IPART Independent Pricing and Regulatory Tribunal | NSW

Federation 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

Federation Council (the council) applied for a permanent special variation (SV) to increase its general income by 74.59% over 4 years. This includes increases of 19% in 2023-24, 17% in 2024-25, 14% in 2025-26 and 10% in 2026-27 (inclusive of the rate peg).[1]

The council sought the special variation to fund asset renewals and improve its financial sustainability.[2]

1.1 IPART's decision

We have not approved the council's application. While the council demonstrated that it met most of the Office of Local Government (OLG) criteria for an SV, we found that there were key shortcomings in its community consultation, such as:

- the council did not clearly communicate the cumulative percentage increase of its proposed SV to the community, and
- a substantial portion of the council's community consultation was completed without providing the Baseline (or no-SV) scenario in its LTFP.

Instead, we have approved a 2-year temporary SV of 39.2%, which is made up of an increase of 19% in 2023-24 then a 17% increase in 2024-25. We have made this decision after considering the council's financial needs, the effectiveness of its community consultation and the impact on affected ratepayers.

Our assessment found that without an SV, the council's financial position would continue to deteriorate over the next 10 years. It is apparent that without additional funds, this would impact the council's ability to renew infrastructure and deliver services to the community.

Some stakeholders raised concerns about the impact of the council's proposed SV increase on the affordability of rates. Many submitted that the increased cost of living and interest rates were having an impact on households' finances. In addition, stakeholders submitted that the council had not conducted effective consultation and had not transparently communicated with the community.

We have considered these concerns as part of our assessment and factored them in to our decision to approve a 2-year temporary SV.

On balance, we consider that the impacts of increases resulting from a 2-year temporary SV of 39.2% are generally reasonable given the proposed purpose of the SV to fund asset renewals and improve financial sustainability. With this increase, the council's average estimated residential and business rates in 2024-25 will still be lower than most other comparable councils. However, we acknowledge that there are some ratepayers that are more vulnerable to increases in rates under the SV. In addition, estimated average farmland rates in 2024-25 will generally be higher than other similar councils.

We note that the council adopted a revised hardship policy in November 2022 to assist ratepayers who have difficulty paying their rates. This includes short and long-term payment plans for ratepayers experiencing financial hardship. The policy also has SV-specific hardship provisions for residential and farmland ratepayers to have ordinary rates deferred to 30 June in the applicable financial year.[3] We consider that the size of the increases in 2023-24 and 2024-25 mean that it is important that the council effectively communicates how its hardship policy would be applied to ratepayers experiencing hardship.

We also found that the council has demonstrated past achievements in delivering productivity improvements and had quantified future cost containment strategies that are proportionate to the size and resources of the council. However, the council should continue to pursue productivity improvements to minimise costs to ratepayers and ensure financial sustainability over the long-term.

In the long-term, the council needs to balance its financial sustainability with the impacts on all ratepayers and decide on what is in the best interests of the community. If the council makes a future SV application, it should seek to adequately demonstrate improved community engagement consistent with the OLG criteria for an SV.

Table 1.1 Comparison of the council's application and IPART's decision

	2023-24	2024-25	2025-26	2026-27	Cumulative increase
Council's application	19%	17%	14%	10%	74.59%
IPART's decision	19%	17%	Rate peg	Rate peg	39.2%

a. IPART's SV decision sets the council's permitted increases to general income for Year 2023-24 only. From 2024-25 the council's general income will be subject to the usual rate peg (or any future SV).

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 Special Variation Guidelines). We found that this proposed SV does not meet OLG's criteria. Our assessment against each criterion is summarised below.

Criteria | Grading | Assessment

01 | Demonstrated

Financial need

The council demonstrated a financial need for the SV to maintain existing services, fund asset renewals and improve financial sustainability. Without the SV, the council is forecast to have a deficit in its general fund for the next 10 years.

However, the council did not canvass alternatives to the SV in its IP&R documents, including the Delivery Program and Long-Term Financial Plan (LTFP).

02 | Not demonstrated

Community awareness

The council communicated elements of its proposed SV to the community, but its consultation process had shortcomings. For example:

- Some of the advertisements and social media posts for workshops seeking feedback on the LTFP did not make it clear the council was considering substantial increases in rates.
- The LTFP the council used in its initial consultation (from May 2022) did not include a no-SV (Baseline) scenario. This information was provided in December 2022. However, this timing meant ratepayers had limited opportunities to consider the no-SV scenario.
- The council did not clearly communicate the cumulative impact of the SV to ratepayers.

03 | Demonstrated

Reasonable impact on ratepayers

The impact of the proposed SV is significant for ratepayers. By the end of its proposed 4-year permanent SV in 2026-27, its average residential and farmland rates would be higher than those councils that are similar to Federation Council. The average business rates are estimated to be generally lower than other similar councils.

However, the council did take the impact of the proposed SV into account, including reviewing its hardship policy and undertaking a capacity to pay study.

Criteria	Grading	Assessment
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited and adopted all necessary Integrated Planning and Reporting (IP&R) documents.
05	Demonstrated	**Productivity improvement and cost containment** The council listed and quantified past and planned productivity and cost containment strategies.
06		**Other matters IPART considers relevant** Over the past 5 years, IPART granted the council one SV to increase its general income. In 2021-22, we approved its application for a 1-year permanent SV to increase its general income by 8%. The purpose of that SV was to help fund the ongoing operating expenditure for the Corowa Aquatic Centre.[4]

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the Integrated Planning and Reporting (IP&R) framework. The OLG criteria that we assess SV applications against requires us to look at the consultation the council has undertaken with its community as part of our assessment.

Federation Council consulted on its proposed SV with its community, including through public meetings attended by over 150 participants.[5]

As a further input to our assessment, we published the council's application on our website for a three-week consultation period in which stakeholders could make submissions directly to IPART. Through this process we received 269 submissions on Federation Council's proposed SV. Stakeholders that made submissions to us raised the following concerns:

- affordability of the proposed rate increases
- the council's consultation for the proposed SV, including its transparency
- the council's financial management
- the council's consideration of alternatives to the SV to meet its financial needs
- the previous amalgamation of Corowa Shire Council and Urana Shire Council.

This feedback and our consideration of it is discussed in Chapter 3 and throughout this report.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the approved SV period. We encourage the council to consult with its community to decide how best to implement the increase to help manage the impact on ratepayers. The approved SV is the maximum permitted amount, and the council can choose to set its rates including deferring any increases for up to 10 years.[6]

As noted in Table 1.1, the 2-year temporary SV of 39.2% we have approved is consistent with the first year and second year of the council's proposed 4-year SV of 74.59%. Table 1.2 sets out the council's proposed increase in rates for the first 2-years. The council retains the discretion to revise how it raises its general income across the rating categories.

The council should also pursue further productivity improvements over time, to minimise costs to ratepayers and improve its long-term financial sustainability. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.2 Council's proposed increase in rates

	2023-24	2024-25	Cumulative increase
Residential	19.0%	17.0%	39.2%
Business	19.1%	17.0%	39.2%
Farmland	19.0%	17.0%	39.3%

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

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

2 The council's special variation application

Federation Council applied to IPART to increase its general income through a permanent SV of 74.59% (including the rate peg) over the next 4 years. This includes increases of 19% in 2023-24, 17% in 2024-25, 14% in 2025-26 and 10% in 2026-27 (inclusive of the rate peg).[7]

The council sought the SV to:

- fund asset renewals
- improve its financial sustainability.[8]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories over the 4-year SV period. It proposed that its:

- residential rates would increase $537 or 74.6%, in total, by 2026-27
- business rate would increase $952 or 74.6%, in total, by 2026-27
- farmland rate would increase $2,699 or 74.5%, in total, by 2026-27.

The council provided the number of ratepayers for each category in 2022-23 (Table 2.1).

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	6,316
Business	708
Farmland	1,049

Source: Federation Council, Part A application Worksheet 2

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed SV. It commissioned consultants to undertake a capacity to pay analysis to consider the impact on ratepayers in paying the proposed SV rates.[9]

The consultants investigated the socio-economic characteristics of the Federation local government area (LGA). These characteristics included the levels of employment, income and expenditure, housing costs, and the levels of homeownership and renting. They also examined the impact of COVID-19 and recent increases in inflation on the area. In addition, they considered the impact of the proposed SV by area, including Corowa, Howlong, Mulwala, Corowa Rural Districts and Urana and surrounds.

The council has a hardship policy, which it reviewed in November 2022. The hardship policy provides short- and long-term payment plans for ratepayers experiencing financial hardship. In addition, it states for pensioners, the council will freeze interest on outstanding debt and not subject property for sale due to overdue rates.[10] For non-pensioners, it states that owners subject to residential and farmland rates may apply to have a particular year's ordinary rates bill deferred to 30 June in the applicable financial year.[11]

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

The council estimated that its proposed permanent 4-year SV, with a cumulative increase of 74.59%, would result in a $14.7 million cumulative increase in the council's total permissible general income over the next 4 years (above the assumed rate peg).

2.4 Further information provided

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

- whether it had communicated the cumulative increase of the proposed SV to the community
- whether its IP&R and community engagement materials made references to the SV
- its public consultation process on its LTFP after the council incorporated the no-SV (Baseline) scenario in the LTFP.

The council provided correspondence to clarify the items above. We incorporated this information into our analysis, in particular section 4.2, which assessed the council's community engagement and awareness about the proposed SV.

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 269 submissions during the submission period from 10 February 2023 to 3 March 2023. There are approximately 8,100 ratepayers in the council's local government area.

The key issues and views raised in these submissions are summarised below.

3.1.1 Affordability of a rates increase

More than three-quarters of the submissions raised concerns about the impact of the council's proposed SV increase on the affordability of rates. Many said that the increased cost of living and interest rates were having an impact on households' finances. Some stakeholders on fixed incomes, including retirees and pensioners, also said the proposed SV would further exacerbate their financial hardship. Our consideration of these views is discussed in section 4.3.

3.1.2 The council's consultation on the SV

Around 200 submissions said the council had not conducted effective consultation on the proposed SV and had not transparently communicated with the community. These stakeholders' comments included that:

- they only became aware of the SV through word of mouth, rather than communication from the council
- key information about the SV was only accessible via the Internet, which was not appropriate for a large proportion of ratepayers who were not comfortable with this medium, or do not have stable Internet access
- they were unclear what the council's proposed SV was to fund
- the cumulative percentage impact of the council's proposed SV was communicated as 60% rather than the correct figure of 74.59%.

Our consideration of these concerns is discussed in section 4.2.

3.1.3 The council's financial management

In around 90 submissions, stakeholders put the view that the council had not used its resources efficiently and the proposed SV was a way for it to mitigate its financial mismanagement. Several submissions used the Corowa Aquatic Centre as an example of financial mismanagement, noting this project had run over budget and been funded by a previously approved SV.

We have considered these concerns and outlined our conclusion in section 4.5.

3.1.4 The council's consideration of alternatives to the SV

In a quarter of the submissions, stakeholders said the council had not communicated genuine alternatives to pursuing an SV. Some put the view that the council seemed to have taken an 'all or nothing' approach, where the only alternative to an SV were cuts to services.

Our consideration of these concerns is discussed in in section 4.1.

3.1.5 The amalgamation of Corowa Shire and Urana Shire

Approximately 50 submissions expressed frustration that the merger of Corowa Shire and Urana Shire did not lead to financial savings and efficiencies. As an example, a few stakeholders stated that the merged council's full-time equivalent employee count has increased compared to that of the pre-merger councils. A few also said the lack of savings from the amalgamation was another example of mismanagement by the current Federation Council.

We are not able to comment on the link between the amalgamation and the merged councils' performance. However, we have assessed whether the council explained and quantified its productivity improvements and cost containment strategies (see section 4.5).

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[a] As required, we assessed the council's SV application against the 6 criteria set out in the OLG Guidelines. We found that the application only met some criteria for its proposed SV. Specifically, we found the council:

- demonstrated a financial need for the proposed SV, but did not canvass alternatives to the SV in its IP&R documents
- had engaged with ratepayers and the community to raise awareness of the proposed SV, but its community engagement and consultation process had important shortcomings
- had a hardship policy in place, but the impact of the proposed SV (74.59% over 4 years) on ratepayers is still significant
- exhibited, approved and adopted its IP&R documentation appropriately
- listed and quantified past and planned productivity and cost containment strategies
- applied for a 1-year permanent SV of 8% in 2021-22, which was approved.

On balance, we decided the council had not done enough to show that its proposed permanent 4-year SV with a cumulative increase of 74.59% met the OLG Guidelines. Instead, we granted the council a temporary 2-year SV with a cumulative increase of 39.2%.

There were shortcomings in the council's community engagement process about the SV. We found that the council did not widely communicate the cumulative percentage impact of its proposed SV of 74.59%. This led to some media outlets erroneously reporting the cumulative SV increase as 60%, which is simply the sum of the annual proposed increases of 19%, 17%, 14% and 10%, over the next 4 years. The cumulative percentage impact was only communicated in a FAQ document that was part of its budget consultation materials.[12]

We also found that a substantial portion of the council's community consultation was completed without providing the Baseline (or no-SV) scenario in its LTFP. We acknowledge that the council provided this information via an addendum to its LTFP in December 2022. However, this timing meant ratepayers had limited opportunities to consider the no-SV scenario.

Our assessment also found that the impact of the proposed SV on ratepayers would be significant given the community's capacity to pay. Currently, the council's average residential, business and farmland rates are higher than its neighbouring councils. After the proposed 4-year SV increase is applied, the average residential, business and farmland rates would be above comparable councils. Although we acknowledge the council has a hardship policy, we note that the proposed 4-year SV would have a large impact on ratepayers.

Conversely, we found that the council's forecasts demonstrate that there is a financial need to increase its revenue above the rate peg to improve its finances.

[a] 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(6), 508(7), 508A, 548(3) and 548(8) of the *Local Government Act 1993* (NSW), pursuant to section 744 of that Act.

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 full details of Criterion

To assess whether the council met this criterion, we reviewed the council's Integrated Planning & Reporting (IP&R) documents and the information in its application. We undertook our own analysis of the council's financial performance and position. We also considered stakeholders' comments on financial need in the submissions we received.

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

4.1.1 Stakeholder comments on financial need

In submissions to us, stakeholders raised a range of concerns related to the financial need criterion. They stated that:

- there was not a financial need for the SV
- the council hadn't made it clear what the additional income from the SV would be spent on
- funds from the previous SV were not used effectively, as evidenced by the Corowa Aquatic Centre running over budget
- the need for the SV is due to the council's poor financial management and oversight
- alternatives to an SV were not considered.

We considered these concerns, taking account of all the information available to us. We found the council does have a financial need (see section 4.1.3), and the council did articulate what the additional income from its proposed SV would be spent on (section 4.1.2). However, its IP&R documents did not canvass alternatives to the SV (section 4.1.3).

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[13], Delivery Program[14] and Strategic Asset Management Plan[15], clearly identify and articulate the need for and purpose of the SV. The documents state that the proposed SV would allow the council to:

- improve its financial sustainability
- provide similar levels of service to the community
- address existing asset management demands.

In its Delivery Program, the council lists the following asset-related programs that the proposed SV would fund:

- maintain and improve roads, bridges, and footpaths to meet the needs of residents and industry
- maintain and improve aquatic, recreational, and other community facilities to meet the needs of residents
- maintain and improve stormwater and flood protection systems to meet the needs of residents and industry, and
- develop several masterplans and other urban strategies.[16]

However, we found that the IP&R documents did not canvass alternatives to the SV, as required under Criterion 1. We however note that the council did communicate alternatives to the SV in some of its consultation materials.

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 for the council 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 that SV. This scenario is a guide to the council's financial sustainability if it still went ahead with the 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 proposed 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.[17]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 zero percent.

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*.

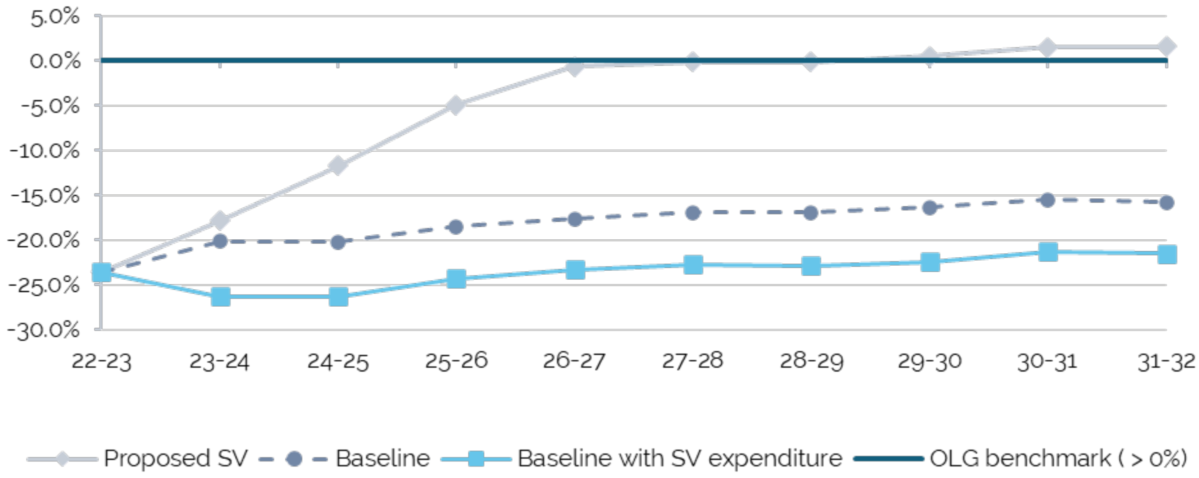
Based on council's forecasts, we found that, over the next 5 years:[b]

- **Under the Proposed SV scenario,** the council's OPR would improve from -23.6 in 2022-23 to reach the OLG's benchmark of greater than 0% by the end of the period (Figure 4.1). Its average OPR over this period would be -7.1% (Table 4.1).
- **Under the Baseline Scenario and Under the Baseline with SV expenditure Scenario**, the council's OPR would improve slightly but remain well below the OLG benchmark for the whole period. Its average OPR under these scenarios would be -18.7% and -24.6%, respectively.

This suggests that the council is in a poor financial position and may not be financially sustainable in the long term.

[b] We averaged over a 5-year period rather than 10 years because we recognise forecasts are subject to variability.

Figure 4.1 The council's OPR from 2022-23 to 2031-32



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

Table 4.1 The council's projected OPR with proposed special variation, 2023-24 to 2031-32(%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	-17.9	-11.7	-4.9	-0.7	-0.1	-0.1	0.5	1.5	1.6
Baseline	-20.1	-20.2	-18.5	-17.6	-16.9	-16.9	-16.3	-15.5	-15.8
Baseline with SV expenditure	-26.3	-26.3	-24.3	-23.3	-22.7	-22.9	-22.4	-21.3	-21.5

Source: Federation Council, Application Part A

Impact on net cash

A council's net cash (or net debt) 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 $28.3 million[18] in cash reserves with:

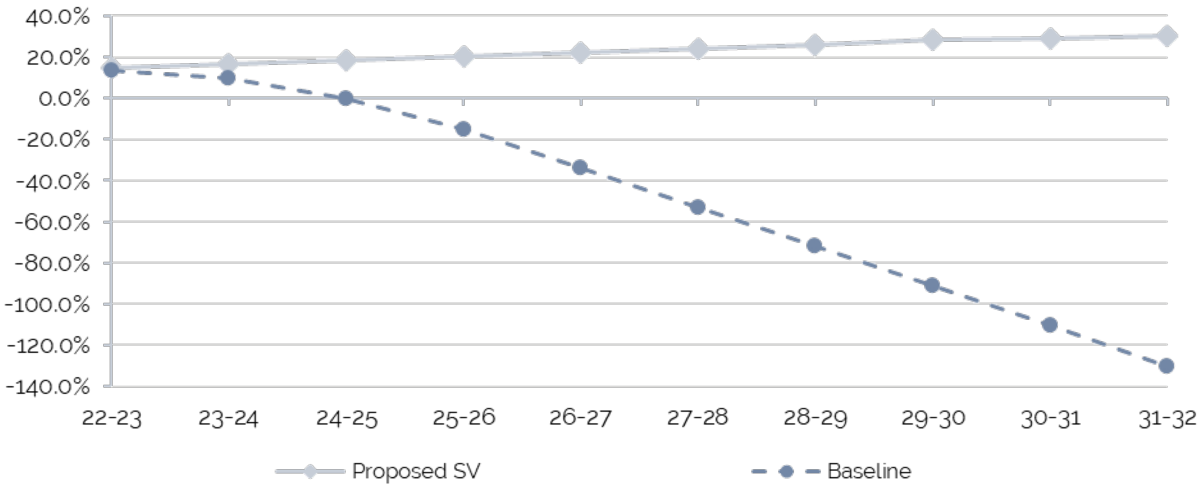
- **$9.5 million was externally restricted** (i.e., subject to external legislative or contractual obligations such as developer contributions, specific purpose unexpended grants and funds tied to its water and sewer funds[19])
- **$16.0 million was internally restricted** (i.e., subject to a council 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. Examples for the council are employees leave entitlement and capital works such as gravel pits restoration. [20])
- **$2.8 million unrestricted.**[21]

This shows the council's cash reserves were committed to other purposes, and not available to fund the proposed SV expenditure.

We calculated that as at 30 June 2023, the council's net cash would be $3.9 million, or 14.6% of its income. As Figure 4.2 shows, our analysis found that by 30 June 2032:

- **under the Proposed SV Scenario**, the council's net cash to income ratio would increase to 30.6%
- **under the Baseline Scenario**, the council's net cash (debt) position to income ratio decreases to -130.3%

Figure 4.2 The council's net cash (debt) to income ratio, 2022-23 to 2031-32 (%)



Source: Federation Council, Application Part A and IPART calculations.

Taking into account the council's OPR and net cash position, we found that the council's forecasts demonstrate a financial need to increase its revenue above the rate peg to improve its financial position and sustainability.

Impact on infrastructure ratios

Managing 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*.

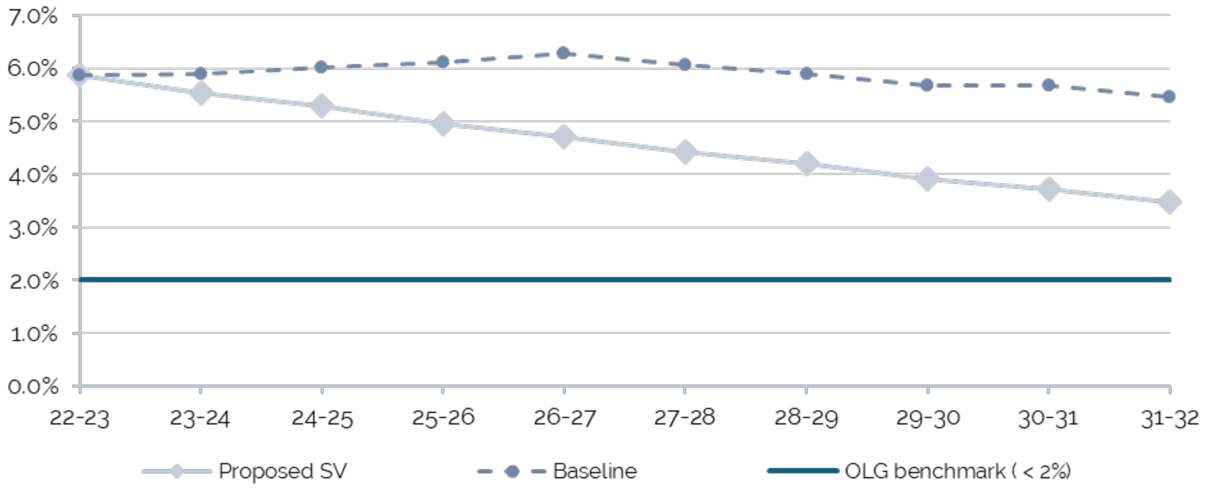
Impact on infrastructure backlog ratio

Based on council's forecasts, we found that over the next 5 years, the council's infrastructure backlog ratio would be higher (i.e. perform worse) than the OLG benchmark of 2% with or without the SV (Figure 4.3).

Over the next 5 years, the council's average infrastructure backlog ratio would average:

- 5.0% with the Proposed SV Scenario
- 6.1% under the Baseline Scenario.

Figure 4.3 The council's infrastructure backlog ratio 2022-23 to 2031-32 (%)



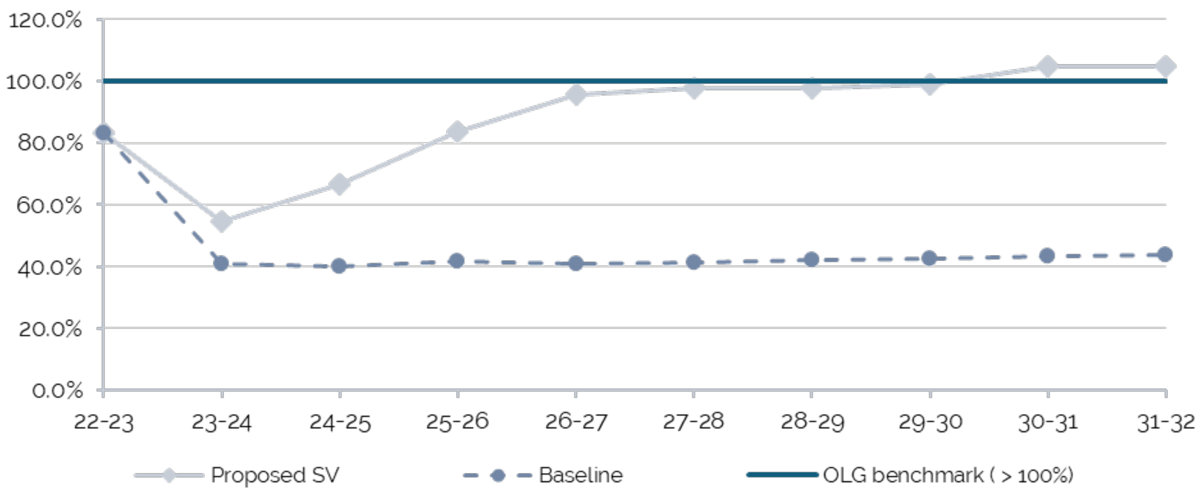
Source: Federation Council Application Part A

Impact on infrastructure renewals ratio

Based on council's forecasts, we found that under the Proposed SV Scenario, the council's infrastructure renewals ratio would improve. As Figure 4.4 shows, this ratio is forecasted to increase from 54.5% in 2023-24 to 104.9% in 2031-32.

However, under the Baseline Scenario, the council's infrastructure renewals ratio would remain substantially below the benchmark, improving only marginally from 40.8% in 2023-24 to 43.9% in 2031-32.

Figure 4.4 The council's infrastructure renewal ratio, 2022-23 to 2031-32 (%)



Source: Federation Council, Application Part A

Together with the impact on the infrastructure backlog, this indicates that the proposed SV would allow the council to address its asset demands.

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 to meet the financial need. We found that it did not.

The council's LTFP did outline some alternative scenarios, including one with service reductions in discretionary services and no increase in service levels for roads and other community infrastructure in the absence of additional general income.[22] However, these scenarios all incorporated smaller SVs, rather than presenting *alternative* scenarios to address financial sustainability *without* an SV (that is, the 'Baseline scenario' required in Criterion 1 of the Guidelines).

The council outlined alternatives to the SV in some of its materials for its community consultation process (the Frequently Asked Questions (FAQ) handout for its Budget Roadshow). These alternatives included a review of additional assets that could be sold, and further grant opportunities to support financial viability.[23] To fully meet Criterion 1, the council should also have outlined these strategies in its IP&R documents, such as its LTFP.

We also investigated whether and to what extent the council has any available deferred rate increases. We found that it does not have any deferred rate increases available to it.[24]

4.2 OLG Criterion 2: The council did not demonstrate 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 full details.

To assess this 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 did not meet this criterion.

4.2.1 Stakeholder comments on community awareness

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

- did not inform them of rate increases associated with its proposed SV
- was not clear about the reason for the rate increases
- did not respond to community concerns about the proposed rate increases
- did not make information about the cumulative increase of the proposed SV easily available.
- initially communicated the cumulative increase of the proposed SV over 4 years as 60% rather than the correct figure of 74.59%.

We have considered these concerns alongside other information related to this criterion. Our conclusions are discussed in section 4.2.2.

4.2.2 Our assessment of council's engagement and consultation

To assess 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 were 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.

Overall, we found the council did engage and consult the community to raise awareness of the need for, and extent of, the proposed rate rises. However, there were shortcomings in the information it provided to the community and in its engagement process.

Information provided by the council

We found the materials the council prepared for ratepayers on its proposed SV included some of the content needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. For example, the materials[25] covered:

- the impact of the proposed rate increases to ratepayers in dollar terms across various categories of ratepayers in its LTFP[26]
- increases with and without the SV across various categories of ratepayers
- the annual change (i.e. the SV increase in dollar terms) for each affected rating category
- what the proposed SV would fund.

However, key information was missing from the materials made available during the initial consultation phase and/or was not sufficiently clear. For example, we found that the council did not widely communicate the cumulative percentage impact of its proposed SV of 74.59%. Its LTFP and Delivery Plan did not set out this cumulative increase in percentage and dollar terms for the average ratepayer, by rating category.

One stakeholder submitted that it had only been able to find one instance where the council had published or commented on the full cumulative increase.[27] The same stakeholder noted that they made numerous submissions to the council requesting for clear and exact communication on the total cumulative percentage and total dollar terms. The council told us that it noted the feedback that community members sought to understand the actual dollar impact, so council advised that this was prioritised in the council's communications.[28]

In addition, some of its advertisements and social media posts for workshops seeking feedback on the LTFP did not make it clear that substantial increases in rates were being considered by the council.[29]

This may have led some media outlets to erroneously report the cumulative SV increase as 60%, which is simply the sum of the annual proposed increases of 19%, 17%, 14% and 10%, over the next 4 years. The cumulative percentage impact was only communicated in an FAQ handout for its Budget Roadshow, which is publicly available on the council's website.

In addition, we found that the LTFP the council used during the initial consultation phase (from May 2022) did not include a Baseline Scenario as required. It only included its financial forecasts for this scenario in the LTFP in December 2022.

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, its engagement methods throughout the consultation period included:

- an online survey and paper copy survey to gauge community views
- in person and online information sessions
- a promotional video featuring councillors
- media releases and social media posts
- its website's latest news updates and Have your Say section
- email banners across all council email accounts
- email to all council committees.[30]

Process for community consultation

We found that the process the council used for community engagement and consultation was not as effective as it could be. This was because the shortcomings of the materials made available during the initial consultation phase limited the community's opportunities to provide timely feedback.

The council initially consulted with the community on the proposed SV in May to October 2022. During this time, it would have conducted online and paper copy surveys on the proposed SV outlined in its June 2022 LTFP.[31] However, as noted above, this version of the LTFP did not include information on the Baseline Scenario (with no SV).

We acknowledge that the council included the Baseline Scenario in an addendum to its LTFP after the initial consultation period and consulted on this scenario during December 2022 and January 2023. However, this was late in the process, leaving ratepayers limited time to provide feedback.

Outcomes of community consultation

As noted above, 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. In its SV application, it summarised the key themes raised by stakeholders and its response to feedback. For example, the key themes it considered included:

- ability of ratepayers, particularly pensioners, to afford increased rates
- condition of rural roads and need for service reviews of all council services
- certainty that increased rural rates will be committed to increased investment in rural roads
- accountability and transparency, including in service reviews and any planned productivity and efficiency measures
- productivity improvements and cost containment strategies
- lack of responsiveness to communications
- clear plan for future infrastructure renewal and investment
- quantum of general rate increase
- focus on core services such as roads, waste, water and sewerage
- better planning for new projects including whole of life costing
- an expectation that service reviews and efficiency and productivity measures should have all been done prior to any proposed rate increases being quantified/sought
- clearer communication and a stronger engagement prior to this stage of the SV proposal.[32]

The council also advised IPART that it had improved its external communication so it provided information on the overall cost of projects and whether they are funded by grant or council contributions. [33] The council also noted that it will focus on better communicating its productivity improvements and cost containment strategies to the community in the council's 2023-24 planned IP&R engagement.[34]

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 full details.

To assess this criterion, we considered stakeholder comments on the SV's impact on ratepayers, and whether the council has policies in place to mitigate impacts of rate rises, including whether there is a hardship policy. We also analysed the council's 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 criterion.

4.3.1 Stakeholder comments on impact on ratepayers

As section 3 discussed, more than 200 of the 269 submissions we received raised concerns about the impact of the proposed SV on ratepayers. There are approximately 6,300 residential ratepayers in the council. For example, submitters said:

- the SV would have a significant impact on ratepayers due to broader economic pressures of high inflation and interest rates
- the SV would have a large impact for ratepayers on fixed incomes such as pensioners
- the data used by Morrison Low to complete the council's capacity to pay study was outdated.

We have considered these concerns as part of our assessment of this criterion. Our conclusions are outlined in section 4.3.2 below.

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 5 years, and how its rates compare to those of other councils.

Impact on average rates

The council assessed the impact on ratepayers. Table 4.2 sets out its estimates of the expected increase in average rates in each main ratepayer category under the proposed 4-year permanent SV. This shows that over the proposed SV period (2023-24 to 2026-27):

- the average residential rate would increase by $537 or 74.6%
- the average business rate would increase by $952 or 74.6%
- the average farmland rate would increase $2,699 or 74.5%.

Table 4.2 Impact of the council's proposed special variation on average rates

	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative increase $	Cumulative increase %
Residential average $ rates	720	857	1,002	1,143	1,257		
$ increase		137	145	140	115	537	
% increase		19.0	17.0	14.0	10.1		74.6
Business average $ rates	1,276	1,520	1,777	2,026	2,229		
$ increase		243	258	249	203	952	
% increase		19.1	17.0	14.0	10.0		74.6
Farmland average $ rates	3,622	4,311	5,045	5,748	6,321		
$ increase		689	734	703	572	2,699	
% increase		19.0	17.0	13.9	10.0		74.5

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's capacity to pay analysis[35], provides an analysis and evaluation of relative wealth and financial capacity to pay the proposed rate increase within the Federation local government area (LGA). It also examines the financial vulnerability and exposure of different community groups within the LGA.

The report found that the Federation LGA has a lower SEIFA score[c] compared to many other LGAs nationally.[36] This suggests the community generally has a relatively lower capacity to pay, as this score measures a population's relative disadvantage.

The report also found that the council's proposed rate increases would have differing impacts on ratepayers, depending on their location within the LGA. In general, the impacts on those with more capacity to pay would be larger than those with less capacity to pay. For example:

- For residential ratepayers, those in the Mulwala area (which has the second highest SEIFA score) will face the largest rate increases. Those in the Urana and surrounding area (which has the lowest SEIFA score) will face the smallest increases.
- For business ratepayers, those in Mulwala will experience the largest rate increases, due to the higher land values in that area.

[c] Index of Relative Socio-Economic Disadvantage (IRSD) score

- For farmland ratepayers, those in the Corowa Rural Districts will experience the largest rises, followed by those in the Mulwala area, again stemming from the higher land values in these areas.[37]

How the council's rates changed over time

Between 2017-18 and 2022-23, the average annual growth in the council's residential, business and farmland rates has been higher than the rate peg. For example, as Table 4.3 shows, residential rates have increased at an annual average of 6.2%. This compares to the average rate peg of 2.1% over the same period.

An explanation for the higher annual growth percentage compared to the average rate peg over the same period, may be due to an 8% SV that was approved in 2021-22.[38] The purpose of that SV was to fund the ongoing maintenance of the Corowa Aquatic Centre.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	533	583	597	615	664	720	6.2
Business	883	952	931	958	1,034	1,276	7.6
Farmland	2,959	3,051	3,226	3,401	3,673	3,622	4.1

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

The council's current average rates – that is, before the proposed SV – are lower than some neighbouring councils, and higher than others. However, they are generally low compared to those of comparable NSW councils (those in OLG Group 11), except for farmland rates. Further information about how we used comparable councils is provided in Box 4.3.

Box 4.3 Comparable councils

In our analysis, we have compared Federation 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.
- Federation Council is in OLG Group 11 which is considered a large rural area and also includes Bellingen Shire Council, Cabonne Council and Cootamundra-Gundagai Regional Council.
- 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.
- Federation Council has a SEIFA rank of 37 out of 128 councils in ABS 2016 which is high and indicates relative advantage
- The 4 councils with closest SEIFA rank within the OLG group 11 are Narrabri Shire Council, Gunnedah Shire Council, Leeton Shire Council and Snowy Valleys Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Federation Council to the 4 councils within OLG group 11 with closest median income ranking. These are Bellingen Shire Council, Murray River Council, Hilltops Council and Inverell Shire Council.

Neighbouring councils

- We compared Federation Council to the neighbouring councils of Berrigan Shire Council, Murrumbidgee Council, Narrandera Shire Council, Lockhart Shire Council and Greater Hume Shire Council.
- These councils are geographically close to Federation Council but do not necessarily share a common border.

As Table 4.4 shows, in 2022-23 the council's:

- average residential rates are higher than 3 neighbouring councils, but lower than all comparable councils based on SEIFA score, lower than most comparable councils based on income, and lower than the average for other Group 11 councils
- average business rates are higher than 3 neighbouring councils, but lower than most comparable councils based on SEIFA and income, and lower than the average for other Group 11 councils
- average farmland rates are higher than 3 neighbouring councils, all comparable councils based on income and higher than the average for other Group 11 councils, but lower than 3 other comparable councils based on SEIFA score.
- outstanding rates ratio is lower than 3 neighbouring councils, 3 comparable councils based on SEIFA scores, 2 comparable councils based on income, and the OLG Group 11 average.

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 (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Federation (11)	720	1,276	3,622	61,724	1.2	5.1	37
Neighbouring councils							
Berrigan	786	1,471	2,302	58,656	1.3	3.1	36
Murrumbidgee	332	537	4,470	72,852	0.5	4.6	54
Narrandera	706	1,291	3,782	61,568	1.1	8.8	23
Lockhart	358	518	1,882	67,340	0.5	6.5	81
Greater Hume Shire	892	516	2,376	73,840	1.2	5.7	79
Average	**615**	**866**	**2,962**	**66,851**		**5.7**	**55**
Comparable councils (SEIFA)							
Narrabri	1,009	2,527	4,054	77,896	1.3	11.0	41
Gunnedah	989	5,107	4,907	80,964	1.2	6.4	46
Leeton	1,062	979	3,815	73,684	1.4	4.9	35
Snowy Valleys	749	1,738	2,291	67,912	1.1	5.4	34
Average	**952**	**2,588**	**3,767**	**75,114**		**6.9**	**39**
Comparable councils (Income)							
Bellingen	1,336	1,344	2,926	62,244	2.1	4.4	63
Murray River	917	823	3,140	65,520	1.4	10.3	78
Hilltops	668	1,776	2,906	61,100	1.1	13.6	32
Inverell	1,080	4,599	3,188	60,476	1.8	5.0	11
Average	**1,00**	**2,135**	**3,040**	**62,335**		**8.3**	**46**
Group 11 average	**944**	**2,357**	**3,625**	**72,098**	**1.3**	**8.0**	**46**

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 2016 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 council's proposed 4-year SV, the council's proposed average rates in 2026-27 would generally be higher than the average for rest of its OLG group, and higher than the average for its neighbouring councils and comparable councils. As Table 4.5 shows, its proposed:

- **average residential rate** would be above the estimated average rate for other OLG Group 11 councils, neighbouring councils and comparable councils by SEIFA score and income
- **average business rate** would be below the estimated average rate for other OLG Group 11 councils and comparable councils by SEIFA score and income, but above that of its neighbouring councils
- **average farmland rate** would be above the estimated average rate for other OLG Group 11 councils, neighbouring councils and comparable councils by both SEIFA score and income.

We note there are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. Therefore, it may overstate, for example, the extent to which the council's rates with its proposed SV would be higher than other councils.

Table 4.5 Comparison of the council's average rates with similar councils based on the council's proposed SV period of 4 years ($)

Council (OLG Group)	2022-23	2023-24	2024-25	2025-26	2026-27
Residential					
Federation	720	857	1,002	1,143	1,257
OLG Group 11 (excluding Federation)	944	988	1,014	1,039	1,065
Neighbouring councils (average)	615	639	655	672	688
Comparable councils (SEIFA) (average)	952	1,014	1,039	1,065	1,092
Comparable councils (Income) (average)	1,000	1,041	1,067	1,094	1,121
Business					
Federation	1,276	1,520	1,777	2,026	2,229
OLG Group 11 (excluding Federation)	2,357	2,461	2,526	2,589	2,654
Neighbouring councils (average)	866	900	922	945	969
Comparable councils (SEIFA) (average)	2,588	2,745	2,814	2,884	2,956
Comparable councils (Income) (average)	2,135	2,218	2,273	2,330	2,388
Farmland					
Federation	3,622	4,311	5,045	5,748	6,321
OLG Group 11 (excluding Federation)	3,625	3,784	3,885	3,982	4,082
Neighbouring councils (average)	2,962	3,077	3,154	3,233	3,313
Comparable councils (SEIFA) (average)	3,767	3,986	4,086	4,188	4,293
Comparable councils (Income) (average)	3,040	3,162	3,241	3,322	3,405

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

We are satisfied that council has a hardship policy in place. A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers.

We examined the council's hardship policy, which it adopted in November 2022. The policy provides short and long-term payment plans for ratepayers experiencing financial hardship. In addition, the policy states for pensioners, the council will freeze interest on outstanding debt and not subject property for sale due to overdue rates.[39]

The council has also made SV-specific hardship provisions, where owners subject to residential and farmland rates may apply to have a particular year's ordinary rates bill deferred to 30 June in the applicable financial year.[40]

4.4 OLG Criterion 4: The council has 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 full details.

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

- exhibited its current Community Strategic Plan and Delivery Program from 16 May to 13 June 2022. It considered submissions on these documents and adopted them on 28 June 2022.
- exhibited its previous LTFP (the version that didn't include its financial forecasts under a Baseline Scenario) from 16 May to 15 June 2022. It considered submissions on this plan and adopted it on 28 June 2022.
- added an addendum to the LTFP that included its Baseline Scenario forecasts. It exhibited this updated LTFP from 20 December 2022 to 18 January 2023 and adopted it on 31 January 2023.
- adopted its Strategic Asset Management Plan (which does not need to be exhibited) on 20 December 2022.
- 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 therefore 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 full details.

To assess this 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 criterion.

4.5.1 Stakeholder comments on productivity and cost containment

Some submissions to IPART raised concerns that the council has:

- been inefficient with the Corowa Aquatic Centre, which was funded with an SV
- been inefficient with its labour costs
- not realised the financial efficiencies that the previous amalgamation of Corowa Shire and Urana Shire was meant to bring.

We have considered these concerns as part of our assessment of this criterion. However, we are not required to assess whether council's past projects or expenditures were appropriate as per OLG Guidelines. We are not able to comment on the link between the amalgamation and the merged council's performance.

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

The council's SV application outlined a range of productivity and cost containment strategies implemented to date and provided a high-level overview of its planned efficiency initiatives over the SV period. It also quantified its past and forecast savings.

We consider the council has:

- demonstrated past achievements in delivering productivity improvements and cost containment
- outlined strategies and activities for further improving its productivity and efficiency, quantifying savings for several initiatives.[41]

The council should continue taking measures to ensure that monetary gains from ongoing productivity improvements and cost-containment strategies are proportionate to the size of the council. It should also regularly communicate its efficiency strategies to the community.

Productivity and cost containment strategies to date

The council's application set out the productivity improvements and cost containment initiatives it has undertaken in recent years. It quantified savings of $0.8-1.0 million per year over the period 2019-20 to 2022-23 (forecast)[42], as a result of initiatives in the following areas:

- increasing productivity of employees through training, use of technology and implementing different ways of operating
- reducing cost of energy across the council's operations
- disposing underutilised assets
- protecting and increasing revenue streams
- improving financial management practices
- implementing other initiatives to reduce expenditure (such as postponing recruitment of staff to save funds)
- changing service levels (such as ceasing printing of a quarterly newsletter).[43]

Productivity and cost containment strategies over the SV period

The council indicated that it is planning future efficiency measures across the same areas outlined in the section above during the proposed SV period. It has quantified the estimated impact of many of these strategies at $0.7-$1.1 million per annum over the next 4 years.[44] These savings are expected to result from a combination of new and existing cost containment strategies. The council has also incorporated several of these strategies into its LTFP.[45]

Indicators of the council's efficiency

We examined indicators of the efficiency of the council's operations and asset management, including how its efficiency has changed over time and how its performance compares with that of similar councils. This data is presented in Table 4.6 and Table 4.7 below.

We found that between 2017-18 and 2020-21, the council's:

- number of full time equivalent (FTE) staff increased in 2018-19 but has since declined to 170 employees by 2020-21
- average annual cost per FTE increased by an average of 3.6% per annum, and
- employee costs as a percentage of operating expenditure decreased.

We also found that the council's:

- ratio of FTE staff to the council's population is lower than the Group 11 average – it has one FTE for every 74.1 residents, whereas the Group 11 average is one FTE for every 80.1 residents
- operating expenditure per capita is higher than the Group 11 average.

These performance indicators only provide a high-level overview of the council's productivity at a point in time. 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 Federation Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	147	180	177	170	5.0
Ratio of population to FTE	85	69	70	74	-4.3
Average cost per FTE ($)	74,762	72,383	80,718	83,241	3.6
Employee costs as % of operating expenditure (General Fund only) (%)	26.3	26.0	24.2	23.4	-3.9

Source: IPART calculations

Table 4.7 Select comparator indicators for Federation Council

	Federation Council	OLG Group 11 Average	NSW Average
General profile			
Area (km2)	5,685	6,496	5,528
Population	12,598	14,297	64,205
General Fund operating expenditure ($m)	42.4	38.4	94.8
General Fund operating revenue per capita ($)	3,021	3,303	-
Rates revenue as % of General Fund income (%)	27.8	31.0	46.1
Own-source revenue ratio (%)	36.0	49.4	67.2
Productivity (labour input) indicators			
FTE staff	170	178.4	382.2
Ratio of population to FTE	74.1	80.1	168.0
Average cost per FTE ($)	83,241	85,259	98,972
Employee costs as % of operating expenditure (General Fund only) (%)	23.4	34.5	37.7
General Fund operating expenditure per capita ($)	3,363	2,687	1,477

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

4.6 Any other matter that IPART considers relevant

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

We consider that a relevant matter is whether the council has been granted an SV over the past 5 years, and if so, whether the council has complied with any conditions.

Over the past 5 years, the council applied for one SV to increase its general income. Specifically, for 2021-22, the council was approved to increase its general income by 8% (inclusive of the rate peg).[46] The purpose of that SV was to fund the Corowa Aquatic Centre.[47]

We also received stakeholder submissions that raised the aquatic centre was over-budget.

As conditions of this approval, the council was required to:

- use the additional income for the purposes of funding the ongoing operating expenditure for the New Corowa Aquatic Centre
- In its annual reports from 2021-22 to 2030-31 report:
  - any significant differences between the proposed and actual program of expenditure that was funded by the SV, with reasons for the differences
  - outcomes achieved as a result of the SV
  - actual revenues, expenses and operating balance against forecasts provided in its 2021-22 to 2031-31 LTFP and report on significant differences.

Upon review of the council's 2021-22 annual report, we consider that the council has largely complied with these conditions. The 2021-22 annual report sufficiently communicates the council's financial performance in delivering the Corowa Aquatic Centre, including its actual income and expenditure.

The council's annual report states that in 2021-22 that expenditure exceeded income by approximately $0.6 million.[48] The council reported that a milder summer season and COVID-19 restrictions were factors that made the first year of operations challenging. [49]

We note that the council has not reported its actual total revenues, expenses and operating balance against those projections per its 2021-22 to 2031-31 LTFP. However, on balance, this does not impact the clarity of the aquatic centre's financial performance. In the future, the council is also required to report its actual performance against its projected revenue, expenses and operating balance as set out in its LTFP.

5 IPART's decision on the special variation

Based on our assessment against the OLG Guidelines and consideration of stakeholder submissions, we have approved a 2-year temporary SV of 39.2% (including the rate peg). This comprises a 19% increase in 2023-24, followed by 17% in 2024-25.

The approved increase to general income is set out in Table 5.1 below. The special variation is temporary, which means the increase will be removed from the council's rate base on 1 July 2025.

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

	2023-24	2024-25
Temporary increase above the rate peg	14.7	14.5
Rate peg[a]	4.3	2.5
Total increase	19.0	17.0
Cumulative increase	19.0	39.2

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: Federation Council Application Part A, Worksheets 1 and 4 and IPART calculations.

The special variation 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 2024-25 (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 has told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 5.2 below. This shows that, 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 $282 or 39.2% by 2024-25
- the average business rate would increase by $501 or 39.2% by 2024-25
- the average farmland rate would increase by $1,424 or 39.3% by 2024-25.

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	720	857	1,002		
$ increase		137	145	282	
% increase		19.0	17.0		39.2
Business average $ rates	1,276	1,520	1,777		
$ increase		243	258	501	
% increase		19.1	17.0		39.2
Farmland average $ rates	3,622	4,311	5,045		
$ increase		689	734	1,424	
% increase		19.0	17.0		39.3

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

We acknowledge our decision to approve a temporary 2-year increase of 39.2% would still have a large impact on some ratepayers. However, this should be contextualised against comparable councils (see Table 5.3).

We found that the council's:

- Estimated residential average rates at the end of the 2-year SV, 2024-25, would be below the average estimated rates of OLG Group 11 and average estimated rates of comparable councils by income and SEIFA.
- Estimated business average rates at the end of the 2-year SV, 2024-25, would be below the average estimated rates of OLG Group 11, neighbouring councils, and average estimated rates of comparable councils by income and SEIFA.
- Estimated farmland average rates at the end of the 2-year SV, 2024-25, would be above the average estimated rates of OLG Group 11, neighbouring councils, and average estimated rates of comparable councils by income and SEIFA.

Table 5.3 Comparison of the council's average rates with those of other councils for period of the approved SV ($)

Council (OLG Group)	2022-23	2023-24	2024-25
Residential			
Federation	**720**	**857**	**1002**
OLG Group 11	944	988	1,014
Neighbouring councils (average)	615	639	655
Comparable councils (SEIFA) (average)	952	1,014	1,039
Comparable councils (Income) (average)	1,000	1,041	1,067
Business			
Federation	**1,276**	**1,520**	**1,777**
OLG Group 11	2,357	2,461	2,526
Neighbouring councils (average)	866	900	922
Comparable councils (SEIFA) (average)	2,588	2,745	2,814
Comparable councils (Income) (average)	2,135	2,218	2,273
Farmland			
Federation	**3,622**	**4,311**	**5,045**
OLG Group 11	3,625	3,784	3,885
Neighbouring councils (average)	2,962	3,077	3,154
Comparable councils (SEIFA) (average)	3,767	3,986	4,086
Comparable councils (Income) (average)	3,040	3,162	3,241

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.

On balance, we assess that the council's estimated average rates at the end of the proposed SV period, is generally in line with similar councils. This shows that the estimated average rates after the 2-year SV is generally reasonable. However, average farmland rates are still estimated to be above similar councils – although the impact under the 2-year SV is less than the council's proposed 4-year SV of 74.59%.

The council has SV-specific hardship provisions for farmland ratepayers, where owners subject to residential and farmland rates may apply to have a particular year's ordinary rates bill deferred to 30 June in the applicable financial year.[50]

We consider that it is particularly important for the council to effectively communicate how its hardship policy would be applied to ratepayers.

5.2 Impact on the council

Our decision means that the council may increase its general income by a cumulative $4.4 million above the rate peg in total, for the next 2 years. As we have approved a temporary SV, the impact of our SV decision will be removed from the council's rate base on 1 July 2025.[d]

Table 5.4 shows the percentage increases we have approved and the estimated annual increases in the council's general income. This extra income will enable the council to maintain its infrastructure and service levels.

Table 5.4 Permissible general income (PGI) of council from 2023-24 to 2024-25 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	19.0	19.0	1,360	1,758	11,009
2024-25	17.0	39.2	2,990	3,629	12,880
Total above rate peg			4,350		

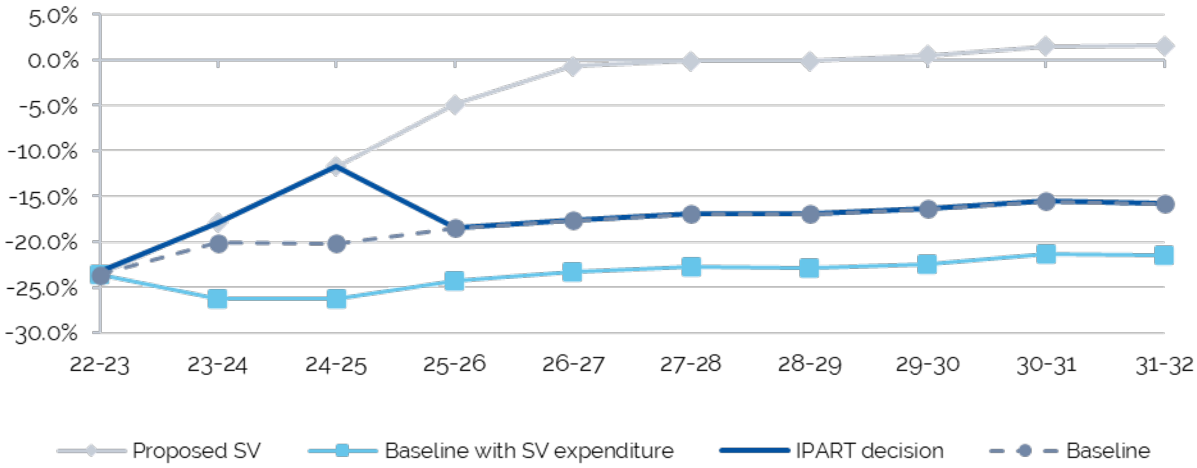
Source: Federation, Application Part A, Worksheets 1 and 4 and IPART calculations.

We have projected the council's OPR and net cash (debt) to income ratio with the partially approved temporary SV and its proposed SV expenditure. We found that:

- Its OPR will improve from -18% in 2023-24 to -12% in 2024-25, which is still below the OLG benchmark of greater than 0%. However after that, the OPR will decline as any increases from the SV will be removed from 2025-26. This is shown under the IPART decision Scenario (see Figure 5.1 and Table 5.5).
- Its net cash to income ratio is projected to decline, but at a slower rate than under the Baseline Scenario (see Figure 5.2).

[d] An SV allows a council to increase its general income above the rate peg. SVs can be either for a single year or over multiple years and can be temporary or permanent.

Figure 5.1 The council's projected OPR with partially approved SV and proposed SV expenditure, 2022-23 to 2031-32



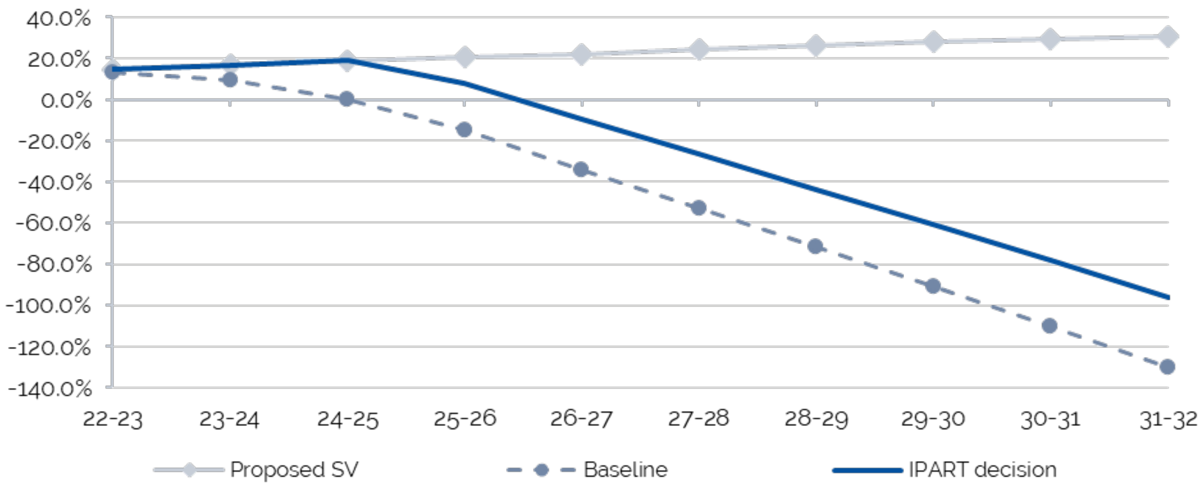
Source: Federation Council, Application Part A and IPART calculations.
Note: OPR shown excludes capital grants and contributions

Table 5.5 The council's projected OPR with approved SV and proposed SV expenditure, 2023-24 to 2031-32 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	-17.9	-11.7	-4.9	-0.7	-0.1	-0.1	0.5	1.5	1.6
Baseline	-20.1	-20.2	-18.5	-17.6	-16.9	-16.9	-16.3	-15.5	-15.8
Baseline with SV expenditure	-26.3	-26.3	-24.3	-23.3	-22.7	-22.9	-22.4	-21.3	-21.5
IPART decision[a]	-17.9	-11.7	-18.5	-17.6	-16.9	-16.9	-16.3	-15.5	-15.8

a. The approved SV with SV expenditure assumes the council will pursue its SV program of expenditure up to 2024-25. From 2025-26, this scenario assumes the council will pursue its Baseline (no-SV) expenditure program. This is because any additional income from the SV will be removed from 1 July 2025.

Figure 5.2 The council's projected net cash (debt) to income ratio with approved SV and proposed SV expenditure, 2022-23 to 2031-32 (%)



Note: Baseline Scenario includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.
Source: Federation Council, Application Part A and IPART calculations.

If the council were to apply for another SV in the future, we would expect the council to:

- consult more clearly with the community to ensure the SV it is applying for is well understood
- take into account the impact on ratepayers when proposing an SV

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:

- 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.

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 canvas 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[5]:

- 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.

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

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[6] 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.

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.

[6] 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 Federation Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the council is to report over the next 2 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 Federation Council under its approved SV - 2023-24 to 2031-32 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total revenue	28,697	30,848	28,391	28,937	29,504	30,082	30,373	30,977	31,346
Total expenses	33,435	34,100	34,208	34,601	35,127	35,855	36,060	36,451	36,943
Operating result from continuing operations	-4,738	-3,252	-5,817	-5,664	-5,623	-5,773	-5,688	-5,474	-5,597
Net operating result before capital grants and contributions	-5,068	-3,582	-6,147	-5,994	-5,953	-6,103	-6,018	-5,804	-5,927
Cumulative net operating result before capital grants and contributions	-5,068	-8,650	-14,797	-20,791	-26,744	-32,847	-38,865	-44,669	-50,596

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

Table B.2 Summary of projected expenditure plan for Federation Council under its proposed SV application 2023-24 to 2031-32 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
SV revenue above assumed rate peg	1,360	2,990	4,546	5,761	5,905	6,053	6,204	6,359	6,518
Develop masterplans for town main street revitalisation	40	40	0	0	0	0	0	0	0
Develop a Stormwater Drainage Strategy for urban areas	50	50	0	0	0	0	0	0	0
Facilitate training opportunities to support industry development in line with priorities identified in the Economic Development Strategy	20	20	20	20	0	0	0	0	0
Continue implementation of the North of the Murray 5 Year Destination Marketing Strategy 2020-2024	60	60	60	60	0	0	0	0	0
Develop a tree management strategy to respond to changing climate	20	20	0	0	0	0	0	0	0
Develop a tree register for priority recreation reserves	20	20	0	0	0	0	0	0	0
Update masterplan for the Mulwala foreshore	0	0	40	0	0	0	0	0	0
Develop an Annual program of events and exhibitions for ArtSpace at Corowa Civic Centre	10	10	10	10	0	0	0	0	0
Continue to progress Council's Friendship Agreement with Miki City	15	15	15	15	0	0	0	0	0
Sealed local roads	618	1,197	1,893	2,472	2,549	2,510	2,549	2,780	2,761
Unsealed local roads	191	371	586	766	790	778	790	862	856
Urban stormwater drainage	151	292	461	602	621	612	621	678	673
Additional capital works based on asset management and financial sustainability needs	165	895	1,461	1,816	1,945	2,153	2,244	2,039	2,228

Note: Numbers may not add due to rounding.
Source: Federation Council, Application Part A, Worksheet 6.

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
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
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.
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
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] Federation Council, Application Part A, February 2023, Worksheet 1.
[2] Federation Council, Application Part B, February 2023, p 9.
[3] Federation Council, Debt Management and Hardship Policy, November 2022, p 8.
[4] IPART, LG Determination – Federation Council's Special Variation Application for 2021-22, May 2021, p 7.
[5] Federation Council, Application Part B, February 2023, p 35.
[6] *Local Government Act 1993* (NSW), Section 511.
[7] Federation Council, Application Part A, February 2023, Worksheet 1.
[8] Federation Council, Application Part B, February 2023, p 9.
[9] Morrison Low, Capacity to Pay Federation Council, June 2022.
[10] Federation Council, Debt Management and Hardship Policy, November 2022, p 6.
[11] Federation Council, Debt Management and Hardship Policy, November 2022, p 8.
[12] Federation Council, Community Engagement Materials – Special Rate Variation Engagement, p 269.
[13] Federation Council, Long Term Financial Plan 2022/23 – 2031/32, January 2023, p 23-29.
[14] Federation Council, Delivery Program and Operational Plans 2022/23 – 2025/26, pp 25-53.
[15] Federation Council, Strategic Asset Management Plan 2022-2032, p 7-8, 20-21.
[16] Federation Council, Delivery Program and Operational Plans 2022/23 – 2025/26, pp 25-53.
[17] Office of Local Government, Performance Benchmarks, May 2020.
[18] Federation Council, Application Part A, February 2023, Worksheet 7.
[19] Federation, General Purpose Financial Statement as at 30 June 2022, p 35.
[20] Federation, General Purpose Financial Statement as at 30 June 2022, p 36.
[21] Federation Council, Application Part A, February 2023, Worksheet WK7 – Financials.
[22] Federation Council, Long Term Financial Plan 2022/23 – 2031/32, January 2023, p 20.
[23] Federation Council, Attachment – Community Engagement Materials – Special Rate Variation, p 265.
[24] Federation Council, Application Part B, February 2023, p 15.
[25] Federation Council, Attachment – Community Engagement Materials – Special Rate Variation.
[26] Federation Council, Long Term Financial Plan 2022/23 – 2031/32, January 2023, p 23-29.
[27] IPART, All non-confidential submissions, p 219 (Federation Ratepayers Incorporated, Submission to Federation Council Application to IPART, p 4).
[28] Email to IPART, Federation Council, 16 March 2023.
[29] Federation Council, Attachment – Community Engagement Materials – Special Rate Variation; Email to IPART, Federation Council, 16 March 2023.
[30] Federation Council, Attachment – Community Engagement Materials – Special Rate Variation, p 10.
[31] Federation Council, Attachment – Community Engagement Materials – Special Rate Variation, p 10.
[32] Federation Council, Application Part B, February 2023, pp 31-36.
[33] Email to IPART, Federation Council,8 March 2023.
[34] Email to IPART, Federation Council,8 March 2023.
[35] Morrison Low, Capacity to Pay Federation Council, June 2022.
[36] Morrison Low, Capacity to Pay Federation Council, June 2022, p 10.
[37] Morrison Low, Capacity to Pay Federation Council, June 2022, p 18-23.
[38] IPART, LG Determination – Federation Council's Special Variation Application for 2021-22, May 2021.
[39] Federation Council, Debt Management and Hardship Policy, November 2022, p 6.
[40] Federation Council, Debt Management and Hardship Policy, November 2022, p 8.
[41] Federation Council, Attachment – Other Attachment – Cost containment estimated.
[42] Federation Council, Attachment – Other Attachment – Cost containment achieved.
[43] Federation Council, Attachment – Other Attachment – Cost containment achieved; Federation Council, Application Part B, February 2023, p 52-56. .
[44] Federation Council, Attachment – Other Attachment – Cost containment estimated, p 2.
[45] Federation Council, Attachment – Other Attachment – Cost containment estimated.
[46] IPART, LG Determination – Federation Council's Special Variation Application for 2021-22, May 2021.
[47] IPART, LG Determination – Federation Council's Special Variation Application for 2021-22, May 2021, p 7.
[48] Federation Council, Annual Report 2021-22, p 54-55.
[49] Federation Council, Annual Report 2021-22, p 54-55.
[50] Federation Council, Debt Management and Hardship Policy, November 2022, p 8.

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