IPART
Independent Pricing and Regulatory Tribunal
New South Wales

SPECIAL VARIATION APPLICATION
ARMIDALE REGIONAL COUNCIL
FROM 2021-22

Final Report

May 2021

ISBN 978-1-76049-487-2

The Independent Pricing and Regulatory Tribunal (IPART)

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1 Executive Summary

Armidale Regional Council (the council) has experienced considerable change since amalgamation in 2016. The council was suspended on 12 June 2020 and an interim administrator was appointed until 11 December 2020.[i] A Performance Improvement Order was issued on 9 December 2020 by the Minister for Local Government. The council has applied to increase its general income, through a special variation (SV) of 10.5% (inclusive of the rate peg) in 2021-22.[ii] This SV will replace an existing SV of similar size, due to expire on 30 June 2021.[iii]

IPART has approved the council's application to increase its general income by 10.5% (inclusive of the rate peg) in 2021-22 and the council can retain this increase in its rate base permanently.

Impact on council's income

Purpose

- Improve financial sustainability
- Provide asset renewal funding
- Ensure delivery of existing services
- Meet Performance Improvement Order requirements

$16.9m

Additional income above the rate peg over the next ten years

The additional revenue will help improve the council's financial sustainability, fund asset renewals, maintain service levels and address the requirements of its Performance Improvement Order. Concurrently from 1 July 2021, the council will also harmonise its rates across the former Armidale Dumaresq (Armidale) and Guyra Shire (Guyra) councils so that rating structures across the new council will be consistent. Due to variances in rates between the former council areas, the combined impact of the SV and rate harmonisation will mean the ratepayer impacts will be different.

Impact on rates

	Residential	Business	Agriculture	Mining
Armidale	+2.3%	+1.7%	-11.1%	-6.0%
Guyra	+5.4%	+9.6%	+27.7%	N/A

We assessed the council's application against the Guidelines issued by the Office of Local Government and determined it met the criteria.

Demonstrated

Financial Need

The council has demonstrated the financial need for the SV, which will replace the lost income from the expiring SV. However, the council will still not be financially sustainable in the long term.

Largely demonstrated

Community awareness

The council used a wide range of consultation methods. However, it did not sufficiently disclose the full cumulative impact of the SV, including the catch-up amount that is to be applied in 2021-22.

Demonstrated

Reasonable impact on ratepayers

The council assessed the impact of the SV on its ratepayers by comparing its rates with other similar councils and examining socioeconomic data for its area. The increase will essentially be only the 2% rate peg and the council concluded ratepayers could afford the rates.

Demonstrated

IP&R documentation

The council has appropriately exhibited and adopted its IP&R documents.

Demonstrated

Productivity Improvement and Cost Containment

The council has implemented various productivity and cost containment strategies in the past and has proposed strategies for future savings.

2 Armidale Regional Council's application

The council has applied for an SV to increase its general income by 10.5% in 2021-22.[iv] The application is for the increase to remain permanently in its rate base. Although the council has applied for an SV of 10.5%, the year on year change in rates proposed is 2.6% after accounting for the expiring SV and catch up provisions. The council indicated that the increase would be applied uniformly at 2.6% across all rating categories.[v]

This year, 2021, is the first year that councils that were amalgamated in 2016 can apply for a special variation, due to a NSW Government policy to freeze rates for 4 years (subsequently extended for another year). All merged councils must also harmonise their former councils' rating structure from July 2021. Rate harmonisation results in a revenue neutral position for the council, that is, it will not provide additional revenue above the rate peg, although rates for different rating categories may increase or decrease differently.

The council will harmonise rates across its local government area (LGA), to be effective from 1 July 2021.

At the same time, the requested SV will replace an existing SV due to expire on 30 June 2021. The former Armidale Dumaresq Council was approved an SV in 2014-15 of 12.3%, for the purpose of renewing its existing infrastructure.[vi] The SV was approved to remain temporarily in the council's rate base for a period of 7 years. The council currently reports on the SV in its annual reports, including the purpose of the SV, the amount spent and what this was spent on.[vii]

2.1 Purpose

The purpose of the proposed SV is to provide revenue and funding to enable the council to:

- improve its financial sustainability
- provide funding for asset renewal to assist with managing its asset backlog
- assist it to continue delivering its existing services
- meet the requirements of the Minister for Local Government's Performance Improvement Order issued in December 2020
- manage impacts from external factors such as the COVID-19 pandemic, bushfires and floods, on its budgeted financial position.[viii]

2.2 Need

The council is applying for the proposed SV to retain income that would otherwise be lost when its existing SV expires on 30 June 2021.[ix] This income would partially address the council's need to fund its asset renewals, maintain its service levels and improve financial sustainability.

As well, the council must meet recommendations made by a review of its finances under its Performance Improvement Order, by 4 September 2021.[x] The consultant, Finch Consulting made recommendations that amongst other things, require the council to:

- adopt surplus budgets that ensure financial sustainability over the longer term
- adopt a Reserves policy that ensures a minimum of $4m to $5m is available as unrestricted cash to fund working capital requirements
- ensure appropriate governance oversight and risk monitoring of major projects and budget reporting
- ensure that quarterly budget reviews are complete, timely and accurate
- ensure that sufficient resources are provided within the organisation to address the recommendations.[xi]

2.3 Significance of proposal

The SV represents 7.7% of the council's total cumulative PGI over the next 10 year period (see Table 2.1).

Table 2.1 Permissible general income (PGI) of Armidale Regional Council from 2021-22 to 2030-31 under the proposed SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI over 10 years (%)
16.9	221.3	7.7

Note: The above information is correct at the time of the council's application 8 February 2021.

Source: Armidale Regional Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

As noted above, the council's proposed SV will replace the expiring SV, therefore there will be no impact on ratepayers other than the annual rate peg increase of 2% and a 0.6% catch-up amount from the permissible income returns for the year ending 30 June 2021.[1]

The council stated that the rates are affordable, as effectively ratepayers would only face the 2% rate peg increase. The council's research also showed its average residential, business and mining rates are comparatively lower than the average rate for OLG Group 4 councils and its SEIFA ranking is the highest at 87 compared to similar Local Government Areas.[xii]

2.4 Resolution by the council to apply for a special variation

The council resolved to apply for the proposed SV on 27 January 2021. All councillors were in favour of the resolution.[xiii]

1 Under Section 511 of the *Local Government Act 1993* (the Act), councils are allowed to apply a catch up of shortfall in general income. They are allowed to apply the catch up amount for any one or more of the next 10 years after the year for which the shortfall occurred. Armidale Regional Council had a total catch up amount of $89,294 that it chose to apply in the proposed SV year.

3 IPART's approach to assessment and community engagement

IPART assesses special variation applications from councils under delegation from the Minister for Local Government, under s506, s508 and s508A of the *Local Government Act 1993*. As part of our process we accept written submissions from interested stakeholders from the time councils first notify us of their intention to apply for a special variation, until three weeks after applications have been received.

3.1 Criteria for assessing council applications

The criteria for assessing applications are set by the Office of Local Government in special variation guidelines (the OLG Guidelines).[xiv] The guidelines are intended to help councils in preparing an application to increase general income, by means of a special variation.

A special variation allows a council to increase its general income above the rate peg. Special variations can be either for a single year or for multiple years and can be temporary or permanent.

IPART applies the criteria in the guidelines to assess councils' applications. In brief, the six criteria for a special variation include:

- the need for, and purpose of a different revenue path for the council's General Fund must be clearly set out and explained in the council's IP&R documents
- there must be evidence that the community is aware of the need for and extent of a proposed rate rise
- the impact on affected ratepayers must be reasonable
- the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
- the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
- any other matter that IPART considers relevant.

More detail on the criteria is available in Appendix A and the OLG Guidelines. We also provide comprehensive guidance on our approach to assessing special variation applications in fact sheets and information papers available on our website. Additionally, we publish information for councils on our expectations of how to engage with their community on any proposed rate increases above the rate peg.

3.2 Stakeholder submissions to IPART

In the first instance, we expect councils to be responsible for engaging with their communities so that ratepayers are fully aware of any proposed special variations and the full impact on them. This is one of the criteria we use to assess council applications as outlined above.

However, as part of our process, we also accept written submissions directly from stakeholders. Our submission portal is accessible to stakeholders from the time councils first notify us of their intention to apply for a special variation, until three weeks after applications have been received.

We consider all stakeholder submissions as well as all information received from councils in making our final decision on each special variation application.

3.2.1 Summary of submissions received by IPART for Armidale Regional Council

IPART received 57 submissions during the consultation period from 1 December 2020 to 7 March 2021 from ratepayers. Of these 57 submissions, there were 54 opposing the rate increase, 2 supporting it and 1 submission that was unclear.

The key issues and views raised in these submissions were:

- concerns over the financial mismanagement of funds by the council
- the negative impacts of natural disasters (such as droughts, floods and the Coronavirus pandemic) that are already causing issues for the community
- concerns over the affordability of the proposed SV in conjunction with other rate increases such as to water charges
- the impact of the proposed SV in conjunction with the rates harmonisation process
- concerns over the rising unemployment rate and closing down of major businesses within the community
- that the council should look at ways to become more efficient and find cost savings instead of increasing rates
- the lack of services and infrastructure maintenance provided by the council.

See Chapter 4 for further discussion on submissions to IPART and how they have been considered as part of our assessment of the council's application.

4 IPART's special variation assessment

To make our decision, we assessed the council's application against the criteria in the OLG Guidelines as outlined in Chapter 3.

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the SV proposed.

4.1 Our special variation assessment

We found that overall the council's application meets the requirements of the criteria, as set out in the OLG Guidelines.

We found that the council has clearly demonstrated its financial need for the proposed SV and clearly communicated this in its IP&R documents as required under Criterion 1 of the OLG Guidelines. These documents include its Delivery Program and attached addendum with the Long Term Financial Plan (LTFP).

The purpose and need for the proposed SV is to improve the council's financial sustainability, reduce its infrastructure backlog, maintain service levels and implement the requirements under the Performance Improvement Order issued by the Minister for Local Government in December 2020. Its IP&R documents demonstrated that it will achieve a better financial position under the proposed SV scenario compared to the baseline scenario. However, even with the proposed SV, the council will not meet OLG's financial benchmarks in 10 years' time.

As required under Criterion 2, the council has engaged with the community to communicate the extent of a rate rise in dollar terms for each ratepayer category. It disclosed the cumulative increase of the proposed SV in percentage terms but did not disclose a small 0.6% catch-up amount.[xv] While councils are not required to communicate when a catch-up is applied, explaining this amount may have avoided some confusion.

Criterion 3 requires the council to consider the impact on affected ratepayers. The council demonstrated it considered the affordability of the proposed SV to its ratepayers. The council has considered factors such as its SEIFA ranking, household income, outstanding rates and average rates of its LGA compared to other neighbouring councils.

The council also appropriately exhibited and subsequently adopted its IP&R documents as required under Criterion 4 of the OLG Guidelines.

Criterion 5 requires the council to consider productivity improvements and other cost containment strategies. The council reported that it has achieved savings of approximately $6.2 million through cost cutting, a review of revenue streams and disposal of surplus land.

The rest of this chapter will provide further details on our assessment against these criteria.

4.2 Financial need for the proposed special variation

This criterion examines the council's financial need for the proposed SV. The OLG Guidelines require the council to clearly articulate and identify the need for, and purpose of, a different revenue path for its General Fund. This includes that:

- the council sets out the need for and purpose of the proposed SV in its IP&R documents, including its Delivery Program, LTFP and Asset Management Plan where appropriate
- relevant IP&R documents should canvas alternatives to the rate rise
- the council may include evidence of community need/desire for service levels or projects.

IPART uses information provided by the council in its application to assess the impact of the proposed SV on the council's financial performance and financial position, namely the council's forecast operating performance and net cash (debt).

Where relevant, IPART also uses information provided by the council to assess its need for the proposed SV to reduce its infrastructure backlog and/or increase its infrastructure renewals, by assessing the council's infrastructure backlog ratio and infrastructure renewals ratio.

Generally, we would consider a council with a consistent operating surplus to be financially sustainable. The council's forecast operating result shows whether the income it receives covers its operating expenses each year. We consider that the most appropriate indicator of operating performance is the Operating Performance Ratio (OPR).

The OPR measures whether a council's income funds its costs and is defined as:

$$OPR^{2} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the council's application and LTFP (where appropriate), we calculate forecasts under three scenarios:

1. **The Proposed SV Scenario –** which includes the council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
3. **Baseline with SV expenditure Scenario** – which includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.

2 Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

We consider that a council's average OPR over the next 10 years should be 0% or greater, as this is typically the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV. We note that other factors, such as the level of borrowings and/or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.

While the OPR is a good guide to a council's ongoing financial performance (or sustainability), we may also consider a council's financial position, and in particular its net cash (or net debt).[3] This may inform us as to whether the council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the council's net cash position in 2020-21 and as a percentage of income to gauge its financial position.

We note the OPR is a measure of the council's financial performance, measuring how well a council contains its operating expenditure within its operating income. As the ratio measures net operating results against operating revenue, it does not include capital expenditure. That is, a positive ratio indicates operating surplus available for capital expenditure. Therefore, we also further consider the impact of the proposed SV on the council's infrastructure ratios, where relevant to the council's application.

Where relevant, we consider the council's infrastructure backlog ratio, which measures the council's backlog of assets against its total written down value of its infrastructure. The benchmark set by OLG for the ratio is less than 2%.[xvi] It is defined as:

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets}$$

where the carrying value of infrastructure assets is the historical cost less accumulated depreciation.

4.2.1 Assessment of the council's IP&R documents and alternatives to the rate rise

We found that the council's relevant IP&R documents clearly set out the need for and purpose of the special variation. For example:

- the Delivery Program clearly outlined the need for an SV to "address the shortfall in funding for the maintenance and renewal of community infrastructure" and to allow the council to be financially sustainable[xvii]
- the LTFP also outlined the need for an SV to address the need for financial sustainability and asset renewal funding.[xviii]

The council has considered alternative options to applying for the special variation, which are clearly outlined in the IP&R documents. This includes:

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3 Net debt is the book value of the Council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the Council has on its balance sheet if it pays all its debt obligations with its existing cash balances. Over time, a change in net debt is an indicator of the Council's financial performance and sustainability on a cash basis.

- finding the necessary funding from general revenue
- implementing new and increasing existing user charges and fees
- taking out new loans
- using cash reserves
- making applications for grant funding.

The council decided that the proposed SV would provide the most feasible funding source. The council will lose approximately $1.5 million per annum from the discontinuation of its expiring SV on 30 June 2021.[xix] Without an SV to replace this revenue, the council would face a decrease in service levels, increased pressure on financial sustainability and further deterioration of assets.

To mitigate the extent of the SV needed, the council has already realised $2 million in ongoing savings and currently has $19 million in loans to its general fund.[xx]

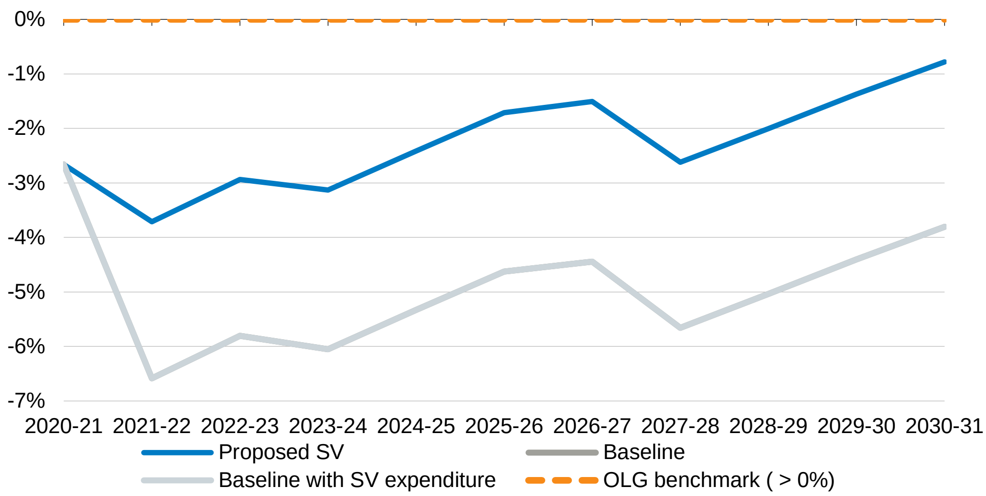
4.2.2 Assessment of the impact of the proposed SV on the council's financial performance and position

Under the Proposed SV Scenario, the council forecasts its operating performance ratio (OPR) will reach -0.8% by 2030-31. The cumulative value of the forecast operating deficits (before capital grants and contributions) is $13.4 million to 2030-31.[xxi] The SV revenue would allow the council to maintain its current service levels and replace the lost revenue incurred from its current expiring special variation. However the proposed SV will still not allow the council to meet the OLG benchmark of a break-even or 0% OPR by 2030-31.

Without the proposed SV and assuming the council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts slower improvements in operating results, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The cumulative value of these forecast operating deficits (before capital grants and contributions) is $30.8 million to 2030-31 under this scenario.

Under both the Baseline with SV expenditure Scenario, and the Baseline Scenario, the council has forecast an OPR of -3.8% by 2030-31. This is due to the loss of the expiring temporary special variation. Although the proposed SV provides a better outcome than the baseline scenarios, the proposed SV may not be sufficient to allow the council to dramatically improve its financial sustainability by 2030-31. Refer to Figure 4.1 and Table 4.1 below for further details.

Figure 4.1 Armidale Regional Council's Operating Performance Ratio (%) excluding capital grants and contributions 2020-21 to 2030-31)



Data source: Armidale Regional Council, *Application Part A*, Worksheet 8 and IPART calculations.[4]

Table 4.1 Projected operating performance ratio (%) for Armidale Regional Council's proposed SV application (2021-22 to 2029-30)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Proposed SV	-3.7	-2.9	-3.1	-2.4	-1.7	-1.5	-2.6	-2.0	-1.4	-0.8
Baseline	-6.6	-5.8	-6.1	-5.3	-4.6	-4.4	-5.7	-5.0	-4.4	-3.8
Baseline with SV expenditure	-6.6	-5.8	-6.1	-5.3	-4.6	-4.4	-5.7	-5.0	-4.4	-3.8

Source: Source: IPART calculations based on Armidale Regional Council, *Application Part A*, Worksheet 8.

Our analysis indicates that over the next five years, the council's financial performance under each scenario results in an average OPR of:

- -2.8% under the Proposed SV Scenario
- -5.7% under the Baseline Scenario
- -5.7% under the Baseline with SV expenditure Scenario.

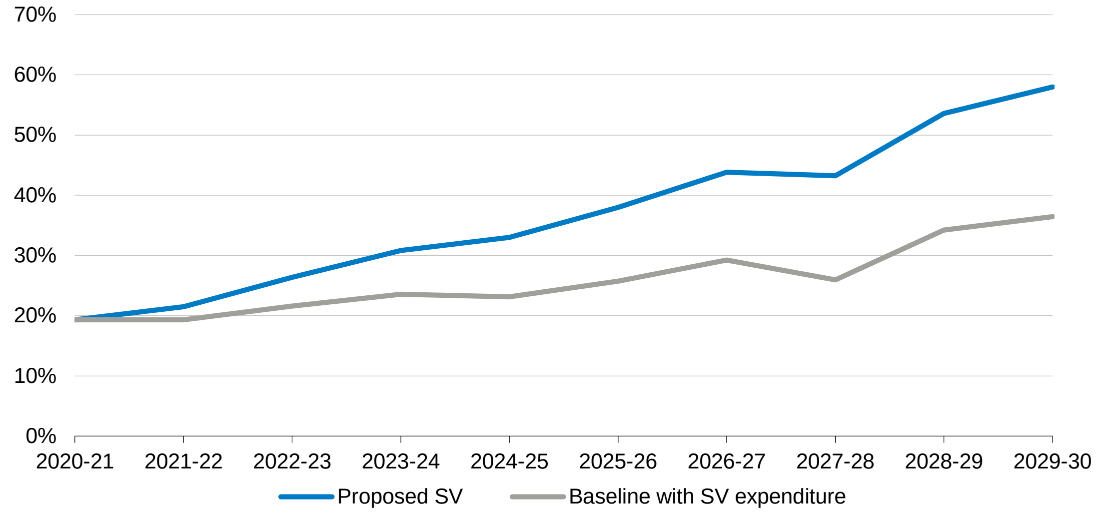
Impact on the council's net cash (debt)

We calculate the council's net cash (debt) is $10.6 million or 19.4% of income as at 30 June 2021. Over the longer term, with the proposed SV revenue, net cash would increase under the proposed SV Scenario.

[4] The Operating Performance Ratio data is the same for both the Baseline and Baseline with SV expenditure scenario, and represented by the same line in Figure 4.1.

Both with and without the proposed SV, and assuming the council's expenditure is the same as under the Proposed SV Scenario, we estimate that the net cash to income ratio would increase by 2030. As at 2030, the net cash to income ratio would be 58.0% under the Proposed SV Scenario and 36.4% under the Baseline with SV expenditure Scenario.

Figure 4.2 Armidale Regional Council's net cash (debt) to income ratio (%) (2020-21 to 2029-30)



Data source: Armidale Regional Council, *Application Part A*, Worksheet 8 and IPART calculations.

Our analysis indicates that over the next 5 years, the council's net cash to income ratio averages:

- 29.9% under the Proposed SV Scenario
- 22.7% under the Baseline with SV Expenditure Scenario.

Impact on the council's infrastructure backlog ratio

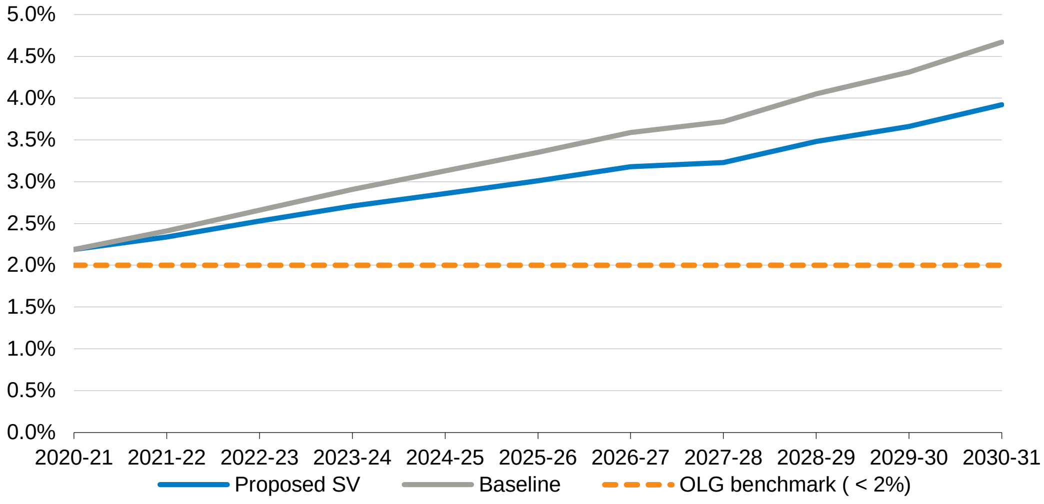
The council indicated in its application that the infrastructure backlog for its General Fund infrastructure was $10.4 million as at 30 June 2020.[xxii]

The council's infrastructure is currently valued at approximately $668 million, with assets worth around $157 million assessed as being in Condition 3 to 5.[xxiii] This indicates that about 23.5% of its infrastructure is in either poor or deteriorating condition. The council has also indicated in its application that with the proposed special variation, it would still need to implement an improvement program and seek grants to assist with funding asset renewal requirements.[xxiv] The council also estimates that under the proposed special variation, the infrastructure backlog ratio would be 2.13% as at 2019-20[xxv], which marginally exceeds the OLG benchmark of less than 2%.

Under the Proposed SV Scenario, the council's infrastructure backlog would continue to rise but at a decreasing rate compared to the Baseline Scenario (which assumes the council does not receive the SV revenue and does not go ahead with its proposed SV expenditure). Under the Proposed SV Scenario, it forecasts the infrastructure backlog ratio to increase to 3.9% in 2030-31, whereas this would be 4.7% under the Baseline Scenario. However in both scenarios, the infrastructure backlog ratio fails to meet the OLG benchmark of less than 2%.

The council's forecast backlog ratio over the next 10 years under the Proposed SV and Baseline Scenarios is shown in Figure 4.3 and Table 4.2 below.

Figure 4.3 Armidale Regional Council's projected infrastructure backlog ratio (%) (2021-22 to 2030-31)



Data source: Armidale Regional Council, *Application Part A*, Worksheet 9.

Table 4.2 Projected infrastructure backlog ratio (%) for Armidale Regional Council's proposed SV application (2021-22 to 2030-31)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Proposed SV	2.3	2.5	2.7	2.9	3.0	3.2	3.2	3.5	3.7	3.9
Baseline	2.4	2.7	2.9	3.1	3.4	3.6	3.7	4.1	4.3	4.7

Source: Armidale Regional Council, *Application Part A*, Worksheet 9.

Our analysis indicates that over the next five years, the council's infrastructure backlog ratio averages:

- 2.7% under the Proposed SV Scenario
- 2.9% under the Baseline Scenario.

Submissions from the community to IPART

IPART received 18 early submissions during the period 1 December 2020 to 12 February 2021, before the council's SV application was published on IPART's website, and received 40 submissions during the consultation period from 13 February to 7 March 2021. Of the early submissions, many respondents opposed the alternative SV consulted on by the council of 20.5%.

A vast majority of submissions commented on the council's financial mismanagement, and the affordability of the proposed SV given the impacts of the COVID-19 pandemic and other natural disasters like droughts and bushfires. Concerns were also raised around the impact of a proposed SV alongside a rates harmonisation process and increases to the council's water rates. Many submissions also suggested that the council consider cost saving methods rather than rates increases.

We have assessed the affordability of the proposed SV and determined that the proposed SV is reasonable. Our assessment of the impact on ratepayers can be found in Section 4.4. We also concluded that the council has implemented reasonable cost cutting and savings measures as seen in Section 4.6.

4.2.3 Overall assessment of the council's financial need

We found that the council demonstrated that it met this criterion.

The council demonstrated it needs the SV as under the Baseline with SV expenditure scenario, its OPR would average –5.7% over the next 5 years. Even with the SV, the council will not be able to meet OLG's financial benchmarks with its OPR ranging from –2.7% in 2020-21 to -0.8% in 2030-31.

The council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (but without the additional income from the proposed SV), its OPR would average –5.7% over the next five years, reaching -3.8% in 2030-31. This suggests that there is a financial need for the council to increase its recurrent revenue above the rate peg to be financially sustainable, if it is to proceed with the necessary expenditure outlined in its SV proposal.

Under the Proposed SV Scenario (with SV revenue and expenditure), our analysis shows that the council's OPR over the next five years averages –2.8%, reaching -0.8% in 2030-31. This does not satisfy the OLG benchmark of greater than or equal to zero. However under the Proposed SV, the OPR will gradually approach the benchmark at a faster rate than under the Baseline with SV expenditure Scenario.

We consider that the proposed SV revenue will allow the council to replace income lost from their expiring SV. However it is not sufficient to allow the council to meet financial benchmarks by 2030-31. This will potentially affect the council's ability to implement the requirements of the Performance Improvement Order issued by the NSW Minister for Local Government, which states that the council must implement improvements to its financial monitoring and reporting.[xxvi]

We forecast that the council will have a net cash position of $10.6 million at 30 June 2031. As at 30 June 2020 the council has a total of $72.2 million in cash, cash equivalents and investments:

- $60.0 million was externally restricted
- $10.0 million was internally restricted
- $2.1 million was unrestricted.

This suggests that the majority of the council's cash and investments are committed to other purposes, and are not available for discretionary use to fund part of the council's proposed SV expenditure.

Under the Proposed SV Scenario, the council forecasts its infrastructure backlog will increase to 3.9% in 2030-31. Under the Baseline Scenario, the council forecasts the infrastructure backlog ratio to increase even further to 4.7% in 2030-31. In both scenarios, the infrastructure backlog ratio is well above the 2% OLG benchmark.

Taking all factors into account, we assessed that the council has a financial need for the proposed SV, to enhance its financial sustainability and reduce its infrastructure backlog.

4.3 Community engagement and awareness

The OLG Guidelines outline consultation requirements for councils when proposing an SV application. Specifically:

- the council's Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the proposed SV. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category (see Section 4.4 for this assessment)
- the consultation should include a brief discussion of the council's ongoing efficiency measures in explaining the need for this SV
- the council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

Ultimately, we consider evidence that the community is aware of the need for, and extent of, a rate rise. That is, whether the consultation conducted by the council with ratepayers has been effective.

In this section, we assess the consultation process, including the clarity of the consultation, the timeliness of the consultation, and whether an effective variety of engagement methods were used to reach as many ratepayers as possible across all relevant rating categories.

We also examine the effectiveness of any direct community engagement and any council response to community feedback.

4.3.1 Assessment of consultation with the community

The council has published a Delivery Program, with an addendum and a fact sheet. It used these to guide and inform its consultation with the community on its proposed SV.

Process and content

The council's consultation material contained most of the elements needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. Specifically, the council communicated:

- the impact of the proposed rate increase to ratepayers in dollar terms across various categories of ratepayers
- increases with and without the rate peg across various categories of ratepayers
- the full impact of the proposed rate increase to ratepayers in cumulative percentage terms by ratepayer category
- the annual change (i.e. the rate peg increase in dollar terms), for each affected rating category
- the number of assessments and base year rate in dollar terms, for each affected rating category
- what the proposed SV would fund
- the ongoing efficiency measures it proposed to implement and its progress towards achieving these measures.[xxvii]

We noted there was some confusion about the full impact of the proposed rate increase for an average ratepayer. The council's application indicated that the total cumulative percentage increase in rates is 2.6%, which includes a catch up amount of $89,294 from the permissible income returns as at 30 June 2021.[xxviii] The catch up amount was not communicated in the council's Delivery Program and addendum. However, the council did communicate all other important information. Overall, we consider the council sufficiently communicated the impact of the proposed SV on its average residential and average business ratepayers.

Clarity

The council's consultation material was largely clear in its presentation of the proposed SV and the need for the proposed rate increase. The council engaged an external consultant, Morrison Low to prepare consultation materials and present them at the face to face meetings.[xxix] This included information on the proposed SV and rates harmonisation.

Along with face to face meetings, the consultation included a variety of pop-ups, webinars, surveys and mail-out letters, to provide further clarity for ratepayers.[xxx]

However, while the council expressed the total rate increase including the rate peg for each affected rating category, it stated a total cumulative increase of 2% instead of 2.6% in its Delivery Program and consultation materials. The discrepancy is due to the catch up amount of $89,294 previously noted.

In its notification letter and consultation material the council included several options for a proposed SV, including a permanent 20.5% increase as well as the current proposed permanent increase of 10.5%.[xxxi] This may have contributed to confusion regarding the magnitude of the council's proposed SV, with ratepayers anticipating an increase of 20.5% as it was included in the consultation process.

We note the council clearly stated it would consult on 3 options with the community, including the above 2 options and an option to discontinue the expiring SV. We consider that the council has largely communicated the impact of the proposed SV.

Timeliness

The council carried out community consultation on its proposed SV from 2 November to 10 December 2020.[xxxii] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

The council provided many opportunities for community feedback, and used a variety of methods to engage with its community, including:[xxxiii]

- a dedicated SV website (Your Say Armidale Regional Council) which included information for ratepayers on rating impacts, a range of frequently asked questions and an online forum
- mail-out letters – 10,541 letters were sent out to all ratepayers in the week commencing 9 November 2020 which included a fact sheet
- newspaper and radio advertisements – which informed ratepayers of the consultation period. There were 36 radio ads across 2AD AM and 100.3 FM
- media releases – which identified milestones
- random phone survey – conducted by an external consultant, Jetty Research, who surveyed 405 residents
- physical displays at the council – which included information and brochures at the customer service areas
- printed advertisements – on Council News and the Guyra Gazette and Express
- social media posts including Facebook, Twitter and Instagram
- online sources including webinars, staff information packs – there was an attendance of 13 people at the webinar
- pop-up stalls – conducted at Armidale markets and in Guyra Main Street
- face to face meetings – which were held in several locations including Armidale, Guyra , Ben Lomond, Wollomombi, Hillgrove, Wards Mistake, Black Mountain, Ebor and Lower Creek. The attendance for these meetings was 106 people.
- meeting with specific interest groups – this includes meetings held with the Armidale Ratepayers Association and NSW Farmers Association, who provided a written submission at the meeting of 27 January 2021. There was an attendance of 27 people at the meetings for both groups.

We consider that the range of engagement methods used by the council was reasonable for communicating the ratepayer impact and provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV. While the engagement materials did not fully explain the 0.6% catch-up amount, we consider that overall the council's methods adequately communicated the impact of the proposed SV to the community.

4.3.2 Assessment of outcomes of consultation with the community

Although this criterion does not require the council to demonstrate community support for the proposed SV, the council is required to consider the results of community consultation in preparing its application.

The council received 247 written submissions in relation to its proposed SV during the consultation period, of which 22 supported the alternative 20.5% permanent SV increase, 53 supported the current proposed SV, 116 supported discontinuation of the SV and 56 were unclear.[xxxiv] The main reasons for opposition were:[xxxv]

- affordability of the proposed rate increase
- concerns with the financial management of the council
- duality of the impacts of rate harmonisation and proposed SV increase
- the negative impacts of natural disasters, such as droughts, bushfires and COVID-19.

The main reasons for supporting the SV were:[xxxvi]

- the discontinuation of the expiring temporary SV would be unsustainable
- the replacement of the expiring SV was a better alternative to the proposed option of a 20.5% SV increase
- the maintenance of current service levels.

In addition, Jetty Research conducted a random phone survey of 405 residents and 57% of respondents indicated their support for the proposed SV as opposed to a reduction in the current service levels or community assets.

We note that the initial report provided at the council meeting held on 27 January 2021 made a recommendation for the alternative 20.5% SV. However the community feedback clearly indicated strong opposition to that SV increase, with only 8.9% of the written submissions in support of the 20.5% SV proposed.

After considering community feedback, the council decided to apply for an SV with a one year 10.5% rate increase.

Submissions from the community to IPART

Out of the 58 submissions made to IPART, 11 of the submissions specifically mentioned a lack of communication to ratepayers of the proposed SV. In particular, they mentioned that the documentation was unclear and did not communicate the rate increase. We examined the council's documents and have determined that the proposed SV has been communicated. This includes the impact of the rate increase in dollar terms for the individual ratepayer categories.

4.3.3 Overall assessment of community engagement and awareness

We found that the council largely demonstrated that it met this criterion.

The council adequately communicated the total increase in percentage terms for the average ratepayer by rating category on an annual basis and clearly communicated the rates increases in dollar terms for the proposed 1-year SV period.

We note the 2.0% total effective cumulative increase was more consistently understood by the community than the proposed 2.6% cumulative increase. However we recognise that councils are not obligated to consult their communities on catch-up adjustments. On balance, we found that the council demonstrated that its community is sufficiently aware of the need for, and extent of, a rate increase albeit, there was some confusion around the 2.0% versus requested 2.6% increase.

4.4 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers be reasonable, having regard to the current rate levels, the existing ratepayer base and the proposed purpose of the variation. Specifically, the Delivery Program and LTFP should:

- clearly show the impact of any rate rises upon the community
- include the council's consideration of the community's capacity and willingness to pay rates
- establish that the proposed rate increases are affordable, having regard to the community's capacity to pay.

Section 4.5 of this report considers the council's Delivery Program and LTFP.

The focus of this criterion is to examine the impact the proposed SV would have on ratepayers, and in particular consider the reasonableness of the rate increase in the context of the purpose of the proposed SV.

In Chapter 2, we outlined the government's requirement for all merged councils to harmonise their rates based on one ad valorem rate for the merged council by 1 July 2021. Consequently we will also examine the impact that rates harmonisation has had on the council's rates separately, before any impact from the proposed SV on ratepayers.

In this section, we:

- consider how the council has assessed the impact on ratepayers of the proposed SV and how it addressed affordability concerns
- undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the council's rates in recent years, how the council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking. We also consider the impact that rate harmonisation has had on the council's rates.

In its application, the council indicated how it intends to increase rates[xxxvii]. The council has calculated that:

- the average residential rate would increase by 2.3% or $25 for the former Armidale Council ratepayers and by 5.4% or $28 for the former Guyra Council ratepayers
- the average business rate would increase by 1.7% or $75 for the former Armidale Council ratepayers and by 9.6% or $80 for the former Guyra Council ratepayers
- the average farmland rate would decrease by 11.1% or $389 for former Armidale Council ratepayers and increase by 27.7% or $795 for former Guyra Council ratepayers
- the average mining rate for former Armidale council ratepayers would decrease by 6% or $353.

Table 4.3 sets out the council's estimates of the expected increase in average rates in each main ratepayer category.

Table 4.3 Indicative annual increases in average rates under Armidale Regional Council's proposed SV (2020-21 to 2021-22)

Ratepayer Category	2020-21	2021-22
Armidale		
Residential	1,121	1,146
$ increase		25
% increase		2.3
Business	4,447	4,521
$ increase		75
% increase		1.7
Farmland	3,508	3,119
$ increase		-389
% increase		-11.1
Mining	5,925	5,572
$ increase		-353
% increase		-6.0
Guyra		
Residential	522	550
$ increase		28
% increase		5.4
Business	837	917

Ratepayer Category	2020-21	2021-22
$ increase		80
% increase		9.6
Farmland	2,875	3,671
$ increase		795
% increase		27.7

Note: 2020-21 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.
Source: Armidale Regional Council, *Application Part A*, Worksheet 5a.

4.4.1 Assessment of the council's consideration of impact on ratepayers

The council compared its average rates with other regional councils and examined socioeconomic data such as its SEIFA index ranking, household income, employment status and the rates and annual charges outstanding percentage to assess the impact on ratepayers. The council also engaged external consultant, Morrison Low, to conduct a Capacity to Pay review of its ratepayers. On the basis of these indicators, it concluded that its ratepayers have the capacity to pay the increased rates from the proposed SV as: [xxxviii]

- its average residential and mining rates are the lowest within its OLG Group 4 and Northern Region group
- its average business and farmland rates are second lowest within its OLG Group 4 and Northern Region group
- its SEIFA index ranking indicates that it is less disadvantaged as it is ranked 8 out of 26 within its Group 4 councils and 1 out of 12 in the Northern Region Group
- its weekly household income of $1,173 is above the Northern Region group average of $1,059, giving them a ranking of 5 out of 12 councils
- historically, the council has had a high labour force participation rate and a low unemployment rate
- its outstanding rates ratio meets the benchmark of remaining below 10% for regional councils, being at 6.9% in 2018, 5.5% in 2019 and 5.7% in 2020
- Morrison Low in their Capacity to Pay review found that the council has a "lower level of disadvantage and greater advantage" than the rest of regional NSW but is still below the state wide averages.

The council considered the community's willingness to pay via the telephone survey of 405 respondents conducted between 23 November and 2 December 2020.[xxxix] It found that 57% of respondents were supportive of an SV, while 31% opposed the SV, with the remaining respondents unsure. It also found that 45% of residents surveyed believe the maintenance of services should be a key priority for the council rather than a reduction in rates.[xl]

The council submitted that it also has a hardship policy to assist residents, pensioners and businesses that are experiencing financial hardship, including situations where ratepayers believe they have suffered financial hardship from the impacts of the COVID-19. The policy provides assistance by accepting an arrangement for payment of rates and charges over a period, rental relief for not-for-profit organisations and commercial entities, and relief for other fees and charges will be considered on a case by case basis.[xli]

4.4.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the council's SV history and the average annual growth of rates in various rating categories. We found that since 2010-2011:

- The council has applied for and been granted two special variations in 2014-15:
  - a 7-year temporary increase of 12.3% for the former Armidale Council, which was used to address a $2.1m shortfall in funding for asset renewals
  - a 1-year permanent increase of 8.0% for the former Guyra Council, which was used for improving the council's financial sustainability and to fund road renewal and maintenance
- the average annual growth in residential, business, farmland and mining rates was 3.0%, 4.6%, 4.4% and 13.5%, respectively, for Armidale residents which compares with the average annual growth in the rate peg of 2.5% over the same period
- the average annual growth in residential, business, farmland and mining rates was 2.4%, 3.4% and 3.6%, respectively, for Guyra residents which compares with the average annual growth in the rate peg of 2.5% over the same period.

As a consequence of the mergers, we note that the increase in rates proposed by the council is not wholly due to the SV increase.[5]

We also compared 2018-19 rates and socio-economic indicators in the LGA with those of OLG Group 4 and neighbouring councils as shown in Table 4.4.

Table 4.4 Comparison of rates and socio-economic indicators with neighbouring councils and Group 4 averages (2018-19)

	Average residential rate ($)[a]	Average business rate ($)	Average farmland rate ($)	Average mining rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Glen Innes Severn (10)	819	1,665	2,943	N/A	43,696	1.9	7.7	18
Inverell (11)	976	4,236	2,922	N/A	49,536	2.0	5.7	11

5 For additional information on the effects of rate harmonisation and the council's ad valorem rates, refer to Appendix E.

	Average residential rate ($)[a]	Average business rate ($)	Average farmland rate ($)	Average mining rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Kempsey (4)	1,160	2,653	2,067	N/A	46,616	2.5	4.6	4
Tamworth Regional (4)	1,027	3,109	1,872	9,000	61,529	1.7	3.4	53
Armidale Regional (4)	**1,014**	**3,649**	**3,202**	**5,909**	**61,164**	**1.7**	**2.9**	**87**
Group 4 average[d]	1,140	3,895	2,247	134,153	62,602	1.8	4.8	-

[a] The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2017-18 nor 2018-19.

[b] Median annual household income is based on 2016 ABS Census data.

[c] The highest possible ranking is 128 which denotes a council that is least disadvantaged in NSW.

[d] The Group 4 average is the weighted average of OLG Group 4 councils.

Source: OLG, Time Series Data 2018-19; ABS, *Socio-economic Indexes for Areas (SEIFA) 2016*, March 2020; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Table 4.5 Comparison of Armidale Regional Council, neighbouring councils and Group 4 average rates (2018-19)

Rate category	Armidale Regional Council	Group 4 councils	Neighbouring councils	Difference between Armidale Regional Council and Group 4 (%)	Difference between Armidale Regional Council and neighbours (%)
Residential	1,014	1,140	1,040	-11.1	-2.5
Business	3,649	3,895	3,028	-6.3	20.5
Farmland	3,202	2,247	2,282	42.5	40.3
Mining	5,909	134,153	6,000	-95.6	-97.6

Note: All averages are weighted averages, weighted by the number of assessments.

Source: OLG, Time Series Data 2018-19; ABS, *Socio-economic Indexes for Areas (SEIFA) 2016*, March 2020; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Based on 2018-19 data, we found that the council's:

- average rates to income ratio was 0.1% percentage points lower than the average for Group 4 councils, and 0.3% lower than most neighbouring councils
- outstanding rates ratio was lower than the average for Group 4 councils, and lower than most neighbouring councils
- SEIFA ranking indicates that the council is less disadvantaged than most neighbouring councils.

We also compared the council's average rate levels with the proposed SV to the OLG Group 4 average[6] rate levels over the proposed 1-year SV period and found that the council's:

- average residential rate in 2021-22 with the proposed SV would be $1,146 for Armidale and $550 for Guyra, which is 6.4% and 55.1% respectively lower than the estimated average residential rates of $1,225 for OLG Group 4
- average business rate in 2021-22 with the proposed SV would be $4,521 for Armidale and $917 for Guyra, which is 8.0% higher and 78.1% lower respectively than the estimated average business rates of $4,187 for OLG Group 4
- average farmland rate in 2021-22 with the proposed SV would be $3,119 for Armidale and $3,671 for Guyra, which is 29.2% and 52% respectively higher than the estimated average farmland rates of $2,415 for OLG Group 4.

Submissions from the community to IPART

Many of the submissions made to IPART raised concerns around the affordability of the proposed SV. This is due to considerations such as the COVID-19 pandemic, effects of droughts, bushfires, water rate increases and unemployment. We have considered the above impacts and the purpose and need of the proposed SV in our overall assessment. Given that the proposed SV is to replace the income lost from the current expiring SV, we have found that the overall net impact on ratepayers is reasonable as it would be around the rate peg increase of 2.0% for 2021-22 (although we note slightly higher due to a catch-up equivalent to a 0.6% increase). Furthermore, the council is required to fund the implementation of the recommendations made by the Performance Improvement Order. We note the council has considered the feedback of the community and their capacity to pay by not applying for the alternative increase of 20.5% that was also canvassed. We therefore consider the impact on affected ratepayers is reasonable.

4.4.3 Overall assessment of the impact on affected ratepayers

We found that the council demonstrated that it met this criterion.

We consider the impact of the proposed SV on ratepayers of the council would be reasonable given:

- the council's proposed average rates with the SV will be below the estimated average rate levels for OLG Group 4 councils by 2021-22, with the exception of farmland rates which are expected to rise due to the effects of rates harmonisation
- the community's capacity to pay given its SEIFA ranking indicates a lower level of disadvantage compared to most of its neighbouring councils

6 Based on the 2018-19 data obtained from OLG, IPART has performed calculations to increase the Group 4 average rate levels by the rate peg each year from 2019-20 to 2021-22 to allow for the comparison of Armidale Regional Council's proposed average rate levels with the SV over the proposed SV period.

- the purpose of the proposed special variation is to replace the expiring special variation, which would equate to minimal impact for ratepayers other than the impacts of the concurrent rates harmonisation.

We have also considered the council's need for the additional funding to address the requirements of the Performance Improvement Order, its increasing infrastructure backlog and its need to be more financially sustainable. Whilst we note that the COVID-19 pandemic and resulting unemployment may cause affordability concerns, the council has a hardship policy in place to assist ratepayers experiencing financial hardship. In light of the COVID-19 pandemic, the council also implemented a range of measures to provide financial relief to residents and businesses that have been affected.

4.5 Integrated Planning and Reporting documents

The IP&R framework provides a mechanism for councils and the community to engage in important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R framework therefore underpins decisions on the revenue required by each council to meet the community's needs.

The OLG Guidelines require the council to exhibit, approve and adopt the relevant IP&R documents before submitting an application for a proposed SV, to demonstrate adequate planning.

The relevant documents are the Community Strategic Plan, Delivery Program, LTFP and, where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended) public exhibition for 28 days (and re-exhibition if amended). The OLG Guidelines require that the LTFP be posted on the council's website.

In this section, we assess whether the council has included the proposed SV in its IP&R framework as outlined in Criterion 1 to 3 of the OLG Guidelines and exhibited, approved and adopted its IP&R documents.

According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

- the need for, and purpose of, the proposed SV
- the extent of the general fund rate rise under the proposed SV
- the impact of any rate rises upon the community.

4.5.1 Assessment of content of IP&R documents

The need for, and purpose of, the proposed SV

The council presented the need for, and purpose of, the proposed SV in the Delivery Program 2018-2022 and the attached addendum, the Revised 2020-21 Resourcing Strategy.[xlii] The Delivery Program with the attached addendum was exhibited on the council's website and adopted by Council resolution on the 27 January 2021.[xliii] The Delivery Program also canvassed alternatives to the rate rise, such as reviewing its revenue streams and further cost savings as discussed in Section 4.6.

The addendum to the Delivery Program consists of the Resourcing Strategy, which includes the LTFP. The Delivery Program and the LTFP discussed the need for, and purpose of, the proposed SV.

Furthermore, the LTFP shows the financial impact of the SV by presenting three Scenarios, reflecting the Baseline or business as usual model excluding the proposed SV, the Proposed SV Scenario of 10.5% and an alternative SV Scenario of a 20.5% increase.[xliv] The difference between these scenarios is that the Baseline or "do nothing" approach will result in a loss of $1.5 million per annum due to the expiry of the temporary SV on 30 June 2021. In comparison, the proposed 10.5% SV Scenario will result in the replacement of the loss of the expiring SV income. However the alternative proposed 20.5% SV increase would see an improvement in financial performance and a decrease in the council's infrastructure backlog.[xlv]

The extent of the general fund rate rise under the proposed SV

The Delivery Program includes the annual dollar increase for the average ratepayer, by category, for the council's second option of a permanent SV of 10.5%.[xlvi] The Delivery Program also includes the annual dollar increase for the average ratepayer, by category, for each of the alternative options of the permanent SV increase of 20.5% or not applying for an SV.[xlvii] This comparison clearly communicates to the reader the differences between the different options council has considered.

However the Delivery Program did not disclose the additional 0.6% from the catch-up.[xlviii] We note however, that under the Local Government Act 1993, councils are allowed to apply a catch-up of a shortfall in general income within the next ten years of the shortfall occurring, and are not required to consult with the community before doing so.

The LTFP also provides a more comprehensive overview of the impacts of the permanent SV on the financial statements and key performance indicators for the Council over a projected ten years ending in 2030-31.

The impact of any rate rises upon the community

The Delivery Program included the council's consideration of the community's capacity to pay the rates under the proposed SV. The council compared its average rates to other regional councils and the Northern Region Group. This demonstrated the council's average rates are the third lowest for residential rates, second highest for farmland rates and fifth highest for the average business rates.[xlix] The council also engaged Morrison Low to conduct a Capacity to Pay review, which indicated that there was a wealth and advantage bias towards the rural communities within the council's local government area.[l]

The LTFP did not discuss the community's willingness and capacity to pay rates under the proposed SV.

4.5.2 Assessment of the exhibition, approval and adoption of IP&R documents

The council publicly exhibited its Community Strategic Plan from 10 December 2020 to 7 January 2021 and adopted it on 27 January 2021.[li] It publicly exhibited its Delivery Program from 10 December 2021 to 7 January 2021 and adopted this on 27 January 2021.[lii] The council has also provided a draft copy of its Asset Management Plan, which has not been adopted by the council yet.

The LTFP, which was attached as an addendum to the Delivery Program, was also publicly exhibited from 10 December 2020 to 7 January 2021 and adopted on 21 January 2021.[liii] We note that the council did not receive any submissions during the exhibition period.[liv] This may be due to the timing of the exhibition period during the Christmas holidays.

4.5.3 Overall assessment of the IP&R documents

We found that the council demonstrated that it met this criterion.

We consider that, on balance, the council's IP&R documents contain sufficient information relating to the proposed SV, and they have been appropriately exhibited, approved and adopted by the council.

4.6 Productivity improvements and cost containment strategies

The OLG Guidelines require councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period.

Councils are required to present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures have been incorporated in the council's LTFP.

Achieving cost savings through improved productivity can reduce the need for, or extent of, the increase to general income needed through a proposed SV.

Drawing on our experience in past years, IPART has placed a stronger emphasis on this criterion and how councils demonstrate that they have met it. Councils are required to provide evidence of strategies and activities and robust data quantifying the efficiency gains from productivity improvements in their operations and asset management, as well as cost-saving and revenue-raising initiatives.

In this section we consider the council's strategic approach to improving its productivity and efficiency, its achievements and proposals, and their impact on the council's operational results.

4.6.1 Assessment of efficiency gains achieved

The council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had made approximately $6.2 million in savings, with $2.2 million in ongoing savings as a result of the following initiatives:

- savings in Councillor fees and expenses
- reduction of the deficit incurred by the Kolora aged care facility
- increased income from parking fines
- disposal of surplus land
- reduction in expenditure including employee costs, overhead costs, travel booking fees, insurance premium fees, electricity costs and environmental monitoring costs
- savings on property, plant and equipment purchases.[lv]

4.6.2 Assessment of strategies in place for future productivity improvements

The council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes to:[lvi]

- implement the requirements under the Performance Improvement Order through:
  - adopting a surplus budget to ensure financial sustainability
  - ensuring the budget approval and monitoring process incorporates major capital projects and funding sources
  - establishing an appropriate Project Management framework that is best practice
  - applying the OLG guidelines to Capital Expenditure reviews
  - ensuring that sufficient resources are provided to address the above recommendations
- establish an Asset Management Strategy, that incorporates advice from external consultant Morrison Low for asset improvement plans and recommendations
- implement the Corporate Services Change Projects Roadmap which includes :
  - conducting an insurance review and appointing a Governance Manager

- increasing employee costs by 1%-1.5% p.a. for better management and planning, staff training, information and reviews of technology and service delivery
- reviewing fees and charges and investigating alternative revenue sources
- reviewing FBT costs and debt recovery
- implementing recommendations from the Performance Improvement Order issued by the NSW Minister for Local Government in December 2020
- reviewing the council's Crown Land Reserves
- developing a property and asset divestment strategy and outsourcing commercial property management
- reviewing the waste strategy, asset management, facilities and project management and grants
- reviewing Service Delivery and incorporating customer needs and additional online services.

None of these proposed initiatives have been factored into the council's LTFP.[lvii] However, the council has assumed ongoing savings of 2.5% of General Fund operating costs excluding depreciation in its LTFP, as a result of the organisational redesign process and review of employment practices.[lviii]

4.6.3 Assessment of performance indicators for the council

We took into account the council's cost containment and productivity improvement initiatives. In addition, we examined a range of indicators which measure the council's level of efficiency and how its performance compares with that of similar councils.

In its application, the council compared its performance ratios against other councils including the Northern Region councils, councils with populations greater than 70,000 and also the state average.[lix] The council found that it has met 5 out of 6 of the performance ratio benchmarks over the past 4 years.

Table 4.6 Armidale Regional Council's assessment of key performance ratios

Performance Ratio	Bench mark	Armidale Regional Council				Northern Region Councils	Councils with population <70,000	State average
		2017	2018	2019	2020	2020	2020	2020
Operating Performance Ratio	>0%	12.35%	-8.73%	1.09%	0.9%	0.51%	1.48%	0.07%
Own source operation revenue ratio	>60%	59.54%	71.27%	65.09 %	58.56 %	60.34%	66.96%	69.78%
Unrestricted current ratio	>1.5x	2.21x	1.53x	2.4x	2.64x	2.71x	2.6x	3.18x

Performance Ratio	Bench mark	Armidale Regional Council				Northern Region Councils	Councils with population <70,000	State average
Debt service cover ratio	>2.0x	6.0x	2.81x	4.47x	4.06x	4.69x	4.24x	5.43x
Rates, annual charges, interest and extra charges outstanding percentage	<10%	6.81%	6.86%	5.52%	5.74%	7.56%	6.56%	5.57%
Cash expense cover ratio (mths)	>3 months	14.4	13.37	12.57	13.91	12.91	14.03	13.05

Source: Armidale Regional Council, *Application Part B*, p 90.

We considered whether there is any scope for the council to achieve further productivity savings. We examined selected performance indicators in Table 4.7 and Table 4.8 below. Our analysis focuses on labour costs, which is the biggest cost incurred by the council.[lx]

Table 4.7 Trends in selected performance indicators for Armidale Regional Council, 2016-17 to 2018-19

Performance indicator	2016-17	2017-18	2018-19	Compound annual growth (%)
FTE staff (number)	293	275	277	-2.8
Ratio of population to FTE	103	111	111	3.5
Average cost per FTE ($)	89,007[7]	87,575	88,032	-0.5
Employee costs as % of operating expenditure (General Fund only) (%)	21	31	37	

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data and IPART calculations.

We note that between 2016-17 and 2018-19:

- the number of FTE staff decreased from 293 to 277 employees
- the average annual cost per FTE remained fairly stable
- employee costs as a percentage of operating expenditure increased, but this is likely due to a reduction in total operating expenditure rather than an increase in employee costs – we note the current employee costs are now a similar percentage of operating expenditure as found in other councils.

7 The council provided an updated figure for the average cost per FTE of $89,007 for 2016-17 compared to the figure in the OLG dataset (*Email correspondence from IPART to Armidale Regional Council, 26 February 2021).*

Table 4.8 Select comparative indicators for Armidale Regional Council, 2018-19

	Armidale Regional Council	OLG Group 4 Average	NSW Average
General profile			
Area (km^2)	8,621	4,337	5,530
Population	30,707	38,801	62,400
General Fund operating expenditure ($m)	56.2	70.0	83.4
General Fund operating revenue per capita ($)	1,958	2,194	
Rates revenue as % of General Fund income (%)	41.1	38.5	45.5
Own-source revenue ratio (%)	65.5	62.5	69.7
Average rate indicators[a]			
Average rate – residential ($)	1,014	1,140	1,139
Average rate – business ($)	3,649	3,895	5,709
Average rate – farmland ($)	3,202	2,247	2,627
Average rate – mining ($)	5,909	134,153	
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	61,164	62,602	77,484
Average residential rates to median income, 2016 (%)	1.7	1.8	1.5
SEIFA, 2016 (NSW rank: 128 is the least disadvantaged)	87		
Outstanding rates and annual charges ratio	2.9	4.8	4.4
Unemployment rate (%)	5.2	4.8	
Productivity (labour input) indicators[c]			
FTE staff	277	356.5	376
Ratio of population to FTE	110.9	108.8	166.0
Average cost per FTE ($)	88,032	85,852	94,358
Employee costs as % of operating expenditure (General Fund only) (%)	37	38	39
General Fund operating expenditure per capita ($)	1,831	1,803	1,315

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

b Median annual household income is based on 2016 ABS Census data

c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, Time Series Data 2018-2019, OLG, unpublished data; ABS, Socio-Economic Indexes for Areas (SEIFA) 2016, March 2020, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

We also found that for 2018-19, the council's ratio of FTE staff to the council's population is similar to the Group 4 average. The council has one FTE for every 110.9 residents, whereas the Group 4 average is one FTE for every 108.8 residents. We note that the council has a higher number of FTE staff per resident than the NSW average. This is because large metropolitan councils have considerably fewer FTE staff per resident, which is partly driven by higher population densities. Given the council is a regional council, we consider the Group 4 average to be a more suitable benchmark.

We also looked at the council's operating expenditure per capita and found that it is similar to the Group 4 average.

We note that these performance indicators only provide a high level overview of the council's productivity at a point in time and additional information would be required to accurately assess whether there is scope for the council to achieve future productivity/cost savings.

Submissions from the community to IPART

Many of the submissions made to IPART suggested that the council consider reducing its costs rather than applying for an SV. These suggestions related to concerns over the alleged financial mismanagement of the council. We assessed that the council has considered cost containment strategies, as outlined above. However these ongoing savings may not have been well communicated to the community. The council communicated its cost savings in its Delivery Program but the exhibition period was from 10 December 2020 to 7 January 2021. No submissions were made during this exhibition period, however we note that the council has made considerable effort to communicate other aspects of the proposed SV to the community.

4.6.4 Overall assessment of productivity improvements and cost containment strategies

We found that the council demonstrated that it met this criterion.

We found that the council has adopted a range of strategies, which have already achieved productivity improvements and cost savings. It plans to undertake continuous review for some of these strategies in order to further improve efficiency in its operations. It has explained its initiatives to improve productivity and contain costs, but has only partially quantified the cost savings resulting from these efficiency measures. We consider the council should pursue efficiency measures to improve its overall financial sustainability.

5 Our decision

We have approved the council's proposed SV of 10.5% for 2021-22. The increase includes the rate peg of 2.0% in 2021-22 and may be retained in the council's general income base permanently.

We have attached conditions to this decision, including that the council uses the income from the SV for purposes consistent with those set out in its application, as shown in Box 5.1.

Box 5.1 IPART Decision – Armidale Regional Council

Approved Special Variation: percentage increase to general income

	2021-22
Increase above the rate peg – permanent	8.5%
Rate peg	2.0%
Total increase	**10.5%**

The approved increase is retained in the council's general income base permanently.

We have attached conditions with respect to this special variation increase as set out below.

Conditions attached

IPART's approval of the council's application for a special variation in 2021-22 is subject to the following conditions:

- The council uses the additional income from the Special Variation for the purposes of improving its financial sustainability, reducing its infrastructure backlog, maintaining service levels and implementing the requirements under the Performance Improvement Order as outlined in the council's application and listed in Appendix B.
- The council reports in its annual report from the year 2021-22 until 2030-31 on:
  - the program of expenditure that was actually funded by the additional income
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the LTFP provided in the council's application, and summarised in Appendix C
  - any significant variations from its proposed expenditure as forecast in the current LTFP and the reasons for such variation
  - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.

The Council is required to reduce its income for Year 2021-22 to reflect the expiring special variation amount of $1,468,284 before increasing its general income for that year.

The approved variation to general income is the maximum amount the council may increase its income by in 2021-22.

5.1 Impact on the council

Our decision means that the council may increase its general income over the 1-year SV period by $1.51 million in 2021-22.[8]

Table 5.1 shows the percentage increases we have approved, and estimates the increase in the council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

Table 5.1 Permissible general income (PGI) of Armidale Regional Council for 2021-22 arising from the approved SV

	Increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2021				17,798[a]
2021-22	10.5	1,513	1,958	19,757
Total cumulative increase approved			1,958	
Total above rate peg[b]		**1,513**		

a Includes an adjustment of a prior catch-up of $89,294 that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2021-22.

b Includes an adjustment of -$1.5 million for an SV that expires on 30 June 2021.

Note: The information in Table 5.1 is correct at the time of the council's application (February 2021).

Source: Armidale Regional Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The council estimates that from 2021-22, it will collect an additional $1.96 million in rate revenue compared with the increase limited to the assumed rate peg.

This extra income is the amount the council requested to enable it to improve its financial sustainability, fund renewal of existing infrastructure assets and address its infrastructure backlog. We note that despite the additional revenue from the approved special variation, the council is expected to fail to meet financial sustainability benchmarks and continue running at a deficit for the next 10 years.

8 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance with the SV conditions.

5.2 Impact on ratepayers

IPART sets the allowable increase in general income, but it is a matter for each council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination and legislative requirements.

Table 5.2 shows the net impact on ratepayers from a 10.5% rates increase in 2021-22. Compared to 2020-21 rate levels, the average residential rate will increase by $25 (2.3%) and the average business rate by $75 (1.7%), while the average farmland rate will decrease by $389 (-11.1%), and the average mining rate by $353 (-6.0%) for former Armidale ratepayers.

In comparison, for former Guyra ratepayers, the average residential rate will increase by $28 (5.4%), the average business rate by $80 (9.6%) and the average farmland rate by $795 (27.7%). We note that this uneven impact on rating categories is the result of the council harmonising rates for some categories, as currently required from 1 July 2021 under the Local Government Act.

Table 5.2 Indicative annual increases in average rates under Armidale Regional Council's approved SV (2020-21 to 2021-22)

Ratepayer Category	2020-21	2021-22	Cumulative increase
Armidale			
Residential	1,121	1,146	
$ increase		25	25
% increase		2.3	2.3
Business	4,447	4,521	
$ increase		75	75
% increase		1.7	1.7
Farmland	3,508	3,119	
$ increase		-389	-389
% increase		-11.1	-11.1
Mining	5,925	5,572	
$ increase		-353	-353
% increase		-6.0	-6.0
Guyra			
Residential	522	550	
$ increase		28	28
% increase		5.4	5.4
Business	837	917	
$ increase		80	80
% increase		9.6	9.6
Farmland	2,875	3,671	
$ increase		795	795
% increase		27.7	27.7

Note: 2020-21 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.

Source: Armidale Regional Council, *Application Part A*, Worksheet 5a and IPART calculations.

A Assessment criteria

Criterion 1 – Financial need

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, LTFP and Asset Management Plan where appropriate.

In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their LTFP applying the following two scenarios[9]:

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability by Government agencies.

In assessing this criteria, IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

[9] Page 71, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013

Criterion 2 – Community awareness

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the **full cumulative increase** of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. The council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.[10]

Criterion 3 – Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's Delivery Program and LTFP should:

- clearly show the impact of any rate rises upon the community,
- include the council's consideration of the community's capacity and willingness to pay rates, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

Criterion 4 – IP&R documents are exhibited

The relevant IP&R documents[11] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. It is expected that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

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10 https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-specialvariation-or-minimum-rate-increase

11 The relevant documents are the Community Strategic Plan, Delivery Program, and LTFP and where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended), public exhibition for 28 days. It would also be expected that the LTFP (General Fund) be posted on the council's web site.

Criterion 5 – Productivity improvements and cost containment strategies

The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures have been incorporated in the council's LTFP.

Any other matter that IPART considers relevant.

The criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the criteria is a matter for IPART.

B Expenditure to be funded from the special variation above the rate peg

Table B.1 and Table B.2 show the council's proposed expenditure of the SV funds over the next 10 years under its application.

The council intends to use the additional SV revenue above the rate peg of $16.9 million over 10 years to fund its infrastructure renewals.

Under our approved SV, the council will receive additional revenue above the rate peg of $16.9 million (see Table B.1).

As a condition of IPART's approval, the council will indicate in its Annual Reports how its actual expenditure compares with its program of expenditure under the approved SV.

Table B.1 Armidale Regional Council – Revenue and proposed expenditure over 10 years related to the proposed SV (2020-21 to 2030-31) ($000)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
SV revenue above assumed rate peg	1,513	1,551	1,589	1,629	1,670	1,712	1,754	1,798	1,843	1,889	16,949
Funding for capital expenditure	1,513	1,551	1,589	1,629	1,670	1,712	1,754	1,798	1,843	1,889	16,949

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure. The council's proposed capital expenditure program related to the proposed SV is detailed in Table B.2.

Source: Armidale Regional Council, *Application Part A*, Worksheet 6.

Table B.2 Armidale Regional Council – Proposed 10-year capital expenditure program related to the proposed SV (2021-22 to 2030-31) ($000)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Renewals											
Urban	323	331	340	348	357	366	375	385	394	404	3,620
Rural	458	469	481	493	506	518	531	545	558	572	5,128
Gravel Resheeting	393	402	413	423	434	445	456	467	479	491	4,399
Kerb and gutter	65	67	69	71	73	75	76	78	80	82	734
Footpaths	47	48	50	51	53	54	55	57	58	59	528
Buildings	227	233	239	245	251	257	264	270	277	284	2,543
Total Asset Renewal	1,513	1,550	1,589	1,629	1,669	1,712	1,754	1,798	1,843	1,889	16,949
Total Capital Expenditure	1,513	1,550	1,589	1,629	1,669	1,712	1,754	1,798	1,843	1,889	16,949

Note: Numbers may not add due to rounding.

Source: Armidale Regional Council, *Application Part A*, Worksheet 6.

C Armidale Regional Council's projected revenue, expenses, operating balance

As a condition of IPART's approval, the council is to report from 2021-22 to 2030-31 against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table C.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes capital grants and contributions.

Table C.1 Summary of projected operating statement for Armidale Regional Council under its proposed SV application (2021-22 to 2030-31) ($000)

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Total revenue	62	58	59	61	63	65	65	70	70	72
Total expenses	56	58	59	61	62	64	66	67	69	71
Operating result from continuing operations	5	0	0	1	1	1	0	2	1	1
Net operating result before capital grants and contributions	-2	-2	-2	-1	-1	-1	-2	-1	-1	-1
Cumulative net operating result before capital grants and contributions	-2	-4	-5	-7	-8	-9	-11	-12	-13	-13.4

Note: Numbers may not add due to rounding.

Source: Armidale Regional Council, *Application Part A*, Worksheet 8.

D Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or for a group of similar councils, or by comparing similar councils at a point in time.

Table D.1 shows how selected performance indicators for the council have changed over the 3 years to 2018-19. Table D.2 compares selected published and unpublished data about the council with the averages for councils in its OLG Group, and for NSW councils as a whole.

Table D.1 Trends in selected performance indicators for Armidale Regional Council (2016-17 to 2018-19)

Performance indicator	2016-17	2017-18	2018-19	Compound annual growth (%)
FTE staff (number)	293	275	277	-2.8
Ratio of population to FTE	103	111	111	3.5
Average cost per FTE ($)	89,007[12]	87,575	88,032	-0.5
Employee costs as % of operating expenditure (General Fund only) (%)	21	31	37	N/A

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data and IPART calculations.

12 The council provided an updated figure for the average cost per FTE of $89,007 for 2016-17 compared to the figure in the OLG dataset.

Table D.2 Select comparative indicators for Armidale Regional Council (2018-19)

	Armidale Regional Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	8,621	4,337	5,530
Population	30,707	38,801	62,400
General Fund operating expenditure ($m)	56.2	70.0	83.4
General Fund operating revenue per capita ($)	1,958	2,194	
Rates revenue as % General Fund income (%)	41.1	38.5	45.5
Own-source revenue ratio (%)	65.5	62.5	69.7
Average rate indicators[a]			
Average rate – residential ($)	1,014	1,140	1,139
Average rate –business ($)	3,649	3,895	5,709
Average rate – farmland ($)	3,202	2,247	2,627
Average rate – mining ($)	5,909	134,153	
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	61,164	62,602	77,484
Average residential rates to median income, 2016 (%)	1.7	1.8	1.5
SEIFA, 2016 (NSW rank: 128 is least disadvantaged)	87		
Outstanding rates and annual charges ratio (General Fund only) (%)	2.9	4.8	4.4
Unemployment rate (%)	5.2	4.8	
Productivity (labour input) indicators[c]			
FTE staff (number)	277	356.5	376
Ratio of population to FTE	110.9	108.8	166.0
Average cost per FTE ($)	88,032	85,852	94,358
Employee costs as % operating expenditure (General Fund only) (%)	37	38	39
General Fund operating expenditure per capita ($)	1,831	1,803	1,315

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

b Median annual household income is based on 2016 ABS Census data.

c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, Time Series Data 2018-19, OLG, unpublished data; ABS, Socio-Economic Indexes for Areas (SEIFA) 2016, March 2020, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

E Rates harmonisation

Harmonisation is the implementation of one rating system within all rating categories.

Table E.1 and Table E.2 below compare the SV increase proposed by the council against a notional increase by the rate peg. This shows that as a result of rates harmonisation, the rates difference between the former Armidale and Guyra Councils has narrowed so that under the proposed SV the:

- difference in average residential ad-valorem rates in 2021-22 narrowed by 0.3% to leave a gap of 5.2% between the two pre-merger councils
- difference in average business ad-valorem rates in 2021-22 narrowed by 12.3% to leave a gap of 38.9% between the two pre-merger councils
- difference in average farmland ad-valorem rates in 2021-22 narrowed by 16.2% to leave a gap of 1.1% between the two pre-merger councils.

Table E.1 Comparison of rates in year 1 and year 2 under rate peg and proposal scenarios (ad-valorem rate in cents)

Ratepayer Category	Actual 2020-21 $	Assuming rate peg increase only 2021-22 $	Under SV proposal 2021-22 $	Difference between 2020-21 actual and 2021-22 proposed rates %
Armidale				
Residential	0.478	0.488	0.507	6.0
Business	1.247	1.272	1.286	3.1
Farmland	0.189	0.193	0.151	-20.2
Mining	7.833	7.990	8.741	11.6
Guyra				
Residential	0.453	0.462	0.482	6.4
Business	0.825	0.841	0.926	12.3
Farmland	0.164	0.168	0.153	-7.1
Mining	0.000	0.000	0.000	N/A
Armidale Regional Council				
Residential	0.475	0.064	0.504	6.1
Business	1.178	1.202	1.228	4.3
Farmland	0.178	0.182	0.152	-14.7
Mining	7.833	7.990	8.741	11.6

Note: All ad-valorem rates in this table are weighted averages, weighted by number of assessments.

Source: Armidale Regional Council, *Application Part A*, Worksheet 3 and IPART calculations.

Table E.2 Percentage difference in rates for former Armidale council when compared to former Guyra council by ratepayer category

Ratepayer category	Actual 2020-21 %	Assuming only rate peg increases 2021-22 %	Under proposal 2021-22 %
Residential	5.5%	5.5%	5.2%
Business	51.3%	51.3%	38.9%
Farmland	15.1%	15.1%	-1.1%

Note: Percentage differences are based on ad-valorem rates which are weighted averages of each pre-merger council, weighted by number of assessments

Source: Armidale Regional Council, *Application Part A*, Worksheet 3 and IPART calculations.

Table 4.5 shows that under the proposed SV the gap between pre-merger Armidale and pre-merger Guyra rates is narrowing. This effect is strongest in the business and farmland rating categories. Table 4.4 also shows this trend, due to ad-valorem rates increasing (or decreasing) by a larger percentage in Guyra when compared to Armidale.

Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
Minimum rate	A minimum amount of the rate specified under section 548 of the *Local Government Act*, 1993.
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OLG MR Guidelines	Guidelines for the preparation of an application to increase minimum rates above the statutory limit.

PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
PIO	Performance Improvement Order
Proposed SV Scenario	Includes the council's proposed SV revenue and expenditure.
Rate peg	The term 'rate peg' refers to the annual order published by IPART (under delegation from the Minister) in the gazette under s 506 of the *Local Government Act 1993*.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV or SRV	Special Variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.

[i] Armidale Regional Council, *Interim Administrator Minute and Performance Improvement Order*, accessed on 13 April 2021.
[ii] Armidale Regional Council, *Performance Improvement Order,* p 1.
[iii] Armidale Regional Council, *Application Part B*, p 5.
[iv] Armidale Regional Council, *Application Part B*, p 7.
[v] Armidale Regional Council, *Application Part B*, p 61.
[vi] Armidale Regional Council, *Application Part B*, p 10.
[vii] Armidale Regional Council, *Annual Report 2019-20*, *Special Variation to General Income*, p 30.
[viii] Armidale Regional Council, *Application Part B,* pp 3-4 and pp 23-27.
[ix] Armidale Regional Council, *Application Part B,* p. 56.
[x] Armidale Regional Council, *Performance Improvement Order,* p. 3.
[xi] Armidale Regional Council, *Performance Improvement Order,* p. 13.
[xii] Armidale Regional Council, *Application B,* p 66.
[xiii] Armidale Regional Council, Council Meeting, 27 January 2021, Minutes p 1.
[xiv] Office of Local Government (OLG), *Guidelines for the preparation of an application for a special variation to general income.*
[xv] Email correspondence from IPART to Armidale Regional Council, 26 February 2021.
[xvi] Office of Local Government, *Improvement Proposal Reassessment Report Round 3*, June 2018, p 10.
[xvii] Armidale Regional Council, *Delivery Program 2018-2022,* p 7.
[xviii] Armidale Regional Council, *Long Term Financial Plan,* p 12.
[xix] Armidale Regional Council, *Application Part B*, p 5.
[xx] Armidale Regional Council, *Application Part B*, p 28.
[xxi] Armidale Regional Council, *Long Term Financial Plan,* p 41.
[xxii] Armidale Regional Council, *Application Part B*, p 19.
[xxiii] Armidale Regional Council, *Application Part B*, p 16.
[xxiv] Armidale Regional Council, *Application Part B,* p 24.
[xxv] Armidale Regional Council, *Application Part B,* p 21.
[xxvi] Armidale Regional Council, *Performance Improvement Order,* p. 13.
[xxvii] Armidale Regional Council, *Community Engagement Materials,* pp 1-64.
[xxviii] Email correspondence from IPART to Armidale Regional Council, 26 February 2021.
[xxix] Armidale Regional Council, *Application Part B*, p 45.
[xxx] Armidale Regional Council, *Application Part B*, p 47.
[xxxi] Armidale Regional Council, *Application Part B*, pp 13-15.
[xxxii] Armidale Regional Council, *Application Part B*, pp 42-43.
[xxxiii] Armidale Regional Council, *Application Part B*, p 47.
[xxxiv] Armidale Regional Council, *Application Part B*, p 12 and p 61.
[xxxv] Armidale Regional Council, *Community Feedback*, *Special Rate Variations Formal Submission Summary,* pp 51-74.
[xxxvi] Armidale Regional Council, *Community Feedback*, *Special Rate Variations Formal Submission Summary,* pp 51-74.
[xxxvii] Armidale Regional Council, *Application Part B*, p 61.
[xxxviii] Armidale Regional Council, *Application Part B,* pp 65-67.
[xxxix] Armidale Regional Council, *Application Part B*, p 46.
[xl] Armidale Regional Council, *Application Part B,* p 56.
[xli] Armidale Regional Council, *Hardship Policy,* pp. 2-3.
[xlii] Armidale Regional Council, *Delivery Program,* p 7 and *Resourcing Strategy 2020-2021 (Addendum to revised Delivery Program 2018-2022)*.
[xliii] Armidale Regional Council, *Minutes – Ordinary Meeting of Council on 27 January 2021*, p 15.
[xliv] Armidale Regional Council, *2020-21 Budget & Long Term Financial Plan,* pp 34-54.
[xlv] Armidale Regional Council, *2020-21 Budget & Long Term Financial Plan,* p 11.
[xlvi] Armidale Regional Council, *Delivery Program,* p 14.
[xlvii] Armidale Regional Council, *Delivery Program,* pp 13, 15.

[xlviii] Armidale Regional Council, *Delivery Program,* p 14 and Armidale Regional Council, *Application Part B*, p 65.
[xlix] Armidale Regional Council, *Delivery Program 2019-2029,* pp 22-23.
[l] Armidale Regional Council, *Delivery Program,* p 18.
[li] Armidale Regional Council, Minutes – Ordinary Meeting of Council on 27 January 2021, p 15.
[lii] Armidale Regional Council, *Minutes – Ordinary Meeting of Council on 27 January 2021*, p 15.
[liii] Armidale Regional Council, *Minutes – Ordinary Meeting of Council on 27 January 2021*, p 15.
[liv] Armidale Regional Council, *Application Part B*, p 47.
[lv] Armidale Regional Council, *Application Part B*, pp 86-87.
[lvi] Armidale Regional Council, *Application Part B*, pp 83-89.
[lvii] Armidale Regional Council, *2020-21 Budget & Long Term Financial Plan,* pp 1-77.
[lviii] Armidale Regional Council, *Application Part B,* p 93.
[lix] Armidale Regional Council, *Application Part B,* p 94.
[lx] Armidale Regional Council, *Application Park A, Worksheet 7*.