



Special Rate Variation

Background Paper Outline

 Consultation closes July 15

Upper Hunter Shire Council SRV Background Paper Outline

Introduction

The purpose of this document is to outline the key information that is required for community engagement on the SRV.

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 reserves.
- maintain its asset base is '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.

Overview

Upper Hunter Shire is a rural local government area (LGA) with a land area of 8,100 square kilometres to service and maintain. The Shire was formed from an amalgamation in 2004 with the former Scone, Murrurundi and Merriwa Shires.

With the amalgamation has come challenges in providing services to the wide breadth of the LGA and its main populations in Scone, Merriwa (65km west of Scone) and Murrurundi (40km north of Scone).

Due to these distances, Council is not able to fully rationalise facilities and maintain many services for the community. Council also provides a number of services that are not core to the operations of Council however have been entrusted to Council as no private enterprise has been forthcoming to operate these service entities.

Figure 1 shows the LGA and key metrics.

Figure 1 - Upper Hunter Shire LGA and key metrics



Current services and infrastructure provided by Council

Council maintains, operates and upgrades the following essential core services for the community:

- Road network length of 1,770km
 - 124km of urban and other roads
 - 319km of sealed rural roads
 - 1,153km of unsealed rural roads
 - 174km of regional state roads
- 89 bridges and major culverts
 - 66 concrete structures
 - 23 timber structures
- Water network
 - 28km of pipe work
 - 7 water treatment plants
 - 14 pump stations
 - 23 reservoirs
 - 11 bores and wells
 - 7 water filling standpipe stations
- Sewer network
 - 16km of pipe work
 - 4 sewer treatment plants
 - 17 pump stations

- Waste Facilities
 - 4 main landfill sites
 - 1 transfer station
- 3 Council Administration Offices
- 10 Community & Public Halls
- 5 Public Library Branches
- 3 Public Swimming Pools
- 3 Youth Centres involving
 - Youth drop-in centre
 - Early intervention services including:
 - Family and youth support
 - Skills groups
 - Counselling
- Two Approved Children's Education and Care Services
 - Early Learning Centre (ELC) Long Day Care
 - Family Day Care (FDC)
- An aged care facility with 16 resident beds
- 17 independent Living Units
- 2 Low Income Units
- 1 Emergency Housing premises
- 3 Animal Shelters
- Approx. 20 Emergency Services buildings
- Regional Airport
- Hunter Warbirds Aviation Attraction
- White Park Arena
- Tourism, community events and programs
- Sporting and recreation programs and events
- Numerous commercial properties including Campbells Corner
- Caravan Park and camping grounds
- Visitor information centres and Community Connect Service
- Services Australia and Service NSW agencies
- Numerous public conveniences
- More than 119 hectares of recreational open spaces
- Planning, building and regulatory services including development application assessments, building certification and inspections, footpath trading approvals, animal control, food shop inspections, onsite sewage management inspections, public health and environmental compliance.
- Emergency management
- Floodplain management including flood warning systems
- Waste education and sustainability programs and activities.

Current situation

Increasing costs of maintaining infrastructure

Over the past five years, both drought and floods has severely affected Council’s road infrastructure. Council has had to allocate funds for increased maintenance to meet community expectations and provide safe roads for both domestic and heavy vehicle traffic.

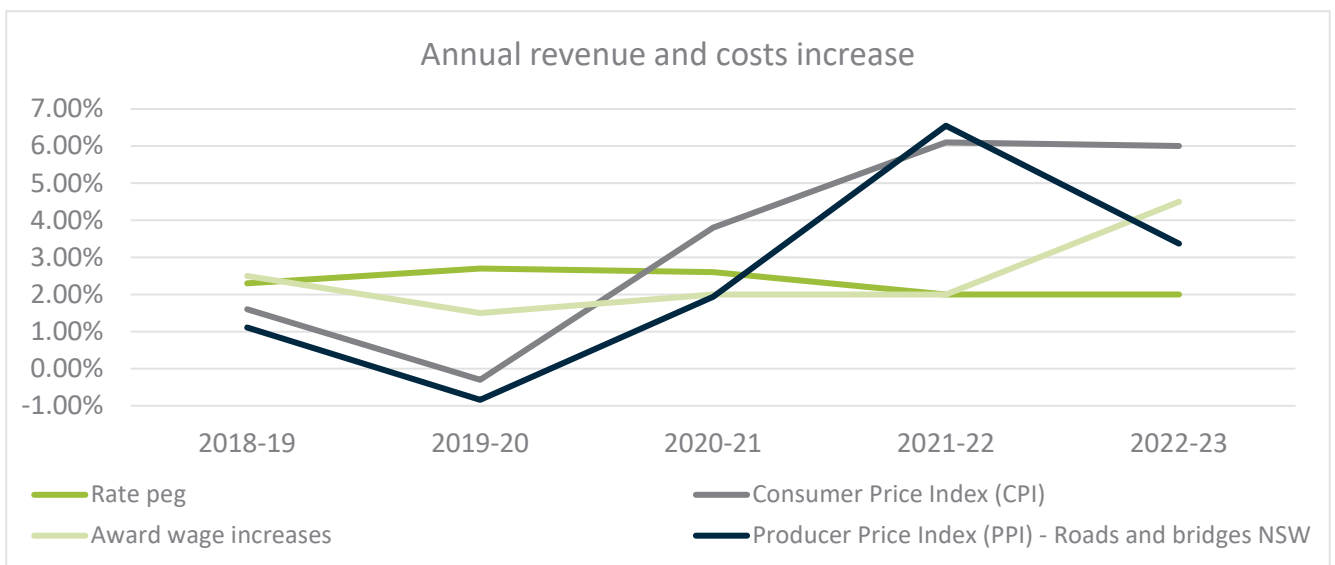
Over this time, Council has been very successful in securing capital grant funding applications with \$90.5 million received in capital grant funds over the last five years. In order to secure this funding, Council is often required to commit its own funds to these projects. This can reduce the funding available for other programs and priorities.

The level of capital grant funding that Council has been successful in securing in the past few years is not expected to continue. The State and Federal Governments have tightened their own budgets as they try to get inflation under control and manage their own fiscal deficits. This will ultimately mean that Council’s asset renewal programs will need to be funded internally rather than relying on the level of external funding that it has seen recently. Council has forecast, over the next 10 years, its capital works program will be \$205.9 million.

The increasing costs of maintaining such a large sealed and unsealed road network has also been a major issue for Council. Since COVID-19, inflationary pressure on roads and bridges construction costs has seen increases of more than 20% for the same scope of works required 3 years ago.

Generally, over the last three years, costs have grown much faster than the IPART recommended rate peg, as shown in figure 2. NSW Award increases reflect the increase in employee costs, the Consumer Price Index reflects the average increase in many of Council’s operating costs, and the Producer Price Index (PPI) for roads and bridge construction reflects the increases in cost to maintain and renew Council’s infrastructure.

Figure 2 - Annual revenue and cost increases



The Independent Pricing and Regulatory Tribunal (IPART) reviewed the way the rate peg was calculated in 2023 and has implemented a new approach from 2024-25 onward. The rate peg was based on historical inflation data and the new methodology looks to forecasted data to set the rate peg. This change has skipped over the 18 months from January 2023 to June 2024, which were some of the highest levels of inflation experienced in the last 20 years.

The cost of compliance

There are also several areas where councils are restricted in raising revenue to match increases in costs and where councils are required to fund State or Federal government services where they have no control over cost increases. Some of them are listed below:

Emergency Services Levy

One significant example of this is the Emergency Services Levy (ESL). This is an amount that councils are required to pay the State Government for the provision of Rural Fire Services (RFS), Fire and Rescue and State Emergency Services (SES). While the new rate peg methodology includes a new specific factor to include the cost increases in ESL from 2024-25 onward, historic cost increases are not included and have represented a significant financial burden on councils.

Over the past 8 years the State Government has increased the emergency levy from \$538,431 to \$901,979 which is an increase of 70% from 2017-18 year to 2024-25. Council did receive the benefit of funding from the Office of Local Government (OLG) between the years 2019-20 and 2021-22 to mitigate the substantial increase over this period however this subsidy was removed in 2022-23. The cost for the levy in 2024-25 is \$901,979, which represents 6.95% of Council's total general rate.

Waste Levy

Council is at the outlying area for the Regional Regulated Area of the Hunter Valley which effectively means that Council has the impost of a waste levy payable to the State Government for each tonne of waste that returns to its landfill sites. Although Council does attempt to recover this levy from the community through increased landfill fees and annual waste collection charges, it is unlikely that full recovery is achieved. The levy is a form of cost shifting as Council is required to remit direct to the State Government without receiving any benefits to the community.

Since its implementation Council has remitted \$9.79 million to the State Government and received grant funding in return from the Environmental Protection Agency Trust of \$1.68 million, an overall shortfall of \$8.11 million. Removal of the levy and subsequent reduction in kerbside waste collection and general landfill disposals for both business and residential residents will provide avenues for the capacity to afford the SRV increase.

Other State Government Cost Shifting

In the last five years Council has been required to pick up additional services or costs that were previously undertaken by the State Government. The following list highlights some of these additional services:

- Introduction of the NSW Planning Portal
- Regulation of Underground Petroleum Storage Systems (UPSS)
- Crown Land Management
- ARTC Rail Road Interface Agreement to maintain ARTC land reserves within council infrastructure
- Landscaping and ongoing maintenance of Transport for NSW corridor in New England Bypass of Scone
- Cemeteries & Crematoria NSW Licence Fee and Interment Services Levy imposed from 2024

The above list is only a handful of cost shifting activities a more detail overview is provided in the Local Government NSW report on cost shifting located at the following link:

<https://lgnsw.org.au/Public/Public/Advocacy/Cost-shifting.aspx>

Providing important services that are not provided by others

Council operates a number of businesses providing important services for the community where there is not a sufficiently profitable market for private operators to step in. These businesses, while often subsidised by State and Federal Government, are often highly regulated by legislation and the costs of complying with regulation outweighs the revenue and subsidies provided, particularly in regional and rural communities. These businesses tend to make losses for Council and are effectively subsidised by ratepayers.

Council has made representations to seek the possibility of other skilled parties to operate these businesses over the last 3 years without any success. Council has also taken the step to review these business structures in order to gain some cost saving which have been limited due to the compliance regulations. Over the last five years, the costs of subsidising these businesses are outlined in table 1.

Table 1 - Cost of subsidising aged care and childcare services

Business Service	Cash Losses Sustained 2019 to 2023
Aged Care Facility with 16 Beds	\$1,783,912
Early Childcare Facility	\$418,887

The need for a Special Rate Variation

Council's current Community Strategic Plan (CSP) identifies a key strategic objective for Responsible Governance as the "effective financial and asset management to ensure Council's long-term sustainability". In executing this objective and considering the economic changes that have recently occurred, the 2022-26 Delivery Program and 2022-23 Operational Plan flagged the anticipated need to seek a Special Rate Variation (SRV) within the next two to five years. In the 2023-24 Operational Plan, the need for an SRV had become more urgent to within the next 12 to 24 months. At the 29 January 2024 Council meeting, Council resolved to notify IPART of its intention to apply for an SRV to commence in the 2025-26 financial year.

Council manages three funds – a Water Fund, a Sewer Fund and a General Fund. The Water Fund covers all the costs of providing clean water to the community and is funded from direct water charges. Similarly, the Sewer Fund covers the costs of removing and processing wastewater and is funded from direct sewer charges. The General Fund is funded predominantly from rates and provides all the other services provided by Council, including roads, open spaces, community services and economic development activities. Within the General Fund, there is also the domestic waste charges and costs, the funds raised through domestic waste charges must be spent on domestic waste even though it is accounted for in the General Fund. It is the General Fund that is the focus for the financial sustainability challenges for Council, as the allowable increases in rates, called the rate peg, has not kept pace with the increases in costs that Council has incurred.

While the NSW Government has revised the way that the rate peg will be calculated from 2024-25 onward, which is intended to address the gap between the rate peg and cost increases, this will not deal with the catching up of the gap that was experienced over the last three years. Over this time, Council has experienced persistent deficits in its General Fund and maintained low unrestricted cash balances. Council has used significant capital grants to maintain and renew infrastructure however does not expect this will continue into the future. As a result, Council must consider the need for a Special Rate Variation (SRV) to increase rates revenue to ensure small operating surpluses and continue to maintain its infrastructure.

Over the last five years Council has reported operating deficits (before capital grants and contributions) and a generally declining operating performance ratio (which is the operating result as a proportion of revenue). Unrestricted cash has remained very low over the last five years, which is cash available for day to day operations. Total cash has grown mainly as a result of capital grants received before they are spent.

General Fund financial and operating performance over the last 5 years is shown in figures 3 and 4.

Figure 3 - General Fund financial performance

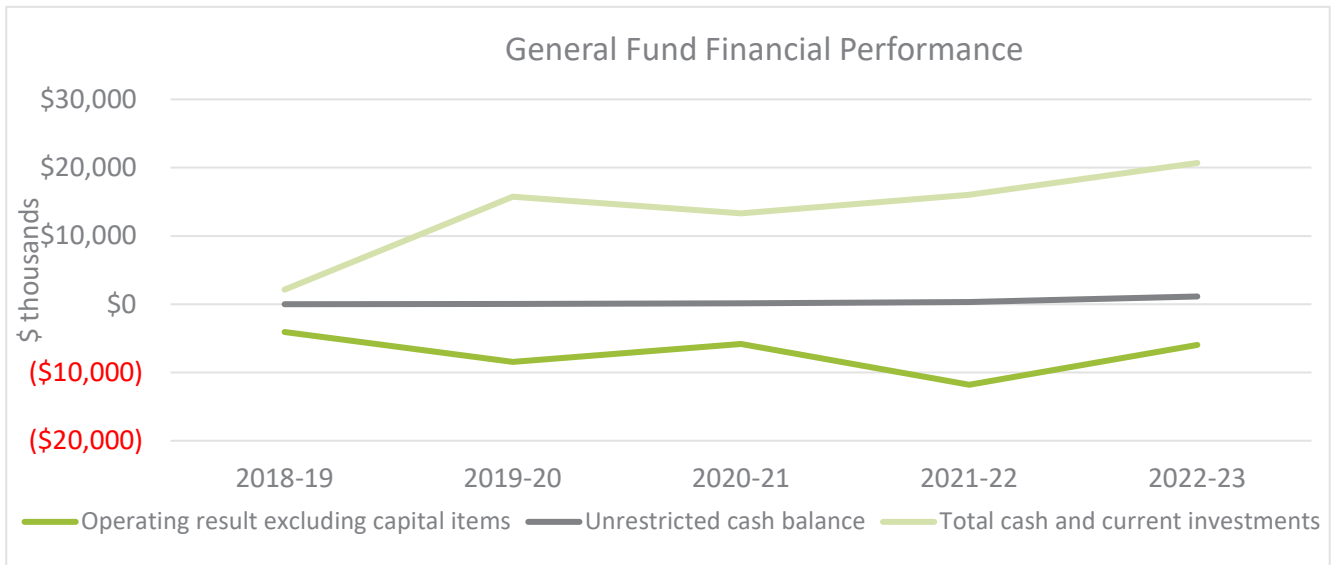
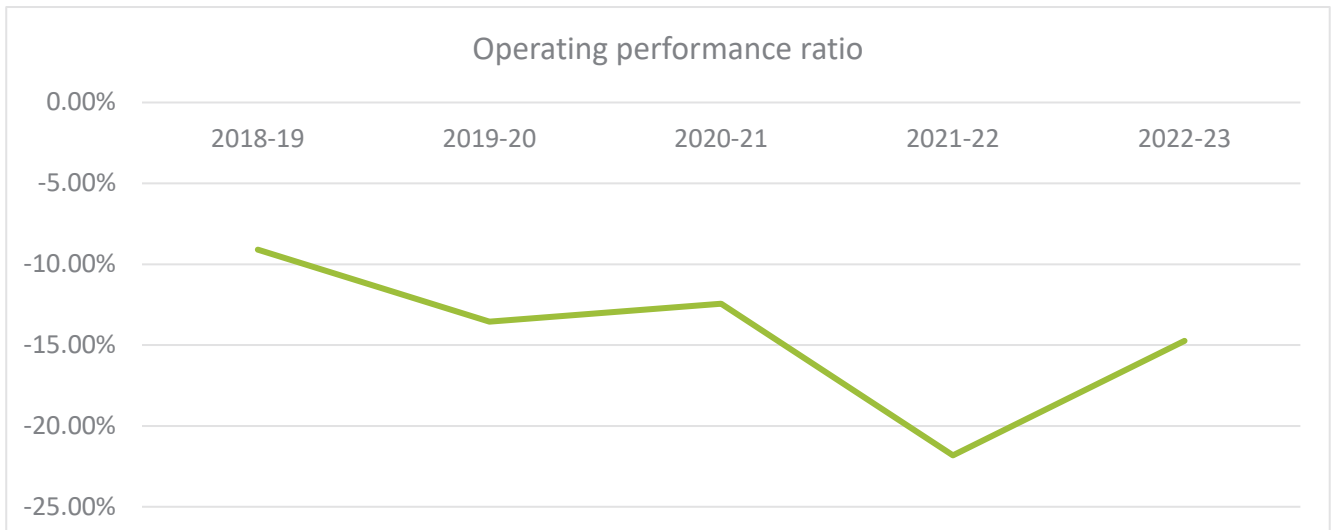


Figure 4 - General Fund operating performance ratio



The asset renewal and maintenance ratios (figures 5 and 6) show the level of Council spend on renewal and maintenance as a proportion of what is required to maintain assets at their current condition. As a result the target for both ratios is to stay around 100%. Council has spent significantly more on renewals that was required over the last few years, taking advantage of capital grant funding that was available. The backlog ratio is the amount of money needed to be spent to bring all assets back to a satisfactory level as a proportion of total asset value. This has grown in the last few years, and in 2022-23 has increased beyond the benchmark of 2% set by the Office of Local Government. The growth in the backlog ratio is a result of a number of perfect storm factors that have occurred over the last 3 to 4 years. It appears that the ratio, which should have a converse effect to the level of renewal and actual maintenance meaning that the higher the renewal/maintenance ratios the lower the backlog ratio and vice-versa, is increasing even though the level of Council’s renewal ratio has been considerably above the 100% benchmark while the asset maintenance ratio has increased steadily above the 100% benchmark over the last 5 years. These factors stemmed from:

- Large stimulus projects targeted at specific projects that were and will be renewed with improved serviceability, however Council requirements for maintenance of its road infrastructure network is extremely broad and wide ranging.
- COVID-19 effects on the inflationary costs of building and construction materials to undertake the large infrastructure base of Council.
- Weather effects and maintenance required to bring assets, especially the road network, up to a satisfactory condition resulting from the extremes of drought to flood/storm events.

It is noted that funding is being supplied by the State Government to undertake maintenance requirements as a result of the flood events from November 2021 & February 2022 which commenced late in the 2022/2023 year after the initial emergency works were completed in the 2021/2022 year. These factors provided for the increase in the asset maintenance ratio over the last two years.

Figure 5 - General Fund asset performance ratios

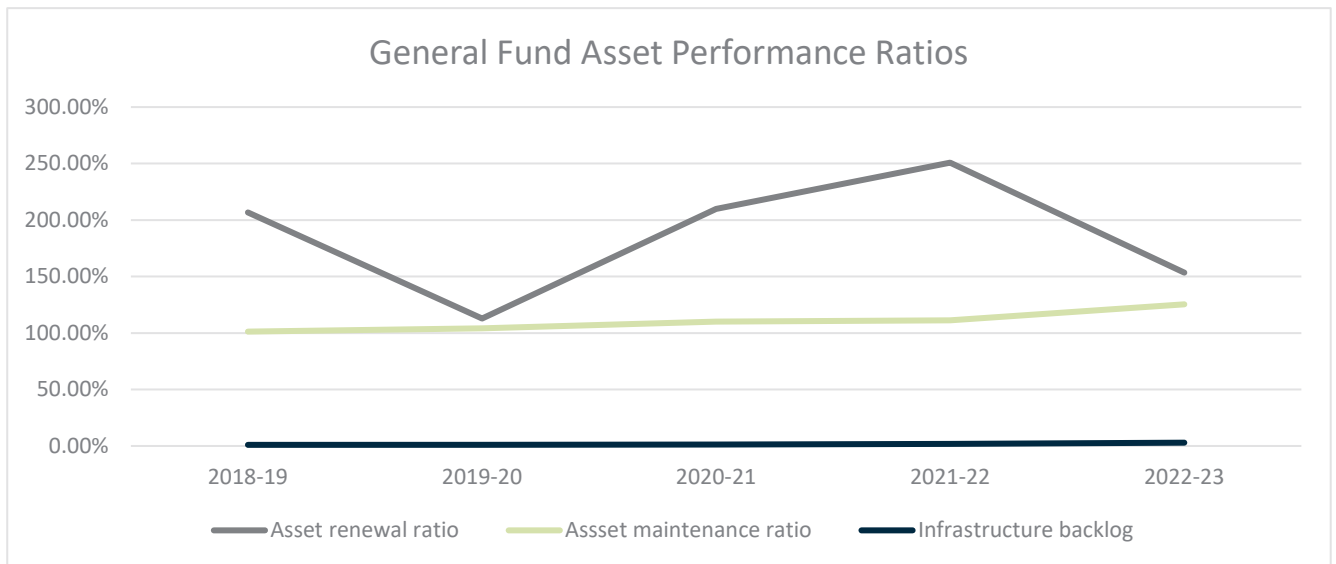
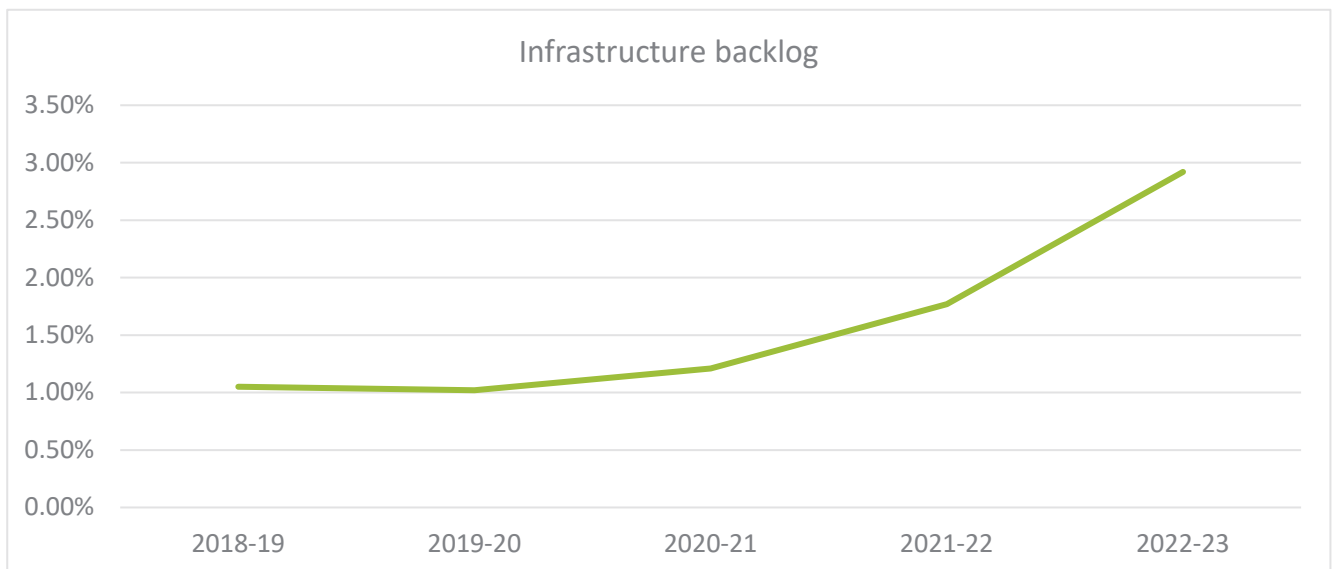


Figure 6 - General Fund infrastructure backlog ratio



The proposed special rate variation

What is a special rate variation?

New South Wales has a rate capping regime in place. Each year, 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 a Special Rate Variation (SRV).

There are two types of SRVs:

- a temporary SRV for a fixed amount over a fixed period
- 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 Upper Hunter Shire Council is looking to deliver current service levels, maintain its current level of 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 is the SRV being considered at Upper Hunter Shire Council?

Upper Hunter Shire Council is considering two different options for a potential SRV, which is now seeking to consult the community on. The first option, Option 1, is a cumulative permanent increase of 33.10% over three years as outlined in Table 2. The other option, Option 2, is a cumulative permanent increase of 33.55% over four years, as outlined in table 3.

Table 2 - Option 1: SRV over three (3) years

	2025-26	2026-27	2027-28	Cumulative
Permanent increase above the rate peg	6.30%	6.60%	6.90%	21.13%
Forecasted rate peg	3.70%	3.40%	3.10%	10.55%
Total proposed increase	10.00%	10.00%	10.00%	33.10%

Table 3 - Option 2: SRV over four (4) years

	2025-26	2026-27	2027-28	2028-29	Cumulative
Permanent increase above rate peg	3.80%	4.10%	4.40%	4.70%	18.11%
Forecasted rate peg	3.70%	3.40%	3.10%	2.80%	13.65%
Total proposed increase	7.50%	7.50%	7.50%	7.50%	33.55%

At the conclusion of both these potential rate increases, rates will continue to increase by the set rate peg for that year. IPART determines the annual rate peg that councils receive each year based on the expected cost increase for the year. This is usually set approximately 6-9 months before the start of that financial year. The forecasted rate peg increases for the years in tables 2 & 3 are based on the assumptions that Council has applied in its Long Term Financial Plan. If Council is successful in seeking an SRV and the actual rate peg is different than what is forecasted, this will not change the total proposed increase in council rates. The maximum total rate increase will be 10% for each of the three years or 33.10% cumulative in Option 1 or 7.5% for each of the four years or 33.55% cumulative in Option 2.

As outlined in the OLG's Guidelines on SRVs and IPART's guidance, the SRV rate is expressed as a cumulative percentage over the period the SRV is to be implemented. However, as the two options being considered are over different periods, the two cumulative rates of 33.10% for Option 1 and 33.55% for Option 2 are not comparable. Table 4 provides the two options as comparable rates over four years so that the rates are comparable.

Table 4 - Option 1 and 2 comparison over 4 years

	2025-26	2026-27	2027-28	2028-29	Comparison
Option 1 (SRV over three years)	10.00%	10.00%	10.00%	2.80%*	36.83%
Option 2 (SRV over four years)	7.50%	7.50%	7.50%	7.50%	33.55%

* The fourth year rate for Option 1 is the assumed rate peg for that year.

What has council done and is planning to do to be as efficient as possible

Council has undertaken a number of cost saving measures entailing both an organisational management restructure and business service reviews. These savings have been realised and are banked into Council's current Long Term Financial Plan (LTFP).

Council's 2024-25 draft budget has only increased operating expenditure by 2.9%, demonstrating our commitment to efficiency in our operating processes against a significantly higher inflationary background.

Organisational Management Restructure:

Council has reviewed its structure and removed and/or downgraded a number of senior positions within the organisation that has achieved approximately \$624,000. Cost savings from the restructure are outlined in table 5.

Table 5 - Organisational restructure savings

Position	Removed / Downgraded	Estimated annual savings (With on-costs)
Director Corporate Service	Removed	\$246,100
Manager Business Services	Removed	\$144,062
Manager Governance & Risk	Downgraded	\$14,547
Manager Strategic Projects	Removed	\$130,360
Airport Reporting Officer	Combined two roles into one	\$88,991
	Total	\$624,060

Business Improvements

Council is in the process of facilitating an organisational business service review with a focus on delivering:

- Additional revenue streams
- Cost savings
- Operating efficiencies.

This review is being undertaken with the view of a user pays system and no reduction to the provision of the satisfactory service delivery to the community. Another factor in this process will be the removal of excess or non-beneficial services provided and the combining of operations with similar synergies.

Revenue and expenditure benefits achieved are outlined in table 6.

Table 6 - Savings to date from business service review

Business service function	Measure undertaken	Estimated annual costs saving	Estimated additional annual revenue
Regional Saleyards	Fee Structure		\$80,000
Scone Airport	Fee Structure		\$20,000
Sporting Grounds	Fee Structure		\$20,000
White Park	Signage Sponsorship		\$10,000
Commercial Property	New Leases		\$50,000
Hunter Warbirds & Scone Visitor Information Centre	Combining Operations and staffing restructure	\$125,000	
Hunter Warbirds	Lease of Café and Parking Spot		\$20,000
Totals		\$125,000	\$200,000

Future initiatives and improvements

Council will be investigating and/or implementing the following future initiatives and practices, detailed in table 7, in order to create efficiencies to achieve increased delivery productivity, utilisation and revenue generation.

Table 7 - Service review identified improvements to be investigated

Business service function	Initiative and improvements	Benefit measure
Road construction	Change in methodology to reduce pavement width and on-going future maintenance	Efficiency Gain to deliver additional works for same cost. Efficiency gains from the methodology for sealing of the reduced pavement is approximately \$7,000 per kilometre. In addition, Council's road maintenance program will be based on actual condition rather than frequency based.
Property development	Develop and/or dispose of Council's excess land holding	Additional revenue streams from either sale or leasing opportunities
Internal fleet utilisation and productivity	Optimise internal fleet held by Council through review of specified needs and current utilisation of existing fleet items	Disposal of underutilised fleet items providing funds to replace aging fleet with new technology to increase productivity.
Business enterprises	Constant review of user fees and charges and reduction on costs for associated business through efficiencies and business hours	<ol style="list-style-type: none"> 1. Saleyards increased revenue \$70,000 for 2024/25 then CPI. 2. Other increases will only have minimal effect on overall revenue.

Service reviews program

Council has commenced an overall business service review for the delivery of all its services and business enterprises. Initial phases of the program has entailed the review by service and business managers to review and highlight any possible efficiency, cost saving and increase in revenue streams.

Although this is limited as the majority of the major items within these services and business entities have already been critically reviewed over the last 2 years in order to achieve savings to counteract the effects of the high inflationary effects in the economy since COVID-19.

Throughout this process the areas where greatest improvement can be made is through road construction methodology, limiting service provision such as mowing and maintenance or reducing operating hours of community services.

Despite not finding suitable operators for Council owned businesses in the last 3 years, there still exists potential for Council to limit its losses if commercial operators can provide this service.

Business and Service Activities Costing Residents

Council provides many service activities that are considered a burden on the residents that exists for the benefit of all community. These include libraries, parks, sporting grounds, public amenities, swimming pools, community halls and services etc. Other businesses that also benefit the community that are more commercial in nature are also provided by Council which have in the past five years been a burden on residents. These activities although not directly benefiting the community do have an indirect benefit to the shire's economy through employment and tourism stimulus.

While Council acknowledges that these businesses are considered commercial in nature the intent is to return these businesses to at least a cost neutral operating position. Council will also seriously consider opportunities of divesting potential businesses to other suitable providers or divesting the business operation completely and utilising the facility for another purpose. These options are considered to be a medium to long term strategy.

However, in the short term Council will continue to review these operations with a view to either increase potential revenue streams and seek cost saving measures through reduced operating hours in non-productive times and/or resource sharing.

Voluntary Planning Agreements

Over the last five years Council has entered into a number of Voluntary Planning Agreements (VPAs) which will ultimately benefit the communities that reside near these mining and renewable projects. Although these won't immediately assist in the increased operational costs shortfalls, they will provide for improved infrastructure in the future which will have the flow-on effect of reduced maintenance costs.

To date Council has entered into 3 VPAs (table 8) in Aberdeen and Cassilis with another 3 VPAs currently in negotiations situated in the Merriwa, Rouchel and Timor/Murrurundi.

Table 8 - Existing VPAs entered into

VPA Location	Annual Community Contribution	Annual Contribution to Environmental Officer	Annual Contribution to Aboriginal Liaison Officer
Dartbrook Coal Mine	\$110,000	\$20,000	
Mt Pleasant Coal Mine	\$250,000		\$25,000
Liverpool Range Wind Farm	\$147,000		

What do the proposed SRV options mean for rate payers?

The impact on an individual's rates will be different depending on the unimproved land value of their property. Tables 9 and 10 indicate the annual rate increase likely to be experienced by the average land value for each rating category. Tables 11, 12 and 13 show the more detailed breakdown by subcategory for the NO SRV base case, option 1 and option 2. The increases include the forecast rate peg when relevant to that model.

Table 9 - Option 1 – Average annual general rate for each year of the Special Rate Variation of 10% over three (3) years

Rating Category	2025-26	2026-27	2027-28
Residential	\$1,072.66	\$1,179.93	\$1,297.92
Business	\$1,317.46	\$1,449.21	\$1,594.13
Farming	\$4,581.38	\$5,039.52	\$5,543.47
Mining	\$157,880.27	\$173,668.30	\$191,035.13

Table 10 - Option 2 - Average annual general rate for each year of the Special Rate Variation of 7.5% over four (4) years

Rating Category	2025-26	2026-27	2027-28	2028-29
Residential	\$1,048.28	\$1,126.90	\$1,211.42	\$1,302.28
Business	\$1,287.52	\$1,384.08	\$1,487.89	\$1,599.48
Farming	\$4,477.25	\$4,813.04	\$5,174.02	\$5,562.07
Mining	\$154,292.08	\$165,863.99	\$178,303.79	\$191,676.57

Table 11 – No SRV with detailed rate forecast for each subcategory (base case)

	2024-25 4.5%	2025-26 3.7%	2026-27 3.4%	2027-28 3.1%	2028-29 2.8%
Farmland	\$4,164.89	\$4,318.99	\$4,465.84	\$4,604.28	\$4,733.20
Residential					
Aberdeen	\$668.30	\$693.03	\$716.59	\$738.80	\$759.49
Cassilis	\$568.73	\$589.77	\$609.82	\$628.72	\$646.32
Merriwa	\$653.09	\$677.25	\$700.28	\$721.99	\$742.21
Murrurundi	\$618.05	\$640.92	\$662.71	\$683.25	\$702.38
Scone	\$1,186.39	\$1,230.28	\$1,272.11	\$1,311.55	\$1,348.27
Ordinary (Land classified as residential outside townships i.e. lifestyle blocks)	\$1,094.47	\$1,133.93	\$1,172.48	\$1,208.83	\$1,242.68
Business					
Aberdeen	\$1,235.90	\$1,281.63	\$1,325.21	\$1,366.29	\$1,404.55
Merriwa	\$797.07	\$826.56	\$854.66	\$881.15	\$905.82
Murrurundi	\$986.27	\$1,023.31	\$1,058.10	\$1,090.90	\$1,121.45
Scone	\$1,816.20	\$1,883.40	\$1,947.44	\$2,007.81	\$2,064.03
Ordinary (Land not classified as Farming, residential or mining outside of townships)	\$793.68	\$823.05	\$851.03	\$877.41	\$901.98
Mining	\$143,527.52	\$148,838.04	\$153,898.53	\$158,669.38	\$163,112.12

Table 12 – Option 1 with detailed rate forecast for each subcategory

	2024-25 4.50%	2025-26 10.00%	2026-27 10.00%	2027-28 10.00%	2028-29 2.80%
Farmland	\$4,164.89	\$4,581.38	\$5,039.52	\$5,543.47	\$5,698.69
Residential					
Aberdeen	\$668.30	\$735.14	\$808.65	\$889.52	\$914.43
Cassilis	\$568.73	\$625.60	\$688.16	\$756.98	\$778.18
Merriwa	\$653.09	\$718.39	\$790.23	\$869.25	\$893.59
Murrurundi	\$618.05	\$679.86	\$747.85	\$822.64	\$845.67
Scone	\$1,186.39	\$1,305.03	\$1,435.53	\$1,579.08	\$1,623.29
Ordinary (Land classified as residential outside townships i.e. lifestyle blocks)	\$1,093.47	\$1,202.81	\$1,323.09	\$1,455.40	\$1,496.15
Business					
Aberdeen	\$1,235.90	\$1,359.49	\$1,495.44	\$1,644.98	\$1,691.04
Merriwa	\$797.07	\$876.78	\$964.46	\$1,060.91	\$1,090.62
Murrurundi	\$986.79	\$1,085.47	\$1,194.02	\$1,313.42	\$1,350.20
Scone	\$1,816.20	\$1,997.82	\$2,197.60	\$2,417.36	\$2,485.05
Ordinary (Land not classified as Farming, residential or mining outside of townships)	\$793.68	\$873.05	\$960.36	\$1,056.40	\$1,085.98
Mining	\$143,527.52	\$157,880.27	\$173,668.30	\$191,035.13	\$196,384.11

Table 13 – Option 2 with detailed rate forecast for each subcategory

	2024-25 4.50%	2025-26 7.50%	2026-27 7.50%	2027-28 7.50%	2028-29 7.50%
Farmland	\$4,164.89	\$4,477.25	\$4,813.04	\$5,174.02	\$5,562.07
Residential					
Aberdeen	\$668.30	\$718.43	\$772.31	\$830.23	\$892.50
Cassilis	\$568.73	\$611.38	\$657.23	\$706.52	\$759.51
Merriwa	\$653.09	\$702.07	\$754.73	\$811.33	\$872.18
Murrurundi	\$618.05	\$664.41	\$714.24	\$767.81	\$825.40
Scone	\$1,186.39	\$1,275.37	\$1,371.02	\$1,473.85	\$1,584.39
Ordinary (Land classified as residential outside townships i.e. lifestyle blocks)	\$1,093.47	\$1,175.48	\$1,263.64	\$1,358.41	\$1,460.29
Business					
Aberdeen	\$1,235.90	\$1,328.59	\$1,428.23	\$1,535.35	\$1,650.50
Merriwa	\$797.07	\$856.85	\$921.11	\$990.19	\$1,064.45
Murrurundi	\$986.79	\$1,060.80	\$1,140.36	\$1,225.89	\$1,317.83
Scone	\$1,816.20	\$1,952.41	\$2,098.84	\$2,256.25	\$2,425.47
Ordinary (Land not classified as Farming, residential or mining outside of townships)	\$793.68	\$853.21	\$917.20	\$985.99	\$1,059.94
Mining	\$143,527.52	\$154,292.08	\$165,863.99	\$178,303.79	\$191,676.57

Table 14 - Cumulative increase in rate breakdown for each category Option 1

	2025/26	2026/27	2027/28
	10.00%	10.00%	10.00%
Farmland			
IPART increase	\$154.10	\$300.95	\$439.39
SRV increase	\$262.39	\$573.68	\$939.19
Total	\$416.49	\$874.63	\$1,378.58
Residential			
Aberdeen			
IPART increase	\$24.73	\$48.29	\$70.50
SRV increase	\$42.10	\$92.05	\$150.70
Total	\$66.83	\$140.34	\$221.21
Cassilis			
IPART increase	\$21.04	\$41.10	\$60.00
SRV increase	\$35.83	\$78.34	\$128.25
Total	\$56.87	\$119.43	\$188.25
Merriwa			
IPART increase	\$24.16	\$47.19	\$68.90
SRV increase	\$41.14	\$89.96	\$147.27
Total	\$65.31	\$137.15	\$216.17
Murrurundi			
IPART increase	\$22.87	\$44.66	\$65.20
SRV increase	\$38.94	\$85.13	\$139.37
Total	\$61.81	\$129.79	\$204.57
Scone			
IPART increase	\$43.90	\$85.73	\$125.16
SRV increase	\$74.74	\$163.42	\$267.53
Total	\$118.64	\$249.14	\$392.70
Lifestyle Blocks			
IPART increase	\$40.46	\$79.01	\$115.36
SRV increase	\$68.89	\$150.62	\$246.58
Total	\$109.35	\$229.63	\$361.94
Business			
Aberdeen			
IPART increase	\$45.73	\$89.30	\$130.38
SRV increase	\$77.86	\$170.24	\$278.70
Total	\$123.59	\$259.54	\$409.08
Merriwa			
IPART increase	\$29.49	\$57.59	\$84.09
SRV increase	\$50.22	\$109.79	\$179.74
Total	\$79.71	\$167.38	\$263.83
Murrurundi			
IPART increase	\$36.51	\$71.30	\$104.10
SRV increase	\$62.17	\$135.92	\$222.52
Total	\$98.68	\$207.23	\$326.63
Scone			
IPART increase	\$67.20	\$131.23	\$191.61
SRV increase	\$114.42	\$250.17	\$409.56
Total	\$181.62	\$381.40	\$601.16

Table 15 - Cumulative increase in rate breakdown for each category Option 2

	2025/26	2026/27	2027/28	2028/29
	7.50%	7.50%	7.50%	7.50%
Farmland				
IPART increase	\$154.10	\$300.95	\$439.39	\$568.31
SRV increase	\$158.27	\$347.21	\$569.75	\$828.88
Total	\$312.37	\$648.16	\$1,009.14	\$1,397.19
Residential				
Aberdeen				
IPART increase	\$24.73	\$48.29	\$70.50	\$91.19
SRV increase	\$25.40	\$55.71	\$91.42	\$133.00
Total	\$50.12	\$104.00	\$161.93	\$224.19
Cassilis				
IPART increase	\$21.04	\$41.10	\$60.00	\$77.60
SRV increase	\$21.61	\$47.41	\$77.80	\$113.19
Total	\$42.65	\$88.51	\$137.80	\$190.79
Merriwa				
IPART increase	\$24.16	\$47.19	\$68.90	\$89.12
SRV increase	\$24.82	\$54.45	\$89.34	\$129.98
Total	\$48.98	\$101.64	\$158.24	\$219.09
Murrurundi				
IPART increase	\$22.87	\$44.66	\$65.20	\$84.33
SRV increase	\$23.49	\$51.52	\$84.55	\$123.00
Total	\$46.35	\$96.18	\$149.75	\$207.34
Scone				
IPART increase	\$43.90	\$85.73	\$125.16	\$161.89
SRV increase	\$45.08	\$98.91	\$162.30	\$236.11
Total	\$88.98	\$184.63	\$287.46	\$398.00
Lifestyle Blocks				
IPART increase	\$40.46	\$79.01	\$115.36	\$149.21
SRV increase	\$41.55	\$91.16	\$149.59	\$217.62
Total	\$82.01	\$170.17	\$264.94	\$366.83
Business				
Aberdeen				
IPART increase	\$45.73	\$89.30	\$130.38	\$168.64
SRV increase	\$46.96	\$103.03	\$169.07	\$245.97
Total	\$92.69	\$192.34	\$299.45	\$414.61
Merriwa				
IPART increase	\$29.49	\$57.59	\$84.09	\$108.76
SRV increase	\$30.29	\$66.45	\$109.04	\$158.63
Total	\$59.78	\$124.04	\$193.13	\$267.39
Murrurundi				
IPART increase	\$36.51	\$71.30	\$104.10	\$134.65
SRV increase	\$37.50	\$82.27	\$134.99	\$196.39
Total	\$74.01	\$153.57	\$239.10	\$331.04
Scone				
IPART increase	\$67.20	\$131.23	\$191.61	\$247.82
SRV increase	\$69.02	\$151.41	\$248.45	\$361.46
Total	\$136.22	\$282.65	\$440.06	\$609.28

Council made a comparison with the average annual general rate by category with other neighbouring “like” councils to ensure that the final general rate for each option was still comparable to those “like” Councils, as shown in the following tables 16 and 17 for each SRV option.

Table 16 - Option 1 – 10% for three (3) years – a permanent cumulative effect of 33.10%

Average general rate at the end of the SRV period - 2027/2028 year

Rating Category	UHSC	Singleton	Muswellbrook	Dungog	Liverpool Plains	Warrumbungles	Mid Western
Residential	\$1,297.92	\$1,443.26	\$1,153.12	\$1,778.75	\$1,125.07	\$767.18	\$1,191.77
Business	\$1,594.13	\$2,978.50	\$3,346.81	\$1,843.89	\$1,969.25	\$2,107.91	\$2,650.94
Farmland	\$5,543.47	\$2,961.52	\$3,743.66	\$4,548.26	\$6,558.71	\$3,912.32	\$3,102.82
Mining	\$191,035.13	\$298,443.14	\$1,393,847.46	N/A	\$163,150.06	N/A	\$1,869,881.89

Table 17 - Option 2 – 7.50% for four (4) years – a permanent cumulative effect of 33.55%

Average general rate at the end of the SRV period - 2028/2029 year

Rating Category	UHSC	Singleton	Muswellbrook	Dungog	Liverpool Plains	Warrumbungles	Mid Western
Residential	\$1,302.28	\$1,483.67	\$1,185.41	\$1,828.55	\$1,156.57	\$788.66	\$1,225.14
Business	\$1,599.48	\$3,061.90	\$3,440.52	\$1,895.51	\$2,024.38	\$2,166.93	\$2,725.16
Farmland	\$5,562.07	\$3,044.44	\$3,848.48	\$4,675.61	\$6,742.36	\$4,021.87	\$3,189.70
Mining	\$191,676.57	\$306,799.54	\$1,432,875.19	N/A	\$167,718.26	N/A	\$1,922,238.59

Capacity to Pay Analysis

Census data for 2021 identified that for the Upper Hunter Shire region that the median total household weekly income was \$1,429.

Further analysis was completed from the 2021 census data which identified that the average household income which indicated that approximately 50% of households within the region achieved a household income meeting or exceeding the median level.

Tables 18 and 19 show the impact on households relative to household income and household rental amounts in 2021.

Table 18 - Household income levels (ABS 2021)

Level of household Income	Family number of households	Non-family number of households(b)	Total number of households	Cumulative number of households	Inverse Cumulative percent for number of households	SRV increase (\$4 / week) represented as a percentage of household weekly income
Negative/Nil income	56	62	123	123	98%	
\$1-\$149	29	25	47	170	97%	5.33%
\$150-\$299	27	71	99	269	95%	2.67%
\$300-\$399	24	110	132	401	92%	1.33%
\$400-\$499	82	327	410	811	84%	1.00%
\$500-\$649	81	182	262	1,073	79%	0.80%
\$650-\$799	289	105	393	1,466	71%	0.62%
\$800-\$999	190	139	335	1,801	64%	0.50%
\$1,000-\$1,249	234	183	411	2,212	56%	0.40%
\$1,250-\$1,499	321	102	423	2,635	48%	0.32%
\$1,500-\$1,749	192	76	271	2,906	42%	0.27%
\$1,750-\$1,999	207	67	272	3,178	37%	0.23%
\$2,000-\$2,499	460	118	581	3,759	25%	0.20%
\$2,500-\$2,999	350	14	360	4,119	18%	0.16%
\$3,000-\$3,499	283	26	309	4,428	12%	0.13%
\$3,500-\$3,999	185	0	184	4,612	8%	0.11%
\$4,000 or more	390	27	411	5,023	0%	0.10%
Total	3,400	1,634	5,023			
Partial income stated(c)	310	24	337			
All incomes not stated(d)	55	80	136			

The general rate increase on the average residential household by the final year of the Option 1 SRV of 10% over 3 years will be \$323 or \$6.21 per week and for the Option 2 SRV of 7.5% over 4 years will be \$327 or \$6.29 which, based on the median household income of \$1,429, is approximately 0.43% and 0.44% respectfully.

Therefore, the likely additional average general rate increase by the final year of the SRV options, above normal rate peg recommended by IPART, for residential households as a result of the SRV, will be in the vicinity of \$4 per week above the assumed rate peg which, based on the median household income of \$1,429 is approximately 0.28% of total household income.

The real percentage impact is less due to likely wage increases since the census data collection.

Table 19 - ABS data on rent amounts in Upper Hunter in 2021

Rent range	Real estate agent	State or territory housing authority	Community housing provider	Person not in same household(c)	Other landlord type(d)	Not stated	Total	Median rent	inverse cumulative percentage	\$4 / week represented as a percentage of rent
\$1-\$74	4	0	0	3	3	0	16	\$37.50	99%	10.7%
\$75-\$99	0	0	4	0	0	0	9	\$87.00	98%	4.6%
\$100-\$149	20	17	16	24	13	0	90	\$124.50	91%	3.2%
\$150-\$199	49	37	16	47	16	0	157	\$174.50	80%	2.3%
\$200-\$224	54	13	5	42	8	0	125	\$212.00	70%	1.9%
\$225-\$274	149	21	4	46	12	4	239	\$249.50	52%	1.6%
\$275-\$349	222	15	3	81	13	0	327	\$312.00	28%	1.3%
\$350-\$449	127	13	6	41	9	0	195	\$399.50	13%	1.0%
\$450-\$549	34	0	0	22	7	0	61	\$499.50	9%	0.8%
\$550-\$649	4	0	0	0	0	0	8	\$599.50	8%	0.7%
\$650-\$749	0	0	0	0	0	0	3	\$699.50	8%	0.6%
\$750-\$849	0	0	0	0	0	0	0	\$799.50	8%	0.5%
\$850-\$949	0	0	0	0	0	0	0	\$899.50	8%	0.4%
\$950 and over	0	0	0	6	0	0	9	\$975.00	7%	0.4%
Rent not stated	14	5	7	27	61	0	99	\$1,001.00	0%	0.4%
Total	675	125	45	338	149	10	1,329			

Rental amounts in the Upper Hunter sourced from the ABS data for the 2021 Census indicate that the majority of rents fall between \$150 per week and \$550 per week with a median amount of approximately \$225 per week. An indicative rate increase of \$4 / week in the final year of operation of both options, if fully passed on from the landlord to the tenant, will result in a 1.8% increase in the final year. Over 80% of tenants will be impacted by less than 2.3%.

The real percentage impact is less due to likely rent increases since the census data collection.

What do the proposed SRV options mean for Council?

With the proposed SRV Council will be able to keep pace with the general inflationary cost of doing business and providing services to the community.

Currently Council has been faced with the increasing cost of inflation on construction materials, contractor services, employee award wages, utilities (such as insurance & electricity) etc. which has created a hindrance to deliver a satisfactory service to the community.

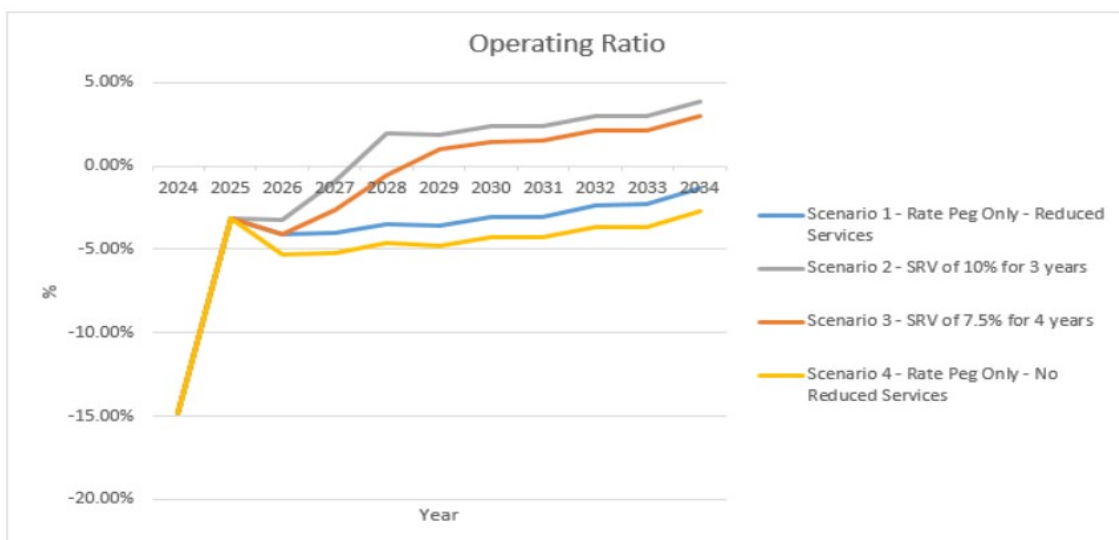
The SRV will provide Council with the necessary revenue streams for financial sustainability over the next 10 years whilst maintaining and improving the level of service to the community in order to provide the essential pillar stones of Council's operations being quality infrastructure, vibrant connected community and thriving economy.

The following ratios depict the effects of the SRV on Council given the maintaining of levels of service at their current levels into the next 10 years.

Operating Ratio

Currently Council has maintained a negative operating ratio over the last 5 years which indicates with the continued trend that availability of funds to deliver services will be impossible. With the proposed SRV Council's operating ratio is expected to be positive from 2027 year with option 1 of 10% SRV over 3 years and 2028 year with option 2 of 7.5% SRV over 4 years. If no SRV is approved the operating ratio will remain negative for the next 10 years meaning that to return to a positive position will require the reduction in services. Figure 7 shows the return to a positive operating ratio over the 10 year forecast period.

Figure 7 - Operating ratio forecast for 10 years



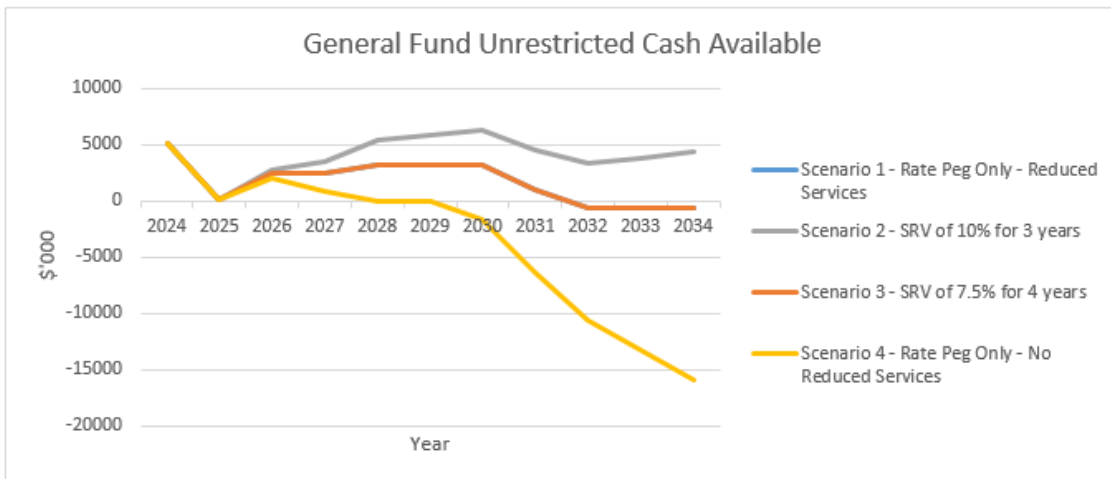
Cash reserves

Council's level of available unrestricted cash reserves are quite limited due to recent requirements to maintain the level of services for community during the high inflationary effects over the last 3 years.

To maintain positive unrestricted cash reserves whilst maintaining the level of services to the community, the implementation of an SRV is paramount to financial survival.

Figure 8 indicates that Council is able to maintain a positive level of cash reserves over the next 10 years with an SRV for option 1 of 10% over 3 years providing estimated cash reserves of \$5.86 million by 2034 and SRV for option 2 of 7.5% over 4 years providing estimated cash reserves of \$0.96 million by year 2034 which isn't ideal. However, the effects of no SRV will place Council in an unsustainable financial position of a negative cash position of \$18.87 million which ultimately means that Council will be required to reduce the levels of service to the Community to maintain a positive cash balance over the next 10 years.

Figure 8 - Cash available forecast for 10 years



It was noted that for Scenario 1 (blue) and 3 (orange) run on the same line trajectory for cash availability, therefore both are on the same orange line in the graph.

Infrastructure Ratios

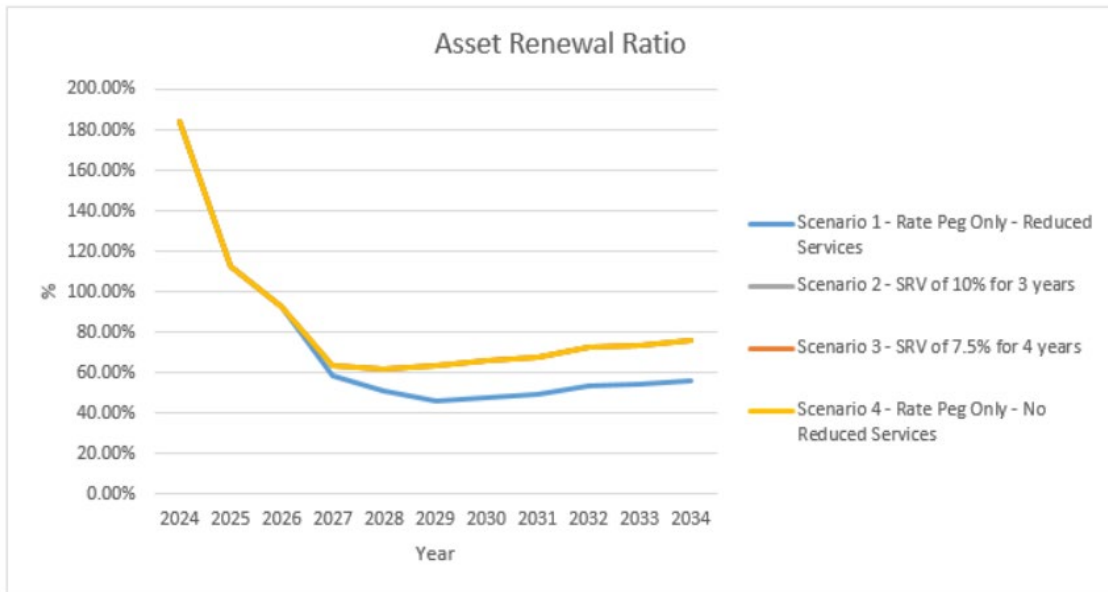
The next set of graphs effectively show the level of asset renewals, asset maintenance and backlog ratios effectively mirroring each other for the no SRV Rate Peg, SRV of 10% over 3 years and SRV of 7.5% over 4 years as the Long Term Financial Plan model has been utilised that same expenditure regimes in order to maintain the level of services to the community.

Asset renewals

As can be seen in the renewal ratio (figure 9) a major drop is experienced from the 2025 year to the 2028 year which is caused by the removal of the government infrastructure stimulus funding resulting in Council effectively becoming more self-sufficient in delivering its renewal programs.

Improvement in the renewal ratio can be seen from 2028 to 2034 as the use of the proposed SRV funds come into play with Council increasing its levels of renewals year on year.

Figure 9 - Asset renewal ratio forecast for 10 years



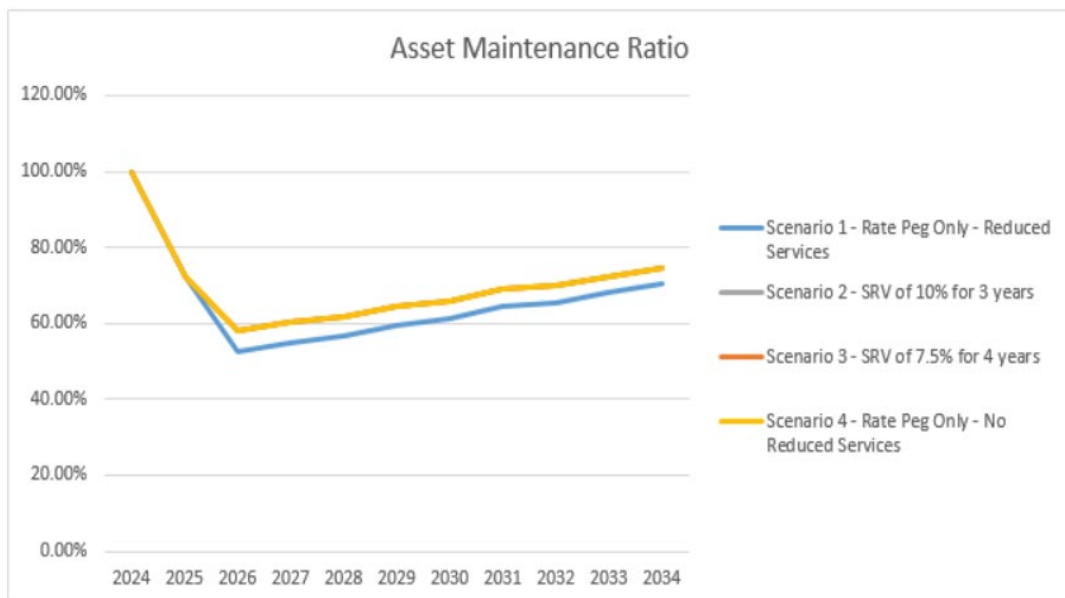
It was noted that for Scenario 2 (grey), 3 (orange) and 4 (yellow) run on the same line trajectory for asset renewal ratio, therefore both are on the same yellow line in the graph.

Asset maintenance

Similar to the asset renewal ratio the asset maintenance ratio also shows a major drop from the 2025 year to the 2028 year (fig 10) which is caused by the removal of the government flood damage funding resulting in the return of Council to effectively utilising its own funds in delivering its maintenance programs.

Improvement in the maintenance ratio can be seen from 2028 to 2034 as the use of the proposed SRV funds come into play with Council increasing its levels of renewals year on year.

Figure 10 - Asset maintenance ratio forecast for 10 years



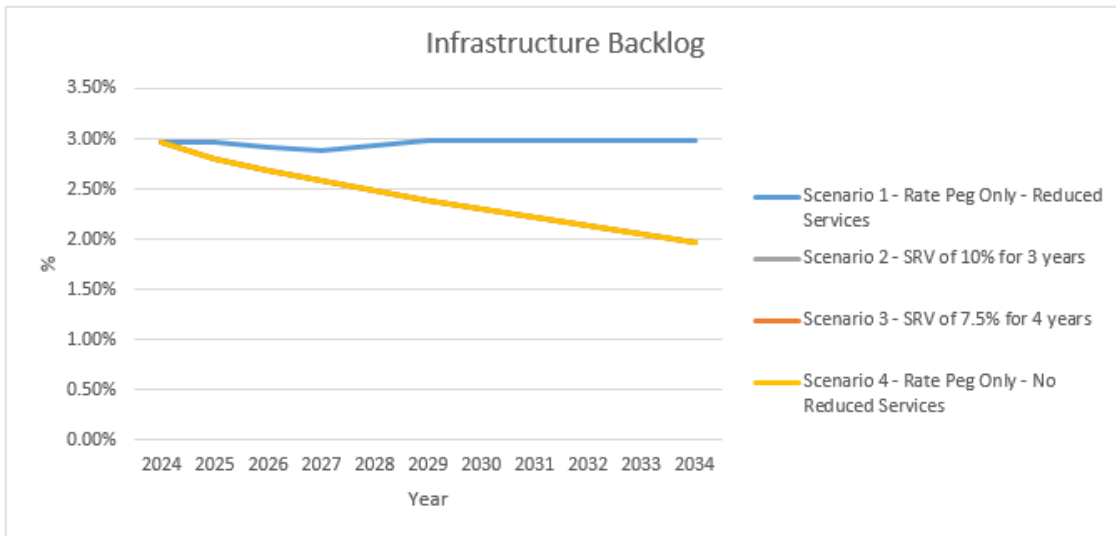
It was noted that for Scenario 2 (grey), 3 (orange) and 4 (yellow) run on the same line trajectory for asset maintenance ratio, therefore both are on the same yellow line in the graph.

Infrastructure Backlog

Council has a focus on the level of maintenance required to improve its backlog ratio. With the utilisation of the flood damage funding improvement will be seen from the current levels held from the 2023 year before this major parcel of works were undertaken.

Council through the improved levels of the asset renewal and asset maintenance ratios a steady improvement over the 10 year period to 2034 can be seen (fig 11), excluding any other extreme weather event occurring.

Figure 11 - Infrastructure backlog forecast for 10 years



It was noted that for Scenario 2 (grey), 3 (orange) and 4 (yellow) run on the same line trajectory for infrastructure backlog, therefore both are on the same yellow line in the graph.

What other councils have applied for Special Rate Variations recently?

Councils regularly make applications for rate variations each year to IPART. Across NSW this can vary from 5 to 20 in any one year. Recent applications from councils in the Hunter Valley is depicted in table 20. Some councils have made multiple applications in this period. Each line represents a separate application period. The figures show the percentage increase granted in the respective years of the table.

Table 20 – Applications for Special Rate Variations since 2012 for Hunter Valley Councils

Special Rate Variation Summary															
	SRV #	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Cessnock	1		9.45												
	2			9.55											
Dungog	1								15	15	10	10	10		
Lake Macquarie	2	10.44	10.34	9.77	7.95	7.29	6.75	4.75							
Liverpool Plains	1			12.5											
	2									8	8		18.1		
Maitland	1			7.25	7.25	7.25	7.25	7.25	7.25	7.25					
Mid Coast (Great Lakes)	1		13.92												
	2			2.32											
	3						4.25	4.25	4.25						
Mid Coast (Taree)	1			7.3											
	2					6.9	6.9	6.9	6.9	6.9	6.9				
Mid Coast (Gloucester)	1				13	13	13								
Port Stephens	1		3.47												
	2			2.34											
	3				2.44										
	4												9.5	9.5	9.5
Muswellbrook	1	7.6													
	2							14.73							
	3								15.13						
Newcastle	1	8.6													
	2			3.05											
	3				8	8	8	8	8						
Singleton	1			7.3											
	2					9.75	9.75	9.75	9.75						
Upper Hunter	1		5.9	5.5	5.5										
	2							unsuccessful							

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>.