.*
- 4 *That a further report be provided following public exhibition of Long-Term Financial Plan and draft Debt Recovery and Hardship Policy to meeting of 22 March 2021 as a late report.*

Background

On 26 November 2020, Council resolved the following:

- 1229/20 *That Council endorse the making of an application to the Independent Pricing and Regulatory Tribunal for a one-off Special Variation of 8% in 2021-22 to remain permanently in the rate base for 7 years, which plus the 2% rate peg increase in 2021-22 represents a total rate increase of 10% for 2021-22.*
- 1230/20 *That the funds raised from this Special Variation are to fund improvements in Council's financial sustainability.*
- 1231/20 *That Council notify IPART accordingly.*

2.1 Securing Your Future: Consideration of Rate Rise (contd)

1232/20 *That Council staff update the integrated planning and reporting documents with information relevant to the proposed SRV application.*

1233/20 *That Council staff undertake community consultation and engagement in relation to the proposed SRV application.*

On 14 December 2020, Council further resolved:

1283/20 *That, in addition to the resolution of 26 November 2020, Council endorse the undertaking of community consultation on a potential application to the Independent Pricing and Regulatory Tribunal for a one-off Special Variation of 13% in 2021-22 to remain permanently, which plus the 2% rate peg increase in 2021-22 represents a total rate increase of 15% for 2021-22.*

1284/20 *That a further report be provided to Council regarding community consultation undertaken for Council to determine any final application to be made to the Independent Pricing and Regulatory Tribunal for a one-off Special Variation in 2021-22.*

Special Variation

Attached is the revised Long-Term Financial Plan for the General Fund only, which is the Fund impacted by the SV rate increase and where the restricted borrowings took place.

The Plan has been revised to show the following three scenarios:

- Temporary Fix - 10%
- Securing our Future – 15%
- No rate rise – rate peg only

Several informed assumptions have been made in the Long-Term Financial Plan. These include the following:

- That there will be a \$31M reduction in staff costs to headcount levels at amalgamation
- That there will be a \$22M structural reduction in materials and contracts
- That Council's infrastructure spending will remain at the same level as is funded by depreciation, and has been put in place for 2020-21
- The Council will manage and monitor costs and find further efficiency and productivity gains.

It is clear from the modelling that without a 15% variation, Central Coast Council will not be financially sustainable and will be unable to pay back the reserve funds unlawfully accessed and service its debt.

2.1 Securing Your Future: Consideration of Rate Rise (contd)

As a result, it is recommended that Council now resolve to apply to IPART for a one-off 15% variation to remain permanently in the rating base and apply from 2021-22.

Council has also undertaken an Ordinary Rate comparison of the neighbouring Councils of Lake Macquarie, Newcastle and Cessnock (shown in Table 1). All three councils' rates are significantly higher than the Central Coast and will remain so even after a proposed 15% rate increase.

Table 1.

Typical residential ratepayer	Former Gosford LGA	Former Wyong LGA	Lake Macquarie	Newcastle	Cessnock
Ordinary Rates	1,029.00	1,202.00	\$1,494.64	\$1,582.47	1,261.79
% variation against Central Coast Average			34% higher	42% higher	13% higher

It is now proposed to place the revised Long-Term Financial Plan, as attached, which shows Council's forecast position both with and without the potential special rate variation on public exhibition for 28 days to receive public comment. At the end of this exhibition period a further report will be provided to Council for consideration.

Two documents are required when applying for a Special Variation:

- Part A is a spreadsheet with financial data from the Long-Term Financial Plan with option proposed.
- Part B is a word application outlining the proposed options and impact, consultation that has occurred and how the special variation has been considered in the Long-Term Financial Plan.

Attached to this report are two applications, one for 10% and one for 15%. These two are provided as Council consulted on both options.

The documents are due to IPART on 8 February 2021.

Consultation

In accordance with the above resolutions, Council undertook community consultation on both a potential 10% and 15% special variation.

The aim of the engagement for Securing Your Future (Special Variation of rates) was to provide an opportunity for ratepayers and residents to have their say on the proposed options for a Special Variation (SV) application to IPART. The engagement has been planned over three phases:

- Phase 1 (Inform) Awareness and why a special variation is needed

2.1 Securing Your Future: Consideration of Rate Rise (contd)

- Phase 2 (Consult) Seek community feedback on proposed options and resulting impacts on service levels
- Phase 3 (Consult) Public exhibition of draft Long-Term Financial Plan and draft Debt Recovery and Hardship Policy. Conduct telephone survey seeking feedback on the percentage increase Council will propose to IPART.

Awareness of the proposed Special Variation was undertaken through the following activities (details are included in the attached report):

- Letter to every ratepayer (residential and business)
- Your Voice – Our Coast website
- Frequently Asked Questions online
- Media Releases
- Coast Connect articles
- Enewsletters
- Social media
- DL flyer with rates notice
- Media coverage achieved through radio, television, newspaper – printed and online.

Community members without internet access were encouraged to visit one of our Libraries or Administration Buildings or call us during business hours on 1300 463 954 for assistance completing the survey or discussing impacts.

Consultation has been undertaken for Phase 1 and Phase 2, the two online surveys conducted from 8 January to 1 February 2021. Partway through the survey period, Council responded to the community when concerns were expressed that the initial survey did not provide a “no rate rise” option. Adjustments were made with the second survey commencing from 22 January 2021 inclusive of this option. While the data for the first survey was able to extract and report on a lack of support for a rate rise, Council extended the options to provide more confidence to the community that their voice was being heard.

Anyone could complete the second survey, including those who responded to the first survey. Information was updated on yourvoiceourcoast.com to communicate the changes to the survey as well as media.

The total number of responses for both surveys was 10,229. Survey one received 3,944 responses and survey two received 6,285 responses.

A significant amount of feedback was received, and this has been summarised below and in the attached report.

Key findings from consultation

- Most survey respondents do not support a rate rise.
- Those who do not support a rate rise feel that ratepayers should not shoulder the burden of Council’s mistake/s.

2.1 **Securing Your Future: Consideration of Rate Rise (contd)**

- There is concern about the affordability of a rate rise for either themselves or others in the community.
- Some respondents feel Council's maintenance of roads, open space and natural assets are already poor.
- Some respondents feel they already don't get value for money paid due to a perceived lack of maintenance of Council assets, or lack of expected infrastructure in their immediate area, such as kerb and guttering.
- Some suggestions about alternatives to a rate rise include (but are not limited to) seeking NSW Government funds, increasing revenue from fines, selling assets, reducing staff, employee pay cuts, reduction of capital works and scaling back services and expenditure in general.
- A minority of survey respondents support a rate rise.
- The key reasonings behind support is to 'fix the problem', maintain services and/or to create a sustainable pathway forward for Council.
- Some respondents who support a rise also expressed a desire to improve the Central Coast through improved assets and economic growth and investment.
- General sentiment from respondents (either in support or against a rate rise) showed the community would like to understand who is accountable for the financial issue and what actions will be taken against these individuals or entities.
- Some respondents will continue to distrust Council, with others stating their expectations of better financial management and accountability in the future.
- There are some suggestions from respondents that corruption or fraud has occurred.
- There is overall strong support for the appointment of a financial controller.

Preferred Option

Preference out of three options from survey 2* results:

- 10.2% preferred Option 1 – Temporary Fix - 10%
- 17.4% preferred Option 2 – Securing our Future – 15%
- 72.4% preferred No rate rise – rate peg only

* Note figures have been rounded. As the survey was changed to include a third option of 'No rate rise' we have presented the details for survey 2. To protect the integrity of each data set, the attached report presents the results of each survey separately.

The results of the consultation will also form part of any application made to IPART.

In addition, Council received over 378 submissions up to 1 February 2021. The themes and issues raised in self-initiated feedback were like those raised in the survey. These submissions will be provided to IPART. It is also noted that a significant number of people made submissions directly to IPART. Council is still accepting any written submissions or feedback up to 26 February 2021. IPART continues to accept submission up until 1 March 2021.

Council will also undertake a statistically valid phone survey over the next few weeks should it be resolved to apply to IPART for a 15% special rate variation. The results of this survey will be provided to IPART by 1 March 2021.

Debt Recovery and Hardship Policy

In the process of considering an application to IPART, it was determined that it was appropriate to review Council's Debt Recovery and Hardship Policy. There was also community feedback regarding capacity to pay, particularly for those experiencing hardship. As a result, the attached draft for the purpose of public exhibition has been developed.

The Policy has been reviewed in accordance with the Office of Local Government's Debt Management and Hardship Guidelines.

The attached draft Policy shows the additions in ***bold italics*** and deletions in ~~striketrough~~. The Policy has also been updated to be in the new template.

It is recommended that the draft Policy be placed on public exhibition for 28 days and that at the conclusion of this period a further report be provided to Council with any comments.

Revised Delivery Program and Operational Plan 2020-21

Whilst the proposed Special Variation (SV) does not apply to the current 2020-21 financial year, understanding how the financial situation has impacted the current program of works is important. This is detailed in the attached *Revised Delivery Program and Operational Plan 2020-21*. These changes provide an indication of the continued path and support the need to apply for a SRV.

Financial Considerations

At its meeting held 19 October 2020, Council resolved the following:

1108/20 That any motions put before Council for the remainder of this term of Council that have financial implications require the Chief Executive Officer to provide a report on how those additional costs will be met.

The following statement is provided in response to this resolution of Council.

An amount of \$200k has been allocated in the 2020-21 budget for a community engagement program to facilitate consultation with the community, in regard to a proposed application to IPART for a Special Variation. This amount will be sourced from the existing materials and contracts budget of Council. Funds remain for the conduct of the statistically valid phone survey as set out in this report.

Link to Community Strategic Plan

Theme 4: Responsible

Goal G: Good governance and great partnerships

R-G4: Serve the community by providing great customer experience, value for money and quality services.

Risk Management

It was previously report to Council that Council had yet to complete the rates harmonisation process following the amalgamation of the former Gosford City and Wyong Shire Councils. An extension was granted by the NSW Parliament to 30 June 2021 for completion of the rates harmonisation process.

This process has been completed and is incorporated into the proposed Special Rate Variation. Through this process, the rates across both former local government areas can be harmonised, ensuring there is equity in rates charges levied across the whole of the Central Coast region.

Options

Council has three options:

- Determine not to make any application for a rate variation to IPART
- Determine to make an application for a one-off for seven years to IPART, commencing 1 July 2021
- Determine to make a permanent, one-off rate variation of 15% to IPART, commencing 1 July 2021.

Critical Dates or Timeframes

Any application to IPART for an SRV is due on 8 February 2021. Council has advised IPART that a decision as to whether to proceed will be made on 8 February 2021 and that the application documents would be uploaded thereafter should it be required.

Attachments

1	Debt Recovery and Hardship Policy - for public exhibition	Provided Under Separate Cover	D14459909
2	Delivery Program and Operational Plan - SRV Revision	Provided Under Separate Cover	D14461483

2.1 Securing Your Future: Consideration of Rate Rise (contd)

3	Securing Your Future - Consultation Report	Provided Under Separate Cover	D14478921
4	Long Term Financial Plan for Public Exhibition	Provided Under Separate Cover	D14480010
5	Part A - Temporary Fix - 10%	Provided Under Separate Cover	D14480031
6	Part B - Temporary Fix - 10%	Provided Under Separate Cover	D14480025
7	Part A - Securing our Future - 15%	Provided Under Separate Cover	D14479915
8	Part B - Securing our Future - 15%	Provided Under Separate Cover	D14480026