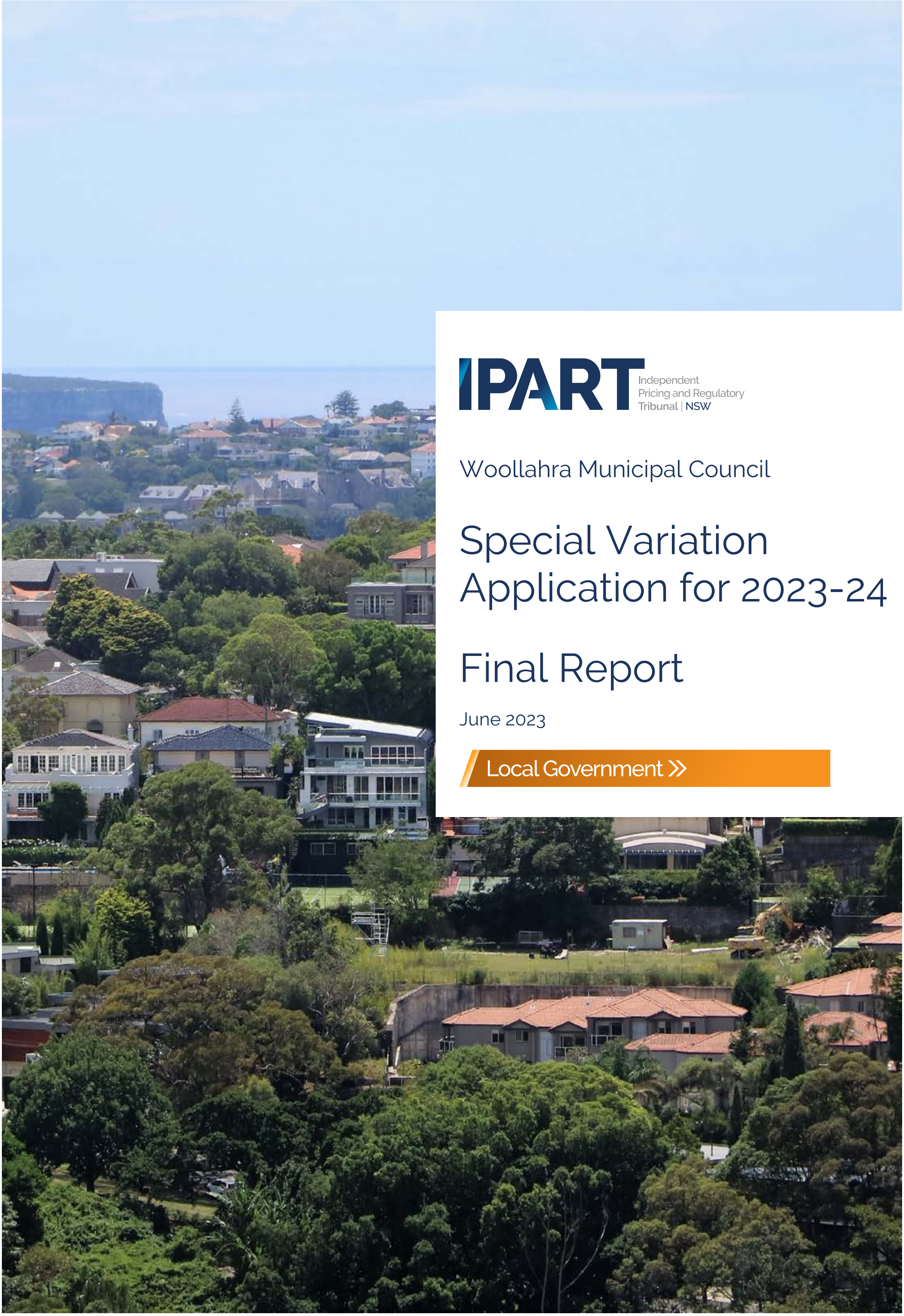


Woollahra Municipal Council

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

Enquiries regarding this document should be directed to a staff member:

Albert Jean	(02) 9290 8413
Simon Thomas	(02) 9019 1922

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

Woollahra Municipal Council (the council) applied to IPART to increase its general income through a permanent special variation (SV) of 22.23% (including the rate peg) over the 2 years from 2023-24 until 2024-25.[1]

The council applied for the SV to:

- ensure its long-term financial sustainability, including through providing a financial buffer for unforeseen expenses
- enhance and improve current infrastructure and services.

1.1 IPART's decision

We have approved the council's proposed SV. Our decision means the council can raise up to an additional $11.2 million in total general income (above the rate peg) over the 2-year SV period, and permanently retain this revenue in its rate base.

Our decision reflects our assessment that the council satisfied the Office of Local Government criteria for granting the SV. In particular, it adequately engaged and informed the Woollahra community about its proposed SV and demonstrated that the SV's impact on ratepayers was reasonable. It provided sufficient evidence that it has implemented productivity improvements and cost containment strategies to help fund its priority projects and financial goals.

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 proposed SV met these OLG 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, maintain existing service levels and improve existing infrastructure and services.
02	Demonstrated	**Community awareness** The council effectively consulted with ratepayers and the community is appropriately aware of the need for, and extent of, a rate rise associated with the SV.
03	Demonstrated	**Reasonable impact on ratepayers** The council demonstrated that the impact of the SV on ratepayers would be reasonable, having regard to current rate levels, high household incomes and very low levels of disadvantage.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council appropriately exhibited and adopted all necessary IP&R documents.
05	Demonstrated	**Productivity improvement and cost containment** The council outlined its productivity and cost containment strategies implemented to date and identified its proposed cost reductions over the SV period.
06		**Other matters IPART considers relevant** IPART approved a 2.0% permanent additional SV in 2022-23.

1.3 Stakeholders' feedback

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

Woollahra Municipal Council consulted on its proposed SV with its community using a variety of engagement methods. The council received 593 submissions, held 2 webinars attended by 33 people, recorded 156 face-to-face interactions with individual ratepayers through pop-up meetings held around the Local Government Area (LGA) and received 386 survey responses.[2]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. Through this process we received 7 submissions on the council's proposed SV. Stakeholders that made submissions to us raised the following concerns:

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

1.4 Next steps for the council

Our determination sets the *maximum* amount by which the council can increase its general income over the 2-year period. We encourage the council to consult with its community to decide how best to implement the increase. The council can choose how it sets its rates in accordance with our determination, including deferring any increases for up to 10 years.[3] 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 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	14.3%	7.5%	22.9%
Business	10.6%	7.5%	18.9%

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

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

2 The council's special variation application

The council applied to increase its general income through a special variation (SV) of 13.7% in 2023-24 and 7.5% in 2024-25 for a 22.23% cumulative increase (including the rate peg) over this 2-year period.

The council sought the SV to:

- ensure its long-term financial sustainability, including by providing a financial buffer that would allow it to respond to potentially unforeseen expenses, such as clean-up costs after a severe storm
- enhance and improve its current infrastructure and services.

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories over the 2-year SV period. On average, it proposed:

- residential rates by 2024-25 would increase by $339 or 22.9%
- business rates by 2024-25 would increase by $806 or 18.9%.

The council has provided the number of rate notices that were 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	25,185
Business	1,403

Source: Woollahra Municipal Council, Part A application Worksheet 2

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay. Its analysis recognised that while some in the community will face financial challenges in paying the proposed increases beyond 2023-24, the council must consider the consequences of not improving its financial sustainability for future generations. In assessing these consequences, it considered the public safety risks, social and economic impacts, and impact on essential or valued infrastructure.

The council's IP&R documents considered a range of indicators of capacity to pay, including:

- its average residential and business rates relative to other councils in its OLG group and neighbouring councils, both now and in the final year of the SV period
- the ratio of its average rates to the median income in the Woollahra local government area (LGA), which is in line with comparable councils
- the median household income in the LGA, which indicates a very high level of affluence

- the LGA's SEIFA ranking, which is second highest in NSW
- its outstanding rates ratio, which is 4.5%
- the unemployment rate in the LGA, which in 2021 at 3.3% was lower than the Greater Sydney figure of 5.1%
- the proportion of average household income that goes to rates, which in 2021 was 0.9%, estimated to increase to 1.1% under the proposed SV.

The council indicated that it has a Hardship Policy, which it has recently reviewed and updated following public exhibition, along with its Debt Recovery Policy.

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

The council estimated that the proposed SV would result in a cumulative increase in its permissible general income of $72.9 million above what the assumed rate peg would deliver over 10 years.

2.4 Further information provided

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

- the dollar amounts associated with the cost savings discussed in its application
- the outcomes of its community satisfaction survey.

In response to this request, the council provided an excel spreadsheet that showed its savings calculations, and the results of previous customer satisfaction surveys.

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 impact on them. This is one of the criteria we use to assess the council's application (see Appendix A).

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

3.1 Summary of submissions we received

We received 7 submissions from stakeholders between 10 February 2023 and 3 March 2023. The key issues and views raised in the published (non-confidential) submissions, and our responses to them, are summarised below. There are approximately 25,000 residential and 1,400 business ratepayers in the council's local government area.

3.1.1 Affordability of proposed rates increases

Several of the submissions raised concerns that the rate increase is unjustified and driven by greed. They expressed a sense of disappointment that the council decided to move forward with the proposed SV despite community opposition, resulting in financial stress for residents. Overall, the submissions revealed a shared concern for the area's affordability and the potential impact of the proposed increase.

Our assessment of the affordability of the proposed rate increases is discussed in section 4.3.

3.1.2 The council's consultation with the community

Several submissions said the council had not adequately engaged and communicated with the community about the proposed rate increases. They also said that the council had not provided any justification for the increase and that their current rates were already higher than required. They suggested that the council should reduce spending by cutting unnecessary staff and charging more to groups that use public places. They also said the council had not provided a platform for ratepayers to voice their opinions.

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

3.1.3 The council's financial management

A few submissions raised concerns about the council's financial management and lack of accountability. They stated that the council's decision-making processes are not transparent, and that the views and needs of the community are often ignored.

These submissions also raised potential concerns such as conflicts of interest and wasteful spending. They wanted to see greater transparency, community involvement, and accountability mechanisms to ensure that councils are held responsible for their actions and decisions.

We discuss the council's efficiency in section 4.5.

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

A few submissions we received raised concerns that the council has failed to consider the impact of rising land values on rates, and that recent land valuation increases in the Woollahra area would automatically increase the council's income.

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

Box 3.1 Effect of land valuation on rates

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

Individual rates depend on the combination of:

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

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

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

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

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

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

4 IPART's assessment of the council's application

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

We found that the council met all OLG criteria for its proposed SV. Specifically, we found it:

- demonstrated a financial need for the SV to improve its financial sustainability going forward
- undertook adequate community consultation to inform ratepayers of the need and purpose of the SV
- assessed the impact of the SV on ratepayers and demonstrated that it is reasonable
- exhibited its IP&R documentation appropriately
- implemented part of its Financial Recovery Plan and included further productivity and cost savings in its Long-term Financial Plan.

Our assessment against each OLG criterion is discussed below.

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

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

Note: See appendix A for the full assessment criteria

To assess whether the council met this OLG criterion, we 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 also considered stakeholders' comments on financial need in the submissions we received. We do not audit council finances, as this is not part of our delegated authority.

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

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

4.1.1 Stakeholder comments on financial need

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

- the council should provide clear information and justification for any proposed rate increases
- the council needs to demonstrate responsible financial management and accountability for how residents' money is being spent
- the council should consider alternatives to rate increases, such as reducing staff or implementing a plan over a longer period
- the council's decision to move forward with rate increases is unacceptable, especially for residents who are already facing financial stresses.

We considered these concerns, taking account of all the information available to us.

4.1.2 Council's IP&R documents and application

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

- maintain existing service levels, including providing a 'financial flexibility' buffer
- improve on existing infrastructure and services.

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

- not have sufficient financial flexibility to respond to unplanned events, such as the clean-up required after a severe storm
- not be able to provide the enhanced infrastructure and services that the community wants.

Its IP&R documents also outline a range of initiatives the council has implemented to date to reduce deficits in the general fund in recent years.

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 proposed SV on key indicators of its financial performance and position – namely its operating performance ratio, net cash (or net debt) and infrastructure ratios.

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than zero is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[4] The OLG has set a benchmark for the OPR of greater than zero. (See Box 4.1 for more information.)

Box 4.1 Operating Performance Ratio

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

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

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

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

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

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

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

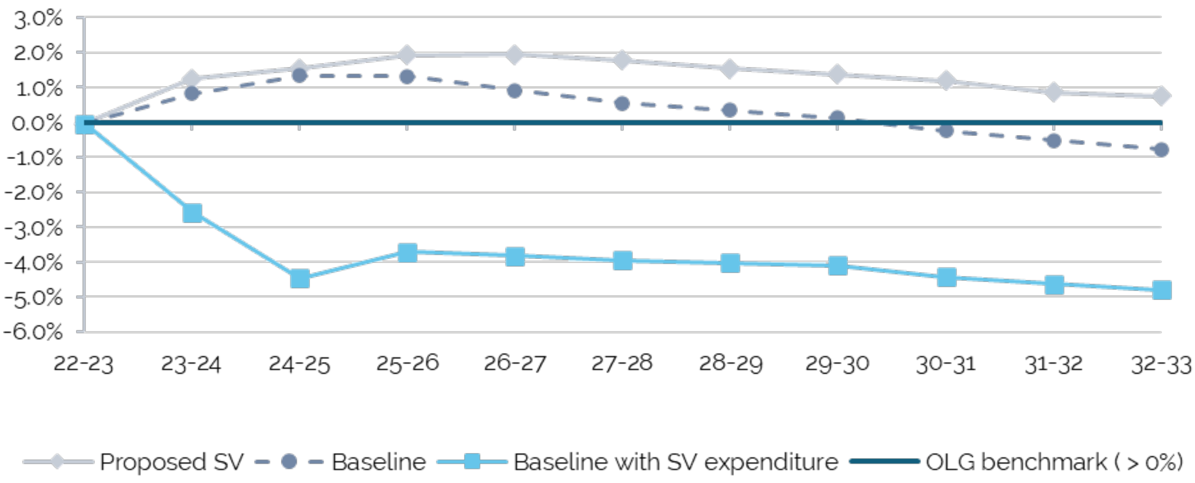
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

Our analysis found that over the next 5 years under the[c]:

- **Baseline Scenario**, the council's average OPR would be 1%, which is in line with the OLG benchmark of greater than zero
- **Baseline with SV expenditure Scenario**, the council's average OPR would be -3.7%, which is below the OLG benchmark of greater than zero
- **Proposed SV Scenario**, the council's average OPR would be 1.7%, which is in line with the OLG benchmark of greater than zero. (See Figure 4.1).

This suggests that without the SV, the council would not be able to enhance its service levels as desired without undermining its financial sustainability.

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



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

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	1.5	1.9	1.9	1.8	1.5	1.4	1.2	0.9	0.8
Baseline	0.8	1.3	1.3	0.9	0.5	0.4	0.1	-0.2	-0.5	-0.8

Source: Woollahra Municipal Council, Application Part A

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.

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

On 30 June 2022, the council held a total of $91.7 million in cash reserves. Of these funds:

- **$23.9 million was externally restricted** (i.e., subject to external legislative or contractual obligations)
  - Examples include funds collected as developer contributions and as domestic waste management charges
- **$65.7 million was internally restricted** (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations)
  - Examples include funds for employee leave entitlements and monies collected as deposits
- **$2.1 million was unrestricted** (as available to fund the purpose of the proposed SV).

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

We calculated that as at 30 June 2023, the council will have a net cash of -$21.0 million (or a net debt of $21.0 million). We calculated that as at 30 June 2023, the council will have a net cash (debt) to income ratio of -19.7%. As Figure 4.2 shows, our analysis indicates that over the next 10 years under the:

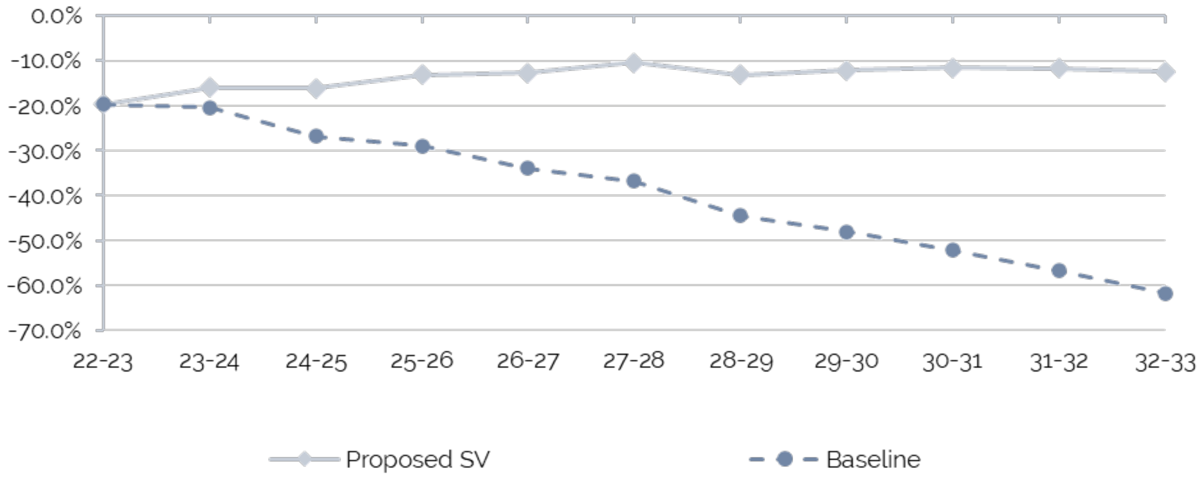
- **Proposed SV Scenario**, the council's net cash to income ratio would rise slightly to a high of -10.5% in 2027-28 and then remain fairly stable until 2032-33
- **Baseline Scenario**, the council's net cash position to income ratio would decline substantially from -19.7% in 2022-23 to -61.8% in 2032-33.

Our analysis indicates that over the next 5 years, the council's average net cash (debt) to income ratio would be:

- -13.7% under the Proposed SV Scenario
- -29.4% under the Baseline with SV Expenditure Scenario.

Considering the council's OPR and net cash position, we consider the council is in financial need for the proposed SV to enhance its financial sustainability and deliver enhanced service levels in line with its proposal.

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



Source: Woollahra Municipal Council, Application Part A and IPART calculations.

Impact on infrastructure ratios

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

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

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

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

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

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

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

Infrastructure renewals ratio

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

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

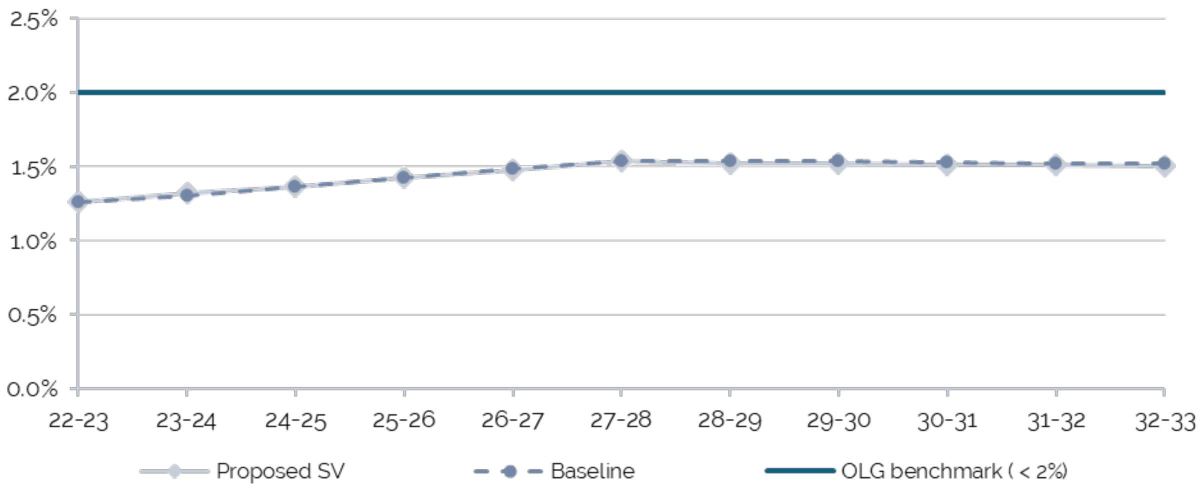
OLG has set a benchmark for the ratio of greater than 100%.

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

Impact on infrastructure backlog ratio

Our analysis found that over the next 10 years, the council's infrastructure backlog ratio would be the same under both the Baseline and the Proposed SV Scenarios. Over the next 5 years, the average ratio would 1.4%, which is consistent with the OLG benchmark of less than 2% (see Figure 4.3).

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

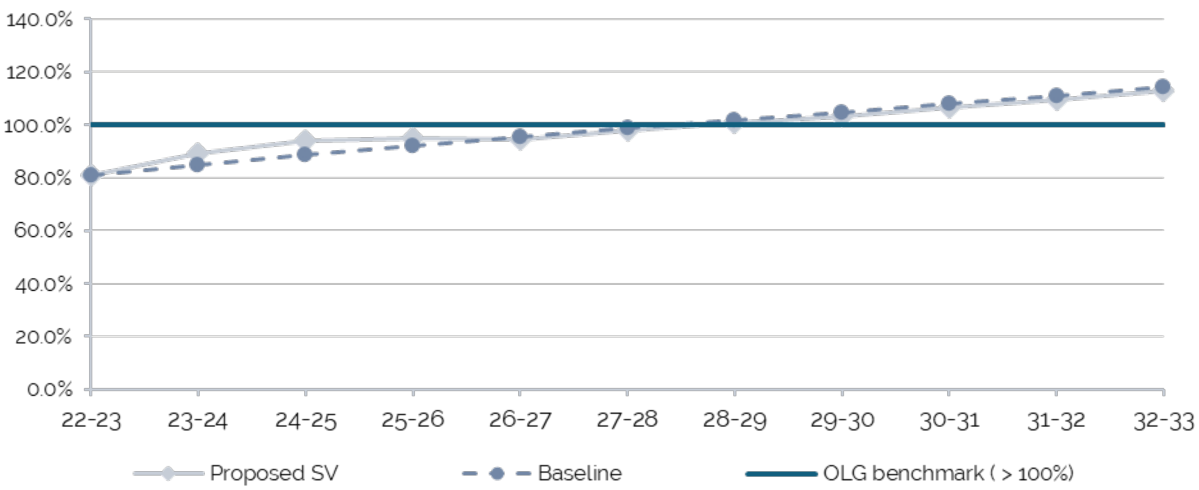


Source: Woollahra Municipal Council Application Part A

Impact on infrastructure renewals ratio

Our analysis found that over the next 10 years, the council's infrastructure renewals ratio would be similar under the Baseline and Proposed SV Scenarios. Under either scenario, the renewals ratio would increase from the 2022-23 position of 81% and would hit OLG's benchmark of 100% by 2028-29. The ratio would then continue to increase to between 110% and 115% by 2032-33 (see Figure 4.4).

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



Source: Woollahra Municipal Council, Application Part A

Alternatives to the rate rise

We assessed whether, in establishing the need for the SV, the council's relevant IP&R documents, including its Delivery Program or LTFP, canvassed alternatives to the rate rise to meet the financial need. We assess that the council has met this requirement.

The council's LTFP outlines expenditure cuts and income opportunities that were implemented by the council, including[5]:

- refinanced a loan for a commercial centre in Double Bay, decreasing annual interest expenses by $700,000 and generating total savings over the life of the loan of $6.45 million
- extended the replacement cycle of passenger vehicles in 2021, saving $3.5 million over 10 years
- identified and implemented staff expenses efficiencies of $526,000
- conducted a council-wide staff review and redundancy program, saving $2.88 million
- sought additional income through a review of fees and charges, increasing income by $726,000.

As a result, we assess that the council has considered alternatives to an SV before applying for one, which were outlined in its relevant IP&R documents (i.e. LTFP), as required by the Guidelines.

4.2 OLG Criterion 2: The council demonstrated community awareness

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

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

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

Note: See appendix A for the full assessment criteria

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

4.2.1 Stakeholder comments on community awareness

In submissions to IPART, stakeholders raised concerns that there was:

- a lack of communication and transparency from the council about the reasons for the proposed rate increases
- limited engagement methods and poorly structured surveys that did not allow for ratepayers to have their own voice or opinions
- a lack of notice about the proposed increases
- no awareness or engagement methods employed by the council.

We considered these concerns, alongside other available information.

4.2.2 Our assessment of council's engagement and consultation

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

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

Information provided to ratepayers

We found that the information provided to ratepayers about the proposed SV was clear. It conveyed all necessary details to ensure ratepayers were well informed and able to engage with the council during the consultation process.

The council's consultation material presented information on:

- the council's financial context over the preceding years
- the efficiency and productivity measures already completed before resorting to an SV
- the need for the SV
- two options for an SV – one was the proposed SV and the other was a higher cumulative increase over the 2-year period of 40.3%
- the impacts on ratepayers, by category, of the different SV options, including average rates and increases in rates in dollar and percentage terms, expressed both annually and as a cumulative increase over the proposed SV period
  - a comparison of the average annual increase in rates of different options, and what rates would be under a rate peg increase only (with no SV)

- the allocation of SV revenue to priority infrastructure and service improvement projects/programs, and how the choice of projects/programs aligns with the most recent community satisfaction survey
- how stakeholders could have their say.

Engagement methods used

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

- a section of the council's website was devoted to information about financial sustainability and the council's budgetary situation, updated with information about budget repair measures adopted
- e-newsletters, print media, and social media were used to provide information about the council's finances and the proposed SV
- key IP&R documents, including the Delivery Program and LTFP, were publicly exhibited, and included clear information about the need for the SV, the actions implemented to reduce the operating deficit, and the impact on ratepayers of three proposed SV options
- flyers were sent to the community alongside rates notices to inform them of upcoming consultation on the SV
- a dedicated online engagement website for the SV was established
- a bespoke online rates calculator was provided so ratepayers can understand the specific impact of different SV options
- a detailed information brochure was directly mailed to all ratepayers
- emails were sent to ratepayers, including a link to the online version of this brochure
- 2 online webinars were held
- 6 in-person pop-up stalls were held to provide opportunities for face-to-face discussions with council staff
- an online survey was conducted
- posters were displayed in 13 locations
- 23 business and community groups were invited to webinars and pop ups or otherwise to submit their feedback.

Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was effective. Its community consultation on the SV occurred between 24 August to 9 October 2022. We assess this provided sufficient time and opportunities for ratepayers to provide input and feedback on the proposed SV.

The council began community awareness in September 2021 by posting information about the council's financial situation on its website.[6]

In April 2022, it publicly exhibited its IP&R documents for 28 days. The LTFP and Delivery Program included information about the need for and purpose of the SV, actions already taken to reduce the deficit in the general fund, different SV options, impacts on rates, and projects that would be funded by the SV.

Outcomes of community consultation

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

We found that the council sufficiently considered the results of community consultation in preparing its SV application. For example, in its report to the Strategic and Corporate Committee meeting of 17 October 2022 it summarised the results of its community engagement campaign. It indicated that over its community engagement period:

- it received 593 submissions
- 33 people attended the 2 webinars on the subject of the SV
- its staff had approximately 156 face-to-face interactions with community members at the various SV pop-ups held around the LGA
- in its survey, 41% of people responded "Yes" to the question of "Do you think Council should apply for an SRV" and 59% of people responded "No"
- 386 people responded to the question as to whether their preference was for SV Option 2 (proposed SV) or Option 3 (a larger SV) if the council was to apply for an SV, with 67% voting for Option 2 and 33% voting for Option 3
- it also received some feedback on other projects or priorities the community wished the council to consider as part of the SRV, plus general feedback on the proposed SRV.[7]

The community also provided a range of feedback about specific infrastructure and services. Some comments also highlighted that the rate rise would be unaffordable given recent pressures on cost of living.

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

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

Note: See appendix A for the full assessment criteria

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

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

4.3.1 Stakeholder comments on impact on ratepayers

Some submissions to IPART raised concerns that:

- the council's rates are already very high and there are no reasons for an increase
- the rates increase is not reasonable
- many residents are facing significant financial stress, and the council should cut back or maintain the status quo.

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

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

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

Impact on average rates

As Table 4.2 shows, the council estimated that over the 2-year period of the SV, its average residential and business rates would increase by about 22.9% and 18.9% respectively.

Table 4.2 Impact of the proposed special variation on average rates

Ratepayer Category	2022-23	2023-24	2024-25	Cumulative Increase ($)	Cumulative increase (%)
Residential average $ rates	1,480	1,692	1,819		
$ increase		212	127	339	
% increase		14.3	7.5		22.9
Business average $ rates	4,259	4,712	5,065		
$ increase		453	353	806	
% increase		10.6	7.5		18.9

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

Community's capacity to pay

The council's IP&R documents considered a range of indicators of the community's capacity to pay the proposed rate increases, including:

- a comparison of its average residential and business rates with those of other councils in its OLG Group (Group 2) and its neighbouring councils, both currently and in the final year of the SV period
- the ratio of average rates to median income, which is similar to comparable councils
- the median household income in the Woollahra LGA, which indicates a very high level of affluence in the LGA
- the Woollahra LGA's SEIFA ranking, which is second highest in NSW, indicating a level of advantage compared to other areas of the state
- its outstanding rates ratio, which is lower than its OLG group average
- the unemployment rate in the LGA, which in 2021 at 3.3% was lower than the Greater Sydney figure of 5.1%
- the proportion of average income that goes to rates, which in 2021 was 0.9%, estimated to increase to 1.1%.[8]

The council's SV application also noted that it has a Hardship Policy, which it has recently reviewed and updated following public exhibition, along with its Debt Recovery Policy (see section 4.3.3).

How the council's rates have changed over time

Since 2017-18, the council's rates have increased at an annual average of 2.1% for residential and 4.3% for business. This compares to the average rate peg of 2.1% over the same period.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	1,336	1,370	1,403	1,435	1,464	1,480	2.1
Business	3,452	3,492	3,645	3,672	3,746	4,259	4.3

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

How the council's rates compare to other councils

Box 4.3 Comparable councils

In our analysis, we have compared Woollahra Municipal 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.
- Woollahra Municipal Council is in OLG Group 2 which is considered an urban metropolitan area and also includes Burwood Council, Hunter's Hill Council, Lane Cove Council, Mosman Council, and Strathfield 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.
- Woollahra Municipal Council has a SEIFA rank of 129 out of 130 councils in ABS 2016 which is high and indicates relative advantage
- The 4 councils with closest SEIFA rank within the OLG group 2 are Mosman Council, Lane Cove Council, Hunters Hill Council and Strathfield Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Woollahra Municipal Council to the 4 councils within OLG group 2 with closest median income ranking. These are Mosman Council, Lane Cove Council, Hunters Hill Council and Strathfield Council.

Neighbouring councils

- We compared Woollahra Municipal Council to the neighbouring councils of Waverley Council, Randwick City Council, City of Sydney Council, North Sydney Council, and Mosman Council.
- These councils are geographically close to Woollahra Municipal Council but do not necessarily share a common border.

Without the proposed SV, the council's current average residential rates are neither particularly high or low compared to those of comparable councils, while its average business rates are generally low. As Table 4.4 shows, in 2022-23, its:

- average residential rates are lower than 2 and higher than 3 of its neighbouring councils', lower than 2 and higher than 2 of the comparable councils based on both SEIFA score and income, and slightly lower than the average for other councils in its OLG group
- average business rates are substantially lower than most of its neighbouring councils, lower than 2 comparable councils based on SEIFA score and income, and slightly lower than the average for other councils in its OLG Group
- outstanding rates ratio is higher than most of its neighbouring councils, but lower than most comparable councils based on both SEIFA score and income, and lower than the average for other councils in its OLG Group.

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] ($)	Average business rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Woollahra (2)	**1,480**	**4,259**	**165,984**	**0.9**	**4.2**	**129**
Neighbouring councils						
Waverley	1,201	7,020	148,408	0.8	4.2	124
Randwick	1,499	9,695	119,860	1.3	3.8	117
Sydney	732	12,759	115,024	0.6	2.2	116
North Sydney	958	5,629	131,248	0.7	2.8	127
Mosman	1,553	3,356	150,384	1.0	3.3	128
Average	**1,189**	**7,692**	**132,985**		**3.2**	**122**
Comparable councils (SEIFA)						
Mosman	1,553	3,356	150,384	1.0	3.3	128
Lane Cove	1,356	5,122	145,652	0.9	4.7	126
Hunters Hill	2,328	1,326	155,896	1.5	4.7	125
Strathfield	828	4,546	109,460	0.8	5.2	113
Average	**1,516**	**3,588**	**140,348**		**4.5**	**123**

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Comparable councils (Income)						
Hunters Hill	2,328	1,326	155,896	1.5	4.7	125
Mosman	1,553	3,356	150,384	1.0	3.3	128
Lane Cove	1,356	5,122	145,652	0.9	4.7	126
Strathfield	828	4,546	109,460	0.8	5.2	113
Average	**1,516**	**3,588**	**140,348**		**4.5**	**123**
Group 2 average (excluding Woollahra)	**1,520**	**4,307**	**131,695**	**1.2**	**4.5**	**120**

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

With the proposed SV, Table 4.5 shows that from 2023-24 to 2024-25, the council's:

- average residential rates would initially be below the average for the other councils in its OLG Group and comparable councils but above the average for neighbouring councils. By the end of the SV period average residential rates would be above all comparable averages and remain above the average for neighbouring councils. However, we note that Strathfield is also applying for an SV which, if approved, would raise the OLG group average as Strathfield currently has lower rates than other Group 2 councils.
- average business rates by the end of the SV period would be above the average for the other councils in its OLG Group, and above the average for comparable councils based on both SEIFA score and income. However, its average business rates would be below the average for its neighbouring councils, reflecting the relatively high rates in the City of Sydney and Randwick.

We note there are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. Therefore, it may overstate, for example, the extent to which the council's rates are 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			
Woollahra Municipal Council	**1,480**	**1,692**	**1,819**
OLG Group 2 (excluding Woollahra)	1,520	1,595	1,635
Neighbouring councils (average)	1,189	1,233	1,263
Comparable councils (SEIFA) (average)	1,516	1,596	1,636
Comparable councils (Income) (average)	1,516	1,596	1,636

Council (OLG Group)	2022-23	2023-24	2024-25
Business			
Woollahra Municipal Council	**4,259**	**4,712**	**5,065**
OLG Group 2 (excluding Woollahra)	4,307	4,477	4,589
Neighbouring councils (average)	7,692	7,977	8,176
Comparable councils (SEIFA) (average)	3,588	3,734	3,827
Comparable councils (Income) (average)	3,588	3,734	3,827

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

4.3.3 The council's hardship policy

Based on our assessment, we are satisfied that council has a hardship policy in place.

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We examined the council's hardship policy, which provides assistance to ratepayers who are experience genuine financial difficulties in paying their rates and charges and is available on its website. This assistance may take the form of:

- waiving interest on outstanding rates
- establishing payment plans
- waiving, reducing or deferring payment
- extending the provision of pensioner discounts
- arranging for pensioner rates and charges to accrue against the future sale of the estate.

In its Long-Term Financial Plan, the council encourages residents to reach out to it if they are experiencing financial difficulty. As noted above, in the lead up to the SV application, the council reviewed its Hardship Policy and Debt Recovery Policy. Its SV application also identifies that seniors may be a specifically vulnerable group. It states that Woollahra has a larger proportion of seniors than Greater Sydney, some of whom may have a high degree of asset wealth but low cash flow, who may struggle with rate rises. The council recently devised customised payment arrangements for all 79 ratepayers requesting assistance during the pandemic.[9]

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

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

Note: See appendix A for the full assessment criteria

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

- publicly exhibited its Community Strategic Plan, previous Delivery Program, previous Long-Term Financial Plan and Operational Plan from 6 April 2022 to 15 May 2022
- sought submissions from the community, then adopted these documents on 27 June 2022
- publicly exhibited its updated Delivery Program and Long-Term Financial Plan from 20 October 2022 to 17 November 2022, which were revised to include the SV
- these were later adopted on 28 November 2022
- the most up-to-date Asset Management Strategy was also adopted on 28 November 2022 (there are no public exhibition requirements for this document)
- submitted its SV application on 2 February 2023.

Box 4.4 IP&R documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

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

Criterion 5 requires councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period. Councils should present their productivity improvements and cost containing strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of those measures have been incorporated in the council's Long Term Financial Plan.

Note: See appendix A for the full assessment criteria

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

4.5.1 Stakeholder comments on productivity and cost containment

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

- increase efficiency by restructuring its workforce
- identify non-essential projects or expenses and redirect the funds to more critical areas
- increase charges for groups that use public spaces
- implement the proposed rate increases over a longer period.

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

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

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

The council's SV application and IP&R documents (Delivery Program and LTFP) outlined the productivity and cost containment strategies implemented to date and identified the cost reductions that will apply over the SV period. Both implemented productivity and cost containment measures and forward-looking cost savings are identified and quantified in the LTFP.

We consider this OLG criterion to be met because a range of forward-looking productivity and cost containment measures are identified. The quantified component is relatively small at an estimated 0.04% of total operating expenses for each year of the LTFP. However, we do note this follows from substantial quantified productivity and cost containment initiatives prior to applying for the SV.[10]

Past productivity and cost containment strategies

In its LTFP, Delivery Program, public consultation materials and SV application, the council described a range of 'budget repair' initiatives that it has undertaken to address the deficit in its General Fund in previous years. The range of initiatives completed or underway target productivity, cost savings, and revenue raising opportunities, and include:

- developing a Service Review Framework and starting to implement its service review program that covers all its 46 service areas
- implementing an Internal Audit Program
- developing a Performance Measurement Framework

- implementing Customer Design processes for improved customer experiences
- implementing Digital Technology Transformation program
- implementing staff generated Opportunities for Improvement (OFIs)
- conducting a staffing review
- refinancing a current loan
- pursuing additional revenue opportunities through the redevelopment of a carpark in Double Bay
- reviewing its fees, charges, and revenue opportunities. [11]

The council also noted that it has taken steps to reduce forecast increases in the Domestic Waste Management Charge.

In terms of productivity improvements and cost containment strategies implemented in recent years, the council's LTFP states that in 2021-22 it has:[12]

- refinanced a loan for a commercial centre in Double Bay, decreasing annual interest expenses by $700,000 and generating total savings over the life of the loan of $6.45 million
- extended the replacement cycle of passenger vehicles in 2021, saving $3.5 million over 10 years
- identified and implemented staff expenses efficiencies of $526,000
- conducted a council-wide staff review and redundancy program, saving $2.88 million
- sought additional income through a review of fees and charges, increasing income by $726,000.

The council estimated that total savings and additional income generated through these initiatives is approximately $3.38 million, taking its deficit from $4.1 million to approximately $0.3 million ahead of applying for the SV. The council also estimated the above measures will drive annual savings going forward of approximately $7.8 million (summarised in Table 4.6).

Table 4.6 Summary of implemented productivity and cost containment measures ($m)

Initiative	LTFP	2021-22	2022-23	Annual Ongoing from 2023-24
Fees & Charges – detailed review and benchmarking exercise	Yes	0.726		0.726
Other Income– Consideration of other sources of income – Bus Shelter Advertising	Yes		0.500	2.000
Employee Costs – ongoing review including through a restructure of the organisation	Yes	0.326	2.880	3.206
Employee Costs – Workers Compensation costs from participation in the Loss Prevention & Recovery Model	Yes	0.247		0.247
Insurance premiums – reduction in premium	Yes	0.200		0.200
Street lighting – reduction in annual costs.	Yes	0.340		0.340
Borrowing Costs –refinancing opportunities	Yes	0.700		0.700
Extension of Fleet life from 2.5 years to 4 years	Yes	0.350		0.350
Total		2.889	3.380	7.769

Source: Woollahra Municipal Council, Application Part B, p 73.

For context, the council's productivity and cost saving measures equate to approximately 6.8% of total operating expenses in 2023-24. [13]

Planned productivity and cost containment strategies over the SV period

The council's LTFP stated that it has incorporated an ongoing efficiency savings factor of 0.1% into Materials, Contract and Other Expenses for each year of the 10-year LTFP. We estimate this equates to approximately 0.04% of total operating expenses for a single year (as expected for 2023-24).

As already discussed above, it estimated that its recent productivity improvements and cost containment strategies will provide savings of approximately $7.8 million per year over the life of its LTFP (see Table 4.6). It also stated that its planned service review program will seek to deliver further productivity and savings outcomes.

Overall, we consider the council has:

- delivered productivity improvements, cost containment and revenue enhancements prior to the SV
- identified and quantified forward-looking productivity measures in its application and LTFP, though we note that these are considerably smaller than those it has already delivered.

Although the planned initiatives are more modest, when assessed with the council's large savings to date, we assess that the council has demonstrated this OLG criterion.

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management, including looking at how these indicators have changed over time and how they compare with those of similar councils. This data is presented in Table 4.7 and Table 4.8 below.

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

- Full time equivalent (FTE) employee numbers have increased by an average annual rate of about 4.5% per annum
- ratio of the population to FTEs has declined by an average of 3.7% per annum
- average costs per employee have increased by an average of 2.6% per annum.

We also found that, compared to other councils in its OLG Group, the council has substantially more FTEs and a lower ratio of population to FTE. However, its average cost per FTE is similar to the average for the other councils in its OLG Group.

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 4.7 Trends in selected performance indicators, for Woollahra Municipal Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	365.0	386.0	400.0	416.0	4.5
Ratio of population to FTE	160.2	152.8	148.5	142.9	-3.7
Average cost per FTE ($)	101,940	107,269	111,455	110,161	2.6
Employee costs as % of operating expenditure (General Fund only) (%)	40.2	42.1	43.4	41.0	0.7

Source: IPART calculations.

Table 4.8 Select comparator indicators for Woollahra Municipal Council

	Woollahra Municipal Council	OLG Group 2 Average	NSW Average
General profile			
Area (km2)	12	9	5,573
Population	59,431	34,983	63,836
General Fund operating expenditure ($m)	111.9	44.4	94.3
General Fund operating revenue per capita ($)	1,893	1,331	
Rates revenue as % of General Fund income (%)	50.1	59.9	46.0
Own-source revenue ratio (%)	90.4	84.5	67.0
Productivity (labour input) indicators			
FTE staff	416.0	153.4	380.2
Ratio of population to FTE	142.9	228.0	167.9
Average cost per FTE ($)	110,161	109,700	98,820
Employee costs as % of operating expenditure (General Fund only) (%)	41.0	37.9	37.6
General Fund operating expenditure per capita ($)	1,883	1,268	1,477

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

4.6 Any other matter that IPART considers relevant

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

Note: See appendix A for the full assessment criteria

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.

IPART approved a permanent Additional Special Variation (ASV) for the council of 2.0%, for 2022-23.

Conditions of the ASV require the council to report on actual revenues, expenses and operating results against those projected in the application in its 2022-23 annual report, as well as the reasons for any significant differences. We expect the council to action this once the 2022-23 financial year is complete.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG criteria and consideration of stakeholder submissions, we have **approved** the council's proposed permanent SV to general income for the 2-year period from 2023-24 to 2024-25.

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

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

	2023-24	2024-25
Permanent increase above the rate peg	10.0	5.0
Rate peg[a]	3.7	2.5
Total increase	13.7	7.5
Cumulative increase	13.70	22.23

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

The special variation is subject to the following conditions:

- The council uses the additional income for the purpose of funding the proposed program.
- The council report in its annual report for each year from 2023-24 to 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. If the council sets rates as it proposed in its application, we expect that:

- the average residential rate would increase by $339 or 22.9% by 2024-25
- the average business rate would increase by $806 or 18.9% by 2024-25 (Table 5.2).

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2025-26)

Ratepayer Category	2022-23	2023-24	2024-25	Cumulative Increase ($)	Cumulative increase (%)
Residential average $ rates	1,480	1,692	1,819		
$ increase		212	127	339	
% increase		14.3	7.5		22.9
Business average $ rates	4,259	4,712	5,065		
$ increase		453	353	806	
% increase		10.6	7.5		18.9

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

5.2 Impact on the council

Our decision means that the council may increase its permissible general income (PGI) by $4.3 million above the rate peg in 2023-24, and $6.9 million above the rate peg in 2024-25 (Table 5.3). This increase can remain in the rate base permanently.

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	13.7	13.70	4,326	5,926	49,181
2024-25	7.5	22.23	6,893	9,615	52,870
Total above rate peg			11,218		

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

We estimate that over the 2 years from 2023-24 to 2024-25, the council will collect an additional $11.2 million in rates revenue compared with an increase limited to the assumed rate peg.

This extra income will enable the council to:

- to fund priority projects
- to secure the council's ongoing financial sustainability.

With the SV, the council's projected:

- OPR will be maintained above the OLG benchmark of greater than 0% over the SV period and past 2032-33 (as shown in Figure 4.1 in section 4.1.3)
- infrastructure backlog ratio will remain stable and lower than the OLG benchmark of 2% (as shown in Figure 4.3 in section 4.1.3)
- infrastructure renewal ratio will improve and hit the OLG benchmark of 100% in 2028-29 (as shown in Figure 4.4 in section 4.1.3).

Appendices

A Assessment criteria

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

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

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

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

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

Criterion 1: Financial need

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

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

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

[4] 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[5] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

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

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

Criterion 6: Any other matter that IPART considers relevant

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

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

B Woollahra Municipal Council's projected revenue, expenses and operating balance

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

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

Table B.1 Summary of projected operating statement for Woollahra Municipal 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
Total revenue	118,275	126,192	130,849	135,166	139,402	143,328	147,364	151,749	155,882	160,571
Total expenses	113,942	121,276	125,252	129,367	133,690	137,796	141,950	146,476	151,001	155,748
Operating result from continuing operations	4,333	4,916	5,597	5,799	5,712	5,532	5,414	5,273	4,881	4,824
Net operating result before capital grants and contributions	812	1,268	1,816	1,926	1,759	1,498	1,313	1,104	642	515
Cumulative net operating result before capital grants and contributions	812	2,079	3,895	5,821	7,580	9,078	10,391	11,495	12,138	12,652

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

Table B.2 Summary of projected expenditure plan for Woollahra Municipal 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	4325543.829	6892754.092	7065072.944	7241699.768	7422742.262	7608310.819	7798518.589	7993481.554	8193318.593	8398151.558
Additional footpath maintenance	150,000	154,350	157,900	161,532	165,247	169,048	172,936	176,913	180,982	185,145
Additional Stormwater drainage works	100,000	102,900	105,267	107,688	110,165	112,698	115,291	117,942	120,655	123,430
Additional Open Space maintenance team	346,491	478,027	489,022	500,269	511,775	595,796	609,499	623,518	637,859	652,530
Protecting Our Heritage	650,000	757,250								
Fig Tree Maintenance	400,000	400,000		242,298		253,571		147,428		154,287
Digital Transformation	618,296	589,305	663,752	449,073	345,003	345,720	346,301	347,221	347,996	346,165
Parks & Recreation Planner + Funding Open Space Strategies	146,655	650,908	665,879	681,194	161,562	165,278	169,079	172,968	176,946	181,016
Stormwater pipe refurbishment program		205,800	210,533	430,751	231,933	237,268	242,725	248,308	254,019	259,861
Climate Change Adaptation Measures		51,450	578,967	102,300	2,966,700	255,397	3,458,715	2,122,959	110,327	987,439
Cycleway Project		2,500,000	1,534,500							
Walking Project			514,500	526,334	538,439					

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Wilberforce Ave Carpark/Community Centre			2,148,000	1,368,000	1,345,000	1,322,000	1,300,000	1,670,000	1,253,000	1,229,000
Total use of proposed SV income	2,411,442	5,889,990	7,068,320	4,569,439	6,375,824	3,456,776	6,414,546	5,627,257	3,081,784	4,118,873
Difference between additional SRV income and its uses	1,914,102	1,002,764	-3,247	2,672,261	1,046,918	4,151,535	1,383,973	2,366,225	5,111,534	4,279,279

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

Glossary

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

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

1 Woollahra Municipal Council, *Application Part A*, Worksheet 1.
2 Woollahra Municipal Council, Strategic & Corporate Committee Agenda, 17 October 2022.
3 Local Government Act 1993, Section 511
4 Office of Local Government, Performance Benchmarks, May 2020.
5 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 7.
6 Woollahra Municipal Council, Attachment 7 – Our Financial Website Story – September 2021.
7 Woollahra Municipal Council, Strategic & Corporate Committee Agenda, 17 October 2022.
8 Woollahra Municipal Council, 2023-24 Special Variation Application Form Part B, p 51.
9 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 13.
10 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 7.
11 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 7.
12 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 7.
13 Woollahra Municipal Council, Long Term Financial Plan 2022/23 – 2031/32, p 39.

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