Bellingen Shire Council

Special Variation Application for 2023-24

Final Report

June 2023

Local Government

Acknowledgment of Country

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

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

Tribunal Members

The Tribunal members for this review are:
- Carmel Donnelly PSM, Chair
- Deborah Cope
- Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

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

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Foreword from the Chair

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Carmel Donnelly PSM
IPART Chairperson

1 Executive summary

Bellingen Shire Council (the council) applied to IPART to increase its general income through a permanent special variation (SV) of 31.06% (including the rate peg) over the next 4 years.[1] This included increases of 8.0% per year in 2023-24 and 2024-25 and increases of 6.0% per year in 2025-26 and 2026-27.

The council's application notes that its finances have come under pressure in recent years. In response, it has been implementing a range of reforms including to corporate structure, work practices and improving financial sustainability. The council's strategic cost review has identified operating cost savings of $700,000 to $ 1 million per annum, or around 2-3% of operating expenditure. The council submits that while significant improvements to operating efficiency have been made, the proposed SV is needed to deliver on the community's needs and expectations and be financially sustainable over the long term.

In particular, the council sought the SV to:

- maintain existing services and service levels
- improve, although not resolve, the council's financial sustainability, and
- enable current investment in asset maintenance and renewal to continue.[2]

1.1 IPART's decision

Our assessment is that the council's application meets the criteria set by the Office of Local Government (OLG). We have approved the council's proposed SV. Our decision means the council can raise up to an additional $4.2 million in total rates revenue (above the rate peg) over the 4-year period 2023-24 to 2026-27, and permanently retain this revenue in its rate base.

We understand that the SV may create affordability challenges for some ratepayers – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates. We also understand that some residents are concerned that the council has not effectively managed its finances in the past or prioritised its expenditure appropriately.

In making our decision we had regard to the purpose of the SV being to improve the council's ongoing financial sustainability and to enable it to continue to provide services that the local community depends on. We also had regard to the council's commitment to improve its governance arrangements. The council has advised that without the SV, it would need to reduce current levels of service and spending on asset management.

1.2 IPART's assessment of the council's application

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

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to address cost pressures, reverse its operating deficit and improve its long-term financial sustainability.
02	Demonstrated	**Community awareness** The council effectively consulted with ratepayers using a variety of engagement methods, and the community is appropriately aware of the need for, and extent of the proposed rate rise.
03	Demonstrated	**Reasonable impact on ratepayers** The council demonstrated that the impact of the proposed SV on ratepayers would be reasonable, having regard to current rate levels, the existing ratepayer base and the proposed purpose of the SV. The SV would result in increases in rates for all ratepayers, spread over a 4-year period. Measures are in place to support vulnerable ratepayers including a hardship policy and pensioner concessions.
04	Demonstrated	**Integrated Planning and Reporting documentation** All necessary IP&R documents were appropriately exhibited, approved and adopted.
05	Demonstrated	**Productivity improvement and cost containment** The council listed and quantified the productivity improvement and cost containment measures it has implemented to date, which have resulted in significant operating cost savings. It also identified and quantified further measures it proposes to implement over the SV period.
06		**Other matters IPART considers relevant** The council received a 19.1% permanent SV for the 3-years from 2018-19 to 2020-21; and a permanent Additional Special Variation (ASV) of 2.5%, for 2022-23. The council indicated it has complied with all conditions of approval.

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the Integrated Planning and Reporting (IP&R) framework. The OLG criteria that we assess SV applications against requires us to look at the consultation the council has undertaken with its community as part of our assessment.

Bellingen Shire Council consulted with its community on its proposed SV using a variety of engagement methods. Over its consultation period, the council told us it sent out over 5,000 mailouts to ratepayers and held 4 drop-in sessions attended by 119 people. It received 107 submissions from stakeholders, and 86 responses to its community survey.

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. We received 3 submissions on Bellingen Shire Council's proposed SV between 13 April and 5 May 2023. These submissions raised concerns about the:

- affordability of the proposed rate increases
- council's financial management and accountability
- council's consultation with the community.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its rates revenue over the 4-year period. We encourage the council to consult with its community to decide how best to implement the increase, noting it can choose to set its rates including deferring any increases for up to 10 years.[3]

The council's proposed rate increases are outlined below. The council retains the discretion to revise how it raises its general income across the rating categories.

While the council has already found significant operating cost savings as part of its strategic cost review, it will still need to deliver on its further proposed productivity improvements and cost saving measures. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial sustainability.

Table 1.1 The council's proposed increase in rates

	2023-24	2024-25	2025-26	2026-27	Cumulative increase
Residential	8.0%	8.0%	6.0%	6.0%	31.06%
Business	8.0%	8.0%	6.0%	6.0%	31.06%
Farmland	8.0%	8.0%	6.0%	6.0%	31.06%

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

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

2 The council's special variation application

The council applied to increase its general income through a permanent special variation (SV) of 8.0% per year from 2023-24 to 2024-25 and 6.0% per year from 2025-26 to 2026-27 (all including the rate peg). This is a cumulative increase of 31.06% over the 4 years.[4]

In its application, the council stated that:

- It has a low proportion of rateable land, as around 57% of the Bellingen local government area (LGA) is State Forests, National Parks and Crown land – all of which are exempt from paying rates under the Local Government Act. The council provides services to this land, for example by maintaining local roads. In doing so, it incurs additional costs but cannot levy rates for it directly from those entities.
- Its finances have come under increasing pressure in recent years, including due to rising costs, increasing reporting requirements and increasing service responsibilities.

The council also stated that in response to these pressures, it has implemented a range of reforms, including to its corporate structure and work practices, to improve its financial sustainability. Although this has resulted in significant improvements to its operating performance, the proposed SV is needed to deliver on the community's needs and expectations and be financially sustainable over the long term.

In particular, the SV will enable the council to:

- maintain existing services and service levels
- improve, although not resolve, the council's financial sustainability, and
- enable current investment in asset maintenance and renewal to continue.[5]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories. On average, it proposed:

- residential rates by 2026-27 would increase by $429 or 31.06%
- business rates by 2026-27 would increase by $496 or 31.06%
- farmland rates by 2026-27 would increase by $937 or 31.06%.

The council has provided the number of rate notices that were issued for 2022-23 (Table 2.1).

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	5,341
Business	409
Farmland	403

Source: Bellingen Shire Council, Part A application Worksheet 2

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed SV, including the community's capacity to pay the proposed rate increases. Key findings in the council's capacity to pay analysis include:

- Bellingen Shire's SEIFA index is 966. This is higher than those of most nearby coastal LGAs – including Nambucca Valley (907), Kempsey Shire (888) and Clarence Valley (926) – and similar to Coffs Harbour City (967). This indicates that the Bellingen community has a higher capacity to pay than most neighbouring communities. [6]
- The council has the 5th highest SEIFA score in its OLG group (Group 11). This indicates that its residential ratepayers have a higher capacity to absorb rate increases than those of most other Group 11 councils.[7]
- The council's average residential rate is $1,363 compared to the NSW average of $1,510.[8]
- As of 30 June 2022, the council's outstanding rates and annual charges sat at 3.18%. This is well below the benchmark of 10% set by OLG and is well below the NSW average of 5.84% and Group 11 average of 8.39%. This might suggest the community is experiencing less difficulty paying rates compared to other councils.[9]
- Bellingen currently has a high home ownership rate, with 45.6% of households owning their home outright (i.e., no mortgage). This compares favourably to the Regional NSW average of 36.3%. Housing tenure is an important determinant of housing affordability. Those households that own their home outright are generally not subject to housing affordability issues.[10]

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

The council estimated that the proposed SV would result in a cumulative increase in its permissible general income of $4.2 million above what the assumed rate peg would deliver over 4 years.

2.4 Further information provided

Following our preliminary assessment of the council's application, we asked the council to:

- provide updated financial information
- clarify whether the dollar amounts presented in parts of its application were in thousands ('000s)
- clarify where in its IP&R documents and community engagement materials the alternative sources of funding it canvassed are discussed
- clarify its expenditure assumptions under each modelled scenario
- explain historical changes in its operating performance ratio
- clarify where in its community engagement materials it presented its proposed total rate increases in dollar terms over the SV period for the average ratepayer, by ratepayer category
- clarify its realised and projected savings from productivity improvement and cost containment strategies.

In response to our request for information, the council provided:

- updated financial information
- clarification that dollar amounts were in thousands ('000's)
- copies of consultation documents
- confirmation that the infrastructure renewals ratio and infrastructure backlog ratio are the same under both scenarios
- an explanation of fluctuating OPR values
- timelines of cost-saving initiatives.

3 Stakeholders' submissions to IPART

The council is responsible for engaging with its community so that ratepayers are fully aware of any proposed special variation in rates and the full impact on them. This is one of the OLG criteria we use to assess the council's application (see section 4.3).

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

3.1 Summary of submissions we received

We received 3 submissions from stakeholders between 13 April 2023 and 5 May 2023. The key issues and concerns raised in these submissions, and our response to them, are summarised below. There are approximately 5,300 residential, 400 business, and 400 farmland ratepayers in the council's local government area.

3.1.1 Affordability of proposed rates increases

The submissions raised concerns about the impact of the council's proposed SV increase on the affordability of rates and suggested this would lead to financial hardship. The submissions noted worsening financial circumstances brought about by the COVID 19 pandemic, natural disasters in recent years and a high inflationary environment.

Our assessment of the affordability of the proposed rate increases, including our consideration of stakeholder comments, is in section 4.3.

3.1.2 The council's financial management and accountability

The submissions raised concerns that the council has not used its resources efficiently and that the proposed SV is a way for the council to mitigate its financial mismanagement.

We do not audit council finances, as this is not part of our delegated authority. However, we do consider some key indicators of the council's efficiency as part of our assessment of OLG Criterion 5. This assessment is discussed in section 4.5.

3.1.3 The council's consultation with the community

Stakeholders commented on the council's community consultation on the proposed SV. For example, they said that the community had begun to suffer fatigue while engaging with council on its SV proposals, and that the council's engagement is mostly tokenistic and it disregards feedback from the community.

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

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[a] As required, we assessed the council's SV application against the 6 criteria set out in the OLG Guidelines. We found that the council met all these OLG criteria for its proposed SV. Specifically, we found that it:

- demonstrated the need for additional revenue from the SV to address cost pressures, reverse its operating deficit and improve its long-term financial sustainability
- demonstrated the community is aware of the need for and extent of a rate rise under the SV, through its community consultation and engagement activities
- showed that the impact of the proposed SV on ratepayers is reasonable considering current rates, the community's capacity to pay, and the proposed purpose of the SV
- explained and quantified its productivity improvements and cost containment strategies achieved to date and forecast over the SV period
- appropriately exhibited, approved and adopted all necessary Integrated Planning and Reporting (IP&R) documents.

Our assessment against each OLG criterion is discussed below.

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

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

Note: See Appendix A for the full assessment criteria

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

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

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

4.1.1 Stakeholder comments on financial need

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

- the council had failed to establish genuine need for a different revenue path and attempts made to canvas alternatives to the SV were token gestures
- the council's monetary issues stem from mismanagement.

In making this assessment we considered these concerns, taking account of all the information available to us.

4.1.2 The council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP), identify and articulate the need for and purpose of the SV.

In its application, the council stated that the SV would allow it to improve its financial sustainability in an inflationary environment, enhancing its ability to absorb future economic shocks and strengthen its operating result going forward.[11]

The council forecast a 5% spike in inflation in 2022-23, followed by 2 years of elevated levels of 3.75% (2023-24 and 2024-25), returning to 2.5% from 2025-26 onwards.[12] These forecasts are broadly in line with the Reserve Bank of Australia's February 2023 inflation forecasts of 6.75% to June 2023, 3.5% to June 2024, decreasing to 3% to June 2025.[b]

The council's application outlined the alternatives that it had considered to the rate rise (such as introducing new fees and exploring further grant funding).[13] However, these were not canvassed in the relevant IP&R documents.

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

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

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

[b] The RBA's November 2022 Statement on Monetary Policy forecast inflation of 6.25% to June 2023 and 4.25% to June 2024. See RBA Statement on Monetary Policy – November 2022, p 68, Available from RBA Statement on Monetary Policy 2022, November 2022.

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

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than 0% is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[14] The OLG has set a benchmark for the OPR of greater than 0%. (See Box 4.1 for more information.)

Box 4.1 Operating Performance Ratio

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

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

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

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

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

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

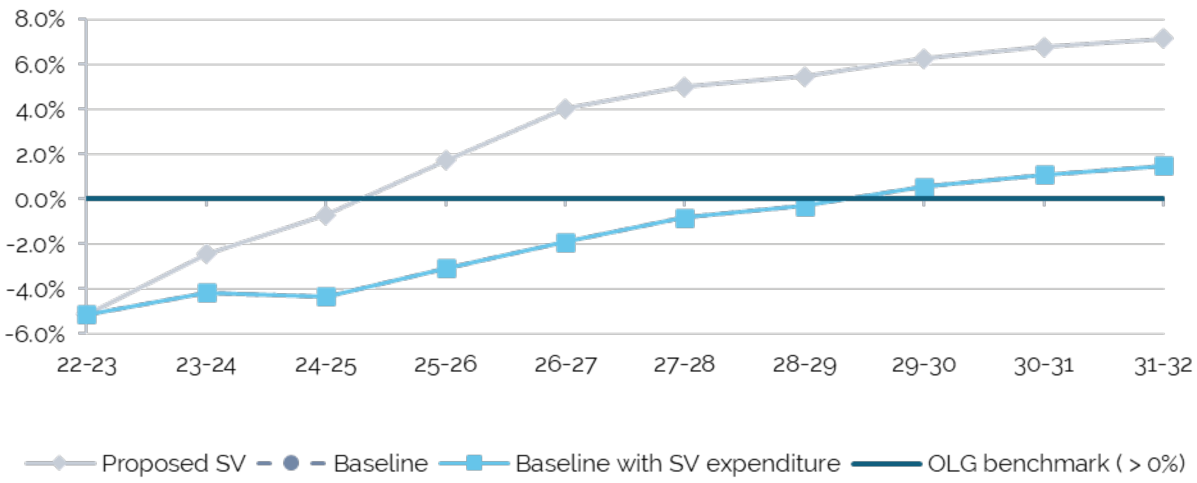
However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the breakeven benchmark as set by OLG.

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

We have shown the council's forecast OPR over the next 9 years under the 3 scenarios (see Figure 4.1 and Table 4.1). Based on the council's data, we found that over the next 5 years[c]:

- **under both the Baseline** and **Baseline with SV expenditure Scenarios**, the council's average OPR would be -2.9%, which is below the OLG benchmark of greater than 0%
- **under the Proposed SV Scenario**, the council's average OPR would be 1.5%, which is in line with the OLG benchmark of greater than 0%.

Figure 4.1 The council's OPR from 2022-23 to 2031-32



Note: OPR shown excludes capital grants and contributions. The Baseline and Baseline with SV expenditure lines are the same as the council has submitted. The purpose of the SV is to address inflationary pressures and not additional expenditure.
Source: Bellingen Shire Council, Application Part A and IPART calculations.

Table 4.1 The council's projected OPR with proposed special variation, 2023-24 to 2031-32 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	-2.4	-0.7	1.7	4.0	5.0	5.5	6.3	6.8	7.2
Baseline	-4.2	-4.3	-3.1	-1.9	-0.8	-0.3	0.6	1.1	1.5
Baseline with SV expenditure	-4.2	-4.3	-3.1	-1.9	-0.8	-0.3	0.6	1.1	1.5

Source: Bellingen Shire Council, Application Part A

Impact on net cash

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

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

On 30 June 2022, the council held a total of $17.3 million in cash reserves. Of these funds:

- **$12.0 million was externally restricted funds** (i.e., subject to external legislative or contractual obligations, such as developer contributions and specific purpose grants)[15]
- **$3.8 million was internally restricted funds** (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations, such as employee leave entitlements and Plant and vehicle replacement allocations)[16]
- **$1.5 million was unrestricted funds** (i.e., can be used to fund the council's day to day operations).[17]

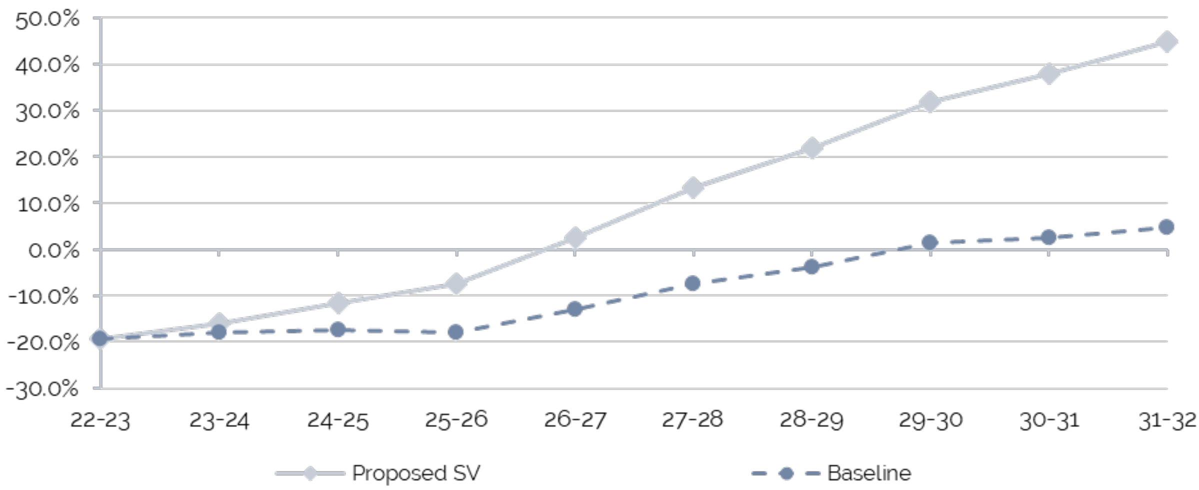
We consider the council does not have enough unrestricted cash reserves to fund the purposes of the proposed SV.

We calculated that as at 30 June 2023, the council will have a net cash of -$5.1 million (or a net debt of $5.1 million) and that the council will have a net cash (debt) to income ratio of -19.4%. As Figure 4.2 shows, our analysis found that over the next 9 years:

- **under the Proposed SV Scenario**, this net cash to income ratio would gradually improve, and the council would have a net cash to income ratio of 44.7% by 2031-32
- **under the Baseline Scenario**, the net cash to income ratio would remain fairly stable for a few years then slowly improve so it has a net cash to income ratio of 4.7% by 2031-32.

Over the next 5 years, the council's average net cash to income ratio would be -3.9% with the proposed SV and -14.8% without the proposed SV.

Figure 4.2 The council's net cash (debt) to income ratio, 2022-23 to 2031-32 (%)



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

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

Impact on infrastructure ratios

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

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

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

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

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

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

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

Infrastructure renewals ratio

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

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

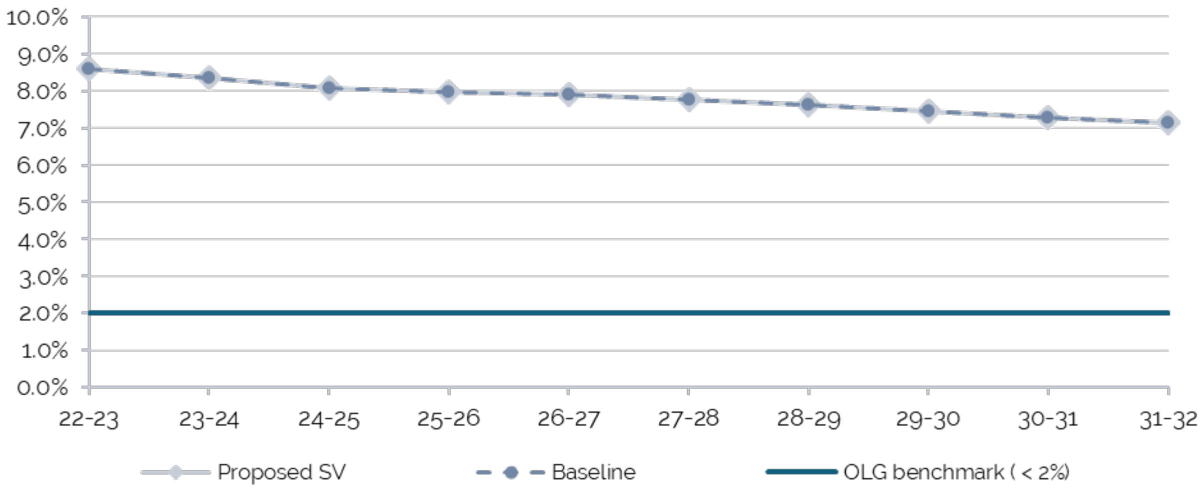
OLG has set a benchmark for the ratio of greater than 100%.

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

Impact on infrastructure backlog ratio

We found that over the next 9 years, the council's infrastructure backlog would remain well above (i.e., perform worse than) the OLG benchmark of less than 2% under both the Baseline Scenario and the Proposed SV Scenario (Figure 4.3). Over the next 5 years, its infrastructure backlog ratio would average 8.0% under both scenarios. This is because the council's infrastructure maintenance expenditure is the same with and without the SV. It proposes to use the additional income from the SV to improve its operating position rather than address its significant infrastructure backlog.

Figure 4.3 The council's infrastructure backlog ratio 2022-23 to 2031-32 (%)

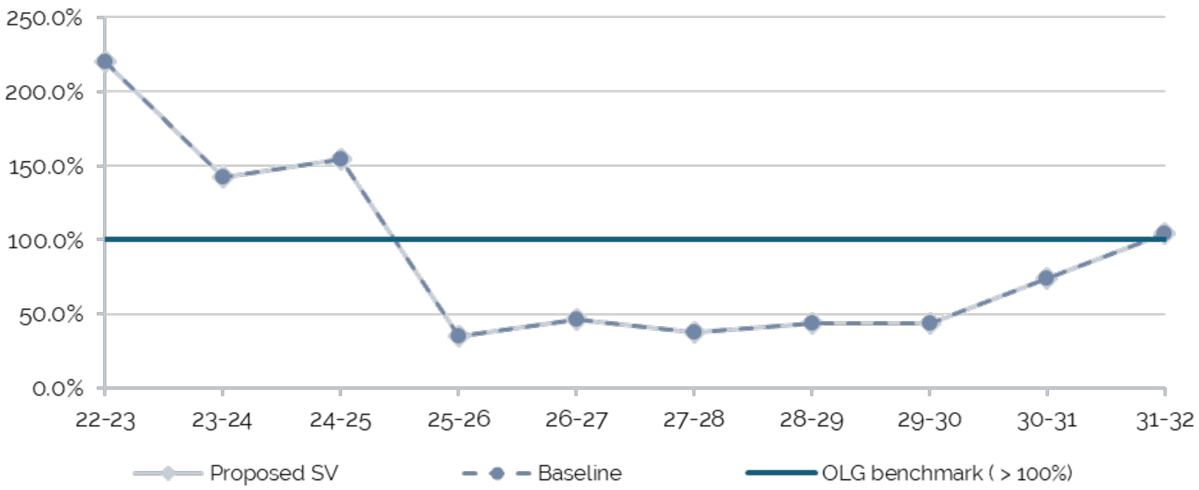


Note: The Baseline and Baseline with SV expenditure lines are the same as the council has submitted that its expenditure with and without the SV will be the same.
Source: Bellingen Shire Council Application Part A

Impact on infrastructure renewals ratio

Similarly, we found the council's infrastructure renewals ratio would be the same under the Proposed SV Scenario and the Baseline Scenario. As Figure 4.4 shows, the council forecasts indicate that the ratio will decline from 219.8% in 2022-23 to 35.3% in 2025-26, and then gradually increase to 104.6% by 2031-32.

Figure 4.4 The council's infrastructure renewal ratio, 2022-23 to 2031-32 (%)



Source: Bellingen Shire Council, Application Part A

Alternatives to the rate rise

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

We found that these documents did not canvass the alternatives. However, the council's application indicated that it did consider 2 alternative funding sources:

- **Increasing existing user charges and fees.** The council stated that it will continue to explore all viable options for recovering costs associated with providing services and facilities. However, its current charges and fees for services and facilities make up a small proportion of its income stream. In some cases, it would be both unfeasible and impracticable to introduce new fees.
- **Further grant funding**. The council stated that it has been successful in securing significant grant funding for capital delivery in the past, and will continue to explore available grant funding opportunities. However, grant funding cannot address impacts of inflation on its costs.[18]

The council concluded that neither of these funding sources would suitably address its financial sustainability issues, and that the proposed SV would provide the most feasible funding source to address its financial need.

The council submitted that its audited permissible general income for general rates for 2022-23 resulted in an excess of $3,000. The council confirmed that it has included this small excess in its modelling for 2023-24.[19]

4.2 OLG Criterion 2: The council demonstrated community awareness

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

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

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

Note: See appendix A for the full assessment criteria

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

4.2.1 Stakeholder comments on community awareness

In submissions to IPART, stakeholders raised concerns that:

- the council's community engagement on the proposed SV was inadequate and lacked transparency on proposed cumulative increases and impact on ratepayers
- the council's actions indicate it disregarded community feedback
- the information the council provided as part of its engagement was threatening.

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

4.2.2 Our assessment of council's engagement and consultation

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

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

Information provided to ratepayers

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

In particular, we found that the council's community engagement materials:

- clearly set out the extent of the General Fund rate rise under the proposed SV[20]
- communicated the full cumulative increase of the proposed SV in percentage terms, and the annual and weekly increase in dollars terms for the average ratepayer, by rating category,[21] but did not identify the total increase across the 4 years of the proposed SV in dollar terms
- included a high-level description of budget savings and operational initiatives in explaining the need for the SV[22]
- included a Rates Calculator that clearly outlined the impacts on individual ratepayers in both percentage and dollar terms once the ratepayers' details were entered.[23]

The council also provided community drop-in sessions where it provided information on:

- the proposed SV, including the full impact of the proposed rate rises associated with the SV
- how the additional rates revenue from the SV would be used (including a detailed breakdown of what $100 of rates are used for)
- the services the council provides and the assets it maintains
- the increased costs the council is experiencing to continue delivering the current level of service
- the cost-saving measures that the council has introduced in recent years
- the cost breakdown for each rating category (residential, farmland and business)
- the impact on individual ratepayers.

The council's Special Rate Variation – Frequently Asked Questions also included information on concessions and the council's hardship policy.[24]

Engagement methods used

The council used an appropriate range of engagement methods to communicate the impact of the proposed SV to the community. For example, its engagement activities included:

- running community drop-in sessions in Dorrigo, Urunga and Bellingen
- mailing out information to all ratepayers
- taking out newspaper advertisements, and providing media releases
- providing fact sheets
- making social media posts
- providing a website 'information centre' page, and links to video resources, including a message from Mayor Steve Allan, and its Rates Calculator tool
- publicly exhibiting its IP&R documentation
- posting information on community noticeboards

- providing a Customer Service Kiosk, with access to the Rates Calculator tool and additional information
- displaying banners that communicated key information relating to the SV including individual impacts and what the SV would be used for
- providing an A-Frame to assist ratepayers with awareness of community drop-in sessions.[25]

Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was effective. In particular, it provided opportunities and sufficient time for ratepayers to provide input and feedback on the proposed SV.

The council consulted with the community from December 2022 to February 2023.[26]

Outcomes of community consultation

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

We found that the council did consider the results of community consultation in preparing its application. For example, it analysed the results of its community survey, and found that:

- 65% of respondents either strongly agreed or agreed that they had access to adequate information regarding the proposed SV
- 57% of respondents either strongly agreed or agreed that they were aware of the reasons why the council is considering applying for an SV, and
- 80% of respondents either strongly agreed or agreed that they understand how the changes will affect their own rates[27]
- 49% of respondents would prefer a reduction in service levels rather than an SV, while 35% would prefer an SV rather than reduced service levels. [28]

The council stated that it compiled all submissions into a registration document, along with an analysis of the survey results, and included this information in a report for the Ordinary Meeting of Council on 22 February 2023 for Councillors to consider before voting on the resolution to make an SV application to IPART.[29]

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

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

Note: See appendix A for the full assessment criteria

To assess this OLG criterion, we considered stakeholder comments on the SV's impact on ratepayers and analysed the council's assessment of the impact of its proposed SV on ratepayers. We also considered whether the council has a hardship policy.

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

4.3.1 Stakeholder comments on impact on ratepayers

Some submissions we received raised concerns about the impact of the proposed SV on the affordability of rates, particularly for those experiencing financial hardship. For example, they said that:

- the proposed special variation unreasonably impacts ratepayers and is unrealistic in current financial crisis and shows no consideration for the community's capacity or willingness to pay
- the council's plan to address hardship caused by special variation is vague and unrealistic.

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

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

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

We found that the SV would result in relatively high residential rates, and we understand that this may create affordability challenges for some – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates.

However, the region also has a relatively high proportion of households that own their home, which would protect them from some of the cost-of living pressures. The council also has a relatively high SEIFA ranking within its peer group. In addition:

- the council provides several forms of assistance to vulnerable customers (see section 4.3.3)

- without the SV, the council's financial sustainability would be at risk without a reduction to current levels of service and spending on asset management (see section 4.1.3).

Taking these factors into account, we concluded the SV's proposed impact on ratepayers is reasonable.

Impact on average rates

The council estimated the increase in average rates associated with its proposed SV for each main ratepayer category. As Table 4.2 shows, it estimated that over the 4-year period of the SV, average residential, business, and farm rates would all increase by 31.1%.

Table 4.2 Impact of the approved special variation on average rates

	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative increase $	Cumulative increase %
Residential average $ rates	1,380	1,491	1,610	1,706	1,809		
$ increase		110	119	97	102	429	
% increase		8.0	8.0	6.0	6.0		31.1
Business average $ rates	1,596	1,724	1,862	1,974	2,092		
$ increase		128	138	112	118	496	
% increase		8.0	8.0	6.0	6.0		31.1
Farmland average $ rates	3,016	3,258	3,518	3,729	3,953		
$ increase		241	261	211	224	937	
% increase		8.0	8.0	6.0	6.0		31.1

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

Community's capacity to pay

The council's application stated that it had considered the results of community consultation on the proposed SV and concluded that residents place importance on the council delivering a quality service.[30]

The council's application also assessed the community's capacity to pay the rate rises associated with the proposed SV and concluded that it does have the capacity to pay. For example, the council compared its SEIFA ranking and average rates to those of other councils and found that:

- It has the 5th highest SEIFA ranking in its OLG Group of like-sized NSW councils (OLG Group 11). It considered that this relatively high ranking indicates that Bellingen Shire residents have a higher capacity to absorb rate increases than the communities of most other Group 11 councils.
- Its current average residential rate is lower than the average for all NSW councils, but higher than the average for other OLG Group 11 councils and its neighbouring councils. It partly attributed this to some neighbouring councils collecting mining rates, which Bellingen Shire council does not do.[31]
- Its average business and farmland rates were lower than those of neighbouring and similar councils. [32]

The council stated that Bellingen Shire has a relatively high proportion of non-rateable land, and this needs to be considered when comparing its average rates to those of other councils (see section 2.2).

It also provided data on average weekly household incomes for Bellingen Shire and for Regional NSW. This data demonstrated that Bellingen Shire has:

- a higher percentage of very low- and low-income households
- a higher percentage of moderate-income households
- a lower percentage of high and very-high income households.

The council said that the higher proportion of low-income households in Bellingen Shire indicates that there may be more vulnerable ratepayers who have less capacity to pay higher rates compared to Regional NSW. It recognised the negative impact of the SV on vulnerable groups and indicated that its hardship policy assists ratepayers who are experiencing difficulties with the payment of their rates and charges (see section 4.3.3).

In addition, the council considered its outstanding rates and annual charges and found that they sat at 3.18%, which is well below the OLG benchmark of 10% and below the Group 11 average of 8.39%. The council considered that this suggests the community is experiencing less difficulty paying rates compared to other councils.[33]

Finally, the council considered the level of home ownership within Bellingen Shire. It stated that Bellingen currently has a high home ownership rate with 45.6% of households being fully owned and full home ownership is generally not subject to housing affordability issues. The council concluded that the relatively high median house price of Bellingen Shire indicated that affordability of the rate increase is likely to have very limited impact on a large portion of the ratepayers.

How the council's rates changed over time

Since 2017-18, the council's rates have increased at an average annual rate of 3.7% to 8.3%, depending on the rating category. Over the same period, the average rate peg has been 2.1%. The growth in the council's rates include a permanent, 3-year SV of 6% per annum (inclusive of the rate peg) from 2018-19 to 2020-21 and a single-year permanent Additional Special Variation of 2.5% in 2022-23.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	1,057	1,169	1,239	1,278	1,303	1,380	5.5
Business	1,072	1,165	1,245	1,285	1,311	1,596	8.3
Farmland	2,515	2,695	2,791	2,799	2,854	3,016	3.7

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

How the council's rates compare to other councils

Box 4.3 Comparable councils

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

Office of Local Government (OLG) groups

- The Office of Local Government (OLG) groups similar councils together for comparison purposes.
- Bellingen Shire Council is in OLG Group 11 which is considered a rural agricultural area and also includes 18 other councils.
- The OLG groupings are based on broad demographic variables such as total population, level of development, and typical land use. It should be noted that there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.
- Bellingen Shire Council has a SEIFA rank of 63 out of 130 councils in ABS 2016 which is average and does not indicate a highly advantaged or disadvantaged area.
- The 4 councils with closest SEIFA rank within the OLG group 11 are Upper Hunter Shire Council, Murray River Council, Gunnedah Shire Council, and Narrabri Shire Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Bellingen Shire Council to the 4 councils within OLG group 11 with closest median income ranking. These are Murray River Council, Snowy Valleys Council, Federation Council, and Hilltops Council.

Neighbouring councils

- We compared Bellingen Shire Council to the neighbouring councils of Coffs Harbour City Council, Nambucca Shire Council, Armidale Regional Council, Clarence Valley Council, Kempsey Shire Council.

Box 4.3 Comparable councils

- These councils are geographically close to Bellingen Shire Council but do not necessarily share a common border.

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

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

- average residential rates were higher than those of its neighbouring councils, comparable councils based on both SEIFA score and income and the average of other councils within its OLG Group (Group 11)
- average business rates were lower than all neighbouring councils, lower than 2 of 4 comparable councils based on SEIFA score, lower than 2 of 4 comparable councils based on income and lower than the average for other Group 11 councils
- average farmland rates were higher than most of its neighbouring councils but lower than all comparable councils based on SEIFA score, lower than 2 of 4 comparable councils based on income and the average for other Group 11 councils.
- outstanding rates ratio was lower than the average of neighbouring councils, average of comparative councils based upon SEIFA, the average of comparable councils based on income, and the OLG Group 11 average.

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

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rates	Median annual household income[b] ($)	Average rates to median income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Bellingen (11)	**1,380**	**1,596**	**3,016**	**62,244**	**2.2**	**4.4**	**63**
Neighbouring councils							
Coffs Harbour	1,334	4,288	2,201	70,876	1.9	6.8	61
Nambucca	1,099	1,931	2,085	50,752	2.2	4.6	9
Armidale Regional	1,183	4,280	3,719	73,008	1.6	5.5	87
Clarence Valley	1,269	3,161	1,722	58,396	2.2	7.1	16
Kempsey	1,325	2,740	2,193	56,420	2.3	6.5	4
Average	**1,242**	**3,280**	**2,384**	**61,890**		**6.1**	**35**
Comparable councils (SEIFA)							
Upper Hunter Shire	890	740	3,864	74,308	1.2	9.9	67
Murray River	917	823	3,140	65,520	1.4	10.3	78
Gunnedah	989	5,107	4,907	80,964	1.2	6.4	46
Narrabri	1,009	2,527	4,054	77,896	1.3	11.0	41
Average	**951**	**2,299**	**3,991**	**74,672**		**9.4**	**58**
Comparable councils (Income)							
Murray River	917	823	3,140	65,520	1.4	10.3	78
Snowy Valleys	749	1,738	2,291	67,912	1.1	5.4	34
Federation	681	1,060	3,764	61,724	1.1	5.1	37
Hilltops	668	1,776	2,906	61,100	1.1	13.6	32
Average	**754**	**1,349**	**3,025**	**64,064**		**8.6**	**45**
Group 11 average (excluding Bellingen)	**908**	**2,341**	**3,671**	**72,069**	**1.3**	**8.0**	**44**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130, which denotes a council that is least disadvantaged in NSW.

Source: OLG data; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the proposed SV, the council's average residential rates would continue to be relatively high, while its average business and farmland rates would be broadly in line with those of neighbouring and comparable councils. As Table 4.5 shows, by 2026-27 the council's average:

- **residential rates** would be higher than the average for other Group 11 councils, neighbouring councils, and comparable councils based on SEIFA score and income
- **business rates** would be lower than the average for other Group 11 councils, neighbouring councils and comparable councils based on SEIFA score, but higher than the average for comparable councils based on income
- **farmland rates** would be lower than the average for other Group 11 councils and comparable councils based on SEIFA score, but higher than the average for neighbouring councils and comparable councils based on income.

There are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. We note that Armidale Regional Council and Federation Council have also applied for an SV in 2023-24.

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

Council (OLG Group)	2022-23	2023-34	2024-25	2025-26	2026-27
Residential					
Bellingen	1,380	1,491	1,610	1,706	1,809
OLG Group 11	908	949	975	999	1,024
Neighbouring councils (average)	1,242	1,292	1,325	1,358	1,392
Comparable councils (SEIFA) (average)	951	988	1,012	1,038	1,064
Comparable councils (Income) (average)	754	810	830	851	872
Business					
Bellingen	1,596	1,724	1,862	1,974	2,092
OLG Group 11	2,341	2,445	2,509	2,571	2,636
Neighbouring councils (average)	3,280	3,413	3,498	3,586	3,675
Comparable councils (SEIFA) (average)	2,299	2,387	2,446	2,507	2,570
Comparable councils (Income) (average)	1,349	1,462	1,498	1,536	1,574
Farmland					
Bellingen	3,016	3,258	3,518	3,729	3,953
OLG Group 11	3,671	3,833	3,934	4,033	4,133
Neighbouring councils (average)	2,384	2,479	2,541	2,604	2,669
Comparable councils (SEIFA) (average)	3,991	4,144	4,247	4,353	4,462
Comparable councils (Income) (average)	3,025	3,225	3,306	3,388	3,473

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

4.3.3 The council's hardship policy

The council submitted information on 3 measures to assist ratepayers suffering financial hardship:

- **Hardship policy:** While interest accrues on amounts that remain outstanding after the due date at a rate of 6% pa calculated daily, the council may waive or withhold this if the ratepayer is unable to pay by the due date for reasons beyond their control or the accrual of interest would cause the person hardship. The hardship policy was adopted on 3 April 2020 and is reflected in the council's revenue policy.
- **Pensioner concessions:** The council gives concessions to eligible pensioners. The pensioner must occupy the dwelling as their sole or principal place of residence. The concessions are as follows:
  - 50% of the combined ordinary rates and domestic waste management charge up to a maximum rebate of $250.00
  - 50% of water charges up to a maximum rebate of $87.50
  - 50% of sewerage charges up to a maximum rebate of $87.50.
- **Compassionate program:** The council has introduced "a new process before debt recovery where additional steps are taken such as a request to contact Council, helpful visits, and referrals to financial counselling".[34]

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

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

Note: See Appendix A for the full assessment criteria

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

- Publicly exhibited its Community Strategic Plan and Delivery Program, Long-Term Financial Plan (LTFP) from 27 April 2022 to 27 May 2022. These were all adopted on 29 June 2022.
- Adopted its Strategic Asset Management Plan on 27 April 2022.
- Submitted its SV application on 2 March 2023.

Box 4.4 IP&R documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

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

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

Note: See Appendix A for the full assessment criteria

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

4.5.1 Stakeholder comments on productivity and cost containment

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

- the council failed to explain and quantify past productivity improvements and cost containment strategies
- there needs to be an external financial review of council's spending

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

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

The council provided information on its past and current productivity and cost containment strategies and initiatives in its SV application, IP&R documents and correspondence with IPART. We found that this information demonstrates that the council met this OLG criterion.

Past productivity and cost containment strategies

The council's application set out a variety of sustainability and cost containment initiatives it has implemented in recent years. Some examples include:

- Organisational reviews (staffing). The council conducted several reviews of its organisational structure over the past decade. It estimates that these reviews have resulted in over $100,000 in annual savings.
- Bellingen Emissions Reduction Program. Since 2012, the council has undertaken 37 programs to install solar power systems and energy efficient lighting. It expects to generate a total saving of more than $4 million over the next 25 years.
- Identification of Additional Income Streams. The council reviews its other fees and charges each year.
- Land and property review. The council reviewed its operational land to identify opportunities to divest assets that are not essential to its operations. It will invest all sale proceeds and any future proceeds in building infrastructure renewals.
- Asset Management. The council is updating its core asset management plans. This will better inform its future infrastructure renewal program and improve its LTFP.
- Procurement. Following a review of its procurement functions in 2018, the council commenced a substantial project to improve its procurement management.[35]

The council also stated that it developed a financial sustainability strategy in 2020, to maximise its revenue-raising capacity, improve productivity, reduce operational costs and improve the council's operating cash flow.[36] The strategy was informed by an independent review of its finances by the University of Technology Sydney (Centre for Local Government).

This review identified minimum operating cost savings of $700,000 to $1 million per annum, which corresponds to around 2-3% of its operating expenditure.

Planned productivity and cost containment strategies over the SV period

The council's application indicated it planned to continue working through the actions in its financial sustainability strategy over the SV period. It has prioritised the following actions:

- continuing to identify opportunities for increasing fees and charges and sourcing new revenue streams to increase operating revenue
- continuing to review all budgets for individual services (strategic cost review) with the intent of finding significant ongoing operating cost savings
- introducing a cash management reconciliation process for all internal and external restrictions
- introducing a system to control headcount and structure the hours worked each week by all employees, and
- reviewing overtime cost trends.

The council advised that to date, $514,700 of savings initiatives have been implemented and are included in its LTFP, with further initiatives still in progress.[37]

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management, including looking at how these indicators have changed over time and how they compare with those of similar councils.

Table 4.6 shows that between 2017-18 and 2020-21, the council's:

- number of full time equivalent (FTE) council staff increased from 127 to 139
- average annual cost per FTE increased by around 4.5% per annum
- employee costs as a percentage of its operating expenditure have been fairly constant over time.

Table 4.7 shows that:

- The ratio of the LGA's population to the council's staff is higher than the Group 11 average. There are 94.5 residents to every council FTE staff member, whereas the Group 11 average is 79.2 residents to one council FTE.
- The council's operating expenditure per capita is lower than the Group 11 average.

We note that these indicators only provide a high-level and partial overview of the council's productivity at a point in time. Additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings. In addition, not all councils provide the same level of services to the community.

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

Indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	127.0	135.0	134.0	139.0	3.1
Ratio of population to FTE	101.9	96.0	97.0	94.5	-2.5
Average cost per FTE ($)	72,795	76,096	79,067	83,000	4.5
Employee costs as % of operating expenditure (General Fund only) (%)	28.7	29.2	28.1	28.8	

Source: IPART calculations

Table 4.7 Select comparator indicators for Bellingen Shire Council

	Bellingen Council	OLG Group 11 Average	NSW Average
General profile			
Area (km2)	1,600	6,723	5,561
Population	13,141	14,267	64,200
General Fund operating expenditure ($m)	30.6	39.1	94.9
General Fund operating revenue per capita ($)	3,011	3,304	
Rates revenue as % of General Fund income (%)	30.0	30.9	46.1
Own-source revenue ratio (%)	51.1	48.8	67.2
Productivity (labour input) indicators[c]			
FTE staff	139.0	180.1	382.4
Ratio of population to FTE	94.5	79.2	167.9
Average cost per FTE ($)	83,000	85,250	98,963
Employee costs as % of operating expenditure (General Fund only) (%)	28.8	34.0	37.7
General Fund operating expenditure per capita ($)	2,325	2,739	1,479

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

4.6 Any other matter that IPART considers relevant

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

Note: See Appendix A for the full assessment criteria

We generally consider whether the council has been granted an SV over the past 5 years, and if so, whether the council has complied with any conditions.

Bellingen Shire Council has successfully applied for one SV to increase its general income in this period. Specifically, it was authorised to increase its general income by 6% each year in 2018-19, 2019-20, and 2020-21, a cumulative increase of 19.1% over 3 years.

As conditions of this SV approval, the council was required to:

- use the additional income for the purposes of improving financial sustainability, funding capital expenditure and reducing its infrastructure backlog
- report on its revenue, expenses and operating balance against projections, any significant variations from its forecasted expenditure and the outcomes achieved as a result of the actual program of expenditure.

We consider that the council has complied with these conditions.

In addition, IPART approved a permanent Additional Special Variation (ASV) for the council of 2.5%, for 2022-23. The council told us that the ASV has been spent in accordance with the conditions of approval, and it will report this in its 2022-23 Annual Report.[38]

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG Assessment Criteria and consideration of stakeholder submissions, we have approved the council's proposed permanent SV to general income from 2023-24 to 2026-27.

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

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

	2023-24	2024-25	2025-26	2026-27
Permanent increase above the rate peg	3.5	5.5	3.5	3.5
Rate peg[a]	4.5	2.5	2.5	2.5
Total increase	8.0	8.0	6.0	6.0
Cumulative increase	8.0%	16.6%	23.6%	31.06%

a. The 2023-24 rate peg is the actual rate peg issued by IPART. The rate peg of 2.5% from 2024-25 is the assumed rate peg that the OLG Guidelines advise councils to use in their forecasts. The approved total increase will not change when an actual rate peg is set in future years.

Source: Bellingen Shire Council's Application Part A, Worksheets 1 and 4 and IPART calculations.

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The special variation is subject to the following conditions:

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

5.1 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council proposed in its application, the expected impacts on ratepayers under the approved SV are shown in Table 5.2 below. This shows that over the 4-year period from 2023-24 to 2026-27, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate would increase by $429 or 31.06% by 2026-27
- the average business rate would increase by $496 or 31.06% by 2026-27
- the average farmland rate would increase by $937 or 31.06% by 2026-27.

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2026-27)

	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative increase $	Cumulative increase %
Residential average $ rates	1,380	1,491	1,610	1,706	1,809		
$ increase		110	119	97	102	429	
% increase		8.0	8.0	6.0	6.0		31.1
Business average $ rates	1,596	1,724	1,862	1,974	2,092		
$ increase		128	138	112	118	496	
% increase		8.0	8.0	6.0	6.0		31.1
Farmland average $ rates	3,016	3,258	3,518	3,729	3,953		
$ increase		241	261	211	224	937	
% increase		8.0	8.0	6.0	6.0		31.1

5.2 Impact on the council

Our decision means that the council may increase its general income above the rate peg by $323,400 in 2023-24, $880,300 in 2025-26, $1.28 million in 2026-27, $1.71 million in 2024-25. This increase can remain in the rate base permanently.

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

Table 5.3 Permissible general income of council from 2023-24 to 2026-27 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	8.0	8.0	323.4	739.1	9,978.3
2024-25	8.0	16.64	880.3	1,537	10,776.5
2025-26	6.0	23.64	1,279.4	2,184	11,423.1
2026-27	6.0	31.06	1,711.2	2,869.4	12,108.5
Total above rate peg			4,194		

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

We estimate that over the 4 years from 2023-24 to 2026-27, the council will collect an additional $4.19 million in rates revenue compared with an increase limited to the assumed rate peg. This extra income will enable the council to:

- maintain existing services and service levels
- improve, although not resolve, the council's financial sustainability, and
- enable current investment in asset maintenance and renewal to continue.

With the SV, the council's projected:

- OPR will improve and move above to the OLG benchmark of greater than 0% over the SV period - as shown in Figure 4.1 in section 4.1.3.
- the council's net cash to income ratio would increase to 44.7% by 2031-32 - as shown in Figure 4.2 in section 4.1.3.

Appendices

A Assessment criteria

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

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

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

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

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

Criterion 1: Financial need

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

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

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

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

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

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

Criterion 2: Community awareness

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

Criterion 3: Impact on ratepayers is reasonable

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

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

In assessing the impact, IPART may also consider:

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

Criterion 4: IP&R documents are exhibited

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

Criterion 5: Productivity improvements and cost containment strategies

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

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

Criterion 6: Any other matter that IPART considers relevant

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

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

B Bellingen Shire Council's projected revenue, expenses and operating balance

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

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

Table B.1 Summary of projected operating statement for Bellingen Shire Council under its proposed SV application 2023-24 to 2031-32 ($'000)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total revenue	37,425	36,247	38,496	31,802	34,175	34,260	35,603	36,654	37,954	40,923
Total expenses	27,794	28,468	29,338	29,860	30,522	31,135	31,920	32,486	33,146	33,853
Operating result from continuing operations	9,631	7,779	9,158	1,942	3,653	3,125	3,683	4,168	4,808	7,070
Net operating result before capital grants and contributions	-1,354	-677	-204	523	1,278	1,643	1,844	2,172	2,405	2,610
Cumulative net operating result before capital grants and contributions	-1,354	-2,031	-2,235	-1,712	-434	1,209	3,053	5,225	7,630	10,240

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

Table B.2 Summary of projected expenditure plan for Bellingen Shire Council under its proposed SV application 2023-24 to 2031-32 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
SV revenue above assumed rate peg	323	880	1,279	1,711	1,754	1,798	1,843	1,889	1,936	1,985
Operating expenses	323	880	1,279	1,711	1,754	1,798	1,843	1,889	1,936	1,985
Capital expenditure	0	0	0	0	0	0	0	0	0	0
Other uses	0	0	0	0	0	0	0	0	0	0

Note: Numbers may not add due to rounding.
Source: Bellingen Shire Council, *Application Part A*, Worksheet 6

Glossary

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

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

[1] Bellingen Shire Council, Application Part A, Worksheet 1.
[2] Bellingen Shire Council, Application Part B, p 11.
[3] Local Government Act 1993, Section 511
[4] Bellingen Shire Council, Application Part A, Worksheet 1.
[5] Bellingen Shire Council, Application Part B, p 11.
[6] Bellingen Shire Council, Application Part B, p 66.
[7] Bellingen Shire Council, Application Part B, p 67.
[8] Bellingen Shire Council, Application Part B, p 68.
[9] Bellingen Shire Council, Application Part B, p 69.
[10] Bellingen Shire Council. Application Part B, p 70.
[11] Bellingen Shire Council, Application Part B, p 36.
[12] Bellingen Shire Council, Application LTFP, p 13.
[13] Bellingen Shire Council, Application – Part B, pp 25-26.
[14] Office of Local Government, Performance Benchmarks, May 2020.
[15] Bellingen Shire Council, 2022 Annual Financial Statements for the year ended 30 June 2022, p. 33.
[16] Bellingen Shire Council, 2022 Annual Financial Statements for the year ended 30 June 2022, p. 33.
[17] Bellingen Regional Council, Special Variation Application Part, Worksheet WK7 – Financials.
[18] Bellingen Shire Council, Application Part B, pp 25-26.
[19] Bellingen Shire Council, Application Part B, p 31.
[20] Bellingen Shire Council, Attachment – Community Engagement Materials, p 7 of 18.
[21] Bellingen Shire Council, Attachment – Community Engagement Materials, p 7 of 18.
[22] Bellingen Shire Council, Attachment – Community Engagement Materials, pp 5-6 of 18.
[23] Bellingen Shire Council, Attachment B, p 52.
[24] Bellingen Shire Council, Attachment – Community Engagement Materials, pp 9-10 of 18.
[25] Bellingen Shire Council, Attachment B, p 56.
[26] Bellingen Shire Council, Application Part B, p 42-43
[27] Bellingen Shire Council, Application Part B, pp 48-49.
[28] Bellingen Shire Council, Survey Analysis Results, p 9
[29] Bellingen Shire Councill, Application Part B, p 58.
[30] Bellingen Shire Council, Application Part B, p 76.
[31] Bellingen Shire Council, Application Part B, p 68.
[32] Bellingen Shire Council, Application Part B, p 68-69.
[33] Bellingen Shire Council, Application Part B, p 69.
[34] Bellingen Shire Council, Application Part B, pp 73-74.
[35] Bellingen Shire Council, Application Part B 85-94.
[36] Bellingen Shire Council, Application Part B, p 95.
[37] Bellingen Shire Council, Further information provided to IPART, 6 April 2023.
[38] Bellingen Shire Council, Application Part B, p 17.

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