Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Ku-ring-gai Council 2019-20

Final Report

Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

Dr Paul Paterson, Chair

Mr Ed Willett

Ms Deborah Cope

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

Sheridan Rapmund	(02) 9290 8430
Carol Lin	(02) 9113 7786

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1 Executive summary

Ku-ring-gai 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 1-year SV to:

- Increase its general income by **7.7%** in 2019-20
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to deliver a mix of capital works and operational programs that protect and enhance Ku-ring-gai's environment and help the community to live more sustainably; and to deliver a range of essential service functions to ensure best practice environmental management.[4] Projects include an energy efficiency program, bushland regeneration and waterways improvement works.[5]

The Council's proposed SV is a renewal of the Council's existing Environmental Levy, which has been in place since 2005-06 and is due to expire on 30 June 2019.[6] The proposed SV would generate an additional increase in the Council's permissible general income (PGI) of $3.1 million (4.6% of total income) in 2019-20 (see Table 1.1). As the SV is permanent, it would mean a cumulative increase in its PGI revenue above the rate peg of $34.5 million 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 Ku-ring-gai Council's application for a Special Variation

We decided to approve the proposed SV in full.

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 508(2) 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 Ku-ring-gai Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.

4 Ku-ring-gai Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, p 4.

5 Ku-ring-gai Council, *Delivery Program 2018-2021 and Operational Plan 2018-2019*, p 18.

6 Ku-ring-gai Council, *Delivery Program 2018-2021 and Operational Plan 2018-19*, pp 9-10.

Our decision means that the Council may increase its general income in 2019-20 by the annual percentage outlined in Box 1.1. This will allow the Council to fund works and programs to meet the environmental objectives set out in the Council's Community Strategic Plan.[7]

The annual increase includes the rate peg of 2.7% in 2019-20. The cumulative increase that we have approved of 7.7% is 5.0 percentage points above the rate peg. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Ku-ring-gai Council

Approved Special Variation: percentage increase to general income

	2019-20
Increase above rate peg – permanent	5.0
Rate peg	2.7
Total increase	**7.7**

The approved increase 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.[8]

Conditions attached

IPART's approval of the Council's application for a Special Variation in 2019-20 is subject to the following conditions:

- The Council uses the additional income from the Special Variation for the purposes of funding environmental works and programs as outlined in the Council's application and listed in Appendix B.
- The Council reports in its annual report for each year in 2019-20 and 2020-21 on:
  - The program of expenditure that was actually funded by the additional income
  - 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 Year 2019-20 to reflect the expiring special variation amount of $2,801,013 before increasing its general income for that year.

7 Ku-ring-gai Council, *Application Part B*, p 4; and Ku-ring-gai Council, *Community Strategic Plan*, pp 29-34.
8 The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.

The approval would mean that in 2019-20, the Council will collect an additional $3.1 million of rate revenue compared to a rate increase that is limited to the rate peg (see Table 1.1).[9]

Table 1.1 Permissible general income (PGI) of Ku-ring-gai Council in 2019-20 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]					61,605,196
2019-20	7.7	7.7	3,080,260	4,731,400[b]	66,336,596
Total cumulative increase approved				4,731,400	
Total above rate peg			**3,080,260**		

[a] Includes an adjustment of –$2,801,013 for an SV that expires on 30 June 2019.

[b] Includes an adjustment of a prior catch-up of -$12,200 ($61,605,196 x 0.077 – $12,200 = $4,731,400) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20.

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

Source: Ku-ring-gai Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

As the SV is permanent, it would mean a cumulative increase in the Council's PGI revenue above the rate peg of $34.5 million over 10 years. This represents 4.6% 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 meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how some of the criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances – particularly given the community's support for the proposal.

The Council's forecast shows that its average Operating Performance Ratio (OPR) over five years meets the OLG benchmark of greater than or equal to 0%[10] without the additional revenue from the proposed SV. The Council considered the option of funding the proposed SV expenditure through its general revenue and determined that it would compromise the Council's ability to address its infrastructure backlog ratio, which does not meet the OLG benchmark of less than 2%.[11]

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

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

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

The Council is projected to have a net cash position of $58.9 million at 30 June 2019. However, as at 30 June 2018, most of its cash and investments are committed to other purposes and cannot be used to fund the Council's proposed SV expenditure.

On balance, we found that the Council has largely demonstrated a financial need for the proposed SV. The consistently positive OPR and net cash position mean financial need is not fully demonstrated.

We recognise, however, that there may be other justifications for the proposed SV, particularly if, for example, ratepayers are willing to pay for it. In the case of Ku-ring-gai, we found evidence that a majority of ratepayers were willing to pay for the proposed SV. The Council's survey showed that 78% of the 495 residential ratepayers surveyed supported the continuation of the Environmental Levy at the existing rate.[12] A majority of the surveyed ratepayers also supported the Council's intention to make the Environmental Levy permanent.[13] Ratepayers' willingness to pay is also reflected in the results from the Council's online and printed survey, which showed that a majority supported the permanent continuation of the Environmental Levy at the existing rate.[14]

The Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate, and demonstrated the impact of the proposed SV in both percentage and dollar terms on all ratepayer categories.

We also found that the impact on affected ratepayers of the Council would be reasonable relative to the community's capacity and willingness to pay, and given the Council's hardship policy and voluntary pensioner rebate.

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

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12 The Council recruited a market research company to conduct a survey of 495 residential ratepayers. Ratepayers were asked to choose between continuing the Environmental Levy at the existing rate (equivalent to around $80 a year for the average residential ratepayers), continuing the Environmental Levy at a reduced rate, and discontinuing the Environmental Levy. Ku-ring-gai Council, *Application Part B*, p 43.

13 83% of those that supported the continuation of the Environmental Levy at the existing rate also supported its permanent continuation. Ku-ring-gai Council, *Application Part B*, p 46.

14 A total of 197 responses were received for the Council's online and printed survey. 74% of responses supported the continuation of the Levy at the existing rate, over the other options of continuing the Environmental Levy at a reduced rate, and discontinuing the Environmental Levy. 91% of those that supported the continuation of the Environmental Levy at the existing rate also supported its permanent continuation. Ku-ring-gai Council, *Application Part B*, p 48; and Ku-ring-gai Council, *Online engagement platform and printed survey: Results of consultation November 2018*, pp 1-2.

Table 1.2 Assessment of Ku-ring-gai Council's proposed SV application

1. Financial Need	
Largely Demonstrated	The Council largely demonstrated the financial need for the proposed SV: ▼ OPR (average 2019-2020 to 2023-24) is: – 5.2% under the Proposed SV Scenario – 4.7% without SV revenue and without the proposed SV expenditure (Baseline Scenario) – 2.9% without SV revenue and with the proposed SV expenditure (Baseline with SV Expenditure Scenario). This meets the OLG benchmark of greater than or equal to 0%. ▼ Net cash is $58.9 million (45.8% of income in 2018-19), with only $3.4 million unrestricted cash and investments (as at 30 June 2018). ▼ Infrastructure backlog ratio (average 2019-20 to 2023-24) is: – 1.1% under the Proposed SV Scenario – 2.3% without SV revenue and without the proposed SV expenditure (Baseline Scenario). This does not meet the OLG benchmark of less than 2%.
2. Community awareness	
Demonstrated	The Council demonstrated the community is 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 rate increase. ▼ Provided detailed explanation about the purpose and impact of the proposed SV and sought feedback. ▼ Satisfactorily considered community feedback on the rate increase. ▼ Did not communicate the cumulative percentage increase of the proposed SV over the 1-year SV period in its IP&R documents and consultation materials. Instead, the Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate.
3. Reasonable Impact on ratepayers	
Demonstrated	The Council examined the impact on ratepayers and stated that it would be reasonable. It considered: ▼ The Council's SEIFA[15] ranking (130) confirms that residents of the Ku-ring-gai Local Government Area (LGA) are the least disadvantaged in NSW. ▼ The Ku-ring-gai LGA reported the highest median household income of any LGA in NSW in the 2016 Census. ▼ The Ku-ring-gai LGA has a lower unemployment rate compared to the Greater Sydney Region, based on data from the 2016 Census. IPART considered information on ratepayers from 2016-17 and found: ▼ Average residential rates without the SV were higher than the Group 3 average and the weighted average for neighbouring councils. ▼ Average business rates without the SV were lower than the Group 3 average and the weighted average for neighbouring councils. ▼ The rates to income ratio without the SV was similar to the Group 3 average and higher than most neighbouring councils. ▼ The outstanding rates ratio without the SV was higher than the Group 3 average and most neighbouring councils.

15 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.

IPART also compared the Council's average rate levels with the proposed SV to the OLG Group 3[16] average rate levels over the 1-year SV period and found that the Council's:

- Average residential rates in 2019-20 with the proposed SV would be $1,411, which is higher than the estimated average residential rates of $1,071 for OLG Group 3.
- Average business rate in 2019-20 with the proposed SV would be $4,918, which is lower than the estimated average business rates of $6,821 for OLG Group 3.

We consider the impact on ratepayers to be reasonable given the increase of the proposed SV is partly offset by the Council's expiring SV, the community's capacity and willingness to pay, and the Council's hardship policy and voluntary pensioner rebate.

4. IP&R documents exhibition

Demonstrated

The Council:

- Exhibited its Community Strategic Plan, Delivery Program and Long Term Financial Plan (LTFP) from 11 May 2018 to 8 June 2018 and adopted them on 26 June 2018.
- Did not communicate the cumulative percentage increase of the proposed SV in its IP&R documents and consultation materials. Instead, the Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate.

5. Productivity improvements and cost containment

Demonstrated

Over recent years, the Council has realised savings through initiatives such as:

- The installation of more efficient street lighting, resulting in approximately $500,000 of savings in electricity costs since 2009.
- The reuse of water from the Council's stormwater harvesting, leachate reuse and sewer mining systems, with 137,847L of water harvested and reused in 2017-18. This was equivalent to $275,694 worth of potable water.

The Council has also planned future efficiency incentives including:

- Planned upgrades of street lighting, including main road lights, which is expected to save $230,000 per year.
- The procurement of a renewable energy contract with a fixed price over 11.5 years. According to the Council, this would protect it from future electricity price rises and save an estimated $396,000.

16 Ku-ring-gai Council is in OLG Group 3, which is classified as Metropolitan Developed Large/Very Large (population greater than 70,000). The group comprises 18 councils, including Ryde and Willoughby.

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
- Chapter 5 discusses how our decision will impact the Council and its ratepayers.

2 Ku-ring-gai Council's application

The Council has applied for an SV to increase its general income by 7.7%[17] in 2019-20. The application is for an increase that remains permanently in the rate base. The Council has stated that it would be applied across all rating categories.

The application is for a renewal of the Council's existing Environmental Levy, which has been in place since 2005-06 and is due to expire on 30 June 2019. The Council reports on the purpose of this SV, the year of approval, how much of the SV has been spent and on what, in its annual reports.[18]

2.1 Purpose

The purpose of the proposed SV is to fund environmental works and programs across the key areas of energy management; biodiversity and bushfire management; water and catchment management; community engagement and environmental education; business engagement; and sustainable transport and community recreation in natural areas.[19]

2.2 Need

Protection of the natural environment is one of the themes in the Council's Community Strategic Plan.[20] The proposed SV will fund environmental works and programs to protect and enhance Ku-ring-gai's natural environment. According to the Council, the delivery of its environmental objectives would not be possible within the Council's general revenue, and would require substantial cuts or elimination of services in other priority areas.[21]

The Council has not identified enhanced financial sustainability as a driver of the proposed SV application.

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $34.5 million above what the assumed rate peg would deliver over 10 years. This represents 4.6% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

17 The Council has an existing SV which is due to expire on 30 June 2019, reducing the Council's income by $2,801,013. This means that the 7.7% increase the Council has applied for in 2019-20 will be partly offset by its expiring Environmental Levy. The actual increase in the Council's general income is estimated to be 3.0% in 2019-20. Ku-ring-gai Council, *Application Part A*, Worksheet 4.

18 Ku-ring-gai Council, *Annual Report 2017-2018*, pp 122 and 186.

19 Ku-ring-gai Council, *Application Part B*, p 5.

20 Ku-ring-gai Council, *Community Strategic Plan*, pp 30-34.

21 Ku-ring-gai Council, *Application Part B*, p 26.

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 4.9% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

Table 2.1 Permissible general income (PGI) of Ku-ring-gai 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 (%)
34.5	743.2	4.6

Note: The above information is correct at the time of the Council's application (February 2019).
Source: Ku-ring-gai Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The Council found:

- The average residential rate in 2018-19 is $1,371. Without the proposed SV, the average rate in 2019-20 would decrease to $1,346 due to the expiry of the Council's existing SV. With the proposed SV, the average rate in 2019-20 would increase to $1,411. This means that the additional increase above the rate peg for the average residential ratepayer in 2019-20 would be $65.
- The average business rate in 2018-19 is $4,743. Without the proposed SV, the average rate in 2019-20 would decrease to $4,690 due to the expiry of the Council's existing SV. With the proposed SV, the average rate in 2019-20 would increase to $4,918. This means that the additional increase above the rate peg for the average business ratepayer in 2019-20 would be $228.[22]

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 13 June 2017. The resolution was carried unanimously.[23]

22 IPART calculations based on Ku-ring-gai Council, *Application Part A*, Worksheet 5a.
23 Ku-ring-gai Council, *Minutes of ordinary meeting of council held on Tuesday, 13 June 2017*, p 7.

3 Submissions to IPART

IPART received zero submissions on the Council's proposed SV during the consultation period from 11 February 2019 to 14 March 2019.

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 proposed SV.

Our Assessment

Our decision reflects our finding that, on balance, the Council's application meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how some of the criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances.

The Council's forecast shows that the average Operating Performance Ratio (OPR) over five years is 5.2% under the Proposed SV Scenario, 4.7% without the proposed SV revenue and without its SV expenditure program (Baseline Scenario) and 2.9% without the proposed SV revenue and assuming the Council goes ahead with its SV expenditure program (Baseline with SV Expenditure Scenario). We note that the Council meets the OLG benchmark of greater than or equal to 0% under all three scenarios (see Section 4.1 for further explanation).

The Council considered the option of funding the proposed SV through its general revenue. However, this would impact on the Council's ability to address its infrastructure backlog, which does not meet the OLG benchmark of less than 2%. The Council concluded that the use of general revenue for Environmental Levy purposes would lead to cuts or the elimination of services in other areas.[24]

24 Ku-ring-gai Council, *Application Part B*, p 26.

The Council is projected to have a net cash position of $58.9 million at 30 June 2019. However, as at 30 June 2018, most of its cash and investments are committed to other purposes and are not available for discretionary use to fund the Council's proposed SV expenditure. The Council has also considered alternative funding methods and explained why these have not been used.

On balance, we found that the Council has largely demonstrated a financial need for the proposed SV. The consistently positive OPR and net cash position mean financial need is not fully demonstrated.

We recognise, however, that there may be other justifications for the proposed SV, particularly if, for example, ratepayers are willing to pay for it. In the case of Ku-ring-gai, we found evidence that a majority of ratepayers were willing to pay for the proposed SV. The Council's survey showed that 78% of the 495 residential ratepayers surveyed supported the continuation of the Environmental Levy at the existing rate. A majority of the surveyed ratepayers also supported the Council's intention to make the Environmental Levy permanent. Ratepayers' willingness to pay is also reflected in the results from the Council's online and printed survey, which showed that a majority supported the permanent continuation of the Environmental Levy at the existing rate.

The Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council did not communicate the cumulative percentage increase of the proposed SV over the 1-year SV period in its IP&R documents and consultation materials. Instead, the Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate. It did demonstrate the impact in percentage and dollar terms on all ratepayer categories.

We found that the impact on affected ratepayers of the Council would be reasonable relative to the community's capacity and willingness to pay, and given the Council's hardship policy and voluntary pensioner rebate.

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 section 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, LTFP and Asset Management Plan where appropriate.

- Relevant IP&R documents should canvas alternatives to the rate rise.
- The Council may include evidence of community need/desire for service levels or projects.

IPART uses information provided by councils in their applications 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 operating performance ratio (OPR).

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

$$OPR^{25} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

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

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the Council's operating and infrastructure assets' performance **without the proposed SV revenue and expenditure**.
3. **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 consistently well above 0% would bring into question the financial need for an SV. We note

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

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).[26] 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.

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%. It is defined as:

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

We 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 and LTFP clearly set out the need for, and purpose of, the proposed SV, which is to fund environmental works and programs in the key areas of:

- Biodiversity management – including bush regeneration activities in the Council's high value bushland reserves

26 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 council's financial performance and sustainability on a cash basis.

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.

- Energy management – involving the delivery of a range of renewable energy and efficiency projects
- Water management – including the installation of stormwater harvesting and reuse systems
- Community engagement and environmental education.[29]

The Council has considered alternative funding strategies in its IP&R documents and application, including:

- General revenue – the Council is committed to increasing its capital expenditure on infrastructure to address the future backlog. If the Council uses general revenue to fund its proposed suite of environmental works and programs, this would limit the Council's ability to address its infrastructure backlog and may lead to cuts or the elimination of services in other areas. The Council's infrastructure backlog ratio is projected to be 2.5% in 2018-19,[30] which does not meet the OLG benchmark of less than 2.0%.
- User fees and charges – the Council has prioritised revenue from increases in fees and charges for infrastructure renewal.
- Borrowings – the Council only considers debt to be a suitable funding option when repayments are clearly identified and reflected in overall future cash flows over the life of the asset. The proposed suite of environmental works and programs do not align with the Council's debt strategy.
- Internal cash reserves – the Council's cash reserves are held for specific purposes (eg, infrastructure projects) and there are no excess funds available.
- Grant funds – there are no grant programs that fund the ongoing delivery of the suite of environmental works and programs.[31]

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

The Council's forecast operating result

Under the proposed SV Scenario, the Council forecasts consistent operating surpluses ranging from 3.4% to 6.2% of income over the next 10 years. The cumulative value of the forecast operating results is $179.4 million to 2028-29. This would allow the Council to deliver a suite of works and programs to meet the environmental objectives in the Council's Community Strategic Plan.

Without the proposed SV revenue 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 in Figure 4.1 and Table 4.1. The cumulative value of

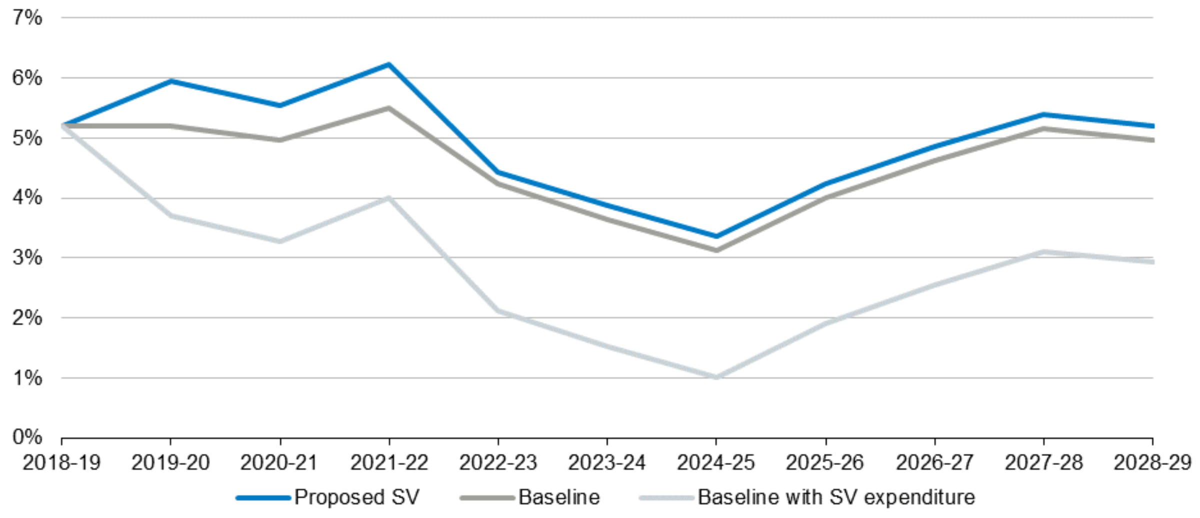
29 Ku-ring-gai Council, *Application Part B*, pp 5-6; Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, p 18; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028,* p 16.

30 Ku-ring-gai Council, *Application Part A*, Worksheet 9.

31 Ku-ring-gai Council, *Application Part B*, pp 26-27; and Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, pp 16-17.

these forecast operating results (before capital grants and contributions) is $144.4 million to 2028-29 under this Scenario.

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



Data source: Ku-ring-gai Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 4.1 Projected operating performance ratio (%) for Ku-ring-gai 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	5.9	5.5	6.2	4.4	3.9	3.4	4.2	4.9	5.4	5.2
Baseline	5.2	5.0	5.5	4.2	3.6	3.1	4.0	4.6	5.2	5.0
Baseline with SV Expenditure	3.7	3.3	4.0	2.1	1.5	1.0	1.9	2.6	3.1	2.9

Source: IPART calculations based on Ku-ring-gai Council, *Application Part A*, Worksheet 8.

Our analysis indicates that over the next five years, the Council's financial performance shows an average OPR of:

- 5.2% under the proposed SV Scenario
- 4.7% under the Baseline Scenario
- 2.9% under the Baseline with SV Expenditure Scenario.

Impact on the Council's net cash (debt)

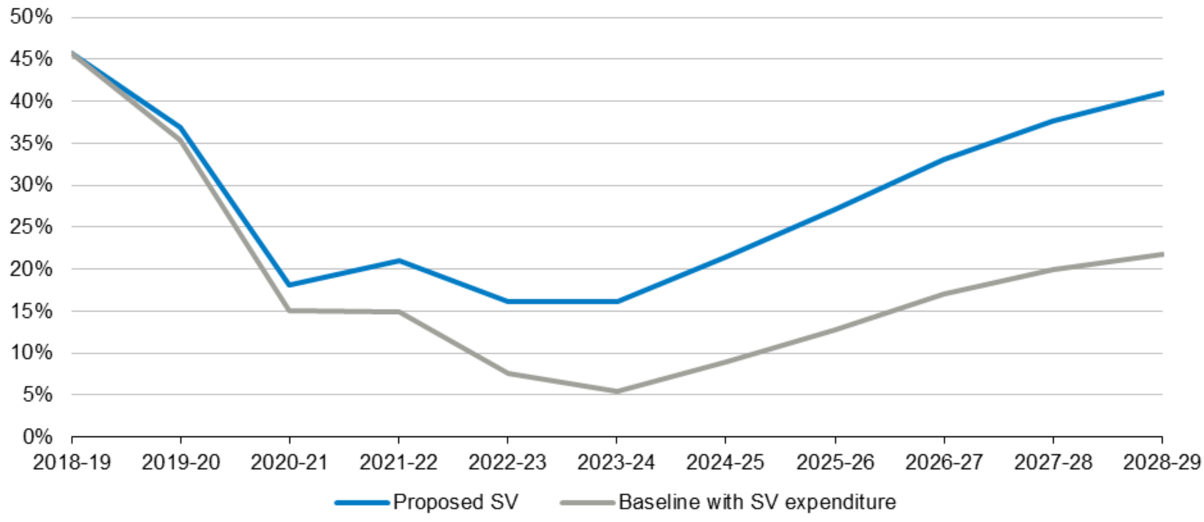
We calculate the Council's net cash is $58.9 million or 45.8% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would fall to 16.1% of income in 2023-24, due to a projected decrease in current investments.[32]

32 Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, p 52.

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 the net cash position would fall to 5.4% of income in 2023-24. As at 2028-29, the net cash to income ratio would be 41.0% under the proposed SV Scenario and 21.8% 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 Ku-ring-gai Council's net cash (debt) to income ratio (%) (2018-19 to 2028-29)



Data source: Ku-ring-gai Council, *Application Part A*, Worksheet 8 and IPART calculations.

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

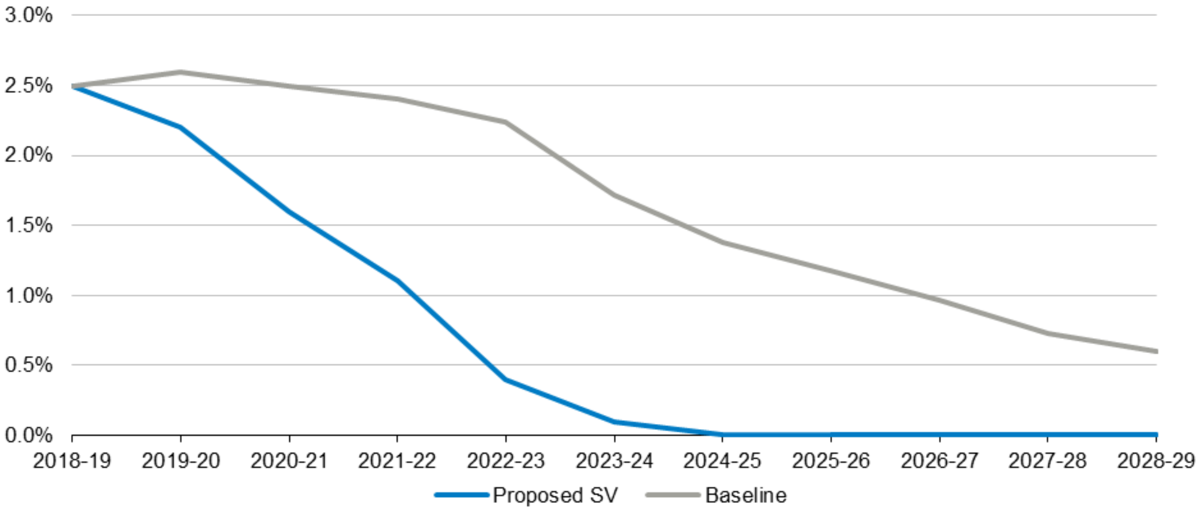
- 21.2% under the proposed SV Scenario
- 15.3% under the Baseline with SV Expenditure Scenario.

Impact on the Council's infrastructure backlog ratio

The Council indicated its infrastructure backlog ratio will be 2.5% in 2018-19, which does not meet the OLG benchmark of less than 2.0%. With the proposed SV, the Council's infrastructure backlog ratio would fall to 0.1% in 2023-24.

The Council's forecast backlog ratio over the next 10 years is shown in Figure 4.3 below.

Figure 4.3 Ku-ring-gai Council's infrastructure backlog ratio (%) (2018-19 to 2028-29)



Data source: Ku-ring-gai Council, *Application Part A*, Worksheet 8.

Table 4.2 Projected infrastructure backlog ratio (%) for Ku-ring-gai 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	2.2	1.6	1.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Baseline	2.6	2.5	2.4	2.2	1.7	1.4	1.2	1.0	0.7	0.6

Source: Ku-ring-gai Council, *Application Part A*, Worksheet 9.

Our analysis shows that over the next five years, the Council's backlog ratio averages:

- 1.1% under the proposed SV Scenario
- 2.3% under the Baseline Scenario.

4.1.3 Overall assessment of the Council's financial need

Our assessment is that the Council has largely demonstrated a financial need for the proposed SV.

The Council is applying to renew an expiring SV. As such, it intends to maintain the same levels of service with its proposed SV revenue as ratepayers have received over recent years.[33]

With the proposed SV revenue, the Council's forecast OPR in 2023-24 is 3.9%. This is above the OLG benchmark of greater than or equal to 0%. The Council considered the option of funding the proposed SV through its general revenue. However, the Council has already committed to increasing investment in infrastructure renewals to address the future backlog. The Council's infrastructure backlog ratio of 2.5% in 2018-19 does not meet the OLG benchmark of less than 2.0%. As a result, the Council concluded that it would not be possible

33 Ku-ring-gai Council, *Application Part B*, p 4.

to fund the Environmental Levy through general revenue unless there are cuts or the elimination of services in other areas.[34]

We forecast that the Council will have a net cash position of $58.9 million at 30 June 2019, with total cash and investments greater than total debt. At 30 June 2018, the Council held a total of $177.4 million in cash, cash equivalents, and investments, with:

- $139.7 million externally restricted
- $34.2 million internally restricted
- $3.4 million unrestricted.[35]

This suggests the majority 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, we consider that the net cash position of the Council does not dampen the Council's financial need for the proposed SV.

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 LTFP should clearly set out the extent of the General Fund rate rise under the proposed SV. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category (see Section 4.4 for this assessment).
- The 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.

34 Ku-ring-gai Council, *Application Part B*, p 26.
35 Ku-ring-gai Council, *Application Part A*, Worksheet 7; and IPART calculations.

4.2.1 Assessment of consultation with the community

The Council has published a Communication and Engagement Strategy. It used this to guide the consultation it carried out in relation to the proposed SV.[36]

Process and Content

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

Specifically, the Council:

- Communicated the full impact of the proposed rate increase to ratepayers and the rate increase across various categories of ratepayers.
- Communicated what the proposed SV would fund.
- Did not communicate the cumulative percentage increase of the proposed SV over the 1-year SV period in its IP&R documents and consultation materials.[37] Instead, the Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate.[38]

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.

Timeliness

The Council carried out community consultation on its proposed SV from 5 October 2018 to 4 November 2018.[39] 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:[40]

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36 Ku-ring-gai Council, *Community and Engagement Strategy*, pp 5-6.

37 The Council presented the cumulative percentage increase over five years in its IP&R documents. This was calculated using the increase under the proposed SV in 2019-20, followed by four years of increases under the assumed annual rate peg. Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, pp 14-15; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, p 18.

38 Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, pp 10, 14-15; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, pp 17-18; and Ku-ring-gai Council, Environmental Levy, http://www.kmc.nsw.gov.au/Current_projects_priorities/Key_priorities/Environment_sustainability/Environmental_Levy, accessed 6 May 2019.

39 Ku-ring-gai Council, *Application Part B*, p 39.

40 Ku-ring-gai Council, *Application Part B*, pp 38-40.

- An excerpt in the July 2018 rates notice, sent to 43,986 households, containing information about the current Environmental Levy which is due to expire on 30 June 2019, the average dollar impact of the Levy on ratepayer categories, the Council's intention to apply for a permanent extension, and opportunities for the community to provide feedback.[41]
- A direct mail out to 773 business ratepayers, containing similar information as the July 2018 rates notice.[42]
- Recruiting an independent market research company to conduct a survey (online, telephone and street intercept) of 495 residential ratepayers from September 2018 to November 2018.
- A community consultation workshop with 29 attendees.[43]
- A dedicated SV online engagement platform on the Council's website.
- A printed survey, available at the Council's Customer Service desk and the Council's libraries.
- Social media posts on Facebook and Twitter.
- Advertisements in local newspapers.

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

4.2.2 Assessment of outcomes of consultation with 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 received four written submissions in relation to its proposed SV, including one opposing the application and three in favour of the application. The main reason for opposition was that the ratepayer felt the money collected through the Environmental Levy was being wasted.[44]

The Council recruited an independent market research company to conduct a survey of 495 residential ratepayers from September 2018 to November 2018. Ratepayers were asked to choose between continuing the Environmental Levy at the existing rate, continuing the Environmental Levy at a reduced rate, and discontinuing the Environmental Levy. Ratepayers were also asked if they support the permanent continuation of the Environmental Levy. The results from the survey show that 78% of respondents supported the option to continue the Environmental Levy at the existing rate, and a further 11% supported the option to continue the Environmental Levy at a reduced rate. 83% of those that supported the

41 Ku-ring-gai Council, *Community Consultation Materials*, pp 1-2.
42 Ku-ring-gai Council, *Community Consultation Materials*, p 90.
43 Ku-ring-gai Council, *Application Part B*, p 39.
44 Ku-ring-gai Council, *Application Part B*, p 54.

continuation of the Environmental Levy at the existing rate also supported its permanent continuation.[45]

The Council also conducted its own survey through its SV online engagement platform, and made a printed version of this survey available at the Council's Customer Service desk and the Council's libraries. The Council received 197 responses to its online and printed survey, and found that 74% of respondents supported the option of continuing the Environmental Levy at the existing rate, over the other options of continuing the Environmental Levy at a reduced rate, and discontinuing the Environmental Levy. 91% of those that supported the continuation of the Environmental Levy at the existing rate also supported its permanent continuation.[46]

Based on its community consultation, the Council decided to apply for the permanent continuation of the Environment Levy.

4.2.3 Overall assessment of the Council's community engagement and awareness

We found that, the Council demonstrated that its community is 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 proposed SV on affected ratepayers must be reasonable, having regard to the current rate levels, the existing ratepayer base and the proposed purpose of the SV. Specifically, the Delivery Program and LTFP should:

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

Section 4.4 of this report considers the Council's Delivery Program and LTFP.

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

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

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

45 Ku-ring-gai Council, *Application Part B*, pp 39, 43-46.
46 Ku-ring-gai Council, *Online engagement platform and printed survey: Results of consultation November 2018*, pp 1-7.

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 is seeking a permanent extension of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate. As the Levy is already being paid by ratepayers, the increase of 7.7% the Council has applied for in 2019-20 will be partly offset by the expiring SV. The Council has calculated that:

- The average residential rate will increase by 2.9% or $40 in 2019-20, followed by the assumed annual rate peg in future years.
- The average business rate will increase by 3.7% or $176 in the 2019-20, followed by the assumed annual rate peg in future years.[47]

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 Ku-ring-gai Council's proposed SV (2018-19 to 2019-20)

Ratepayer category	2018-19	2019-20	Cumulative increase
Residential rate $	1,371	1,411	
$ increase		40	40
% increase		2.9	2.9
Business rate $	4,743	4,918	
$ increase		176	176
% increase		3.7	3.7

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: Ku-ring-gai Council, *Application Part A*, Worksheet 5a.

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

As Chapter 2 discussed, the Council requested a 1-year increase of 7.7% that will remain permanently in the rate base.

The Council examined socio-economic indicators such as the SEIFA ranking, median weekly household income, unemployment rate and the Council's rates and annual charges outstanding ratio to assess the impact on ratepayers. On the basis of these indicators, it found that:[48]

- Its SEIFA ranking indicates that Ku-ring-gai is the least disadvantaged LGA in NSW.
- The Ku-ring-gai LGA reported the highest median weekly household income of any LGA in NSW in the 2016 Census.

47 Ku-ring-gai Council, *Application Part A*, Worksheet 5a; and Ku-ring-gai Council, *Application Part B*, pp 56-58.

48 Ku-ring-gai Council, *Application Part B*, pp 62-63; and *Ku-ring-gai Council, Delivery Program 2018-2021 & Operational Plan 2018-2019*, p 16.

- The Ku-ring-gai LGA has high labour force participation and a lower unemployment rate compared to the Greater Sydney Region.[49]
- The Council's rates and annual charge outstanding ratio meets the OLG benchmark of less than 5% for city and coastal councils.[50]

Based on the results from the Council's recruited survey and the responses to the Council's online and printed survey, the Council considers the community has willingness to pay for the proposed SV.

The Council submitted that it has a hardship policy in place for ratepayers suffering genuine financial hardship and a voluntary pensioner rebate of 8.5% to reduce the financial burden on pensioners.[51]

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. We found that since 2008-09:

- The Council has applied for, and been granted, five SVs, which were used to fund environmental and infrastructure works.
- The average annual growth in residential and business rates was 2.6% and 5.2% respectively, which compares with the average annual growth in the rate peg of 2.6% over the same period.[52]

We also compared rates and socio-economic indicators in the LGA with those of OLG Group 3 and neighbouring councils as shown in Table 4.4.

49 Based on Census 2016 data.
50 NSW Office of Local Government, *Your Council June 2015 – Profile and Performance of the NSW Local Government Sector*, p 14.
51 Ku-ring-gai Council, *Application Part B*, pp 64-65.
52 IPART calculations based on OLG data.

Table 4.4 Ku-ring-gai Council – comparison of rates and socio-economic indicators with neighbouring councils and Group 3 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]
Hornsby (7)	1,120	3,034	110,292	1.0	1.9	120
Ryde (3)	741	13,273	92,872	0.8	3.6	115
Willoughby (3)	986	6,578	118,092	0.8	1.4	123
Ku-ring-gai (3)	**1,326**	**4,030**	**137,280**	**1.0**	**3.3**	**130**
Group 3 average	1,005	6,396	98,249	1.0	3.2	–

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 2016-17; 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.

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

- Average residential rates of $1,326 were 32% higher than the average for Group 3 councils and 39% higher than the weighted average for neighbouring councils
- Average business rates of $4,030 were 37% lower than the average for Group 3 councils and 43% lower than the weighted average for neighbouring councils
- Average rates to income ratio was the same as the average for Group 3 councils and higher than most neighbouring councils
- Outstanding rates ratio was 0.1 percentage points higher than the average for Group 3 councils and higher than most neighbouring councils
- The SEIFA ranking indicates that the Ku-ring-gai LGA is the least disadvantaged in NSW.

We also compared the Council's average rate levels with the proposed SV to the OLG Group 3 average rate levels[53] over the proposed 1-year SV period and we found that the Council's:

- Average residential rates in 2019-20 with the proposed SV would be $1,411, which is higher than the estimated average residential rates of $1,071 for OLG Group 3.
- Average business rates in 2019-20 with the proposed SV would be $4,918, which is lower than the estimated average business rates of $6,821 for OLG Group 3.

53 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 3 average rate levels by the rate peg each year from 2017-18 to 2019-20 to allow for the comparison of Ku-ring-gai Council's proposed average rate levels with the SV over the proposed SV period.

4.3.3 Overall assessment of the impact on affected ratepayers

We consider the impact of the proposed SV on affected ratepayers of the Council to be reasonable, given:

- The proposed SV is currently being paid by ratepayers and has been in place since 2005-06.
- The community's capacity to pay is supported by the Council's high SEIFA ranking and median weekly household income.
- The community's willingness to pay is supported by the results from the Council's recruited survey and the responses to the Council's online and printed survey.
- The Council has a hardship policy and a voluntary pensioner rebate.

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's needs and demands.

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

The relevant documents are the Community Strategic Plan, Delivery Program, LTFP 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 LTFP be posted on the Council's web site.

In this section we assess whether the Council has included the proposed SV in its IP&R framework, 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 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 LTFP. The Council's Delivery Program also canvassed alternatives to the rate rise, such as funding from the Council's general revenue, increasing user fees and charges, using debt as a funding source, and funding from the Council's internal cash reserves (see Section 4.1.1).

The LTFP indicates the financial impact of the proposed SV by presenting both a Baseline Scenario reflecting the business as usual model excluding the proposed SV and the Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.[54]

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

The Delivery Program and LTFP include the total increase in dollar terms for the average ratepayer, by rating category.[55] The Council did not communicate the cumulative percentage increase of the proposed SV over the 1-year SV period. Instead, the Council indicated that it is applying for the permanent continuation of its expiring Environmental Levy at the current rate of 5.0% above the ordinary rate.[56]

The impact of any rate rises upon the community

The Council's IP&R documents show that the Council considered the community's capacity and willingness to pay rates under the proposed SV. Within its IP&R documents, the Council presented information on its SEIFA ranking and median weekly household income within the LGA, demonstrating ratepayers' capacity to pay. The Council addressed ratepayers' willingness to pay within its IP&R documents by identifying the importance of the Environmental Levy in achieving the community's long term environmental objectives.[57]

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

The Council publicly exhibited its Community Strategic Plan, Delivery Program 2018-2021 and LTFP from 11 May 2018 to 8 June 2018. The Council advertised the availability of these documents for public comment through local newspapers and on social media, and placed direct links on the Council's website to a dedicated page explaining the exhibition process and documents. No submissions were received from the community over the exhibition period. The documents were subsequently adopted by the Council on 26 June 2018.[58]

4.4.3 Overall assessment of IP&R documents

We consider that 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.

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54 Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, pp 48-53.

55 Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, pp 14-15; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, p 18.

56 Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, p 10; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, p 17.

57 Ku-ring-gai Council, *Delivery Program 2018-2021 & Operational Plan 2018-2019*, pp 11-16; and Ku-ring-gai Council, *Long Term Financial Plan 2018-2028*, pp 16-18.

58 Ku-ring-gai Council, *Application Part B*, pp 67-69.

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.

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvement and cost containment initiatives it has undertaken in recent years. Initiatives implemented by the Council include:

- The installation of more efficient street lighting, resulting in approximately $500,000 of savings in electricity costs since 2009.
- The reuse of water from the Council's stormwater harvesting, leachate reuse and sewer mining systems, with 137,847L of water harvested and reused in 2017-18. This was equivalent to $275,694 worth of potable water.
- The supply and installation of a new suite of printers, multifunction devices and a print management solution, which has reduced paper, consumables and energy use from machines not operating to print unwanted print jobs.[59]

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. Measures proposed by the Council include:

- Planned upgrades of street lighting, including main road lights, which is expected to save $230,000 per year.
- The procurement of a renewable energy contract with a fixed price over 11.5 years. According to the Council, this would protect it from future electricity price rises and save an estimated $396,000.
- A range of other initiatives to reduce the cost of providing services. This includes reducing budgets where possible, introducing or changing some fees for services, reviewing rebates, and renting out surplus properties. According to the Council, these initiatives amount to $515,000 per year within three years.[60]

4.5.3 Overall assessment of productivity improvement 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.

59 Ku-ring-gai Council, *Application Part B*, p 72.
60 Ku-ring-gai Council, *Application Part B*, p 72.

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 it 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 the Council may increase its general income over the 1-year approved SV period from $64.4 million[61] in 2018-19 to $66.3 million in 2019-20.

The Council's PGI in 2018-19 is $64.4 million. This includes the existing Environmental Levy which expires on 30 June 2019. The Council's PGI is $61.6 million on 1 July 2019 when the expired SV is removed (see Table 5.1).

We have approved a cumulative increase of 7.7% in 2019-20 which comprises the 2.7% rate peg and an additional 5.0% for the Council's new Environmental Levy. This means that in 2019-20, the Council will collect an additional $3.1 million of rate revenue compared to a rate increase that is limited to the rate peg (see Table 5.1).

Table 5.1 shows the percentage increase we have approved, and estimates the annual increase in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

This increase will be permanently incorporated into the Council's revenue base. After 2019-20, the Council's PGI can increase by the annual rate peg unless we approve a further SV.[62]

61 Ku-ring-gai Council, *Application Part A*, Worksheet 2.

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

Table 5.1 Permissible general income (PGI) of Ku-ring-gai Council in 2019-20 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]					61,605,196
2019-20	7.7	7.7	3,080,260	4,731,400[b]	66,336,596
Total cumulative increase approved				4,731,400	
Total above rate peg			**3,080,260**		

a Includes adjustment of –$2,801,013 for an SV that expires on 30 June 2019.

b Includes adjustment of a prior catch-up of -$12,200 ($61,605,196 x 0.077 – $12,200 = $4,731,400) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20.

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

Source: Ku-ring-gai Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

This extra income is the amount the Council requested to enable it to fund environmental works and programs.

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. In 2019-20, the:

- Average residential rate will increase by 2.9% or $40, followed by the assumed annual rate peg in future years.
- Average business rate will increase by 3.7% or $176, followed by the assumed annual rate peg in future years.

The increases in average rates in 2019-20 are less than the rise in general income of 7.7% allowed by the SV due to the Council's existing Environmental Levy, which expires on 30 June 2019.

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

Table B.1 and Table B.2 show the Council's proposed expenditure of the SV funds over the next 10 years under its application.

The Council will use the additional SV revenue of $34.5 million above the rate peg over 10 years to fund:

- Capital works and operational programs that protect and enhance the environment and help the community to live more sustainably.
- Essential service functions to ensure best practice environmental management.[63]

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.

63 Ku-ring-gai Council, *Application Part B*, p 4.

Table B.1 Ku-ring-gai Council – Income and proposed expenditure 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	**3,080**	**3,157**	**3,236**	**3,317**	**3,400**	**3,485**	**3,572**	**3,661**	**3,753**	**3,847**	**34,509**
Funding for increased operating expenditure	1,933	2,224	2,026	2,924	2,994	3,065	3,137	3,210	3,287	3,364	28,164
Funding for capital expenditure	1,147	933	1,210	393	406	420	435	451	466	483	6,345
Total expenditure	**3,080**	**3,157**	**3,236**	**3,317**	**3,400**	**3,485**	**3,572**	**3,661**	**3,753**	**3,847**	**34,509**

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

Source: Ku-ring-gai Council, *Application Part A,* Worksheet 6.

Table B.2 Ku-ring-gai Council – Proposed 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
Renewals											
Sustainability and environment works	1,147	933	1,210	393	406	420	435	451	466	483	6,345
Total Asset Renewal	1,147	933	1,210	393	406	420	435	451	466	483	**6,345**
Total Capital Expenditure	1,147	933	1,210	393	406	420	435	451	466	483	**6,345**

Note: Numbers may not add due to rounding.

Source: Ku-ring-gai Council, *Application Part A*, Worksheet 6.

C 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 C.1 shows how selected performance indicators for the Council have changed over the four years to 2016-17. Table C.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 C.1 Trends in selected performance indicators for Ku-ring-gai Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	420	424	409	417	-0.2
Ratio of population to FTE	282	284	301	295	1.5
Average cost per FTE ($)	83,367	85,205	91,629	91,779	3.3
Employee costs as % operating expenditure (General Fund only) (%)	34.7	32.6	32.8	32.5	–

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 C.2 Select comparative indicators for Ku-ring-gai Council (2016-17)

	Ku-ring-gai Council	OLG Group 3 average	NSW average
General profile			
Area (km^2)	85	-	-
Population (2016)	123,143	-	-
General Fund operating expenditure ($m)	117.7	181.2	76.3
General Fund operating revenue per capita ($)	1,225	-	-
Rates revenue as % General Fund income (%)	53.3	48.3	42.5
Own-source revenue ratio (%)	83.5	70.8	66.0
Average rate indicators[a]			
Average rate – residential ($)	1,326	1,005	1,053
Average rate – business ($)	4,030	6,396	5,738
Average rate – farmland ($)	-	2,840	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	137,280	98,249	77,272
Average residential rates to median income, 2016 (%)	1.0	1.0	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	130	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	3.3	3.2	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	417	761	356
Ratio of population to FTE	295.3	-	-
Average cost per FTE ($)	91,779	100,803	91,762
Employee costs as % operating expenditure (General Fund only) (%)	32.5	41.5	38.8

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

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

e 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 2016-17*, 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.

D Glossary

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