



# SPECIAL VARIATION APPLICATION **FEDERATION COUNCIL** FROM 2021-22

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Final Report

May 2021

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ISBN 978-1-76049-492-6

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# 1 Executive Summary

Federation Council (the council) has considered the development of Corowa Aquatic Centre for over 25 years. During this period, the council has consulted the community on a variety of different proposals and associated funding options. The construction of the pool was funded by a combination of an external capital grant and ratepayer funds, and it is expected to open in April 2021.<sup>i</sup> To fund its ongoing operation, the council has applied to IPART to permanently increase its general income, through a special variation (SV) of 8% (inclusive of the rate peg) for 2021-22.<sup>ii</sup>

IPART has approved the SV application in full.

## Impact on council's income

### Purpose

- ▼ To fund the ongoing operating expenditure of the new Corowa Aquatic Centre

\$5.5m

**Additional income**  
above the rate peg over  
the next ten years

The council is required to implement a single rating system across the former Corowa and Urana shire areas. The council will apply the SV as a fixed amount following the rates harmonisation process, meaning the percentage increase experienced by ratepayers will not be uniform.

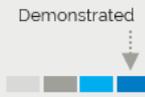
## Impact on rates

|              | <br>Residential | <br>Business | <br>Agriculture |
|--------------|--|--|--|
| Corowa Shire | +11.8%   | +7.2%  | +7.7%  |
| Urana Shire  | +21.8%   | +11.1%   | +3.6%  |

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

### Financial need



Even with the special variation, the council's financial position will be significantly challenged. The council's operating result is in deficit and will continue to deteriorate.

### Community awareness



The council used a wide range of consultation methods. The council considered and responded to community feedback on the proposed special variation.

### Reasonable impact on ratepayers



The council compared economic indicators and showed that ratepayers could afford the increases. The council also conducted surveys to establish the community's willingness to pay for the aquatic centre.

### IP&R documentation



The council did not revise its Delivery Program to include the proposed special variation. The council did not publicly exhibit its revised Long-Term Financial Plan in a timely manner.

### Productivity Improvement and Cost Containment



The council has realised savings through a number of initiatives over recent years. The council also proposed productivity improvement and cost containment strategies for the next three years.

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## 2 Federation Council's application

The council has applied for an SV to increase its general income by 8% in 2021-22.<sup>1</sup> The application is for an increase that remains permanently in the rate base. Rate increase proceeds would be exclusively used for maintenance and ongoing operation of a new aquatic centre.

This year, 2021, is the first year that councils that were amalgamated in 2016 can apply for a special variation, due to a NSW Government policy to freeze rates for four years (subsequently extended for another year). All merged councils must also harmonise their former councils' rating structures by 1 July 2021. Rate harmonisation results in a revenue neutral position for the council, although rates for different rating categories may increase or decrease differently.<sup>2</sup>

The council will undertake rates harmonisation to be effective from 1 July 2021.

### 2.1 Purpose

The purpose of the proposed SV is for the council to fund the ongoing operating expenditure for the new Corowa Aquatic Centre.<sup>iii</sup>

### 2.2 Need

The council has considered the development of the Corowa Aquatic Centre since 1995. It conducted multiple engineering reviews and engaged the community in the development consultation. The construction of the pool was funded by an external capital grant (\$6.9 million) and ratepayer funds (\$3.4 million).<sup>iv</sup> The Corowa Aquatic Centre is expected to open on 26 April 2021.

The council's Community Strategic Plan and Delivery Program also recognised the importance of maintaining and improving aquatic facilities. The proposed SV will help fund the operation of the swimming facility to meet community expectations.

### 2.3 Significance of proposal

The council's application would mean a cumulative increase in its PGI of \$5.5 million above what the assumed rate peg would deliver over 10 years. Assuming a rate peg increase of 2.5% per annum from 2022-23, the cumulative net increase in the PGI raised is 5.6% above the rate peg by 2030-31 (see Table 2.1).

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<sup>1</sup> The proposed SV will be structured as 2% rate peg applied on the value of land and 6% increase applied evenly on all properties. The 6% increase is calculated by dividing the increase to PGI above rate peg (\$495,000) by the total number of assessments across all rating categories.

<sup>2</sup> This is because the aim of rate harmonisation is to establish an equitable rate path so that rates for each rating category or sub category are calculated the same way in the new merged council.

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

| Cumulative increase in PGI above rate peg (\$m) | Total PGI over 10 years (\$m) | SV revenue as a percentage of total PGI (%) |
|---|-------------------------------|---|
| 5.5   | 99.9                          | 5.6   |

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

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

The council would recover the proposed SV by increasing rates for all rating categories. The proposed SV will be structured as 2% rate peg applied on the value of land and 6% increase applied evenly on all properties.<sup>v</sup>

The proposed SV will result in an annual increase in average rates of \$78 and \$53 to residential ratepayers in Corowa and Urana respectively, as shown in Table 5.2.

The council stated that the rates are affordable, as benchmarking against surrounding councils shows that Federation's average residential rate is amongst the lowest in the region, and it is likely that ratepayers can also accommodate the increase in rates.

## **2.4 Resolution by the council to apply for a special variation**

The council resolved to apply for the proposed SV on 2 February 2021. All councillors were in favour of the resolution.<sup>vi</sup>

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## 3 IPART's approach to assessment and community engagement

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

### 3.1 Criteria for assessing council applications

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

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

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

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

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

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## 3.2 Stakeholder submissions to IPART

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

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

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

### 3.2.1 Summary of submissions received by IPART for Federation Council

IPART received [seven submissions](#) during the consultation period from 1 December 2020 to 7 March 2021 from Federation Council ratepayers.

Key issues and views raised in these submissions were:

- ▼ the services funded by the levy are not required by all ratepayers
- ▼ the percentage increase proposed is not affordable, particularly for farmland ratepayers
- ▼ the magnitude and frequency of past rate increases
- ▼ lack of community consultation and engagement on the proposed SV
- ▼ there was no option in the online survey for participants to reject the proposed SV
- ▼ the council should work within its current capacity and be more financially responsible
- ▼ the council needs to improve its planning for operating expenditure
- ▼ the council's consultation materials lack clarity and transparency.

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

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## 4 IPART's special variation assessment

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

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

### 4.1 Our special variation assessment

Overall, we found that the council's application met the criteria in the OLG Guidelines. Whilst there were some areas where the council did not fully address the criteria, we have decided to approve the council's application.

The proposed SV is the most financially feasible option that allows the council to fund the operating expenditure of the new Corowa Aquatic Centre, while balancing the costs between resident and non-resident users. The financial need for the SV was communicated in its Integrated Planning and Reporting (IP&R) documents. We also found that the council had considered other alternative funding sources such as service reduction and charging full fees to the pool users.

The council's forecasts show that there is a large financial need for it to increase its general income to enable it to operate the new Corowa Aquatic Centre. Its Operating Performance Ratio (OPR) over ten years is projected to be below the OLG benchmark. Its net cash to income ratio will be positive with the proposed SV and remain negative without the SV income. The council may consider applying for another SV in the future to improve its financial sustainability.

The council has a net cash position of \$29.5 million at 30 June 2020. However, 93.6% of its cash, cash equivalents and investments are committed to other purposes and cannot be used to fund the proposed SV expenditure.

The council demonstrated that its community is aware of the need for, and extent of, the proposed SV. The council indicated that it is applying for a one-year permanent rate increase of 6% above the rate peg. Although the council demonstrated the impact of the proposed SV in both percentage and dollar terms, the actual impact on each rating category may vary due to the way the proposed SV is applied and the interaction with rates harmonisation. We found that the council's consultation materials were sufficiently clear. There were a wide range of engagement approaches used and the council considered community feedback.

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We also found that there is capacity and willingness to pay from the community, and that the impact on affected ratepayers would be relatively reasonable. Comparison of the council's average rates with surrounding councils and councils of the same OLG Group indicates that its current rates are amongst the lowest. The council also established its community's willingness to pay via two surveys. In addition, there is a policy in place and payment assistance, in light of the COVID-19 pandemic, to help residents who experience hardship.

The council's Integrated Planning and Reporting (IP&R) documents communicated the need for, purpose of, and the impact of the proposed SV on affected ratepayers. They were exhibited, approved and adopted. However, the council did not revise its Delivery Program to reflect the extent of the general fund rate rise under the proposed SV and the impact of the rate rise upon the community. The council also did not publicly exhibit its Revised Long-Term Financial Plan (LTFP) after it was adopted on 2 February 2021.

The council has outlined and quantified its productivity improvements and cost containment strategies. It has achieved savings from the sale of assets and undertaking recruitment delay on non-essential roles. It also proposes savings through the implementation of future efficiency measures. The council is currently developing an Asset Management Strategy and Asset Management Plans to improve financial planning of long term asset needs. It may consider applying for another SV in the future following a review of its assets and liabilities.

## **4.2 Financial need for the proposed special variation**

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

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

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

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

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

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The OPR measures whether a council's income funds its costs<sup>3</sup> and is defined as:

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

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

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

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

While the OPR is a good guide to a council's ongoing financial performance (or sustainability), we may also consider a council's financial position, and in particular its net cash (or net debt).<sup>4</sup> This may inform us as to whether the council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the council's net cash position in 2020-21 and as a percentage of income to gauge its financial position.

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

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<sup>3</sup> Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

<sup>4</sup> Net debt is the book value of the council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net debt is an indicator of the council's financial performance and sustainability on a cash basis.

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As the purpose of the proposed SV is not directly to maintain or renew infrastructure assets, there is no impact on the council's infrastructure backlog or renewals ratios. Consequently, they are not relevant to the council's application and we have not included them in our analysis.

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

The development of a new swimming pool was identified as the second highest priority in the council's Community Strategic Plan.<sup>vii</sup> Its Delivery Program and Operational Plan also recognise the maintenance and improvement of aquatic facilities as one of council's objectives.<sup>viii</sup> The LTFP specifically outlines the need for, and purpose of, the proposed SV, which is to fund the operating and maintenance expenditure required for new community facilities.<sup>ix</sup>

The council's Revised LTFP, endorsed at its extraordinary meeting on 2 February 2021, shows that the council considered reducing other services such as libraries and parks or reducing the operating hours of Corowa Aquatic Centre, in the absence of the proposed SV. However, these options were not financially feasible, and would result in adverse impacts on the community.<sup>x</sup>

The council also explored six pricing options for Corowa Aquatic Centre to balance the operating costs between resident and non-resident users:<sup>xi</sup>

- ▼ **Option 1:** users pay 20% and ratepayers pay 80% of the total operating costs. The net loss would be funded with a 12.2% SV.
- ▼ **Option 2:** users pay 23% and ratepayers pay 77% of the total operating costs. The net loss would be funded with an 11.8% SV.
- ▼ **Option 3:** users pay 31% and ratepayers pay 69% of the total operating costs. The net loss would be funded with a 10.5% SV.
- ▼ **Option 4:** users pay 47% and ratepayers pay 53% of the total operating costs. The net loss would be funded with an 8.0% SV.
- ▼ **Option 5:** ratepayers pay 100% of the total operating costs. The net loss would be equivalent to a 15.2% SV.
- ▼ **Option 6:** users pay 100% of the total operating costs. There will be no SV.

Of these, Option 4 was considered most feasible and endorsed by the council.<sup>xii</sup>

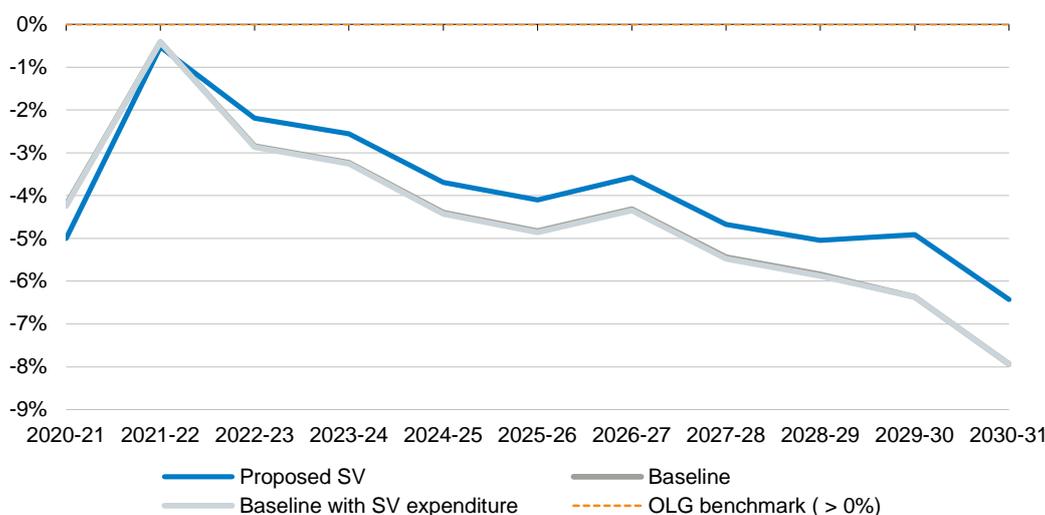
#### 4.2.2 Assessment of the impact of the proposed SV on the council's financial performance and position

Under the Proposed SV Scenario, the council forecasts declining operating performance, reaching -6.4% by 2030-31. The cumulative value of the forecast operating deficits (before capital grants and contributions) is -\$14.0 million to 2030-31. Nevertheless, the purpose of the SV is not to address the council's long term financial sustainability, but it shows that the council cannot otherwise fund the running costs of Corowa Aquatic Centre.

Without the proposed SV and assuming the council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), the council's operating results would decline even further, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The cumulative value of these forecast operating deficits (before capital grants and contributions) is -\$19.4 million to 2030-31 under this scenario.

We noted a narrower gap between the Proposed SV Scenario and the Baseline Scenario from 2021-22 to 2022-23, compared with the remaining nine years to 2030-31. This is due to the council allocating \$261,166 less of the SV increase above rate peg in 2021-22 in its LTFP.<sup>xiii</sup> It does not affect the cumulative increase of \$5.5 million, as outlined in Table 2.1.

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



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

**Table 4.1 Projected operating performance ratio (%) for Federation Council's proposed SV application (2020-21 to 2030-31)**

|                              | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Proposed SV                  | -0.5    | -2.2    | -2.6    | -3.7    | -4.1    | -3.6    | -4.7    | -5.0    | -4.9    | -6.4    |
| Baseline                     | -0.4    | -2.8    | -3.2    | -4.4    | -4.8    | -4.3    | -5.4    | -5.8    | -6.4    | -7.9    |
| Baseline with SV expenditure | -0.4    | -2.9    | -3.3    | -4.4    | -4.9    | -4.3    | -5.5    | -5.9    | -6.4    | -7.9    |

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

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

- ▼ -2.6% under the Proposed SV Scenario
- ▼ -3.1% under the Baseline Scenario
- ▼ -3.2% under the Baseline with SV expenditure Scenario.

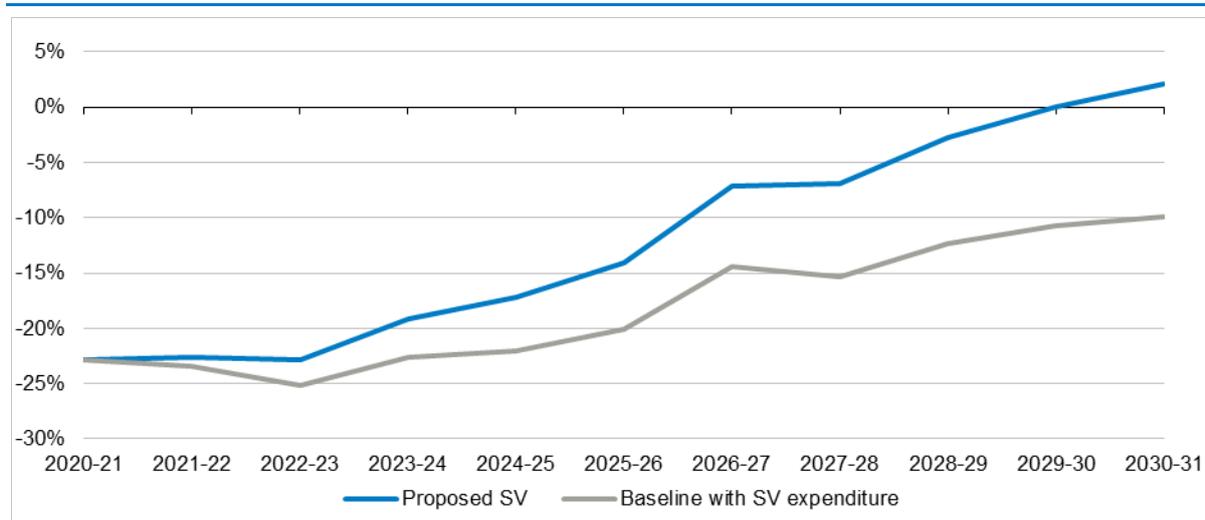
The council will implement a number of ongoing efficiency measures, as discussed in Section 4.6.2, to address its financial sustainability challenges. It will also consider applying for another SV in the future.<sup>xiv</sup>

### Impact on the council's net cash (debt)

We calculate the council's net debt is \$8.5 million or -22.6% of income in 2021-22. Over the longer term, with the proposed SV revenue, net cash would increase to a favourable result.

Without the proposed SV, and assuming the council's expenditure is the same as under the Proposed SV Scenario, we estimate that the net cash position would remain negative over the next 10 years. By 2030-31, the net cash to income ratio would be 2.1% under the proposed SV Scenario and -9.9% under the Baseline with SV expenditure Scenario.

**Figure 4.2 Federation Council's net cash (debt) to income ratio (%) (2021-22 to 2030-31)**



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

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

- ▼ -19.2% under the Proposed SV Scenario
- ▼ -22.7% under the Baseline with SV Expenditure Scenario.

The council will consider applying for another SV in the future to address its negative cash position.

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## Submissions from the community to IPART

IPART received seven submissions during the consultation period from 1 December 2020 to 7 March 2021. The key issues raised that related to our assessment of the financial need criterion were:

- ▼ the council needs to improve its planning for operating expenditure
- ▼ the council should work within its current capacity and be more financially responsible.

We have assessed the council's financial need for the proposed SV in Sections 4.2.1 and 4.2.2. We consider that the council adequately explored alternatives to the proposed SV before applying. We have also considered the council's productivity improvements and cost containment strategies in Section 4.6.

### 4.2.3 Overall assessment of the council's financial need

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

The council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (but without the additional income from the proposed SV), its OPR would average -3.2% over the next five years, reaching -4.9% in 2025-26. This suggests that there is a financial need for the council to increase its recurrent revenue above the rate peg to be financially sustainable, if it is to proceed with the expenditure in its SV proposal. Under the Proposed SV Scenario (with SV revenue and expenditure), our analysis shows that the council's OPR over the next five years averages -2.6%. We consider that the proposed SV revenue puts the council on a more sustainable path, given the program of expenditure set out in its application.

We forecast that the council will have a net debt position of \$8.5 million at 30 June 2021. The council's application indicates that of the total \$29.5 million in cash, cash equivalents, and investments it held at 30 June 2020:

- ▼ \$21.0 million was externally restricted
- ▼ \$6.5 million was internally restricted
- ▼ \$1.9 million was unrestricted.

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

Therefore taking all factors into account, we have assessed that the council is in financial need for the proposed SV to fund the operating costs of the new Corowa Aquatic Centre.

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## 4.3 Community engagement and awareness

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

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

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

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

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

### 4.3.1 Assessment of consultation with the community

The council has published a Long Term Financial Plan and a Community Engagement Strategy. It used these to guide and inform the consultation it carried out in relation to the proposed SV.

#### Process and content

The material the council prepared for ratepayers on its proposed SV contained most of the elements needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. Specifically, the council communicated:

- ▼ the impact of the proposed rate increase to ratepayers in dollar terms across various categories of ratepayers
- ▼ the cumulative dollar impact of the proposed SV in 2021-22 for affected ratepayers, by ratepayer category
- ▼ the average annual rate and average rate increase in 2021-22 in dollar terms, for each affected rating category
- ▼ the full impact of the proposed rate increase to ratepayers in cumulative percentage terms
- ▼ what the proposed SV would fund.

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We noted only one of the consultation materials contained all of the above elements, in particular, the impact of the proposed SV for each affected rating category. This was the information package included in the online survey Have Your Say – Corowa Aquatic Centre Fees & Charges and Special Rate Variation Application.<sup>xv</sup>

We also found that the Have Your Say online survey presented only four pricing options for Corowa Aquatic Centre, rather than six options, as discussed in Section 4.2.1. The council had determined that Option 5 and Option 6 were not financially feasible for it to operate the pool. Nevertheless, the survey included sections where participants could provide comments if they opposed all four options.

The council outlined five ongoing efficiency measures, which it has implemented, in an information flyer.<sup>xvi</sup> A printed copy of this information flyer was sent to all ratepayers and an electronic copy was posted on the Have Your Say website. We found that the council did not discuss its progress against these measures. However, this was a new requirement added for OLG's 2021-22 SV Guidelines. In future years we expect that councils seeking SVs will also communicate to their community, how they intend to achieve efficiency savings to mitigate or partially mitigate a need for additional income through SVs.

On balance, we consider the council sufficiently communicated the impact of the proposed SV for its average residential, average business, and average farmland ratepayers.

### **Clarity**

The council's consultation material was largely clear in its presentation of the proposed SV and not likely to confuse ratepayers about the need for, or impact of, the proposed SV. The council expressed the total rate increase including the rate peg.

### **Timeliness**

The council carried out community consultation on its proposed SV from 16 December 2020 to 15 January 2021.<sup>xvii</sup> This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV. We note that consultation was held during the Christmas and New Year holidays. Whilst this period is not ideal, we recognise the council was constrained by the timing of the SV application process and responded to this by arranging additional consultation sessions in February and March 2021.

### **Engagement methods used**

The council provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community, including:<sup>xviii</sup>

- ▼ an information flyer to all ratepayers
- ▼ two drop in sessions and two community meetings
- ▼ a dedicated SV website Have Your Say – Corowa Aquatic Centre Fees & Charges and Special Rate Variation Application, with comprehensive information on the proposed rate increase, including project history, impact on ratepayers, online survey, etc. The council received seven written submissions and 146 online submissions
- ▼ two posts on social media (Council's Corporate Facebook page)

- 
- ▼ newspaper articles and advertisements in local newspapers (The Free Press and Yarrowonga Chronicle)
  - ▼ a telephone survey completed in 2020 of 400 residents to explore the community's support for the SV.

The range of engagement methods used by the council provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

We consider these methods were reasonable to communicate the impact of the proposed SV to the community.

#### **4.3.2 Assessment of outcomes of consultation with the community**

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

The council received seven written submissions in relation to its proposed SV during the consultation period, all of which opposed the proposed SV.<sup>xix</sup> The main reasons for opposition were:

- ▼ lack of community consultation and engagement
- ▼ rate increases are unaffordable, particularly for farmland ratepayers
- ▼ the services funded by the levy are not required by all ratepayers
- ▼ the council should work within its current capacity and be more financially responsible.

In addition, the Have Your Say online survey, conducted by the council from 16 December 2020 to 15 January 2021, reported that 32% (46 out of 146) of respondents were at least somewhat supportive of no SV. The main reasons were:<sup>xx</sup>

- ▼ lack of consultation in the Northern part of the region
- ▼ the impact of the rate increase on farmland ratepayers
- ▼ rate increases are unaffordable for families and pensioners.

The council also conducted a telephone survey in September 2020 of 400 residents, where 42% of respondents were not supportive of the SV. The main reasons were:<sup>xxi</sup>

- ▼ the services funded by the levy are not required by all ratepayers
- ▼ the current rates are costly enough
- ▼ the council should have planned for these costs and considered alternative funding.

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The council has responded to its community's feedback by:<sup>xxii</sup>

- ▼ hosting two community meetings in early March 2021, one in the Northern part of the council area and one in the South, to ensure community engagement from these areas and potentially enhance community support of the SV
- ▼ introducing family membership in its fees and charges schedule to accommodate local families
- ▼ providing discounted concession entry for pensioners
- ▼ adopting a hybrid version of the two SV options.<sup>5</sup>

After considering community feedback, the council decided to apply for its proposed SV with a one-year rate increase.

### **Submissions from the community to IPART**

Most of the submissions raised issues regarding the council's consultation process. In particular, the main concerns were:

- ▼ the council did not publicise the proposed SV widely
- ▼ there was a lack of clarity and transparency in the consultation materials
- ▼ there was no option in the online survey for participants to reject the proposed SV.

We examined the specific steps the council undertook to communicate with ratepayers and respond to their feedback when assessing the consultation process and materials, as discussed in Sections 4.3.1 and 4.3.2. We found that the quality and extent of the council's consultation met the criterion in OLG's SV Guidelines.

#### **4.3.3 Overall assessment of community engagement and awareness**

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

On balance, the council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase. We recommend that as part of planning for any future SVs, the council extend its consultation period to maximise community awareness and engagement.

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<sup>5</sup> The two options presented to ratepayers were to apply the 8% SV increase either on the land value or on all properties equally. The council adopted a hybrid version which includes 2% rate peg applied on the value of land and 6% increase applied evenly on all properties.

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## 4.4 Impact on affected ratepayers

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

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

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

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

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

In this section, we:

- ▼ consider how the council has assessed the impact on ratepayers of the proposed SV and how it addressed affordability concerns
- ▼ undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the council's rates in recent years, how the council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking<sup>6</sup>.

The council has calculated that in 2021-22:

- ▼ the average residential rate would increase by 11.8% or \$78 for Corowa ratepayers and by 21.8% or \$53 for Urana ratepayers
- ▼ the average business rate would increase by 7.2% or \$93 for Corowa ratepayers and by 11.1% or \$56 for Urana ratepayers
- ▼ the average farmland rate would increase by 7.7% or \$256 for Corowa ratepayers and by 3.6% or \$115 for Urana ratepayers.

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<sup>6</sup> The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 128 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up SEIFA.

Table 4.2 sets out the council's estimates of the expected increase in average rates in each main ratepayer category.

**Table 4.2 Indicative annual increases in average rates under Federation Council's proposed SV in 2021-22**

| Ratepayer Category | 2020-21 | 2021-22 |
|--------------------|---------|---------|
| <b>Corowa</b>      |         |         |
| <b>Residential</b> | 657     | 734     |
| \$ increase        |         | 78      |
| % increase         |         | 11.8    |
| <b>Business</b>    | 1,303   | 1,397   |
| \$ increase        |         | 93      |
| % increase         |         | 7.2     |
| <b>Farmland</b>    | 3,301   | 3,557   |
| \$ increase        |         | 256     |
| % increase         |         | 7.7     |
| <b>Urana</b>       |         |         |
| <b>Residential</b> | 243     | 296     |
| \$ increase        |         | 53      |
| % increase         |         | 21.8    |
| <b>Business</b>    | 509     | 565     |
| \$ increase        |         | 56      |
| % increase         |         | 11.1    |
| <b>Farmland</b>    | 3,209   | 3,323   |
| \$ increase        |         | 115     |
| % increase         |         | 3.6     |

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

**Source:** Federation Council, *Application Part A*, Worksheet 5a.

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

The council compared its average rates with other regional councils and examined socioeconomic data such as its SEIFA index ranking. On the basis of these indicators, it concluded that its ratepayers have the capacity to pay the increased rates from the proposed SV as: <sup>xxiii</sup>

- ▼ when comparing with ten other councils within a five SEIFA index ranking radius<sup>7</sup>, the council's average residential rate is currently the 4<sup>th</sup> lowest.
- ▼ when comparing with ten neighbouring councils within the Riverina and Murray region, the council's average residential rate is currently the third lowest.

<sup>7</sup> The council's ranking is 37. It compared councils with SEIFA rankings from 32 to 42.

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The council considered the community's willingness to pay via a telephone survey conducted between August and September 2016, comprising 360 respondents in Corowa. It found that 76% of residents were at least somewhat supportive of a rate rise of \$125 per annum, and 55% of residents were at least somewhat supportive of a rate rise of \$157 per annum.<sup>xxiv</sup>

The council's Community Satisfaction Survey, completed in September 2020 with 400 respondents via telephone, indicated that 28% of residents were at least somewhat supportive of a 6% to 8% SV with a two-year spread. It also found that 28% of residents were neutral in their support.<sup>xxv</sup>

The council also conducted a Have Your Say online survey between December 2020 and January 2021 and received 146 submissions. The survey sought the community's feedback on the proposed SV and how it should be applied. Thirty-eight percent of residents were at least somewhat supportive of an 8% SV to help pay for the operating costs of the new Corowa Aquatic Centre.

The council submitted that it also has a hardship policy to assist residents and pensioners that are experiencing financial hardship. The policy provides assistance by accepting an arrangement for payment of rates and charges over a period, waiving or writing off interest on rates and charges incurred.<sup>xxvi</sup> Due to the COVID-19 pandemic, the council also introduced measures to:

- ▼ defer water billing for March 2020 by four weeks and extend payment terms
- ▼ waive interest on overdue rates and charges from 1 April to 30 September 2020
- ▼ defer payment on commercial leases or licences for the period between 1 April and 30 September 2020.

#### **4.4.2 IPART's consideration of impact on ratepayers**

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the council's SV history and the average annual growth of rates in various rating categories. In May 2016 Federation Council was formed by merging the former Corowa Shire Council and Urana Shire Council.

From 2015-16 to 2020-21, the council has not applied for, or been granted, SVs nor minimum rate increases. We found that between 2011-12 and 2015-16:

- ▼ the former Corowa Shire Council applied for, and had been granted one SV in 2014-15, a 4-year temporary increase of 7.0%, which was used for infrastructure maintenance, to maintain current service levels and to improve the council's financial sustainability
- ▼ the former Urana Shire Council had not applied for, or been granted, any SVs nor minimum rate increases.

From 2010-11 to 2020-21, the average annual growth in residential, business, and farmland rates was 5.2%, 3.6% and 6.1% for Corowa, and 2.9%, 5.1% and 5.6% for Urana, respectively. The average annual growth in the rate peg over the same period was 2.5%.

As a consequence of the merger, the council is required to harmonise the former councils' rating structure by July 2021. To date, it has not yet considered the impact of harmonising rates concurrently with the proposed SV. It has undertaken modelling to study possible options for rates harmonisation. However, this does not include the proposed SV impact. The council is currently reviewing the modelling and will commence community consultation following this.

We also compared the council's average rates before the proposed SV and at the conclusion of the SV period with those of OLG Group 11 and neighbouring councils, as shown in Table 4.3 and Table 4.4.

Table 4.3 shows the council's average rate levels in 2018-19, before the proposed SV.

**Table 4.3 Comparison of rates before the proposed SV with neighbouring councils and Group 11 weighted average (2018-19)**

| Rate category | Federation Council | Group 11 councils | Neighbouring councils <sup>a</sup> | Difference between Federation Council and OLG Group 11 (%) | Difference between Federation Council and neighbours (%) |
|---------------|--------------------|-------------------|------------------------------------|--|--|
| Residential   | 583                | 906               | 1,070                              | -35.6  | -45.5  |
| Business      | 952                | 2,084             | 4,627                              | -54.3  | -79.4  |
| Farmland      | 3,051              | 3,186             | 3,378                              | -4.2   | -9.7   |

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

<sup>a</sup> The neighbouring councils include Bellingen, Gunnedah, Narrandera, and Wagga Wagga. None of these councils has applied for an SV in 2021-22.

**Source:** OLG, Time Series Data 2018-19 and IPART calculations.

We found that in 2018-19, the council's average rates for all rating categories were lower than the weighted average for both Group 11 councils and neighbouring councils.

Table 4.4 shows the council's average rate levels with the proposed SV in 2021-22.

**Table 4.4 Comparison of rates under proposed SV with neighbouring councils and Group 11 weighted average in 2021-22**

| Rate category | Federation Council | Group 11 councils | Neighbouring councils <sup>a</sup> | Difference between Federation Council and OLG Group 11 (%) | Difference between Federation Council and neighbours (%) |
|---------------|--------------------|-------------------|------------------------------------|--|--|
| Residential   | 695                | 973               | 1,151                              | -28.6  | -39.6  |
| Business      | 1,322              | 2,240             | 4,973                              | -41.0  | -73.4  |
| Farmland      | 3,536              | 3,424             | 3,630                              | 3.3  | -2.6   |

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

<sup>a</sup> Based on the 2018-19 data obtained from OLG, IPART has performed calculations to increase the OLG Group 11 average rate levels by the rate peg each year from 2019-20 to 2021-22 to allow for the comparison of Federation Council's proposed average rate levels with the SV over the proposed SV period.

<sup>b</sup> The neighbouring councils include Bellingen, Gunnedah, Narrandera, and Wagga Wagga. None of these councils has applied for an SV in 2021-22.

**Source:** OLG, Time Series Data 2018-19 and IPART calculations.

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We found that, at the conclusion of the SV period, the council's:

- ▼ average rates for residential and business ratepayers would be considerably lower than the weighted average for both Group 11 councils and neighbouring councils
- ▼ average farmland rates of \$3,536 would be 3.3% higher than the weighted average for Group 11 councils and 2.6% lower than the weighted average for neighbouring councils respectively.

### **Submissions from the community to IPART**

IPART received seven submissions during the consultation period from 1 December 2020 to 7 March 2021. The key issues raised by the ratepayers in relation to our assessment of ratepayer impact were:

- ▼ the services funded by the levy are not required by all ratepayers
- ▼ the magnitude and frequency of past rate increases
- ▼ the increase is not affordable, particularly for farmland ratepayers.

We have reviewed the council's consideration of its community's capacity and willingness to pay when assessing the impact on affected ratepayers, as discussed in Sections 4.4.1 and 4.4.2. We found that the council has resolved to apply the 6% above the rate peg as a fixed charge on the rate base across rating categories to alleviate the impact on farmers, which would have been considerably higher in absolute dollar terms had the 6% been applied to the ad valorem component of the rate.

#### **4.4.3 Overall assessment of the impact on affected ratepayers**

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

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

- ▼ the council's proposed average rates with the SV will be comparable to or below the estimated average rate levels for OLG Group 11 councils and neighbouring councils by the end of the proposed SV period (i.e. 2021-22)
- ▼ the council has considered the impact of the rate rise on different ratepayers and decided to apply the proposed SV as 2% rate peg increase based on land value plus 6% applied evenly across all properties
- ▼ the community's willingness to pay for the aquatic centre is supported by the results from the council's phone survey and the responses to the council's online survey.

On balance, we consider the impact of the proposed SV on ratepayers would be reasonable. We note that the council has a hardship policy in place to assist ratepayers experiencing financial hardship and, in light of the COVID-19 pandemic, the council has also implemented a range of measures to provide financial relief to residents and businesses that have been affected, as discussed in Section 4.4.1.

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## 4.5 Integrated Planning and Reporting documents

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

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

The relevant documents are the Community Strategic Plan, Delivery Program, 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 Long-Term Financial Plan be posted on the council's website.

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

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

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

### 4.5.1 Assessment of content of IP&R documents

#### The need for, and purpose of, the proposed SV

The council presented the need for, and purpose of, the proposed SV in the Revised Long-Term Financial Plan (Revised LTFP) endorsed at its ordinary meeting on 2 February 2021.<sup>xxvii</sup> The Revised LTFP was posted on its website on 8 March 2021.

We noted that the Revised LTFP shows the financial impact of the SV by presenting two scenarios:<sup>xxviii</sup>

- ▼ Baseline Scenario: reflecting the additional revenues and expenditures expected with the proposed SV in place
- ▼ Optimistic Scenario: reflecting the business as usual model, excluding the proposed SV.

These are not in line with the OLG Guidelines and may have contributed to confusion amongst the community.

The Revised LTFP also canvassed alternatives to the rate rise, such as reducing other service levels such as libraries and parks or setting user fees for the Corowa Aquatic Centre at full cost recovery.<sup>xxix</sup>

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

The Revised LTFP includes the total dollar increase for the average ratepayer in 2021-22, by category<sup>xxx</sup>, while the Delivery Program does not.

### **The impact of any rate rises upon the community**

The council considered the community's willingness to pay in its Revised LTFP by relying on a survey conducted with Corowa residents in 2016. The survey indicated that 55% of the participants were prepared to pay an additional \$157 per annum in rates to support the operating expenditure of the swimming pool.<sup>xxxi</sup> The impact of the proposed SV on each rating category is substantially less than this amount.

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

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

The council publicly exhibited its Community Strategic Plan from 25 May 2018 to 22 June 2018 and adopted it on 26 June 2018. It publicly exhibited its Delivery Program from 29 June 2020 to 27 July 2020 and adopted it on 30 July 2020. The Delivery Program was not revised to reflect the extent of the general fund rate rise under the proposed SV and the impact of the rate rise upon the community.<sup>xxxii</sup>

The Revised LTFP was revised on 15 December 2020 and adopted on 2 February 2021, to include the SV option.<sup>xxxiii</sup> It was posted on the council's website on 8 February 2021, after our consultation period ended. Therefore, ratepayers did not have the opportunity to provide feedback on the Revised LTFP.

The original LTFP contained the need for, and purpose of, the proposed SV, and the extent of the general fund rate rise under the Baseline Scenario and the Proposed SV Scenario. It suggested an SV between 6% and 8%. It was publicly exhibited from 29 June 2020 to 27 July 2020 and adopted on 30 July 2020.<sup>xxxiv</sup> There are no variances in the extent of the general fund rate rise between the original and the Revised LTFP.

## **4.5.3 Overall assessment of the IP&R documents**

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

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

We strongly recommend that as part of planning for any future SVs, the council publish its Revised LTFP in a timely manner and revise its Delivery Program to include the extent of the general fund rate rise under the proposed SV and the impact of the rate rise upon the community.

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## 4.6 Productivity improvements and cost containment strategies

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

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

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

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

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

### 4.6.1 Assessment of efficiency gains achieved

The council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had:<sup>xxxv</sup>

- ▼ generated \$998,000 additional revenue from the sale of land
- ▼ recovered \$364,867 in overdue rates from the sale of properties with outstanding rates greater than 5 years
- ▼ delivered savings of \$120,000 by undertaking a recruitment moratorium on non-critical roles.

### 4.6.2 Assessment of strategies in place for future productivity improvements

The council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes from 2021-22 to 2023-24:<sup>xxxvi</sup>

- ▼ savings of \$30,000 per annum from the implementation of the finance services improvement strategy
- ▼ savings of \$80,000 per annum from the implementation of the Long Term Financial Plan
- ▼ savings of \$100,000 per annum from the development of an Asset Management Strategy
- ▼ savings of \$50,000 per annum from the implementation of key financial performance measures
- ▼ savings of \$90,000 per annum by upgrading street lights to LED technology.

The proposed initiatives have been factored into the council’s Long Term Financial Plan, with the exception of the \$50,000 annual savings relating to the implementation of key financial performance measures.

### 4.6.3 Assessment of performance indicators for the council

As well as taking into account the council’s cost containment and productivity improvement initiatives and the impact on the council’s financial situation as a result of overall improvements in productivity, we also examined a range of indicators which measure the council’s level of efficiency in its operations and asset management, how its efficiency has changed over time and how its performance compares with that of similar councils.

Our assessment included whether there is any scope for the council to achieve further productivity savings. We examined selected performance indicators in Tables 4.5 and 4.6 below. Table 4.5 shows how selected performance indicators for the council have changed over the three years to 2018-19. Table 4.6 compares selected published and unpublished data about the council with the averages for councils in its OLG Group, and for NSW councils as a whole. Our analysis focuses on labour costs, which is the second largest expense incurred by the council.<sup>xxxvii</sup>

**Table 4.5 Trends in selected performance indicators for Federation Council, 2016-17 to 2018-19**

| Performance indicator  | 2016-17 | 2017-18 | 2018-19 | Average annual change (%) |
|--|---------|---------|---------|---------------------------|
| FTE <sup>a</sup> staff (number)                                      | 136     | 147     | 180     | 9.8                       |
| Ratio of population to FTE   | 91      | 85      | 69      | -8.8                      |
| Average cost per FTE (\$)  | 84,235  | 74,762  | 72,383  | -4.9                      |
| Employee costs as % of operating expenditure (General Fund only) (%) | 27      | 26      | 26      | -1.5                      |

a: FTE stands for full-time equivalent

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

**Source:** OLG, unpublished data and IPART calculations.

We note that from 2016-17 to 2018-19:

- ▼ the number of FTE staff increased by 8.1% in 2017-18 and 22.4% in 2018-19
- ▼ the average cost per FTE decreased by 11.2% in 2017-18 and 3.2% in 2018-19
- ▼ employee costs as a percentage of operating expenditure has been steady.

The council explained that the increase in FTE numbers was driven by higher grant funding received and the amalgamation. The increase in grants has resulted in an increased workforce to deliver the funded projects. In addition, the council requires more staffing to deliver its responsibilities as a merged entity. It is undertaking an assessment to determine whether it can retain these employees permanently.

**Table 4.6 Select comparative indicators for Federation Council, 2018-19**

|  | Federation Council | OLG Group 11 Average | NSW Average |
|--|--------------------|----------------------|-------------|
| <b>General profile</b>   |                    |                      |             |
| Area (km <sup>2</sup> )  | 5,685              | 6,454                | 5,530       |
| Population   | 12,462             | 14,158               | 62,400      |
| General Fund operating expenditure (\$m)                           | 35.2               | 34.5                 | 83.4        |
| General Fund operating revenue per capita (\$)                     | 3,053              | 2,746                |             |
| Rates revenue as % General Fund income (%)                         | 25.7               | 34.2                 | 45.5        |
| Own-source revenue ratio (%)                                       | 53.0               | 55.8                 | 69.7        |
| <b>Average rate indicators<sup>a</sup></b>                         |                    |                      |             |
| Average rate – residential (\$)                                    | 583                | 906                  | 1,139       |
| Average rate –business (\$)  | 952                | 2,084                | 5,709       |
| Average rate – farmland (\$)                                       | 3,051              | 3,186                | 2,627       |
| <b>Socio-economic/capacity to pay indicators</b>                   |                    |                      |             |
| Median annual household income, 2016 (\$) <sup>b</sup>             | 53,029             | 59,904               | 77,484      |
| Average residential rates to median income, 2016 (%)               | 1.1                | 1.5                  | 1.5         |
| SEIFA, 2016 (NSW rank: 128 is least disadvantaged)                 | 37                 |                      |             |
| Outstanding rates and annual charges ratio (General Fund only) (%) | 4.5                | 7.3                  | 4.4         |
| Unemployment rate (%)  | 4.9                | 5.1                  |             |
| <b>Productivity (labour input) indicators<sup>c</sup></b>          |                    |                      |             |
| FTE staff (number)   | 180                | 171.8                | 376         |
| Ratio of population to FTE   | 69.2               | 82.4                 | 166.0       |
| Average cost per FTE (\$)  | 72,383             | 82,773               | 94,358      |
| Employee costs as % operating expenditure (General Fund only) (%)  | 26                 | 35                   | 39          |
| General Fund operating expenditure per capita (\$)                 | 2,826              | 2,435                | 1,315       |

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

<sup>b</sup> Median annual household income is based on 2016 ABS Census data.

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

**Source:** OLG, Time Series Data 2015-2016, OLG, unpublished data; ABS, Socio-Economic Indexes for Areas (SEIFA) 2016, March 2020, ABS, 2016 Census Data Packs, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

We found that in 2018-19, the council had one FTE staff member for every 69 residents, which is a higher staffing level than the Group 11 average of one FTE for every 82 residents, and significantly higher again than the State average. This is because large metropolitan councils have considerably fewer FTE staff per resident, partly driven by higher population densities. Given Federation Council is a small, regional council, we consider the Group 11 average to be a more suitable benchmark.

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Although the council has a higher number of FTE staff per resident, the average cost per FTE is lower than the average for Group 11. We also looked at the council's operating expenditure per capita and found that it is higher than both the Group 11 and NSW average. However, we do not have enough data to undertake a comprehensive analysis of the council's expenditure by category.

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

#### **4.6.4 Overall assessment of productivity improvements and cost containment strategies**

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

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

The council is in the process of developing an Asset Management Strategy and Asset Management Plan to improve financial planning of long term asset needs.<sup>xxxviii</sup> It may consider applying for another SV in the future following a review of its assets and liabilities. We recommend the council explore further efficiency measures to ensure overall financial sustainability and efficiency in its operations.

## 5 Our decision

We have approved the proposed SV, for a percentage increase of 8.0% for a 1-year period in 2021-22, to be retained permanently in the rate base.

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

### Box 5.1 IPART Decision – Federation Council

#### Approved Special Variation: percentage increase to general income

|  | 2021-22     |
|--|-------------|
| Increase above the rate peg<br>– permanent | 6.0%        |
| Rate peg                                   | 2.0%        |
| <b>Total increase</b>                      | <b>8.0%</b> |

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

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

#### Conditions attached

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

- ▼ The council uses the additional income from the Special Variation for the purposes of funding the ongoing operating expenditure of the new Corowa Aquatic centre as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report from the year 2021-22 until 2030-31 on:
  - the program of expenditure that was actually funded by the additional income
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.

## 5.1 Impact on the council

Our decision means that the council may increase its general income over the 1-year SV period from \$8.3 million in 2020-21 to \$8.9 million in 2021-22.<sup>8</sup>

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

**Table 5.1 Permissible general income (PGI) of Federation Council in 2021-22 arising from the approved SV**

|                                      | Increase approved (%) | Cumulative increase approved (%) | Increase in PGI above rate (\$'000) | Cumulative increase in PGI (\$'000) | PGI (\$'000) |
|--------------------------------------|-----------------------|----------------------------------|-------------------------------------|-------------------------------------|--------------|
| Adjusted notional income 1 July 2021 |                       |                                  |                                     |                                     | 8,254        |
| 2021-22                              | 8.00                  | 8.00                             | 495                                 | 660                                 | 8,914        |
| Total cumulative increase approved   |                       |                                  |                                     | 660                                 |              |
| <b>Total above rate peg</b>          |                       |                                  | <b>495</b>                          |                                     |              |

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

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

The council estimates that in 2021-22, it will collect an additional \$495,000 in rate revenue compared with the increase limited to the rate peg.

This extra income is the amount the council requested to enable it to fund the ongoing operating costs of the Corowa Aquatic Centre.

## 5.2 Impact on ratepayers

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

If the council increases the rates based on the approval of the 8.0% increase in the way that it has proposed in its application, the impact on ratepayers will be as shown in Table 5.2 below. Compared to 2020-21 rate levels:

- ▼ the average residential rate would increase by \$78 (11.8%) for Corowa ratepayers and by \$53 (21.8%) for Urana ratepayers
- ▼ the average business rate would increase by \$93 (7.2%) for Corowa ratepayers and by \$56 (11.1%) for Urana ratepayers

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

- ▼ the average farmland rate would increase by \$256 (7.7%) for Corowa ratepayers and by \$115 (3.6%) for Urana ratepayers, by the end of the 1-year period.

**Table 5.2 Indicative annual increases in average rates under Federation Council's approved SV in 2021-22**

| Ratepayer Category         | 2020-21 | 2021-22 | Cumulative increase |
|----------------------------|---------|---------|---------------------|
| <b>Corowa</b>              |         |         |                     |
| <b>Residential rate \$</b> | 657     | 734     |                     |
| \$ increase                |         | 78      | 78                  |
| % increase                 |         | 11.8    | 11.8                |
| <b>Business rate \$</b>    | 1,303   | 1,397   |                     |
| \$ increase                |         | 93      | 93                  |
| % increase                 |         | 7.2     | 7.2                 |
| <b>Farmland rate \$</b>    | 3,301   | 3,557   |                     |
| \$ increase                |         | 256     | 256                 |
| % increase                 |         | 7.7     | 7.7                 |
| <b>Urana</b>               |         |         |                     |
| <b>Residential rate \$</b> | 243     | 296     |                     |
| \$ increase                |         | 53      | 53                  |
| % increase                 |         | 21.8    | 21.8                |
| <b>Business rate \$</b>    | 509     | 565     |                     |
| \$ increase                |         | 56      | 56                  |
| % increase                 |         | 11.1    | 11.1                |
| <b>Farmland rate \$</b>    | 3,209   | 3,323   |                     |
| \$ increase                |         | 115     | 115                 |
| % increase                 |         | 3.6     | 3.6                 |

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

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

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## A Assessment criteria

**Table A.1 Assessment criteria for special variation applications**

### **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<sup>9</sup>:

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

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

### **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.<sup>10</sup>

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<sup>9</sup> Page 71, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013

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

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### **Criterion 3 – Impact on ratepayers is reasonable**

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan 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
- ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

### **Criterion 4 – IP&R documents are exhibited**

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

### **Criterion 5 – Productivity improvements and cost containment strategies**

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

### **Additional matters**

In assessing an application against the assessment criteria, IPART considers the size and resources of the council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.

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<sup>11</sup> 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 Expenditure to be funded from the special variation above the rate peg

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

The council intends to use the additional SV revenue above the rate peg of \$5.5 million over 10 years to fund the operating expenditure of the new Corowa Aquatic Centre.

**Table B.1 Federation Council – Revenue and proposed expenditure over 10 years related to the proposed SV (2021-22 to 2030-31) (\$000)**

|  | 2021-22      | 2022-23      | 2023-24      | 2024-25      | 2025-26      | 2026-27      | 2027-28      | 2028-29      | 2029-30      | 2030-31      | Total         |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| SV revenue above assumed rate peg            | 495          | 508          | 520          | 533          | 547          | 560          | 574          | 589          | 603          | 618          | 5,548         |
| Funding for increased operating expenditures | 1,143        | 1,159        | 1,175        | 1,192        | 1,208        | 1,225        | 1,243        | 1,261        | 1,279        | 1,297        | 12,181        |
| <b>Total expenditure</b>                     | <b>1,143</b> | <b>1,159</b> | <b>1,175</b> | <b>1,192</b> | <b>1,208</b> | <b>1,225</b> | <b>1,243</b> | <b>1,261</b> | <b>1,279</b> | <b>1,297</b> | <b>12,181</b> |

**Note:** Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure.

**Source:** Federation Council, *Application Part A*, Worksheet 6.

## C Federation Council's projected revenue, expenses and operating balance

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

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

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

|   | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total revenue   | 43,333  | 40,754  | 42,605  | 48,940  | 47,884  | 51,357  | 48,984  | 48,099  | 46,935  | 46,883  |
| Total expenses  | 38,429  | 39,201  | 40,379  | 41,757  | 42,903  | 43,781  | 45,282  | 46,490  | 47,803  | 48,649  |
| Operating result from continuing operations                             | 4,904   | 1,553   | 2,225   | 7,183   | 4,981   | 7,576   | 3,702   | 1,609   | -869    | -1,766  |
| Net operating result before capital grants and contributions            | 76      | -562    | -728    | -1,209  | -1,412  | -1,233  | -1,743  | -1,955  | -2,238  | -2,937  |
| Cumulative net operating result before capital grants and contributions | 76      | -486    | -1,214  | -2,423  | -3,835  | -5,068  | -6,811  | -8,766  | -11,004 | -13,940 |

**Note:** Numbers may not add due to rounding.

**Source:** Federation Council, *Application Part A*, Worksheet 8.

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## Glossary

|                                       |   |
|---------------------------------------|---|
| ABS                                   | Australian Bureau of Statistics   |
| <i>Ad valorem</i> rate                | A rate based on the value of unimproved land.   |
| Baseline Scenario                     | Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.   |
| Baseline with SV expenditure Scenario | Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage. |
| General income                        | Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.                        |
| IPART                                 | The Independent Pricing and Regulatory Tribunal of NSW  |
| Local Government Act                  | <i>Local Government Act 1993</i> (NSW)  |
| OLG                                   | Office of Local Government  |
| 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   |

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|                      |   |
|----------------------|---|
|                      | to produce general income of an amount that is lower than 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 <i>Local Government Act 1993</i> .   |
| 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.   |

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- i Federation Council, *Application Part B, Description and context*, pp 3-4 and *Criterion 2*, pp 2-4.
- ii Federation Council, *Application Part A, Worksheet 1*.
- iii Federation Council, *Application Part B, Description and context*, pp 3-4.
- iv Federation Council, *Application Part B, Description and context*, p 8.
- v Federation Council, *Application Part B, Criterion 4*, p 6; and Federation Council, Extraordinary Council Meeting, 2 February 2021, Minutes p 12.
- vi Federation Council, Extraordinary Council Meeting, 2 February 2021, Minutes p 16.
- vii Federation Council, *Attachment 6 - Community Strategic Plan 2018-2028, Section 4.5 Infrastructure priorities*, p 6.
- viii Federation Council, *Attachment 3 - Delivery Program and Operation Plan*, p 19.
- ix Federation Council, *Attachment 5 - Long Term Financial Plan*, p 5.
- x Federation Council, *Attachment 9 - Meeting minutes 15 December 2020*, p 6 and p 10; and Federation Council, Council Meeting, 2 February 2021, Minutes p 16.
- xi Federation Council, Council Meeting, 17 November 2020, Minutes pp 42-45.
- xii Federation Council, Council Meeting, 17 November 2020, Minutes p 50.
- xiii Federation Council, *Application Part A, Worksheet 8*.
- xiv Federation Council, *Application Part B, Section 1.2*, p 2; and Federation Council, Council Meeting, 2 February 2021, Minutes p 8.
- xv Federation Council, *Application Part B, Section 2.2 – Example materials*, pp 3-4.
- xvi Federation Council, *Application Part B, Section 2.2 – Example materials*, p 7.
- xvii Federation Council, *Application Part B, Section 2.1*, p 10.
- xviii Federation Council, *Application Part B, Section 2.2*, pp 12-20.
- xix Federation Council, *Attachment 10 - Special Rate Variation Survey Feedback and Community Satisfaction Report*, pp 2-19.
- xx Federation Council, *Application Part B, Section 2.1*, p 9.
- xxi Federation Council, *Attachment 10 - Special Rate Variation Survey Feedback and Community Satisfaction Report – Final Report*, p 40.
- xxii Federation Council, *Application Part B, Section 2.3*, pp 2-5.
- xxiii Federation Council, *Application Part B, Section 3.2*, p 2.
- xxiv Federation Council, *Attachment 10 - Special Rate Variation Survey Feedback and Community Satisfaction Report, Corowa Swim Centre Redevelopment Options Review*, pp 15-16 and pp 21-22.
- xxv Federation Council, *Attachment 10 - Special Rate Variation Survey Feedback and Community Satisfaction Report, Corowa Swim Centre Redevelopment Options Review*, pp 15-16 and *Community Satisfaction Survey 2020 - Final Report*, p 39.
- xxvi Federation Council, *Attachment 8 - Hardship Policy*, pp 2-3.
- xxvii Federation Council, Extraordinary Council Meeting, 2 February 2021, Minutes p 16.
- xxviii Federation Council, *Attachment 9 - Meeting minutes 15 December 2020*, pp 21-36.
- xxix Federation Council, *Attachment 9 - Meeting minutes 15 December 2020*, p 10.
- xxx Federation Council, *Attachment 9 - Meeting minutes 15 December 2020*, p 6.
- xxxi Federation Council, *Attachment 10 - Special Rate Variation Survey Feedback and Community Satisfaction Report, Corowa Swim Centre Redevelopment Options Review*, p 21.
- xxxii Federation Council, *Application Part B, Section 4.2*, p 8.
- xxxiii Federation Council, *Application Part B, Section 4.2*, p 8.
- xxxiv Federation Council, *Application Part B, Section 4.2*, p 8.
- xxxv Federation Council, *Application Part B, Section 5.2*, p 18.
- xxxvi Federation Council, *Application Part B, Section 5.3*, p 20.
- xxxvii Federation Council, *Application Part A, Worksheet 7*.
- xxxviii Federation Council, *Application Part B, Section 5.1*, p 14.