Strathfield Municipal Council

Special Variation and Minimum Rate Increase Application for 2023-24

Final Report

June 2023

Local Government »

Acknowledgment of Country

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

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

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

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

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Foreword from the Chair

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Carmel Donnelly PSM
IPART Chairperson

1 Executive summary

Strathfield Municipal Council (the council) applied to IPART to increase its general income by a cumulative 92.83% (including the rate peg) through a permanent special variation (SV) over the 4 years from 2023-24 to 2026-27. It indicated that if its SV application is successful, it will reduce the annual domestic waste charge for each residential ratepayer by $245 – offsetting the equivalent to a 20.3% SV impact on residential ratepayers.[1]

The council also applied to IPART to introduce a minimum rate to replace its current base rate structure. This includes an increase in the level of its minimum rates (MR) by a cumulative 93% for residential ratepayers and a cumulative 59% for business ratepayers over the 2 years from 2023-24 to 2024-25.

The council sought the SV to become financially sustainable and maintain its existing service levels. It sought the MR increase to rebalance its rating income from houses and apartments to improve equity and help support a growing population.

1.1 IPART's decision

We have approved the council's proposed SV and MR increase.

- Our decision on the SV means it can raise up to an additional $45.6 million in total general income (above the assumed rate peg) over the period 2023-24 to 2026-27, and permanently retain this revenue in its rate base.
- Our decision on the MR increase means it can raise its minimum rate from $620 to $1,200 for residential ratepayers and from $754 to $1,200 for business ratepayers over the period 2023-24 to 2024-25.

We understand some ratepayers consider the SV will create affordability challenges – particularly when combined with other cost-of-living pressures. In addition, some ratepayers have concerns about the council's financial management.

In making our decision we had regard to the purpose of the SV being to ensure the council becomes financially sustainable and avoids the need to make substantial cuts to its core infrastructure and services.

The council has advised us that without the SV, its financial position will continue to deteriorate. The council forecasts that it would run an operating deficit of about $13 million every year on average. Without additional income, it told us it will be unable to maintain its current infrastructure and service levels. It expects that it will exhaust all its unrestricted cash by 2026 and its total cash by 2029. We also found that the council has already undertaken a thorough service review, and subsequently made wide-ranging changes to cut costs, improve productivity, reduce loss-making services and increase revenue. Overall, we consider that the council has demonstrated that the impact of the SV on ratepayers is generally reasonable given the proposed purpose of the SV. Its current average rates for both residential and business ratepayers are low to very low relative to those of its neighbouring councils and other comparable councils, while the median household income in its area is relatively high. With the SV, its average residential rates in 2026-27 are still expected to be below or in line with the average for comparable councils, but its average business rates are expected to be well above the average for comparable councils.

We note that the council's proposed MR increases in 2023-24 and 2024-25 are substantially higher than its proposed average rate increases. The council's proposed reduction in the annual domestic waste charge for residential ratepayers will offset some of the SV's impact on all residential ratepayers from 2023-24.

Nevertheless, the cumulative impact of the rate rises is still large. We acknowledge this impact is likely to create affordability issues for ratepayers in some pockets of the Strathfield area where there are higher levels of disadvantage.

1.2 IPART's assessment of the council's application

To make our decision on the special variation, 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 this SV met these criteria. Our assessment against each OLG criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to improve its financial sustainability while maintaining its service levels. It indicated that without the SV, it expects to run at an operating deficit over the next 10 years and exhaust its unrestricted cash reserves before 2026. With the SV, it would be able to maintain current service levels and renew infrastructure that is in poor condition. The council canvassed alternatives to the SV.
02	Demonstrated	**Community awareness** The council provided evidence that it consulted with ratepayers and that the community is appropriately aware of the need for, and extent of the proposed rate rises. However, the council could have made it clearer what rates would have been without the SV in future years.
03	Demonstrated	**Reasonable impact on ratepayers** The council demonstrated that the SV's impact on ratepayers is reasonable. Although large, the proposed rate increases will be implemented over 4 years and bring the council's average residential rates in line with the average for comparable councils. The council's capacity to pay analysis indicated that the community overall could afford the rate rises. However, we acknowledge some ratepayers in pockets of the local government area that are relatively disadvantaged may face affordability challenges.
04	Demonstrated	**Integrated Planning and Reporting (IP&R) documentation** All necessary IP&R documents were appropriately exhibited, approved and adopted.
05	Demonstrated	**Productivity improvement and cost containment** The council outlined a wide range of productivity and cost containment strategies implemented to date, and identified proposed strategies over the SV period. It also quantified its achieved and forward-looking ongoing savings, which are substantial.
06		**Other matters IPART considers relevant** The council last applied for an SV in 1994.

1.2.1 Minimum rates

To make our decision on the MR increase we assessed the council's proposed increase against the 3 criteria set by the OLG's Minimum Rate Guidelines.[2] We found that the proposed MR increase met these criteria. Our assessment against each OLG criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Rationale for increasing minimum rates** The council explained that the MR increase would rebalance its rating income to ensure ratepayers who own units or apartments pay a more equitable share, and to support service provision to its growing population. Much of this growth is due to the construction of apartment buildings in infill developments.
02	Demonstrated	**Impact on ratepayers** The council identified the cumulative increase by 2024-25 would be $580 for residential and $446 for business minimum rates. It indicated that it expects around 77% of residential ratepayers and 46% to 55% of business ratepayers to be on the minimum rate.
03	Demonstrated	**Community awareness** The council showed it had made the community aware of the proposed increase in the minimum rates, provided the reasoning for this increase and considered community feedback.

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 and MR applications against require the council to provide evidence of the consultation it has undertaken with its community, and we take this into account as part of our assessment.

Strathfield Municipal Council consulted on its proposed SV and MR increase with its community using a variety of engagement methods. It received 248 responses to its survey on the proposed increases. For context, it collects rates from approximately 16,545 residential and 1,429 business properties.

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. We received 1 submission, which raised concerns about:

- the affordability of proposed rate increases on house owners
- the council's financial management
- the council's consultation with the community
- the council's current service levels.

1.4 Next steps for the council

The council's proposed increases in its average rates and MR level are outlined below. The council retains the discretion to revise how it raises its general income across the rating categories.

Ultimately, the council needs to balance the impacts on all ratepayers with its long-term financial sustainability and decide on what is in the best interests of the community. Our determination sets the *maximum* amount by which the council can increase its rates revenue from 2023-24 to 2026-27. The council can choose to set its rates below this maximum amount, for example by deferring any increase for up to 10 years.[3] In addition, we encourage the council to address the affordability issues for ratepayers in the parts of the Strathfield area where there is relatively more disadvantage in its planned review of its hardship policy.

The council will still need to deliver on its proposed productivity improvements and program of cost saving measures. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.1 Council's proposed increase in average rates

Average Rate	2023-24	2024-25	2025-26	2026-27	Cumulative increase
Residential	33.6%	13.0%	17.5%	7.5%	90.7%
Business	38.7%	13.0%	17.5%	7.5%	97.9%

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

Table 1.2 Council's proposed minimum rates

Minimum Rate	2023-24	2024-25
Residential	1,040	1,200
Business	1,040	1,200

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

The rest of this report explains how and why we reached our decision on Strathfield Municipal Council's proposed special variation and minimum rate increase in more detail.

2 The council's special variation and minimum rate applications

Strathfield Municipal Council applied to IPART to increase its general income through a permanent SV of 35.1% in 2023-24, 13.0% in 2024-25, 17.5% in 2025-26, and 7.5% in 2026-27. This is a 92.83% cumulative increase (including the rate peg) over the 4 years to 2026-27.

The council sought this special variation to:

- become financially sustainable and
- maintain its existing service levels.

The council indicated that in conjunction with the SV, it would reduce the annual domestic waste management charge for each residential ratepayer by $245. This would offset approximately 20.3% of the proposed SV increase, with no changes to the waste service delivered.[4]

As part of the SV package, the council also applied to IPART to increase its minimum rates (MR) above the statutory limit. It applied to increase the residential MR by 68% in 2023-24 and 15% in 2024-25, for a cumulative increase of 93%. It applied to raise the business MR by 38% in 2023-24 and 15% in 2024-25, for a cumulative increase of 59%.

The council has sought these minimum rate increases to:

- create a more equitable distribution of rates between detached dwellings and apartments/units
- support service provision for a growing population.[5]

2.1 Impact on ratepayers

The council proposed that rates would increase in each year of the 4-year SV period. On average, it proposed that:

- residential rates would increase by $767 or 90.7% by 2026-27
- business rates would increase by $4,051 or 97.9% by 2026-27.

In addition, the council proposed that minimum rates would increase in each year of the 2-year MR period. It proposed that the:

- residential minimum rate from 2023-24 to 2024-25 would increase from $620 to $1,200.
- business minimum rate from 2023-24 to 2024-25 would increase from $754 to $1,200.

As noted above, the council also proposed that in conjunction with the SV, it would reduce the annual domestic waste management charge for each residential ratepayer in 2023-24, and maintain the charge at the reduced level. This would offset some of the impact of its proposed rates and MR rate increases on residential ratepayers.

The council provided the number of rate notices that were issued in each category in 2022-23 (Table 2.1).

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	16,547
Business	1,429

Source: Strathfield Municipal Council, Application Part A

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay. It commissioned a consultant to prepare a capacity to pay report. This report examined the socio-economic characteristics of the Strathfield local government area (LGA) and compared them to those of other LGAs. For example, these characteristics include the levels of employment, income and expenditure, housing costs, and the levels of home ownership and renting.

The report concluded that the community in general has the capacity to pay the proposed higher rates. This conclusion appears to rely primarily on Strathfield LGA's socioeconomic ranking. The LGA's SEIFA ranking places it in the 61st percentile of all Australian LGAs (see Box 4.3 for more information on SEIFA rankings). This means it is more advantaged than about 61% of all Australian LGAs.

The report also found that within the LGA, there are some areas of relative disadvantage. For example, the South Strathfield area, which includes Greenacre and Belfield, has a SEIFA score that would place it in the 37th percentile.[a] The Homebush area's SEIFA score would place it in the 54th percentile of all LGAs.[b] These areas appear less likely to have capacity to pay than the LGA as a whole.

However, in its application, the council indicated that it expected many residents in these areas are not ratepayers and so would not be directly impacted by the SV. The council has suggested this is because they include:

- large proportions of social housing tenants (Belfield 17%, Greenacre 27%)
- large proportions of private renters (Belfield 21%, Greenacre 27%, Homebush 56%).

The council also noted that it expects that residential ratepayers in the South Strathfield area would experience the smallest rate rises across the LGA. For example, the average estimated increase by 2026-27 would be $7 a week in Belfield, and $8 week in Greenacre.[c]

Given these factors, and an appropriate hardship policy, the council concluded there is capacity to pay the proposed rate rises.

[a] Strathfield South, including Greenacre and Belfield, is only in the 37th percentile of all Australian LGAs on SEIFA ranking. This means these areas are more disadvantaged than about 63% of all Australian LGAs.

[b] This means that if the Homebush area within Strathfield LGA is compared with all other LGAs in Australia, about 54% of those LGAs are more disadvantaged than the Homebush area.

[c] Strathfield Municipal Council SV application, Part B, p35 and Strathfield Municipal Council Capacity to Pay report, p2.

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

The council estimated that the proposed SV would result in a cumulative increase in its permissible general income of $45.6 million above what the assumed rate peg would deliver over the 4-year SV period.

2.4 Service review

The council's SV application outlined a wide range of productivity and cost containment measures implemented to date and identified several measures it proposes to apply over the SV period. Most of these measures were identified in a wide-reaching internal service review,[6] and are quantified and included in its Long-term Financial Plan (LTFP). The council's SV application indicated that the ongoing savings associated with the achieved and proposed measures are substantial.

2.5 Further information provided

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

- clarification on the adoption of the council's Asset Management Plan
- clarification on any changes between the November 2022 LTFP and Delivery Program and that of the documents adopted on 28 February 2023
- further information on the timeline of the exhibition of the Delivery Program
- clarification on the community survey which was part of the council's public consultation.
- clarification on the new rating categories proposed by the council
- clarification on the most up-to-date version of the LTFP
- information on which of its publicly exhibited documents included a breakdown of proposed rates for the new categories
- a description of how it determine its proposed new MR values
- a breakdown of revenue generated from minimum rated properties
- a breakdown of projected SV revenue above the rate peg from each rating category.

In response to this request, the council:

- confirmed that the Asset Management Plans were not provided to Council for adoption
- specified that the November 2022 LTFP and Delivery Program were the documents placed on exhibition from 6 December 2022 to 31 January 2023 for the purposes of the SV application
- confirmed that IPART had the correct copy of the community consultation survey

- provided details of the rating categories
- provided the most recent version of the LTFP
- provided information about further public consultation materials
- provided its calculations for the minimum rate values
- provided further information of the breakdown of revenue from minimum rated properties and from each rating category.

3 Stakeholders' submissions to IPART

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

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period, and stakeholders could make submissions directly to us.

3.1 Summary of submissions we received

We received 1 submission from a stakeholder. The Tribunal has taken this submission into account in making its decision in accordance with our Submissions Policy. This submission supported the council's proposed MR increase and supported the SV to the extent it related to the proposed MR increase, but otherwise opposed the council's proposed SV (particularly the proposed rate rises in 2025-26 and 2026-27).

There are approximately 18,000 ratepayers in the council's local government area.

The key issues and concerns raised in this submission, and our response to each, are summarised below.

3.1.1 Affordability of proposed rate increases

The submission raised concerns about the impact of the council's proposed SV increase on the affordability of rates for detached housing and suggested this would lead to financial hardship. The submission noted the area's diverse socio-economic demographic and the presence of a high inflationary environment. The submission noted the rise in mortgage interest rates and the impact on individuals with fixed incomes.

For ratepayers experiencing financial hardship, the council has hardship policies in place. See section 4.3.3 for more information.

3.1.2 The council's financial management

The submission raised concerns around the council's historical financial management.

Our assessment of the council's efficiency is discussed in section 4.5.We do not audit council finances, as this is not part of our delegated authority.

3.1.3 The council's consultation with the community

The submission said the council's consultation with the community on the proposed SV lacked transparency and was misleading. Specifically, it expressed the view that the final SV proposal, which had been modified in response to stakeholder feedback received through consultation on the original proposal, was not widely communicated to the community.

In addition, the submission noted that the council's consultation materials relied on 2019 land valuation figures while rates will be based on 2022 land values. It said this made it difficult for residents to accurately understand the impact of the proposed change. Our assessment of the council's consultation with the community is in section 4.2.

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 will result in some individual ratepayers paying either higher or lower rates. These changes 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.[d]

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:

ad valorem component = amount in the dollar × 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.

[d] 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.

Box 3.1 Effect of land valuation on rates

A routine increase in a ratepayer's land value by the Valuer-General does not mean that a 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.

3.1.4 The council's service level

The submission put the view that the council's current service level is too high. It raised specific concerns about the council's discretionary expenditure on services and infrastructure, such as the "Connector" bus service and the tech program for seniors. It said much of this expenditure is not necessary, particularly given the location of facilities in adjacent areas with very small populations.

The council sets its service level in consultation with its community during the IP&R process. We do not assess the service level, as this is not part of our delegated authority. However, we note that the council is currently reviewing the provision of the "Connector" bus service as part of a broader service review.

4 IPART's assessment of the council's SV application

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

- demonstrated a financial need for the proposed SV to improve its financial sustainability and maintain its current services
- consulted with its community and showed that it had informed the community about the need for and extent of the SV
- assessed the impact of the SV on ratepayers and showed that it is generally reasonable
- exhibited, approved and adopted its IP&R documentation appropriately
- showed it has implemented productivity and cost containment strategies in the past and proposes to implement further strategies over the SV period, with substantial ongoing savings
- has not applied for an SV in the past 5 years.

Our assessment against each OLG criterion is discussed below.

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

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

Note: See appendix A for the full assessment criteria

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

[e] By delegation dated 6 September 2010, the Minister for Local Government delegated to the Tribunal all her functions under sections 506, 507, 508(2), 508(6), 508(7), 508A, 548(3) and 548(8) of the *Local Government Act 1993* (NSW), pursuant to section 744 of that Act.

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

4.1.1 Stakeholder comments on financial need

In the single submission to us, the stakeholder raised a range of concerns related to the financial need criterion. In particular, they expressed the view that the council:

- had not adequately demonstrated the need for the SV over the rate peg in 2025-26 and 2026-27
- had introduced discretionary services that are unnecessary and not related to its core business.

We considered these concerns, taking account of all the information available to us.

4.1.2 The council's IP&R documents and application

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

The council's application indicated that, over the next 10 years, it is forecast to run an operating deficit of about $13 million every year on average. Without additional income, it will be unable to maintain its current infrastructure and service levels. It expects that it will exhaust all its unrestricted cash reserves by 2026 and its total cash by 2029.[7]

The council's IP&R documents identify a range of factors contributing to the deterioration of the performance of the general fund, including:

- long-term impacts of rate capping that don't reflect economic conditions
- high inflation
- cost shifting from other levels of government
- previous council decisions.[8]

These documents outline the council's consideration of alternatives to the SV.

The LTFP indicates that with the additional SV income, the council would be able to maintain existing service levels and renew infrastructure in poor condition. In particular, this income would be used to fund a range of basic infrastructure including:

- park assets
- roads
- stormwater drainage
- buildings
- footpaths
- kerbs and gutters
- bridges
- land improvements.[9]

The council's SV consultation website further specifies that the SV revenues would be used to renew 50% of all roads and 100% of footpaths.

We note that the council's initial Part A of its application contained 2 key errors in the modelling of the Baseline Scenario, which was also present in the LTFP. The Baseline Scenario should represent a scenario with no change in rates income. However, the baseline modelled for the council's LTFP included the following components:

- transferring $4 million of Domestic Waste Management revenue to general rates revenue, which is equivalent to a 20.3% increase in general rates
- replacing the current rate structure with a minimum rate structure, increasing to a minimum rate of $1,200 over 2 years.[10]

Both of these components represent an increase in rates income, and are subject to IPART's approval through the SV and MR increase processes. Therefore they should not be included in a baseline scenario. When we raised this with the council, it resubmitted Part A of the application with these components excluded. These errors masked an even greater financial need for the SV than was initially the case.

For our analysis of the council's financial performance and position (section 4.1.3) we used the information in the council's revised Part A application.

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. We calculated financial forecasts under 3 scenarios:

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

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

Impact on Operating Performance Ratio

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.[11] 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 0%.

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

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

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

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

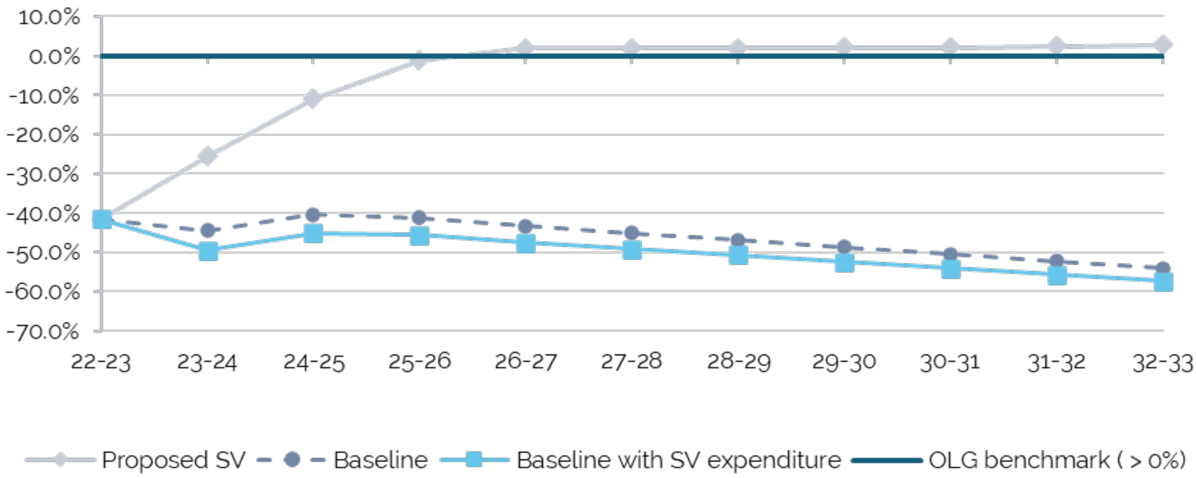
We calculated the council's forecast OPR over the next 10 years under the 3 scenarios (see Figure 4.1 and Table 4.1). We found that over the next 5 years[f]:

- **under the Baseline Scenario,** the council's average OPR would be -42.9%, which is significantly below the OLG benchmark of greater than 0%
- **under the Baseline with SV expenditure Scenario**, the council's average OPR would be -47.4%, which is even further below the OLG benchmark
- **under the Proposed SV Scenario**, the council's average OPR would be -6.7%, which is still below (but closer to) the OLG benchmark of greater than 0%.

This suggests that without the SV, the council may not be able to maintain current service levels and expenditure. In this situation, the council may not be financially sustainable.

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

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



Source: Strathfield Municipal Council, Application Part A
Note: OPR shown excludes capital grants and contributions

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

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-25.5	-11.0	-1.1	2.0	2.0	1.9	2.0	2.1	2.4	2.7
Baseline	-44.5	-40.5	-41.2	-43.4	-45.1	-46.9	-48.8	-50.6	-52.3	-54.1
Baseline with SV expenditure	-49.5	-45.1	-45.6	-47.6	-49.2	-50.8	-52.5	-54.1	-55.7	-57.3

Source: Strathfield Municipal Council, Application Part A

Impact on net cash

A council's net cash (or net debt) position is another indicator of its financial position. 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 $43.7 million in cash reserves. Of these funds:

- **$22.6 million was externally restricted** (i.e., subject to external legislative or contractual obligations, such as unexpended loans, developer contributions, stormwater and domestic waste management)
- **$17.4 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)
- **$3.7 million was unrestricted** (i.e., can be used to fund the council's day to day operations).

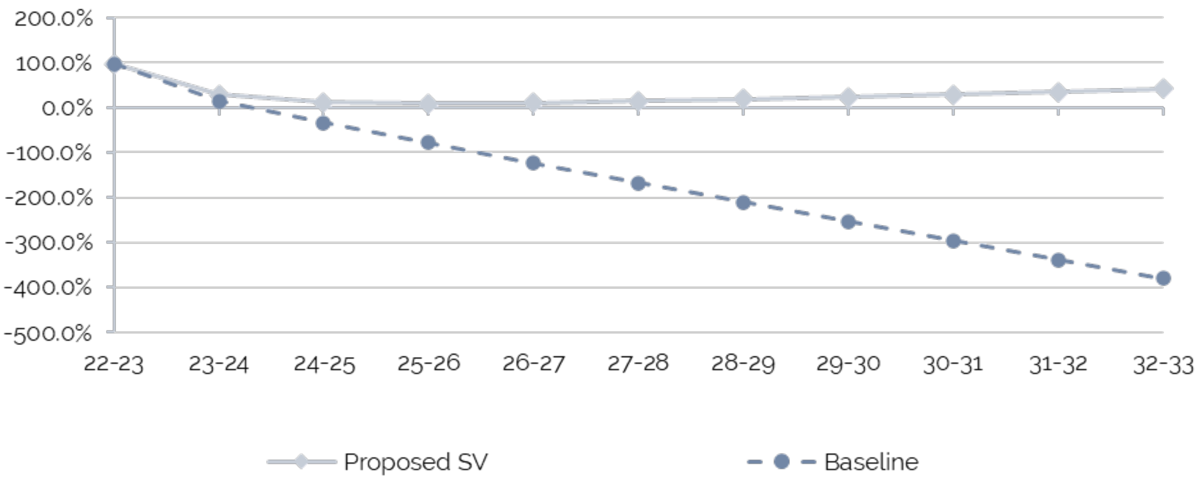
This suggests that the majority of the council's cash reserves are committed to other purposes and are not available to fund the proposed SV expenditure.

We calculated that as at 30 June 2023, the council will have a net cash of $29.7 million and a net cash to income ratio of 96.8%. As Figure 4.2 shows, our analysis found that over the next 10 years:

- **under the proposed SV Scenario**, this net cash to income ratio would fall to 8.9% in 2025-26 and then rise steadily until it reaches 42.4% in 2032-33
- **under the Baseline Scenario**, this ratio would fall consistently and substantially, and by 2032-33 the council would have a net cash (debt) to income ratio of -379.5%.

This suggests that the SV is needed to avoid a significant, continuing decline in the net cash position over the longer term.

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



Source: Strathfield Municipal Council, Application Part A and IPART calculations.

Taking account of the council's OPR and net cash position, we consider the council is in financial need for the proposed SV to support its financial 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, infrastructure renewals and asset maintenance ratios, and compared them to OLG's benchmarks:

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

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

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

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

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

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

Infrastructure renewals ratio

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

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

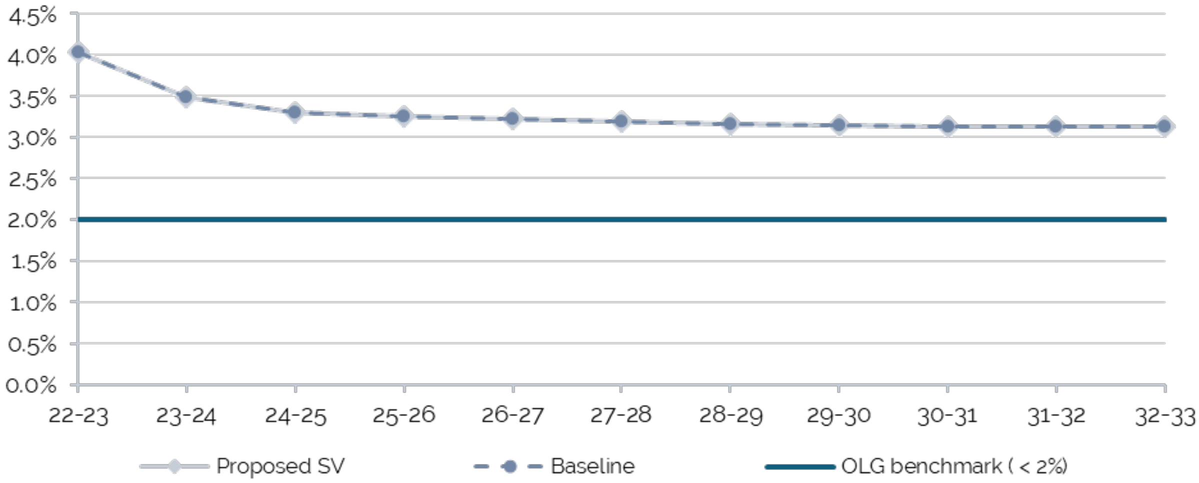
OLG has set a benchmark for the ratio of greater than 100%.

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

Impact on infrastructure backlog ratio

As Figure 4.3 shows, we found that the council's infrastructure backlog ratio would be the same under both the Baseline and the Proposed SV Scenarios. The data used to create Figure 4.3 is provided by the council. However, the information the council has provided to IPART suggests it intends to spend some of the revenue from the SV on capital expenditure, which may influence the infrastructure backlog ratio. Additionally, the council has stated that it plans to borrow up to $42 million to fund its asset renewal program.[12] Over the next 5 years, its average backlog ratio would be 3.3% over the next 5 years, which does not meet the OLG benchmark of less than 2%.

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

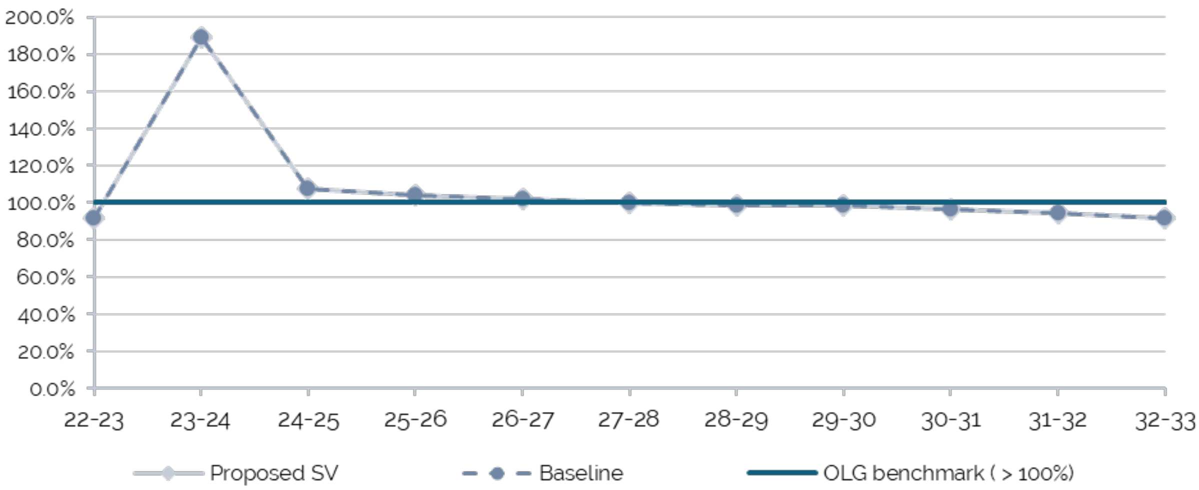


Source: Strathfield Municipal Council Application Part A

Impact on infrastructure renewals ratio

Similarly, the council's infrastructure renewals ratio would be the same under both the Baseline and the Proposed SV Scenario. The data used to create Figure 4.4 is provided by the council. However, the information the council has provided to IPART suggests it intends to spend some of the revenue from the SV on capital expenditure, which may influence the infrastructure renewals ratio. As Figure 4.4 shows, this ratio would meet the OLG's benchmark of greater than 100% over the SV period (2023-24 to 2026-27) under both scenarios, then would decline slowly over time, dipping slightly below 100% by 2028-29 and reaching 91.8% by 2032-33.

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



Source: Strathfield Municipal Council, Application Part A

Alternatives to the rate rise

As required, 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.

The council's SV application stated that the council conducted an extensive service review before deciding to apply for an SV. The council's Delivery Program and Long-Term Financial Plan outline the council's consideration of alternatives to the SV. The information provided indicates that it did consider and has pursued a wide range of alternatives to an SV to address its financial need. These include discontinuing some services, making productivity improvements, and increasing its revenue, including from fees and charges (see section 4.5.2 for more detail).

4.2 OLG Criterion 2: The council demonstrated community awareness

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

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

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

Note: See appendix A for the full assessment criteria

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

4.2.1 Stakeholder comments on community awareness

In their submission to us, the stakeholder expressed the view that the council's:

- community consultation materials did not accurately convey the full cumulative increase of the proposed SV and its impact on ratepayers
- community engagement strategy lacked variety and meaningful engagement.

We considered these concerns, alongside other available information.

4.2.2 Our assessment of the council's engagement and consultation

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

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

Information provided to ratepayers

We found that the material the council prepared for ratepayers on its proposed SV included most of the content needed to ensure ratepayers were well informed and able to engage with the council during the consultation process. For example, these materials explained:

- the need for the SV
- the alternative options the council had already pursued, the other measures in place to help address the financial deficit, and the service decline expected without the SV
- some of the council's efficiency and productivity measures
- how stakeholders could have their say
- the average annual increases and cumulative increases in both dollar and percentage terms for residential and business ratepayers with the SV over 4-year period
- the average annual increases and cumulative increases in percentage terms only for residential and business ratepayers without, expressed as the rate peg
- the reduction in the domestic waste management charge for residential ratepayers associated with the SV.

We also found that these materials were generally clear. However, the council could have made the extent of the proposed rate increases clearer for ratepayers by also expressing the annual and cumulative increases under the baseline (no SV, no SV expenditure) scenario in dollar terms.

In addition, as section 4.1.2 discussed, the modelling for the baseline scenario presented in the version of the LTFP the council consulted the community on included 2 errors. This means the LTFP did not accurately present the council's financial position without the SV. The LTFP incorrectly assumed additional revenue equal to the reduction in the domestic waste management charge (DMWC) had been approved. However, the council's consultation material did correctly consult on the impact of the ratepayers in both the size of the SV and the reduction of the DMWC. Overall, we are satisfied that the council demonstrated that the community is aware of the need for and extent of a rate rise.

Engagement methods used

We found the council used an appropriate and comprehensive range engagement methods to promote awareness of and obtain community views on its proposed rate increase. For example, throughout the consultation period, it:

- created a bespoke community engagement website that provided a range of information including:
  - a summary of its SV application
  - answers to Frequently Asked Questions
  - an information booklet in 10 languages
  - a link to the community survey
  - a link to the online submission form/feedback process and information on how the community can have their say
  - examples of future impacts of rates for different land values
  - links to its IP&R documents
  - a list of consultation opportunities
- directly mailed to all Strathfield LGA ratepayers, businesses and households:
  - a 4-page information pack
  - a letter from the mayor
  - an information flyer
- emailed the 4-page information pack to all Strathfield LGA ratepayers, businesses and households
- conducted an online community survey (which received 248 responses)
- gave stakeholders options to provide feedback through online and email submissions
- conducted community presentations by senior council staff and consultants, including:
  - 3 community information sessions (2 in person, 1 online) for which all residents received notification, and 1 of which was made available on the council's YouTube channel
  - 4 pop-up stalls to facilitate conversations with the community about the SV application
- produced special e-newsletter editions with information and an invitation to provide feedback
- made social media posts on the SV including Facebook, Twitter and Instagram
- published a media release
- provided signage and/or banners on council buildings and other key locations such as bus shelters. [13]

However, we did note some issues with the design of the online community survey. Specifically:

- The question "do you support Strathfield Council remaining financially sustainable? Yes/No"[14] is a leading question, which appears unlikely to generate many if any negative responses.
- The survey asks whether the respondent prefers Option 1 or 2 for the SV, referring to a 2-year or 4-year implementation period for the SV. However, there is no discrete choice available in the survey to prefer 'no SV'.

Process for community consultation

The council primarily consulted with the community on the proposed SV throughout December 2022 and January 2023. For example, on 6 December 2022 the council's website went live, mail out information packs were sent, and the community survey went live. Community presentations took place in December, with some pop-up stalls taking pace in January.[15]

We note that as this was also the new year's period, it could be considered a challenging time to engage with the community. However, the council supplied a range of metrics of engagement for its website, social media, mail out numbers, survey responses, and online submissions that suggest the community was nevertheless made aware of the proposal.

Outcomes of community consultation

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

We found that the council did consider the results of community consultation in preparing its application. For example, its report on community engagement indicated that:[16]

- Of the 248 respondents to its online community survey:
  - 56% said they preferred the proposed SV to be implemented over multiple years rather than the 1-year option
  - 81% said they were aware of the SV proposals
  - 70% said they understood the information provided by the council
  - Most of those who made open-ended responses were not supportive of the SV, and many said they would prefer the council to focus on better managing finances and costs.
- Of the 35 submissions received, the main themes were:
  - concerns about the affordability of the proposed rate rises and the community's capacity to pay given the rising cost of living and inflation
  - the perceived inequity in the council's current rating structure, with houses carrying a larger share of rates
  - concerns about the council's management of its finances, resources and costs, with many stakeholders indicating that they were shocked at the council's current financial state and concerned about poor council decision-making and wanted better transparency and accountability
  - the view that the council should focus on prioritising key services and making savings, rather than increasing rates.
- 2 submissions opposed the council's proposed changes to its rating structure, particularly the introduce of an industrial rating category and the associated rate increases, on affordability grounds.

In response to the consultation, the council resolved to apply for the minimum rate rise over 2 years rather than the initially proposed 4 years, and the SV over 4 years rather than the initially proposed 2 years.

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

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

Note: See appendix A for the full assessment criteria

To assess this OLG criterion, we considered stakeholder comments on the SV's impact on ratepayers, and analysed the council's assessment of the impact of its proposed SV on ratepayers. We also considered whether the council has policies in place to mitigate impacts of rate rises, including whether there is a hardship policy.

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

4.3.1 Stakeholder comments on impact on ratepayers

In the submissions to us, the stakeholder raised a range of concerns related to the reasonable impact criterion. In particular, they discussed that the proposed rate increases:

- disproportionately affect approximately 20% of ratepayers who own detached houses and is significant in years 3 and 4 of the proposed SV period
- may pose financial challenges for residents with lower incomes, such as pensioners and job seekers.

We considered these concerns, alongside other available information.

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

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

Overall, we found that while the proposed rate rises are significant, their impact on ratepayers in general is likely to be reasonable. This is because the council's current rates are generally low to very low compared to those of neighbouring and comparable councils. In addition, the median household income in its LGA is higher than all but one of the neighbouring LGAs (Canada Bay, whose council is also applying for an SV). However, we acknowledge that some areas within the LGA that are relatively disadvantaged, and the rate rises may create affordability challenges for ratepayers in these areas.

Impact on average rates

The council estimated the increase in average rates associated with its proposed SV for each main ratepayer category. As Table 4.2 shows, the council estimated that over the 4-year SV the average residential rate would increase by about 90.7% and the average business rates would increase by 97.9%.

As previously discussed, the council's proposed $245 reduction of in the annual domestic waste management charge is expected to offset some of the rate increase for residential ratepayers. We estimated that with this reduction, the net increase for these ratepayers over the 4 years is 61.7%.

Table 4.2 Impact of the approved special variation on average rates

	2022-23	2023-24	2024-25	2025-26	2026-27	Cumulative increase $	Cumulative increase %
Residential average $ rates	846	1,130	1,277	1,500	1,612		
$ increase		284	147	223	112	767	
% increase		33.6	13.0	17.5	7.5		90.7
Net Change (inc. DWMC reduction)		(245)				522	61.7
Business average $ rates	4,137	5,737	6,483	7,617	8,188		
$ increase		1,600	746	1,134	571	4,051	
% increase		38.7	13.0	17.5	7.5		97.9

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

Community's capacity to pay

The council commissioned and considered a capacity to pay report, which concluded that, overall, the community has capacity to pay the proposed rate increases. As section 2.2 discussed, this conclusion appears to be based primarily on the Strathfield LGA's relatively high SEIFA ranking. The report found this ranking means the LGA is more advantaged than about 61% of all Australian LGAs.

The report also found that there are areas of significant disadvantage in the LGA, including South Strathfield and Homebush. It stated that these areas have high proportions of private renters, and the impact of the rate rises will depend on the arrangements with their landlord. It indicated this impact is likely to be minimal but did not provide evidence to support this view.

We noted some shortcomings in the council's capacity to pay analysis. First, while it considered the cost-of-living changes between 2015-16 and 2020-21, it did not incorporate the impacts of the more recent increases in inflation and cost of living.

Second, it did not explicitly consider the community's willingness to pay. However, the council told us that it did consider willingness to pay in its public consultation about the closure of the Strathfield "Connector" bus service. In this way, at a high level, the community was made aware of the trade-off between rate levels and the services the council can afford to provide.

How the council's rates changed over time

Over the past 6 years, the average annual increases in the council's residential and business rates have been less than the rate peg. For example, as Table 4.3 shows, residential rates have increased at an annual average of 1%. This compares to the average rate peg of 2.1% over the same period.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	804	785	791	803	819	846	1.0
Business	4,747	4,931	5,063	4,409	4,497	4,137	-2.7

Note: FY22 is estimated based on FY21 escalated by the rate peg and FY23 is from the council's SV application
Source: IPART calculations

How the council's rates compare to other councils

Box 4.3 Comparable councils

In our analysis, we have compared Strathfield Municipal 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.
- Strathfield Municipal Council is in OLG Group 2 which is considered an urban metropolitan area and also includes Burwood Council, Hunter's Hill Council, Lane Cove Council, Mosman Council, and Woollahra Municipal Council.
- 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 here 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.
- Strathfield Municipal Council has a SEIFA rank of 113 which is high and indicates relative advantage
- The four councils with closest SEIFA rank within the OLG group 2 are Burwood Council, Lane Cove Council and Mosman Council.

Box 4.3 Comparable councils

Median household income

- The councils can be ranked by the median household income.
- We compared Strathfield Municipal Council to the three councils within OLG group 2 with closest median income ranking. These are Burwood Council, Lane Cove Council and Mosman Council.

Neighbouring councils

- We compared Strathfield Municipal Council to the neighbouring councils of Burwood Council, Canada Bay Council, Canterbury-Bankstown Council, City of Parramatta Council, and Cumberland Council.
- These councils are geographically close to Strathfield Municipal Council but do not necessarily share a common border.

The council's current average rates – that is, before the proposed SV – are low compared to those of its neighbouring councils and comparable NSW councils in terms of their SEIFA score (which measures their population's relative socio-economic disadvantage) and their population's median household income. As Table 4.4 shows, in 2022-23 the council's:

- **average residential rates** were significantly lower than those of all neighbouring councils, comparable councils based on both SEIFA score and income, and the average for other councils in its OLG group.
- **average business rates** were significantly lower than most of its neighbouring councils and comparable councils based on SEIFA score and income, but similar to the average for all other councils in its OLG group.
- **outstanding rates ratio** was lower than most of its neighbouring councils, but higher than those of comparable councils based on SEIFA score and income and the average for other councils in its OLG group.

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 2)	Average residential rate[a] ($)	Average business rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstanding rates ratio	SEIFA Index NSW[c] Ranking
Strathfield Municipal	846	4,137	109,460	0.8	5.2	113
Neighbouring councils						
Canada Bay	1,003	3,274	123,292	0.8	4.4	119

Council (OLG Group 2)	Average residential rate[a] ($)	Average business rate ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstanding rates ratio	SEIFA Index NSW[c] Ranking
Burwood	1,534	7,183	97,084	1.6	4.5	106
Canterbury-Bankstown	1,229	6,303	80,912	1.5	6.3	72
Cumberland	1,043	7,796	87,256	1.2	6.4	69
Parramatta	1,027	[d]	106,652	1.0	8.6	112
Average	**1,168**	**6,139**	**99,039**	**1.2**	**6.0**	**95.6**
Comparable councils (SEIFA)						
Hunters Hill	2,328	1,326	155,896	1.5	4.7	125
Lane Cove	1,356	5,122	145,652	0.9	4.7	126
Burwood	1,534	7,183	97,084	1.6	4.5	106
Average	**1,740**	**4,544**	**132,877**	**1.3**	**4.7**	**119**
Comparable councils (Income)						
Lane Cove	1,356	5,122	145,652	0.9	4.7	126
Mosman	1,553	3,356	150,384	1.0	3.3	128
Burwood	1,534	7,183	97,084	1.6	4.5	106
Average	**1,481**	**5,220**	**131,040**	**1.2**	**4.2**	**120**
Group 2 average (excluding Strathfield)	**1,653**	**4,161**	**143,000**	**1.2**	**4.3**	**123**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. Median annual household income is based on 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.
d. The business rate for Parramatta was not available
Source: OLG data; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the proposed SV, the council's average residential rates would still be relatively low but its average business rates would be relatively high. As Table 4.5 shows, in 2026-27, which is the last year of the proposed SV period, the council's:

- average residential rates are expected to be below the average for the other councils in its OLG group, below the average of comparable councils based on SEIFA score, and in line with comparable councils based on income, but above the average for neighbouring councils
- average business rates are expected to be substantially higher than the average for other councils in its OLG group, neighbouring councils and comparable councils based on income or SEIFA score.

We note that the information provided in Table 4.5 does not include the impact of other councils potentially receiving an SV from 2023-24 onwards.

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

Council (OLG Group)	2022-23	2023-34	2024-25	2025-26	2026-27
Residential					
Strathfield Municipal	846	1,130	1,277	1,500	1,612
OLG Group 2 (excluding Strathfield)	1,653	1,733	1,776	1,821	1,866
Neighbouring councils (average)	1,168	1,221	1,264	1,309	1,342
Comparable councils (SEIFA) (average)	1,740	1,836	1,882	1,929	1,977
Comparable councils (Income) (average)	1,481	1,536	1,574	1,614	1,654
Business					
Strathfield Municipal	4,137	5,737	6,483	7,617	8,188
OLG Group 2 (excluding Strathfield)	4,161	4,326	4,434	4,545	4,659
Neighbouring councils (average)	6,139	6,431	6,675	6,925	7,099
Comparable councils (SEIFA) (average)	4,544	4,730	4,848	4,969	5,094
Comparable councils (Income) (average)	5,220	5,413	5,549	5,687	5,830

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

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. Based on our assessment, we are satisfied that council has a hardship policy in place.

This policy offers assistance to ratepayers who are experiencing genuine financial difficulties in paying their rates and charges. This assistance may take the form of:

- waiving interest
- establishing payment plans
- $250 pensioner concessions.

The council indicated that in general only a small number of residents use its hardship policy each year. Most are pensioners, who are assisted through the $250 pensioner concession. Whether or not hardship-related, the policy also offers benefits to specific groups including Commonwealth Seniors Health Care Card Holders, Centrelink Card Holders, and Veterans Affairs beneficiaries. The council reports there are approximately 1,300 people who currently access these benefits. [17]

The council has committed to a review of its hardship policy following community feedback.

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

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

Note: See appendix A for the full assessment criteria

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

- publicly exhibited its Community Strategic Plan, previous Delivery Program, and previous LTFP from 5 May 2022 to 2 June 2022
- those documents were then adopted on 7 June 2022
- then publicly exhibited a revised Delivery Program, and Long-Term Financial Plan (LTFP) from 6 December 2022 to 31 January 2023
- those documents were adopted on 28 February 2023
- adopted its Asset Management Policy and Strategy on 6 December 2022.
- The council submitted its SV application on 3 March 2023.

Box 4.4 IP&R documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

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

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

Note: See appendix A for the full assessment criteria

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

4.5.1 Stakeholder comments on productivity and cost containment

In their submission to us, the stakeholder raised a range of concerns related to the productivity and cost containment criterion. In particular, they said that the council:

- should distinguish between statutory duties and discretionary expenditures in its submission
- did not seriously consider alternatives to the rate rise.

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

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

The council's SV application outlined the productivity and cost containment measures it has implemented to date and identified the measures it proposes to apply over the SV period. Many of the implemented and proposed measures were identified in the council's service review. Both the past and proposed productivity and cost containment measures have been quantified and incorporated into the modelling undertaken for the updated LTFP.

Past productivity and cost containment strategies

The council's SV application and its report on its service review describe a large range of initiatives the council has implemented to reduce costs, improve productivity, or increase revenues from fees and charges. Most of these initiatives resulted from the council's service review. Examples include:

- closing the High Street Library and installation of a book locker for access to book collections
- installing LED street lighting
- reducing staffing numbers at the library and over weekends
- installing solar panels on the library building
- reducing diesel consumption through plant and fleet decision-making
- closing the Hudson Park Golf Course (which operated at a deficit) and offsetting the surplus realised from the Golf Driving Range
- raising revenue from bus shelter advertising
- stopping cash handling within the customer service centre, library and golf range
- implementing the DA tracker
- reviewing contract terms
- removing the arborist function and using contractors as required
- closing an aged care centre
- introducing a facilities and sports field booking system
- introducing a waste clean-up booking system
- reducing ranger services for amenities
- reviewing and adjusting its investment strategy, which is now providing better trending yields
- implementing VendorPanel to increase value and reduce risk
- seeking sponsorship of events to offset costs
- introducing charges to offset merchant charges on credit cards
- introducing new phone system including MiCollab, which enables seamless communication (and connection) across multiple platforms and has a desktop and app solution
- introducing a customer relationship management system
- refining its booking invoicing and introducing electronic invoicing - invoices for bookings are now completed by 1 officer (previously involved 5 officers and lengthy approval process)

- introducing electronic delegations and legislative compliance system to manage delegations and legislative compliance
- introducing registers for leasing and licensing, which moves the management away from spreadsheets
- introducing electronic planning certificates including online payments.[18]

The council quantified the total annual savings from these measures as $2.213 million per year.[19] This is equivalent to approximately 4.4% of its total operating expenditure for 2023-24.

Planned productivity and cost containment strategies over the SV period

The council's application indicated that it proposes to implement further productivity and cost containment strategies over the SV period. The highest priority measures include:

- ceasing to provide the Strathfield "Connector" bus service, in response to community consultation
- making a driving range business plan to improve returns
- reducing its ICT infrastructure hosting costs by rationalising resources and decommissioning unused and old systems
- undertaking an off-street parking review to increase income
- maximising revenue from the council's property portfolio.

The council estimated that ongoing annual savings from its proposed measures are approximately $1.4 million. This is equivalent to approximately 2.8% of total operating expenditure in 2023-24. The council has also committed to an annual service review process.

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management, including looking at how these indicators have changed over time and how they compare with those of similar councils. This data is presented in Table 4.6 and Table 4.7 below.

We found that, over recent years the council's:

- number of full time equivalent (FTE) staff has increased at an average rate of about 3.1% per annum
- ratio of the population to FTEs has declined by an average of 0.2% per annum
- average costs per employee have increased materially, by an average of 7.8% per annum, but its employee costs as a percentage of operating costs have increased by less than this at an average of 3.9% per annum.

We also found that, compared to other councils in its OLG group, the council has more FTEs but a higher ratio of population to FTE, and a lower average cost per employee.

We note that 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 Strathfield Municipal Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	207.0	208.0	217.0	227.0	3.1
Ratio of population to FTE	211.6	217.0	216.2	210.4	-0.2
Average cost per FTE ($)	74,667	74,476	87,161	93,471	7.8
Employee costs as % of operating expenditure (General Fund only) (%)	39.1	37.5	43.5	43.9	3.9

Source: IPART calculations

Table 4.7 Select comparator indicators for Strathfield Municipal Council

	Strathfield Municipal Council	OLG Group 3 Average	NSW Average
General profile			
Area (km2)	14	9	5,573
Population	47,767	37,316	63,928
General Fund operating expenditure ($m)	48.4	57.1	94.8
General Fund operating revenue per capita ($)	1,006	1,594	
Rates revenue as % of General Fund income (%)	66.2	55.2	46.0
Own-source revenue ratio (%)	83.5	87.3	67.1
Productivity (labour input) indicators			
FTE staff	227.0	191.2	381.7
Ratio of population to FTE	210.4	195.2	167.5
Average cost per FTE ($)	93,471	113,754	98,943
Employee costs as % of operating expenditure (General Fund only) (%)	43.9	38.1	37.6
General Fund operating expenditure per capita ($)	1,012	1,529	1,483

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

4.6 Any other matter that IPART considers relevant

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

Note: See appendix A for the full assessment criteria

We 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.

The council has not had an SV to its general income over the last 5 years. Its last SV application was in 1994.

5 IPART's assessment of the council's minimum rate increase application

Councils can apply for a minimum rate increase (MR increase) either in conjunction with an SV, or as a standalone adjustment (that is, without also seeking to increase their general income by more than the rate peg).

Strathfield Municipal Council applied to introduce a minimum rate to replace its current base rate structure. This would involve a two-year increase in the rates for those properties which, from 2023-24, would be minimum rate properties if the MR increase is approved. For residential properties currently paying the average base rate, their rates will increase by 68% in 2023-24 as the minimum rate is introduced and then by 15% in 2024-25. For business properties currently paying the average base rate, their rates will increase by 38% in 2023-24 and 15% in 2024-25, for a cumulative increase of 59%. The MR introduction and increase would result in a minimum rate of $1,040 in 2023-24 and $1,200 in 2024-25 (for both residential and business rate categories).

We assessed the council's application against the 3 criteria set out in the Office of Local Government's Minimum Rate Guidelines (MR Guidelines). We found that it met all OLG criteria for its proposed MR increase because it:

- clearly explained rationale for the proposed MR increases
- clearly explained the impact of the MR increases IPART in its application, to the community through its consultation materials, and in exhibited IP&R documents
- sufficiently engaged with and informed the community of the proposed MR increases.

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

5.1 OLG Criterion 1: The council provided a clear rationale for increasing minimum rates

Criterion 1 requires IPART to assess the council's rationale for increasing minimum rates above the statutory amount

Note: See appendix A.2 for the full assessment criteria

We found that the council met this OLG criterion, because it clearly explained the rationale for its proposed MR increases in its IP&R documents, community consultation materials, and Part B of the MR increase application.

For example, in its application to IPART the council explained that it seeks to use the proposed MR increases to rebalance its rating income between units and detached houses. It stated that this rebalancing would:

- create a more equitable distribution of the rate burden between detached dwellings and apartments/units
- support service provision for a growing population.[20]

Because rates are based on land value, this can lead to detached dwelling owners paying a greater overall share of rates, even though the population housed in apartments also drive infrastructure and service costs and may have capacity to pay. This is an important issue given the LGA is experiencing significant population growth, much of it in the form of apartments rather than detached houses.

The MR Guidelines discuss minimum rates in the context of rating principles. The MR Guidelines also state that:

> "Where applicable, councils should make reference to the relevant parts of their Integrated Planning and Reporting documentation to demonstrate how the criteria have been met."[21]

The council explained in its Delivery Program[22] and Long-Term Financial Plan[23] the proposed change it is rate structure and MR increases will help ensure a more equitable rate burden. It also explained this rationale in its community consultation materials. In particular, in the Frequently Asked Questions section of its SV information website, it stated that: [g]

> "A minimum rate system is based on land value. Anyone whose land value is under a certain dollar amount threshold, pays the minimum rate. If a ratepayer's land value is over the threshold, they pay an amount based on the ad valorem.
>
> This ensures that residents who live in units that have low land value, but use just as many Council services, are paying their fair share of rates."[24]

5.2 OLG Criterion 2: The council has demonstrated the impact on ratepayers

Criterion 2 requires IPART to assess the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category

Note: See appendix A.2 for the full assessment criteria

[g] This information was also provided to the community in print.

According to the MR Guidelines, councils must provide information on the impact of the proposed MR increases on ratepayers, including:

- the level of minimum rates for ratepayers whose rates will be increased, and
- the number and proportion of ratepayers that will be on the minimum rates, by rating or sub-category.

We found that the council provided sufficient information to demonstrate that it has met this OLG criterion. In particular, its application clearly identified the current and the proposed minimum rates levels in dollar terms (Table 5.1) and its proposed MR increase in percentage terms (Table 5.2).

Table 5.1 The council's proposed minimum rates, 2022-23 to 2024-25 ($)

	Current average base rate 2022-23	Minimum rate 2023-24	Minimum rate 2024-25	Cumulative increase
Residential	620	1,040	1,200	580
Business	754	1,040	1,200	446
Business North		1,040	1,200	
Business South		1,040	1,200	
Business Strathfield Town Centre		1,040	1,200	

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

Table 5.2 The council's proposed minimum rate increase, 2022-23 to 2024-25 (%)

	2023-24	2024-25	Cumulative increase
Residential	68%	15%	93%
Business	38%	15%	59%

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

In addition, the council's application indicated that the majority of its ratepayers pay the residential rate, and that a majority residential ratepayers will pay the minimum rate in 2023-24 if its MR application is approved. According to the council:

> "As per the Operational Plan 2022-23, Council has 16,547 residential ratepayers and 1,429 business ratepayers.
>
> Following the introduction of the minimum rate structure, Council expects that approximately 77% of residential ratepayers, 46% of business general and CBD ratepayers and 55% of business industrial ratepayers will pay the minimum rate."[25]

Table 5.3 summarises the number and proportion of minimum ratepayers by rating category over the next 5 years. The significant majority of residential ratepayers on the minimum rate reflects the predominance of unit housing in the LGA.

Table 5.3 The number and proportion of assessments subject to the minimum rate, 2022-23 to 2026-27 ($)

	Residential		Business General and Strathfield Town Centre		Industrial	
	% of all assessments on MR	Number of MR assessments	% of all assessments on MR	Number of MR assessments	% of all assessments on MR	Number of MR assessments
2023-24	77%	13,159	46%	308	55%	414
2024-25	79%	12,210	46%	311	56%	421
2025-26	72%	11,890	45%	305	50%	378
2026-27	70%	12,061	45%	300	48%	363

Source: Reproduced from Strathfield Municipal Council, Application Part B, p 14

The council commissioned and considered a capacity to pay report. This report found that the Strathfield LGA's relatively higher median household income and other SEIFA metrics indicate the community has the capacity to pay for the proposed MR increases on average across the LGA. However, it also found there is relative disadvantage in some parts of the LGA, namely Strathfield South (Greenacre and Belfield).[h]

The council noted in Part B of its MR increase application that while 90% of residents in Strathfield South will be on the minimum rate, there are higher proportions of residents renting and in social housing who are less likely to feel the full impacts of the MR increase. However, while this makes sense for social housing tenants, it is less clear that private renters would necessarily be shielded from these rate increases, especially in the current environment of low rental vacancy rates in Sydney.[26]

The council also noted that following community consultation, it committed to a review of its hardship policy to help manage affordability issues.

5.3 OLG Criterion 3: The council undertook community consultation

Criterion 3 requires IPART to assess the consultation the council has undertaken to obtain the community's views on the proposal.

Note: See appendix A.2 for the full assessment criteria

We found that the council met this OLG criterion. It engaged and consulted the community on the proposed MR increase as part of its consultation on its proposed SV (see section 4.2 for more details).

[h] Please see section 3 on Criterion 3 for more detail on the council's capacity to pay report.

The council included information about the minimum rate rise alongside information about the SV proposal, including:

- on its bespoke website for consultation and information on the proposed SV and MR increase
- in the presentations made to the community
- in its information booklets and flyers that were mailed and emailed to businesses, households, and other ratepayers
- in its IP&R documents that were publicly exhibited and consulted on (Delivery Program, Long Term Financial Plan Report).

Key consultation materials including the website, community presentation, information booklet, background paper and FAQ sheet presented 3 key pieces of information about the MR increase:

- the rationale for moving to a minimum rate approach
- what the increase would be for minimum rate payers in total annual dollar terms (and the cumulative increase in dollars)[i]
- how the community could contribute feedback to the consultation process.

The council's Community Feedback Report summarised the feedback on the proposed MR increase it received through the online survey and online feedback submissions (and other channels). It stated that:

> "the change to Minimum/Ad Valorem generally received comments of support, with submissions arguing that it was a fairer outcome for all ratepayers, better representing the cost of services and infrastructure provided by Council."[27]

We note that there were some differences in the community consultation materials and the final numbers in the LTFP and the council's application to IPART. This reflects the council's decision to implement the minimum rate rise over 2 years rather than the initially proposed 4 years, in response to feedback received during the community consultation process.

[i] It appears that the MR increase was never represented in percentage terms, annually or cumulatively. However, this is not a stated requirement of the MR guidelines.

6 IPART's decisions on the special variation and minimum rate increase

6.1 Decision on the special variation

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

The approved increase to general income is set out in Table 6.1 below.

Table 6.1 IPART's decision on the special variation to general income (%)

	2023-24	2024-25	2025-26	2026-27
Permanent increase above the rate peg	31.4	10.5	15.0	5.0
Rate peg	3.7	2.5	2.5	2.5
Total increase	35.1	13.0	17.5	7.5
Cumulative increase	35.10	52.66	79.38	92.83

Note: 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.

IPART has made this decision on 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.

6.1.1 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council has told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 6.2 below. This shows that, 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 $767 or 90.7% by 2026-27
- the average business rate would increase by $4,051 or 97.9% by 2026-27.

We note that the council has proposed to offset some of the rate increases for residential ratepayers by reducing its domestic waste management charge. We estimate this would reduce the net impact on the average residential ratepayer to 61.7% over the 4 years.

We also note the council has a hardship policy to assist customers experiencing financial hardship, as outlined in section 4.3.3.

Table 6.2 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	846	1,130	1,277	1,500	1,612		
$ increase		284	147	223	112	767	
% increase		33.6	13.0	17.5	7.5		90.7
Business average $ rates	4,137	5,737	6,483	7,617	8,188		
$ increase		1,600	746	1,134	571	4,051	
% increase		38.7	13.0	17.5	7.5		97.9

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

6.1.2 Impact on the council

Our decision means that the council may increase its general income by $45.6 million above the assumed rate peg by 2026-27. This increase can remain in the rate base permanently.

Table 6.3 shows the percentage increases we have approved and estimates the annual increases in the council's permissible general income (PGI).

Table 6.3 Permissible general income of council from 2023-24 to 2025-26 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	35.1	35.1	6,249.4	6,985.8	26,888.5
2024-25	13.0	52.66	9,229.0	10,481	30,384.0
2025-26	17.5	79.38	14,017.3	15,799	35,701.2
2026-27	7.5	92.83	16,152.8	18,476.1	38,378.8
Total above rate peg			45,648		

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

This extra income will enable the council to:

- improve its financial sustainability
- maintain its current infrastructure and service levels.

With the SV, the council's projected:

- OPR will become greater than 0% by 2026-27 (as shown in Figure 4.1 in section 4.1.3).
- Net cash to income ratio will remain above 0% (as shown in Figure 4.2 in section 4.1.3).

6.2 Decision on the minimum rates

Based on our assessment of the council's application against the 3 OLG criteria and consideration of stakeholder submissions, we have **approved** the council's proposed permanent change to its minimum rates for 2023-24 to 2024-25.

The approved increase to minimum rates is set out in Table 6.4 and Table 6.5 below.

We note that the reduction in the domestic waste management charge will also mitigate the impact on residential ratepayers on the minimum rate.

Table 6.4 IPART's decision on the minimum rates, 2022-23 to 2024-25 ($)

	Current average base rate 2022-23	Minimum rate 2023-24	Minimum rate 2024-25	Cumulative increase
Residential	620	1,040	1,200	580
Business	754	1,040	1,200	446
Business North		1,040	1,200	
Business South		1,040	1,200	
Business Strathfield Town Centre		1,040	1,200	

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

Table 6.5 IPART's decision on the minimum rate, 2022-23 to 2024-25 ($)

	2023-24	2024-25
Residential	1,040	1,200
Business	1,040	1,200

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

6.2.1 Impact on ratepayers

From 2023-24, under the approved MR, the base rating structure will change to a minimum rating structure resulting in an increase of:

- $580 for residential minimum ratepayers, a 93% increase from the current base rate.
- $446 for business minimum ratepayers, a 59% increase from the current base rate.

The council has a hardship policy to assist customers experiencing financial hardship, as outlined in section 4.3.3.

6.2.2 Impact on the council

Our decision means the council can recover a greater percentage of its general income from minimum rated properties such as apartments/units.

Appendices

A Assessment criteria

A.1 SV Assessment criteria

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

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

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

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

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

A.1.1 Criterion 1: Financial need

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

In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[10]:

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

[10] 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.

A.1.2 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.

A.1.3 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.

A.1.4 Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[11] 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.

A.1.5 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.

A.1.6 Criterion 6: Any other matter that IPART considers relevant

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

A.2 MR Assessment criteria

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

Section 548 of the *Local Government Act 1993* (the Act) allows a council to specify a minimum amount of a rate to be levied on each parcel of land. If a council makes an ordinary rate for different categories or sub-categories of land, it may specify a different minimum amount for each category or sub-category.

If a council resolves to adopt a minimum amount of a rate, the minimum amount must not exceed the relevant permissible limits provided for in section 548(3) of the Act and clause 126 of the Local Government (General) Regulation 2005 (Regulation), unless the Independent Pricing and Regulatory Tribunal (IPART) or the Minister has approved a higher amount by issuing an instrument under section 548(3), or the council is entitled to increase its minimum ordinary rate under section 548(4) and (5) of the Act

IPART will assess applications for minimum rates above the statutory limit against the following set of criteria (in addition to any other matters which IPART considers relevant):

1. the rationale for increasing minimum rates above the statutory amount

[11] 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.

2. the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category
3. the consultation the council has undertaken to obtain the community's views on the proposal.

It is the council's responsibility to provide sufficient evidence in its application to justify the minimum rates increase. Where applicable, councils should refer to the relevant parts of their Integrated Planning and Reporting (IP&R) documentation to demonstrate how the criteria have been met.

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.

B Strathfield Municipal 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 Strathfield Municipal Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	58,843	65,741	56,798	60,553	62,366	64,267	66,243	68,297	70,438	72,671
Total expenses	50,076	51,927	53,419	55,456	57,242	59,143	61,024	62,945	64,873	66,820
Operating result from continuing operations	8,767	13,814	3,379	5,096	5,124	5,124	5,219	5,351	5,565	5,851
Net operating result before capital grants and contributions	-10,185	-5,138	-593	1,124	1,152	1,152	1,247	1,379	1,593	1,879
Cumulative net operating result before capital grants and contributions	-10,185	-15,324	-15,916	-14,792	-13,640	-12,488	-11,241	-9,862	-8,269	-6,391

Note: Numbers may not add due to rounding.
Source: Strathfield Municipal Council, *Application Part A*, Worksheet 8

Table B.2 Projected expenditure plan for Strathfield Municipal Council under its proposed SV application 2023-24 to 2032-33 ($)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
SV revenue above assumed rate peg	6,249,435	9,228,963	14,017,287	16,152,779	16,556,598	16,970,513	17,394,776	17,829,645	18,275,387	18,732,271
Maintain current levels of Council services (including fully funding depreciation)	4,040,240	4,941,099	9,673,652	11,751,701	12,096,355	12,449,328	12,810,821	13,181,038	13,560,187	13,948,481
Borrowing expenses ($42 million loan)	1,460,331	1,650,045	1,618,893	1,586,494	1,552,799	1,517,756	1,481,312	1,443,410	1,403,992	1,362,997
Asset renewals	0	1,859,000	1,914,770	1,972,213	2,031,379	2,092,321	2,155,091	2,219,743	2,286,336	2,354,926
Loan principal repayments	748,864	778,819	809,971	842,370	876,065	911,108	947,552	985,454	1,024,872	1,065,867
Total use of proposed SV income	6,249,435	9,228,963	14,017,286	16,152,778	16,556,599	16,970,513	17,394,776	17,829,645	18,275,387	18,732,271

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

Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	The ad valorem rate is calculated by multiplying land value by a rate in the dollar. Often this applies more to houses, whilst apartments are commonly on the Minimum Rate.
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning and Reporting framework
Local Government Act	*Local Government Act 1993* (NSW)
MR	Minimum Rates
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OLG MR Guidelines	Guidelines for the preparation of an application to increase minimum rates above the statutory limit

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] Strathfield Municipal Council, SV Application Part B, p 6.
[2] Office of Local Government (OLG), GUIDELINES FOR THE PREPARATION OF AN APPLICATION TO INCREASE MINIMUM RATES ABOVE THE STATUTORY LIMIT 2021-22.
[3] Local Government Act 1993, Section 511
[4] Strathfield Municipal Council, SV Application Part B, p 6.
[5] Strathfield Municipal Council, MR Application Part B, p 7-9.
[6] Strathfield Municipal Council, Long-Term Financial Plan Report, November 2022, pp 20-21.
[7] Strathfield Municipal Council, 2023-24 Special Variation Application Form Part B, p 6.
[8] Strathfield Municipal Council, Long-Term Financial Plan Report, February 2023, pp 1-2.
[9] Strathfield Municipal Council, 2023-24 Special Variation Application Form Part A (Revised) – Worksheet 6 Attachment.
[10] Strathfield Municipal Council, Long-Term Financial Plan Report, February 2023, pp 19-20.
[11] Office of Local Government, Performance Benchmarks, May 2020.
[12] Strathfield Municipal Council, SV Application Part B, p 18.
[13] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023, pp 8-13
[14] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023, p 102
[15] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023, pp 8-13
[16] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023
[17] Strathfield Municipal Council, email communication, 12 April 2023
[18] Strathfield Municipal Council, Organisational Service Review And Improvement Plan, February 2023, Appendix A, Table 2, pp 9-11.
[19] Strathfield Municipal Council, SV Application Part B, p 45.
[20] Strathfield Municipal Council, MR Application Part B, p 7-9
[21] OLG, Guidelines for the preparation of an application to increase minimum rates above the statutory limit, p 8.
[22] Strathfield Municipal Council, Strathfield 2035 Delivery Program 2022-26 and Operational Plan 2022-23 (Amended), February 2023, p 26.
[23] Strathfield Municipal Council, Long Term Financial Plan Report, February 2023, p 10.
[24] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023, Appendix C – Community Engagement Information, pp 3-4,
[25] Strathfield Municipal Council, 2023-24 Special Variation Application Form Part B, p 14.
[26] Domain Research, Vacancy rates: February 2023.
[27] Strathfield Municipal Council, Special Rate Variation (SRV) Community Feedback Report, February 2023, p 17

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