IPART Independent Pricing and Regulatory Tribunal | NSW

Liverpool Plains 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

Liverpool Plains Shire Council (the council) applied to IPART to increase its general income through a permanent special variation (SV) of 18.1% (including the rate peg) for 2023-24. Under the proposed SV, the council would be able to:

- retain the additional income it raised through its 2021 temporary SV (which expires in 2023-24) in its rate base permanently, and
- increase its general income by the rate peg of 3.7% in 2023-24.

The 18.1% proposed increase would be applied across all rating categories. In practice, due to the expiring temporary SV, ratepayers are likely to experience only a modest rate increase in line with the rate peg, above what they have already been paying during the period of the temporary SV.

The council has indicated it intends to use these additional funds to:

- fund its infrastructure priorities, and
- manage its operating deficit and improve its financial sustainability.

In 2021, the council applied for a permanent SV of 26% for the 3-year period from 2021-22 to 2023-24. After assessing its application, we granted it a temporary SV of 16.6% for the 2 years from 2021-22 to 2022-23. In our report, we stated that during this period, the council would be required to identify and implement productivity and cost containment strategies to improve its long-term financial sustainability. At the end of the 2 years, the additional income raised through this SV would be removed from the rate base unless the council applied for another SV.

In its current SV application, the council indicated that it has undertaken this work and it is now applying to replace the expiring temporary SV with a permanent SV.

1.1 IPART's decision

We have approved the council's proposed permanent SV of 18.1%. Our decision means the council can raise up to an additional $1.1 million in general income (above the rate peg) over the next year, and permanently retain this revenue in its rate base.

We understand that some ratepayers would have preferred a decrease in rates, which would have happened as a result of the temporary SV expiring, particularly given other cost-of-living pressures, such as high inflation and increases in mortgage interest rates.

However, the council is operating at a deficit and needs more funding to maintain its current service levels. Our assessment found that the council met the OLG assessment criteria for its proposed SV. It requires a more sustainable financial base to continue delivering the services and infrastructure the community needs. We found that in the last 2 years, the council has taken significant steps to improve its productivity and reduce its costs, and these measures combined with the SV will help improve its financial sustainability in future years.

We found that with the SV, the council's average residential rates will generally be lower than neighbouring councils but its average farmland rates and business rates will be higher than those of its neighbouring councils. In making our decision, we considered both the affordability of rates and the level of revenue the council requires to enable it to continue to provide the infrastructure and services its residents need and want.

1.2 IPART's assessment of the council's application

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

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to fund infrastructure renewals and maintain service levels. The council's Integrated Planning & Reporting (IP&R) documentation details the SV proposal and considers funding alternatives.
02	Demonstrated	**Community awareness** The council effectively consulted with ratepayers and the community is appropriately aware of the need for, and extent of, a rate rise associated with the SV.
03	Demonstrated	**Reasonable impact on ratepayers** The council demonstrated that the impact of the SV on ratepayers would be reasonable, having regard to current rate levels, the existing ratepayer base and the proposed purpose of the SV. The council has applied for a lower increase than it initially planned for, in consideration of ratepayer impact.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council appropriately exhibited and adopted all necessary IP&R documents.
05	Demonstrated	**Productivity improvement and cost containment** The council outlined and quantified its productivity improvements achieved to date, and included and quantified an efficiency index for materials, contractors and consultants in its Long-Term Financial Plan. It also identified further potential productivity measures in its application.

Criteria	Grading	Assessment
06		**Other matters IPART considers relevant** IPART approved a 2-year temporary SV in 2021-22. We found that the council has complied with the conditions attached to this SV, including using the additional income for the purpose of funding asset maintenance and improving financial sustainability. The council has also focused more on productivity and cost containment measures over the last 2 years.

1.3 Stakeholders' feedback

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

Liverpool Plains Shire Council consulted on its proposed SV with its community using a variety of engagement methods. It received 12 written submissions and 39 survey responses, held public meetings attended by 115 participants, and sent letters to 4,239 ratepayers to provide information about the SV.[1]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. Through this process we received 11 submissions on Liverpool Plains Shire Council's proposed SV. Stakeholders that made submissions to us raised the following concerns:

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

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the next year. The council can defer rate increases up to this maximum amount for up to 10 years.[2] We encourage the council to consult with its community to decide how best to implement the increase to help manage the impact on ratepayers.

The council will still need to deliver on its proposed productivity improvements in 2023-24 and beyond. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

The council has proposed the rating structure shown in the table below.

Table 1.1 The council's proposed increase in rates for 2023-24

	Retain temporary SV	Rate Peg	Cumulative Increase
Residential	14.4%	3.7%	**18.1%**
Business	14.4%	3.7%	**18.1%**
Farmland	14.4%	3.7%	**18.1%**
Mining	14.4%	3.7%	**18.1%**

Note: These are the council's proposed increases, and the council retains the discretion to apply the general income across the rating categories.
Source: IPART calculations

The rest of this report provides more information on Liverpool Plains Shire Council's proposed SV and discusses our assessment and decision in more detail.

2 The council's special variation application

The council applied for a permanent SV of 18.1% (including the rate peg) for 2023-24. This will enable it to replace its current temporary 2-year SV, which is due to expire on 30 June 2023, so that its income isn't reduced. The proposed SV also incorporates a component to reflect an income increase in line with the IPART determined rate peg.

The council stated that it needs to maintain its general income at this level in 2023-24 and beyond so it can:

- maintain the increased level of expenditure on critical road maintenance and renewal that the 2-year temporary SV made possible
- ensure sufficient funding to maintain current service levels for the services it retained in line with the findings of the review it conducted since the 2-year temporary SV was granted
- move towards a more financially sustainable and cash-flow positive setting without placing further financial burden on the community
- reduce its heavy reliance on grant funding for asset renewals.[3]

2.1 Impact of the special variation on ratepayers

The council proposed that rates will increase for all rating categories over 2023-24. As the SV largely replaces the council's expiring temporary SV, rates will increase beyond the 2022-23 levels, on average, in line with the IPART determined rate peg. On, average it proposed in 2023-24**:**

- residential rates would increase by $33 or 3.7%
- business rates would increase by $86 or 3.7%
- farmland rates would increase by $189 or 3.7%
- mining rate would increase by $6,329 or 3.7%.

The council has provided the number of ratepayers for 2022-23 in Table 2.1.

Table 2.1 Number of ratepayers by category for 2022-23

Ratepayer category	Number of rate notices
Residential	2,974
Business	274
Farmland	1,019
Mining	3

Source: Liverpool Plains Shire Council, Part A application Worksheet 2

Under the council's proposal, ratepayers will not benefit from any reduction in rates from the expiration of the temporary SV on 30 June 2023. The council stated that if the permanent SV is not approved and the temporary SV expires, it would need to further reduce its services and infrastructure provision. This would have negative impacts on ratepayers – for example, slower response times from the council or less frequent road maintenance. If the SV is approved, ratepayers would not see service improvements, but the council would be better able to maintain its existing level of services and infrastructure.

The council notes that this 3.7% impact is less than it previously applied for in 2021-22 (which included a further proposed increase of 8% for 2023-24) and reflects the council's intent to further mitigate impacts upon ratepayers, which it is balancing with the community's preference for maintaining existing service standards at a time when the council is experiencing cost pressures in providing these services.

2.2 Council's assessment of affordability and capacity to pay

The council assessed the community's capacity to continue paying rates at the current level beyond 30 June 2023 (when the current temporary SV is due to expire). It considered a range of socio-economic indicators for the local government area including income levels and the level of disadvantage. It also compared the council's average rates with those in neighbouring councils, and considered the council's outstanding rates ratio.

It noted in its application, "no council wants to place additional financial burden on its residents and ratepayers and the Liverpool Plains Shire Council is no different, however, Council also has a responsibility to manage its assets and financial position appropriately".

To help mitigate the impact on ratepayers, the council decided to apply for a lower increase than it had previously requested. Rather than applying for a further 8% increase in 2023-24, on top of the 8% increases in 2021-22 and 2022-23, the council has instead proposed a 3.7% increase in line with the IPART determined rate peg. It states in its application, "Council determined that it did not want to put further pressure on ratepayers and as a result this SV application is made to retain the impact of the two 8% increases and apply the approved rate peg value (of 3.7%)".

The council stated that it has a hardship policy to assist ratepayers experiencing financial hardship, which it reviewed in February 2022. The policy allows residents to enter into different types of payment plans, and allows the council to waive or reduce payments for eligible ratepayers.

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

We estimate that for 2023-24, the council will collect an additional $1.1 million in rates revenue compared with an increase limited to the rate peg. This increase is relative to what its general income would have been if the temporary SV had expired and the council had instead increased its income by the assumed rate peg each year.

3 Stakeholders' submissions to IPART

We expect the council to engage with its community so that ratepayers are fully aware of any proposed special variation and the full impact on them. This is one of the OLG assessment criteria we use to assess the council's application (see section 3.1).

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 11 submissions during our submission period from 10 February 2022 to 3 March 2023. The key issues and views raised in these submissions, and our response to them, are summarised below. There are approximately 4,270 ratepayers in the council's local government area.

3.1.1 The council's financial management and accountability

More than half of the submissions to IPART said that the council's previous and current performance was poor, and expressed dissatisfaction with the council's financial management in general. As examples, some mentioned uncertainty around the council's governance and the loss of significant council funds. Others said the need for rate increases is due to poor financial management and oversight. These submissions also said the council should be held to account going forward.

We have considered these concerns in section 4.5.

3.1.2 The council's consultation with the community

More than half of the submissions said the council had not conducted effective consultation on the proposed SV, and had not transparently communicated with the community. Some questioned the integrity of the consultation, and the need for hiring consultants as part of the public consultation process.

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

3.1.3 The affordability of the proposed rate rise

Around half of the submissions raised concerns about the impact of the proposed SV on rates, and suggested this would reduce their affordability and lead to financial hardship. Some mentioned the worsening financial circumstances brought about by the COVID-19 pandemic and our previous SV determination.

We considered these comments in assessing whether the impact of the proposed SV on ratepayers is reasonable (see section 4.3).

4 IPART's assessment of the council's application

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

- demonstrated a financial need for the proposed SV to meet infrastructure renewals and maintain service levels
- consulted with its community and demonstrated that it informed its community about the need for and extent of the SV
- assessed the impact of the SV on ratepayers and showed that it is reasonable
- exhibited its IP&R documentation appropriately
- demonstrated it has achieved some productivity improvements in past years and proposes to implement further productivity measures over the term of the SV
- previously been granted a temporary SV and met the conditions of this SV.

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

4.1 OLG Criterion 1: The council demonstrated a financial need

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

Note: See Appendix A for full details.

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

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

4.1.1 Stakeholder comments on financial need

In their submissions to us, some stakeholders said that:

- while they recognised investment in infrastructure is required, they are concerned the additional revenue from the SV will not be used for its intended purpose
- the financial need for the SV is due to the council's poor financial management and oversight
- the money the council used to hire consultants should have been used for infrastructure priorities.

We considered these concerns, taking account of all the information available to us. We have approved the SV on condition that the council must use the additional income for the purposes outlined in its application, and report annually on this and other matters to ensure accountability (see section 5).

4.1.2 Council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan and Delivery Program, identify and articulate the need for and purpose of the SV. The documents state that the proposed SV of 18.1% is needed to:

- address the deterioration of the assets that has occurred due to limited financial capacity
- maintain services to at least current service levels as supported by the community of the Liverpool Plains Shire.

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

- its operating result will deteriorate to a loss of around $1 million per year
- its operating result before capital grants will deteriorate to an average loss of $5.23 million per year over 10 years
- its cash position will be exhausted by 2031-2032.[4]

Its IP&R documents indicate that it canvassed alternatives to the SV to meet the financial need.

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 position. This involved calculating its financial forecasts under 3 scenarios:

1. **Proposed SV Scenario** – which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.

3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg.

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

Impact on Operating Performance Ratio (OPR)

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.[5] 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.

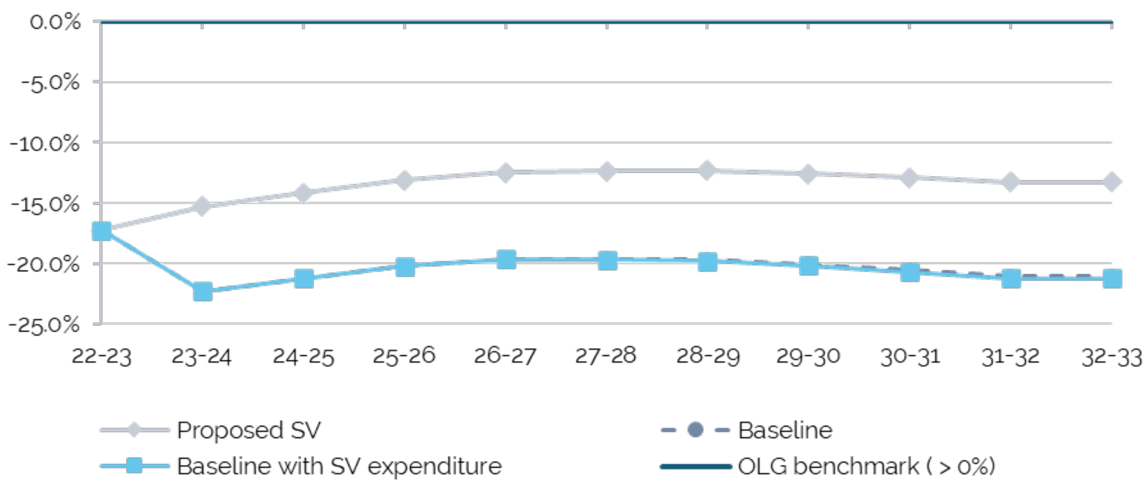
However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the breakeven benchmark as set by OLG.

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

We found that over the next 5 years, under the:

- **Baseline Scenario and Baseline with SV expenditure Scenario,** the council's average OPR would be -20.6%. This is well below the OLG benchmark of greater than 0%.
- **Proposed SV Scenario**, the council's average OPR would be -13.5%. While this is better than under the no SV scenarios, it is still well below the OLG benchmark.

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



Source: Liverpool Plains Shire Council, Application Part A and IPART calculations.
Note: OPR shown excludes capital grants and contributions

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

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-15.3	-14.2	-13.1	-12.5	-12.4	-12.3	-12.6	-12.9	-13.3	-13.3
Baseline	-22.3	-21.2	-20.2	-19.6	-19.6	-19.7	-20.1	-20.5	-21.1	-21.1

Source: Liverpool Plains 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.

On 30 June 2022, the council held a total of $11.9 million in cash reserves. Of this:

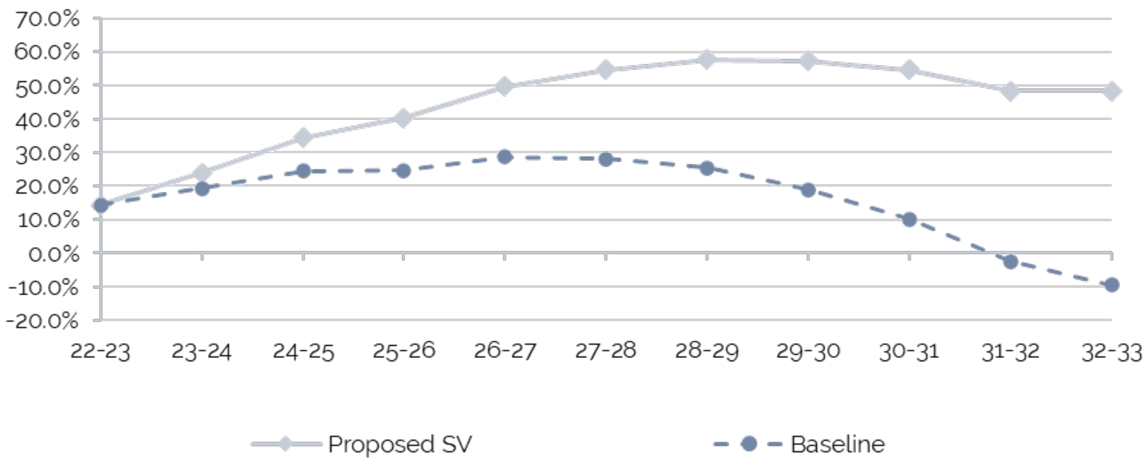
- **$8.0 million was externally restricted** (i.e., subject to external legislative or contractual obligations such as funds for water and sewer and developer contributions)
- **$3.8 million was internally restricted** (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations such as plant and vehicle replacement reserves, employee leave entitlements, etc.)
- **$0.1 million was unrestricted** (so was available to fund the purpose of the proposed SV).

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

We calculate that as of 30 June 2023, the council's net cash will be $3.2 million, or 14.4% of its general permissible income. As Figure 4.2 shows our analysis found that over the next 10 years:

- **under the Proposed SV Scenario**, the council's net cash to income ratio would increase to 48.4%
- **under the Baseline Scenario**, this ratio would decrease to -9.5%.

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



Note:
Baseline Scenario includes the council's full expenses from its proposed SV
Source: Liverpool Plains Shire Council, Application Part A and IPART calculations.

We also found that after 5 years, the council's average net cash to income ratio would be:

- 40.5% under the Proposed SV Scenario
- 25.0% under the Baseline Scenario.

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

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

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

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

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

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

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

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

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

Infrastructure renewals ratio

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

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

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

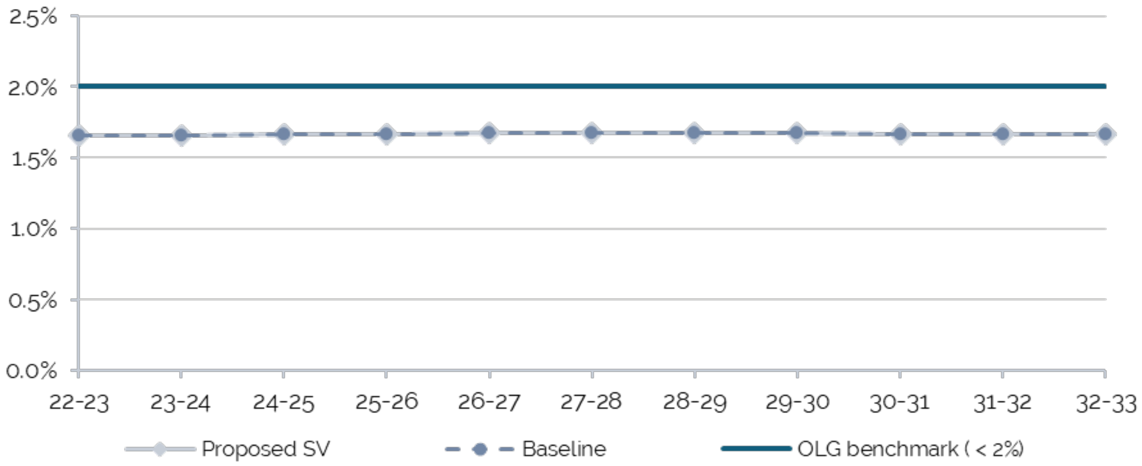
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

Impact on infrastructure backlog ratio

Our analysis found that over the next 10 years, the council's infrastructure backlog ratio would the same with or without the proposed SV. As Figure 4.3 shows, under both the Proposed SV Scenario and the Baseline Scenario, the council's infrastructure backlog ratio would be stable at around 1.7%. This is in line with the OLG benchmark of less than 2.0%.

Our analysis and Figure 4.3 below are based on information in the council's latest Long-Term Financial Plan (LTFP), which estimates the infrastructure backlog at $7.1 million.[6] However, in its application, the council told us it recently had the backlog re-estimated at $42 million. It stated that this updated value will be included in future versions of the LTFP.[7] We note that this re-estimation would result in an average infrastructure backlog ratio of 8%. This would be significantly above the OLG benchmark.

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

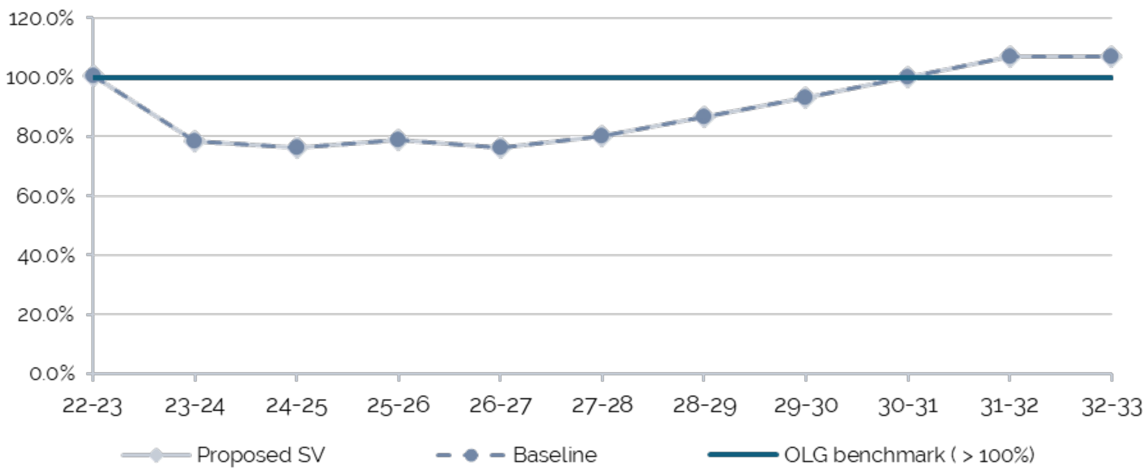


Source: Liverpool Plains Shire Council, Application Part A.

Impact on infrastructure renewals ratio

Under both the Baseline and Proposed SV Scenarios, we found that the council's infrastructure renewals ratio would remain below the OLG's benchmark of 100% until 2030-31. It would then increase so it is just above the benchmark in 2032-33.

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



Source: Liverpool Plains Shire Council, Application Part A.

We consider the council's infrastructure ratios demonstrate the council has a financial need for the SV to fund infrastructure priorities.

Alternatives to the rate rise

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

The council's application noted that alternatives to the rate rise were considered through a number of reviews, including its:

- review strategy
- review of fees and charges in 2021-22, which sought to apply user-pay principles and bring fees and charges in line with similar and neighbouring councils
- review of its non-core services in 2021-22, which resulted in one non-core service transitioning to a new provider.[8]

The council also canvassed alternatives to the rate rise in its IP&R documents. It reviewed other approaches to improve its financial sustainability as part of its Combined Delivery Program and Operational Plan. In addition, it sought grant funding to deliver outcomes identified in the Liverpool Plains Recreation Strategy.

In addition, the council indicated that it obtained funding for a range of capital works that reduced the need to fund infrastructure renewals from rates revenue. These works include:

- **Quirindi Library remodelling** ($350,000 from the Commonwealth Government via the Drought Communities program, $350,000 from the NSW Government via Stronger Country Communities Round 3 and $500,000 the NSW Government via the Library Council Infrastructure Grant)
- **Quirindi Basketball-Netball Complex** ($415,000 from the NSW Government via 'Stronger Country Communities Program')
- **Quirindi Showground improvements** ($2.57 million from NSW Government via the 'Crown Lands Showground Stimulus Fund')
- **Waste Management Strategy** ($3.5 million from the NSW Government via the 'Resources for Regions' program)
- **Quipolly Water Project** ($15 million from the Commonwealth Government and $10 million from the NSW Government)
- **Quirindi Swimming Complex Renewal** ($6.6 million from the NSW Government via Resources for Regions).[9]

4.2 OLG Criterion 2: The council demonstrated community engagement and awareness

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

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

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

Note: See Appendix A for full details.

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

4.2.1 Stakeholder comments on community awareness

Submissions from ratepayers to IPART raised concerns that the council:

- did not respond to their concerns
- did not inform them of the rate increase
- was not clear about the reason for the rate rise or the alternatives
- did not include community's input in informing the council's strategic priorities.

We considered these concerns, alongside other available information. Although not all ratepayers were aware of the need for and extent of the proposed rate rises, or satisfied with the council's engagement process, we found that the council met this criterion (see section 4.2.2).

4.2.2 Our assessment of council's engagement and consultation

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

- the information provided to ratepayers was sufficient and clear
- the variety of engagement methods used were effective
- the process used to consult the community provided timely opportunities for ratepayers to provide input and feedback on the proposed SV, 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 largely clear. It also conveyed most of the details necessary to ensure ratepayers were well informed and able to engage with the council during the consultation process.

For example, the council mailed out a letter and fact sheet to all 4,239 ratepayers that outlined:

- the need for the SV
- opportunities for stakeholders to have their say including location and dates for community information sessions
- the context surrounding the application
- the average weekly dollar increase for residential, business and farmland ratepayers associated with the SV relative to the existing 2022-23 rates
- its consideration of alternatives to the SV and measures to contain costs.[10]

However, the council could have improved the information it provided to ratepayers in 2 ways. First, it could have also included the increase in average rates relative to the temporary SV expiring. Second, it could have included the average annual dollar increases in rates.

Engagement methods used

We consider the council used an appropriate range of engagement methods to promote awareness of and obtain community views on its proposed rate increase. Its engagement activities included:

- a direct mail out of fact sheets to all Liverpool Plains residents (described above)
- an online survey that sought community feedback on the proposed SV and 2 other options
- eight town hall style community information sessions
- information on the council website, which included access to frequently asked questions and the online survey
- Facebook posts
- pamphlets distributed via various avenues across the community
- three newspaper advertisements.[11]

Process for community consultation

The council consulted with the community on the proposed SV throughout October and November 2022.[12] This consultation period provided sufficient opportunity for ratepayers to be informed and provide feedback on the proposal.

Outcomes of community consultation

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 these results. For example, its application indicated it received 12 written responses to its proposed SV from community members through email and letter.

Of the 9 people who provided email responses to the SV proposal, all 9 were opposed to the rate increases. Of the 3 people who provided letter responses to the SV proposal, 2 opposed the rate increase, while the other was non-committal but suggested the council should put less work out for tender.

The council also received 39 responses to its community survey. In response to the 3 SV options outlined[13]:

- 70% (29 people) preferred an option under which the temporary SV would expire and not be replaced with a permanent SV
- 20% (8 people) preferred an option under which the temporary SV would be maintained by replacing it with a permanent SV in 2023-24 (that is, the proposed SV)
- 10% (4 people) preferred an option under which the temporary SV would be maintained by replacing it with a permanent SV in 2023-24 that also provided for an additional 5% increase in 2024-25.

While noting the community's concern around rate increases, we assess that the council has considered the results of community consultation in preparing its application.

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 full details

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

4.3.1 Stakeholder comments on impact on ratepayers

Around half of the submissions to IPART raised concerns around the affordability and the impact on ratepayers of the proposed SV. We note that this is in the context of 2,974 residential rating assessments for the council in 2022-23.

These stakeholders told us they were concerned that maintaining the temporary SV by replacing it with a permanent SV as proposed would have:

- a significant impact on ratepayers due to rates rising continuously over time
- a large impact for the aging population.

We considered these concerns as part of our assessment of this criterion, alongside other available information (see Section 4.3.2 below).

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

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

In this section, we have presented calculations showing the impact of the SV on ratepayers from 1 July 2023. As the council's previous temporary SV will expire immediately beforehand, although IPART is approving an 18.1% increase to the council's general income, the practical effect year-on-year for ratepayers will be only a relatively modest increase in line with the rate peg.

Impact on average rates

The council assessed the impact on ratepayers of the proposed SV and considered the community's capacity to pay. As Table 4.2 shows, from 2022-23 to 2023-24:

- the average residential rate would increase $33 or 3.7%
- the average business rate would increase $86 or 3.7%
- the average farmland rate would increase $189 or 3.7%
- the average mining rate would increase $6,329 or 3.7%

Table 4.2 Impact of the proposed special variation on average rates

Ratepayer Category	2022-23	2023-24
Residential average $ rates	901	934
$ increase		33
% increase		3.7
Business average $ rates	2,316	2,402
$ increase		86
% increase		3.7
Farmland average $ rates	5,101	5,290
$ increase		189
% increase		3.7
Mining average $ rates	171,054	177,383
$ increase		6,329
% increase		3.7

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

Community's capacity to pay

The council conducted its own analysis of the community's capacity and willingness to pay for rate increases associated with the proposed SV. It found that the community has the capacity to pay based on the following:

- since its revised Debt Recovery Policy and Hardship Policy have been put in place, there has been substantial decrease in outstanding rate ratio from 10% to 7.8%
- its current average residential rate (i.e. with the temporary SV that it has proposed to make permanent) sit roughly in the middle of all councils in its OLG Group (Group 10) councils, and below the average for a range of comparable councils, based on income and SEIFA score.

In its application, the council acknowledged the community has "low willingness to pay". However, it also considered that, through the engagement process, residents and ratepayers have said that they do not want to see a further reduction in service levels on council roads.[14]

How the council's rates changed over time

Since 2017-18, the council's rates have increased at an average annual rate of between 4.4% and 19.2%, depending on the rating category. This compares to the average rate peg of 2.1% over the same period.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	664	722	736	758	819	901	6.3
Business	962	926	940	1,121	1,211	2,316	19.2
Farmland	4,117	4,180	4,294	4,392	4,744	5,101	4.4
Mining	74,250	89,250	93,000	110,000	118,800	171,054	18.2

Note: FY22 is estimated based on FY21 escalated by the rate peg or the council's SV.
Source: Armidale Regional Council, Application Part A and IPART calculations

How the council's rates compare to other councils

The council's current average rates – that is, before the proposed permanent SV but including the current temporary SV – are relatively high compared to those of neighbouring councils and councils with comparable levels of socio-economic disadvantage and median household income. As Table 4.4 shows, the council's:

- Average residential rate is:
  - lower than most of its neighbouring councils, and half of the comparable councils based on SEIFA score, but
  - higher than all comparable councils based on income and the average other councils in its OLG Group.
- Average business rate is higher than most neighbouring councils, all comparable councils based on SEIFA score and income, and the average other councils in its OLG Group.
- Average farmland rate is significantly higher than higher than all neighbouring councils, all comparable councils based on SEIFA score and income, and the average other councils in its OLG Group.

We note that mining rates are very difficult to compare across councils, as there are a range of factors that can determine the level of these rates.

Further information about our analysis is available in Box 4.3.

Box 4.3 Comparable Councils

In our analysis, we have compared Liverpool Plains 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.
- Liverpool Plains Shire Council is in OLG Group 10 which is considered a Large rural area and also includes 22 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.
- Liverpool Plains Shire Council has a SEIFA rank of 15 out of 130 councils in ABS 2016 which is below average and indicates it is a disadvantaged area.
- The 4 councils with closest SEIFA rank to Liverpool Plains Shire Council within the OLG group 10 are Glen Innes Severn Council, Warrumbungle Shire Council, Kyogle Council, and Tenterfield Shire Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Liverpool Plains Shire Council to the 4 councils within OLG group 10 with closest median income ranking. These are Narrandera Shire Council, Temora Shire Council, Berrigan Shire Council and Warrumbungle Shire Council.

Neighbouring councils

- We compared Liverpool Plains Shire Council to the neighbouring councils of Gunnedah Shire Council, Upper Hunter Shire Council, Tamworth Regional Council, and Mid-Western Regional Council.
- These councils are geographically close to Liverpool Plains Shire Council but do not necessarily share a common border.

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 ratea ($)	Average business rate ($)	Average farmland rates ($)	Average Mining rates ($)	Median annual household incomeb ($)	Average rates to median income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW Rankingc
Liverpool Plains (10)	901	2,316	5,101	171,054	60,580	1.5	10.1	15
Neighbouring councils								
Gunnedah	989	5,107	4,907	281,867	80,964	1.2	6.4	46
Upper Hunter Shire	890	740	3,864	132,131	74,308	1.2	9.9	67
Tamworth Regional	1,128	337	2,040	9,884	73,632	1.5	7.2	53
Mid-Western Regional	997	2,228	2,614	1,600,28	77,272	1.3	3.1	44
Average	**1,001**	**2,103**	**3,357**	**506,041**	**76,544**		**6.6**	**53**
Comparable councils (SEIFA)								
Glen Innes Severn	905	1,817	3,257	.	48,568	1.9	6.7	18
Warrumbungle	620	1,760	3,193	.	55,536	1.1	19.4	21
Kyogle	1,172	1,460	2,014	.	51,116	2.3	5.9	13
Tenterfield	662	1,290	1,661	1,027	46,020	1.4	6.4	10
Average	**840**	**1,582**	**2,531**	**1,027**	**50,310**		**9.6**	**16**
Comparable councils (Income)								
Narrandera	706	1,291	3,782	.	61,568	1.1	8.8	23
Temora	666	1,508	2,284	.	62,556	1.1	4.0	47
Berrigan	786	1,471	2,302	.	58,656	1.3	3.1	36
Warrumbungle	620	1,760	3,193	.				
Average	**694**	**1,507**	**2,890**	**.**	**59,579**		**8.8**	**32**
Group 10 average (excl Liverpool Plains)	**859**	**1,749**	**3,089**	**495,603**	**65,189**	**1.3**	**7.5**	**42**

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

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

With the proposed 18.1% SV, the council's average rates would not change significantly compared to its current rates, or relative to those of comparable councils. This is because the proposed permanent SV would replace the existing temporary SV that is due to expire on 30 June 2023. As a result, the council's average rates would increase by just the 3.7% rate peg.

As Table 4.5 shows in 2023-24, with the proposed SV, the council's average:

- residential rates would be expected to be higher than the average for other OLG Group councils, comparable councils based on both SEIFA and income, but lower than average for neighbouring councils
- business rates would be expected to be above the average for other OLG Group councils, comparable councils based on both SEIFA and income, and neighbouring councils
- farmland rates would be expected to be significantly above the average for other OLG Group councils, comparable councils based on both SEIFA and income, and neighbouring councils.

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

Council (OLG Group)	2022-23	2023-24
Residential		
Liverpool Plains	901	934
OLG Group 10 (excluding Liverpool Plains)	859	896
Neighbouring councils (average)	1,001	1,039
Comparable councils (SEIFA) (average)	840	873
Comparable councils (Income) (average)	694	720
Business		
Liverpool Plains	2,316	2,402
OLG Group 10 (excluding Liverpool Plains)	1,740	1,807
Neighbouring councils (average)	2,103	2,184
Comparable councils (SEIFA) (average)	1,582	1,643
Comparable councils (Income) (average)	1,507	1,563
Farmland		
Liverpool Plains	5,101	5,290
OLG Group 10 (excluding Liverpool Plains)	3,089	3,217
Neighbouring councils (average)	3,357	3,484
Comparable councils (SEIFA) (average)	2,531	2,629
Comparable councils (Income) (average)	2,890	2,997
Mining		
Liverpool Plains	171,054	177,383
OLG Group 10 (excluding Liverpool Plains)	495,603	513,941
Neighbouring councils (average)	506,041	526,036
Comparable councils (SEIFA) (average)	1,027	1,070

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

4.3.3 The council's hardship policy

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We examined the council's hardship policy, which it updated in February 2022. This policy provides assistance to ratepayers who are experiencing genuine financial difficulties in paying their rates and charges. Under this policy, the council may take the following actions:

- agreeing the ratepayer can make periodic payments of their rates and charges
- writing off or reducing interest accrued on outstanding rates and charges
- extending the available pensioner concession to avoid hardship
- writing off or reducing rates, charges and interest of eligible pensioners
- waiving, reducing or deferring the payment of the increase in rates because of hardship resulting from a general revaluation
- waiving or reducing council fees.[15]

We are satisfied the council has a hardship policy in effect.

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

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

Note: See Appendix A for full details.

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

- publicly exhibited its Community Strategic Plan for 28 days from 20 April 2022
- public exhibited its Delivery Program and Long-Term Financial Plan for 28 days from 28 April 2022
- adopted these IP&R documents on 22 June 2022, after considering submissions on them
- adopted 3 of its Asset Management Plans[a] on 3 February 2021 and its Fleet and Plant Asset Management Plan on 25 July 2012
- submitted its SV application on 3 February 2023.

[a] Aerodromes, Buildings & Recreation and Transportation Asset Management Plans

Box 4.4 IP&R documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

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

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

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

Note: See Appendix A for full details.

To assess this criterion, we considered 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 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 could:

- improve its own efficiency to cover the revenue shortfall
- improve its labour productivity
- reduce the amount spent on consultants and contingent labour
- demonstrate its ability to deliver on productivity improvements and cost savings.

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

4.5.2 Our analysis of the council's information 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 and IP&R documents.

Past productivity and cost containment strategies to date

The council's SV application indicated it has undertaken several reviews aimed at improving its productivity and operating performance in the past 2 years. These include its:

- Long-Term Financial Plan development in June 2020
- review of service improvement opportunities, February 2022
- review of its non-core services (Phase 2), March 2022
- review of fees and charges in 2021-22
- review of productivity and cost containment, November 2022
- review of innovation opportunities (particularly in the IT and project management areas).

The council quantified some of the gains realised from its recent productivity improvements and cost containment strategies, in its Productivity and Cost Containment Report. In particular, it identified the following savings:

- review of mowing services ($120,000 per year saving)
- establishment of annual labour vacancy rate (based on the percentage of time it takes to fill vacant positions), which has then been removed from the Wages/Salary budget ($335,000 per year saving)
- review of community grants program to ensure the value outweighs the services foregone by the council in providing this program ($22,000 saving in the 2022-23 budget).

In addition, it indicated that, as a result of its service delivery review of non-core services, the council handed over its Commonwealth Home Support Services (CHSS) program to a local specialist provider, reducing costs to the council. As a result of the fees and charges review, it adopted a user-pays fee structure for its childcare centre, resulting in a 7% increase in fees, budgeting a full cost recovery model in 2022-23.

The council estimated that it realised total operating cost savings and initiatives of approximately $1.3 million for the 2022-23 budget.

Planned productivity and cost containment strategies over the SV period

The council's application stated that it will continue to conduct service reviews of both core and non-core services as part of its annual IP&R process. It also indicated that the following efficiency index has been quantified in its LTFP.[16]

	2023	2024	2025	2026	2027 onwards
Materials	-3%	-2%	-1%	-1%	-1%
Contracts/Consultants	-3%	-3%	-3%	-2.5%	-1%

The council's productivity and cost containment report also identified productivity and cost containment activities, which it is considering to implement over the coming years, including:

- reviewing aquatic facilities (including the ability to have a contractor lease and operate the centres)
- continuing to review the council's asset information and the associated depreciation values and how this can be reduced
- reviewing the council's building assets for opportunities to rationalise the asset base
- seeking to have the caravan park operated by a third party
- reviewing optimisation of in-house and outsourced construction and maintenance work.[17]

However, the council has not yet included or quantified the savings from these initiatives in its LTFP as it was still investigating them when the LTFP was drafted and placed on public display.

Based on the information available, we consider the council has:

- past achievements in delivering productivity improvements and cost containment that are proportionate to the size and resources of the council
- included an ongoing efficiency factor over future years to reflect a targeted reduction in material, contractor and consultant costs
- identified potential productivity measures in its application, but could have more clearly identified and quantified these in its LTFP.

We assess that the council has demonstrated this criterion.

4.5.3 Indicators of the council's efficiency

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

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

- number of full time equivalent (FTE) staff remained relatively constant, increasing by an average annual rate of about 0.3% per annum
- ratio of population to FTE decreased by an average of 0.3% per annum
- average costs per FTE increased by an average of 4.7% per annum
- employee costs as a percentage of operating costs decreased, suggesting that the council's other costs have increased more than its labour costs over this period.

Table 4.7 shows that, compared to other councils in its OLG Group, the council has a slightly lower number of FTEs and a slightly higher ratio of population to FTE, but its average cost per employee is significantly more.

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.

Table 4.6 Trends in selected indicators for Liverpool Plains Shire Council, 2017-2021

Indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	114	111	117	115	0.3
Ratio of population to FTE	69	71	68	68	-0.3
Average cost per FTE ($)	79,061	83,514	85,607	90,626	4.7
Employee costs as % of operating expenditure (General Fund only) (%)	32	32	32	31	-0.6

Source: IPART calculations.

Table 4.7 Select comparator indicators for Liverpool Plains Shire Council, 2020-21

	Liverpool Plains Shire Council	OLG Group 10 Average (excluding Liverpool Plains)	NSW Average
General profile			
Area (km2)	5,082	9,241	5,533
Population	7,853	7,170	64,242
General Fund operating expenditure ($m)	29.9	24.6	94.9
General Fund operating revenue per capita ($)	3,342	4,394	
Rates revenue as % of General Fund income (%)	33.1	24.5	46.0
Own-source revenue ratio (%)	45.6	44.0	67.2
Productivity (labour input) indicators[a]			
FTE staff	115.0	119.9	382.6
Ratio of population to FTE	68.3	59.8	167.9
Average cost per FTE ($)	90,626	77,573	98,937
Employee costs as % of operating expenditure (General Fund only) (%)	31.1	35.1	37.7
General Fund operating expenditure per capita ($)	3,810	3,425	1,478

a 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 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.

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

As already discussed, in 2021-22 the council was granted a temporary SV to increase its general income by 8% per year in 2021-22 and 2022-23. The council had originally sought a 3-year permanent SV, including an 8% increase across each of the 3 years (including the rate peg), which would have meant a cumulative increase of 26%.

IPART approved a 2-year temporary SV, and encouraged the council to identify and implement productivity and cost containment strategies to improve its long-term financial sustainability.[18]

The council reported that it has complied with conditions of this temporary SV. Specifically, it stated that it:

a) used the additional income for the purposes of funding asset maintenance and renewal and improving financial stability, and
b) reported in its annual report for 2021-2022[19] on:
    i. the program of expenditure that was actually funded by the additional income
    ii. any significant differences between the proposed program and the program of expenditure that was actually funded by the additional income and the reasons for those differences
    iii. the outcomes achieved as a result of the additional income
    iv. the council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan
    v. any significant differences between the council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan and the reasons for those differences.[20]

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 for 2023-24.

The approved increase to general income is set out in the table below.

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

	2023-24
Permanent increase above the rate peg	14.4
Rate peg	3.7
Total increase	18.1

Note: This SV will come into effect immediately following expiry of the council's existing temporary SV on 30 June 2023
Source: Liverpool Plains Shire Council Application Part A, Worksheets 1 and 4 and IPART calculations.

The special variation is subject to the following conditions:

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

5.1 Impact on ratepayers

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

From 2022-23 to 2023-24, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate from 2022-23 to 2023-24 would increase by $33 or 3.7%
- the average business rate from 2022-23 to 2023-24 would increase by $86 or 3.7%
- the average farmland rate from 2022-23 to 2023-24 would increase by $189 or 3.7%
- the average mining rate from 2022-23 to 2023-24 would increase by $6,329 or 3.7%

Table 5.2 Indicative annual increases in average rates under the approved SV (2022-23 to 2023-24)

Ratepayer Category	2022-23	2023-24
Residential average $ rates	901	934
$ increase		33
% increase		3.7
Business average $ rates	2,316	2,402
$ increase		86
% increase		3.7
Farmland average $ rates	5,101	5,290
$ increase		189
% increase		3.7
Mining average $ rates	171,054	177,383
$ increase		6,329
% increase		3.7

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

5.2 Impact on the council

Our decision means the council may increase its general income by $1.1 million above the rate peg in 2023-24. 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 for 2023-24 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($'000)	Increase in PGI ($'000)	PGI ($'000)
2023-24	18.1	18.1	1,145.2	1,437.7	9,390.2
Total above rate peg			1,145.2		

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

The council estimated that the proposed permanent SV of 18.1% would result in a cumulative increase in the council's permissible general income of $12.8 million over 10 years. This extra income will enable the council to become more financially sustainable and maintain its existing service levels.

With the SV, the council's projected:

- OPR will improve and move closer to the OLG benchmark of greater than 0% for 2023-24 – as shown in Figure 4.1 in section 4.1.3
- infrastructure backlog ratio will remain in line with the OLG benchmark of less than 2% – as shown in Figure 4.3 in section 4.1.3
- infrastructure renewal ratio will remain below the OLG's benchmark of 100% until 2030-31, then increase so it is above this benchmark after 2030-31 – as shown in Figure 4.4 in section 4.1.3

Appendices

A Assessment criteria

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

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

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

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

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

Criterion 1: Financial need

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

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

- 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.

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

Criterion 5: Productivity improvements and cost containment strategies

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

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

Any other matter that IPART considers relevant

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

[c] 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 Liverpool Plains Shire Council's projected revenue, expenses and operating balance

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

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

Table B.1 Summary of projected operating statement for Liverpool Plains Shire Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	26,675	27,422	27,931	28,454	28,794	29,346	29,863	30,394	30,938	30,938
Total expenses	25,991	26,468	26,861	27,351	27,933	28,548	29,190	29,875	30,590	30,590
Operating result from continuing operations	684	954	1,071	1,103	861	798	674	519	347	347
Net operating result before capital grants and contributions	-3,451	-3,281	-3,114	-3,032	-3,074	-3,137	-3,261	-3,416	-3,588	-3,588
Cumulative net operating result before capital grants and contributions	-3,451	-6,733	-9,847	-12,879	-15,954	-19,091	-22,352	-25,768	-29,356	-32,943

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

Table B.2 Projected expenditure plan for Liverpool Plains Shire Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Roadworks including road infrastructure	1,145	1,174	1,203	1,233	1,264	1,296	1,328	1,361	1,395	1,430
Total SV expenditure	**1,145**	**1,174**	**1,203**	**1,233**	**1,264**	**1,296**	**1,328**	**1,361**	**1,395**	**1,430**

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

Glossary

ABS	Australian Bureau of Statistics
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning and Reporting 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] Liverpool Plains Shire Council, Community Engagement Materials – LSPC SV Community Engagement & Out, pp 6-7.
[2] Local Government Act 1993, Section 511.
[3] Liverpool Plains Shire Council, Part B Application, p 9.
[4] Liverpool Plains Shire Council, Long Term Financial Plan, p 13.
[5] Office of Local Government, Performance Benchmarks, May 2020.
[6] Liverpool Plains Shire Council, Part A Application, Worksheet 9 Financial Ratios.
[7] Liverpool Plains Shire Council, Part B Application, p 32.
[8] Liverpool Plains Shire Council, Part B Application, p 25.
[9] Liverpool Plains Shire Council, Part B Application, p 31.
[10] Liverpool Plains Shire Council, Community Engagement Materials – LSPC SV Community Engagement & Out, p 27.
[11] Liverpool Plains Shire Council, Community Engagement Materials – LSPC SV Community Engagement & Out, pp 5-6.
[12] Liverpool Plains Shire Council, Community Engagement Materials – LSPC SV Community Engagement & Out, p 5.
[13] Liverpool Plains Shire Council, Community Feedback – LSPC SV Community Engagement & Out, p 8.
[14] Liverpool Plains Shire Council, Part B Application, p 49.
[15] Liverpool Plains Shire Council, Hardship Policy 2022, p 5, available at: https://www.liverpoolplains.nsw.gov.au/files/assets/public/hardship-policy-2022_adopted-2022.pdf.
[16] Liverpool Plains Shire Council, Long Term Financial Plan, p 7.
[17] CT Management Group, Productivity and cost containment report, pp 11-13.
[18] IPART, LG Determination - Liverpool Plains Shire Council's special variation application for 2021-22.
[19] Liverpool Plains Shire Council, Annual Report 2021-2022, pp 61-62.
[20] IPART, Special Variation for Liverpool Plains Shire Council 2021-22, pp 1-2.

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