



**Special Rate Variation –
Background Paper
June Shire Council**

Junee Shire Council

The Special Rate Variation

Introduction

Morrison Low Consultants has been engaged by Junee Shire Council ('Council') to model a special rate variation (SRV) and analyse its impact on the financial sustainability of the Council's Long-Term Financial Plan (LTFP).

The Local Government Act requires councils to apply sound financial management principles of being responsible and sustainable in aligning income, expenses and infrastructure investment, with effective financial and asset management performance management. The objectives are to:

- achieve a **fully funded operating position**
- **maintain sufficient cash reserves**
- have an appropriately **funded capital program**
- **maintain its asset base** 'fit for purpose'
- have adequate resources to meet ongoing **compliance obligations**.

These objectives are the foundation for sound financial management and a financially sustainable council that has the financial capacity to deliver the services to its community over the long term.

Current situation

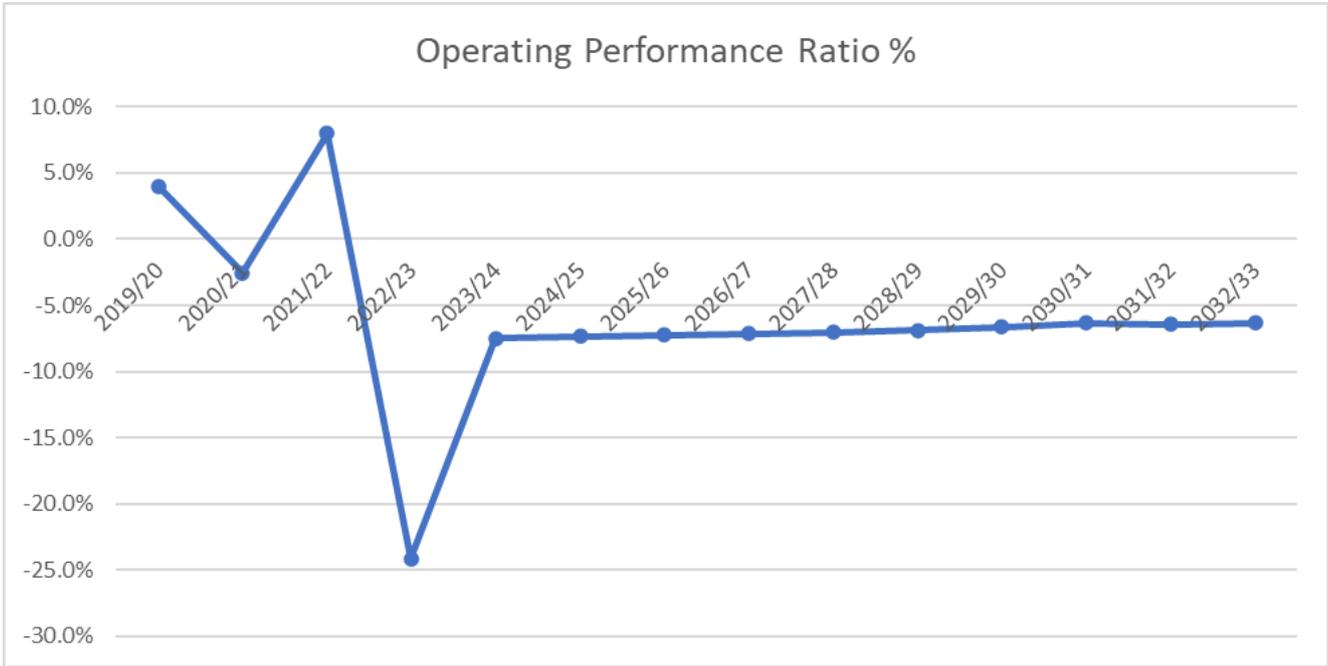
The Council must achieve a fully funded operating position, reflecting that Council collects enough revenue to fund operational expenditure and depreciation.

Council's consolidated operating position is generally in deficit and tends to worsen the further we look into the future.

Council will have insufficient money for any additional services and will not fully fund its Capital Works Program over the ten years. It will need to reduce its high level of services in areas such as parks and gardens and the recreation centre to support a fully funded Capital Works Program.

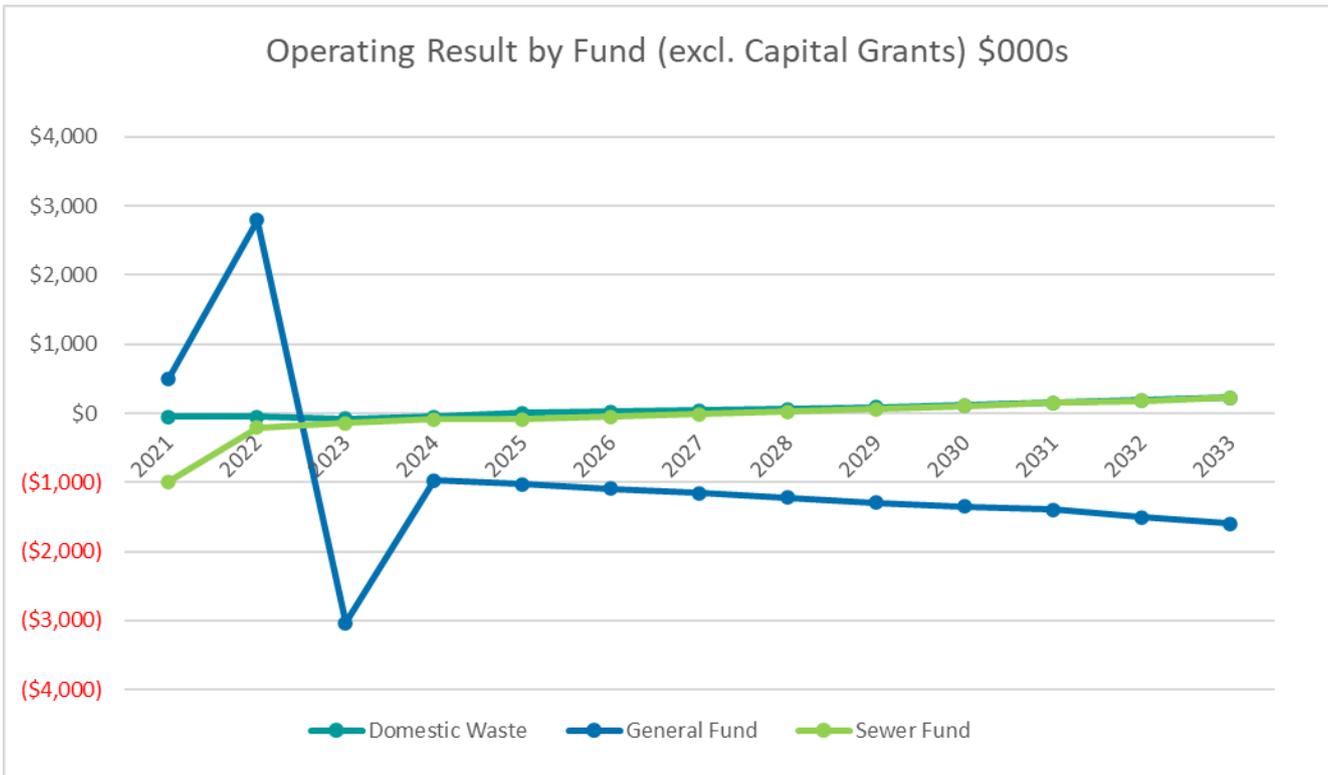
The following graph shows the consolidated operating performance ratio over the term of the LTFP. As the ratio remains negative, this indicates an unsustainable position.

Figure 1 Projected base case consolidated operating performance ratio as per Junee Shire Council’s 2023-33 Long Term Financial Plan



Council has three funds, a Domestic Waste Fund that finances Council’s waste management services, Sewer Fund that provides sewer services and a General Fund that finances all the other services that Council provides. While there are surpluses projected for the Domestic Waste and Sewer Funds, these partly offset the core deficits that remain in Council’s General Fund.

Figure 2 Projected base case operating results by fund as per Council’s 2023-33 Long Term Financial Plan



Core deficits in the General Fund have developed over time, as a result of growing costs outpacing revenue growth and additional compliance and governance costs, including the internal audit program (ARIC), Emergency Service Levy, election costs and cyber security/modernisation of systems/fraud prevention.

A higher level of some services is having a direct impact on Councils financial position. Council's rural road network has a high percentage of sealed roads at 57% when compared to other groups' 10 council average of 28%. Council also provides exceptional recreation and cultural amenities, particularly in the areas of sporting fields, heated swimming pool and parks and gardens.

Continued General Fund deficits restrict Council's ability to respond to community expectations for continuation of current services and improved asset conditions. In its 2022-26 Delivery Program, Council identified this issue and flagged the need to consider an SRV to address it. It committed to consulting with the community on any potential SRV before making a final decision to apply.

For planning purposes, the Delivery Program and Operational Plan allows for a proposed Special Rate Variation (SRV) commencing in 2023/24. The amount of the SRV has been set at 15% in the first year and 10% in 2024/25. This is in addition to the allowable rate cap amount which is estimated at 2.5%. The primary purpose of the SRV is to ensure Council's Long Term Financial Sustainability, as well as maintaining service levels and enabling Council to undertake a viable Capital Works Program

Community consultation regarding the proposed SRV will occur from September through October 2022.¹

Financial sustainability and asset renewals with a special rate variation

Services and assets that Council wants to provide

Council has reviewed its services and asset renewal requirements. As part of the services review, Council has decided not to continue providing family day care services. This is expected to save \$113,000 per year. However, Council still requires additional revenue to continue the delivery of all other services at the current levels.

Council has also identified the need for additional funding of \$250,000 per year for the renewal program for buildings, parks and gardens, playgrounds, recreation and stormwater assets.

For Council's General Fund to be financially sustainable over the longer term, there is need to address the annual ongoing deficit estimated at \$1.0 million in 2023/24 increasing to \$1.6 million in 2031/32.

Savings that Council has made and plans to make

Over the past four years, Council has worked hard at identifying and implementing savings and productivity improvements. These cost retention actions have enabled Council to continue to deliver the current suite of services and assets. The savings and improvements are incorporated in the base case cost structures. These improvements have included:

- LED lighting (street lighting) - savings ~ \$30,000 per year
- LED lighting (buildings) - commencing implementation
- automated irrigation system - efficiency gains
- green power energy - smart metering implemented

- FBT savings ~ \$40,000 per year
- reduction in passenger vehicles - five vehicles ~ \$100,00 per year
- extending the life of heavy plant
- increase in fuel tax credit rebates - savings of \$50,000 per year
- review vacant positions to gain efficiencies - short term
- reduce debt by \$2 million over two years - saving \$80,000 per year
- condition based asset maintenance - based on need, not program (efficiency)
- internal borrowings resulting in savings of \$25,000 per year
- reduced leave liability.

Council recently completed the review of the family day care service and has decided not to continue providing this service. The service has been discontinued with Council helping the existing educators to transition to another service. This has generated a saving of \$113,000 per year which is included in the scenario two option – SRV case. Into the future, Council has developed a service review program for the next four years,² and implementation of the Renewable Energy Action Plan. It is expected that the outcome of these reviews will deliver further productivity improvements with very minimal savings.

What is a special rate variation?

New South Wales has a rate capping regime in place. Each year, the Independent Pricing and Regulatory Tribunal (IPART) sets a “rate peg”, which is the maximum percentage increase in total rates that all are allowed to implement. If a council needs to increase rates by more than the rate peg, it must apply to IPART for an SRV.

Almost all NSW councils will be faced with having to apply for a special rate variation at some point. There are two types of SRVs:

- A temporary SRV for a fixed amount over a fixed period of time
- A permanent SRV for a fixed amount that remains in the rate base.

When a temporary SRV expires, rates return to the original level at the conclusion of the approval period.

Temporary SRVs are usually approved to fund specific one-off projects, such as significant infrastructure projects. As Junee Shire Council is looking to deliver current service levels, uplift the ongoing renewal of assets and address the core deficit in the General Fund, a permanent SRV is required. Permanent SRVs can be implemented over up to seven years.

What SRV is proposed for Junee Shire?

To achieve financial sustainability and to be able to deliver the current services and improvement to asset condition, Council requires a cumulative rate increase of 32.19% over two years, this includes the expected rate peg increases that Council would have otherwise increased rates by. This represents a cumulative increase of 26.5% over and above the rate peg, a breakdown of the proposed rate increase is provided on the following page.

Table 1 Proposed rate increases

	2023/24	2024/25	Cumulative
Permanent increase above the rate peg	15.0%	10%	26.50%
Rate peg	2.5%	2.5%	5.06%
Total increase	17.5%	12.5%	32.19%

IPART determines the annual rate peg that councils receive each year, based on the increase in cost of a selection of goods and services that NSW councils purchase. This calculation looks back over the past year of cost increases and applies the rate peg to the next financial year. The 2023-24 rate peg was based on cost increases associated with the revised rate peg for 2022-23. The rate peg increases for 2023-24 and 2024-25 have been estimated at 2.5%. However, this year, annual inflation is currently projected to be approximately 5%, which will have an impact on the rate peg increase for 2023-24. Further details on these assumptions are outlined in Council's updated Long Term Financial Plan.

This special variation will produce additional revenue of \$1.2 million over two years, which will be used to fund the service delivery and asset renewals as detailed previously.

What do these proposed changes mean for ratepayers?

The impact on an individual's rates will be different depending on the unimproved land value of their property. From 1 July 2023, changes as a result of the general revaluation undertaken by the Valuer General will also come into effect.

The following table provides an indication of the annual and weekly increase likely to be experienced by the average land value for each rating category. The increases include the estimated rate peg of 2.5%.

Table 2 Weekly increase in rates

	2023/24 average annual rate	2023/24 weekly increase	2024/25 average annual rate	2024/25 weekly increase	Cumulative weekly increase over the two years
Farmland on land value of \$1,179,000	\$3972.00	\$ 11.38	\$4468.50	\$ 9.55	\$ 20.92
Residential - Town on land value of \$62,300	\$1082.87	\$ 3.10	\$1218.22	\$ 2.60	\$ 5.70
Residential - Rural and Village on land value of \$95,200	\$ 871.57	\$ 2.50	\$ 980.52	\$ 2.10	\$ 4.59
Business - Town on land value of \$89,800	\$3143.91	\$ 9.00	\$3536.90	\$ 7.56	\$ 16.56
Business on land value of \$52,300	\$1286.37	\$ 3.68	\$1447.17	\$ 3.09	\$ 6.78

How do my rates compare to other councils?

Council's rates are relatively competitive when compared to other similar and neighbouring councils. In 2024-25, the estimated average Junee Shire residential rate will be \$1,126. Of the 23 groups, 10 Councils, 14 Councils have successfully applied for an SRV over the past ten years. The following table shows how this compares to other councils. The Office of Local Government groups councils with similar councils, the following table shows how Junee Shire's average residential rate compares to some other group ten councils and immediate neighbours.

Table 3 2024/25 projected average residential rate

Rank	Council	Avg rate (2024-25)
1	Bland	\$ 1,376
2	Wagga	\$ 1,252
3	Junee	\$ 1,126
4	Cootamundra/Gundagai	\$ 1,103
5	Liverpool Plains	\$ 962
6	Narrandera	\$ 738
7	Narromine	\$ 711
8	Temora	\$ 697
9	Coolamon	\$ 427

In 2024-25, the average Junee Shire Council business rate is estimated to be \$2,843, the following table shows how this rate compares to other similar and neighbouring councils.

Table 4 2024-25 average business rate

Rank	Council	Avg rate (2024-25)
1	Wagga	\$ 6,756
2	Narromine	\$ 3,144
3	Junee	\$ 2,843
4	Cootamundra/Gundagai	\$ 2,608
5	Temora	\$ 1,609
6	Narrandera	\$ 1,336
7	Bland	\$ 1,285
8	Liverpool Plains	\$ 1,229
9	Coolamon	\$ 458

In 2024-25, the average Junee Shire Council farmland rate is estimated to be \$4,468, the following table below shows how this rate compares to other similar and neighbouring councils.

Table 5 2024-25 average farmland rate

Rank	Council	Avg rate (2024-25)
1	Liverpool Plains	\$ 5,613
2	Junee	\$ 4,468
3	Cootamundra/Gundagai	\$ 4,448
4	Narromine	\$ 4,433
5	Narrandera	\$ 4,025
6	Bland	\$ 3,303
7	Wagga	\$ 3,156
8	Temora	\$ 2,440
9	Coolamon	\$ 2,207

How will the increase impact Council’s ongoing financial sustainability?

The proposed special rate variation will enable Council to deliver current services and improved assets to the community, while becoming financially sustainable in the longer-term. It will also enable Council to address its ongoing core deficits in the General Fund, ensuring Council is more resilient and responsive to shocks and unexpected events in the future.

Council can deliver consolidated surpluses with the SRV and address the core deficits in the General Fund, which finances all services and infrastructure except for domestic waste and sewer operations. Without the rate increase, there is also no ability to increase services and an increased risk of a growing asset backlog.

The special rate variation will ensure Council’s ongoing financial sustainability with surpluses in both the consolidated operations and in the General Fund.

Figure 3 Projected growth scenario (including SRV) consolidated operating performance ratio as per Junee Shire Council’s 2023-33 Long Term Financial Plan

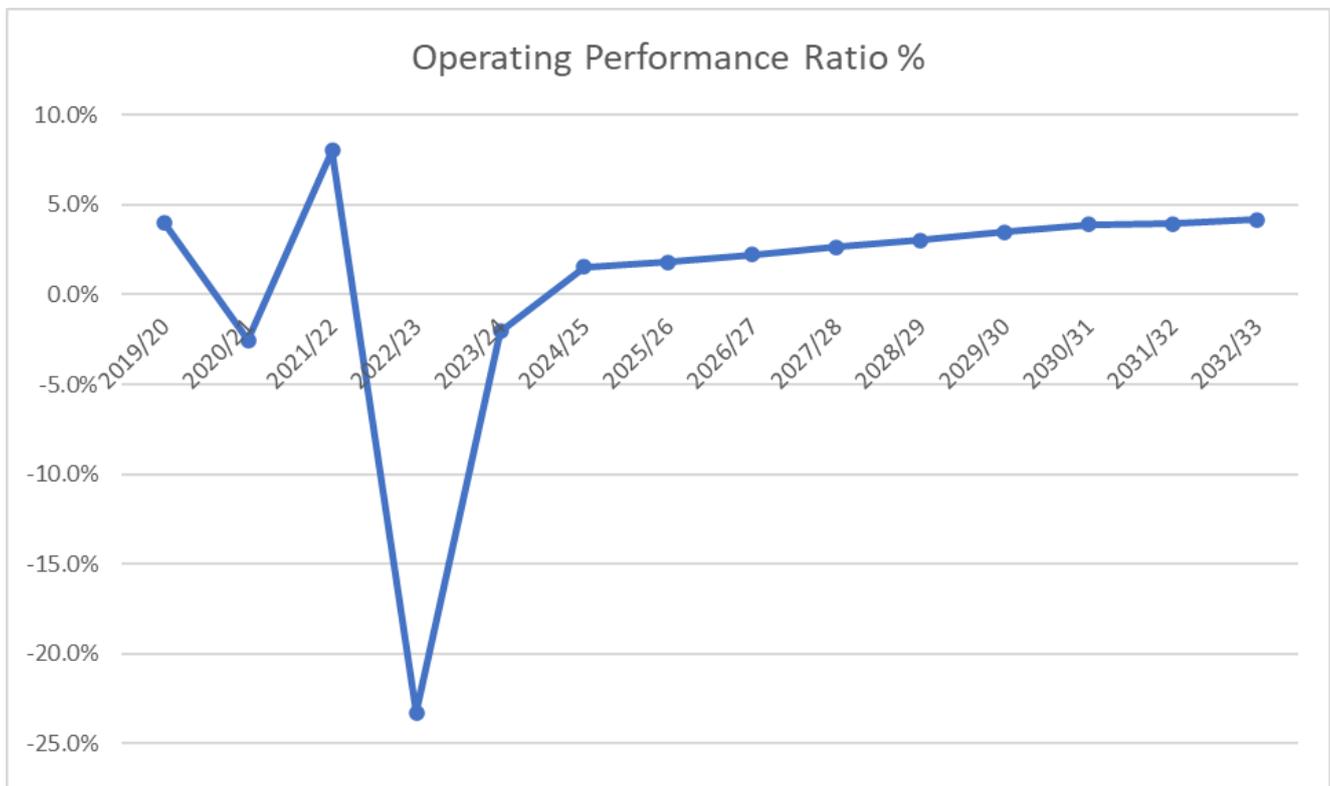
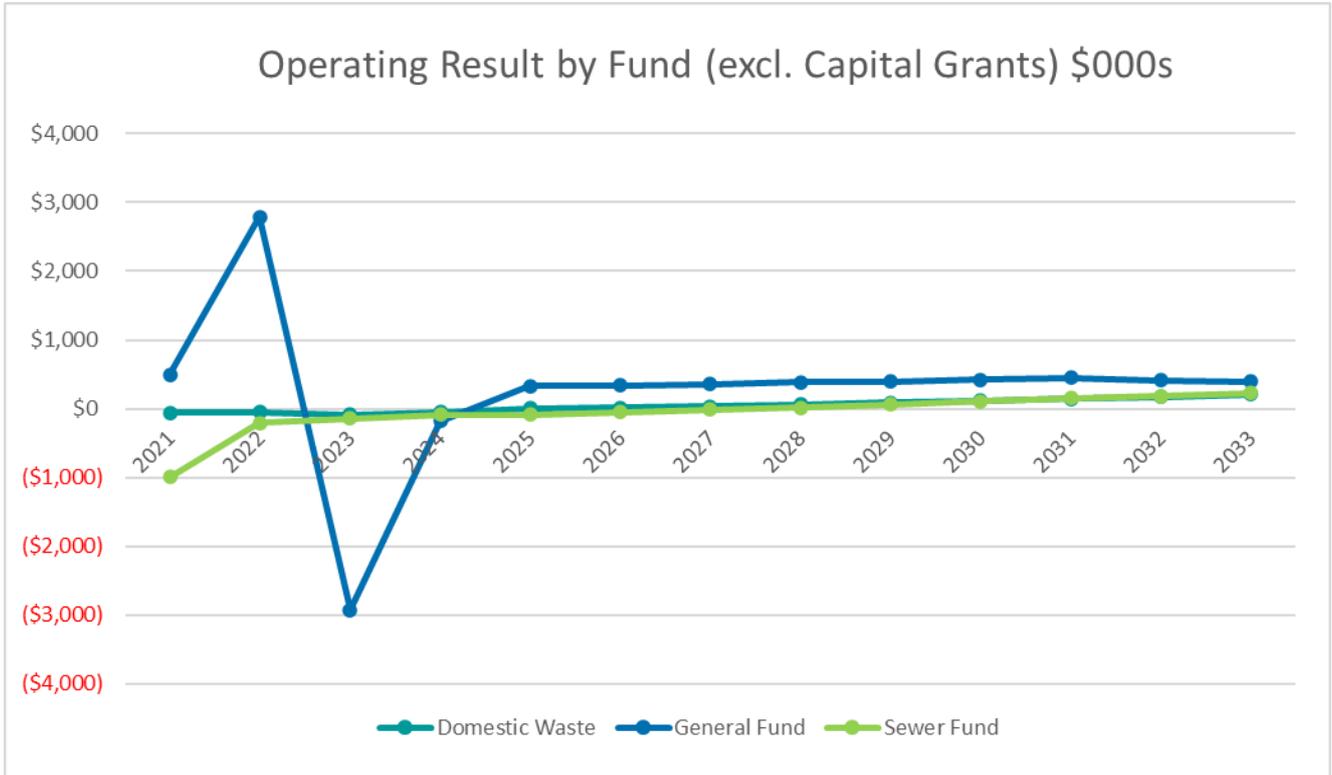
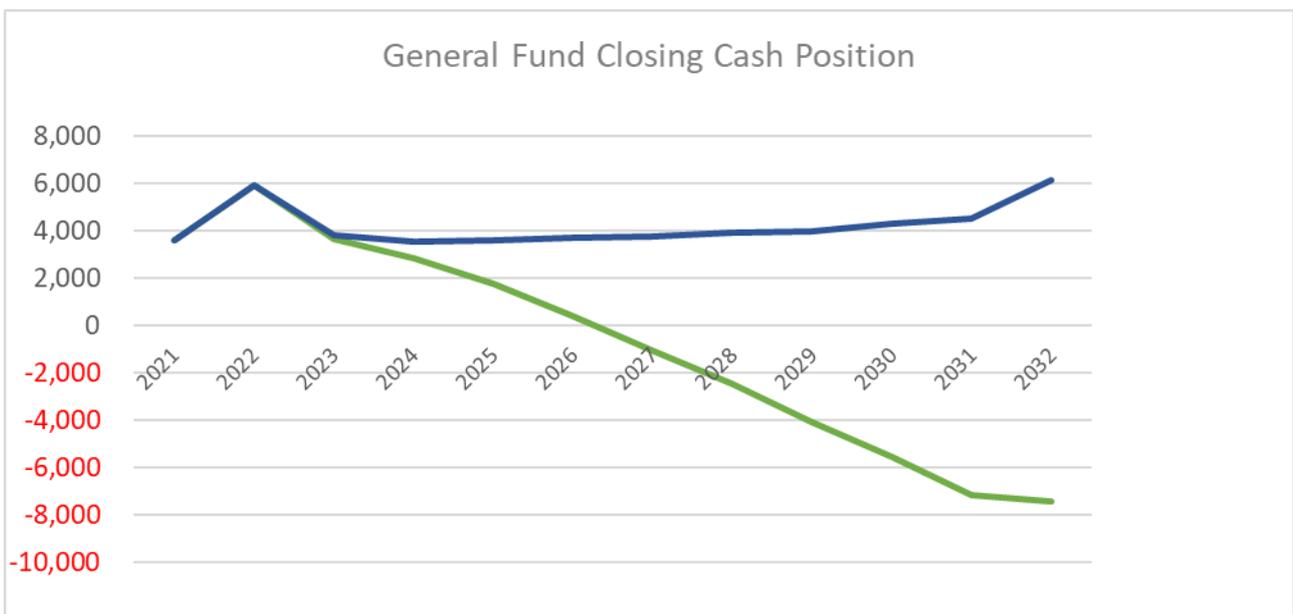


Figure 4 Projected SRV case scenario (including SRV) operating results by fund as per the 2023-33 Long Term Financial Plan



The estimated cash position of Council’s General Fund for both scenarios is detailed below. It is evident that under the base case scenario, with ongoing operating deficits, Council is expected to run out of cash in 2026. However, the SRV option generates operating surpluses that sustain and improves Councils position. At the same time, this option allows for additional asset renewal funding.

Figure 5 Projected cash positions for base case and SRV option scenarios for the 10-year forecast period



Council has updated its Long Term Financial Plan to show the impacts of both the base case (no SRV) and the SRV case scenario (including the SRV). This is also on exhibition and is available here:

<https://www.junee.nsw.gov.au/srv/>

What is the process for Council to apply for an SRV?

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and has considered its views. IPART will also seek community feedback.

More information on SRVs can be found on IPART’s website:

<https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations>.

Where can I get more information?

From 5 September, more information on the proposed SRV is available from Council’s website at the following link: <https://www.junee.nsw.gov.au/srv/>

Council will also be including information on the proposed SRV in its regular newsletters and to the media. We will also be running a number of forums for the community to find out more and to ask questions as follows:

Table 6 Community forum dates

Date	Time	Location	Invitees
Tues 13 Sept 2022	7:30am	Athenium	All staff
Tues 13 Sept 2022	10:00am	Athenium	Open meeting
Tues 13 Sept 2022	2:00pm	Bethungra Tea Rooms	Open meeting
Tues 13 Sept 2022	6:00pm	Athenium	Open meeting
Wed 14 Sept 2022	9:00am	Athenium	Invite service clubs
Wed 14 Sept 2022	1:00pm	Athenium	Open meeting
Wed 14 Sept 2022	6:00pm	Wantabadgery Hall	Open meeting
Thurs 15 Sept 2022	7:30am	Junee Library	Junee Chamber of Commerce
Thurs 15 Sept 2022	2:00pm	Old Junee	Open meeting
Thurs 15 Sept 2022	6:00pm	Illabo Tennis Club	Open meeting

Have your say

Council will seek feedback from the community on the SRV and its updated Long Term Financial from 5 September to 20 October 2022.

You can have your say by providing a submission or comment through Council's website:

<https://www.junee.nsw.gov.au/srv/>

What happens after this?

Once the community consultation period concludes on 20 October 2022, Council will review the feedback received.

A report will then go to Council for their consideration of the feedback and any updates required to the LTFP. Council will decide whether to proceed with the SRV application.

If they decide to proceed with the SRV application, the application will be submitted to IPART in February 2023. IPART will conduct its own consultation, with public submissions likely to be sought in March 2023, before they make their determination in May 2023. If successful, the SRV will be included in rates from 1 July 2023.

About Morrison Low Consultants

Morrison Low is a multidisciplinary management consultancy specialising in providing advice to local government. It has extensive experience across Australia and New Zealand and in particular assisting councils with financial modelling to understand current and future sustainability challenges. Morrison Low has supported councils to become more sustainable through improvement programs and with preparing special rates variation applications to IPART where necessary. Morrison Low undertakes community engagement on behalf of councils relating to SRVs, rates harmonisation, integrated planning and reporting and statutory engagement processes, where independence is important. More information about Morrison Low can be found on our website:

www.morrisonlow.com.