Special Rate Variation **Fact Sheet**

Shoalhaven City Council

Shoalhaven City Council completed an independent Financial Sustainability Review, completed by AEC Group, and has now resolved to proceed with the preparation of an application to the Independent Pricing and Regulatory Tribunal (IPART) to raise the general rate as outlined below.

Council is considering the following options to implement the increase in general rate revenue:

Options Being Considered	2024/25	2025/26	2026/27	Cumulative Increase
Base Case – Assumed Rate Peg Only	3.0%	3.0%	3.0%	9.27% (over three years)
Option 1 – One Year SRV (including rate peg)	32.0%	3.0%	3.0%	40.04% (over three years)
Option 2 – Three Year Staged SRV (including rate peg)	18.0%	13.0%	8.0%	44.01% (over three years)

What is a Special Rate Variation (SRV) and rate-pegging?

Rates increase every year in line with an amount set by the NSW State Government. This amount is calculated every year and is called the 'rate peg'. It is decided by the Independent Pricing and Regulatory Tribunal (IPART).

If a Council's general rate revenue is not enough to maintain service levels, it can apply to IPART to increase overall general rate revenue by more than the rate peg. This is known as a Special Rate Variation (SRV). In order to apply for an SRV councils must demonstrate to the community and IPART that they need the money and have implemented improvements to be more efficient and productive.

More information about Rate Pegging and SRV can be found on the IPART website www.ipart.nsw.gov.au

What is the need for a Special Rate Variation?

The Council has been provided with a clear recommendation from AEC Group that an increase in the general rate is an unavoidable solution required to address the Council's current financial position and to ensure the Council can continue to provide services to the community in a financially sustainable approach going forward.

The report AEC Group provided to Council concluded that:

- Council has produced a net operating deficit in the last three financial years, most predominantly due to servicers in the General Fund – services that are funded in part or in full by the general rate revenue.
- AEC has predicted that the structural deficit within the General Fund whereby the recurrent revenue is not able to fund the recurrent expenditure is around the $25-$35 million.
- The current cash position of the Council does not provide any time to delay correcting the operating deficit. The Council requires additional cash in 2024/25 to prevent the high risk of inappropriately using restricted cash to fund services in the General Fund.
- Council has not invested in asset renewals sufficiently to meet the 100% target as set by Office of Local Government. If considered at an asset class level, the indicator would highlight investment in transport assets has been significantly lower than necessary to prevent transport assets from deteriorating.
- Declining availability of unrestricted cash, a deteriorating operating deficit and an increasing backlog in asset renewals are strong indicators that the historical financial performance of the Council is not sustainable.

The full Financial Sustainability Review completed by AEC can be accessed at Council's website ***https://getinvolved.shoalhaven.nsw.gov.au/srv***

What will happen if the Special Rate Variation is not implemented?

Based on the current financial settings, Council is at high risk of using restricted cash to fund expenditure on day-to-day services that should be funded from general rate revenue – this has to be avoided. Furthermore, the current operating deficits will not be financially sustainable in the long term with continued growth in the backlog of asset maintenance and asset renewals, with assets continuing to deteriorate.

Continued p2

Council will need to balance the allocation of funding to manage the risk deteriorating assets expose the community to, including significant service level reductions to ensure that an appropriate amount of funding remains available to maintain an acceptable level of risk and compliance with legislative requirements.

How much more revenue will council receive?

The table below outlines the additional revenue Council will receive in 2024/25 and increase from cumulative increases for the following 2025/26 and 2026/27 financial years.

3-Year Comparison of Cash Generated by Scenario	2023/24	2024/25	2025/26	2026/27
Rates and annual charges (General Fund Only) - $'000s				
Base Scenario	90,820	93,541	96,344	99,231
Option One	90,820	120,327	123,941	127,663
Options Two	90,820	107,396	121,562	131,414
Cumulative Increase as a Percentage Compared to 2023/24				
Base Scenario		3.0%	6.1%	9.3%
Option One		32.0%	36.0%	40.0%
Options Two		18%	34%	45%
Increase in Cash Generated from General Rates Compared to 2023/24 - $'000s				
Base Scenario		2,721	5,524	8,411
Option One		29,507	33,121	36,843
Options Two		16,576	30,742	40,594

Base Case – No SRV and Rate-Peg Increases of 3.0% only

Where Council's rating revenue will increase only by the rate-peg set by IPART – expected to be 3.0% in 2024/25 and then assumed rate-pegging of 3.0% each year thereafter. The cumulative increase over three years is 9.27%.

The capital works program, being constrained by the cash generated from operations (including rates, grants, and charges) and financing (borrowings) activities, is below what is necessary to maintain the current levels of service provided by the infrastructure. Assets such as roads, buildings and stormwater are expected to deteriorate over time, requiring future Councils to make decisions on rationalisation of assets when assets begin to fail.

Service level reductions will be inevitable over the next 10 years across various Council operations. Council will be required to reduce the range of services and close unsafe facilities when the deterioration of the asset is considered an unsafe risk.

This scenario is not sustainable over the long term and will reduce the liveability in our community that the Council supports and enables with the current services provided.

Option 1 – One year SRV as a permanent 32% in 2024/25 (including rate peg)

Through the SRV, Option 1 will generate an additional $26.786 million compared to the Base Case in 2024/25 growing by the rate peg to an additional rate revenue of $28.432 million in 2026/27.

The additional revenue increases investment in the renewal and replacement of assets, in particular transport assets, as well as increased investment in buildings, stormwater, footpaths, open space, and maritime assets over the 10 years. Council will also be able to maintain an unrestricted cash position of $15 million, ensuring that the Council has the financial capacity to respond to unplanned events, such as natural disasters.

This option is considered to be financially sustainable for the Council in the long term.

Option 2 – Staged Implementation of SRV over three years being a permanent 18% in 2024/25, 13% in 2025/26 and 8% in 2026/27 (including rate peg)

Through the SRV, Option 2 will generate an additional $13.855 million compared to the Base Case in 2024/25 growing by the rate peg to an additional rate revenue of $32.183 million in 2026/27.

The staged introduction will delay implementation of the increased investment in renewal of assets, including roads and other transport assets and will delay the achievement of a $15 million unrestricted cash balance increasing the risk that Council will not have sufficient unrestricted cash to respond to an unplanned event such as a natural disaster.
This option is considered to be financially sustainable for the Council in the long term.

What is the impact of the SRV on my rates?

The following tables show the impact of implementing the SRV on the average rates by rate category.

Base Case	2023/24 Average Rate	2024/25 Average Rate	2025/26 Average Rate	2026/27 Average Rate	Cumulative increase % from 2023/24
Residential	$1,459.40	$1,503.18	$1,548.27	$1,594.72	9.27%
Residential Non-Urban	$126.65	$130.45	$134.36	$138.39	
Farmland	$2,983.38	$3,072.88	$3,165.06	$3,260.02	
Farmland - Dairy Farmers	$2,196.64	$2,262.54	$2,330.42	$2,400.33	
Business - General	$41.68	$42.93	$44.22	$45.55	
Business - Nowra	$4,472.78	$4,606.97	$4,745.18	$4,887.53	
Business - Commercial/Industrial	$2,371.16	$2,442.29	$2,515.56	$2,591.03	

Option 1 – One Year SRV		2024/25 Average Rate	2025/26 Average Rate	2026/27 Average Rate	Cumulative increase % from 2023/24
Residential	$1,459.40	$1,926.40	$1,984.20	$2,043.72	40.0%
Residential Non-Urban	$126.65	$167.18	$172.19	$177.36	
Farmland	$2,983.38	$3,938.06	$4,056.20	$4,177.88	
Farmland - Dairy Farmers	$2,196.64	$2,899.56	$2,986.55	$3,076.15	
Business - General	$41.68	$55.02	$56.67	$58.37	
Business - Nowra	$4,472.78	$5,904.08	$6,081.20	$6,263.63	
Business - Commercial/Industrial	$2,371.16	$3,129.93	$3,223.83	$3,320.54	

Option 2 – Three Year SRV		2024/25 Average Rate	2025/26 Average Rate	2026/27 Average Rate	Cumulative increase % from 2023/24
Residential	$1,459.40	$1,722.09	$1,945.96	$2,101.64	44.0%
Residential Non-Urban	$126.65	$149.44	$168.87	$182.38	
Farmland	$2,983.38	$3,520.38	$3,978.03	$4,296.28	
Farmland - Dairy Farmers	$2,196.64	$2,592.04	$2,929.00	$3,163.32	
Business - General	$41.68	$49.19	$55.58	$60.03	
Business - Nowra	$4,472.78	$5,277.89	$5,964.01	$6,441.13	
Business - Commercial/Industrial	$2,371.16	$2,797.97	$3,161.70	$3,414.64	