

Shoalhaven Council Rate Increase – Questions for Council Session

1. Why is Council's application to IPART requesting a larger special rate variation increase of 11.7% for 2017/18 when the Council Extraordinary Meeting on 2 Feb 2017, and documented in the Media Release of 3 Feb 2017 approved 11.5%? (Refer Section 2.2.1 P4 of the IPART Word application). Based on number in the spreadsheet of the IPART application, 0.2% represents an approximate additional \$100K-\$150Kpa or \$1-\$1.5m over LTFP (10 yrs)

Finance response:

- a. Wandandian Session – Answer: The 0.2% is to enable Council to take out a loan of \$2m for development of road infrastructure for Verons Estate. 17% of total cost to be funded by broader rate base

2. In Council's application to IPART, the projected full year result (LTFP) for the General Fund is a deficit of \$11m, yet in the Dec 16 Qtrly Budget Review it is \$9m. Why is the deficit in the IPART application \$2m greater when the application to IPART was submitted 8 days before the Dec16 Qtrly Review was published (13 Feb versus 21 Feb)?

- a. Wandandian Session – The correct result is the Dec 16 Qtrly Budget Review – deficit of \$9m. This means the deficit in the IPART Application is overstated by \$2m

Finance response:

The IPART application requirements for the Part A document differ from those used for the December 2016 Quarterly Budget Review. In particular, the Quarterly Review shows internal revenue and expenses that could not be fully included in the IPART application. The difference between the two documents arises from the different requirements for external and internal reporting.

3. If the rate variation is approved, the numbers submitted to IPART by Council shows Council will have a surplus in the General Fund in 10 years of \$125m or \$167m if Capital Grants & Contributions are included (see Worksheet7 in the IPART Excel document). Why has Council requested an increase that covers more than the claimed 10 year operating loss of \$116m? (refer P30 of the IPART Word Application)

- a. Wandandian Rate Session – 22 Mar 17. CM stated the \$16m is from the 2014/15 LTFP (not in the IPART document – refer SCC document D14/235231)
- b. Additional Information from BH Review – However, the IPART Worksheet 7 document shows LTFP \$ without the rate increase to be significantly different to the 2014/15 LTFP – eg. In 14/15 LTFP, Forecast for 2016-2024 = deficit \$97m. In IPART document, 2016-2024 = deficit \$54m.

Finance response:

Each iteration of the LTFP includes the best information available at the time of its preparation. In particular, estimates made at the time the 14/15 LTFP was prepared are replaced with actual results for 2014/15 and 2015/16. The LTFP base amounts and

assumptions are adjusted in line with the reasons for the difference between estimates and actuals.

4. I don't seem to be able to find where in the IPART application Council will have a \$116m operating loss in the General Fund by 2025/26 (refer P30 of the IPART Word Application). The IPART spreadsheet Worksheet7 shows that without the rate increase Council is forecasting an accumulated operating loss of \$23m over 10 years, but it also shows from 2023/24 Council will have an annual surplus, and by 2025/26 the surplus will be \$10m for the year (before Cap Grants & Cont). What is the forecast position in say 15 years if the rate rise is not approved?

Finance response:

- a. As noted at the Wandandian Rate Session, the \$116m 10 year cumulative operating deficit (before Capital Grants and Contributions) referenced in the Financial Sustainability document reference on page 29 of the IPART Part B application.
 - b. Council's Long Term Financial Plan uses an horizon of 10 years and it cannot be easily extended to a 15 year horizon
 - c. One of the key drivers for the SRV is to achieve, or make significant progress toward, the Fit for the Future benchmarks by the target period of 2020/21
5. According to Worksheet5b in IPART application, Ordinary Residential dwellings with land values less than \$299,000 will pay up to 6 times more than land values greater than \$3m, and land values greater than \$400,000 receive a reduction in 2017/18. Why?
- a. There are over 51000 dwellings within Ordinary Residential category with over 60% of the dwellings in the \$100k-\$199K and \$200K-\$299K land valuation ranges
 - b. I presume the number of dwellings include public or community housing, but cannot find actual figures
 - c. The average rate charged at present across the 51,000 dwellings is \$1,150pa
 - d. Wandandian Session – The rates are based on calculations from the IPART spreadsheet over which Council have not control. The actual rates are yet to be calculated

Finance response:

The data in Worksheet 5b uses the midpoint of each range as the basis for the rate calculation but doesn't adequately represent the spread of the values within each range, resulting in values that aren't representative. If the values are taken as shown in 5b, the total residential rates for land values of \$299K or less is \$35.7m, compared with \$85.2k for land values of \$3m or more.

The apparent reduction for properties with land value greater than \$400,000 is due to the number of properties in these ranges changing between the 2016/17 rating year and the 2017/18 rating year as a result of revaluation. The 2016/17 figures use current land valuations and the 2017/18 figures result from the use of the new, higher land

valuations and the impact of the resultant reduction in the ad-valorem rate component and increased base amount.

With regard to (b), public or community housing is only included if rateable. If non-rateable, residential rates are not levied.

With regard to (c), the average rate is \$1,164.55

6. What is the annual rate peg increase from 2018/2019? The LTFP shows 2.5%. Is it 1.5% as in the Rates Rise Factsheets (& other documents) on Council website, or 2.5% as in the IPART Application and LTFP? If 2.5% why has Council requested an increase of 11.5% for 2018/19 given the following 7 years to 2025/26 (the 10 Yr Plan to IPART) it is also 2.5%. This will result in a rate increase in excess of that stated in the FactSheet and presented to the community, and therefore is misleading (Refer to p4 of the IPART Word Application). A 1% charge over 8 years is approx \$10m.

Finance response:

- a. Wandandian Session – IPART advice to Council was to use a rate peg of 2.5%. Usual practice is that IPART will inform Council at the beginning of each financial year what rate peg to use in the rate calculation
 - b. IPART announced the rate peg for the 2017/18 financial year of 1.5% in November 2016 and advised Council to use 2.5% in future years.
7. In Worksheet 7 of the IPART application 10 year analysis, why are Total Expenses with the rate increase approved around \$26m more than Total Expenses without the rate increase? Is there a saving opportunity over 10 years?

Finance response:

- a. \$26m represents cumulative total expenses over 10 years. Expenses, in nominal terms, increase by \$1m in Year 1 to \$3.8m in Year 10.
 - b. The increase in expenses is a function of delivering the program of works proposed under the SRV scenario plus servicing the interest on the loan for the development of the Verons Estate
 - c. The IPART assessment criteria require Council to demonstrate cost efficiency
 - d. The ongoing cost reduction initiatives detailed on pages 76 to 79 of the IPART SRV Application - Part B have been built into expenditure projections, with the SRV intended to cover only those operating costs that can't be funded under the base scenario
 - e. Council will, however, continue to identify opportunities to contain costs without significantly impacting service levels
8. In Worksheet7 of the IPART application, why is there a difference between the assumption for growth in labour costs for the Rate increase scenario and the Base Case scenario? EG labour

growth with the increase is 2.5%, without the increase its 2.2% (ie labour cost growth is lower without the increase)

Finance response:

- a. The key assumptions should have identified growth in staff numbers to support the SRV program of works, particularly maintenance. This was clarified with IPART subsequent to lodgement of the application.
- b. No part of the increase reflects differential salary increases

9. In Worksheet4 of the IPART application, the 13.2% increase (SVR + peg) will generate over \$8m, yet in Worksheet7 10yr Financial Plan it is around \$7.7m. Why the difference?

Finance response:

- a. The base case in the LTFP reflects rate increases in line with the pegged rate of 1.5% in Year 1 and 2.5% in subsequent years.
- b. The figure of \$8m on Worksheet 4 comprises both the rate peg increase and the SRV. The SRV component is \$7.1m and this is consistent with the Year 1 difference in Rates and Annual Charges in Year 1

10. The Council application to IPART is for a total rate increase of 13.2% in 2017/18, and 14.0% in 2018/19 (refer to Section 2.2.1, p4). The compounded rate increase is greater than 29% by the June 2018 Rates Notice - in around 15 months time. Why is Council saying rates will not increase by 29% until the end of 2 years? NB: Quote from the Mayor in the media (2ST and 94.9FM on 8 Mar) states an average rate of \$1000 will increase by \$20/mth at the end of year2 when according to the IPART application the average rates of \$1000 will increase by \$24/mth from June 2018, the beginning of the 2nd year. NB: The average residential rates is \$1153 and will increase by over \$28/mth

Finance response:

- a. The compounded rate increase will be reflected in the June 2018 rates notice. The increase can, however, be paid quarterly over 2018/19. In the information that Council has provided it shows what the average rate payer will pay in their second year

11. Does the rate variation include provision for the Fire & Emergency Services Levy (FESL)? I understand from NSW Govt Factsheets the FESL is based on land values. What is the expected % charge?

Finance response:

- a. Wandandian Session – No it does not (advice from Russ P). The NSW Govt is yet to inform Council what the FEPL (or ESPL) will be. It will be identified on a residents rate invoice as a separate item

12. Why are Capital Grants and Contributions excluded from Councils forward assessment of \$116m loss over 10 years in the IPART Application?

Finance response:

- a. Under accounting standards, capital grants need to be shown as revenue in the income statement, though they are funds tied to infrastructure and asset works
- b. Capital grants and contributions are excluded to highlight the underlying financial performance of Council's general operations

13. In the Council Dec 2016 Qtrly Review published on 21 Feb 17 - the **Actual** YTD result in the General Fund for the 6 mths to Dec16 is a surplus of \$32m. In the Review, the **Full Year Forecast** is an operating loss of \$9m ...Why? There appears to be greater than budgeted forecast expenditure in Materials and Contracts in the 2nd half of the year; what is this for?

Finance response:

- a. This is a timing issue around when revenue is recognised and expenses incurred. The half-year result is not, necessarily, a good indicator of the full-year result because it ignores timing/phasing. Also, as new grants are reflected in the budget (in both receiving and spending the grant), the whole amount is recognised but the expenditure will occur from that point onwards.

14. Council Sewer and Water Funds made a significant surplus in 2015/16 and according to the Dec 16 Qtrly Budget Review are projected to again make a surplus this year. If the surpluses are included with the General Fund result, Council will return a total surplus of around \$10m. Why are the surpluses from Sewer Fund and Water Fund not included in Councils application to IPART for the rate increase? Why doesn't Council use the surplus instead of increasing rates?

Finance response:

- a. The separation of funds is a Local Government Act requirement
- b. Each fund needs to cover its expenses, and any returns to capital, as standalone operations
- c. While the funds can be viewed on a consolidated or portfolio basis, there are cross-subsidisation issues to be considered

15. If Councils application to the IPART excludes Sewer and Water Funds, why does it mention the need for increase in sewer and water infrastructure/maintenance expenditure in the IPART Application (Refer Sect 3.2.3, P33)?

Finance response:

- a. The reference is a quote from information provided to the incoming Council at the time on a portfolio basis
- b. The General Fund financial position is the focus of the SRV application