IPART Independent Pricing and Regulatory Tribunal | NSW

Snowy Monaro Regional Council

Special Variation Application 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

Snowy Monaro Regional Council (the council) applied for a permanent special variation (SV) to increase its general income by 68.87% over 5 years. This included a proposed increase of 12.25% in 2023-24 followed by increases of 10.75% per year in 2024-25 to 2027-28 (including the rate peg).[1]

The council's application notes that its financial sustainability has been a significant and ongoing concern. The council's application for an SV is one of a range of initiatives it is implementing to address its financial position. Other initiatives include improved governance arrangements and enhanced productivity and efficiency measures.[2]

The council sought the special variation to:

- improve its financial sustainability
- provide similar levels of service to the community through asset renewals
- address existing asset priorities to meet demand for growth in services.

1.1 IPART's decision

We assessed the council's application and have decided not to approve the proposed SV. Instead, we approved a permanent SV of 52.48% over 4 years. This includes an increase of 12.25% in 2023-24, then increases of 10.75% per year in 2024-25, 2025-26 and 2026-27.

The difference between the council's application and IPART's decision is summarised in .1 below.

Table 1.1 Comparison of Council's application and IPART's decision

Year	2023-24	2024-25	2025-26	2026-27	2027-28	Cumulative Increase
Council's Application	12.25%	10.75%	10.75%	10.75%	10.75%	68.87%
IPART Decision	**12.25%**	**10.75%**	**10.75%**	**10.75%**		**52.48%**

a. IPART's SV decision sets the council's permitted increases to general income until Year 2026-2027 only. From 2027-2028 the council's general income will be subject to the usual rate peg (or any future special variation).

While the council demonstrated that it met most of the Office of Local Government (OLG) criteria for an SV, it made substantial errors communicating the proposed increase to ratepayers. In particular, the council referred to a proposed 55.25% increase over 5 years[3], when the actual average increase under the council's proposal would have been 68.87% over those 5 years. Our decision more closely reflects the rate increase that was communicated to ratepayers and would allow the council to continue with its planned improvement initiatives over the next 4 years. We consider that there is an opportunity for the council to improve its operating expenditure per capita during this period.

Our decision means the council can raise up to an additional $17 million in total permissible general income (above the rate peg) over the next 4 years. While not as large as the council's proposed 5-year SV, we understand that this SV may have a considerable impact on some ratepayers – particularly when combined with other cost-of-living pressures, such as increases in inflation and mortgage interest rates. We also understand that some residents are concerned that the council has not effectively managed its finances in the past and are not confident it can do so.

In making our decision we had regard to the purpose of the SV being to ensure the council's ongoing financial sustainability and to allow it to continue to provide services that the local community depends on. Without additional funds from the SV, the council's financial position will continue to deteriorate, impacting its ability to renew infrastructure and deliver services to the community.

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 had met 5 of the 6 OLG criteria.

On balance, we decided the council had not done enough to show that its proposed permanent 5-year SV with a cumulative increase of 68.87% met the OLG Guidelines. Instead, we granted it a permanent 4-year SV with a cumulative increase of 52.48%.

Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the proposed SV to improve its financial sustainably, provide similar levels of service to the community through asset renewals, and meet demand for growth in services. Without the proposed SV, the council forecast a significant deficit in its general fund for the next 10 years.
02	Not demonstrated	**Community awareness** The council's engagement and consultation with the community on the proposed SV was not effective. In particular: • the information it provided to the community incorrectly said the proposed cumulative increase over 5 years was 55.25%, which is materially below its actual proposed increase of 68.87% • its Long-Term Financial Plan and Delivery Plan did not set out the impact of the cumulative increase on the average ratepayer in percentage and dollar terms by rating category. IPART has determined to not approve the amount proposed.

Criteria	Grading	Assessment
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.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited, approved and adopted all necessary Integrated Planning and Reporting documents.
05	Demonstrated	**Productivity improvement and cost containment** The council listed and quantified past and planned productivity and cost containment strategies.
06		**Other matters IPART considers relevant** Over the past 5 years, IPART granted the council one SV to increase its general income. In 2022-23, we approved its application for a 1-year permanent ASV to increase its general income by 2.3%.

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.

Snowy Monaro Regional Council consulted its community on its proposed SV and other options. It received 54 submissions, and almost 2,000 responses to its online surveys.[4]

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period in which stakeholders could make submissions directly to IPART. Through this process, we received 87 submissions on the council's proposed SV. Stakeholders who made submissions to us raised the following concerns:

- the council's community consultation on the proposed SV
- the affordability of the proposed rate increases
- the council's financial management
- the impact of recent land valuations on the council's income
- the equity of the current rating structure.

1.4 Next steps for the council

Our determination sets the maximum percentage by which the council's general income can increase over the 4-year period. The council is responsible for deciding how it sets rates to implement this increase. We encourage the council to consult with its community to decide how best to do this, noting it can choose to increase its general income by less than this maximum percentage and defer all or part of any increase for up to 10 years.[a]

The council will still need to deliver on its proposed productivity improvements, even with the SV. The permanent increase in rates will not be sufficient on its own to improve its long-term financial sustainability.

Below are the council's proposed increases. It retains the discretion to revise how it raises its general income across the rating categories.

Table 1.2 The council's indicative increase in rates

	2023-24	2024-25	2025-26	2026-27	Cumulative increase
Residential	16.9%	10.8%	10.8%	10.8%	58.8%
Business	-15.0%	10.8%	10.8%	10.8%	15.6%
Farmland	11.8%	10.7%	10.8%	10.8%	51.8%

Note: These are the council's proposed increases, and it retains the discretion to apply the general income across the rating categories.
Source: Snowy Monaro Regional Council, Application Part A.

The rest of this report provides more information on Snowy Monaro Regional Council's proposed SV and discusses our assessment and decision in more detail.

[a] *Local Government Act* 1993, Section 511.

2 The council's special variation application

Snowy Monaro Regional Council originally applied[b] to IPART to increase its general income through a permanent SV of 53% (including the rate peg) in 2023-24. However, it withdrew this application.

The council then made a fresh application for a permanent SV of 68.87% (including the rate peg) over the next 5 years. This includes an increase of 12.25% in 2023-24, followed by increases of 10.75% per year from 2024-25 to 2027-28.[5]

The council sought the SV to:

- improve its financial sustainability
- provide similar levels of service to the community through asset renewals
- address existing asset priorities to meet demand for growth in services.[6]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories over the 5-year SV period. On average:

- residential rates would increase by $743 or 75.9% by 2027-28 under the council's proposed SV
- business rate would increase by $433 or 28.0% by 2027-28 under the council's proposed SV
- farmland rate would increase $1,381 or 68.2% by 2027-28 under the council's proposed SV.

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

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	10,644
Business	1,083
Farmland	2,890

Source: Snowy Monaro Regional Council, Part A application Worksheet 2.

[b] The council's original application was submitted on 3 February 2023.

2.2 Council's assessment of affordability and capacity to pay

The council assessed the affordability of the proposed SV, including analysing the community's capacity to pay the proposed rate increases.

The council investigated the socio-economic characteristics of the Snowy Monaro local government area (LGA). It also compared its current and proposed residential, business and farmland rates to those of other councils with similar characteristics.

The council also told us that it has a hardship policy, which it reviewed in March 2021. Under this policy, it provides alternative payment plans for ratepayers experiencing financial hardship. In addition, it may write off accrued interest on rates or charges payable under certain circumstances.

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

The council estimated that its proposed permanent 5-year SV, with a cumulative increase of 68.87%, would result in a $26.7 million cumulative increase in the council's permissible general income over the next 5 years (above the rate peg for 2023-24 and the assumed rate peg of 2.5% for other years).

3 Stakeholders' submissions to IPART

The council is responsible for engaging with its community so that ratepayers are fully aware of any proposed SV and the full impact on them. This is one of the OLG 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 87 submissions from stakeholders on the Snowy Monaro Regional Council's SV application. Some of these submissions were on the council's original application, which we consulted on between 10 February 2023 and 3 March 2023. (As Section 2 discussed, this application was later withdrawn.) The rest of the submissions were on the council's revised application, which we consulted on 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 20,000 ratepayers in the council's local government area.

3.1.1 The council's consultation with the community

Around three-quarters of the submissions we received raised concerns about the council's consultation with the community on the proposed SV, saying it lacked transparency or was misleading. For example:

- several ratepayers stated that the council had consulted on a cumulative increase over 5 years of 55.25%, when the correct cumulative increase over 5 years was 68.87%
- some ratepayers stated that the engagement channels the council used – particularly social media – excluded community members who lacked the required digital literacy or reliable internet access
- some stated that the council had not considered community feedback in its decision-making on the proposed SV.

We note that the council communicated the incorrect cumulative increase in rates in its consultation. Our assessment of the council's consultation with the community overall is in Section 4.2.

3.1.2 Affordability of proposed rate increases

More than 60% of the submissions we received raised concerns about the impact of the council's proposed SV on the affordability of rates and suggested this would lead to financial hardship. Many noted worsening financial circumstances brought about by the COVID 19 pandemic, natural disasters in recent years and a high inflationary environment.

In relation to inflation, some of these submissions focused on the rise in mortgage interest rates and the impact on low-income earners including pensioners. For example, one ratepayer said that their inability to pay the higher rates may result in their property being sold against their will.

Our assessment of the impact of the proposed SV on ratepayers, particularly the affordability of rates is in Section 4.3.

3.1.3 The council's financial management

More than 60% of the submissions commented that the council has not used its resources efficiently, and that the proposed SV is a way for it to mitigate its financial mismanagement. Many of these raised specific concerns about the council's infrastructure projects. For example, one ratepayer queried the decision to build a multi-use sporting complex for $15 million, which they considered the majority of the ratepayers would not use.

Some of these submissions also stated that, to improve the existing services and infrastructure, the council requires a change in management or operating strategy.

We do not audit council finances or financial management, as this is not part of our delegated authority. However, we do consider some key indicators of council efficiency as part of our assessment of Criterion 5. This assessment is discussed in Section 4.5.

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

Around 15 submissions said that the council's proposed SV was not necessary because the recent land valuation increases in the Snowy Monaro local government area would automatically increase the council's income.

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

Box 3.1 Effect of land valuation on rates

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

Individual rates depend on the combination of:

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

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

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

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

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

3.1.5 Equity of the current rating structure

Around 15 submissions expressed concern that the council's current rating structure and service provision are inequitable, particularly for people in the more rural and remote locations within the LGA. For example, some stated that ratepayers in these locations encounter obstacles in accessing council services on an equal footing with their urban counterparts – even though they pay the same rates. Some submissions attributed this inequity to the 2016 amalgamation of 3 smaller councils to form Snowy Monaro Regional Council.

We acknowledge stakeholders' equity concerns. However, these issues are outside the scope of IPART's role in assessing the council's SV proposal. The council is responsible for determining its rating structure, in compliance with the regulatory framework established by the *Local Government Act 1993*. Waste charges are separate to rates, and we do not consider them in assessing SV applications to increase general income.

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

4 IPART's assessment of the council's application

We assessed the council's SV application against the 6 criteria set out in the OLG Guidelines. We found that the application met 5 of these 6 OLG criteria. Specifically, the council:

- demonstrated the financial need for the proposed SV
- did not provide sufficient evidence that the community is aware of the need for and extent of the proposed rate increase
- 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
- exhibited, approved and adopted its IP&R documentation appropriately
- explained and quantified its past and planned productivity and cost containment strategies
- applied for 1 SV in the past 5 years (a 1-year permanent additional SV of 2.3% in 2022-23, which was approved).

On balance, we decided the council had not done enough to show that its proposed permanent 5-year SV with a cumulative increase of 68.87% met the OLG Guidelines. Instead, we have decided to grant the council a permanent 4-year SV with a cumulative increase of 52.48% (discussed in Section 5).

The council miscalculated the cumulative percentage increase of the proposed SV as 55.25% as opposed to 68.87%. It then conducted its community consultation with the incorrect percentage increase, which does not meet OLG criterion 2.

Our detailed assessment against each criterion is set out 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 OLG Assessment Criteria in Appendix A for full details.

To assess whether the council met this criterion, we considered:

- stakeholders' comments on financial need in submissions to IPART
- council's IP&R documents and the information in its application
- our own analysis of the council's financial performance and position.

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 submissions to us, stakeholders raised a range of concerns related to the financial need criterion. They stated that:

- there was not a financial need for the SV
- the need for the SV is due to the council's poor financial management and oversight
- the council is not planning to use the additional funds permitted by the proposed SV in an equitable way, for example to fund a $15 million multi-sporting complex.

We considered these concerns, taking account of all the information available to us. We found the council does have a financial need (see Section 4.1.3). It also met the other requirement of Criterion 1, including articulating the need for and purpose of the proposed SV (Section 4.1.2) and canvassing alternatives to the SV (Section 4.1.3).

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, Delivery Program and Strategic Asset Management Plan, clearly identify and articulate the need for and purpose of the SV. The documents state that the proposed SV would allow the council to:

- improve its financial sustainability
- provide similar levels of service to the community through asset renewals
- address existing asset priorities to meet demand for growth in services.[7]

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 for the council 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 that SV. This scenario is a guide to the council's financial sustainability if it still went ahead with the full expenditure program included in its application but could only increase general income by the rate peg.

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

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than zero is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[8] The OLG has set a benchmark for the OPR of greater than zero. (See Box 4.1 for more information.)

Box 4.1 Operating Performance Ratio

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

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

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

The OLG has set a benchmark for the ratio of greater than zero percent.

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*.

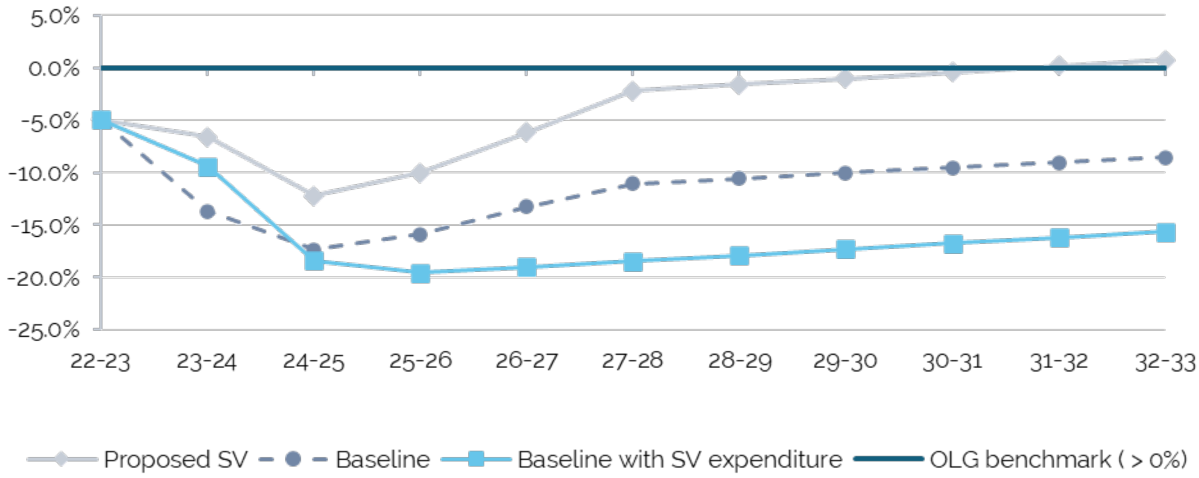
Based on council's forecasts, we found that, over the next 5 years:[d]

- **under the Proposed SV scenario,** the council's average OPR would be -7.4%
- **under the Baseline Scenario**, the council's average OPR would be -14.3%
- **under the Baseline with SV expenditure Scenario**, the council's average OPR would be -17.0%.

This suggests that the council is in a poor financial position and may not be financially sustainable in the long term.

[d] We averaged over a 5-year period rather than 10 years because we recognise forecasts are subject to variability.

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



Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.
Note: OPR shown excludes capital grants and contributions. We averaged the forecast OPR over a 5-year period rather than 10 years because we recognised forecasts over a long period are subject to variability.

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	-6.6	-12.2	-10.1	-6.2	-2.2	-1.6	-1.0	-0.4	0.2	0.8
Baseline	-13.7	-17.4	-15.9	-13.3	-11.1	-10.6	-10.1	-9.5	-9.0	-8.5
Baseline with SV expenditure	-9.4	-18.4	-19.6	-19.0	-18.5	-17.9	-17.3	-16.8	-16.2	-15.6

Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

Impact on net cash

A council's net cash (or net debt) 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 $52.0 million in cash reserves. Of this:

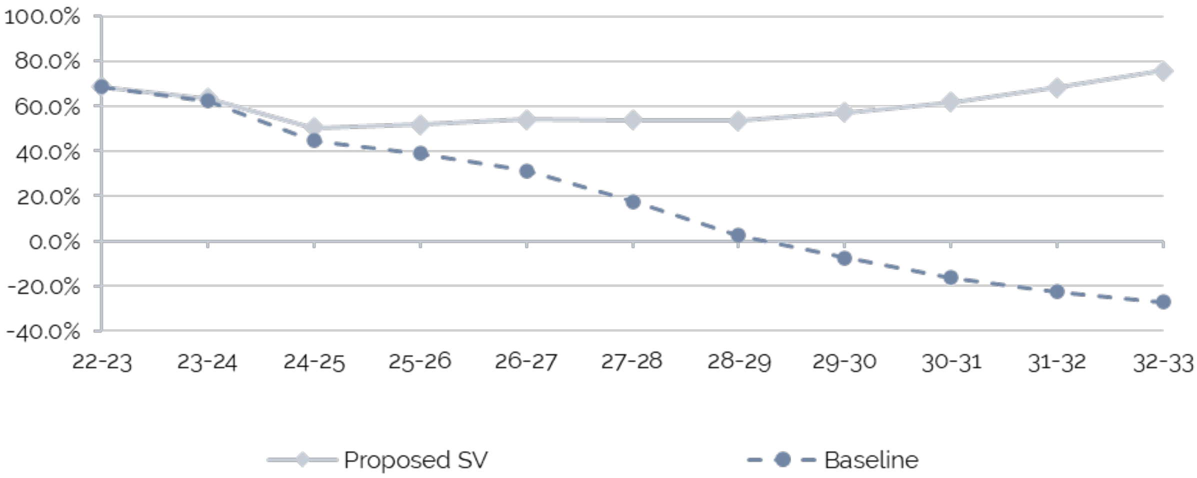
- **$36.7 million was externally restricted** (i.e., subject to external legislative or contractual obligations such as developer contributions towards water or sewer funds, domestic waste management reserves or crown land reserves).
- **$11.0 million was internally restricted** (i.e., subject to a council 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 and employee leave entitlements).
- **$4.4 million was unrestricted.**[9]

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

We calculated that as at 30 June 2023, the council's net cash will be $45.4 million, or 68.6% of its income.[e] 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 75.6%
- **under the Baseline Scenario**, its net cash (debt) to income ratio would decrease to -27.3%.

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, without the additional revenue from the proposed SV.
Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

Taking into account the council's OPR and net cash position, we found that the council's forecasts demonstrate a financial need to increase its revenue above the rate peg to improve its financial position and sustainability.

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.)

[e] Excluding capital grants and contributions.

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*.

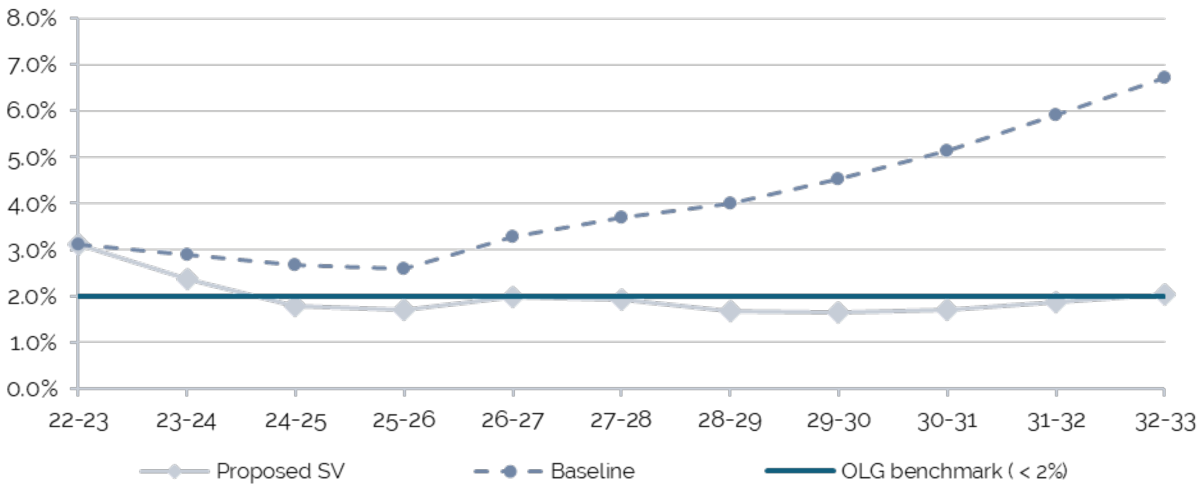
Impact on infrastructure backlog ratio

Based on council's forecasts, we found that over the next 10 years, the council's infrastructure backlog ratio would be around 2% with the SV, which is close to the OLG benchmark of less than 2%. However, without the SV, the ratio would be higher (that is, perform worse) than this benchmark (Figure 4.3).

Over the next 5 years, the council's average infrastructure backlog ratio would be:

- 2.0% with the Proposed SV Scenario
- 3.0% under the Baseline Scenario.

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



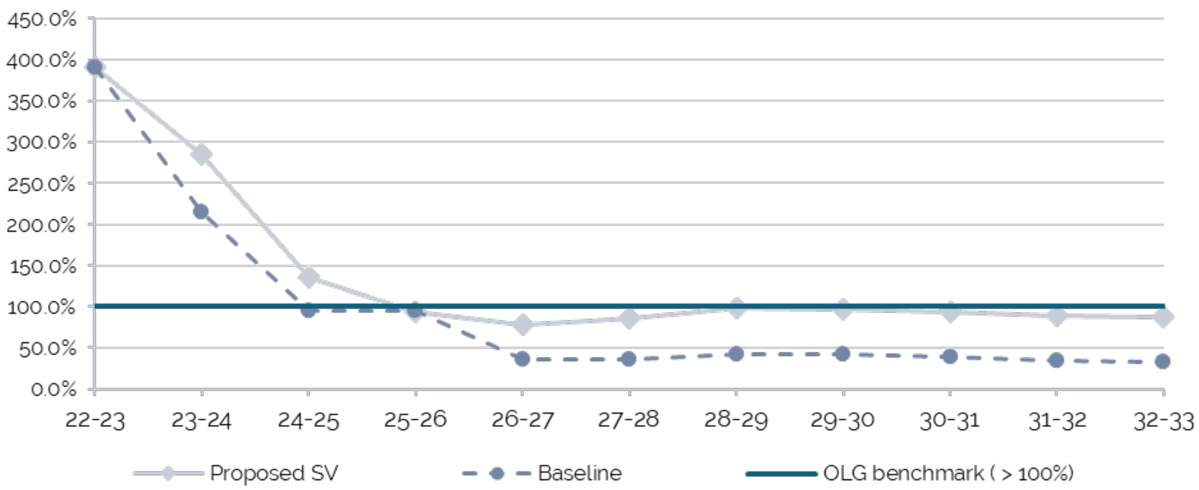
Source: Snowy Monaro Regional Council Application Part A and IPART calculations. We averaged the forecast infrastructure backlog ratio over a 5-year period rather than 10 years because we recognised forecasts over a long period are subject to variability.

Impact on infrastructure renewals ratio

Based on council's forecasts, we found that under the Proposed SV Scenario, the council's infrastructure renewals ratio would be well above the OLG benchmark of greater than 100% in 2023-24. It would then decline and be below this benchmark in 2032-33 (Figure 4.4). This reflects the council's plans to use some of the additional income from the SV to increase the rate of asset renewals so it can maintain its current service levels to the community.

In comparison, under the Baseline Scenario, the council's infrastructure renewals ratio would decrease more sharply and be substantially below the benchmark in 2032-33.

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



Source: Snowy Monaro Regional Council, Application Part A.

Together with the impact on the infrastructure backlog, this indicates that the proposed SV would allow the council to address its 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 to meet the financial need. We found that these documents did sufficiently canvass alternatives.

The council's Long-Term Financial Plan considered alternative funding sources to the proposed SV, including:

- reducing services and service levels
- increasing fees and charges
- ceasing services
- disposing of assets
- borrowing.[10]

The council also commissioned an independent Financial Sustainability Review (FSR) in response to concerns raised by the community, the NSW Audit Office, NSW Office of Local Government and individual Councillors. This review, conducted by AEC Group Limited, found that council is not generating sufficient recurrent General Fund revenue to meet its recurrent operational expenditure, including depreciation. It made 24 recommendations to address financial sustainability concerns, grouped under the following areas:

- improving the operating position (including submitting an application for an SV)
- increasing cash reserves
- increasing investment in assets
- enhancing strategic service planning
- enhancing productivity and efficiency of services
- growth and economic development
- better governance, prioritisation and decision-making.[11]

In response to the FSR report, the council produced a revised LTFP, Asset Management Strategy and Workforce Management Plan, including consideration of scenarios that included and excluded an SV.[12]

4.2 OLG Criterion 2: The council did not demonstrate 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 OLG Assessment Criteria in 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 did not meet this criterion.

4.2.1 Stakeholder comments on community awareness

As section 3.1.1 discussed, more than 60% of the submissions we received raised concerns about the council's consultation with the community. For example, the ratepayers said the council:

- communicated the cumulative increase of the proposed SV over 5 years as 55.25% rather than the correct figure of 68.87%
- did not respond to community concerns about the proposed rate increases
- did not make information about the cumulative increase of the proposed SV easily available.

We have considered these concerns alongside other information related to this criterion. Our conclusions are discussed in 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.

We found that the council did engage with and consult the community to raise awareness of the need for, the proposed rate rises. However, the information it provided to the community was not sufficient or clear enough to show that the community is aware of the extent of these rate rises (discussed further below).

There were shortcomings in the council's community engagement process about the SV. We found that the council made an error in communicating the cumulative percentage impact of its proposed SV of 68.87%. The council reported an increase of 55.25%, which is simply the sum of the annual proposed increases of 12.25% in the first year and 10.75% for the subsequent four years. This does not take into account the compounding effect of the increases in successive years, and understates the total impact on ratepayers.

Information provided by the council

We found the materials the council prepared for ratepayers on its proposed SV included some of the content needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. However, some of this information was incorrect, which reduced its transparency.

In particular, the materials covered:

- the need for the SV
- the 3 different options being considered, including[13]:
  - an SV of 53% in 2023-24
  - the proposed SV, which was incorrectly expressed as 55.25% over 5 years from 2023-24 to 2027-28 and
  - no SV (rate peg only).
- the proposed average annual rates in dollar terms with and without the proposed SV from 2023-24 to 2027-28 for each ratepayer category, which were incorrectly calculated
- the average annual and cumulative rates increases in percentage terms with the proposed SV from 2023-24 to 2027-28 for each ratepayer category, which were incorrectly calculated
- what the additional income from the proposed SV would fund
- that council would be implementing other recommendations from the FSR review aimed at improving its efficiency
- how to find out more information and express views.

In addition, key information including the cumulative increase in the council's general income under the 2 SV options was omitted from the materials made available during the initial consultation phase. In addition, the Long-term Financial Plan and Delivery Plan did not set out the cumulative increase in percentage and dollar terms for the average ratepayer, by rating category.

Engagement methods used

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

- Mayor's letter to all ratepayers
- council website – Have your Say website – which included a video presentation
- invitation to submit written submissions
- fact sheets
- online surveys via the Have Your Say website, with hard copy versions available
- pop-up sessions across numerous townships
- 2 online community consultation sessions (including Q&A)
- social media posts
- media releases
- printed promotional material
- eNewsletter.

Process for community consultation

We found that the process the council used for community engagement and consultation was adequate. The council consulted with the community on the proposed SV from 28 November 2022 to 22 January 2023. While affected by the Christmas holiday period, this consultation period provided adequate opportunity for ratepayers to be informed and engaged on the proposal.

Outcomes of community consultation

As noted above, 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 in preparing its SV application. The application summarised the key themes raised by stakeholders and the council's response. It also indicated that the council had prepared a Community Engagement Report, and presented the findings of the report to Councillors.

The report found that the most common feedback provided in comments on the council's website and in community consultation sessions:

- related to the affordability of increased rates given existing cost of living concerns
- sought information about productivity savings, efficiencies and perceived waste in current council expenditure that in the responders' view should be addressed rather than increasing rates
- sought further information about the proposed schedule of expenditure funded by the additional rate revenue
- related to the number of options the council consulted on, putting the view that 3 options were not sufficient and seeking alternative options.[14]

The report also stated 1,963 people completed its online surveys during the period 28 November 2022 – 22 January 2023. It noted the respondents were not a representative sample of the population and recommended caution in extrapolating the results to the broader community. However, of these respondents:

- 59% indicated they were aware that council was exploring an SV prior to completing the survey
- 63% selected Option 3 (no SRV) as their highest preference
- 23% selected Option 2 (permanent SRV spread over 5 years) as their highest preference
- 14% selected Option 1 (permanent SRV in 2023-24) as their highest preference.

In addition, the report stated that the council received 54 submissions by hard copy or email and a petition submitted with 387 electronic signatures (against the proposed SV).[15]

Councillors were provided with the Community Engagement Report on 25 January 2023. At the Extraordinary Council Meeting on 30 January 2023, the council resolved to submit an application to IPART for a 53% permanent increase in general income for 2023-24. However, on 16 February 2023, the council resolved to rescind this decision, and instead lodge an application to IPART for a 12.25% permanent increase in general income in 2023-24 and then 10.75% in each of the following 4 years.[16]

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 OLG Assessment Criteria in Appendix A for full details.

To assess this 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 policies in place to mitigate impacts of rate rises, including a hardship policy.

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

4.3.1 Stakeholder comments on impact on ratepayers

As section 3.1.2 discussed, more than 60% of the submissions we received raised concerns about the impact of the proposed SV on ratepayers. For example, submitters said:

- the SV would have a significant impact on ratepayers due to broader economic pressures of high inflation and interest rates
- the SV would have a large impact for ratepayers on fixed incomes such as pensioners.

We have considered these concerns as part of our assessment of this criterion. Our conclusions are outlined in 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 6 years, and how its rates compare to those of other councils.

Overall, we found that although the impact of the proposed SV on ratepayers would be significant for some ratepayers, it would be reasonable. Currently, Snowy Monaro Regional Council's average rates for each ratepayer category are below the average for relevant comparator groups. With the proposed SV, its average rates would be above the average for those of comparator groups by the end of the 5-year period. However, the Snowy Monaro population's SEIFA Index and average household incomes rank favourably with those comparable councils.

Impact on average rates

The council assessed the impact on ratepayers. Table 4.2 sets out its estimates of the expected increase in average rates in each main ratepayer category under the proposed 5-year permanent SV. This shows that over the proposed SV period (2023-24 to 2027-28):

- the average residential rate would increase by $743 or 75.9%
- the average business rate would increase by $433 or 28.0%
- the average farmland rate would increase $1,381 or 68.2%.

Table 4.2 sets out estimates of the expected increase in average rates in each main rating category under our approved special variation. These increases are lower than proposed by the council, as our approval is for 4 years instead of 5.

Table 4.2 Impact of the council's approved special variation on average rates

	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative increase $	Cumulative increase %
Residential average $ rates	979	1,145	1,268	1,404	1,555		
$ increase		165	123	136	151	576	
% increase		16.9	10.8	10.8	10.8		58.8
Business average $ rates	1,546	1,314	1,457	1,613	1,787		
$ increase		-231	142	157	173	241	
% increase		-15.0	10.8	10.8	10.8		15.6
Farmland average $ rates	2,025	2,264	2,507	2,777	3,075		
$ increase		239	243	270	298	1,050	
% increase		11.8	10.7	10.8	10.8		51.8

Note: These figures have been rounded in calculation.
Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

Community's capacity to pay

The council's capacity to pay analysis found that the Snowy Monaro Regional Council has a higher SEIFA score compared to other councils in its OLG Group (Group 4). This value ranks council areas according to their relative socio-economic advantage and disadvantage using Census Data. This suggests the community generally has a relatively higher capacity to pay compared to other comparable councils.

The analysis also found that:

- when benchmarked against all 25 councils in OLG Group 4, Snowy Monaro Regional Council has the third lowest residential rates, the ninth lowest farmland rates, and the third lowest business rates[17]
- based on the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) the Snowy Monaro community ranks better than 68.5% of other NSW Councils.[18]

In considering that current average rates for residential, farmland and business categories is amongst the lowest of the Group 4 Councils and the SEIFA ranking is high, we consider the Snowy Monaro community generally has the capacity to pay higher rates.

How the council's rates changed over time

Since 2017-18, the council's rates have increased at an average annual rate of between -6.9% and 4.3%, pending on the rating category (Table 4.3). This compares to the average rate peg of 2.0% over this period.

Table 4.3 Historic average rates in Snowy Monaro Regional Council 2017-18 to 2022-23 ($)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	792	808	830	843	860	979	4.3
Business	2,213	2,312	2,373	2,266	2,311	1,546	-6.9
Farmland	1,703	1,769	1,808	1,861	1,898	2,025	3.5

Note: FY22 is 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

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

- average residential rate is lower than 3 of its 4 neighbouring councils, lower than all comparable councils based on SEIFA score and income, and lower than the average for other councils in its OLG group
- average business rate is lower than all neighbouring councils, all comparable councils based on SEIFA score and income, and the average for other councils in its OLG group
- average farmland rate is lower than most neighbouring councils, most comparable councils based on SEIFA score and income, and the average for other councils in its OLG group.

Table 4.4 also shows that the council's current average residential rates to median household income ratio is relatively low. However, its outstanding rates ratio is relatively high.

Box 4.3 Comparable councils

In our analysis, we have compared Snowy Monaro Regional 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.
- Snowy Monaro Regional Council is in OLG Group 4 which is considered an urban regional town/city area and also includes 25 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.
- Snowy Monaro Regional Council has a SEIFA rank of 90 out of 130 councils in ABS 2016 which is above average and indicates relative advantage.
- The 4 councils with closest SEIFA rank within the OLG group 4 are Ballina Shire Council, Byron Shire Council, Wagga Wagga City Council, and Armidale Regional Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Snowy Monaro Regional Council to the 4 councils within OLG group 4 with closest median income ranking. These are Dubbo Regional Council, Byron Shire Council, Bathurst Regional Council, and Cessnock City Council.

Neighbouring councils

- We compared Snowy Monaro Regional Council to the neighbouring councils of Bega Valley Shire Council, Snowy Valleys Council, Eurobodalla Council, and Queanbeyan-Palerang Regional Council.
- These councils are geographically close to Snowy Monaro Regional 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 rate[a] ($)	Average business rate ($)	Average farmland rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstanding rates ratio	SEIFA Index NSW[c] Ranking
Snowy Monaro Regional (4)	979	1,546	2,025	82,836	1.2	7.7	90
Neighbouring councils							
Bega Valley	1,187	2,705	2,445	62,400	1.9	11.1	57
Snowy Valleys	749	1,738	2,291	67,912	1.1	5.4	34
Eurobodalla	1,136	3,832	1,685	60,684	1.9	2.7	40
Queanbeyan-Palerang Regional	1,255	4,894	2,624	119,340	1.1	8.9	110
Average	1,082	3,292	2,261	77,584		7.0	60
Comparable councils (SEIFA)							
Ballina	1,164	3,672	1,817	74,308	1.6	3.8	92
Byron	1,525	3,788	2,775	83,304	1.8	8.5	98
Wagga Wagga	1,192	6,404	2,964	85,176	1.4	5.1	88
Armidale Regional	1,183	4,280	3,719	73,008	1.6	5.5	87
Average	1,266	4,536	2,819	78,949		5.7	91
Comparable councils (Income)							
Dubbo Regional	1,107	5,115	3,771	83,044	1.3	7.7	60
Byron	1,525	3,788	2,775	83,304	1.8	8.5	98
Bathurst Regional	1,192	4,525	1,591	82,420	1.4	8.6	84
Cessnock	1,299	3,714	3,196	77,636	1.7	5.6	12
Average	1,281	4,285	2,833	81,601		7.6	64
Group 4 average	1,254	4,030	2,623	77,307	1.6	6.5	58

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: 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 5-year SV of 68.87%, the council's average residential and farmland rates would be relatively high by the end of the period, while its average business rates would continue to be relatively low. As Table 4.5 shows, in 2027-28, the council's average:

- residential rates would be expected to be higher than the average for other councils in its OLG Group, neighbouring councils, and comparable councils based on both SEIFA score and income
- business rates would be expected to be well below the average for other councils in its OLG Group, neighbouring councils, and comparable councils based on both SEIFA score and income
- farmland rates would be expected to be higher than the average for other councils in its OLG Group, neighbouring councils, and comparable councils based on both SEIFA score and income.

We note there are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. Therefore, it may overstate, for example, the extent to which the council's rates would be higher than other councils.

Table 4.5 Comparison of the council's average rates with similar councils based on the council's proposed SV period of 5 years ($)

Council (OLG Group)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Residential						
Snowy Monaro Regional	979	1,145	1,268	1,404	1,555	1,722
OLG Group 4 (excluding Snowy Monaro)	1,254	1,305	1,337	1,371	1,405	1,440
Neighbouring councils (average)	1,082	1,153	1,182	1,212	1,242	1,273
Comparable councils (SEIFA) (average)	1,266	1,317	1,350	1,384	1,418	1,454
Comparable councils (Income) (average)	1,281	1,332	1,366	1,400	1,435	1,471
Business						
Snowy Monaro Regional	1,546	1,314	1,457	1,613	1,787	1,979
OLG Group 4 (excluding Snowy Monaro)	4,030	4,189	4,293	4,401	4,511	4,624
Neighbouring councils (average)	3,292	3,494	3,581	3,671	3,762	3,856
Comparable councils (SEIFA) (average)	4,536	4,716	4,834	4,955	5,079	5,206
Comparable councils (Income) (average)	4,285	4,454	4,566	4,680	4,797	4,917
Farmland						
Snowy Monaro Regional	2,025	2,264	2,507	2,777	3,075	3,406
OLG Group 4 (excluding Snowy Monaro)	2,623	2,728	2,796	2,866	2,937	3,011
Neighbouring councils (average)	2,261	2,435	2,496	2,558	2,622	2,688
Comparable councils (SEIFA) (average)	2,819	2,931	3,004	3,079	3,156	3,235
Comparable councils (Income) (average)	2,833	2,945	3,019	3,095	3,172	3,251

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

We examined the council's hardship policy, which it reviewed in March 2021. A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. The hardship policy indicates that council will provide alternative payment plans for ratepayers experiencing financial hardship. In addition, it states the council may write off accrued interest on rates or charges payable under certain circumstances.[f]

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

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 OLG Assessment Criteria in 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:

- Exhibited its current Community Strategic Plan from 21 March to 18 April 2022. It considered submissions on this plan and adopted it on 16 June 2022.
- Exhibited its current LTFP, Asset Management Strategy and Workforce Management Strategy from 28 November 2022 to 22 January 2023. These documents were then adopted on 30 January 2023.
- Exhibited its current Delivery Plan and Operational Plan from 9 May 2022 to 6 June 2022. These documents were then adopted on 23 June 2022.
- Submitted its SV application on 2 March 2023.

[f] Snowy Monaro Regional Council's "Financial Hardship and Assistance policy" available here.

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 OLG Assessment Criteria in 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 that the council has:

- not provided any explanation of its productivity improvements aside from claimed improvements to the road network and maintenance of council assets
- only had minor success with cost containment and productivity improvements in the last few years
- not responded to requests for detailed information on productivity or cost containment strategies the council has realised in the past nor its plans over the proposed SV period.

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's SV application outlined a range of productivity and cost containment strategies implemented to date and provided a high-level overview of its planned efficiency initiatives over the SV period. It also quantified its past and forecast savings.

Productivity and cost containment strategies to date

The council's application set out the productivity improvements and cost containment initiatives it has implemented in recent years (and its estimate for the associated savings to date). For example, these include:

- reducing its staff levels by 12 positions (5% of fulltime equivalent staff) ($1.3 million)
- deferring building maintenance ($705,000)
- reducing road maintenance expenses ($560,000)
- reducing legal costs provision ($140,000)
- reducing leasing costs ($207,000)
- reducing spend on biosecurity ($200,000)
- reducing donations levels ($78,000)
- reducing costs of aged care provision ($35,000).

Altogether, the council estimates its initiatives have realised savings equal to just under 5% of its operating expenditure.[19] We consider that the council has undertaken reasonable efforts to achieve productivity and efficiencies before applying for the SV.

Proposed productivity and cost containment strategies over the SV period

As Section 4.1 discussed, the council commissioned an independent Financial Sustainability Review (FSR) which made 24 recommendations to improve its financial sustainability concerns. In its SV application it stated that it has accepted all recommendations, including to establish a productivity and efficiency target of $1.0 million to be achieved over the next 4 years. It also stated that it will continue the divestment of its aged care facilities, which it expects will produce an annual improvement to its operating position of at least $0.75 million. [20]

We consider the council has:

- demonstrated past achievements in delivering productivity improvements and cost containment
- outlined strategies and activities for further improving its productivity and efficiency, quantifying savings for several initiatives.

Indicators of the council's efficiency

We examined indicators of the efficiency of the council's operations and asset management, including how its efficiency has changed over time and how its performance compares with that of similar councils.

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

- number of full time equivalent (FTE) staff increased then decreased again, resulting in an average decrease of 0.1% per annum
- ratio of population to FTE increased by an average of 0.6% per annum, and
- average cost per employee increased by an average of 6.8% per annum.

However, its employee costs as a percentage of its operating costs decreased by an average of 5.5% per annum.

Table 4.7 shows that the council's:

- Ratio of FTE staff to LGA population is lower than the Group 4 average. It has 1 FTE for every 61.9 residents, whereas the Group 4 average is 1 FTE for every 108.1 residents.
- Operating expenditure per capita is around twice as high as the Group 4 average. This may relate to council's area being more than 3.5 times bigger and the population being approximately half the Group 4 average. However, we consider that there is an opportunity for the council to improve its operating expenditure per capita.

These performance indicators only provide a high-level overview of the council's productivity at a point in time. Additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings.

Table 4.6 Trends in selected performance indicators, for Snowy Monaro Regional Council, 2017-18 to 2020-21

Performance indicator	17-18	18-19	19-20	20-21	Average annual change (%)
FTE staff (number)	340	360	369	339	-0.1
Ratio of population to FTE	60.8	57.6	56.4	61.9	0.6
Average cost per FTE ($)	80,841	85,922	91,157	98,599	6.8
Employee costs as % of operating expenditure (General Fund only) (%)	41.4	43.8	45.0	35.0	-5.5

Source: IPART calculations.

Table 4.7 Select comparator indicators for Snowy Monaro Regional Council

	Snowy Monaro	OLG Group 4 Average	NSW Average
General profile			
Area (km2)	15,164	3,903	5,454
Population	20,997	40,091	64,138
General Fund operating expenditure ($m)	81.6	77.9	94.5
General Fund operating revenue per capita ($)	2,806	2,441	
Rates revenue as % of General Fund income (%)	36.8	37.4	46.1
Own-source revenue ratio (%)	54.2	57.4	67.2
Productivity (labour input) indicators			
FTE staff	339.0	370.8	380.8
Ratio of population to FTE	61.9	108.1	168.4
Average cost per FTE ($)	98,599	87,798	98,920
Employee costs as % of operating expenditure (General Fund only) (%)	35.0	36.3	37.7
General Fund operating expenditure per capita ($)	3,888	1,943	1,474

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 OLG Assessment Criteria in Appendix A for full details.

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.

Over the past 5 years, the council has received 1 SV. Specifically, for 2022-23, the council was granted a permanent alternative special variation (ASV) to increase its general income by 2.3% (including the rate peg).

The condition set out in the SV instrument requires the council to report on a number of matters for the year 2022-23 in its annual report. At the time it made its application, the 2022-23 financial year had not yet concluded, and the council had not prepared its annual report.[21]

5 IPART's decision on the special variation

Based on our assessment against the OLG Guidelines and consideration of stakeholder submissions, we have granted the council a permanent 4-year SV of 52.48% (including the rate peg). This comprises a 12.25% increase in 2023-24, followed by 10.75% each year in 2024-25, 2025-26 and 2026-27.

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	2024-25	2025-26	2026-27
Permanent increase above the rate peg	8.25	8.25	8.25	8.25
Rate peg[a]	4.00	2.50	2.50	2.50
Total increase	12.25	10.75	10.75	10.75
Cumulative increase	12.25	24.32	37.68	52.48

Note 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.

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, Table 5.2 sets out the expected impacts on ratepayers under the approved SV. It shows that 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 $576 or 58.8% by 2026-27
- the average business rate would increase by $241 or 15.6% by 2026-27
- the average farmland rate would increase by $1,050 or 51.8% 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	979	1,145	1,268	1,404	1,555		
$ increase		165	123	136	151	576	
% increase		16.9	10.8	10.8	10.8		58.8
Business average $ rates	1,546	1,314	1,457	1,613	1,787		
$ increase		-231	142	157	173	241	
% increase		-15.0	10.8	10.8	10.8		15.6
Farmland average $ rates	2,025	2,264	2,507	2,777	3,075		
$ increase		239	243	270	298	1,050	
% increase		11.8	10.7	10.8	10.8		51.8

Note: These figures have been rounded in calculation and therefore summations may not add up to 100%.
Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

5.2 Impact on the council

Table 5.3 shows the percentage increases we have approved and the estimated annual increases in the council's permissible general income (PGI). This extra income will enable the council to maintain its infrastructure and service levels. These increases can remain in the rate base permanently.

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

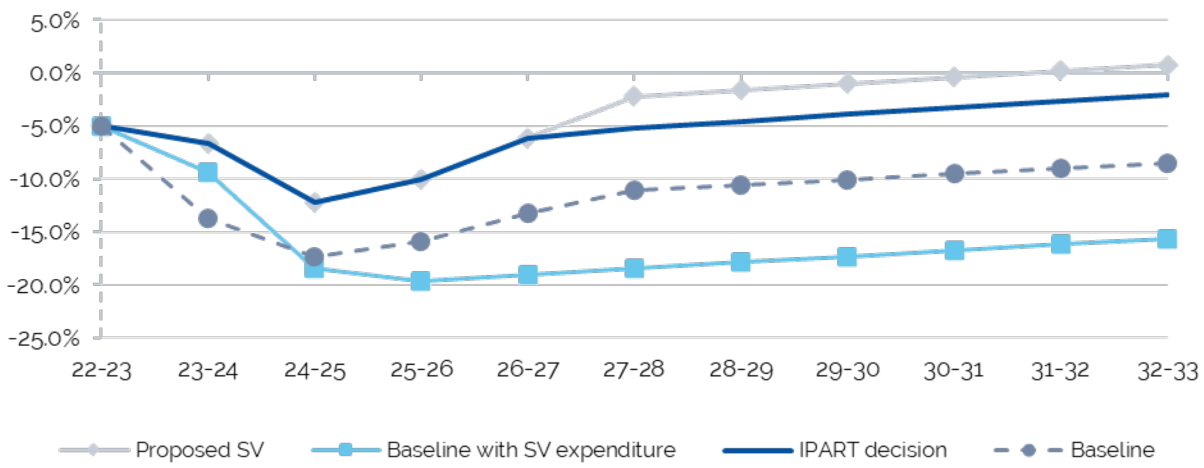
	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	12.25	12.25	1,480.9	2,199.5	20,150.4
2024-25	10.75	24.32	3,180.4	4,365.7	22,316.6
2025-26	10.75	37.68	5,101.0	6,764.7	24,715.6
2026-27	10.75	52.48	7,267.6	9,421.7	27,372.6
Total cumulative increase approved	52.48		17,030.0		

Source: Snowy Monaro Regional Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

We have projected the council's OPR and net cash (debt) to income ratio with the approved SV and its proposed SV expenditure. We found that under this scenario, the council's:

- OPR will continue to decline up to 2024-25, then improve through to 2032-33. While it will remain below the OLG benchmark of greater than zero, the OPR will be better than under the Baseline Scenario (see Figure 5.1 and Table 5.4).
- Net cash to income ratio will decline, but at a significantly slower rate than under the Baseline Scenario (see Figure 5.2).

Figure 5.1 The council's projected OPR with approved SV and proposed SV, 2022-23 to 2032-33



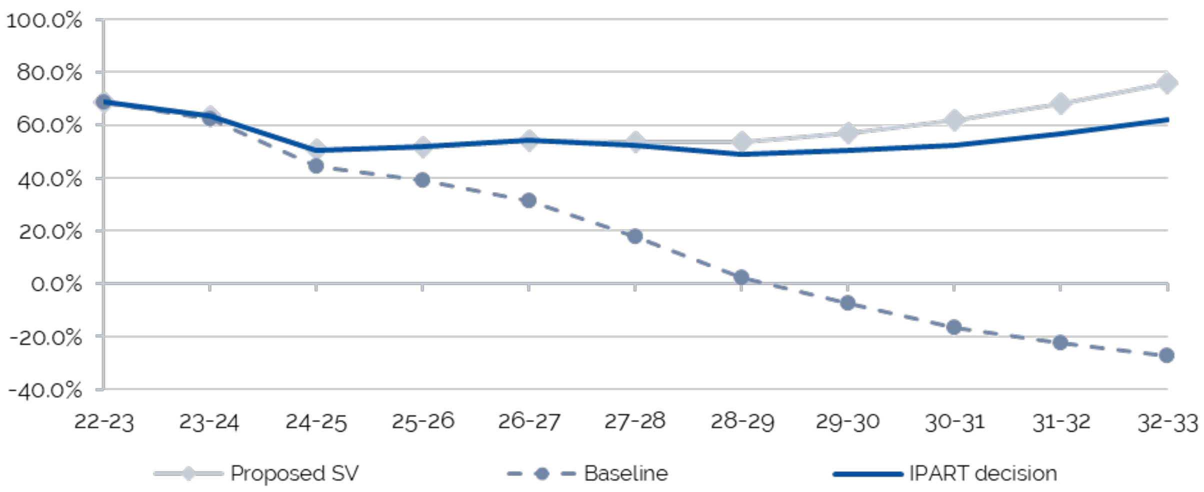
Note: OPR shown excludes capital grants and contributions.
Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

Table 5.4 The council's projected OPR with approved SV and proposed SV expenditure, 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	-6.6	-12.2	-10.1	-6.2	-2.2	-1.6	-1.0	-0.4	0.2	0.8
Baseline	-13.7	-17.4	-15.9	-13.3	-11.1	-10.6	-10.1	-9.5	-9.0	-8.5
Baseline with SV expenditure	-9.4	-18.4	-19.6	-19.0	-18.5	-17.9	-17.3	-16.8	-16.2	-15.6
IPART decision with SV expenditure[a]	-6.6	-12.2	-10.1	-6.2	-5.2	-4.6	-3.9	-3.3	-2.7	-2.0

a. The IPART decision with SV expenditure assumes the council will pursue its SV program of expenditure up to 2026-27.

Figure 5.2 The council's projected net cash (debt) to income ratio with approved SV and proposed SV expenditure, 2022-23 to 2032-33 (%)



Note: Baseline Scenario includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.
Source: Snowy Monaro Regional Council, Application Part A and IPART calculations.

If the council were to apply for another SV in the future, we would expect the council to:

- consult more clearly with the community to ensure the extent of the SV it is applying for is well understood
- accurately calculate the cumulative increase to its general income
- communicate the average annual increases and cumulative percentage increases across various ratepayer categories
- continue identifying and implementing productivity savings and cost containment measures.

Appendices

A OLG 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 OLG criteria in the guidelines to assess councils' applications. In brief, the 6 OLG 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.[9]

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business-as-usual model, and exclude the special variation, and

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

- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish 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[h] 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 OLG criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the OLG criteria is a matter for IPART.

[h] 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 Snowy Monaro Regional 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 Snowy Monaro Regional 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
Total revenue	106,440	133,264	100,037	75,413	80,519	83,605	86,496	89,444	92,421	95,612
Total expenses	65,157	72,651	75,854	78,050	80,315	82,654	85,068	87,560	90,130	92,788
Operating result from continuing operations	41,283	60,613	24,183	-2,637	204	951	1,428	1,884	2,291	2,824
Net operating result before capital grants and contributions	-3,871	-7,727	-6,748	-4,344	-1,542	-1,109	-649	-157	371	928
Cumulative net operating result before capital grants and contributions	-3,871	-11,598	-18,346	-22,690	-24,232	-25,341	-25,990	-26,147	-25,776	-24,848

Source: Snowy Monaro Regional Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table B.2 Summary of projected expenditure plan for Snowy Monaro Regional 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
Enhanced asset management planning and reporting	280	292	305	316	327	338	350	362	375	388
Enhanced property management and maintenance scheduling	153	160	167	173	179	185	191	198	205	212
Enhanced staff training and development	214	221	228	235	242	249	256	263	271	279
Buildings renewals	0	0	0	0	1,500	2,100	1,500	1,500	500	1,500
Road renewals	834	1,978	3,857	5,866	6,064	5,937	6,406	6,739	6,445	7,370
Bridges renewals	0	530	544	557	571	586	600	615	631	646
Other Structures renewals	0	0	0	122	483	205	536	407	1,910	200
Stormwater renewals	0	0	0	0	343	351	360	369	378	388

Note: Numbers may not add due to rounding.
Source: Snowy Monaro Regional 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.
Permissible General Income / 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
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] Snowy Monaro Regional Council, Special Variation Application Part A, March 2023, Worksheet 1 – Identification.
[2] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, p 10.
[3] Snowy Monaro Regional Council, - Attachment – Community Engagement Materials, pp 14.
[4] Snowy Monaro Regional Council, Community Feedback – SMRC Community Engagement Report, pp 14-18.
[5] Snowy Monaro Regional Council, Special Variation Application Part A, March 2023, Worksheet 1 - Identification.
[6] Snowy Monaro Regional Council, Long Term Financial Plan, 2022 – 33, p 8.
[7] Snowy Monaro Regional Council, Long Term Financial Plan, 2022 – 33, p 8.
[8] Office of Local Government, Performance Benchmarks, May 2020.
[9] Snowy Monaro Regional Council, Special Variation Application Part A, March 2023, Worksheet WK7 – Financials.
[10] Snowy Monaro Regional Council, Long Term Financial Plan, 2022 – 33, pp 8-10.
[11] AEC Group Ltd, Financial Sustainability Review, Snowy Monaro Regional Council, October 2022, pp ii-iv.
[12] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, p 10.
[13] Snowy Monaro Regional Council, - Attachment – Community Engagement Materials, p 12.
[14] Snowy Monaro Regional Council, Community Engagement Report Proposed SRV from 2023/24, p 13.
[15] Snowy Monaro Regional Council, Community Engagement Report Proposed SRV from 2023/24, pp 14-18.
[16] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, pp 10-11.
[17] AEC Group Ltd, Financial Sustainability Review, Snowy Monaro Regional Council, October 2022, p 37.
[18] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, p 46.
[19] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, pp 55-56.
[20] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, pp 57-59.
[21] Snowy Monaro Regional Council, Special Variation Application Part B, March 2023, pp 19-20.

ISBN 978-1-76049-646-3