MorrisonLow

Proposed Special Variation – Background Paper

Blayney Shire Council

Blayney Shire Council Proposed Special Variation to Council Rates

Introduction

Morrison Low Consultants has been engaged by Blayney Shire Council ('Council') undertake an independent review of Councils financial position given the estimated operating deficits detailed in the current Long Term Financial Plan. The objective is to identify strategies to assist Council achieving a long term financial sustainable position. In doing so clarify the need for, and develop, a Special Variation (SV) application.

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 performance management. The objectives are to:

- achieve a fully funded operating position
- maintain sufficient cash to fund ongoing operational and capital requirements
- maintain its asset base 'fit for purpose'
- have an appropriately funded capital program.

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

In its 2023-24 to 2026-27 Delivery Program and 2023-24 Operating Plan, Council identified its ongoing challenge of costs growing faster than revenue. In response, Council has recently completed a further financial sustainability review to identify opportunities to address this issue.

The revenue increases and cost savings identified in the review will not fully address growing deficits in the long-term financial plan. Council must determine whether to review and reduce service levels to continue to be financially sustainable or seek an increase in funding, including by way of a Special Variation.

Unfortunately, it is not possible for Council to 'do nothing'. A range of difficult decisions are needed to address the financial outlook for Council's General Fund. This is critically important because the General Fund provides for all Council services apart from sewerage and domestic waste, and the funding available supports the maintenance of critical assets such as roads, bridges, pathways, kerbs, stormwater drains, parks and gardens and public buildings.

To ensure its ongoing financial sustainability, Council has considered it options for increased revenue to cover growing costs and is proposing a Special Variation to its rates. Council is consulting the community of Blayney Shire on this proposal before any final decision is made.

What has Council done and is going to do to control costs?

Council regularly reviews its operations, and actively identifies and implements initiatives to ensure that it is containing costs and finds efficiency gains, so that it can provide value for money to the community. Council has already found a total $690,000 per year in financial benefits to Council, one off benefit of $1 million, a cashflow benefit of some $4 million in grant funds for asset renewal projects previously allocated in the Long Term Financial Plan to be funded from General Fund revenue, in addition to additional efficiency and productivity gains and improvements in operational sustainability.

Some of the biggest operational cost savings made by Council have been from the introduction of LED street and facility lighting, which has significantly reduced Council's electricity expenditure by $60,000 per year, as well as reducing the number of public litter bins and standardising the type, which has reduced yearly recovery costs by $30,000. Further $100,000 benefits from using material from Councils quarries rather than external purchasing. These benefits are already built into Council's base case in its Long-Term Financial Plan.

In addition to the direct financial benefit of these implemented initiatives, many have unlocked efficiency gains that has allowed Council to reinvest resources into the ongoing delivery of Council's services, assets and functions. This has allowed Council to continue to deliver services even as increasing costs have grown faster than revenue.

Before considering a Special Variation, following the initial external review referred to above, Council sought to identify further savings and cost containment opportunities. As a result, Council's senior management team identified, costed and prioritised 26 present improvements, which Council will be implementing over the next three to four financial years (with some having a slightly longer implementation timeframe). These initiatives will provide further annual net benefits of $203,000. These include the review of CentrePoint management model, solar and battery storage at current sites, plant utilisation and disposal. These improvements have been included in the draft LTFP. These improvements have been included in the draft LTFP. There are an additional 13 improvement opportunities, including a possible energy renewal project (solar farm/battery facility), identified that need to be further assessed and costed before implementing, which are not included in the draft LTFP.

Further details on these improvement initiatives and organisational sustainability requirements can be found in the Council's Organisational Sustainability Review and Improvement Plan report (October 2023).

Council has also undertaken a review of its Asset Management Strategy and is currently updating its Asset Management Plans. This review also included an asset management improvement plan, which outlines actions Council can take to improve its current asset management data, systems and practices.

Mining revenue impacts

In 2023-24, Council will receive $4.9 million in rate revenue from the existing Cadia mining operation , owned and operated by Newcrest (the Cadia mine). In addition, a new mining lease is currently being considered for the McPhillamy's Gold Project for which Regis Resources has recently obtained planning approval (the Regis mine).

While mining operations in our local government area do impose costs on community infrastructure and some environmental challenges, as outlined in the Community Strategic Plan, they also supports the local economy and the rates paid by these operations support the services and infrastructure Council provides in the community.

There is always some uncertainty around the longevity and future of these mining operations. Council has made what it considers reasonable assumptions in its long-term financial planning for the rate revenue it should expect from these mines, which is based on the Cadia mine continuing at its current level and the Regis mine receiving a final investment decision and commencing operations from mid-way through the 2024-25 financial year.

The proposed special variation only seeks to fund what is required to maintain Council's financial sustainability after the revenue from these two mining operations is factored in. That means that if either the Cadia mine reduces or close its operations or the Regis mine does not receive final investment approval or is substantially delayed, Council may need to have future discussions with the community about a further Special Variation or service reductions in the future.

The proposed Special Variation

What is a Special 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 general rates that councils are allowed to implement. If a council needs to increase rates by more than the rate peg, it must apply to IPART for a Special Variation (SV) to its rates.

Almost all NSW councils will be faced with having to apply for a Special Variation at some point. There are two types of SVs:

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

When a temporary SV expires, rates return to the original level at the conclusion of the approval period. Temporary SVs are usually approved to fund specific one-off projects, such as significant infrastructure projects. As Blayney Shire Council is looking to deliver current service levels, uplift the ongoing renewal of assets to ensure they remain fit for purpose over time and address some critical asset backlog issues to ensure that it sustainable for a growing population, a permanent SV is required. Permanent SVs can be implemented over up to seven years.

What SV is proposed for Blayney Shire Council?

To achieve financial sustainability and maintain fit for purpose infrastructure, based on current projections and assumptions, Council requires a permanent cumulative rate increase of 33.1% over three years from 1 July 2024. This includes the expected rate peg increases that Council would have otherwise increased rates by.

Table 1 Proposed Special Variation rate increase

	2024-25	2025-26	20256-27	Cumulative
Forecasted rate peg	3.5%	2.5%	2.5%	
Permanent increase above the rate peg	6.5%	7.5%	7.5%	
Total increase	**10.0%**	**10.0%**	**10.0%**	**33.1%**

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 2024-25 rate peg will be based on cost increases experienced in 2022-23.

IPART has recently undertaken a review of its rate peg calculation methodology and has recently submitted a final report to the Minister for consideration. If the Minister adopts IPART's recommendations, this may help to alleviate some of the issues, but is not expected to fully address the time difference between the year the rate peg is applied, and the reference timeframe used for calculation of the rate peg. As the Minister is yet to decide on whether to change the rate peg methodology, the rate peg assumptions here are based on the current methodology.

If Council does obtain approval for an SV, that is if Council was approved to increase rates by 10% each year over three years (cumulative of 33.1%), the maximum percentage that Council would be able to increase its rates by would be the amount approved in the SV, regardless of what rate peg was set by IPART in that year. For example, if IPART announced a rate peg of 5% instead of the forecast 2.5%, Council would still only be able to increase its rates by the approved 10% in that year.

The rate peg increases for 2024-25 and 2025-26 have been forecast at 3.5%, and 2.5% respectively. Further details on these assumptions are outlined in Council's updated Long Term Financial Plan.

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. The following table provides an indication of the annual rates increase likely to be experienced by the average land value for each rating category. The increases include the forecast rate peg.

For the average residential ratepayer, the proposed rates increase is the equivalent of **$4.16 per week**.

Table 2 Average annual rates

Rating Category	2023-24	2024-25	2025-26	2026-27
Residential	$757.35	$833.09	$916.39	$1,008.03
Business	$1,285.43	$1,413.97	$1,555.37	$1,710.91
Farming	$3,323.05	$3655.36	$4,020.89	$4,422.98

How do my rates compare to other councils?

The Office of Local Government groups councils with other similar councils for comparison. Blayney Shire Council is in Group 10 with 22 other large rural councils. This group of councils represents a diverse cross section of geographies and communities across New South Wales, including Wentworth, Kyogle, Forbes and Dungog.

Councils that have some mining within the OLG potentially have more comparable rating structures to Blayney than those that don't have mines. As a result, Council has identified other similar-sized inland council with mining revenue within the group to compares its rates to. These comparison councils are Cobar, Lachlan, Liverpool Plains, Narromine and Upper Lachlan. While not in the same OLG group, Council also compares itself Cabonne as an adjacent council with a similar mining and farming profile. We have also provided comparison to the average of all the councils in Group 10 for each rating category.

This comparison uses the most recent reported data from the Office of Local Government, which is from 2021-22 and projects rate increase out to the end of the proposed SV (2026-27) in line with the forecast rate peg. Where Councils have been approved for a Special Variation in prior years, these are reflected in the average rates provided (the average rates being taken from the IPART determination for each approved council).

It is expected that other councils, like Blayney, will be considering applying for an SV from 1 July 2024. As these increases are not yet approved, they are not included in the comparison data or the group averages but are worth noting as they may affect Council's relative position in terms of average rates within the group.

Blayney's current average residential rates are close to the group average, with the application of the proposed SV, the average residential rates rise above average but remain significantly lower than Cobar and slightly lower than Liverpool Plans that has recently implemented a permanent SV of 18.1% in 2023-24.

Figure 1 2026-27 projected average residential rates

Council has undertaken detailed capacity to pay analysis which includes analysis of the average rates on the different socio-economic groups within the Blayney LGA. The detailed Capacity to Pay report is included in Council's draft LTFP.

It is apparent, from our analysis, that the LGA has reasonably significant levels of disadvantage, mixed with some pockets of significant advantage. This inequity is highlighted by the grouping and locality level Socio-Economic Indexes for Areas (SIEFA) rankings, which vary quite substantially.

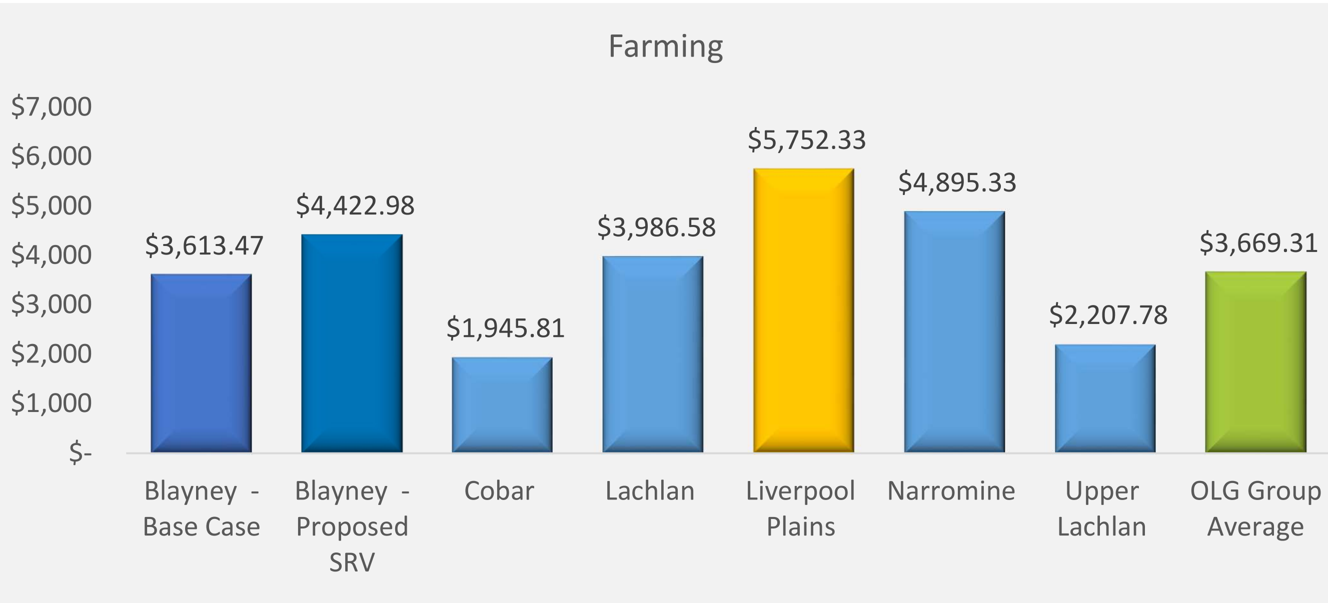
Overall, the LGA is in the 36th percentile for Index of Relative Socio-economic Disadvantage (IRSD) and 37th for Index of Relative Socio-economic Advantage and Disadvantage (IRSAD). This is notably comparable with the Regional NSW averages of 36th and 32nd, and Central West Region averages of 38th and 35th. Council acknowledges the levels of disadvantage within the community, and reviewed and updated its Pensioner and Hardship Assistance Policy in late 2022. Any ratepayer who incurs a rate increase resulting from the implementation of a special rates variation can apply to Council for Hardship Assistance, if the rate increase causes them substantial hardship.

Council's business rates are proposed to increase just below the OLG average and will remain lower than most of its comparator councils.

Figure 2 2026-27 projected average business rates

Comparison of average rates for farming and mining rating categories are less useful, as the nature of farming and mining can vary markedly between Local Government Areas.

Figure 3 2025 -26 projected average farming rates



As Council currently only has one significant mine and one small mine within the local government area, looking at average mining rates in not particularly useful.

The table below show the impact of the proposed rate rise of these two mining operations.

Table 3 Impact of proposed special variation on mining rates

Rate sub-category	Scenario	2023-24	2024-25	2025-26	2026-27
Ordinary Mining Rate (1 assessment)	Base Case	$18,542.01	$19,190.98	$19,670.75	$20,162.52
	Proposed SV	$18,542.01	$20,396.21	$22,435.83	$24679.42
Mining Gold / Copper combined (the Cadia mine)	Base Case	$4,872,949.96	$5,043,503.21	$5,169,590.79	$5,298,830.56
	Proposed SV	$4,872,949.96	$5,360,244.96	$5,896,269.45	$6,485.896.40

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

The proposed Special Variation will enable Council to deliver current services and maintain assets to the community, while ensuring financial sustainability in the longer-term.

Council modelled three options for a Special Variation in considering its path to improving financial sustainability. All three options were designed to:

- generate an operating surplus, before capital income
- enable Council to fully fund its required renewal and maintenance
- enable Council to maintain a positive unrestricted cash position
- enable Council to deliver all its improvement program initiatives.

All options considered were for relatively similar increases overall, the difference between them was the number of years it would take to implement the full extent of the rate rise. The options are outlined in the table below. Council's proposed Special Variation is a three-year SV, which is a cumulative rate increase of 33.1%.

Table 4 Options considered by Council

SV Options	2024-25	2025-26	2026-27	Cumulative increase over SV period	Comparison Rate
Base Case	3.5%	2.5%	2.5%		8.7%
1-year SV	26.5%	2.5%	2.5%	26.5%	32.9%
2-year SV	14.0%	14.0%	2.5%	30.0%	33.2%
3-year SV (proposed)	10.0%	10.0%	10.0%	33.1%	33.1%

Council has forecast its financial performance over the next 10 years under four scenarios – the base case, a one-year SV, a two-year SV and a three-year SV. The three SV options enable Council to meet all financial sustainability objectives, while the base case does not allow Council to adequately invest in maintaining a fit for purpose asset base or enable a fully funded operating position, depleting Council's asset conditions as a result.

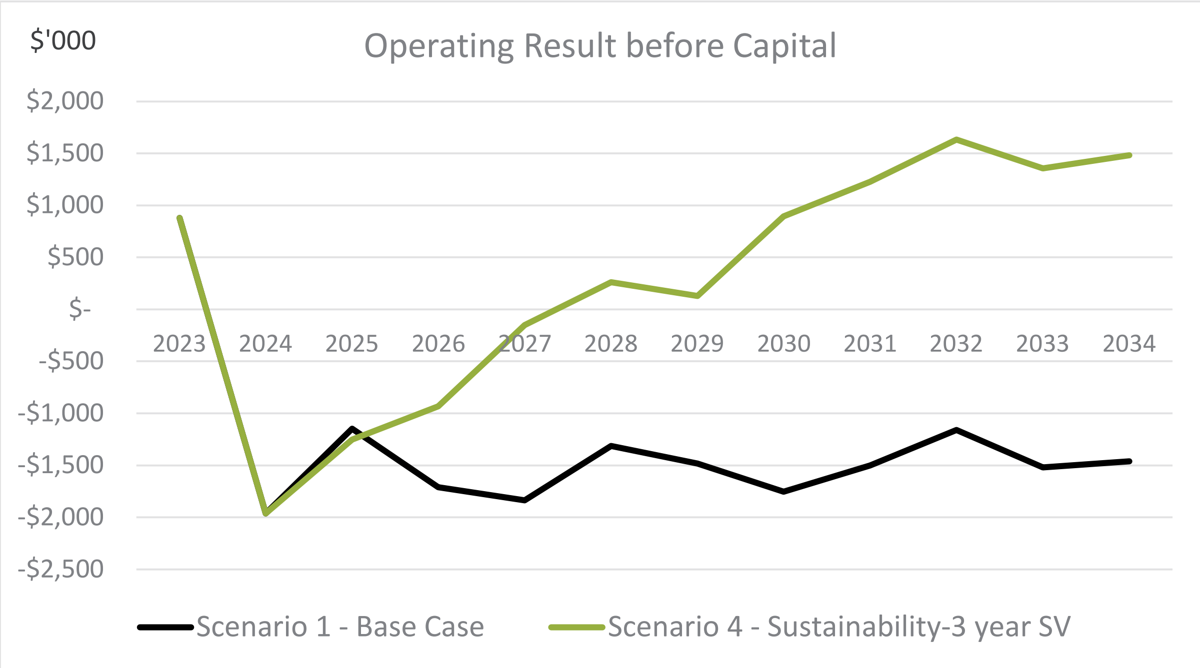
Council has proposed the three-year SV as this option spreads the cost increases over the longest timeframe, minimising the bill shock that ratepayers will experience.

An updated Long Term Financial Plan 2023-34, which will be publicly exhibited for comment throughout the Community Engagement for the SV, provides more details on the long-term forecast under each of these three scenarios.

Maintaining modest operating surpluses

Under the base case, Council will experience persistent deficits, averaging 1.3million over the ten-year forecast period. The proposed Special Variation arrests these deficits and allows Council to maintain surpluses, that is revenues will fully cover expected operating expenditure and capital renewal.

Figure 4 Forecast operating result



Sufficient investment in assets

The implementation of the proposed SV results in a forecasted modest and growing surplus, council can sufficiently invest in its assets. Over the forecast period, Council would be able to sustain an asset renewal ratio over the 100% benchmark that would maintain assets at their current condition. As a result, Council's backlog (the amount of money it needs to spend to bring all its assets up to a satisfactory condition) reduces from 5.8% to 4.0% of Council's total asset value.

Figure 5 Forecast asset renewal ratio

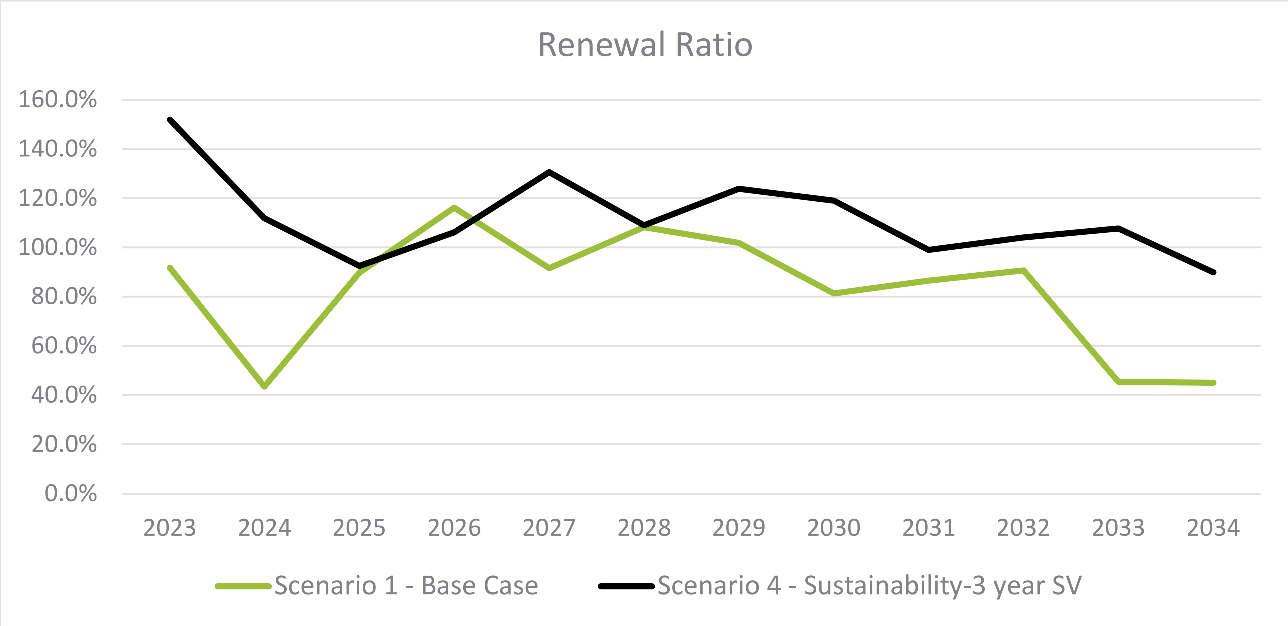
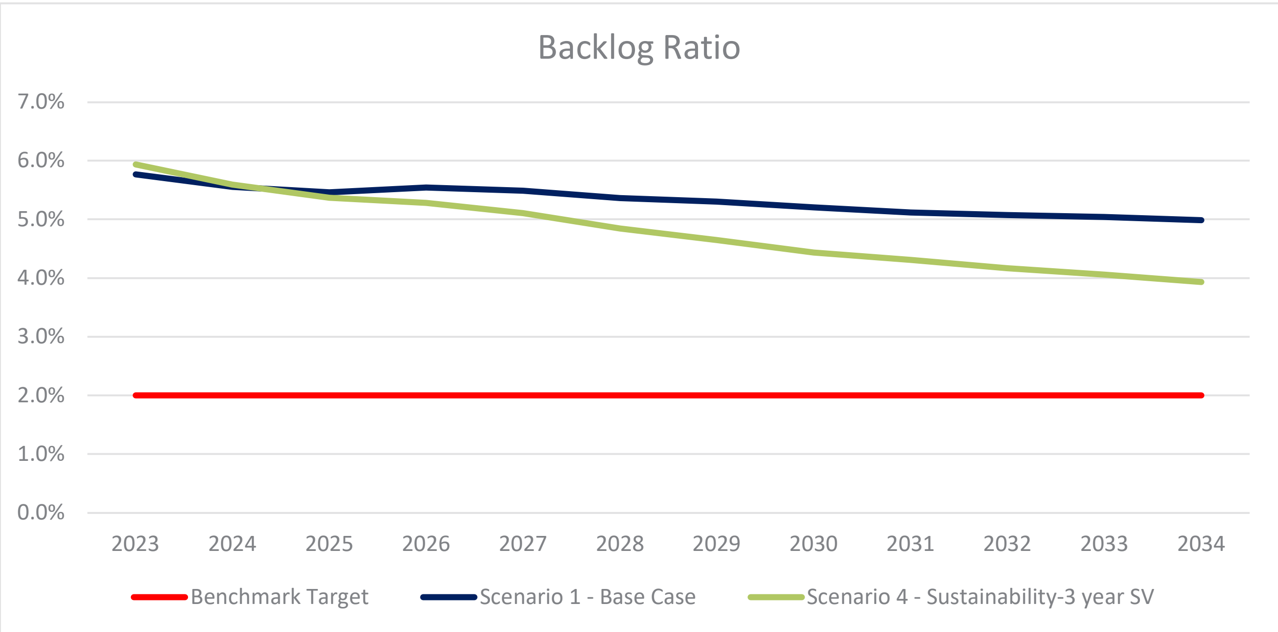


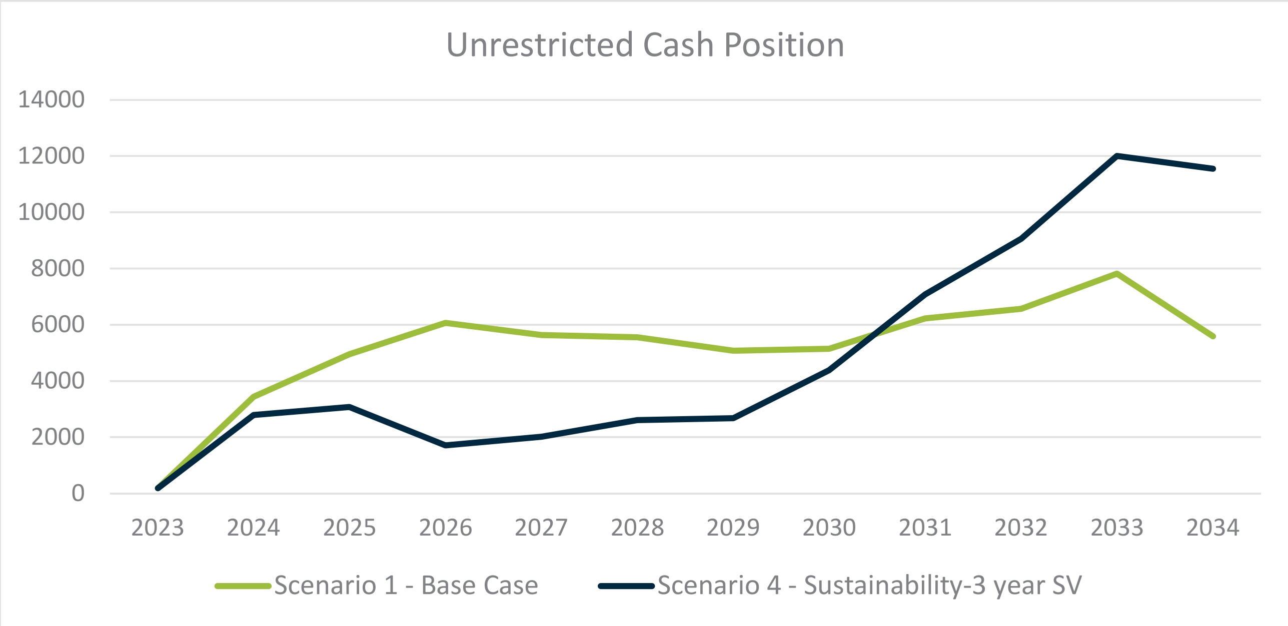
Figure 6 Forecast infrastructure backlog ratio



Sufficient unrestricted cash to fund day-to-day operations

Both the base case and proposed SV show that Council is able to maintain sufficient unrestricted cash for day-to-day operations. The difference between these two scenarios is that, under the base case, Council is not able to spend sufficiently on assets, whereas under the proposed SV, Council would be able to both sufficiently invest in assets and maintain a positive cashflow.

Figure 7 Forecast unrestricted cash position



Council has developed its Long-Term Financial Plan to show the impacts of both the base case (no SV) and the proposed SV scenarios. This will be out for exhibition during the SV consultation period.

What would happen if Council does not increase its rates by the proposed amounts?

If Council could not increase its rates revenue through an SV, it would not be able to adequately fund its asset renewal and maintenance, particularly in roads.

Investment in infrastructure is a critical commitment to the community in the Community Strategic Plan, Council's ability to delivery on this commitment is jeopardised if a Special Variation is not approved.

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

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

More information on SVs 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?

More information on the proposed SV is available from Council's SV webpage.

Council will also be including information on the proposed SV in a direct mail out to all ratepayers and will also be running community drop-in sessions where you can come to find out more and to ask questions. Dates and locations will be advised shortly.

What happens after this?

Once the community consultation period concludes, 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 SV application.

If they decide to proceed with the SV application, the application will be submitted to IPART in February 2024. IPART will conduct its own consultation, with public submissions likely to be sought in March 2024, before they make their determination in May 2024. If successful, the SV will be included in rates from 1 July 2024.

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 SVs, 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*.