Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Kiama Municipal Council 2019-20

Final Report
Local Government

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Tribunal Members

The Tribunal members for this review are:

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Contents

1 Executive summary

Kiama Municipal Council (the Council) applied to IPART for a special variation (SV)[1] to increase its general income above the rate peg[2] of 2.7% for 2019-20. It has applied for a **2-year** SV to:

- Increase its general income by 9.83% in 2019-20 and 6.00% in 2020-21, **a cumulative increase of 16.42%**.
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to maintain and renew infrastructure and to enhance the Council's financial sustainability.[4] The Council proposes that the majority of the funds would be used for the maintenance and renewal of infrastructure assets such as buildings, including public amenities and transport assets.[5]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $3.0 million (8.10% of total income) over two years (see Table 1.1). As the proposed SV is permanent, it would mean a cumulative increase in its PGI revenue of $19.1 million above the assumed rate peg over 10 years (see Table 2.1).

IPART has assessed the Council's application against the criteria in the Office of Local Government's *Guidelines for the preparation of an application for a special variation to general income* (the OLG Guidelines).

This report sets out our decision (Section 1.1) and explains how and why we reached that decision.

1.1 We have approved Kiama Municipal Council's application for a Special Variation

We decided to approve the proposed SV in full.

Our decision means that the Council may increase its general income between 2019-20 and 2020-21 by the annual percentages outlined in Box 1.1. This will allow the Council to fund

1 In this context, the term 'special variation' refers to an instrument in writing given to the council by IPART (under delegation from the Minister) under s 508A of the Local Government Act 1993 (NSW).

2 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 (NSW).

3 Kiama Municipal Council, *Special Variation Application Form Part A 2019-20 (*Kiama Municipal Council, *Application Part A),* Worksheet 1.

4 Kiama Municipal Council, *Special Variation Application Form Part B 2019-20 (*Kiama Municipal Council, *Application Part B),* p 15.

5 Kiama Municipal Council, *Application Part A*, Worksheet 6.

operating and capital expenditure for its key assets, such as buildings and transport assets, and maintain service levels at acceptable standards.[6]

The annual increases include the rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years. The cumulative increase that we have approved of 16.42% is 11.15 percentage points more than the assumed cumulative rate peg for these years.[7] This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Kiama Municipal Council

Approved Special Variation: percentage increases to general income

	2019-20	2020-21
Increase above rate peg - permanent	7.13	3.50
Rate peg[8]	2.70	2.50
Total increase[9]	**9.83**	**6.00**

The approved Special Variation may be retained in the Council's general income base permanently.

We have attached conditions to this decision, including that the Council uses the income raised from the special variation for purposes consistent with those set out in its application.[10]

Conditions attached

IPART's approval of the Council's application for a special variation over the period 2019-20 to 2020-21 is subject to the following conditions:

- The Council uses the additional income from the special variation for the purposes of improving financial sustainability and as outlined in the Council's application and listed in Appendix B.
- The Council reports in its annual report for each year from 2019-20 to 2021-22 on:
  - The program of expenditure that was actually funded by the additional income
  - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
  - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - Expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
  - The outcomes achieved as a result of the actual program of expenditure.

The Council is required to reduce its income for 2019-20 to reflect the expiring special variation amount of $593,903 before increasing its general income for that year.

6 Kiama Municipal Council, *Application Part A*, Worksheet 6; and Kiama Municipal Council, *Application Part B,* p 11.
7 Kiama Municipal Council, *Application Part A*, Worksheet 1.
8 The rate peg of 2.5% for future years is assumed and may vary with the setting of the rate peg by IPART in September each year.
9 The SV percentage approved will not change to reflect the actual rate peg in future years.
10 The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.

The Council estimates that over the two years to 2020-21 it will collect an additional $3.0 million in rate revenue compared to rate increases that are limited to the known rate peg in 2019-20 and the assumed rate peg in 2020-21 (see Table 1.1).[11]

Table 1.1 Permissible general income (PGI) of Kiama Municipal Council from 2019-20 to 2020-21 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019[a]					16,136,226
2019-20	9.83	9.83	1,150,513	1,586,191	17,722,417
2020-21	6.00	16.42	1,799,560	2,649,536	18,785,762
Total cumulative increase approved				4,235,727	
Total above rate peg			**2,950,073**		

[a] Includes adjustment of –$593,903 for an SV that expires on 30 June 2019.

Note: The above information is correct at the time of the Council's application (February 2019).

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

As the approved SV is permanent, it would mean a cumulative increase in the Council's PGI revenue of $19.1 million above the assumed rate peg over 10 years. This represents 9.3% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

1.2 Reasons for our decision

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how two of the five criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances, given the Council's financial need for the proposed SV to fund maintenance and renewal of its infrastructure assets.

The proposed SV improves the Council's financial sustainability and allows it to generate revenue to fund asset renewals. The average Operating Performance Ratio (OPR) over five years would also improve with the proposed SV and would remain above the OLG benchmark of greater than or equal to break-even of 0% (see Section 4.1 for further explanation).[12] The Council held a relatively small amount of unrestricted cash, cash equivalents and investments of around $0.6 million as at 30 June 2018.

The Council considered alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. It has previously utilised the Local Infrastructure Renewal Scheme (LIRS) to fund renewals, however, this has resulted in over $300,000 in interest payments even with the interest subsidy. This has increased the costs of renewal works through additional interest payments. As a result, the Council considers the proposed SV

11 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates.

12 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

would provide the most feasible funding source and allow it to schedule the required renewal and maintenance as and when it is due, compared to the current situation where required asset maintenance and renewal is delayed or deferred and added to the infrastructure backlog with a compounding impact.

The Council has communicated the rate increase in dollar terms on a weekly basis for each year over the 2-year proposed SV period, though we note that it omitted describing the increase in dollar terms on an annual basis and on a percentage basis. On balance, we consider the Council largely demonstrated that its community is aware of the need for, and extent of, the proposed rate increase.

We found that the impact on affected ratepayers of the Council would be reasonable, taking into account the proposed SV replaces the current expiring SV of 3.7%, the Council's implementation of an incremental increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners, and the Council's financial need for additional funding to be financially sustainable. In addition, the Council indicated that it had a higher median weekly household income of $1,509 compared to the NSW and Australian average in 2016. The Council's Local Government Area (LGA) also had a low unemployment rate of 2.7% compared to the NSW average of 4.6% as at June 2017.

The Council's Integrated Planning and Reporting (IP&R) documents contain sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.

The Council has also outlined and quantified its productivity improvements and cost containment strategies.

Table 1.2 below provides more detail about our assessment and key considerations in making our decision.

Table 1.2 Assessment of Kiama Municipal Council's proposed SV application

1. Financial Need	
Demonstrated	The Council demonstrated a financial need for the proposed SV. Its: ▼ Average OPR over the five years from 2019-20 to 2023-24 is: – 4.6% with the proposed SV (the Proposed SV Scenario) – 1.5% without the proposed SV revenue and with the proposed SV expenditure (the Baseline with SV expenditure Scenario). ▼ Net debt is $35.8 million or 64.7% of income in 2018-19, with only $0.6 million in unrestricted cash and investments as at 30 June 2018. ▼ Infrastructure asset renewals ratio is forecast to be 100.9% (above the 100% benchmark)[13] in 2028-29 with the proposed SV, but falls to 85.2% (below the benchmark) by 2028-29 without the SV revenue and without the SV expenditure (the Baseline Scenario).

13 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

2. Community awareness	
Largely Demonstrated	The Council largely demonstrated that the community is sufficiently aware of the proposed rate rise. It: ▼ Used a range of engagement methods to make the community aware of the need for, and extent of, the proposed rate increase. ▼ Provided detailed explanation about the purpose and impact of the proposed SV and sought feedback. ▼ Considered community feedback on the proposed rate increase. ▼ Communicated the rates increase in dollar terms on a weekly basis for each year over the 2-year proposed SV period, though we note that it omitted describing the increase in dollar terms on an annual basis and on a percentage basis.

3. Reasonable Impact on ratepayers	
Demonstrated	With the proposed SV, the average residential rate would increase by $91 in 2019-20 and by $96 in 2020-21. Without the proposed SV, it would decrease by $20 in 2019-20 and increase by $37 in 2020-21 due to the current expiring SV.[14] The Council examined the impact of the proposed SV on ratepayers and found it would be reasonable. It considered: ▼ The higher than average current median weekly household income of $1,509 compared to the NSW and Australian average, and Wollongong average of $1,339. ▼ The current unemployment rate is low at 2.7% compared to the NSW average of 4.6% and the Illawarra region average of 6.0%. IPART considered information on ratepayers from 2016-17 and found: ▼ Average residential rates without the SV were higher than both the average for Group 4[15] councils and the weighted average of neighbouring councils. ▼ Average business rates without the SV were lower than the average for Group 4 councils and the weighted average of neighbouring councils. ▼ The average rates to household income ratio without the SV was comparable to the average for Group 4 councils but lower than neighbouring councils. ▼ The outstanding rates ratio without the SV was substantially lower than both the Group 4 average and the neighbouring councils. ▼ The SEIFA[16] index ranking (108) is comparatively higher than the neighbouring councils, indicating a lower level of disadvantage. IPART also considered a comparison of the Council's average rate levels with the proposed SV to the OLG Group 4 average rate levels over the proposed 2-year SV period. We found that in 2020-21 the Council's: ▼ Average residential rate with the proposed SV would be 50.4% higher than the estimated average Group 4 residential rates. ▼ Average business rate with the proposed SV would be 41.5% lower than the estimated average Group 4 business rates. ▼ Average farmland rate with the proposed SV would be 32.7% higher than the estimated average Group 4 farmland rates. We considered the impact on ratepayers to be reasonable taking into account the proposed SV replaces the current expiring SV of 3.7%, the Council's implementation of an incremental increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners and the Council's financial need for additional funding to be financially sustainable and fund the maintenance and renewal of its infrastructure assets.

14 Kiama Municipal Council, *Application Part A*, Worksheet 5a.

15 Kiama Municipal Council is in OLG Group 4, which is classified as Regional Town/City Small/Medium (population up to 70,000). The group comprises 26 councils, including Richmond Valley, Clarence Valley, Lismore and Tamworth.

16 The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 130 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up SEIFA.

4. IP&R documents exhibition	
Largely Demonstrated	The Council adopted its Community Strategic Plan in June 2017. It: ▼ Updated its Delivery Program and Long Term Financial Plan to include the new modelling option and further information about the proposed SV and exhibited the updated documents from 8 November 2018 to 6 December 2018. ▼ Adopted these IP&R documents on 18 December 2018. The Delivery Program and Long Term Financial Plan did not discuss the alternatives to the rate rise and the community's capacity and willingness to pay rates under the proposed SV.
5. Productivity improvements and cost containment	
Demonstrated	The Council has implemented a number of cost savings initiatives in the past. Some examples include: ▼ Reduced workers compensation insurance premiums, which produced savings of $1.26 million. ▼ Procurement cost reductions, which resulted in savings of $187,538 in 2015-16. ▼ A waste management strategy for landfill waste reduction with estimated savings of $153,000 per annum. It also estimates savings from future initiatives including: ▼ Procurement cost savings of approximately $300,000 per annum. ▼ Environmental and energy savings initiatives of about $362,000 per annum.

1.3 Structure of this report

The rest of this report explains our decision and assessment of the Council's application in more detail:

- Chapter 2 outlines the Council's application for the proposed SV
- Chapter 3 summarises the submissions received by IPART
- Chapter 4 explains our assessment of the Council's application against each criterion in the OLG Guidelines
- Chapters 5 discusses how our decision will impact the Council and its ratepayers.

2 Kiama Municipal Council's application

The Council has applied for an SV to increase its general income by a cumulative 16.42%. The proposed SV is over two years from 2019-20 to 2020-21, with an increase of 9.83% in 2019-20 and 6.00% in 2020-21, including the rate peg. The application is for an increase that remains permanently in the rate base. The Council indicated that the proposed rate increase would be applied across all rating categories.[17]

In 2018-19, IPART approved in part the Council's application to allow an SV on a temporary basis for one year with an increase of 3.70% above the rate peg. The current SV is due to expire at the end of 2018-19 and will then be removed from the Council's rate base.

2.1 Purpose

The purpose of the proposed SV is to fund ongoing operations such as infrastructure maintenance and renewal and to enhance the Council's financial sustainability.[18]

2.2 Need

Through the IP&R process, a number of priorities were identified by the Council. These include more investments to renew and maintain its infrastructure assets such as roads, buildings and public amenities, footpaths, cycle ways, parks and open spaces. The Council has also identified enhanced financial sustainability as one of the drivers for the proposed SV application.[19]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $19.1 million above what the assumed rate peg would deliver over 10 years. This represents 9.3% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 10.6% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

17 Kiama Municipal Council, *Application Part A*, Worksheet 5a.
18 Kiama Municipal Council, *Delivery Program*, pp 7, 14 and 16; and Kiama Municipal Council, *Application Part B*, p 15.
19 Kiama Municipal Council, *Application Part B*, pp 11 and 15.

Table 2.1 Permissible general income (PGI) of Kiama Municipal Council from 2019-20 to 2028-29 under the proposed SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI
19.1	204.7	9.3%

Note: The above information is correct at the time of the Council's application (February 2019).

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

The proposed SV increase will be applied across all rating categories. The Council has stated that out of the five councils in the Illawarra region, the Council currently has the lowest average residential rate and lowest average business rate and will continue to do so after the SV.[20]

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 7 November 2018.[21] On 18 December 2018, the Council acknowledged the submissions received in relation to the proposed SV and agreed that all submissions received would be included in the Council's application to IPART.[22]

20 Kiama Municipal Council, *Application Part B*, p 80.

21 Kiama Municipal Council, *Resolution to apply for the special variation*, p 1.

22 Kiama Municipal Council, *Minutes of the Ordinary Meeting of the Council on 18 December 2018*, p 9.

3 Submissions to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019. Key issues raised were:

- The Council has sufficient funds available for future years' operations by utilising the sale of a number of its assets.
- The Council cannot seem to survive without constant additional increases to its base rates.
- The Council needs to improve its financial management of its income and expenditure.
- The rates are higher than other councils.
- The affordability of paying higher rates.

We considered these submissions as part our assessment of the Council's application against the criteria in the OLG Guidelines, which is discussed in the next chapter.

Two key themes arising from the submissions were concerns surrounding the Council's financial need for its proposed SV, and the impact on its ratepayers.

Two submissions suggested that there is no financial need for the Council to increase rates as it has sufficient funds available for future years due to its significant number of assets that could be disposed of to raise funds. We have based our assessment of the Council's financial need on its net cash (debt) position and forecast financial ratios as provided by Council (see section 4.1).

One submission suggested that the Council's rates are higher than other councils and raised concerns with the affordability of paying higher rates.[23] We have examined the impact of the proposed SV on ratepayers in Section 4.3, including the hardship policy available to ratepayers.

23 Anonymous, submission to IPART Special Variation Application, March 2019, p 1.

4 IPART's assessment

To make our decision, we assessed the Council's application against the criteria in the OLG Guidelines.

The five criteria in the OLG Guidelines are:

- **Criterion 1 - Financial need**: The need for, and purpose of, a different revenue path for the Council's General Fund is clearly articulated and identified in the Council's IP&R documents.
- **Criterion 2 - Community awareness**: Evidence that the community is aware of the need for, and extent of, a rate rise.
- **Criterion 3 - Reasonable impact**: The impact on affected ratepayers must be reasonable.
- **Criterion 4 – Integrated Planning and Reporting (IP&R)**: The relevant IP&R documents must be exhibited (where required), approved and adopted by the Council.
- **Criterion 5 – Productivity**: The Council must explain the productivity improvements and cost containment strategies.

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

Our Assessment

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how two of the five criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances, given the Council's financial need for the proposed SV to fund maintenance and renewal of its infrastructure assets.

The proposed SV improves the Council's financial sustainability, while allowing it to generate revenue to maintain and renew infrastructure. The average OPR over five years is 4.6% under the Proposed SV Scenario, and 1.5% under the Baseline with SV expenditure Scenario (without SV revenue and with the proposed SV expenditure), which is slightly above the OLG benchmark of greater than or equal to break-even of 0%. The Council held a relatively small amount of unrestricted cash, cash equivalents and investments at around $0.6 million as at 30 June 2018.

The Council considered alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. It has previously utilised the LIRS funding for renewals, however, this has resulted in over $300,000 in interest payments even with the interest subsidy. This has increased the costs of renewal works through additional interest payments. As a result, the Council considers the proposed SV would provide the most feasible funding source and allow it to schedule the required renewal and maintenance as and when it is due, compared to the current situation where required asset maintenance and renewal is delayed or deferred and added to the infrastructure backlog with a compounding impact.

The Council has communicated the rate increase in dollar terms on a weekly basis for each year over the 2-year proposed SV period, though we note that it omitted describing the increase in dollar terms on an annual basis and on a percentage basis. On balance, we consider the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

We found that the impact on affected ratepayers of the Council would be reasonable, taking into account the proposed SV replaces the current expiring SV of 3.7%, the Council's implementation of an incremental increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners, and the Council's financial need for additional funding to be financially sustainable and fund the maintenance and renewal of infrastructure. In addition, the Council indicated that it had a higher median weekly household income of $1,509 compared to the NSW and Australian average in 2016. The Council's LGA also had a low unemployment rate of 2.7%, compared to the NSW average of 4.6% as at June 2017.

The Council's IP&R documents contain sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.

The Council has also outlined and quantified its productivity improvements and cost containment strategies.

Our assessment of the Council's application against each of the criterion is discussed in more detail in the sections below.

4.1 Financial need for the proposed Special Variation

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

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

IPART uses information provided by the Council in its application to assess the impact of the proposed SV on the Council's financial performance and financial position, namely the Council's forecast:

- Operating performance
- Net cash (debt).

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

- Infrastructure backlog ratio
- Infrastructure renewals ratio.

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

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

$$OPR^{24} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the Council's application and Long Term Financial Plan (where appropriate), we calculate forecasts under three scenarios:

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

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

While the OPR is a good guide to a council's ongoing *financial performance* (or sustainability), we may also have reference to a council's *financial position*, and in particular its net cash (or net debt).[25] This may inform us as to whether the Council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the Council's net cash position in 2018-19 and as a percentage of income to gauge its financial position.

24 Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

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

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

Where relevant, we consider the Council's infrastructure backlog ratio, which measures the Council's backlog of assets against its total written down value of its infrastructure. The benchmark set by OLG for the ratio is less than 2%.[26] It is defined as:

$$\text{Infrastructure backlog ratio} = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets^{27}}$$

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. The benchmark set by OLG for the ratio is greater than 100%. It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{28}}{Depreciation, amortisation\ and\ impairment}$$

4.1.1 Assessment of the Council's IP&R documents and alternatives to the rate rise

The Council's Delivery Program clearly sets out the need for, and purpose of, the proposed SV, which is to:[29]

- Enhance financial sustainability
- Fund maintenance and renewal of infrastructure assets such as such as roads, buildings and public amenities, footpaths, cycle ways, parks and open spaces.

The Council's Delivery Program also canvassed alternatives to the rate rise, such as reduced service levels or lower maintenance standards.[30]

In its application, the Council also considered other alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. It has previously utilised the LIRS funding for renewals, however, this has resulted in over $300,000 in interest payments even with the interest subsidy. As a result, the Council considers the proposed SV would provide the most feasible funding source and allow it to schedule the required renewal and maintenance as and when it is due, compared to the current situation where required asset

26 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
27 Historical cost less accumulated depreciation.
28 Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or refurbishment of old assets) that increases capacity/performance.
29 Kiama Municipal Council, *Delivery Program*, pp 7, 14 and 16; and Kiama Municipal Council, *Application Part B*, p 15.
30 Kiama Municipal Council, *Delivery Program*, p 7.

maintenance and renewal is delayed or deferred and added to the infrastructure backlog with a compounding impact.[31]

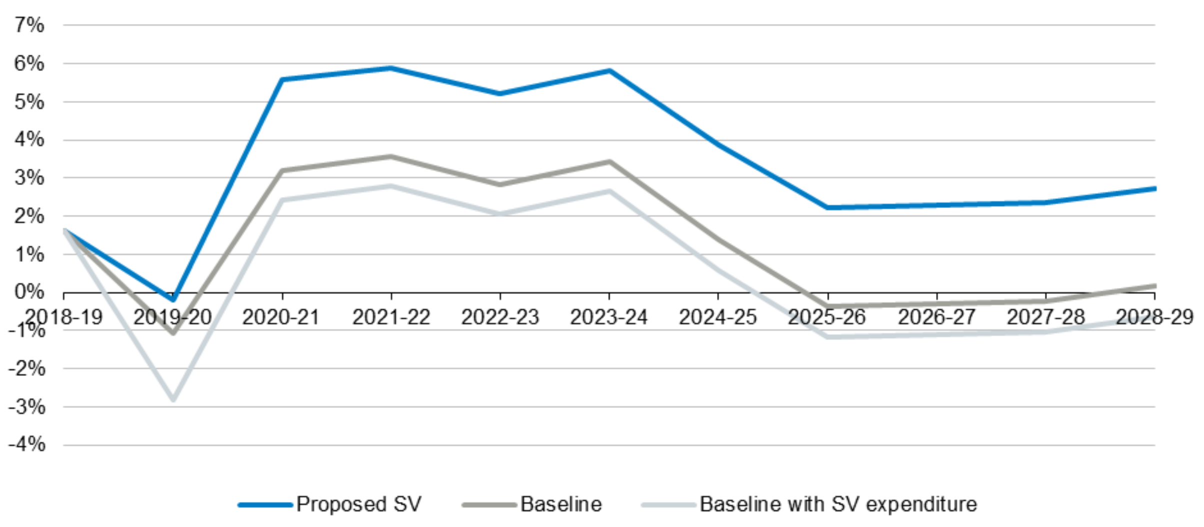
4.1.2 Assessment of the impact of the proposed SV on the Council's financial performance and position

Council's forecast operating result

Under the Proposed SV Scenario, the Council forecasts improving operating performance, growing to 2.7% by 2028-29. The cumulative value of the forecast operating results (before capital grants and contributions) is $44.1 million to 2028-29. This would allow the Council to fund continuous maintenance and renewal of existing infrastructure assets and deliver its proposed levels of service.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts lower operating surpluses, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The cumulative value of these forecast operating results is $20.2 million to 2028-29 under this scenario.

Figure 4.1 Kiama Municipal Council's Operating Performance Ratio (%) excluding capital grants and contributions (2018-19 to 2028-29)



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

31 Kiama Municipal Council, *Application Part B*, pp 34-35.

Table 4.1 Projected operating performance ratio (%) for Kiama Municipal Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	-0.2	5.6	5.9	5.2	5.8	3.9	2.2	2.3	2.4	2.7
Baseline	-1.1	3.2	3.6	2.8	3.4	1.4	-0.4	-0.3	-0.2	0.2
Baseline with SV expenditure	-2.8	2.4	2.8	2.0	2.7	0.6	-1.2	-1.1	-1.0	-0.6

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

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

- 4.6% under the Proposed SV Scenario
- 2.5% under the Baseline Scenario
- 1.5% under the Baseline with SV expenditure Scenario.

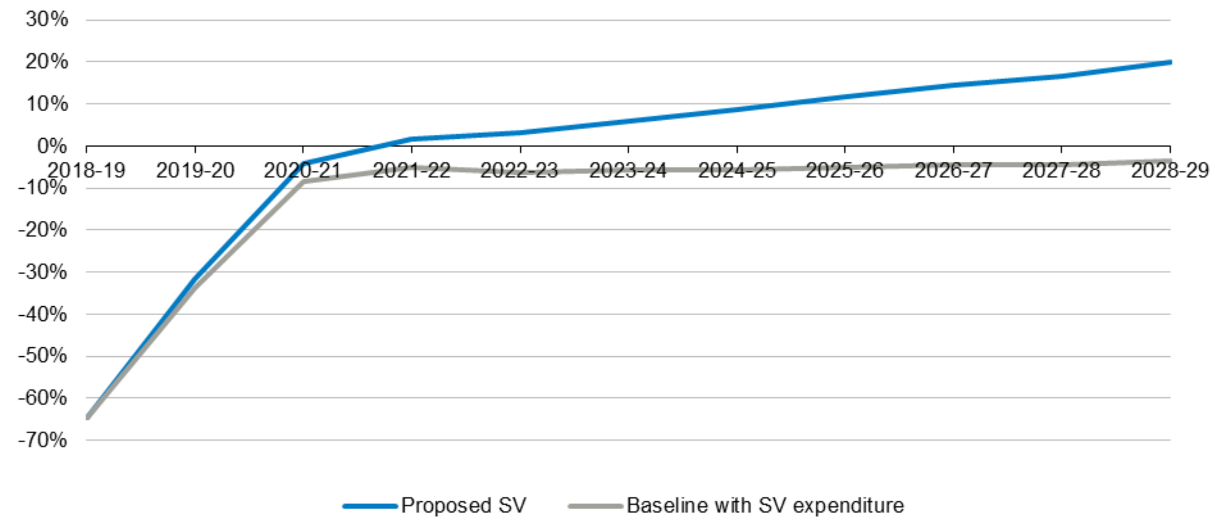
Impact on the Council's net cash (debt)

We calculate the Council's net debt is $35.8 million or 64.7% of income in 2018-19. Over the longer term, with the proposed SV revenue, net debt would decrease as the Council repays its loan.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), we estimate that net debt would decrease by 2028-29 but the Council would still remain in a debt position. In 2028-29, the net cash to income ratio would be 19.9% under the Proposed SV Scenario and -3.4% under the Baseline with SV expenditure Scenario.

The Council's forecast net cash (debt) position over the next 10 years is shown in Figure 4.2 below.

Figure 4.2 Kiama Municipal Council's net cash (debt) to income ratio (%) (2018-19 to 2028-29)



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

Our analysis indicates that over the over the next five years, the Council's financial performance under each scenario results in an average net cash (debt) to income ratio of:

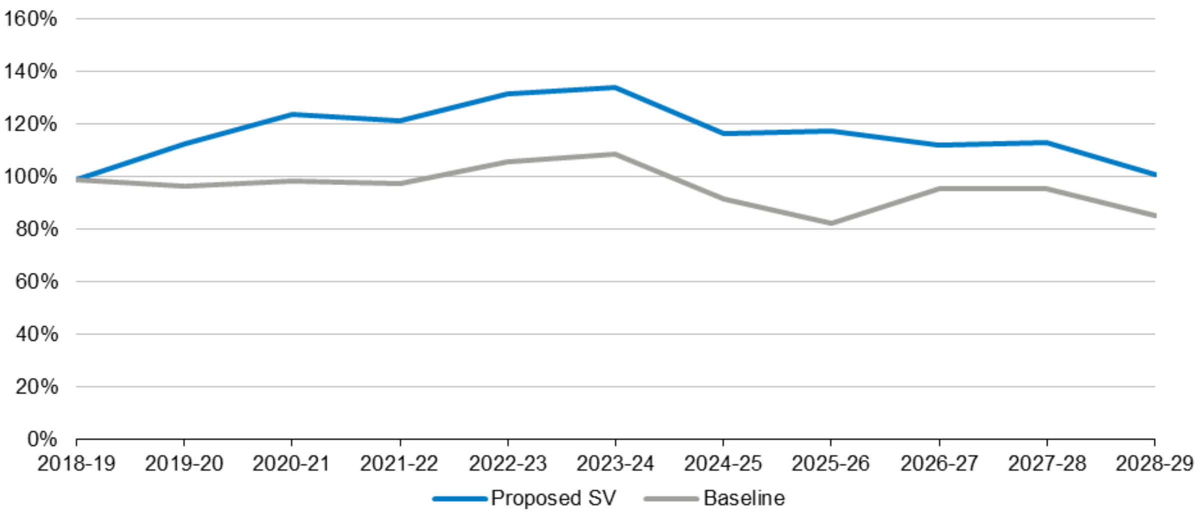
- -4.8% under the Proposed SV Scenario
- -11.7% under the Baseline with SV expenditure Scenario.

Impact on the Council's infrastructure asset renewals ratio

The Council plans to use the proposed SV revenue to fund maintenance and renewal of its infrastructure assets.

Figure 4.3 and Table 4.2 shows the projected asset renewal ratio under the proposed SV and Baseline Scenarios. Under the Proposed SV Scenario, the Council meets the (greater than 100%) OLG benchmark over the period to 2028-29. Under the Baseline Scenario (assuming the Council does not receive the SV revenue and does not go ahead with its proposed SV expenditure), the Council's asset renewal ratio falls slightly below the benchmark over the period from 2024-25 to 2028-29.

Figure 4.3 Kiama Municipal Council's Infrastructure Renewals Ratio (%) (2018-19 to 2028-29)



Data source: Kiama Municipal Council, *Application Part A,* Worksheet 9 and IPART calculations.

Table 4.2 Projected infrastructure renewals ratio (%) for Kiama Municipal Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	112.6	123.9	121.4	131.8	133.9	116.3	117.4	112.0	112.9	100.9
Baseline	96.5	98.3	97.5	105.7	108.5	91.3	82.3	95.2	95.5	85.2

Source: IPART calculations based on Kiama Municipal Council, *Application Part A,* Worksheet 9.

Our analysis indicates that over the over the next five years, the Council's infrastructure renewals ratio averages:

- 124.7% under the Proposed SV Scenario
- 101.3% under the Baseline Scenario.

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019, in which two mentioned financial need. The submissions stated the financial needs of the Council should be met by it selling a number of its assets and that the Council needs to improve the financial management of its income and expenditure.

We note that the Council considered alternatives to the rate rise before applying for the proposed SV. We have also considered the Council's productivity improvements and cost containment strategies in Section 4.5.

4.1.3 Overall assessment of the Council's financial need

The Council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (but without the proposed SV revenue), its OPR will average 1.5% over the next five years, declining to -0.6% over the 10 years to 2028-29. However, it forecasts operating deficits from 2025-26 onwards to 2028-29. This indicates that the Council may be less sustainable over the long term if it proceeds with its proposed expenditures without receiving the additional proposed SV revenue.

Under the Proposed SV Scenario, our analysis shows that the Council's OPR over the next five years averages 4.6% and its forecast OPR in 2023-24 is 5.8%. We have focused on the next five years given the uncertainty around longer-term forecasts. We consider that the proposed SV revenue improves the Council's financial sustainability and allows it to generate funds for asset renewals.

The Council's forecast under the Baseline with SV expenditure Scenario shows that it if proceeds with the expenditure included in its application, its net cash (debt) position will average -11.7% over the next five years. Without the proposed SV, we estimate that net debt would decrease by 2028-29 but the Council would still remain in a net debt position. This suggests there is a financial need for the proposed SV to allow the Council to deliver on its community priorities as identified in its Delivery Program.

We forecast that the Council will have a net debt position of $35.8 million at 30 June 2019, with total debt greater than total cash and investments. In 30 June 2018, Council held a total of $33.1 million in cash, cash equivalents and investments, with:

- $7.5 million externally restricted
- $25.0 million internally restricted
- $0.6 million unrestricted.[32]

[32] Kiama Municipal Council, *Application Part A*, Worksheet 7; and IPART calculations.

This suggests that a significant balance of the Council's cash and investments are committed to other purposes and are not available for discretionary use to fund part of the Council's proposed SV expenditure. As such, the net debt position of the Council demonstrates the Council's financial need for the proposed SV.

Under the Proposed SV Scenario, the Council also forecasts its infrastructure asset renewals ratio to be at 100.9% in 2028-29. This is in line with the 100% OLG benchmark. Taking this into account, as well as the Council's assessment of alternatives to the proposed SV, we have assessed that the Council is in financial need for the proposed SV to fund maintenance and renewal of its infrastructure assets.

4.2 Community engagement and awareness

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

- The Council's Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the proposed SV. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category (see Section 4.4 for this assessment).
- The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

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

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

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

4.2.1 Assessment of consultation with the community

The Council has published a Community Consultation Strategy. It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and Content

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

Specifically, the Council:

- Partly communicated the full impact of the proposed rate increase to ratepayers, including the cumulative percentage of the proposed SV and the rate increase across various categories of ratepayers in dollar terms on a weekly basis, but not on an annual basis or percentage basis.
- Communicated what the proposed SV would fund.

Clarity

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

Timeliness

The Council carried out community consultation on its SV proposal from 8 October 2018 to 1 January 2019.[33] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

The Council provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community, including:[34]

- The Council newsletter being mailed out to every household in October 2018, which detailed the original 3-year SV proposal and invited submissions.[35]
- A dedicated SV website to explain the SV application, linking to a designated Frequently Asked Questions (FAQ) page and SV calculator.
- Media releases.
- The Council e-news and Facebook social media account providing regular updates about the proposed SV.
- Local radio and television coverage.

Using the various engagement methods to engage with its community, the Council has communicated the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer by rate category on a weekly basis, but not on an annual basis and percentage basis.

On balance, we consider these methods were reasonable to communicate the need for, and extent of, the proposed rate increase to the community.

33 Kiama Municipal Council, *Application Part B*, pp 72-73.
34 Kiama Municipal Council, *Application Part B*, pp 60-61 and 66-74.
35 Email to IPART, Kiama Municipal Council, 1 March 2019.

4.2.2 Assessment of outcomes of consultation with the community

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

The Council has considered its community's feedback it received through each of the methods it used to engage with the community. The Council's consultation indicated that the community has understood and appreciated that the Council provides more infrastructure to its community than other councils and expects that the maintenance and renewal of the infrastructure assets to be a priority.[36]

Based on this outcome, the Council decided to apply for the proposed SV.

4.2.3 Overall assessment of community engagement and awareness

We note that the Council did not communicate the total increase of the average ratepayer by rating category in dollar terms on an annual basis and percentage basis. However, it has clearly communicated the rate impact in dollar terms on a weekly basis over each year of the proposed 2-year SV period.

Therefore, on balance, the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

4.3 Impact on affected ratepayers

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

- Clearly show the impact of any rate rises upon the community.
- Include the Council's consideration of the community's capacity and willingness to pay rates.
- Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay.

Section 4.4 of this report considers the Council's Delivery Program and Long Term Financial Plan.

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

In this section we consider how the Council has informed ratepayers of the impact of the proposed SV on their rates and addressed affordability concerns.

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36 Kiama Municipal Council, *Application Part B*, p 11.

We also undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the council's rates in recent years, how the Council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking.

In its application, the Council indicated it intended to increase rates evenly for each rating category.[37] The Council has calculated that:

- The average residential rate would increase by 12.4% or $187 over two years, or by $91 in the first year and by $96 for the year after that.
- The average business rate would increase by 8.6% or $190 over two years, or by $83 in the first year and by $107 for the year after that.
- The average farmland rate would increase by 12.4% or $325 over two years, or by $158 in the first year and by $166 for the year after that.

Table 4.3 sets out the Council's estimates of the expected increase in average rates in each main ratepayer category.

Table 4.3 Indicative annual increases in average rates under Kiama Municipal Council's proposed SV (2018-19 to 2020-21)

Ratepayer Category	2018-19	2019-20	2020-21	Cumulative Increase
Residential rate $	**1,511**	**1,601**	**1,697**	
$ increase		91	96	187
% increase		6.0	6.0	12.4
Business rate $	**2,204**	**2,287**	**2,394**	
$ increase		83	107	190
% increase		3.8	4.7	8.6[38]
Farmland rate $	**2,615**	**2,774**	**2,940**	
$ increase		158	166	325
% increase		6.1	6.0	12.4

Note: 2018-19 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.

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

The increases in average rates in 2019-20 are less than the rise in general income of 9.83% because the 2019-20 proposed SV includes continuing an expiring SV of 3.7%, which is already being paid by ratepayers.

37 Kiama Municipal Council, *Application Part B*, pp 40-41.

38 We note that the Council seeks to increase rates evenly for each rating category. However, the percentage of increase for the average business rates are below the intended increase of 6% in 2019-20 and 2020-21 as the land value for the Commercial/ Industrial Business ratepayer category would decrease from $198.7 million in 2018-19 to $194.1 million in 2019-20. The number of assessments would also slightly decline from 511 in 2018-19 to 509 in 2019-20. As the average rates revenue are calculated based on the number of assessments and the land values, this would result in the drop of the average business rate percentage increase to 3.8% in 2019-20 and 4.7% in 2020-21. Kiama Municipal Council, *Application Part A*, Worksheets 2, 3 and 5a.

4.3.1 Assessment of the Council's consideration of impact on ratepayers

As Chapter 2 discussed, the Council requested a 2-year cumulative increase of 16.42% that would remain permanently in the rate base.

In its application, the Council examined socio-economic indicators such as the average rates relative to the neighbouring councils, household weekly income, the unemployment rate, Census 2016 data and SEIFA index rankings to assess the impact on ratepayers. On the basis of these indicators, it found that:[39]

- The Council's estimated residential rates are the lowest from years 2017-18 to 2020-21, compared to the average rates of its neighbouring councils based on the calculation of the neighbouring councils' rates at the Council's average residential land value of $418,274.
- The Council's estimated business/ commercial/ industrial rates are relatively low over the years 2017-18 to 2020-21, compared to the average rates of its neighbouring councils based on the calculation of the neighbouring councils' rates at the Council's average business/commercial/industrial land value of $429,798.
- The 2016 Census Quickstats data indicated that the Council had a median weekly household income of $1,509, which was higher than the NSW and Australian average and significantly higher than the Wollongong average of $1,339.
- The Council's LGA has a low unemployment rate of 2.7% as at June 2017, compared to the NSW average of 4.6% and the Illawarra region average of 6.0%.
- The 2011 SEIFA score indicated that the Council's LGA was ranked among all areas of NSW to be the 24th least disadvantaged out of 153 LGAs at that time.

The Council considers the existing community has the willingness to pay. In the 2018 community satisfaction survey,[40] findings from the survey reported that the community was largely satisfied with the current level of services and expects the maintenance and renewal of the infrastructure assets such as local roads, stormwater drainage and footpaths to be a priority.

The Council submitted that it also has a hardship policy in place for any ratepayer experiencing financial hardship in relation to the payment of Council's rates and charges. The policy follows the framework of the *Local Government Act 1993*.[41] In addition, the Council implemented an incremental increase to the Pensioner Rebate Scheme, commencing in 2018-19, to minimise the impact of the proposed SV on pensioners.[42]

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39 Kiama Municipal Council, *Application Part B*, pp 80-86.

40 In 2018, Kiama Municipal Council has engaged an independent research firm, Iris Research to undertake a survey of 513 residents aged 18 and over to seek feedback from the residents on their level of satisfaction with the Council's services and the importance of providing these to the community. Iris research, *Kiama Municipal Council Community Satisfaction Survey 2018*, pp 2, 7 and 28.

41 Kiama Municipal Council, *Application Part B*, p 87.

42 Kiama Municipal Council, *Application Part B*, p 88.

4.3.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the Council's SV history and the average annual growth of rates in various rating categories.

From 2008-09 to 2018-19, the Council has applied for, and been granted, four SVs in:

- 2009-10, a 5-year temporary increase of 6.5%, which was used for infrastructure maintenance and renewal and improving the Council's financial sustainability.
- 2010-11, a 3-year temporary increase of 6.5%, which was used for infrastructure maintenance and renewal and improving the Council's financial sustainability.
- 2013-14, a 1-year permanent increase of 9.7%, which was used for infrastructure maintenance and renewal, improving the Council's financial sustainability and for funding road network renewal works.
- 2018-19, a 1-year temporary increase of 6.0% in 2018-19, which was used to improve its financial sustainability and fund operating and capital expenditure for its key infrastructure assets. This SV is due to expire on 30 June 2019.

We found that from 2008-09 to 2018-19, the average annual growth was 3.8% for residential rates, 5.5% for business rates and 5.3% for farmland rates, which compares with the average annual growth in the rate peg of 2.6% over the same period.[43]

We also compared 2016-17 rates and socio-economic indicators in the LGA with those of OLG Group 4 and neighbouring councils as shown in Table 4.4.

Table 4.4 Kiama Municipal Council - comparison of rates and socio-economic indicators with neighbouring councils and Group 4 averages (2016-17)

Council (OLG Group)	Average residential rate ($)[a]	Average business rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Shellharbour (5)	1,410	4,742	69,836	2.0	4.6	66
Shoalhaven (5)	965	-	51,584	1.9	6.4	50
Wingecarribee (4)	1,357	3,824	69,420	2.0	3.1	100
Kiama (4)	**1,349**	**1,338**	**78,468**	**1.7**	**1.5**	**108**
Group 4 average	1,032	3,746	62,430	1.7	4.3	-

[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 2017-18 or 2018-19.

[b] Median annual household income is based on 2016 ABS Census data.

[c] The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2016-2017; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

43 IPART calculations based on OLG data.

Based on 2016-17 data, we found that the Council's:

- Average residential rates of $1,349 without the SV were 30.7% higher than the average for Group 4 councils and 16.4% higher than the weighted average for its neighbouring councils.
- Average business rates of $1,338 without the SV were 64.3% lower than the average for Group 4 councils[44] and 77.6% lower than the weighted average for its neighbouring councils.
- Average rates to income ratio without the SV was comparable to the average for Group 4 councils but lower than its neighbouring councils.
- Outstanding rates ratio without the SV was substantially lower than both the average for Group 4 councils and its neighbouring councils.
- The SEIFA ranking is comparatively higher than the neighbouring councils, indicating lower disadvantage.

We also compared the Council's average rate levels with the proposed SV to the OLG Group 4 average rate levels over the proposed 2-year SV period and found that the Council's average:[45]

- Residential rate in 2020-21 with the proposed SV would be $1,697, which is 50.4% higher than the estimated average residential rates of $1,129 for OLG Group 4.
- Business rate in 2020-21 with the proposed SV would be $2,394, which is 41.5% lower than the estimated average business rates of $4,094 for OLG Group 4.
- Farmland rate in 2020-21 with the proposed SV would be $2,940, which is 32.7% higher than the estimated average residential rates of $2,215 for OLG Group 4.

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019, in which one mentioned the affordability of paying higher rates due to limited income.[46] We note that the Council has a hardship policy in place for any ratepayer experiencing financial hardship in relation to the payment of the Council's rates and charges (see Section 4.3.1 for further explanation).

4.3.3 Overall assessment of the impact on affected ratepayers

We found that, on balance, the impact of the proposed SV on affected ratepayers of the Council would be reasonable, given:

- The Council's proposed average business rates would be lower than the estimated average business rates for OLG Group 4 over the proposed 2-year SV period.

44 The comparison against the neighbouring councils for business rates only include Shellharbour City Council and Wingecarribee Shire Council as the average business rate for Shoalhaven City Council is not available.

45 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 4 average rate levels by the rate peg each year from 2017-18 to 2028-29 to allow for the comparison of Kiama Municipal Council's proposed average rate levels with the SV over the proposed SV period.

46 Anonymous, submission to IPART Special Variation Application, March 2019, p 1.

- The proposed SV replaces the current temporary SV of 3.7%, which is due to expire on 30 June 2019.
- The Council implemented an incremental increase to the Pensioner Rebate Scheme commencing in 2018-19, to minimise the impact of the proposed SV on pensioners.
- The Council's need for additional funding to be financially sustainable and maintain and renew its infrastructure assets.

4.4 Integrated Planning and Reporting documents

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

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

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

In this section we assess whether the Council has included the proposed SV in its IP&R framework as outlined in Criterion 1 to 3 of the OLG Guidelines and exhibited, approved and adopted its IP&R documents. According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

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

4.4.1 Assessment of the content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the need for, and purpose of, the proposed SV in both the Delivery Program and the Long-Term Financial Plan.[47] The Council's Delivery Program also canvassed alternatives to the rate rise, such as reduced service levels or lower maintenance standards.[48] The Delivery Program and Long Term Financial Plan did not discuss any alternatives to the rate rise.

47 Kiama Municipal Council, *Delivery Program*, pp 7, 14 and 16; and Kiama Municipal Council, *Long Term Financial Plan*, p 2.
48 Kiama Municipal Council, *Delivery Program*, p 7.

The Long Term Financial Plan indicates the financial impact of the proposed SV by presenting both a Baseline Scenario[49] reflecting the business as usual model excluding the proposed SV and a Proposed SV Scenario[50] reflecting the additional revenues and expenditures expected with the proposed SV in place.

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

The Delivery Program and Long Term Financial Plan includes 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.[51]

The impact of any rate rises upon the community

It is not evident from the Delivery Program and Long Term Financial Plan that the Council considered the community's capacity and willingness to pay rates under the proposed SV (although it did outline its consideration of this in its application, see Section 4.3.1).

4.4.2 Assessment of the exhibition, approval and adoption of IP&R documents

The Council adopted its Community Strategic Plan, Delivery Program and Long Term Financial Plan on 22 June 2017.[52] As the Delivery Program and Long Term Financial Plan were revised to include the new modelling option, which includes the Proposed SV Scenario and Baseline Scenario with further information about the proposed SV, the Council exhibited its updated documents between 8 November 2018 and 6 December 2018.[53] The Council acknowledged the submissions received in relation to the proposed SV and all submissions were included in the Council's application to IPART. These IP&R documents were subsequently adopted by the Council on 18 December 2018.[54]

4.4.3 Overall assessment of the IP&R documents

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

4.5 Productivity improvements and cost containment strategies

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

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

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49 Kiama Municipal Council, *Long Term Financial Plan*, pp 38-43.
50 Kiama Municipal Council, *Long Term Financial Plan*, pp 47-52.
51 Kiama Municipal Council, *Delivery Program*, p 15; and Kiama Municipal Council, *Long Term Financial Plan*, pp 37-38.
52 Kiama Municipal Council, *Application Part B*, p 92.
53 Kiama Municipal Council, *Application Part B*, p 94.
54 Kiama Municipal Council, *Application Part B*, p 13.

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had:[55]

- Achieved expense reduction initiatives, such as a safety audit resulting in $1.26 million in cumulative savings from reduced workers compensation insurance premiums between 2012-13 and 2016-17.
- Realised procurement cost reductions, resulting in savings of 1.75% of total cost for materials and contracts costs, which is equivalent to $187,538 in 2015-16.
- A waste management strategy for landfill waste reduction, with estimated savings of $153,000 per annum.
- Conducted a property portfolio review, which resulted in some asset remediation, redevelopment and realisation, with proceeds reinvested into key infrastructure projects.
- Realised $1.35 million in additional revenue from asset disposals.

4.5.2 Assessment of strategies in place for future productivity improvements

The Council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes:[56]

- Procurement cost savings of approximately $300,000 per annum.[57]
- Environmental and energy savings initiatives of approximately $362,000 per annum.
- A review of road surface treatment and resealing operations to improve road quality and optimise expenditure.
- Reducing the costs of development assessments.
- A preventative asset maintenance program to reduce costs.

4.5.3 Overall assessment of productivity improvements and cost containment strategies

We found that the Council has explained its productivity improvements and cost containment strategies. It has also quantified the cost savings resulting from these efficiency measures.

55 Kiama Municipal Council, *Application Part B*, pp 95, 97 and 99.
56 Kiama Municipal Council, *Application Part B*, pp 101-102.
57 Kiama Municipal Council, *Application Part B*, p 97.

5 Our Decision

We have approved the proposed SV in full. We have attached conditions to this decision, including that the Council uses the income raised from the SV for purposes consistent with those set out in its application as outlined in Box 1.1.

The approved variation to general income is the maximum amount that the Council may increase its income by.

5.1 Our decision's impact on the Council

Our decision means that the Council may increase its general income over the 2-year approved SV period from $16.1 million in 2018-19 to $18.8 million in 2020-21. Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the Council's revenue base. After 2020-21, the Council's PGI can increase up to the annual rate peg unless we approve a further SV.[58]

Table 5.1 Permissible general income (PGI) of Kiama Municipal Council from 2019-20 to 2020-21 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019[a]					16,136,226
2019-20	9.83	9.83	1,150,513	1,586,191	17,722,417
2020-21	6.00	16.42	1,799,560	2,649,536	18,785,762
Total cumulative increase approved				4,235,727	
Total above rate peg			**2,950,073**		

[b] Includes adjustment of –$593,903 for an SV that expires on 30 June 2019.

Note: The above information is correct at the time of the Council's application (February 2019).

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

The Council estimates that over the two years to 2020-21, it will collect an additional $3.0 million in rate revenue compared to rate increases that are limited to the assumed rate peg.

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

This extra income is the amount the Council requested to enable it to undertake additional operating and capital expenditure to fund maintenance and renewal of infrastructure assets such as roads, buildings, public amenities, footpaths, cycle ways, parks and open spaces and enhance financial sustainability.[59]

5.2 Our decision's impact on ratepayers

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

If the Council increases the rates as it has indicated in its application, the impact on ratepayers will be as shown in Table 4.3. The average residential rate will increase by $187 (12.4%), average business rate by $190 (8.6%), and average farmland rate by $325 (12.4%) by the end of the 2-year approved SV period.

Our decision would allow an increase **above the rate peg** for the average residential rate of $169 (11.1%), the average business rate of $152 (6.8%) and the average farmland rate of $283 (10.6%) by the end of the 2-year approved SV period.[60]

59 Kiama Municipal Council, *Application Part B*, pp 15-16; and Kiama Municipal Council, *Delivery Program*, pp 7 and 14-16.

60 Kiama Municipal Council, *Application Part A*, Worksheet 5a; and IPART calculations.

Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
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: ▼ 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. The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.
Criterion 2 – Community awareness Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. The 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 both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should: ▼ clearly show the impact of any rate rises upon the community, ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.
Criterion 4 – IP&R documents are exhibited The relevant IP&R documents 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.
Criterion 5 – Productivity improvements and cost containment strategies The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Additional matters

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

Source: Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income*, October 2018, pp 8-9.

B Expenditures to be funded from the Special Variation above the rate peg

Tables B.1 and B.2 show the Council's proposed expenditure of the SV funds over the next 10 years.

The Council will use the additional SV revenue above the rate peg of $19.1 million over 10 years to fund:[61]

- $4.8 million in operating expenditure.
- $14.3 million in capital expenditure.

As a condition of IPART's approval, the Council will indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

61 Kiama Municipal Council, *Application Part A*, Worksheet 6.

Table B.1 Kiama Municipal Council – Revenue and proposed expenditure over 10 years related to the proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	**1,151**	**1,800**	**1,845**	**1,891**	**1,938**	**1,986**	**2,036**	**2,087**	**2,139**	**2,193**	**19,064**
Transfers from reserves	–	–	–	–	–	–	–	–	–	–	–
Funding for increased operating expenditures (including loan interest costs)	288	450	462	473	485	497	509	522	535	549	4,770
Funding for capital expenditure	867	1,405	1,345	1,839	1,448	1,457	2,710	1,445	1,450	350	14,315
Total expenditure	**1,155**	**1,855**	**1,806**	**2,312**	**1,933**	**1,954**	**3,219**	**1,968**	**1,985**	**899**	**19,086**

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure. The total expenditure has been forecasted to be more than the SV revenue raised from the proposed SV.

Source: Kiama Municipal Council, *Application Part A,* Worksheet 6.

Table B.2 Kiama Municipal Council – Proposed 10-year capital expenditure program related to the proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Buildings – including public amenities											
Renewals	867	1,405	1,176	339	348	358	1,610	1,085	1,100	–	8,287
Transport assets											
Renewals	–	–	169	1,500	1,100	1,100	1,100	360	350	350	6,029
Total Asset Renewal	**867**	**1,405**	**1,345**	**1,839**	**1,448**	**1,457**	**2,710**	**1,445**	**1,450**	**350**	**14,315**
Total Capital Expenditure	**867**	**1,405**	**1,345**	**1,839**	**1,448**	**1,457**	**2,710**	**1,445**	**1,450**	**350**	**14,315**

Note: Numbers may not add due to rounding.

Source: Kiama Municipal Council, *Application Part A*, Worksheet 6.

C Kiama Municipal's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report in 2019-20, 2020-21, and 2021-22 against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (shown in Table C.1).

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

Table C.1 Summary of projected operating statement for Kiama Municipal Council (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	74,880	77,390	73,880	74,501	76,007	76,434	77,184	79,281	81,236	83,328
Total expenses	62,581	65,591	67,532	69,317	70,112	71,972	73,943	75,932	77,792	79,860
Operating result from continuing operations	12,299	11,799	6,348	5,184	5,895	4,462	3,241	3,349	3,444	3,468
Net operating result before capital grants and contributions	8,062	10,562	5,111	3,947	4,658	3,225	2,005	2,112	2,208	2,231

Note: Numbers may not add due to rounding.

Source: Kiama Municipal Council, *Application Part A,* Worksheet 8.

D Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or for a group of similar councils, or by comparing similar councils at a point in time.

Table D.1 shows how selected performance indicators for the Council have changed over the four years to 2016-17. Table D.2 compares selected published and unpublished data about the Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

Table D.1 Trends in selected performance indicators for Kiama Municipal Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	265	338	270	263	-0.3
Ratio of population to FTE	80	64	82	84	1.5
Average cost per FTE ($)	83,955	68,050	91,900	94,392	4.0
Employee costs as % operating expenditure (General Fund only) (%)	40.0	44.3	46.7	46.6	-

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

Source: OLG, unpublished data.

Table D.2 Select comparative indicators for Kiama Municipal Council (2016-17)

	Kiama Municipal Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	258	-	-
Population (2016)	22,044	-	-
General Fund operating expenditure ($m)	53.2	66.2	76.3
General Fund operating revenue per capita ($)	3,355	-	-
Rates revenue as % General Fund income (%)	26.8	36.5	42.5
Own-source revenue ratio (%)	60.5	60.4	66.0
Average rate indicators[a]			
Average rate – residential ($)	1,349	1,052	1,053
Average rate – business ($)	1,338	3,746	5,738
Average rate – farmland ($)	2,404	2,026	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	78,468	62,430	77,272
Average residential rates to median income, 2016 (%)	1.7	1.7	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	108	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	1.5	4.3	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	263	341	356
Ratio of population to FTE	83.8	-	-
Average cost per FTE ($)	94,392	83,678	91,762
Employee costs as % operating expenditure (General Fund only) (%)	46.6	37.6	38.8

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

b Median annual household income is based on 2016 ABS Census data.

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

Source: OLG, *Time Series Data 2016-2017*, OLG, unpublished data; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

E Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	The Council's infrastructure assets' performance excluding the proposed SV. In this scenario, the Council's general income would increase by the rate peg, and it would not go ahead with the expenditure program included in its SV application.
Baseline with SV expenditure Scenario	Includes the Council's full expenses arising from its proposed SV, and the income received if we were to not approve its application. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
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.

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	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.