IPART Independent Pricing and Regulatory Tribunal | NSW

Junee Shire Council

Special Variation Application for 2023-24

Final Report

June 2023

Local Government »

Acknowledgment of Country

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

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

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

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

Contents

Foreword from the Chair

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Carmel Donnelly PSM
IPART Chairperson

1 Executive Summary

Junee Shire Council (the council) applied to IPART to increase its general income by a cumulative 32.19% through a permanent special variation (SV) over the next 2 years (including the rate peg).[1]

Under the proposed SV, the council would increase its income from rates by 17.5% in 2023-24 and 12.5% in 2024-25.[2]

The council sought the special variation to:[3]

- ensure its financial sustainability
- maintain existing services and service levels generally
- maintain a robust capital works program that reduces the infrastructure asset backlog.

1.1 IPART's decision

We approve the council's application. Our assessment found that the council met the Office of Local Government (OLG) criteria for its proposed SV. Our decision means the council can raise up to an additional $1.8 million of general income in total (above the rate peg) between 2023-24 and 2024-25, and permanently retain this revenue in its rate base.

We understand that the SV may create affordability challenges for some ratepayers – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates. In making our decision we had regard to the purposes of the SV as set out above.

Without the SV, the council's financial position is projected to continue deteriorating. The council has an operating deficit, meaning its revenue does not cover its operating costs. This shortfall is currently around $1 million per year and forecast to increase.[4] The council has also advised it has undertaken several savings and productivity initiatives over the past 4 years.[5] The council requires a more sustainable financial base to continue delivering the services and infrastructure the community depends on.

While the impact of the SV will be challenging for some ratepayers, the council's current rates are generally in line with similar councils. With the SV, the council's average rates will be higher than those of comparable and neighbouring councils. However, median household incomes in Junee Shire Council are also generally higher than those councils, and we consider the annual increase in average residential rates of $154 in 2023-24 and $130 in 2024-25 reasonable in this context.

1.2 IPART's assessment of the council's application

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

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to improve its financial sustainability and maintain existing services.
02	Demonstrated	**Community awareness** The council provided evidence that the community is appropriately aware of the need for and extent of the SV and its impact on rates. However, it should have consistently included the rate peg when communicating the percentage impacts of the SV. It could have also more clearly communicated the total dollar increases in average rates for each rating category.
03	Demonstrated	**Reasonable impact on ratepayers** With the SV, the council's average rates will generally be higher than neighbouring and comparable councils' rates. However, its population also has a higher median income compared to most of those councils. This may suggest the community has capacity to pay. The council also has a hardship policy that can help mitigate unreasonable impacts on vulnerable ratepayers.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited and adopted all necessary Integrated Planning and Reporting (IP&R) documents.
05	Demonstrated	**Productivity improvement and cost containment** The council's application outlined and quantified several productivity and cost containment strategies implemented to date. It also outlined some proposed cost saving initiatives for the SV period, but it did not clearly quantify them in its Long-Term Financial Plan. However, on balance, when assessed with the council's savings to date, we found that it met this criterion.
06		**Other matters IPART considers relevant** Over the past 5 years, the council applied for one SV. In 2022-23, it received a permanent additional special variation (ASV) of 2.5% (including the rate peg).

1.3 Stakeholders' feedback

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

Junee Shire Council consulted on its proposed SV with its community using a variety of engagement methods. The council recorded 165 face-to-face interactions with individual ratepayers and 52 survey responses.[6]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. We did not receive any submissions on this SV application.

We consider the council's community engagement in more detail in section 4.2.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its rates revenue over the 2-year period. The council can defer rate increases up to this maximum amount for up to 10 years.[7] We encourage the council to consult with its community to decide how best to implement the increase. Below are the council's proposed increases. It retains the discretion to revise how it raises its general income across the rating categories.

The council will still need to deliver on its proposed productivity improvements. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.1 The council's proposed increase in rates

	2023-24	2024-25	Cumulative increase
Residential	17.5%	12.5%	32.2%
Business	17.5%	13.4%	33.3%
Farmland	17.5%	12.5%	32.2%

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

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

2 The council's special variation application

Junee Shire Council applied for a permanent SV of a cumulative 32.19% (including the rate peg) over the 2 years from 2023-24 to 2024-25. Under the proposed SV, it would increase its general income by 17.5% in 2023-24 and by a further 12.5% in 2024-25.

The council advised it has implemented a range of cost saving initiatives over the previous 4 years.[8] The council has reviewed its services, deciding recently to cease its family day care service, and investigated opportunities to increase fees and charges, and sell surplus assets.[9]

The council has sought the special variation to:[10]

- ensure financial sustainability
- maintain existing services and service levels generally
- maintain a robust capital works program that reduces the infrastructure asset backlog.

2.1 Impact of the special variation on ratepayers

The council proposed that rates will increase for all rating categories over the 2-year SV period. It proposed that the average:

- residential rates will increase by $284 or 32.2%, in total, by 2024-25
- business rates will increase by $722 or 33.3%, in total, by 2024-25
- farmland rates will increase by $1,084 or 32.2%, in total, by 2024-25.

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

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	2,200
Business	181
Farmland	627

Source: Junee Shire Council, Part A application Worksheet 2.

2.2 Council's assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay in its application.

Its analysis concluded that the proposed SV was reasonable in the context of the current rate levels, ratepayer base, and its purpose. It noted that, with the proposed rate increases under the SV, its rates would be relatively in line with those of other similar and neighbouring councils (including other OLG Group 10 councils – larger rural councils).[11] The council also benchmarked its unemployment rate and socio-economic profile indices[a] to Riverina and Regional NSW and concluded that it was generally in line with the averages of those comparators.[12]

The council indicated that it has a financial hardship policy to assist ratepayers who have difficulty paying their rates. Under its hardship provisions, the council can enter into payment agreements with ratepayers who cannot meet their rate payments and may write off interest charges.[13]

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

The council estimated that its proposed permanent 2-year SV, with a cumulative increase of 32.19%, would result in a $1.8 million increase in the council's permissible general income over the next 2 years in total (above the assumed rate peg).

2.4 Further information provided

Following our preliminary assessment of the council's application, we asked it to clarify whether its updated Long-Term Financial Plan (LTFP) was available on its website and to clarify the version of the adopted Strategic Asset Management Plan.

The council provided clarification on these matters, and we have addressed them in section 4.4.

[a] SEIFA Index of Relative Socio-economic Disadvantage

3 Stakeholders' submissions to IPART

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

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period, and stakeholders could make submissions directly to us.

IPART did not receive any submissions on Junee Shire Council's SV application during our consultation period, which was between 10 February and 3 March 2023.

Junee Shire Council had approximately 3,000 ratepayers in 2022-23.

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[b] We assessed the council's application for a special variation against the 6 criteria set out in the OLG Guidelines (and outlined in Appendix A). We found that the council has met the OLG criteria for its proposed SV. Specifically, we found the council:

- demonstrated a financial need for the proposed SV to address its substantial operating deficit and improve its financial sustainability
- engaged with ratepayers and the community to raise awareness of the proposed SV, although we note there were a few shortcomings
- demonstrated the SV would generally have a reasonable impact on ratepayers
- met the requirement to appropriately exhibit, approve and adopt its relevant Integrated Planning and Reporting Framework (IP&R) documentation
- listed past and planned productivity and cost containment strategies, but only clearly quantified its past initiatives
- applied for an Additional SV in 2022-23, where the council was approved for a permanent increase of 2.5% to its general income (including the rate peg).

Our detailed assessment and the reasons for our decision are set out below.

4.1 OLG Criterion 1: The council has demonstrated a financial need

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

Note: See Appendix A for full details

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

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

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

4.1.1 Stakeholder comments on financial need

We did not receive any stakeholder submissions for this application.

4.1.2 Council's IP&R documents and application

The need for, and purpose of, the SV is articulated and identified in the council's IP&R documents, including its Delivery Program and Long-Term Financial Plan (LTFP).[14] Those documents explain that the purposes for the SV are to:

- ensure financial sustainability such as improving the council's cash reserves
- maintain existing services and service levels
- maintain a robust capital works program that reduces the infrastructure asset backlog, which includes additional capital expenditure of $250,000 per year for asset renewals.[15]

The council's application lists cost-saving measures, which shows that the council has canvassed alternatives to an SV. However, the OLG Guidelines stipulate that the relevant IP&R documents should canvass alternatives to the rate rise. The council's LTFP and Delivery Program did not clearly articulate the alternatives canvassed to an SV. The council did not meet this aspect of Criterion 1, but we acknowledge the council demonstrated this elsewhere in its application, and overall, we consider that it has met Criterion 1.

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

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

1. **Proposed SV Scenario** – which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg.

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

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than 0% is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[16] The OLG has set a benchmark for the OPR of greater than 0% (see Box 4.1 for more information).

Box 4.1 Operating Performance Ratio

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

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

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

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

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

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

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

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

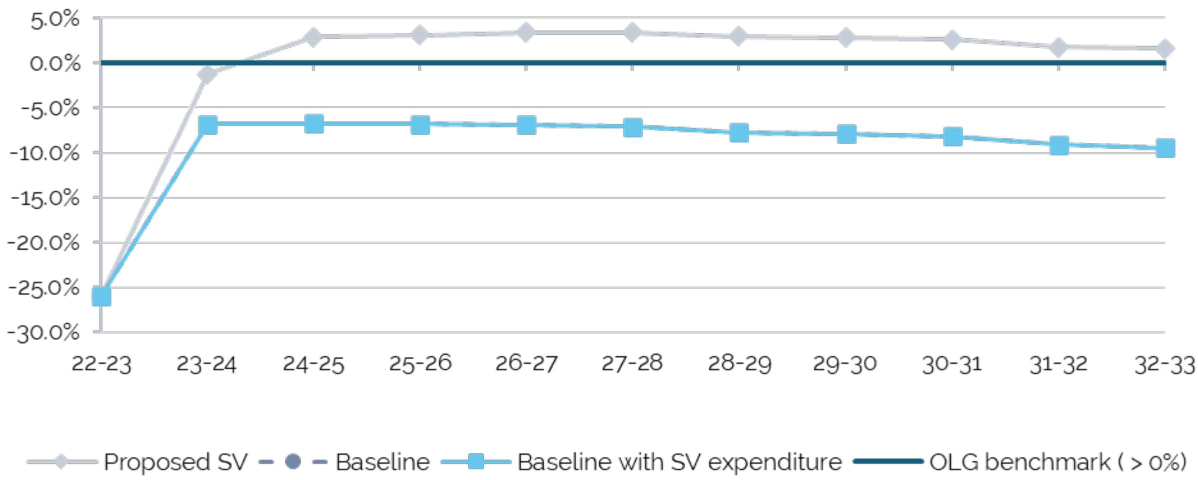
We calculated the council's forecast OPR over the next 10 years under the 3 scenarios (see Figure 4.1 and Table 4.1). We found that, over the next 5 years:[c]

- **Under the Baseline Scenario and the Baseline with SV expenditure Scenario**, the council's OPR would be well below the OLG benchmark of greater than 0%. Its average OPR over this period would be -6.9%.
- **Under the Proposed SV Scenario**, the council's OPR would improve and slightly exceed the OLG benchmark of greater than 0%. Its average OPR would be 2.3%.

This suggests that the council is in a poor financial position and, without additional income, may not be financially sustainable in the long term.

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

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



Note: OPR shown excludes capital grants and contributions. For Junee Shire Council, both the baseline and baseline with expenditure graphs are the same.
Source: Junee Shire Council, Application Part A, Worksheet 9 and IPART calculations.

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

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-1.2	2.9	3.1	3.4	3.4	2.9	2.8	2.6	1.7	1.6
Baseline	-6.8	-6.8	-6.8	-6.9	-7.1	-7.7	-7.9	-8.2	-9.1	-9.4
Baseline with SV expenditure	-6.8	-6.8	-6.8	-6.9	-7.1	-7.7	-7.9	-8.2	-9.1	-9.4

Source: Junee Shire Council, Application Part A, Worksheet 9

4.1.4 Impact on net cash

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

On 30 June 2022, the council held a total of $5.8 million in cash. This included:

- **$3.78 million of externally restricted funds** (i.e., subject to external legislative or contractual obligations)
  - Examples include developer contributions and monies collected under the Sewer fund and Domestic Waste Management fund.[17]
- **$1.80 million of internally restricted funds** (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations)
  - Examples include employee leave entitlements and money held in trust (e.g., for the Martel Memorial Trust Fund).[18]

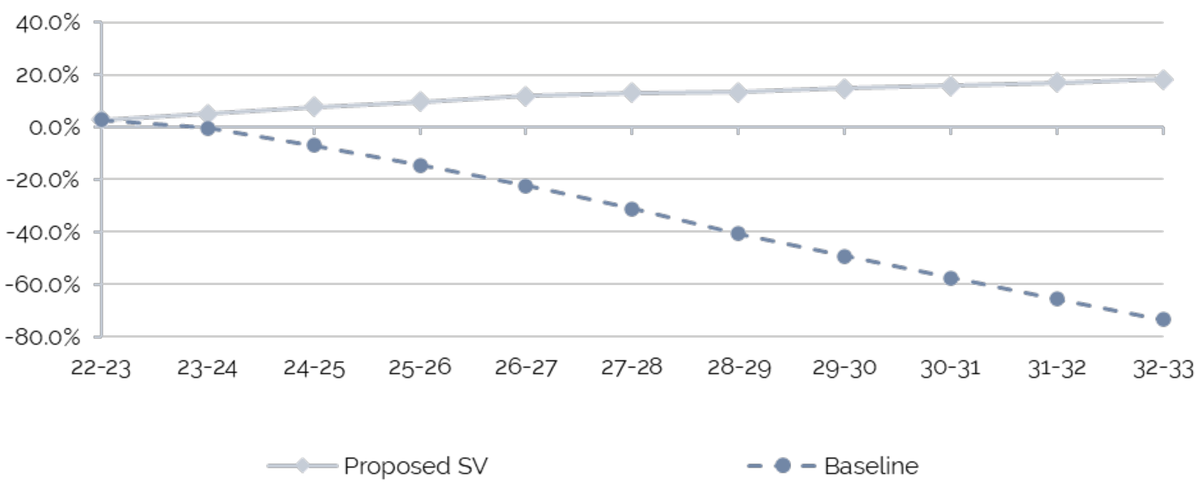
- **$0.17 of million unrestricted funds** (ie, can be used to fund the council's day to day operations).

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

We calculated that as at 30 June 2023 the council will have a net cash of $0.33 million and net cash to income ratio of 2.9%. As Figure 4.2 shows, our analysis found that:

- **Under the Proposed SV Scenario**, the council's net cash to income ratio would steadily increase to 18.3% by 2032-33.
- **Under the Baseline Scenario**, the council's net cash (debt) to income ratio would decline to -73.5% by 2032-33.

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



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

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

Impact on infrastructure ratios

The management of infrastructure assets is an important council function. We have used information provided by the council to assess the extent to which it can maintain and renew its infrastructure assets as they depreciate. We did this by assessing its infrastructure backlog ratio and infrastructure renewals ratio and comparing them to OLG's benchmarks:

- **The infrastructure backlog ratio** indicates whether the council has a need for additional revenue to maintain its infrastructure assets. It shows the infrastructure backlog as a proportion of the total value of a council's infrastructure. OLG's benchmark for the infrastructure backlog ratio is less than 2.0%.

- **The infrastructure renewals ratio** measures the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. OLG's benchmark for the infrastructure renewals ratio is greater than 100%. (See Box 4.2 for more information on these ratios and how we interpret them.)

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its total written down value of its infrastructure and is defined as:

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

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

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

Infrastructure renewals ratio

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

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

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

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

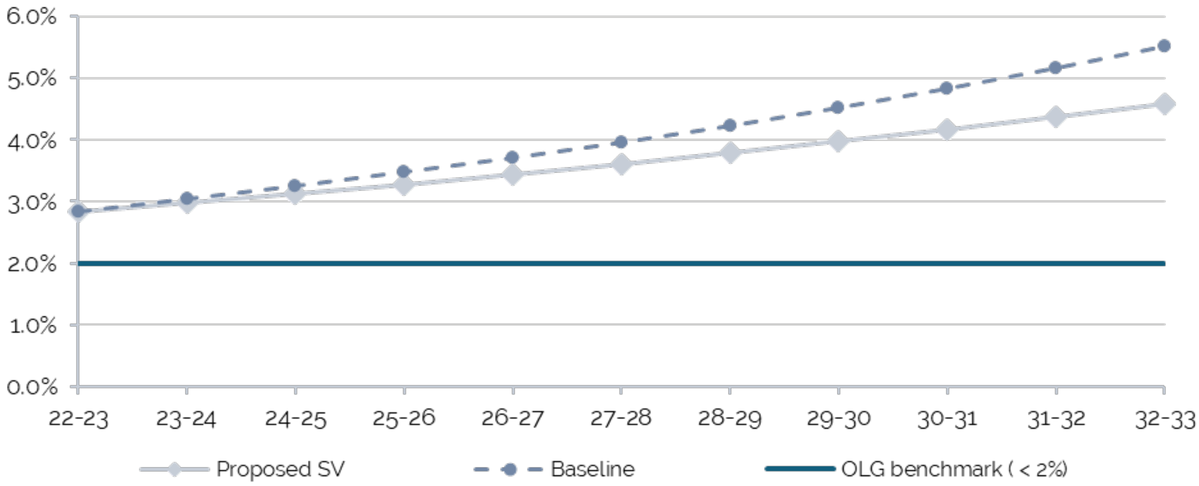
Impact on infrastructure backlog ratio

Our analysis shows that both with and without the proposed SV, the council's infrastructure backlog ratio would remain higher than the OLG benchmark of less than 2.0% for the next 10 years. However, this ratio would be slightly lower (i.e. better) with the proposed SV.

As Figure 4.3 shows:

- **Under the Baseline Scenario**, the infrastructure backlog ratio increases from 2.8% in 2022-23 to 5.5% by 2032-33.
- **Under the Proposed SV Scenario**, the infrastructure backlog ratio would also increase, but at a slower rate compared to the Baseline, increasing to 4.6% by 2032-33.

Figure 4.3 The council's infrastructure backlog ratio, 2022-23 to 2032-33



Source: Junee Shire Council, Application Part A, Worksheet 9

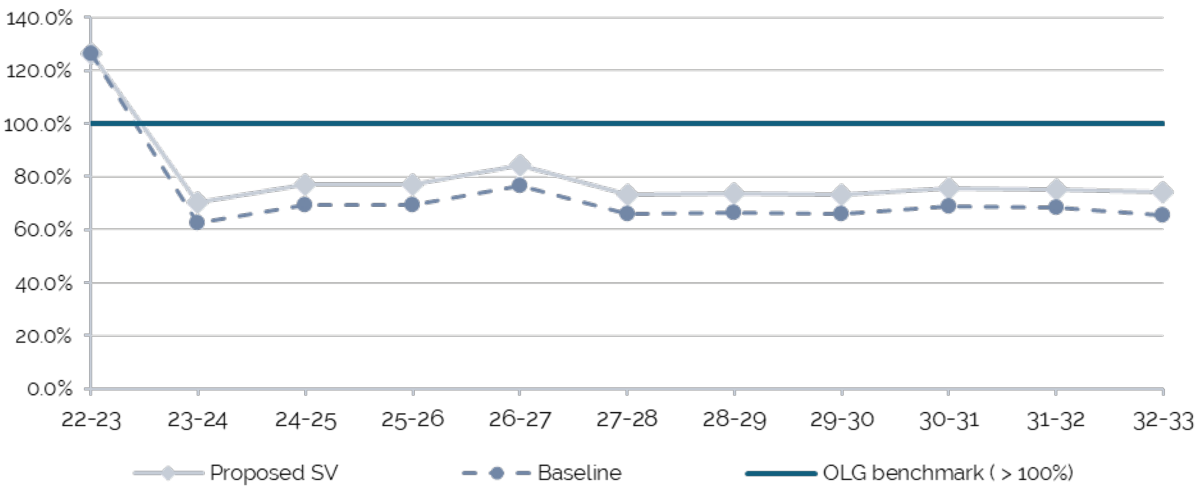
Impact on infrastructure renewals ratio

Similarly, we found that both with and without the proposed SV, the council's infrastructure renewals ratio would be below OLG benchmark of 100% over the next 10 years (see Figure 4.4). But the ratio is higher (better) with the SV.

As Figure 4.4 shows:

- **Under the Proposed SV Scenario,** the council's infrastructure renewals ratio would be 70.1% in 2023-24, increasing to 73.9% by 2032-33, which is below the OLG benchmark of greater than 100%
- **Under the Baseline Scenario**, the infrastructure renewals ratio would also remain under the OLG benchmark, increasing from 62.4% in 2023-24 to 65.5% in 2032-33.

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



Note: Baseline Scenario includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.
Source: Junee Shire Council, Application Part A, Worksheet 9

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

Alternatives to the rate rise

We assessed whether, in establishing the need for the SV, the council's relevant IP&R documents canvassed alternatives to the rate rise.

The council in its application noted that it considered the following options in preparing its updated LTFP (dated November 2022):

- reducing services and service levels
- increasing fees and charges
- ceasing/transferring services
- disposing of assets
- transferring the family day care centre to another provider.[19]

The OLG Guidelines state that alternatives to the SV should be canvassed in the council's relevant IP&R documents, including the LTFP. The council's November 2022 LTFP should have also expressly articulated that these initiatives were canvassed as an alternative to the SV to meet this aspect of Criterion 1.

We also investigated whether and to what extent the council had decided not to apply the full percentage of increases to general income available to it in previous years under section 511 of the *Local Government Act*. We found that the council does not have any deferred rate increases available to it.[20]

4.2 OLG Criterion 2: The council demonstrated community awareness

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

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

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

Note: See Appendix A for full details

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

4.2.1 Stakeholder comments on community awareness

We did not receive any stakeholder feedback on this application.

4.2.2 Our assessment of council's engagement and consultation

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

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

Information provided to ratepayers

Despite some shortcomings in the way information was presented to ratepayers, overall we found that the information provided to ratepayers about the proposed SV was largely clear. The council conveyed most details to ensure ratepayers were well informed and able to engage with the council during the consultation process.

The council's LTFP and Delivery Program sets out the extent of the General Fund rate rise under the proposed SV in percentage terms.

The council's engagement materials outlined[21]:

- the need for the SV, and what the additional income from the proposed SV would fund
- the cumulative increase in rates in percentage terms for the 2-year SV, and the resulting:
  - average annual rates in dollar terms for residential, business and farmland categories in 2023-24 and 2024-25
  - average annual weekly rates increase in dollar terms for residential, business and farmland categories in 2023-24 and 2024-25
- the cost saving/sustainability improvements that the council had considered
- how to find out more information and provide feedback.

However, we found 2 shortcomings with the council's consultation materials. First, the council did not outline the cumulative increase in rates in dollar terms for the average ratepayer for each rating category, as specified in the OLG Guidelines. We consider showing the weekly rate increases alone is not sufficiently transparent.

Second, the council did not always include the rate peg (actual or assumed) when it set out the percentage impact of the SV. For instance, we noticed that in the LTFP, it stated that under the proposed SV rates would increase by 15% in 2023-24, then 10% in 2024-25.[22] These percentages exclude the 2.5% assumed rate peg. We would have preferred the council to have communicated its increases as 17.5% in 2023-24 and 12.5% in 2024-25, as it did in its publicly available SRV Background Paper[d] and Special Rate Variation Community Meetings[e] PowerPoint slides. This would have been more consistent and transparent.

Engagement methods used

The council used an appropriate variety of engagement methods to promote awareness of and obtain community views on its proposed rate increase.

The council's community engagement methods included developing a Community Engagement Plan[23] in August 2022, and undertaking the following engagement activities:

- posting approximately 2,800 mailouts to all ratepayers, informing them of the proposed SV
- sending emails to 71 local businesses and service groups to encourage community engagement
- holding 7 general community forums that were attended by around 85 ratepayers
- holding a community drop-in session outside of Junee IGA, which was attended by around 80 ratepayers
- conducting an online survey, which was completed by 52 people
- establishing an SV information webpage, which included links to the relevant IP&R documents, an SV background paper, a copy and recording of its community engagement presentation and community Q&A, feedback forms and a rates calculator
- taking out advertising in and providing media releases to local newspapers, including the Junee Independent
- making social media posts, including a video of the mayor inviting the community to SV information sessions.[24]

Process for community consultation

We found that the process the council used for community engagement and consultation was generally effective in making the community aware about the proposed SV. The council consulted with the community on the proposed SV from 31 August 2022 to 27 October 2022. This consultation period provided enough opportunity for ratepayers to be informed and engaged on the proposal.

Outcomes of community consultation

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

[d] Page 5.
[e] Page 15.

We found that the council did consider these results. It produced a community engagement summary report, which assessed the outcomes of its 262 direct interactions with the community through the engagement process. This report found:

- some ratepayers were understanding of the need for an increase so that the council could maintain its current levels of service
- other ratepayers expressed that the council should 'live within their means'
- most of the negative feedback that was provided did not relate to the proposed SV, but to individual services a ratepayer received
- some ratepayers also raised concern that not everyone will have the ability to pay the increased rates
- many ratepayers desired a financially sustainable council that can deliver a high standard of service to the community. [25]

The community engagement summary report was presented at the 15 November 2022 council meeting. After reviewing the community feedback, the council resolved to apply for an SV. It noted that an SV would enable the council to continue operating without reducing the services it currently provides to the Junee community.[26]

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

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

Note: See Appendix A for full details

To assess this criterion, we analysed the council's assessment of the impact of its proposed SV on ratepayers and also carried out our own analysis. We also considered whether the council has policies in place to mitigate impacts of rate rises, including whether there is a hardship policy.

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

4.3.1 Stakeholder comments on impact on ratepayers

We did not receive any stakeholder feedback on this application.

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

We analysed the council's assessment of the impact of the proposed SV on ratepayers, and the community's financial capacity to pay the proposed increased rates. We also considered how the council's rates have changed over the past 5 years, and how its rates compare to those of other councils.

Impact on average rates

The council assessed the impact on ratepayers of the proposed SV. As Table 4.2 shows, it estimated that over the 2-year period of the SV, average residential and farmland rates would increase by about 32.2%, while business rates would increase by approximately 33.3%.

Table 4.2 Impact of the proposed special variation on average rates

	2022-23	2023-24	2024-25	Cumulative increase $	Cumulative increase %
Residential average $ rates	882	1,036	1,166		
$ increase		154	130	284	
% increase		17.5	12.5		32.2
Business average $ rates	2,169	2,548	2,890		
$ increase		380	342	722	
% increase		17.5	13.4		33.3
Farmland average $ rates	3,368	3,957	4,452		
$ increase		589	495	1,084	
% increase		17.5	12.5		32.2

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

Community's capacity to pay

The council undertook a capacity to pay analysis, which it outlined in its application. The analysis found that the proposed SV was reasonable.[27] It found:

- the council's projected average residential, business and farmland rates are competitive when benchmarked to similar councils
- the unemployment rate for Junee in June 2022 was 2.6%, which is relatively low and close to the Riverina region average of 2.7%
- the number of businesses has grown from 555 to 580 between June 2021 and June 2022.[28]

How the council's rates changed over time

Table 4.3 shows, since 2017-18, the council's rates have increased at an average annual rate of between 1.9% and 3.2%, depending on the rating category. This compares to the average rate peg of 2.1% over the same period.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	740	778	796	802	818	882	3.6%
Business	1,854	1,932	2,011	2,066	2,107	2,169	3.2%
Farmland	3,068	3,092	3,164	3,243	3,308	3,368	1.9%

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

How the council's rates compare to other councils

The council's current average rates – that is, before the proposed SV – are relatively high compared to those of its neighbouring councils and comparable NSW councils in terms of their SEIFA score (which measures their population's relative socio-economic disadvantage) and their population's median household income.

Box 4.3 Comparable councils

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

Office of Local Government (OLG) groups

- The Office of Local Government (OLG) groups similar councils together for comparison purposes.
- Junee Shire Council is in OLG Group 10 which is considered a large rural area and includes councils such as Oberon Council, Narromine Shire Council, Dungog Shire Council and Liverpool Plains Shire Council.
- The OLG groupings are based on broad demographic variables such as total population, level of development, and typical land use. It should be noted that there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.
- Junee Shire Council has a SEIFA rank of 29 out of 130 councils in ABS 2016 which is low and indicates relative disadvantage
- The 3 councils with closest SEIFA rank within the OLG Group 10 are Narromine Shire Council, Berrigan Shire Council, Lachlan Shire Council and Narrandera Shire Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Junee Shire Council to the 4 councils within OLG group 10 with closest median income ranking. These are Oberon Council, Upper Lachlan Shire Council, Wentworth Shire Council and Uralla Shire Council.

Neighbouring councils

- We compared Junee Shire Council to the neighbouring councils of Coolamon Shire Council, Cootamundra-Gundagai Regional Council, Wagga Wagga City Council and Temora Shire Council.
- These councils are geographically close to Junee Shire Council but do not necessarily share a common border.

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

- average residential rates were higher than 2 neighbouring councils but lower than 2, higher than most comparable councils based on SEIFA score and income, and higher than the average for the other councils in its OLG Group
- average business rates were higher than 3 neighbouring councils but significantly lower than Wagga Wagga, and higher than most comparable councils based on both SEIFA score and income, and higher than the average for the other councils in its OLG Group
- average farmland rates were higher than 3 neighbouring councils but lower than Cootamundra-Gundagai, higher than most comparable councils based on income but lower than most comparable councils based on SEIFA score, and higher than the average for the other councils in its OLG Group
- outstanding rates ratio**,** was also relatively high compared to its neighbouring councils, comparable councils based on SEIFA score and income, and higher than the average for the other councils in its OLG Group 10.

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

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Junee (10)	882	2,169	3,368	72,696	1.2	11.2	29
Neighbouring councils							
Coolamon	417	425	2,090	68,120	0.6	6.0	71
Cootamundra-Gundagai Regional	924	1,886	4,029	58,864	1.6	8.3	27
Wagga Wagga	1,192	6,404	2,964	85,176	1.4	5.1	88
Temora	666	1,508	2,284	62,556	1.1	4.0	47
Average	**800**	**2,556**	**2,842**	**68,679**		**5.9**	**58**
Comparable councils (SEIFA)							
Narromine	699	3,054	4,237	68,016	1.0	9.7	31
Berrigan	786	1,471	2,302	58,656	1.3	3.1	36
Lachlan	636	745	3,667	63,336	1.0	11.6	25
Narrandera	706	1,291	3,782	61,568	1.1	8.8	23
Average	**707**	**1,640**	**3,497**	**62,894**		**8.3**	**29**
Comparable councils (Income)							
Oberon	988	1,125	2,048	74,932	1.3	9.2	59
Upper Lachlan Shire	582	1,135	1,954	76,180	0.8	1.7	91
Wentworth	785	6,280	1,763	72,384	1.1	3.4	49
Uralla	729	692	4,036	69,992	1.0	8.7	76
Average	**771**	**2,308**	**2,450**	**73,372**		**5.8**	**69**
Group 10 average (excluding Junee)	**861**	**1,710**	**3,168**	**64,638**	**1.3**	**7.5**	**42**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2018-19.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130, which denotes a council that is least disadvantaged in NSW.
Source: OLG data; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the proposed SV, the council's rates are still expected to be relatively high. Table 4.5 shows that from 2023-24 to 2024-25, the council's:

- average residential rates would be above the average for the other councils in its OLG Group, comparable councils based on both SEIFA and income, and neighbouring councils
- average business rates would be above the average for the other councils in its OLG Group, comparable councils based on both SEIFA and income, and neighbouring councils
- average farmland rates would be above the average for the other councils its OLG Group, comparable councils based on both SEIFA and income, and neighbouring councils.

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

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

Council (OLG Group)	2022-23	2023-24	2024-25
Residential			
Junee	882	1,036	1,166
OLG Group 10 (excluding Junee)	861	898	920
Neighbouring councils (average)	800	833	860
Comparable councils (SEIFA) (average)	707	733	751
Comparable councils (Income) (average)	771	799	819
Business			
Junee	2,169	2,548	2,890
OLG Group 10 (excluding Junee)	1,710	1,779	1,824
Neighbouring councils (average)	2,556	2,658	2,737
Comparable councils (SEIFA) (average)	1,640	1,701	1,743
Comparable councils (Income) (average)	2,308	2,394	2,453
Farmland			
Junee	3,368	3,957	4,452
OLG Group 10 (excluding Junee)	3,168	3,298	3,381
Neighbouring councils (average)	2,842	2,961	3,061
Comparable councils (SEIFA) (average)	3,497	3,626	3,717
Comparable councils (Income) (average)	2,450	2,541	2,604

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2018-19.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.
Source: IPART calculations.

We note that the average rates with the SV will generally be higher than comparable councils. However, Junee Shire Council also has a higher median household income than most of its comparable councils (see Table 4.4). In this context, we consider that the increases are generally reasonable. The council also has a hardship policy in place to assist ratepayers who have difficulty paying their rates (see section 4.3.3).

4.3.3 The council's hardship policy

We are satisfied that the council has a hardship policy in place. A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We examined the council's hardship policy, which is also available on the council's website.

The policy offers assistance to ratepayers who are experiencing genuine financial difficulties in paying their rates and charges, such as:

- writing-off accrued interest from payable rates
- entering into payment plans
- where financial hardship is caused by the revaluation of lands, the council may waive, reduce or defer whole or part of the increase in the amount of the rate payable, subject to certain conditions.[29]

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

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

Note: See Appendix A for full details

To assess whether the council met this criterion, we checked the information provided by the council in their application.[30] We found that it met the criterion. The council:

- exhibited its current Delivery Program, previous LTFP and Strategic Asset Management plan for 28 days from 18 May 2022
- adopted these IP&R documents on 28 June 2022
- exhibited its updated LTFP from 23 September to 27 October 2022, and adopted it on 15 November 2022
- submitted its SV application on 2 February 2023.

However, we noted two opportunities for improvement. First, the council re-adopted its 2017 Community Strategic Plan (CSP) on 28 June 2022, noting that the CSP continues to represent the aspirations of the current community.[31] However, it did not re-exhibit this document in 2022. We would have preferred the CSP to be re-exhibited again in 2022 to provide stakeholders with opportunities to provide feedback on whether it continued to be appropriate.

Second, the council did not upload its updated LTFP to its website until February 2023, after it had submitted its SV application to us. As per the OLG Guidelines, the council should have published the updated LTFP on its website, as soon as possible after adoption on 15 November 2022.

Box 4.4 IP&R documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

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

Criterion 5 requires councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period.

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

Note: See Appendix A for full details

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

4.5.1 Stakeholder comments on productivity and cost containment

We did not receive any stakeholder feedback on this application.

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

We found that the council:

- demonstrated it has achieved several past achievements in delivering productivity improvements and cost containment
- outlined strategies and activities for further improving its productivity and efficiency, but did not clearly quantify them in its application or its LTFP.

The council could have better quantified its planned initiatives. However, on balance, when assessed with the council's savings to date, we found that the council met this criterion.

Past productivity and cost containment strategies

The council's application indicated it had made savings of over $438,000 per annum through productivity improvements and cost containment initiatives in recent years. These included:[32]

- installing LED Street lighting, saving around $30k per annum
- starting to install LED lighting in buildings
- reducing debt by $2 million over 2 years, saving around $80k per annum
- increasing fuel tax credit rebates saving $50k per annum
- realising Fringe Benefit Tax savings of around $40k per annum
- reducing the number of passenger vehicles by 5, saving around $100k per annum
- using internal borrowing, saving around $25k per annum
- changing vehicle specifications, reducing capital costs
- extending the life of heavy plant
- reviewing vacant positions to gain short-term efficiencies
- gaining efficiencies from condition-based asset maintenance
- implementing smart meters
- reducing its leave liability
- implementing an automated irrigation system
- deciding not to continue providing its family day care centre. This decision generated around $113,000 savings in 2022.[33]

Proposed Productivity and cost containment strategies over the SV period

In its application, the council stated that it has developed a service review program for the next 4 years, and also plans to implement its Renewable Energy Action Plan. It did not explain what these involved. However, it said it expects them to provide further productivity improvements but with very minimal savings.[34]

The council stated that the closure of its family day care centre will lead to $113,000 in savings per year. We note that the savings associated with this closure for 2022-23 were incorporated into the council's LTFP. However, it is not clear whether the savings for 2023-24 and beyond have been incorporated into this plan.

4.5.3 Indicators of the council's efficiency

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

We found that, over recent years, the council's:

- full time equivalent (FTE) staff numbers have decreased by an average annual rate of 0.6% per annum
- ratio of the population to the number of FTEs has increased by an average of 1.4% per annum
- average cost per employee has increased by 0.2% per annum on average, and its employee costs as a percentage of operating costs have remained relatively stable at around 33%.

We also found that, compared to other councils in its OLG Group, the council has less FTEs, a higher population to FTE ratio, a higher average cost per FTE, and a slightly lower operating expenditure per capita.

We note that these performance indicators only provide a high-level overview of the council's productivity at a point in time. Additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings.

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

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	60	55	59	59	-0.6
Ratio of population to FTE	109	121	113	113	1.4
Average cost per FTE ($)	88,733	96,582	89,746	89,237	0.2
Employee costs as % of operating expenditure (General Fund only) (%)	32.8	32.6	33.9	33.8	1.1

Source: IPART calculations.

Table 4.7 Select comparator indicators for Junee Shire Council

	Junee Shire Council	OLG Group 10 Average (excluding Junee)	NSW Average
General profile			
Area (km2)	2,030	9,380	5,557
Population	6,676	7,223	64,251
General Fund operating expenditure ($m)	14.8	25.2	95.0
General Fund operating revenue per capita ($)	2,957	4,403	
Rates revenue as % of General Fund income (%)	25.8	24.8	46.0
Own-source revenue ratio (%)	47.3	44.0	67.2
Productivity (labour input) indicators			
FTE staff	59.0	122.4	383.0
Ratio of population to FTE	113.2	59.0	167.7
Average cost per FTE ($)	89,237	77,874	98,929
Employee costs as % of operating expenditure (General Fund only) (%)	33.8	34.9	37.7
General Fund operating expenditure per capita ($)	2,214	3,495	1,479

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

4.6 OLG Criterion 6: Any other matter that IPART considers relevant

Criterion 6 provides that IPART may take into account any other matter that it considers relevant.

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

In 2022-23, IPART approved a permanent additional special variation (ASV) to the council's general income of 2.5% for that year (including the 0.7% rate peg).[35]

A condition of the approval was that the council outline in its 2022-23 annual report:[36]

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

We are unable to assess the council's compliance at the time of this determination, because the 2022-23 financial year is still in progress.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 5 criteria, we have approved the council's proposed permanent SV to general income from 2023-24 to 2024-25.

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

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

	2023-24	2024-25
Permanent increase above the rate peg	13.7	10
Rate peg[a]	3.8	2.5
Total increase	17.5	12.5
Cumulative increase		32.19

a. The 2023-24 rate peg is the actual rate peg issued by IPART. The rate peg of 2.5% from 2024-25 is the assumed rate peg that the OLG Guidelines advise councils to use in their forecasts. The approved total increase will not change when an actual rate peg is set in future years.
Source: Junee Shire Council Application Part A, Worksheets 1 and 4

The special variation is subject to the following conditions:

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

5.1 Impact on ratepayers

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

This table shows that, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate would increase by $284 or 32.2% by 2024-25
- the average business rate would increase by $722 or 33.3% by 2024-25
- the average farmland rate would increase by $1,084 or 32.2% by 2024-25.

Table 5.2 Indicative annual increases in average rates under the approved SV (2022-23 to 2024-25)

	2022-23	2023-24	2024-25	Cumulative increase $	Cumulative increase %
Residential average $ rates	882	1,036	1,166		
$ increase		154	130	284	
% increase		17.5	12.5		32.2
Business average $ rates	2,169	2,548	2,890		
$ increase		380	342	722	
% increase		17.5	13.4		33.3
Farmland average $ rates	3,368	3,957	4,452		
$ increase		589	495	1,084	
% increase		17.5	12.5		32.2

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

5.2 Impact on the council

Our decision means that the council may increase its general income by $0.6 million above the rate peg in 2023-24, and $1.1 million above the rate peg in 2024-25. This increase can remain in the rate base permanently.

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

Table 5.3 Permissible general income (PGI) of council from 2023-24 to 2024-25 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	17.5	17.5	608.8	777.7	5,221.8
2024-25	12.5	32.19	1,146.2	1,430.4	5,874.5

Source: Junee Shire Council, Application Part A, Worksheets 1 and 4 and IPART calculations.

We estimate that over the 10 years from 2023-24 to 2032-33, the council will collect an additional $12 million in general income, compared with an increase limited to the assumed rate peg.

This extra income will enable the council to:

- address its operating deficits and improve its financial sustainability
- maintain existing services and service levels generally
- maintain a robust capital works program that reduces the infrastructure asset backlog.

With the SV, the council's projected:

- OPR will improve and move closer to the OLG benchmark of greater than 0% over the SV period – as shown in Figure 4.1 in section 4.1.
- net cash to income ratio will remain above 0% and steadily increase to 18.3% by 2032-33 – as shown in Figure 4.2 in section 4.1.

Appendices

A Assessment criteria

The Office of Local Government (OLG) sets the criteria for assessing special variation applications in its special variation guidelines. The guidelines help councils prepare an application to increase general income by means of a special variation.

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

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

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

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

Criterion 1: Financial need

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

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

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

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

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

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

Criterion 2: Community awareness

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

Criterion 3: Impact on ratepayers is reasonable

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

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

In assessing the impact, IPART may also consider:

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

Criterion 4: IP&R documents are exhibited

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

Criterion 5: Productivity improvements and cost containment strategies

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

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

Any other matter that IPART considers relevant

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

[g] 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 Junee Shire Council's projected revenue, expenses and operating balance

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

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

Table B.1 Junee Shire Council – Summary of projected operating statement under the proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	13,557	14,586	14,557	15,043	15,222	15,560	15,904	16,244	16,590	16,963
Total expenses	13,206	13,477	13,754	14,036	14,359	14,749	15,102	15,471	15,951	16,339
Operating result from continuing operations	351	1109	803	1,007	863	811	802	773	639	624
Net operating result before capital grants and contributions	-162	396	440	494	500	448	439	410	276	261
Cumulative net operating result before capital grants and contributions	-162	234	674	1,168	1,668	2,116	2,555	2,965	3,241	3,502

Note: Numbers may not add due to rounding.
Source: Junee Shire Council, Application Part A, Worksheet 8

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

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
SV revenue above assumed rate peg	609	1,146	1,175	1,204	1,234	1,265	1,297	1,329	1,363	1,397
Fund existing service levels – build unrestricted cash	358	894	923	952	982	1,013	1,045	1,077	1,110	1,144
Renewals	250	250	250	250	250	250	250	250	250	250

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

Glossary

ABS	Australian Bureau of Statistics
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning and Reporting
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income
OPR	The Operating Performance Ratio (OPR) measures whether a council's income will fund its costs, where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council

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

[1] Junee Shire Council, Application Part B, February 2023, p 8.
[2] Junee Shire Council, Application Part B, February 2023, p 8.
[3] Junee Shire Council, Application Part B, February 2023, p 9.
[4] Junee Shire Council, Application Part B, February 2023, p 9.
[5] Morrison Low, Special Rate Variation – Background Paper Junee Shire Council, p 3.
[6] Junee Shire Council, Application Part B, February 2023, p 31.
[7] *Local Government Act 1993*, Section 511.
[8] Morrison Low, Special Rate Variation – Background Paper Junee Shire Council, p 3.
[9] Morrison Low, Special Rate Variation – Background Paper Junee Shire Council, pp 3-4; Junee Shire Council, Application Part B, February 2023, pp 50-53.
[10] Junee Shire Council, Application Part B, February 2023, p 9.
[11] Junee Shire Council, Application Part B, February 2023, p 39.
[12] Junee Shire Council, Application Part B, February 2023, p 38-39.
[13] Junee Shire Council, Rates and Charges Hardship Policy.
[14] Junee Shire Council, Long Term Financial Plan 2023–33, November 2022, p 5; Junee Shire Council, Combined Delivery Program and Operational Plan 2022–2025, June 2022 p 34.
[15] Junee Shire Council, Long Term Financial Plan 2023–33, November 2022, p 22.
[16] Office of Local Government, Performance Benchmarks, May 2020.
[17] Junee Shire Council, General Purpose Financial Statement as at 30 June 2022, p 31.
[18] Junee Shire Council, General Purpose Financial Statement as at 30 June 2022, p 32.
[19] Junee Shire Council, Application Part B, February 2023, p 21.
[20] Junee Shire Council, Application Part B, February 2023, p 16.
[21] Morrison Low, Special Rate Variation Community Meetings Junee Shire Council, September 2022; Junee Shire Council, SRV Letter to Property Owners and Tenants, September 2022.
[22] Junee Shire Council, Long Term Financial Plan 2023–33, November 2022, p 5.
[23] Morrison Low, Special Rate Variation – Community Engagement Plan Junee Shire Council, August 2022.
[24] Junee Shire Council, Application Part B, p 31; Morrison Low, Junee Shire Council Special Rate Variation – Community Engagement Summary Report, November 2022.
[25] Morrison Low, Junee Shire Council Special Rate Variation – Community Engagement Summary Report, November 2022.
[26] Junee Shire Council, Application Part B, February 2023, p 33.
[27] Junee Shire Council, Application Part B, February 2023, p 39.
[28] Junee Shire Council, Application Part B, February 2023, p 39.
[29] Junee Shire Council, Rates and Charges Hardship Policy, July 2022.
[30] Junee Shire Council, Application Part B, February 2023, p 47.
[31] Junee Shire Council, Application Part B, February 2023, p 47.
[32] Junee Shire Council, Application Part B, February 2023, pp 51-53; Junee Shire Council & Morrison Low, Special Variation Attachment - Special Rate Variation Community Meetings, September 2022 p 11.
[33] Junee Shire Council, Application Part B, February 2023, p 53.
[34] Junee Shire Council, Application Part B, February 2023, p 53.
[35] IPART, LG Determination - Junee Shire Council - Additional special variation application 2022-23, June 2022.
[36] IPART, Instrument - Junee Shire Council permanent s 508(2) ASV instrument 2022-23, June 2022.

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