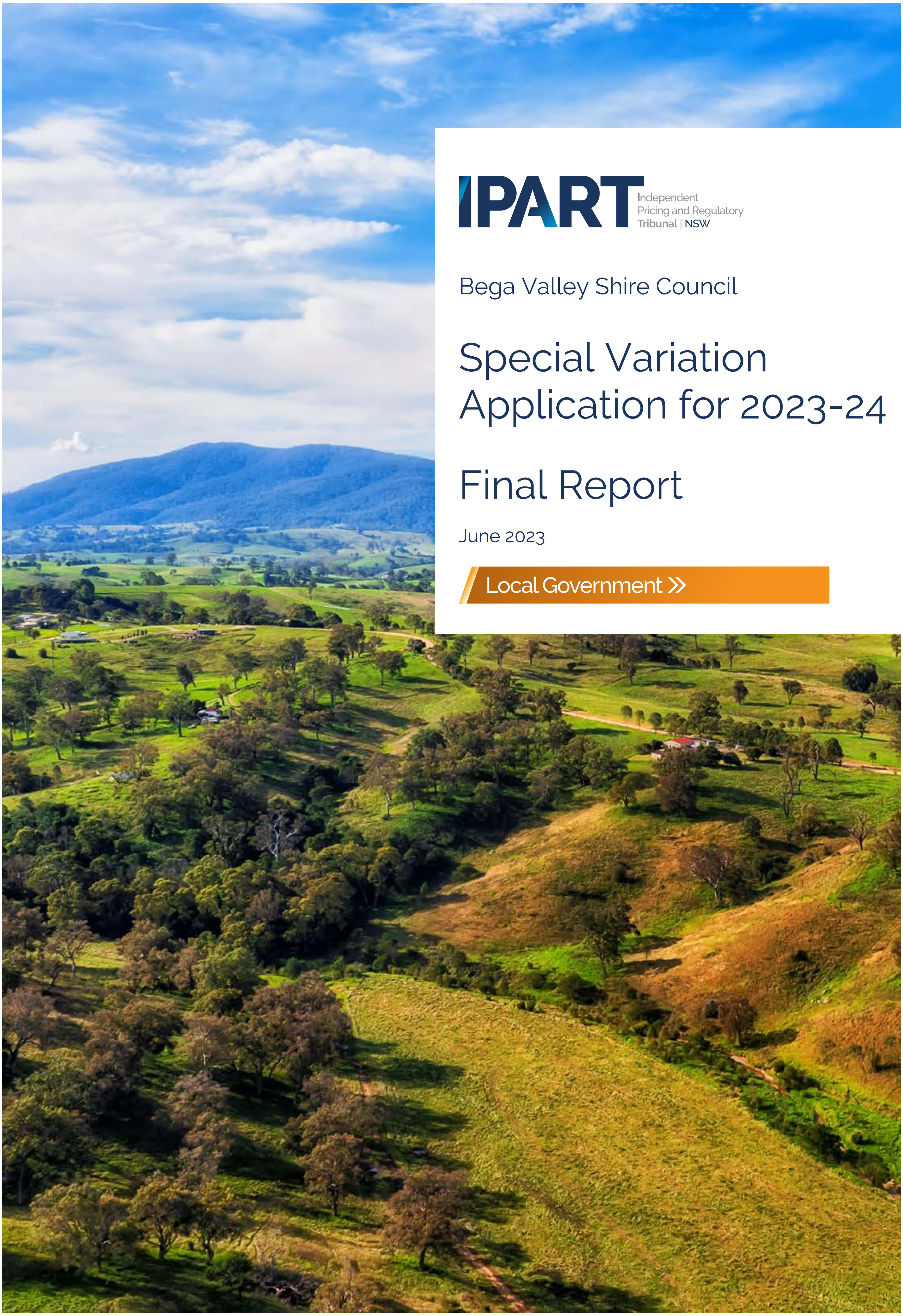

Bega Valley Shire Council

Special Variation Application for 2023-24

Final Report

June 2023

Local Government

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

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Foreword from the Chair

The 128 councils in NSW are an important part of our democracy and significant providers of essential services. On average they raise about a third of their revenue through rates and the Independent Pricing and Regulatory Tribunal of NSW (IPART) determines how much each council's total rates revenue can increase each year through the rate peg.

IPART has recently consulted widely with ratepayers, councillors, council staff and other stakeholders across NSW about council rates. Our consultation has been an important part of IPART's current review of the rate peg methodology which is how we calculate the rate peg for each council each year.

When councillors decide they need total rates revenue to increase above the rate peg, they can apply to IPART for a special variation. We have also consulted about 17 council special variation applications, received in February and March 2023, seeking rates increases above the rate peg, including some very large proposed increases.

We want to thank every single person who has come forward and provided feedback. We have considered every issue raised in that consultation.

We have heard that some councils are experiencing financial sustainability problems, which they suggest are related to the current financial model for councils. This is requiring strong financial management and council action to either increase rates or cut services, at a time when many people are less able to afford higher rates or to do without essential council services.

We heard that ratepayers are indeed concerned about cost of living pressures and affordability of rates while they also depend on and value council services.

This has raised the question of whether the funding and financial model for councils is as good as it needs to be, at a time when NSW has faced drought, bushfires, floods, COVID, supply chain disruption, labour shortages, higher inflation and rising interest rates.

Feedback to IPART indicates communities want councils to demonstrate good financial management and provide services that are efficient and value for money, so they can be confident the rates they pay are well used. Councillors, as the representatives of the community, play a key role in holding council management to account, and need the tools and information to do so.

Ratepayers have told us they want to be better consulted about council priorities, so councils deliver good quality services that are needed by their local community. We also heard ratepayers would like more consultation about the way rates are set - so rates are fair, reasonable and affordable.

Some councils have stronger financial sustainability than others. A range of reasons have been suggested for why this is the case. We have heard that the capability, workforce shortages, resources and alternative sources of revenue available to councils are not the same across NSW. Populations, economies, distances and geography are quite varied. Councils are very diverse and we have heard that a 'one size fits all' financial model does not make sense.

Our proposed new rate peg methodology is designed to respond to many of the issues raised in the review so far, including being more forward looking and agile, while recognising the diversity of councils. But it cannot address all the issues people have identified.

The rate peg sets the appropriate movement in a council's existing cost base but does not address the cost base itself. Trying to fix the cost base through the rate peg could potentially lead to unwarranted increases for some councils that could do more to control costs, and insufficient increases for councils with genuine financial need.

In assessing special variation applications, in line with current laws and guidelines, the Tribunal has carefully considered the impact of any increases in rates on individual ratepayers and whether increases in total rates revenue are needed so council services can continue to be provided. We note that, within the total rates revenue approved by IPART, it remains the responsibility of councillors to set rates in a way that takes into account the circumstances of their constituents. Councillors also have the authority to provide hardship programs that lessen the impact on people who cannot afford increased rates.

The Tribunal also questions whether the large special variation applications lodged in February and March indicate the financial model needs closer investigation, if the only way a council is able to address financial sustainability is through seeking substantial rates revenue increases.

The Tribunal believes it would be timely for NSW Government to initiate an independent investigation into the financial model for councils in NSW, including the broader issues highlighted in our draft report on the rate peg methodology.

IPART stands ready to work with the NSW Government, councillors, ratepayers and communities to address the issues we have heard through our consultation over recent months.

Carmel Donnelly PSM
IPART Chairperson

1 Executive summary

Bega Valley Shire Council (the council) applied to IPART to increase its general income through a permanent special variation (SV) of 48.3% (including the rate peg) over a 2-year period from 2023-24 to 2024-25.[1]

The council sought the SV to:

- reduce its infrastructure backlog
- fund ongoing operation, maintenance and renewal of assets and services
- improve its financial sustainability.

1.1 IPART's decision

We have approved the council's proposed SV. Our decision means the council can raise up to an additional $16.4 million in total general income (above the rate peg) over the 2-year period from 2023-24 to 2024-25, and permanently retain this revenue in its rate base.

Stakeholders have told us that the SV is likely to create affordability challenges for some ratepayers – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates. We also understand that some residents are concerned that the council has not effectively managed its finances in the past or prioritised its expenditure appropriately.

However, we balanced these factors with the need to fund infrastructure maintenance and the provision of community services. Our assessment found that the council met the criteria for its proposed SV. The council currently has a large operating deficit, meaning its revenues do not cover its operating costs. The shortfall is significant, and it is apparent that without additional funds the council's financial position will deteriorate further. This will impact its ability to maintain its infrastructure and negatively affect the level of services it can provide to the community.

The council initially proposed a significantly larger increase of 90% over 1 year to address its financial sustainability issues more fully, but it reduced its proposed SV considerably in response to community feedback to reduce the economic stress on the community. The Bega Valley Shire councillors then decided to spread the proposed SV over 2 years to further mitigate the impact on ratepayers.

1.2 IPART's assessment of the council's application

To make our decision, we assessed the council's proposed SV against the 6 criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for an SV to general income* (OLG Guidelines). We found that the proposal meets these OLG criteria. Our assessment against each OLG criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to improve its financial sustainability and reduce its operating deficit and infrastructure backlog (although it will still not meet OLG benchmarks even with the SV).
02	Demonstrated	**Community awareness** The council consulted its community, and the communication materials it provided informed the community about the need for and the size of the proposed SV. It considered feedback from the community and decided to apply for a significantly smaller SV as a result.
03	Demonstrated	**Reasonable impact on ratepayers** We consider that the council has demonstrated the community's capacity to pay. As noted above, the council applied for a significantly reduced SV after accounting for community feedback from its consultation process.
04	Demonstrated	**Integrated Planning and Reporting (IP&R) documentation** All necessary IP&R documents were appropriately exhibited and adopted.
05	Demonstrated	**Productivity improvement and cost containment** The council outlined the productivity and cost containment strategies it has implemented and identified several potential measures to apply over the SV period.
06		**Other matters IPART considers relevant** In the past 5 years, the council was granted one SV – a permanent additional SV of 2.50% in 2022-23.

1.3 Stakeholders' feedback

We expect the council to engage and consult with its community so that ratepayers are fully aware of any proposed SV and the impact on them and have opportunities to provide feedback to the council. This is one of the criteria we use to assess the council's application.

Bega Valley Shire Council consulted with its community on its proposed SV using a variety of engagement methods. It also made substantive adjustments to its SV proposal in response to the feedback it received.

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. Through this process we received 91 submissions on Bega Valley Shire Council's proposed SV. Stakeholders that made submissions to us raised the following concerns:

- affordability of the proposed rate increases
- council's financial management and accountability
- council's consultation with the community
- impact of recent land valuations on rates.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its rates revenue over the 2-year period. The council can defer rate increases up to this maximum amount for up to 10 years.[2] We encourage the council to consult with its community to decide how best to implement the increase. Below are the council's proposed increases. It retains the discretion to revise how it raises its general income across the rating categories.

We found the council has undertaken significant work to increase its income from other sources and reduce its costs which will result in savings of $89.7 million over the next 10 years. The council is planning to conduct a service review and a review of its asset prioritisation to achieve further efficiency savings.

The council will still need to deliver on these additional productivity improvements and cost saving measures and pursue further efficiencies. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.1 The council's proposed increase in rates

	2023-24	2024-25	Cumulative increase
Residential	26.2%	19.6%	51.0%
Business	25.5%	19.6%	50.1%
Farmland	15.3%	19.6%	37.9%

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct. These are the council's proposed increases, and it retains the discretion to apply the general income across the rating categories.
Source: IPART calculations

The rest of this report explains how and why we reached our decision on the council's proposed special variation in more detail.

2 The council's special variation application

The council applied to increase its general income through a permanent special variation (SV) of 48.3 % (including the rate peg) over a 2-year period from 2023-24 until 2024-25.[3]

The council sought the SV to:

- reduce its infrastructure backlog
- fund ongoing operation, maintenance and renewal of assets and services
- improve its financial sustainability.[4]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories. On average, it proposed:

- **residential rates** by 2024-25 would increase by $605 or 51.0%
- **business rates** by 2024-25 would increase by $1,420 or 50.1%
- **farmland rates** by 2024-25 would increase by $901 or 37.9%.

The council has provided the number of rate notices that will be issued for 2022-23 in Table 2.1.

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	18,715
Business	879
Farmland	783

Source: Bega Valley Shire Council, Part A application Worksheet 2

2.2 Council's assessment of affordability and capacity to pay

The council assessed the affordability of the proposed SV, including the community's capacity to pay the proposed rate increases. The council's analysis recognised that the community would face financial challenges in paying the proposed rate increases. However, it also recognised that it must consider the consequences of not adequately maintaining and renewing infrastructure and addressing its financial sustainability for future generations. In assessing these, the council has considered the public safety risks, social and economic impacts, and impact on essential or valued infrastructure.

The council commissioned a consultant to assist it in analysing the community's capacity to pay rates under the proposed SV. The report found that:

- Eden-Rural West had high levels of disadvantage based on its SEIFA scores, but noted the impact may be lessened for some ratepayers that do not have mortgage repayments, citing the area's high outright home ownership

- Bega District and Bega Rural have moderate levels of disadvantage and noted that any rate rises could be passed on to renters, as Bega District has a high proportion of renters
- areas such as Tura Tathra, Bermagui-Rural North and Merimbula Pambula may have more capacity to absorb increases due to the number of holiday homes in these areas
- the current average residential and farmland rates are in line with other councils in the OLG Group 4. [5]

The report acknowledges that there are pockets of disadvantage in the council and that some ratepayers may be vulnerable. However, it concluded that there was capacity for the rate increases to be absorbed if this was supported by an appropriate hardship policy.

2.3 Impact of the special variation on the council's general income

The council estimated that the proposed SV would result in a cumulative increase in its permissible general income of $16.4 million above what the assumed rate peg would deliver over 2 years.

2.4 Further information provided

Following our preliminary assessment of the council's application, we asked the council to provide further evidence of its:

- analysis of alternative revenue streams
- infrastructure renewals ratio
- ongoing efficiency measures.

In response to our request for information, the council provided:

- a historical background of the council's intention to apply for an SV and detailed information relating to borrowings, asset disposal, grant funding, fees, and charges
- further information on the infrastructure renewals ratio under Option D and Option E of the council's Long Term Financial Plan (LTFP)
- references to the sections of the council's LTFP to address ongoing efficiency measures and the progress towards implementing the measures.

3 Stakeholders' submissions to IPART

We expect the council to engage with its community so that ratepayers are fully aware of any proposed special variation and the full impact on them. This is one of the criteria we use to assess the council's application (see Appendix A).

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period, and stakeholders could make submissions directly to us. The Tribunal has taken all submissions into account in making its decision in accordance with our Submissions Policy, including any confidential submissions. In this section, we summarise the key issues raised in all published (non-confidential) submissions.

3.1 Summary of submissions we received

We received 91 submissions from 10 February 2023 to 3 March 2023. The key issues and views raised in these submissions, and our responses to them, are summarised below. There are approximately 18,700 residential, 880 business, and 780 farmland ratepayers in the council's local government area.

3.1.1 Affordability of proposed rates increases

Approximately 75% of stakeholders that made submissions raised concerns about the impacts of the council's proposed SV on the affordability of rates and said this would lead to financial hardship. Many of these noted the worsening financial circumstances brought about by a high inflationary environment with a focus on an increase in mortgage interest rates. They also put the view that the council was being unreasonable in applying for the SV despite the negative impact it may have on some members of the community.

Our assessment of the affordability of the proposed rate increases, including our consideration of stakeholder comments, is in section 4.3.

3.1.2 The council's financial management and accountability

Approximately 75% of stakeholders that made submissions raised concerns about financial mismanagement at the council. They raised concerns about inefficiencies, wasteful practices and the need for an audit of council expenditure. In addition, some stakeholders expressed the view that the council should prioritise essential services and be more accountable with ratepayer money. Some also said the council had not shown due diligence in pursuing or communicating its cost containment strategies or productivity improvements.

We discuss the council's past and proposed cost containment strategies and its general efficiency in section 4.5.

3.1.3 The council's consultation with the community

Around 55% of stakeholders submitted that the council had not communicated effectively with the community about the proposed rate rises, and that there was a lack of transparency regarding council finances. Some stated that an audit is needed to see if current funds are being mismanaged, and that successful councils should be used as a model of best practice for spending funds wisely. The overall sentiment from many of these submissions was that the council needed to present a stronger argument for the rate rise with clear and concise explanations of where the funds would be used to benefit the community.

Our assessment of the council's consultation, including stakeholder comments, is discussed in section 4.2.

3.1.4 Impact of recent land valuations on the council's income

A small number of ratepayers that made submissions raised concerns about recent increases in land valuation, which may impact their individual rates. There was some concern that the council had not adequately considered the impact of increased land valuations on ratepayers' capacity to pay in its SV proposal.

Routine changes in land valuations (those that occur when the Valuer-General values lands every 3 years as part of its general valuation cycle) do not increase (or decrease) the council's maximum permitted level of general income. As set out in Box 3.1 below, the council is required to adjust its rates following routine changes in land valuations to ensure the total amount of general income recovered from ratepayers does not exceed the maximum permitted amount.

Box 3.1 Effect of land valuation on rates

Routine changes to land valuations do not increase the total amount of general income the council can recover from ratepayers (also known as the 'permissible general income' or PGI). A council's PGI for each year is limited by the rate peg or a percentage determined by IPART in a special variation.[a] However, individual ratepayers may pay either higher or lower rates.

Individual rates depend on the combination of:

- the council's rating structure
- the relevant rating category
- the property's unimproved land value.

The variable component of rates, ad valorem, is determined by:

$$\textit{ad valorem component} = \textit{amount in the dollar} \times \textit{land value}$$

Generally, the council recalculates the 'amount in the dollar' rate every year to ensure the council does not collect rates above its PGI.

A routine increase in a ratepayer's land value by the Valuer-General does not mean that a ratepayer's rates will automatically increase. The impact on rates depends on whether the land value has increased or decreased compared to others in the ratepayer's local government area.

[a] Councils' PGI may be affected by supplementary valuations of rateable land under the Valuation of Land Act 1916 and estimates provided under section 513 of the Local Government Act 1993. Such supplementary valuations and estimates are made when land within a council area has changed outside the general valuation cycle (such as where land has been subdivided or rezoned). This is distinct from the routine changes in land value by the Valuer-General.

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[b] We are required to assess the council's SV application against the 6 OLG criteria set out in the OLG's Guidelines. We found that the council met all OLG criteria. Specifically, the council has:

- demonstrated a financial need for the SV to reduce its infrastructure backlogs, fund ongoing operation, maintenance and renewal of assets and services, and improve its financial sustainability
- shown that it had engaged effectively with ratepayers and the community to make them aware of the need and purpose of the SV
- assessed the impact of the SV on ratepayers and shown that it is reasonable
- exhibited its IP&R documentation appropriately
- explained and quantified the productivity improvements and cost containment strategies it has realised in past years and plans to realise over the SV period

Our assessment against each OLG criterion is discussed below.

4.1 OLG Criterion 1: The council demonstrated a financial need for the SV

Criterion 1 requires the council to clearly articulate and identify the need for, and purpose of, the proposed SV in its IP&R documents. It also requires the council to demonstrate the financial need for the SV by assessing the impact of the SV on its financial performance and position, and to canvass alternatives to the SV to meet the financial need.

Note: See Appendix A for the full assessment criteria

To assess whether the council met this OLG criterion, we considered stakeholders' comments on financial need in submissions to IPART and reviewed the council's IP&R documents and the information in its application. We also undertook our own analysis of the council's financial performance and position. We do not audit council finances, as this is not part of our delegated authority.

The sections below discuss our assessment, and why we found that the council met this OLG criterion.

[b] By delegation dated 6 September 2010, the Minister for Local Government delegated to the Tribunal all her functions under sections 506, 507, 508(2), 508(3), 508(6), 508(7), 508A, 548(3) and 548(8) of the *Local Government Act 1993*, pursuant to section 744 of that Act.

4.1.1 Stakeholder comments on financial need

In their submissions to us, stakeholders raised a range of concerns related to the financial need criterion. In particular, their comments included:

- the council's preferred SV option (during its initial consultation phase) of a 90% rate increase is unrealistic
- while they recognise that investment in infrastructure is required, they are concerned the additional revenue from the SV will not be used for its intended purpose
- the need for rate increases is a result of poor financial management (with some stating that the council should be placed under administration)
- alternatives to the proposed rate increases were not properly canvassed
- additional income could come from alternate funding sources.

In making this assessment, we considered these concerns, taking account of all the information available to us.

4.1.2 Council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP) and Delivery Program, clearly identify and articulate the need for and purpose of the SV.

The council's assessment of the impact of the SV on its financial performance and position states that without the SV, it would:

- be required to reduce services by an average of $13.9 million per year, that will affect a range of areas including employment costs, asset maintenance and renewal and facility operation
- not have sufficient income to fund required asset renewals after 2023-24 and 2024-25, which is likely to result in a decline in the standard of key assets such as roads and bridges.[6]

In its LTFP, the council modelled 5 options for an SV. Its preferred option provided a pathway to continue delivering its existing services, support current assets and meet the NSW Government's sustainability ratios. This option would have involved a 90% permanent increase in rates, implemented in one year.[7] However, it has instead applied for an option that would result in a significantly lower increase in rates to be phased in over 2 years. This decision acknowledges the extensive feedback it received during the community engagement period, previous successful grant funding, and its analysis of the community's capacity to pay.[8]

4.1.3 Our analysis of the council's financial performance and position

We used information provided by the council in its application and IP&R documents to do our own analysis of the impact of the proposed SV on the council's financial performance and financial position. This involved calculating financial forecasts under 3 scenarios:

1. **Proposed SV Scenario –** which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario –** which does not include the council's proposed SV revenue or expenditure.

3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure 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.

We then used these forecasts to examine the impact of the SV on key indicators of its financial performance and position – namely its operating performance ratio, net cash (or net debt) and infrastructure ratios.

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than zero is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[9] The OLG has set a benchmark for the OPR of greater than zero. (See Box 4.1 for more information.)

Box 4.1 Operating Performance Ratio

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

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

Where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.

The OLG has set a benchmark for the ratio of greater than 0%.

The ratio measures net operating results against operating revenue and does not include capital expenditure. That is, a positive ratio indicates that an operating surplus is available for capital expenditure.

Generally, IPART considers that a council's average OPR over the next 10 years should be 0% or greater, as this represents the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV.

However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the breakeven benchmark as set by OLG.

Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

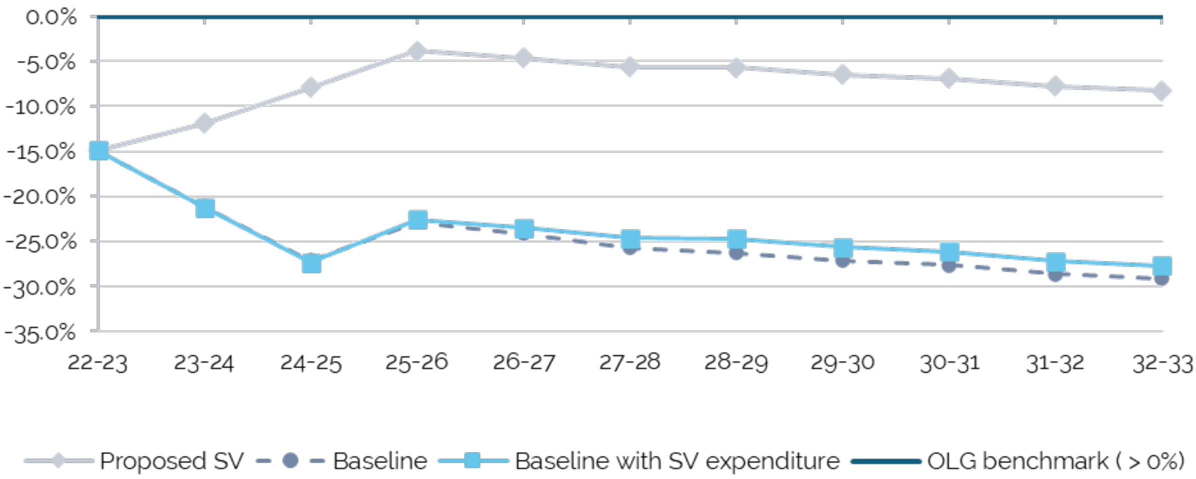
Our analysis found that, over the next 5 years under the:

- **Baseline Scenario**, the council's average OPR would be -24.2%
- **Baseline with SV expenditure Scenario**, the council's average OPR would be -23.8%
- **Proposed SV Scenario**, the council's average OPR would be -6.8%.[c]

The council's financial sustainability has continued to deteriorate. This is partly due to the current volatile financial environment and the expenditure the council has had to incur dealing with past natural disasters such as the 2019 Black Summer Bushfires.[10] Without an SV (Baseline Scenario), the council's projections demonstrate a worsening financial situation. Its OPR would continue to decline from -21.2% in 2023-24, which is already well under the OLG's benchmark of greater than 0%, to -29.1% in 2032-33.

The gap between the council's general fund expenditure and the income it collects is widening.

Figure 4.1 The council's OPR from 2022-23 to 2032-33



Note: OPR shown excludes capital grants and contributions
Source: Bega Valley Shire Council, Application Part A and IPART calculations.

Table 4.1 The council's projected OPR with proposed special variation, 2023-24 to 2032-33 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-11.9	-7.9	-3.9	-4.6	-5.6	-5.7	-6.5	-6.9	-7.8	-8.2
Baseline	-21.2	-27.2	-22.9	-24.2	-25.7	-26.3	-27.2	-27.6	-28.6	-29.1
Baseline with SV expenditure	-21.2	-27.3	-22.6	-23.5	-24.6	-24.7	-25.6	-26.2	-27.2	-27.7

Source: Bega Valley Shire Council, Application Part A

c We averaged the forecast OPR over a 5-year period rather than 10 years because we recognised forecasts over a longer period are subject to variability

Impact on net cash

A council's net cash (or net debt) position is another indicator of its financial position. For example, it indicates whether a council has significant cash reserves that could be used to fund the purpose of the proposed SV.

On 30 June 2022, the council held a total of $44.7 million in cash reserves. Of these funds:

- $21.7 million was externally restricted funds (i.e., subject to external legislative or contractual obligations such as developer contributions and specific purpose grants[11])
- $22.5 million was internally restricted funds (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations. Some examples of this for the council are employees leave entitlements and infrastructure replacement allocations[12])
- $0.5 was unrestricted funds (so was available to fund the purpose of the proposed SV). [13]

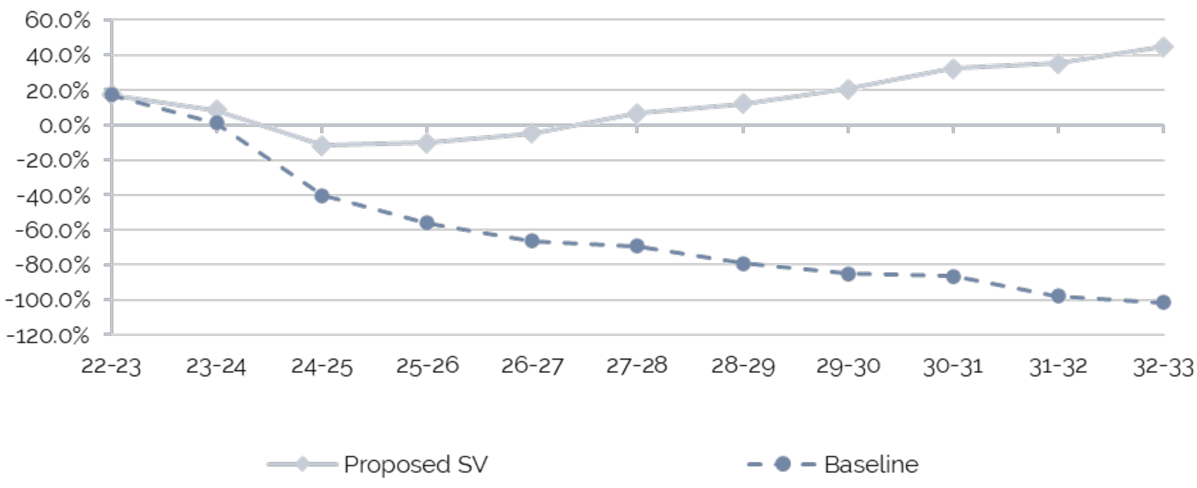
The vast majority of the council's cash reserves are committed to other purposes and are not available for council's requirements.

We calculated that, as at 30 June 2023, the council's net cash will be $13.1 million, and that the council will have a net cash to income ratio of 17.1%. As Figure 4.2 shows, our analysis found that:

- **under the proposed SV Scenario**, the council's net cash to income ratio would increase to 44.7% by 2032-33
- **under the Baseline Scenario**, the council's net cash to income ratio would decrease to -101.5% by 2032-33.

Over the next 5 years, the council's average net cash to income ratio would be -2.3% with the proposed SV and -46.3% without the proposed SV.

Figure 4.2 The council's net cash (debt) to income ratio, 2022-23 to 2032 33 (%)



Source: Bega Valley Shire Council, Application Part A and IPART calculations.

Taking into account the council's OPR and net cash position, we consider the council has a financial need for the proposed SV to enhance its financial sustainability and deliver adequate service levels.

Impact on infrastructure ratios

The management of infrastructure assets is an important council function. A council's ability to maintain and renew these assets as they depreciate is another indicator of its financial position. To measure this indicator, we used information provided by the council to assess its infrastructure backlog and infrastructure renewals ratios, and compared them to OLG's benchmarks:

- **The infrastructure backlog ratio** indicates whether the council has a need for additional revenue to maintain its infrastructure assets. It shows the infrastructure backlog as a proportion of the total value of a council's infrastructure. OLG's benchmark for the infrastructure backlog ratio is less than 2.0%.
- **The infrastructure renewals ratio** measures the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. OLG's benchmark for the infrastructure renewals ratio is greater than 100%. (See Box 4.2 for more information on these ratios and how we interpret them.)

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its total written down value of its infrastructure and 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.

OLG has set a benchmark for the ratio of less than 2%.

Infrastructure renewals ratio

Where relevant, we may also consider the council's infrastructure renewals ratio, which assesses the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals}{Depreciation, amortisation\ and\ impairment}$$

OLG has set a benchmark for the ratio of greater than 100%.

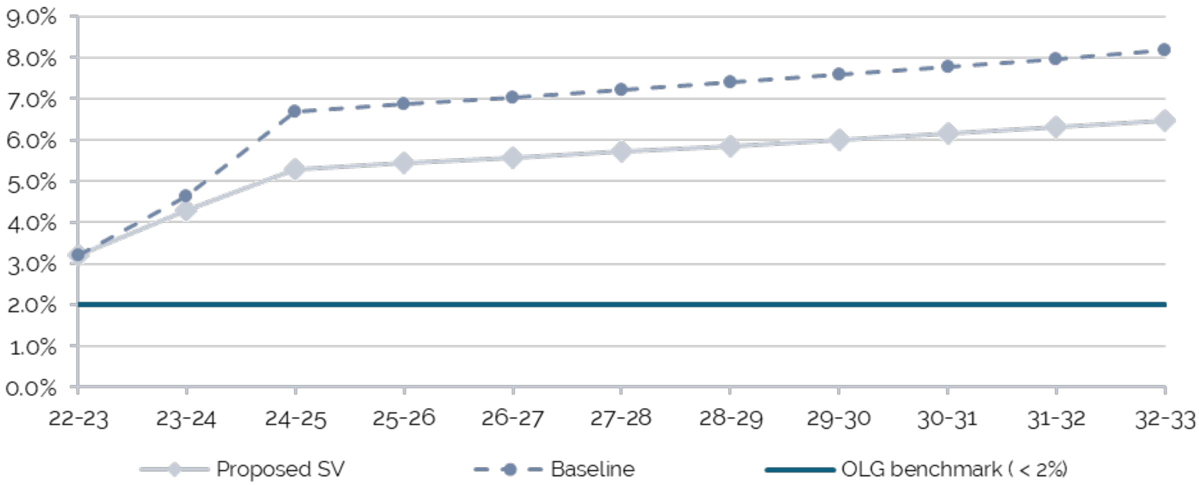
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

Impact on infrastructure backlog ratio

Our analysis found that over the next 10 years, under both the Proposed SV Scenario and the Baseline Scenario, the council's infrastructure backlog ratio would be above the OLG benchmark of below 2.0%. However, under the Proposed SV Scenario, this ratio will be closer to the benchmark. This is because the council proposes to use some of the additional SV revenue to reduce the current backlog over 2023-24 and 2024-25.

In principle, a consistently increasing infrastructure backlog ratio indicates increased costs to bring assets to a satisfactory condition.

Figure 4.3 The council's infrastructure backlog ratio 2022-23 to 2032-33 (%)

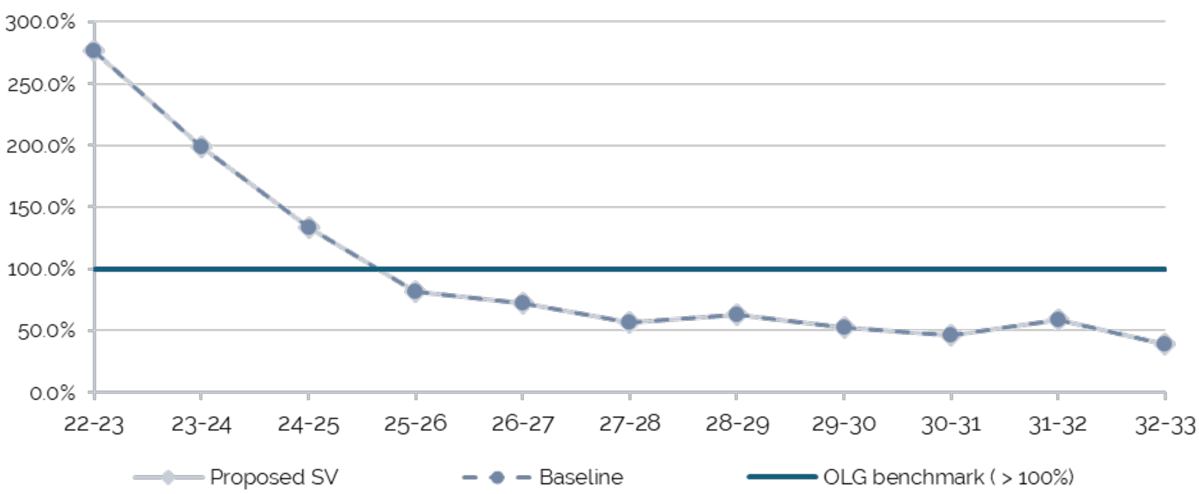


Source: Bega Valley Shire Council Application Part A

Impact on infrastructure renewals ratio

Our analysis found that over the next 10 years the council's infrastructure renewals ratio would be the same under both the Baseline Scenario and the Proposed SV Scenario. In both cases it will be above the OLG benchmark of 100% in 2023-24 and 2024-25, but then fall below this benchmark in 2025-26. This is because the capital expenditure program is the same under each of these scenarios. The difference between the scenarios is the level of revenue the council receives.[14]

Figure 4.4 The council's infrastructure renewal ratio, 2022-23 to 2032-33 (%)



Source: Bega Valley Shire Council, Application Part A

Alternatives to the rate rise

We assessed whether, in establishing the need for the SV, the council's relevant IP&R documents canvassed alternatives to the rate rise. We consider the IP&R contained the required information to inform ratepayers of alternatives to the rate rise.

The council stated that it had considered, in its 16 November 2022 Council report, increasing its fees and charges above current levels to generate additional revenue and reduce the level of the SV required. It found that even if it were to increase fees and charges by 50% (generating additional revenue of $1,962,500) it would not significantly reduce the additional revenue needed to meet current levels of service. It should be noted that increasing fees and charges does not appear to have been considered in the IP&R documentation

The council submitted that it has been including its assessment of alternatives to a rate rise such as borrowing, disposal of assets, further grant funding and changes to fees and charges in its IP&R documents for several years. For example, its LTFP outlined that the council is reviewing its current land and asset holdings and divesting where no longer required for the operation of the council.[15]

We also reviewed whether, and to what extent, the council has decided not to apply the full percentage of increases to general income available to it in previous years under section 511 of the Local Government Act. The council's application indicated that it has deferred general income of $361,000. This figure comprises increases in supplementary valuations prior to the council adopting pro-rata rating in 2022, and an administrative error related to application of the approved additional SV from 2022-23 and Crown Land adjustments. The deferral impact was included in the 2023-24 income assumptions in the LTFP and therefore reduced the level of SV modelled in the LTFP.

4.2 OLG Criterion 2: The council demonstrated community awareness

Criterion 2 requires the council to provide evidence that the community is aware of the need for and extent of the proposed rate increase. It requires the council to:

- communicate the full cumulative increase of the proposed SV in percentage terms and in dollar terms for the average ratepayer, by rating category
- outline its ongoing efficiency measures and performance
- use a variety of engagement methods to ensure community awareness and provide opportunities for community input.

The criterion does not require the council to demonstrate community support for the SV application.

Note: See Appendix A for the full assessment criteria

To assess this OLG criterion, we considered stakeholder comments about community awareness. We also analysed the council's community engagement on the proposed SV. The sections below discuss our assessment, and why we found that the council met this OLG criterion.

4.2.1 Stakeholder comments on community awareness

In submissions to IPART, stakeholders raised concerns that the council:

- was not transparent in its consultation and communication about the proposed SV
- did not have a sufficient engagement strategy
- did not clearly justify the need for a rate rise associated with the SV
- did not adequately consider the impact of the SV on ratepayers
- ignored requests for an external audit to investigate the real financial problems of the council
- downplayed the impact of the increase on ratepayers.

We have considered these concerns as part of our assessment of this criterion.

4.2.2 Our assessment of council's engagement and consultation

To analyse the effectiveness of the council's community engagement and consultation on the proposed SV, we considered whether:

- the information provided to ratepayers was sufficient and clear
- the variety of engagement methods used was effective
- the process used to consult the community provided timely opportunities for ratepayers to provide input and feedback on the proposed SV, and
- the outcomes from the consultation were considered in preparing the SV application.

Information provided to ratepayers

The material the council prepared for ratepayers on its proposed SV included most of the content needed to ensure that ratepayers were well informed and able to engage with the council during the consultation process.

For example, the council's consultation material presented information on:

- the alternative SV options being proposed for feedback, and the SV process timeline
- information on how ratepayers could provide feedback and join the discussion
- the average residential yearly rates under each SV option
- what general rates pay for and how they are calculated, and
- how the council is keeping costs down.[16]

In general, we consider the council clearly communicated the impact of the proposed SV for average residential, business and farmland ratepayers. However, it could have communicated the cumulative increase in average rates more clearly. In particular, we found it did not clearly communicate:

- the full cumulative increase of the proposed SV in percentage terms for each rating category
- the total increase in dollars terms for the average ratepayer in each rating category over the SV period.

Engagement methods used

We found the council used an appropriate variety of engagement methods to promote awareness of and obtain community views on its proposed rate increase. For example, throughout the consultation period it:

- published information on its website
- provided information in a letter mailed directly to ratepayers
- contacted ratepayers via a mailing list
- raised community awareness through media releases, newspaper advertising and social media posts
- sought feedback by inviting written submissions, conducting an online survey and through a 'Have your say' web page
- held community meetings and markets, including presentations by council staff and Q&A materials
- provided flyers at council libraries and customer service.[17]

Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was effective. In particular, it provided opportunities and sufficient time for ratepayers to provide input and feedback on the proposed SV.

The council consulted with the community from May to June 2022 and November 2022 to January 2023.

Outcomes of community consultation

As noted above, OLG Criterion 2 does not require the council to demonstrate community support for the proposed special variation. However, it does require the council to consider the results of community consultation in preparing its application. We found that the council did consider these results in preparing its application.

After receiving extensive feedback during the community engagement period and successfully securing grant funding, the council's officers presented a recommendation to the council's meeting on 1 February 2023. They proposed Option C, which involved a single year, permanently applied 43% increase in rates, along with a reduction in service levels of $13.9 million per year.

However, the council took into account the concerns of ratepayers and resolved to split the 43% increase over two years, in an effort to lessen the financial impact it would have. The updated LTFP 2023-32 now includes Option E, which involves a 24% increase (inclusive of a 4.1% rate peg) to be permanently applied in 2023-24 and a further 19.6% increase (inclusive of an assumed 2.5% rate peg) to be permanently applied in 2024-25. This would result in a cumulative increase of 48.3%.[18]

4.3 OLG Criterion 3: The council demonstrated the impact of the SV on ratepayers is reasonable

Criterion 3 requires the council to show that the impact on ratepayers is reasonable considering current rates, the community's capacity to pay, and the proposed purpose of the special variation.

Note: See Appendix A for the full assessment criteria

To assess this OLG criterion, we considered stakeholder comments on the SV's impact on ratepayers, and whether the council has a hardship policy. We also analysed the council's Delivery Program and Long-Term Financial Plan (LTFP), and its assessment of the impact of its proposed SV on ratepayers.

The sections below discuss our assessment, and why we found that the council met this OLG criterion.

4.3.1 Stakeholder comments on impact on ratepayers

Some submissions we received raised concerns about the impact of the proposed SV on the affordability of rates, particularly for those experiencing financial hardship. Their comments included that the associated rates increase would:

- be unaffordable
- have a significant impact on ratepayers due to broader circumstances such as ongoing economic pressures of high inflation and impacts of COVID-19
- have a large impact for ratepayers on fixed and lower income ratepayers
- potentially cause ratepayers to sell their homes.
- not improve services.

We have considered these concerns as part of our assessment of this criterion, alongside other available information.

4.3.2 Our analysis of the council's assessment of the SV's impact on ratepayers

We analysed the council's assessment of the impact of the proposed SV on ratepayers, and the community's financial capacity to pay the proposed increased rates. We also considered how the council's rates have changed over the past 6 years, and how its rates compare to those of other councils.

Impact on average rates

The council estimated the increase in average rates associated with its proposed SV for each main ratepayer category. As Table 4.2 shows, it estimated that over the 2-year period of the SV, average residential, business, and farm rates would increase by about 51.0%, 50.1%, and 37.9% respectively.

Table 4.2 Impact of the proposed special variation on average rates

	2022-23	2023-24	2024-25	Cumulative increase $	Cumulative increase %
Residential average $ rates	1,187	1,498	1,791		
$ increase		311	294	605	
% increase		26.2	19.6		51.0
Business average $ rates	2,836	3,558	4,255		
$ increase		722	697	1,420	
% increase		25.5	19.6		50.1
Farmland average $ rates	2,379	2,742	3,279		
$ increase		363	537	901	
% increase		15.3	19.6		37.9

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: IPART calculations

Community's capacity to pay

The council engaged a consultant to prepare a report on the community's capacity to pay. This report found that currently, the council is well below most other Office of Local Government's Group 4 councils in terms of rates revenue as a percentage of operating expenditure – which the council considers is a strong indication that its rates are below the level required to service the community.[19] However, the capacity to pay report also found that with the proposed SV, the council's average residential rates would be the second highest rates of all OLG Group 4 councils.[20]

How the council's rates changed over time

Since 2017-18, the council's rates have increased at an average annual rate of between 1.8% and 3.2% depending on the rating category. This compares to the average rate peg of 2.1% over the same period.

Table 4.3 Historical average rates in Bega Valley Shire Council 2017-18 to 2022-23 ($)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	1,016	1,086	1,111	1,135	1,158	1,187	3.2
Business	2,588	2,806	2,564	2,587	2,639	2,836	1.8
Farmland	2,129	2,105	2,150	2,339	2,386	2,379	2.2

Note: FY22 and FY23 are estimated based on FY21 escalated by the rate peg or the council's SV.
Source: IPART calculations

How the council's rates compare to other councils

Box 4.3 Comparable councils

In our analysis, we have compared Bega Valley Shire Council to other councils in several ways.

Office of Local Government (OLG) groups

- The Office of Local Government (OLG) groups similar councils together for comparison purposes.
- Bega Valley Shire Council is in OLG Group 4 which is considered an urban regional town/city area and also includes 25 other councils.
- The OLG groupings are based on broad demographic variables such as total population, level of development, and typical land use. It should be noted that there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.
- Bega Valley Shire Council has a SEIFA rank of 57 out of 130 councils in ABS 2016 which is slightly below average and may indicate slight disadvantage

Box 4.3 Comparable councils

- The 4 councils with closest SEIFA rank within the OLG group 4 are Dubbo Regional Council, City of Albury Council, Tamworth Regional Council, and Goulburn Mulwaree Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Bega Valley Shire Council to the 4 councils within OLG group 4 with closest median income ranking. These are Lismore City Council, Armidale Regional Council, Lithgow City Council, and City of Broken Hill Council.

Neighbouring councils

- We compared Bega Valley Shire Council to the neighbouring councils of Snowy Monaro Regional Council, Queanbeyan–Palerang Regional Council, Eurobodalla Shire Council.
- These councils are geographically close to Bega Valley Shire Council but do not necessarily share a common border.

Without the proposed SV, the council's current average rates tend to be higher than its neighbouring councils and comparable NSW councils in terms of their SEIFA score and their population's median household income. However, its average business and farmland rates tend to be lower. In addition, its average rates in all rating categories are lower than the average for other Group 4 councils. As Table 4.4 shows, in 2022-23 the council's:

- **Average residential rates** are higher than 2 of its 3 neighbouring councils, 3 of the 4 comparable councils based on both SEIFA score and income. However, they are lower than the average for other Group 4 councils.
- **Average business rates** are lower than 2 neighbouring councils, 3 comparable councils based on SEIFA, 4 comparable councils based on income, and the average of other Group 4 councils.
- **Average farmland rates** are higher than 2 neighbouring councils, but lower than 2 comparable councils based on SEIFA score, 2 comparable councils based on income, and the average of other Group 4 councils.

Table 4.4 Comparison of the council's average rates and socio-economic indicators with those of other councils prior to the SV (2022-23)

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rates	Median annual household income[b] ($)	Average rates to median income ratio (%)	Outstanding rates ratio	SEIFA Index NSW[c] Ranking
Bega Valley (4)	**1,187**	**2,836**	**2,379**	**62,400**	**1.9**	**11.1**	**57**
Neighbouring councils							
Snowy Monaro Regional	880	2,364	1,942	82,836	1.1	7.7	90
Queanbeyan-Palerang Regional	1,255	4,894	2,624	119,340	1.1	8.9	110
Eurobodalla	1,136	3,832	1,685	60,684	1.9	2.7	40
Average	**1,090**	**3,697**	**2,084**	**87,620**		**6.4**	**80**
Comparable councils (SEIFA)							
Dubbo Regional	1,107	5,115	3,771	83,044	1.3	7.7	60
Albury	1,440	6,388	4,556	74,360	1.9	4.8	64
Tamworth Regional	1,128	337	2,040	73,632	1.5	7.2	53
Goulburn Mulwaree	1,071	5,450	1,922	76,232	1.4	3.5	52
Average	**1,186**	**4,322**	**3,072**	**76,817**		**5.8**	**57**
Comparable councils (Income)							
Lismore	1,365	4,887	2,566	68,588	2.0	7.7	45
Armidale Regional	1,183	4,280	3,719	73,008	1.6	5.5	87
Lithgow	875	4,204	1,587	62,192	1.4	9.6	17
Broken Hill	1,128	6,337	.	60,996	1.8	16.4	7
Average	**1,138**	**4,927**	**2,624**	**66,196**		**9.8**	**39**
Group 4 average (excluding Bega Valley Shire Council)	**1,242**	**4,016**	**2,602**	**78,125**	**1.6**	**6.4**	**59**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130, which denotes a council that is least disadvantaged in NSW.
Source: OLG data; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the SV, the council's average rates would be relatively high. As Table 4.5 shows, by 2024-25, the council's proposed average:

- **residential rates** would be higher than the average for the other councils in its OLG Group, its neighbouring councils and comparable councils based on both SEIFA and income
- **business rates** would be higher than the average for other councils in its OLG Group and its neighbouring councils, but lower than the average of comparable councils based on both SEIFA and income
- **farmland rates** would be higher than the average for the other councils in its OLG Group, its neighbouring councils and comparable councils based on both SEIFA and income.

There are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. We note that 2 of the neighbouring councils – Snowy Monaro Regional Council and Queanbeyan-Palerang Regional Council – have also applied for an SV in 2023-24.

Table 4.5 Comparison of the council's average rates with those of other councils for period of the SV ($)

Council (OLG Group)	2022-23	2023-34	2024-25
Residential			
Bega Valley	1,187	1,498	1,791
OLG Group 4	1,242	1,292	1,324
Neighbouring councils (average)	1,090	1,138	1,166
Comparable councils (SEIFA) (average)	1,186	1,230	1,261
Comparable councils (Income) (average)	1,138	1,180	1,209
Business			
Bega Valley	2,836	3,558	4,255
OLG Group 4	4,016	4,174	4,279
Neighbouring councils (average)	3,697	3,858	3,955
Comparable councils (SEIFA) (average)	4,322	4,482	4,594
Comparable councils (Income) (average)	4,927	5,109	5,237
Farmland			
Bega Valley	2,379	2,742	3,279
OLG Group 4	2,602	2,706	2,773
Neighbouring councils (average)	2,084	2,174	2,228
Comparable councils (SEIFA) (average)	3,072	3,186	3,266
Comparable councils (Income) (average)	2,624	2,721	2,789

Note: The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
Source: IPART calculations.

4.3.3 The council's hardship policy

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. Hardship policies generally provide assistance to ratepayers who are experiencing financial difficulties in paying their rates and charges.

We examined the council's hardship procedure, which is available on its website. We found it includes provisions for pensioner rebates, payment deferrals or plans and interest remission for those have difficulty paying their rates.[21]

The council also told us that it has resolved to further review its financial hardship assistance procedures to ensure they are fit for purpose and support local residents with fairness and integrity, particularly in the context of an SV.[22]

4.4 OLG Criterion 4: The council appropriately exhibited and adopted its IP&R documents

Criterion 4 requires the council to exhibit, approve and adopt the relevant Integrated Planning and Reporting (IP&R) documents before applying for the proposed SV.

Note: See Appendix A for the full assessment criteria

To assess whether the council met this OLG criterion, we checked the information provided by the council. We found that it met the OLG criterion. The council:

- publicly exhibited its current Community Strategic Plan and Delivery Program, its previous Long-Term Financial Plan and Strategic Asset Management Plan, and IP&R its Submissions Summary from 4 May 2022 to 1 June 2022
- considered the submissions it received on these documents and then adopted them on 29 June 2022
- considered further community feedback and the capacity to pay report it commissioned, then updated and publicly exhibited its LTFP from 16 November 2022 to 16 January 2023
- adopted this updated LTFP and its updated Strategic Asset Management Plan (which does not need to be exhibited) on 1 February 2023
- submitted its SV application on 3 February 2023.

Box 4.4 IP&R documents

The Integrated Planning and Reporting (IP&R) framework allows councils and the community to engage in important discussions about service levels and funding priorities and to plan for a sustainable future. This framework underpins decisions on the revenue required by each council to meet the community's needs.

The relevant documents are the Community Strategic Plan, Delivery Program, Long-Term Financial Plan (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.

Source: Office of Local Government Integrated Planning and Reporting Guidelines

4.5 OLG Criterion 5: The council explained and quantified its productivity and cost containment strategies

Criterion 5 requires 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 should present their productivity improvements and cost containing strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of those measures have been incorporated in the council's Long Term Financial Plan.

Note: See Appendix A for the full assessment criteria

To assess this OLG criterion, we considered stakeholders' comments on the council's productivity and cost containment strategy, analysed the information provided by the council, and examined some key indicators of the council's efficiency. The sections below discuss our assessment, and why we found that the council met this OLG criterion.

4.5.1 Stakeholder comments on productivity and cost containment

Some submissions to IPART raised concerns relevant to this criterion. In particular, some stakeholders said the council:

- could improve its efficiency
- could further investigate and inform the community about possible productivity improvements
- could reduce spending on a variety of areas such as consultants and staff
- should be audited
- should be placed under administration.

We have considered these concerns as part of our assessment of this criterion.

4.5.2 Our analysis of the council's information on productivity and cost containment strategies

The council provided information on its past and current productivity and cost containment strategies and initiatives in its SV application, IP&R documents and correspondence with IPART.

Past productivity and cost containment strategies

The council's application outlined its past initiatives to increase productivity and ensure cost containment. This information indicated that council used a range of approaches, including:

- reducing costs – identifying and eliminating unnecessary expenses or finding more cost-effective ways to deliver the same service
- increasing revenue – generating new sources of income
- improving budgeting and forecasting – more accurately predicting and managing future financial and asset needs
- optimising debt management – carefully managing its debt load
- enhancing transparency and accountability – ensuring that financial information is accurate, complete and easily accessible to the public
- increasing employee output – through training and use of technology.[23]

The council submitted that across the life of its 10-year LTFP, the productivity and cost saving measures that it has identified total $89.7 million.[24]

Planned productivity and cost containment strategies over the SV period

The council's application says that it plans to implement the following productivity and cost containment strategies over the SV period:

- **Service Review and Asset Prioritisation**. The council has committed to further reviewing asset and service priorities in future years to ensure future financial sustainability. It will also investigate and evaluate potential further productivity savings, such as overtime, job redesign and vacancy freezes, where services and community safety are not jeopardised. In addition, it has sought to leverage resilience focussed grant opportunities available through the Federal Government and the former Resilience NSW to deliver a range of resilience focussed projects.
- **Updated Long Term Financial Plan 2023-32**. The council had prepared an LTFP for 2023-32 that outlined that a 1-year SV of 90% would be required to maintain its current levels of service. However, in response to community feedback, it decided to apply for its proposed 2-year SV of 48.3%. As a result of this decision, it will need to realise $134.5m of capital reductions and $3.3m of operational reductions over the 10 years of the LTFP.[25]

The council submitted that the savings already planned are quantified in its LTFP. The proposed SV only secures its cash position in the short term and allows it to focus on the infrastructure backlog. There is a need to find further significant savings in the longer term or increase revenue to enable the council to deliver its required level of capital works.[26]

We consider the council has:

- achieved some productivity improvements and cost containments in the past
- proposed strategies and activities for improving its productivity and efficiency over term of the SV and beyond
- identified potential productivity measures in its application.

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management, including looking at how these indicators have changed over time and how they compare with those of similar councils.

Table 4.6 shows that between 2017-18 and 2020-21, the council's:

- number of full time equivalent (FTE) staff increased from 326 to 345 FTEs
- average cost per FTE increased by an 2.5% per annum
- employee costs as a percentage of operating expenditure have fluctuated from year to year.

Table 4.7 shows that, compared to other councils in its OLG Group and the NSW average, the council's:

- Ratio of FTE staff to population is slightly lower than the Group 4 average. The council has one FTE for every 100.7 residents, whereas the Group 4 average is one FTE for every 106.7 residents.
- Average cost per FTE and general fund operating expenditure per capita are higher than 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 the council's efficiency and its scope for future productivity gains and cost savings.

Table 4.6 Trends in selected performance indicators, for Bega Valley Shire Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	326	341	343	345	1.9
Ratio of population to FTE	104.6	100.7	100.5	100.7	-1.3
Average cost per FTE ($)	98,669	98,569	108,638	106,238	2.5
Employee costs as % of operating expenditure (General Fund only) (%)	40.7	37.1	41.6	38.6	

Source: IPART calculations

Table 4.7 Select comparator indicators for Bega Valley Shire Council

	Bega Valley Shire Council	OLG Group 4 Average	NSW Average
General profile			
Area (km2)	6,279	4,259	5,524
Population	34,727	39,542	64,030
General Fund operating expenditure ($m)	78.6	78.0	94.5
General Fund operating revenue per capita ($)	3,092	2,426	
Rates revenue as % of General Fund income (%)	31.8	37.7	46.1
Own-source revenue ratio (%)	34.9	58.0	67.3

	Bega Valley Shire Council	OLG Group 4 Average	NSW Average
Productivity (labour input) indicators[a]			
FTE staff	345.0	370.6	380.8
Ratio of population to FTE	100.7	106.7	168.1
Average cost per FTE ($)	106,238	87,506	98,865
Employee costs as % of operating expenditure (General Fund only) (%)	38.6	36.2	37.6
General Fund operating expenditure per capita ($)	2,265	1,973	1,477

Source: OLG, Time Series Data 2020-21 and IPART calculations

4.6 OLG Criterion: Any other matter that IPART considers relevant

IPART may take into account any other matter that it considers relevant.

Note: See Appendix A for the full assessment criteria

We generally consider whether the council has been granted an SV over the past 5 years, and if so, whether the council has complied with any conditions.

We approved a permanent Additional Special Variation (ASV) of 2.50% in 2022-23.

A condition of the approval[27] is that the council in its 2022-23 annual report must outline:

- its actual revenues, expenses, operating results against projections provided in its ASV application
- any significant differences between the actual and projected revenues, expenses, operating results
- the additional income raised by the ASV.

We are unable to assess the council's compliance at the time of this determination. This is because the council's 2022-23 annual report is not yet available as the 2022-23 financial year is still in progress.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG criteria and consideration of stakeholder submissions, we have approved the council's proposed permanent SV to general income from 2023-24 to 2024-25.

The approved increase to general income is set out in Table 5.1 below.

Table 5.1 IPART's decision on the special variation to general income (%)

	2023-24	2024-25
Permanent increase above the rate peg	19.9	17.1
Rate peg[a]	4.1	2.5
Total increase	24.0	19.6
Cumulative increase	24.0	48.3

a. The 2023-24 rate peg is the actual rate peg issued by IPART. The rate peg of 2.5% from 2024-25 is the assumed rate peg that the OLG Guidelines advise councils to use in their forecasts. The approved total increase will not change when an actual rate peg is set in future years.

Source: Bega Valley Shire Council's Application Part A, Worksheets 1 and 4 and IPART calculations.

The SV is subject to the following conditions:

- The council uses the additional income for the purpose of funding the proposed program.
- The council report in its annual report for each year from 2023-24 to 2027-28 (inclusive):
  - the program of expenditure that was actually funded by the additional income, and any differences between this program and the proposed program;
  - any significant differences between the council's actual revenues, expenses and operating balance and the projected revenues, expenses and operating balance as outlined in the Long-Term Financial Plan, and the reasons for those differences;
  - the outcomes achieved as a result of the additional income;
  - the productivity savings and cost containment measures the council has in place, the annual savings achieved through these measures, and what these savings equate to as a proportion of the council's total annual expenditure; and
  - whether or not the productivity improvements identified in its application have been implemented, and if not, the rationale for not implementing them.

5.1 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council proposed in its application, the expected impacts on ratepayers under the approved SV are shown in Table 5.2 below.

This shows that over the 2-year period from 2023-24 to 2024-25, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate would increase by $605 or 51.0%
- the average business rate would increase by $1,420 or 50.1%
- the average farmland rate would increase by $901 or 37.9%.

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2024-25)

	2022-23	2023-24	2024-25	Cumulative increase $	Cumulative increase %
Residential average $ rates	1,187	1,498	1,791		
$ increase		311	294	605	
% increase		26.2	19.6		51.0
Business average $ rates	2,836	3,558	4,255		
$ increase		722	697	1,420	
% increase		25.5	19.6		50.1
Farmland average $ rates	2,379	2,742	3,279		
$ increase		363	537	901	
% increase		15.3	19.6		37.9

5.2 Impact on the council

Our decision means that the council may increase its general income by $5.3 million above the rate peg in 2023-24 and $11.1 million above the rate peg in 2024-25. This increase can remain in the rate base permanently.

Table 5.3 shows the percentage increases we have approved and estimates the annual increases in the council's permissible general income (PGI).

Table 5.3 Permissible general income from 2023-24 to 2024-25 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	24.0	24.0	5,286	6,736	33,298
2024-25	19.6	48.3	11,112	13,262	39,825
Total above rate peg			16,398		

Source: Bega Valley Shire Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

We estimate that over the 2 years from 2023-24 to 2024-25, the council will collect an additional $16.4 million in general income compared with an increase limited to the assumed rate peg. This extra income will enable the council to:

- reduce its infrastructure backlog
- fund ongoing operation, maintenance and renewal of existing assets
- improve its long-term financial sustainability.

With the SV, the council's projected:

- OPR will improve and move closer to the OLG benchmark over the SV period – as shown in Figure 4.1 in section 4.1.3.
- Infrastructure backlog ratio will improve and move closer to the OLG benchmark – as shown in Figure 4.3 in section 4.1.3.
- Infrastructure renewal ratio will not change because the council's capital expenditure program is the same both with and without the SV approval. As shown in Figure 4.4 in section 4.1.3, the ratio will be above the OLG benchmark of 100% in 2023-24 and 2024-25 but then fall below this benchmark in 2025-26.

Appendices

A Assessment criteria

The Office of Local Government (OLG) sets the criteria for assessing special variation applications in its special variation guidelines. The guidelines help councils prepare 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 for a single year or over multiple years and can be temporary or permanent.

IPART applies the criteria in the guidelines to assess councils' applications. In brief, the 6 criteria for a special variation include:

1. 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
2. there must be evidence that the community is aware of the need for and extent of a proposed rate rise
3. the impact on affected ratepayers must be reasonable
4. the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
5. the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
6. any other matter that IPART considers relevant.

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.

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, Long-Term Financial Plan and Asset Management Plan where appropriate.

In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[4]:

- 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.

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

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

In assessing this criterion, IPART will also consider 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.

Criterion 2: Community awareness

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long-Term Financial Plan 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. 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. 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.

Criterion 3: Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's Delivery Program and Long-Term Financial Plan 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[5] 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. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

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 Long-Term Financial Plan.

Criterion 6: 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.

[5] The relevant documents are the Community Strategic Plan, Delivery Program, and Long-Term Financial Plan 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 Long-Term Financial Plan (General Fund) be posted on the council's web site.

B Bega Valley Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the council is to report over the next 5 years against its proposed SV expenditure and its projected revenue, expenses and operating balance as set out in its LTFP (see Table B.1 and Table B.2).

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 B.1 Summary of projected operating statement for Bega Valley Shire Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	110,109	94,920	88,697	81,557	78,994	80,171	81,321	83,787	87,381	91,374	91,961
Total expenses	88,396	76,433	78,280	77,276	79,795	82,610	84,709	87,487	90,050	93,123	95,824
Operating result from continuing operations	21,713	18,487	10,417	4,281	-801	-2,438	-3,388	-3,700	-2,669	-1,749	-3,862
Net operating result before capital grants and contributions	-11,447	-8,125	-5,710	-2,876	-3,520	-4,381	-4,547	-5,311	-5,810	-6,727	-7,300
Cumulative net operating result before capital grants and contributions	-11,447	-19,572	-25,282	-28,157	-31,678	-36,059	-40,606	-45,917	-51,727	-58,454	-65,754

Note: Numbers may not add due to rounding.
Source: Bega Valley Shire Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table B.2 Summary of projected expenditure plan for Bega Valley Shire Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
SV revenue above assumed rate peg	5,286	11,112	11,390	11,675	11,967	12,266	12,572	12,887	13,209	13,539
Total use of proposed SV income for asset backlog and unfunded renewals	5,286	11,112	11,390	11,675	11,967	12,266	12,572	12,887	13,209	13,539

Note: Numbers may not add due to rounding.
Source: Bega Valley Shire Council, *Application Part A*, Worksheet 6 and IPART calculations.

Glossary

ABS	Australian Bureau of Statistics
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
IP&R	Integrated Planning and Reporting framework
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OPR	The Operating Performance Ratio (OPR) measures whether a council's income will fund its costs, where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.
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.
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.

[1] Bega Valley Shire Council, *Application Part A*, Worksheet 1.
[2] Local Government Act 1993, Section 511
[3] Bega Valley Shire Council, *Application Part A*, Worksheet 1.
[4] Bega Valley Shire Council, *Application Part B*, p 8.
[5] Bega Valley Shire Council, Capacity to Pay Report, p. 30-31.
[6] Bega Valley Shire Council, LTFP, p 14.
[7] Bega Valley Shire Council, LTFP, p 11.
[8] Bega Valley Shire Council, Application Part B, p 20.
[9] Office of Local Government, Performance Benchmarks, May 2020.
[10] Bega Valley Shire Council, Application Part B, p 9, 20.
[11] Bega Valley Shire, 2022 Annual Financial Statements for the year ended 30 June 2022, November 2022, p. 29.
[12] Bega Valley Shire, 2022 Annual Financial Statements for the year ended 30 June 2022, November 2022, p. 29.
[13] Bega Valley Shire Council, Special Variation Application Part, Worksheet WK7 – Financials.
[14] Bega Valley Shire Council, Further information provided to IPART, 15 March 2023, p 10.
[15] Bega Valley Shire Council, Further information provided to IPART, 15 March 2023, pp 2-7.
[16] Bega Valley Shire Council. Attachment – Community Engagement Materials – SRV Community Engagement Summary, p 14.
[17] Bega Valley Shire Council. Attachment – Community Engagement Materials – SRV Community Engagement Summary, p 8.
[18] Bega Valley Shire Council, Application Part B, pp 33-34.
[19] Bega Valley Shire Council, Application Part B, pp 39-40.
[20] Bega Valley Shire Council, Application Part B, pp 39-40.
[21] Bega Valley Shire Council, Application Part B, p 43.
[22] Bega Valley Shire Council, Application Part B, pp 43-44.
[23] Bega Valley Shite Council, Application Part B, pp 53-57.
[24] Bega Valley Shire Council, Application Part B, p 58.
[25] Bega Valley Shire Council, Application Part B, p 59.
[26] Bega Valley Shire Council, Application Part B, p 60.
[27] IPART, Instrument - Bega Valley Shire Council 2022-23 - s508(2) permanent ASV + CLA, July 2022.

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