IPART Independent Pricing and Regulatory Tribunal | NSW

Walcha Council

Special Variation Application for 2023-24

Final Report

June 2023

Local Government

Acknowledgment of Country

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

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

Tribunal Members

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

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

Albert Jean	(02) 9290 8413
Jisoo Mok	(02) 9019 1955

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

Walcha Council (the council) applied for a permanent special variation (SV) to increase its general income by 57.74% over 3 years. This includes increases of 36.5% in 2023-24, 8% in 2024-25, and 7% in 2025-26.

The council sought the SV to:

- become more financially sustainable
- maintain service levels wherever possible
- be able to proceed with planned asset renewals despite a challenging operating environment.[1]

1.1 IPART's decision

We have approved the council's proposed SV. Our decision means the council can raise up to an additional $4.5 million in total general income (above the rate peg) over the period of 2023-24 to 2025-26. The council can permanently retain the increased income in its rate base.

We understand that the SV is likely to create affordability challenges for some ratepayers – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates. However, we also note that the community depends on the services provided by the council, particularly essential infrastructure such as roads, and would prefer that service standards did not decline further. For instance, 93% of the 80 respondents to the council's survey supported the proposed SV as a way to balance affordability concerns while maintaining service levels where possible and addressing the council's significant financial challenges.[2]

Our assessment found that the council met the OLG criteria for its proposed SV. The council currently has an operating deficit, which means its revenue does not cover its operating costs. Its unrestricted cash reserves are also negative (i.e. around -$2 million) which has raised concerns about its future solvency. Without the SV, its operating deficit is forecast to worsen, and the council's financial position is projected to deteriorate. It requires a more sustainable financial base to continue delivering the services and infrastructure the community needs.

We found that the impact of the proposed SV on ratepayers is generally reasonable. The council's average rates are currently lower than its neighbouring councils, while its median household income level is similar to the average of those councils. With the approved SV, the council's average rates will generally be higher than its comparable councils. However, the council provided evidence that this was a balanced decision between the competing demands of ratepayer impact, and its financial need.[3] The council also has a hardship policy in place to assist ratepayers who have difficulty paying their rates. The assistance available includes payment plans, writing off accrued interest and deferring debts.[4] The council should effectively communicate how its hardship policy can assist ratepayers.

The council has taken steps to contain its costs and find efficiencies in previous years. It has implemented shared service agreements with a neighbouring council and restructured its operations, both of which have reduced its ongoing costs.

1.2 IPART's assessment of the council's application

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

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to maintain service levels, implement planned asset renewals and improve its financial sustainability.
02	Demonstrated	**Community awareness** The council engaged and consulted its community about the need for, and the size of the special variation and used a variety of methods to engage with the community on the proposed SV. A survey conducted by the council showed 93% of respondents supported the SV as an appropriate balance between the competing demands of affordability and financial sustainability.
03	Demonstrated	**Reasonable impact on ratepayers** The council has demonstrated that the impact of the proposed rate increase is generally reasonable. Its average rates would increase from a relatively low base and the community generally has capacity to pay.
04	Demonstrated	**Integrated Planning and Reporting (IP&R) documentation** The council appropriately exhibited, approved and adopted all necessary IP&R documents.
05	Demonstrated	**Productivity improvement and cost containment** The council has implemented several productivity and cost containment strategies to date. It has also outlined and quantified some potential strategies to apply over the SV period. However, these future measures could have been better explained in the council's Long-Term Financial Plan.

Criteria	Grading	Assessment
06		**Other matters IPART considers relevant** The council has not had an SV to its general income over the last 5 years.

1.3 Stakeholders' feedback

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

Walcha Council consulted on its proposed SV with its community using a variety of engagement methods. The council mailed out 1,579 fact sheets and surveys to all residents in the Walcha Council area, had 92 conversations about the SV at listening posts and held 9 community presentations.[5]

As a further input to our assessment, we published the council's application on our website, where stakeholders could make submissions directly to IPART. Through this process we received one submission on Walcha Council's proposed SV. The stakeholder that made this submission to us raised the following topics:

- affordability of the proposed SV
- the council's consultation process
- the introduction of the renewable energy industry into Walcha will result in increased revenue.

We consider the council's community engagement in more detail in section 4.2, and stakeholder feedback to IPART in more detail in section 3 and throughout this report where relevant.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the 3-year period. We encourage the council to consult with its community to decide how best to implement the increase. The council can choose how it sets its rates in accordance with our determination, including deferring any increases for up to 10 years.[6] Below are the council's proposed increases. It retains the discretion to revise how it raises its general income across the rating categories.

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

Table 1.1 The council's proposed increase in rates

	2023-24	2024-25	2025-26	Cumulative increase
Residential	36.4%	5.9%	5.3%	52.1%
Business	37.0%	7.4%	6.5%	56.6%
Farmland	35.6%	8.4%	7.3%	57.7%

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

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

2 The council's special variation application

Walcha Council (the council) applied to IPART to increase its general income through a permanent SV of 57.74% over 3 years. This is made up of a 36.5% increase to general income in 2023-24, an 8% increase in 2024-25, and a 7% increase in 2025-26.[7]

The council sought the SV to:

- become financially sustainable
- maintain service levels wherever possible
- be able to proceed with planned asset renewals despite a challenging operating environment.[8]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories over the 3-year SV period. On average, it proposed:

- residential rates would increase 52.1% or $279, in total, by 2025-26
- business rates would increase 56.6% or $498, in total, by 2025-26
- farmland rates would increase 57.7% or $2,385, in total, by 2025-26.

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

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	920
Business	137
Farmland	747

Source: Walcha Council, Part A application Worksheet 2

2.2 Assessment of affordability and capacity to pay

The council commissioned Professors Drew, Miyazaki and Ferreira to conduct a capacity to pay study. Their analysis found that:

- the Walcha local government area (LGA) performs well on a range of socioeconomic characteristics relative to its peer group (e.g., SEIFA rating, proportion of people on disability pension, levels of rent stress, unemployment rates), with lower levels of disadvantage
- the council's rates and charges outstanding have generally been low relative to its peer group
- the market outlook for commodities produced in the LGA is positive (over half of the LGA is dedicated to agriculture).[9]

Based on this analysis, the council concluded that the community likely has capacity to pay.[10]

The council also indicated that it has a hardship policy to assist those who are experiencing genuine financial difficulties in paying their rates and charges. This assistance may take the form of:

- waiving interest
- establishing payment plans
- deferring payment, at the discretion of the council.[11]

The council told us it had recently reviewed this policy, and that on average it has received less than one hardship application per year in recent times.[12]

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

The council estimated that the proposed SV would result in a $4.5 million increase in the council's permissible general income (above what the assumed rate peg would deliver), in total, over the next 3 years.

2.4 Further information provided

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

- the council's meeting minutes of 14 December 2022 (when the council's Long-Term Financial Plan and Asset Management Plan(s) were adopted)
- further evidence of the council's Asset Management Planning.

In response to our request, the council provided:

- a copy of the council's meeting minutes of 14 December 2022
- a copy of the council's Asset Management Plans.

3 Stakeholders' submissions to IPART

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

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 the submission we received

We received one submission between 10 February 2023 and 3 March 2023. The Tribunal has taken this submission into account in making its decision in accordance with our Submissions Policy. The key issues and views raised in this submission, and our response to them, are summarised below. There are approximately 1,800 ratepayers in the council's local government area.

3.1.1 Affordability of proposed rate increases and impact on the community

The submission said that the proposed SV is not affordable in the current economic climate, and that the council did not adequately explore the impact on the community.

We have assessed the impact of the SV on ratepayers, and this is discussed in section 4.3.

3.1.2 The council's consultation with the community

The submission raised that the community consultation was biased. It alleged that council staff actively influenced people completing the SV survey feedback forms. It did not elaborate further on this point.

We have assessed the council's consultation under section 4.2.

3.1.3 Suggestion that renewable energy industry revenue presents an alternative to the SV

The submission stated that Walcha has been identified as a key location for wind farms. As a result, the community would receive $1 million per year from 2024. The stakeholder expressed the view that this potential revenue source should have been communicated by the council when consulting with the community about its proposed SV.

We present our consideration of alternatives to the SV in section 4.1 and productivity savings in section 4.5.

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[a] We are required to assess the council's SV application against the 6 criteria set out in the OLG's Guidelines.

We found that the council met all OLG criteria for its proposed SV. Specifically, we found the council:

- demonstrated a financial need for the special variation to address its ongoing operating deficits and negative unrestricted cash balance, and outlined this in its IP&R documents
- demonstrated that it undertook adequate community consultation to inform ratepayers of the need for and purpose of the SV
- considered the community's capacity to pay, taking into account current rate levels, demographic indicators and community preferences
- appropriately exhibited and adopted its IP&R documentation
- identified efficiency savings it has made to date and included further productivity and cost savings in its Long-Term Financial Plan (LTFP)
- has not had an SV to its general income over the last 5 years.

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

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

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

To assess whether the council met this criterion, we reviewed the council's IP&R documents and the information in its application and, using this information, we analysed the council's financial performance and position. We do not audit the council's finances, as this is not part of our delegated authority.

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

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

4.1.1 Stakeholder comments on financial need

One stakeholder told us that the introduction of the renewable energy industry into Walcha will result in increased revenue and other benefits – i.e. $1,000,000 into the community per year from 2024. As a result, the stakeholder queried the need for an SV.

The council acknowledged in its application that there is a green energy company that may potentially construct windfarms. It noted that the commencement of this project is still not confirmed. As a result, the council noted that the precise revenues that could be realised are uncertain.[13]

4.1.2 Council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP) and Delivery Program, identify and articulate the need for and purpose of the SV. These documents also briefly outline the council's consideration of alternatives to the SV.[14]

The LTFP notes that without the SV revenue, the council's service levels would decline over time as its costs increased. The council is currently experiencing operating deficits (meaning that its operating costs are greater than its operating revenues) and has a negative balance for its unrestricted cash reserves. With the SV revenue, the council advised that it would be able to maintain existing service levels "and build reserves to a satisfactory level by 2032."[15]

The LTFP also notes that the SV would be used for:

- gravel re-sheeting of roads (about $350,000 per year), to partly address a need identified in the council's Asset Management Plan
- facilities maintenance (about $285,000), including the waste facility (the Asset Management Plan identified an annual depreciation of approximately $650,000 per annum)
- covering forecast rising operating costs, including:
  - employee costs increasing by 5% in 2023-24, 4% 2024-25 and then 3% per annum
  - costs of materials increasing by 6% in 2023-24, 5% in 2024-25 and then 4% per annum
  - electricity costs increasing by 30% from 2026-27.[16]

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

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

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

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

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than 0% is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[17] The OLG has set a benchmark for the OPR of greater than 0% (see Box 4.1 for more information).

Box 4.1 Operating Performance Ratio

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

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

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

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

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

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

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

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

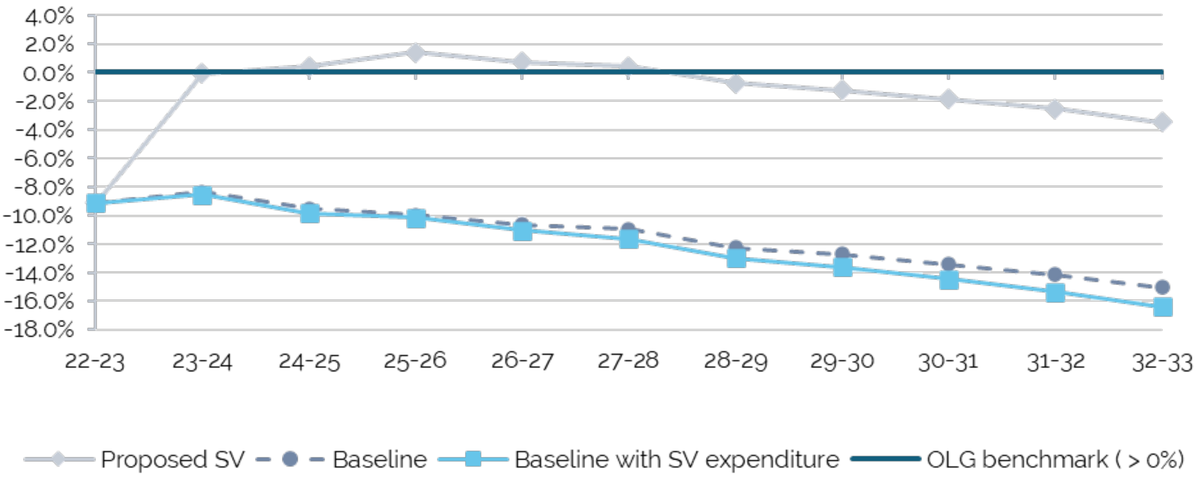
Our analysis found that, over the next 5 years:[b]

- **under the Proposed SV Scenario**, the council's average OPR would be 0.6%.
- **under the Baseline Scenario**, the council's average OPR would be -9.9%
- **under Baseline with SV expenditure Scenario**, the council's average OPR would be -10.2%.

The results of our analysis are presented in Figure 4.1 and Table 4.1.

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

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



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

Without the SV revenue, the council provided evidence that its Operating Performance Ratio (OPR) would be well below the Office of Local Government's greater than 0% benchmark from 2023-24. This is because the council currently has an annual operating deficit, meaning its revenues do not cover its operating costs, and this is forecast to continue, and worsen, without the SV.

With the SV revenue, the council's financial situation would improve, and its OPR would marginally exceed the 0% benchmark from 2024-25 (but is forecast to decline below the benchmark from 2028-29). The council has acknowledged in its application that the proposed SV will not ensure its financial sustainability, but after consultation with its community it considers the level of its proposed SV achieves the right balance between addressing its financial need and managing the impact of rate rises on ratepayers.[18]

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	-0.1	0.4	1.4	0.8	0.4	-0.7	-1.2	-1.9	-2.5	-3.5
Baseline	-8.3	-9.5	-10.0	-10.6	-11.0	-12.2	-12.7	-13.4	-14.1	-15.1
Baseline with SV expenditure	-8.5	-9.8	-10.1	-11.0	-11.6	-13.0	-13.6	-14.5	-15.4	-16.4

Source: Walcha Council, Application Part A,

Impact on net cash

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

On 30 June 2022, the council held a total of $8.6 million in cash and investments.[19] This included:

- **$4.0 million of externally restricted funds** (i.e., subject to external legislative or contractual obligations such as funds held in the water and sewer funds[20])
- **$6.7 million of internally restricted funds** (i.e., subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations. Examples of this are employee leave entitlements and the future remediation of the council's quarries and tip sites.[21])
- **-$2.1 million unrestricted** (i.e., can be used to fund the council's day to day operations).[22]

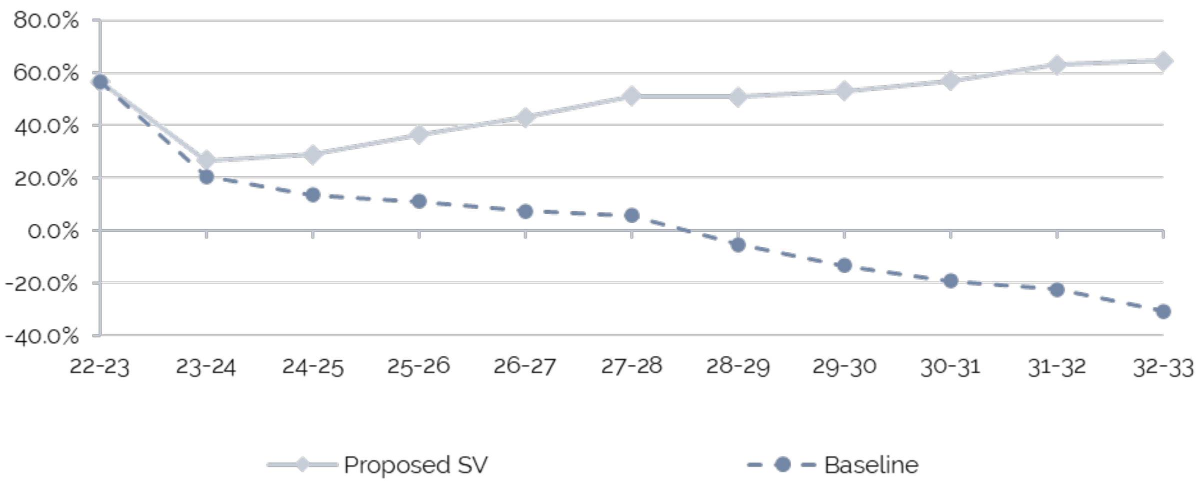
Based on the information provided by the council, this shows that the majority of the council's cash reserves were committed to other purposes, and it had no unrestricted cash available to fund the proposed SV expenditure.

We calculate that the council's net cash at 30 June 2023 will be $8 million, or 56.8% of its income. As Figure 4.2 shows (based on the forecasts provided by the council):

- **under the Proposed SV Scenario**, the council's net cash to income ratio would decline to 26.7% in 2023-24 and then gradually increase to 64.5% by 2032-33
- **under the Baseline Scenario**, the council's net cash to income ratio would decrease to 20.5% in 2023-24, and then further decline to a net cash (debt) to income ratio of -30.8% by 2032-33.

Our analysis indicates that over the next 5 years, the council's average net cash to income ratio would be 37.2% with the proposed SV and 11.6% without the proposed SV.

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



Source: Walcha Council, Application Part A and IPART calculations.

Taking into account that the council's OPR and net cash position is forecasted to decline in future years without an SV - we found that the council's forecasts demonstrate a financial need for its proposed SV.

Impact on infrastructure ratios

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

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

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

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

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

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

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

Infrastructure renewals ratio

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

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

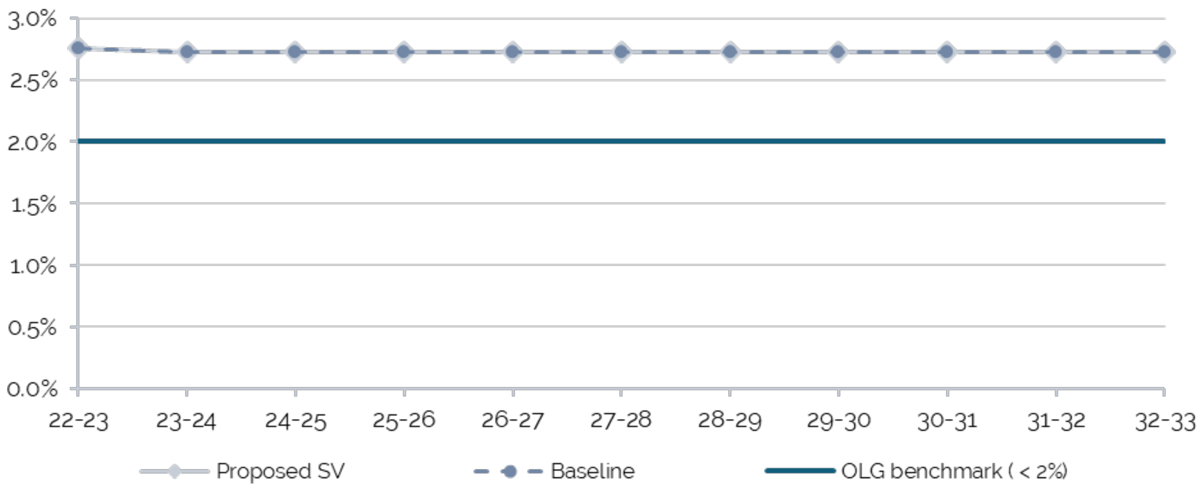
OLG has set a benchmark for the ratio of greater than 100%.

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

Impact on infrastructure backlog ratio

The infrastructure backlog ratio would be the same for both the baseline and the proposed SV scenarios. This is because the purpose of SV is to target planned asset renewals. Under both scenarios, the council's infrastructure backlog ratio would be marginally higher (i.e., perform worse) than the OLG's benchmark of 2.0% (see Figure 4.3).

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



Source: Walcha Council, Application Part A and IPART calculations.

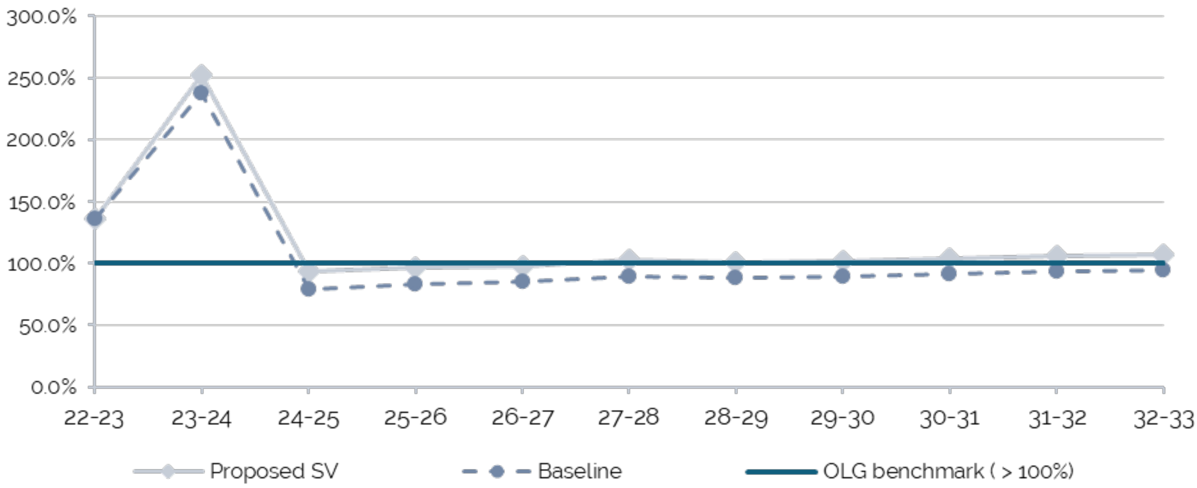
Impact on infrastructure renewals ratio

The council's infrastructure renewals ratio would exceed OLG's benchmark of 100% in 2022-23 and 2023-24 under both the Baseline and Proposed SV Scenarios, but then fall below this benchmark in 2024-25.

Under both with and without the proposed SV, the council's infrastructure renewals ratio would increase sharply in 2023-24 and reach around 250%. This is well above the OLG's benchmark of greater than 100%. This increase is explained by the availability of grants to allow the council to deliver infrastructure projects.[23] However, the ratio drops below 100% under both scenarios from 2024-25. This is because the council forecasts that grant funding may be limited from 2024-25, which explains the need for additional funds to address its asset renewals need. The proposed SV would enable the council to undertake more asset renewals because:

- under the Proposed SV Scenario, the council's infrastructure renewals ratio would marginally exceed the 100% benchmark from 2027-28 onwards
- under the Baseline Scenario, the council's infrastructure renewals ratio would remain below the benchmark from 2024-25 onwards, albeit with a gradual improvement over time (see Figure 4.4).

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



Source: Walcha Council, Application Part A, and IPART calculations.

Alternatives to the rate rise

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

We are satisfied the council did canvass alternative funding sources. For instance, its SV application indicated it:

- is currently engaged with a green energy company regarding the potential to build a windfarm at Walcha
- is currently investigating the development of various parcels of council land for residential and light industrial purposes
- has committed to repricing its discretionary fees and charges.[24]

The council has indicated in its application that due to its remoteness, aged population and low growth, the council has very limited opportunities to derive funding from elsewhere or reduce costs.[25]

In future, the council should also articulate the consideration of these alternatives in its Delivery Program and LTFP.

We also investigated whether and to what extent the council had decided not to apply the full percentage of increases to general income available to it in previous years under section 511 of the *Local Government Act*. We found that the council does not have any deferred rate increases available to it.[26]

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 criterion, we considered stakeholder comments about community awareness. We also analysed the council's community engagement on the proposed SV.

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

4.2.1 Stakeholder comments on community awareness

The submission from a ratepayer to IPART raised concerns about the consultation process by:

- alleging that council staff influenced persons completing the SV survey, but did not elaborate further
- noting the council should have referred to potential revenue sources from the wind farm renewable project during its community consultation process.

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

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
- the outcomes from the consultation were considered in preparing the SV application.

Overall, we found the council adequately engaged and consulted with the community to raise awareness of the need for, and extent of, the proposed rate rises.

Information provided to ratepayers

We found the materials the council prepared for ratepayers on its proposed SV largely included the content needed to ensure the community was well informed and able to engage with the council during the consultation process. Those materials communicated:[27]

- the extent of the General Fund rate rise under the proposed SV in the Delivery Program[28] and LTFP[29]
- 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 (residential, business and farmland)
- proposed rates with and without the SV over 2023-24 to 2026-27, for residential, business and farmland ratepayers
- the average annual increases and cumulative percentage increases for residential, business and farmland ratepayers with and without the SV over 2023-24 to 2026-27
- how stakeholders could have their say
- alternative options considered by the council
- that the council was reviewing its hardship policy, and that it will seek stakeholder feedback on this policy
- a brief outline of the council's efficiency measures in explaining the need for the SV.

We note, however, that a shortcoming was that there was a survey question that might be considered leading.[c] However, overall, we assess that the council has provided sufficient information about its proposed SV through its fact sheet, Mayoral Column and SV community presentation for the community to be able to participate in the consultation process.

Engagement methods used

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

- direct mail out of fact sheets to all Walcha residents
- 9 community presentations
- 2 surveys: the first posted to all residents with the fact sheet, and the second available to people who attended one of the 9 community presentations
- YouTube videos, available on the council's website and Facebook page, explaining the SV process and the council's proposal
- a listening post, situated in the main street of Walcha, for 4 hours over 2 days.[30]

[c] For example, "Do you believe that it is acceptable to fund current consumption of local government goods and services through debt (which will be ultimately paid for by future generations of ratepayers)?", with the options of "Yes, if carefully applied to long-lived assets only"; or "No, I don't agree that our children and grandchildren should be left with additional public debt."

Process for community consultation

We found that the process the council used for community engagement and consultation was largely effective and provided sufficient time and opportunities for the community to provide feedback.

The council primarily consulted with the community throughout October 2022. For example, the fact sheet the council mailed out to ratepayers is dated 30 September 2022, and its community presentations occurred between 3 October 2022 and 19 October 2022.[31]

Outcomes of community consultation

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

We found that the council considered the results of community consultation in preparing its application. The council's report on community engagement found that:

- Of the 167 people[32] who completed the council's first survey, 75% preferred the SV over the 2 alternatives presented of reducing staff and expenditure and maintaining the status quo[33]
- Of the 80 people[34] who completed the council's second survey (which was limited to those who attended a community presentation), 93% preferred the SV over the 2 alternatives of reducing staff and expenditure and maintaining the status quo. [35]

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

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

Note: see Appendix A for the full assessment criteria

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

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

4.3.1 What stakeholders told us

The one submission to IPART on this SV application raised concerns that the proposed SV will have a significant impact on ratepayers due to broader circumstances such as ongoing economic pressures of high inflation.

We have considered this concern as part of our assessment of this criterion.

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

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

Impact on average rates

The council assessed the impact on ratepayers. As Table 4.2 shows, it estimated that over the 3-year period of the SV:

- the average residential rate would increase by $279 or 52.1%
- the average business rate would increase by $498 or 56.6%
- the average farmland rate would increase $2,385 or 57.7%.

Table 4.2 Impact of the proposed special variation on average rates

	2022-23	2023-24	2024-25	2025-26	Cumulative increase $	Cumulative increase %
Residential average $ rates	535	730	773	814		
$ increase		195	43	41	279	
% increase		36.4	5.9	5.3		52.1
Business average $ rates	880	1,205	1,294	1,378		
$ increase		325	89	84	498	
% increase		37.0	7.4	6.5		56.6
Farmland average $ rates	4,136	5,609	6,078	6,521		
$ increase		1,473	469	443	2,385	
% increase		35.6	8.4	7.3		57.7

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 engaged consultants to carry out a capacity to pay analysis. That analysis found that:

- the LGA performs well on a range of socioeconomic characteristics relative to its peer group (e.g., SEIFA rating, proportion of people on disability pension, levels of rent stress, unemployment rates)
- the council's rates and charges outstanding have generally been low relative to its peer group
- the market outlook for commodities produced in the LGA is positive (over half of the LGA is dedicated to agriculture).[36]

The council also notes that it has a hardship policy, which it has recently reviewed, and that on average it has received less than one hardship application per year in recent times.[37]

How the council's rates changed over time

As Table 4.3 shows, since 2017-18, the council's residential rates have increased by 3.7%. This is a little higher than the average rate peg, which was 2.1% over the same period. However, business rates and farmland rates have risen by 2.5% and 2.0% respectively.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	446	495	508	522	533	535	3.7%
Business	776	797	823	863	881	880	2.5%
Farmland	3,753	3,852	3,999	4,035	4,116	4,136	2.0%

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

How the council's rates compare to other councils

The council's current average rates – that is, before the proposed SV – are generally low compared to neighbouring councils. We also compared the council's rates to other councils in the same OLG Group, and comparable councils by similar income and SEIFA rating. Further information about this is available in Box 4.3.

Box 4.3 Comparable councils

In our analysis, we have compared Walcha 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.
- Walcha Council is in OLG Group 9 which is considered a rural area and also includes Balranald Shire Council, Bogan Shire Council, Bourke Shire Council and Carrathool Shire 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 there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.
- Walcha Council has a SEIFA rank of 80 out of 130 councils in ABS 2016 which is low and indicates relative disadvantage.
- The 3 councils with closest SEIFA rank within the OLG group 9 are Lockhart Shire Council, Carrathool Shire Council and Coolamon Shire Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Walcha Council to the 4 councils within OLG group 9 with closest median income ranking. These are Coonamble Shire Council, Hay Shire Council, Gilgandra Shire Council and Weddin Shire Council.

Neighbouring councils

- We compared Walcha Council to the neighbouring councils of Tamworth Regional Council, Uralla Shire Council, Kempsey Shire Council, Port Macquarie Hastings Councils, Mid-Coast Council, Upper Hunter Shire Council and Armidale Regional Council.
- We consider these councils are geographically close to Walcha Council but do not necessarily share a common border.

In summary, Table 4.4 below shows that in 2022-23, before the proposed SV, the council's:

- average residential rates were lower than all neighbouring councils and most comparable councils based on income, but higher than all comparable councils based on SEIFA score and the average for the other councils in its OLG Group
- average business rates were lower than 4 of its 7 neighbouring councils, most comparable councils based on income, the average for other councils in its OLG Group, but higher than most comparable councils by SEIFA score
- average farmland rates were higher than all neighbouring councils, comparable councils based on SEIFA score, and the average for the other councils in its OLG Group, but lower than most comparable councils based on income.
- outstanding rates ratio was lower than 6 its 7 neighbouring councils, comparable councils, and its OLG Group average.

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

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rates ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstand -ing rates ratio	SEIFA Index NSW Ranking[c]
Walcha (9)	535	880	4,136	63,648	0.8	5.6	80
Neighbouring councils							
Tamworth Regional	1,128	337	2,040	73,632	1.5	7.2	53
Uralla	729	692	4,036	69,992	1.0	8.7	76
Kempsey	1,325	2,740	2,193	56,420	2.3	6.5	4
Port Macquarie-Hastings	1,284	3,957	2,117	65,676	2.0	5.7	68
Mid-Coast	1,426	4,088	1,550	55,120	2.6	9.3	20
Upper Hunter Shire	890	740	3,864	74,308	1.2	9.9	67
Armidale Regional	1,183	4,280	3,719	73,008	1.6	5.5	87
Average	**1,138**	**2,405**	**2,788**	**66,879**	**1.8**	**7.6**	**54**
Comparable councils (SEIFA)							
Lockhart	358	518	1,882	67,340	0.5	6.5	81
Carrathool	460	1,248	3,287	78,832	0.6	13.1	73
Coolamon	417	425	2,090	68,120	0.6	6.0	71
Average	**412**	**730**	**2,419**	**71,431**		**8.6**	**75**
Comparable councils (Income)							
Coonamble	523	804	4,762	64,012	0.8	5.9	5
Hay	678	1,587	4,733	64,272	1.1	19.2	26
Gilgandra	746	1,214	4,953	59,748	1.2	9.9	14
Weddin	673	986	1,893	54,392	1.2	7.9	56
Average	**655**	**1,148**	**4,085**	**60,606**		**10.7**	**25**
Group 9 average (excl Walcha)	**497**	**1,383**	**3,697**	**67,464**	**0.7**	**7.9**	**41**

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

Source: OLG, Time Series Data 2018-19; 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 proposed average residential and business rates would generally be higher than the average for some comparator councils but also lower than others. However, its proposed average farmland rates would be significantly higher than the average for all comparator councils. As Table 4.5 shows, in 2025-26, the council's:

- average residential rates would be above the averages of the other OLG Group 9 councils and comparable councils based on both SEIFA score and income, but below the average for neighbouring councils
- average business rates would be above the averages for comparable councils based on SEIFA score and income, but below the averages of the other OLG Group 9 councils and neighbouring councils
- average farmland rates would be significantly above the average for the other OLG Group 9 councils, neighbouring councils, and comparable councils based on SEIFA score and income.

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

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

Council (OLG Group)	2022-23	2023-34	2024-25	2025-26
Residential				
Walcha	535	730	773	814
OLG Group 9 (excluding Walcha)	497	518	534	547
Neighbouring councils (average)	1,138	1,182	1,212	1,242
Comparable councils (SEIFA) (average)	412	427	437	448
Comparable councils (Income) (average)	655	680	697	714
Business				
Walcha	880	1,205	1,294	1,378
OLG Group 9 (excluding Walcha)	1,383	1,467	1,547	1,586
Neighbouring councils (average)	2,405	2,501	2,563	2,627
Comparable councils (SEIFA) (average)	730	757	776	796
Comparable councils (Income) (average)	1,148	1,190	1,220	1,251
Farmland				
Walcha	4,136	5,609	6,078	6,521
OLG Group 9 (excluding Walcha)	3,697	3,855	3.979	4.079
Neighbouring councils (average)	2,405	2,501	2,563	2,627
Comparable councils (SEIFA) (average)	2,419	2,509	2,572	2,636
Comparable councils (Income) (average)	4,085	4,236	4,342	4,451

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

4.3.3 The council's hardship policy

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

The council's hardship policy, which is available on its website, 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
- deferring payment, at the discretion of the council.[38]

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

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

Note: see Appendix A for the full assessment criteria

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

- exhibited the Delivery Program and Community Strategic Plan between 18 May and 15 June 2022, and adopted these IP&R documents on 29 June 2022
- exhibited the LTFP and Asset Management Plans[d] from 15 December 2022 and 13 January 2023, and adopted these plans on 13 January 2023
- submitted its SV application on 2 February 2023.

[d] Open Spaces; Buildings & Facilities; Roads, Bridges & Drainage Asset Management Plans.

Box 4.4 Integrated Planning & Reporting (IP&R) documents

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

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

4.5 OLG Criterion 5: The council has 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 criterion, we considered stakeholder comments on the council's productivity and cost containment strategy, analysed the information provided by the council and examined some key indicators of the council's efficiency.

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

4.5.1 Stakeholder comments on productivity and cost containment

The one submission to IPART on this SV application raised concerns over whether the council could demonstrate its ability to deliver on productivity improvements and cost savings.

We have considered this concern as part of our assessment of this criterion.

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

We consider the council:

- demonstrated past achievements in delivering productivity improvements and cost containment, which are proportionate to the size and resources of the council
- outlined productivity strategies and quantified some of them in its application, but it could have more clearly explained these in its LTFP.

We assess that the council has demonstrated this criterion.

Past productivity and cost containment strategies

The council's application outlined and quantified a range of past initiatives to increase its productivity and contain its costs. These included:

- restructuring the council, which resulted in 2 positions being made redundant for a saving of $240,000
- reducing printing costs from about $90,000 to $30,000 per year, by reaching a new printing lease agreement, reducing the number of copiers used, and moving to electronic documentation
- sharing services with Uralla Council in the areas of animal control, safety, occupational health and safety, and human resources
- establishing a capital advisory committee to improve project accountability and cost control, which has resulted in no overruns for new projects started from 1 July 2021
- relocating its engineering team to the depot, reducing travel between the depot and administration offices
- reducing external audit fees through an improved end of year audit process, with a reduction in fees from $85,000 to $65,000 in 2022.[39]

While difficult to quantify, the council estimates its total operating cost savings of approximately $100,000 per year have been realised.[40] The council notes that most of these savings will be absorbed in other council areas due to rising costs and resource requirements.

Productivity and cost containment strategies over the SV period

The council's IP&R documents identify some planned strategies to increase productivity and contain costs. The council's SV application also identified the following proposed initiatives to contain costs and improve productivity over the SV period:

- reduce the frequency of road maintenance, which is currently around twice that of some comparable peers
- consider the judicious use of debt to purchase equipment that is frequently hired
- reduce the number of councillors
- maintain the reduction in the intensity of staff training activities in future years.[41]

Consistent with some of these potential measures, the council's SV fact sheet to ratepayers (which is also attached to its LTFP) notes that the council has plans to:

- reduce the number of councillors to five
- take on debt to buy productive assets and "thus save considerably on future asset rental expenditure".[42]

The council told us that it estimates savings of $50,000 to $60,000 per year for its planned productivity and cost containment strategies. The council indicated in its application that the planned savings have been incorporated into the LTFP.[43] However, these measures could have been more clearly explained in the council's Long-Term Financial Plan.

4.5.3 Indicators of the council's efficiency

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

Table 4.6 shows that between 2017-18 and 2020-21:

- the council's number of full time equivalent (FTE) staff increased by an average of about 4.0% per annum
- the ratio of the Walcha Shire's population to the council's FTE staff decreased by an average of 4.2% per annum, from 43 people per 1 FTE in 2017-18 to 38 people per 1 FTE in 2020-21
- the council's average costs per employee increased by an average of 2.2% per annum, but employee costs as a percentage of operating costs declined by an average of 5.8% per annum – suggesting that the council's other costs have increased more than its labour costs.

Table 4.7 shows that compared to other councils in its OLG Group, the council has about the same number of FTEs and about the same ratio of population to FTE, but its average cost per employee is less.

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 Walcha Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	73	80	75	82	4.0
Ratio of population to FTE	43	39	42	38	-4.2
Average cost per FTE ($)	69,014	71,250	83,267	73,732	2.2
Employee costs as % of operating expenditure (General Fund only) (%)	36	35	37	30	-5.8

Source: IPART calculations

Table 4.7 Select comparator indicators for Walcha Council

	Walcha Council	OLG Group 9 Average (excluding Walcha)	NSW Average (excluding Walcha)
General profile			
Area (km2)	6,261	15,597	5,524
Population	3,105	3,149	64,279
General Fund operating expenditure ($m)	18.7	18.0	95.0
General Fund operating revenue per capita ($)	8,474	7,407	
Rates revenue as % of General Fund income (%)	17.1	15.8	46.1
Own-source revenue ratio (%)	41.8	38.0	67.2
Productivity (labour input) indicators			
FTE staff	82	81.2	382.9
Ratio of population to FTE	37.9	38.8	167.9
Average cost per FTE ($)	73,732	86,851	98,960
Employee costs as % of operating expenditure (General Fund only) (%)	30.4	37.6	37.7
General Fund operating expenditure per capita ($)	6,007	5,716	1,478

Note: Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable.
Source: OLG, Time Series Data 2020-21 and IPART calculations.

4.6 OLG Criterion 6: Any other matter that IPART considers relevant

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

We consider 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.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG criteria and consideration of the stakeholder submission we received, we have approved the council's proposed permanent SV to general income from 2023-24 to 2025-26.

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

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

	2023-24	2024-25	2025-26
Permanent increase above the rate peg	32.80	5.50	4.50
Rate peg[a]	3.7	2.5	2.5
Total increase	36.5	8.0	7.0
Cumulative increase	36.5	47.42	57.74

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

Source: Walcha Council Application Part A, Worksheets 1 and 4 and IPART calculations.

The special variation is subject to the following conditions:

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

5.1 Impact on ratepayers

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

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 $279 or 52.1% by 2025-26
- the average business rate would increase by $498 or 56.6% by 2025-26
- the average farmland rate would increase $2,385 or 57.7% by 2025-26.

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2025-26)

	2022-23	2023-24	2024-25	2025-26	Cumulative increase $	Cumulative increase %
Residential average $ rates	535	730	773	814		
$ increase		195	43	41	279	
% increase		36.4	5.9	5.3		52.1
Business average $ rates	880	1,205	1,294	1,378		
$ increase		325	89	84	498	
% increase		37.0	7.4	6.5		56.6
Farmland average $ rates	4,136	5,609	6,078	6,521		
$ increase		1,473	469	443	2,385	
% increase		35.6	8.4	7.3		57.7

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

5.2 Impact on the council

Our decision means the council will receive up to an additional $4.5 million in total income (above the rate peg) over the next 3 years.

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

Table 5.3 Permissible general income (PGI) of council from 23-24 to 25-26 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
2023-24	36.50	36.50	1,214.4	1,351.4	5,053.8
2024-25	8.00	47.42	1,522.7	1,755.7	5,458.1
2025-26	7.00	57.74	1,806.4	2,137.8	5,840.2
Total above rate peg			4,543.5		

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

We estimate that over the 10 years from 2023-24 to 2032-33, the council will be entitled to collect an additional $18.5 million in general income compared with an increase limited to the assumed rate peg.

This extra income will enable the council to:

- become more financially sustainable
- maintain service levels wherever possible
- proceed with planned asset renewals despite a challenging operating environment.[44]

With the SV, the council's projected:

- OPR will improve and move closer to the OLG benchmark of greater than 0% over the SV period – as shown in Figure 4.1 in section 4.1.3
- net cash to income ratio is projected to decline to 26.7% in 2023-24, but is forecasted to reverse and increase to above 50% by 2032-33, as shown in Figure 4.2 in section 4.1.4.

Appendices

A Assessment criteria

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

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

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

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

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

Criterion 1: Financial need

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

In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[5]:

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

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

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

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

Criterion 2: Community awareness

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

Criterion 3: Impact on ratepayers is reasonable

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

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

In assessing the impact, IPART may also consider:

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

Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[6] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

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

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

Criterion 6: Any other matter that IPART considers relevant

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

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

B Walcha 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 Walcha 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	17,371	18,192	18,444	18,716	19,475	19,792	20,636	20,876	21,483	22,081
Total expenses	15,973	16,742	17,272	17,913	18,524	19,273	19,931	20,661	21,419	22,233
Operating result from continuing operations	1,398	1,450	1,172	803	951	519	705	215	64	-152
Net operating result before capital grants and contributions	-12	73	248	137	81	-142	-239	-380	-531	-747
Cumulative net operating result before capital grants and contributions	-12	61	309	446	527	385	146	-234	-765	-1,512

Note: Numbers may not add due to rounding.
Source: Walcha Councill, Application Part A, Worksheet 8 and IPART calculations.

Table B.2 Summary of projected expenditure plan for Walcha 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
SV revenue above assumed rate peg	1,214	1,523	1,806	1,852	1,898	1,945	1,994	2,044	2,095	2,147
Facilities	195	205	215	224	233	242	252	262	272	283
Gravel resheeting	150	158	165	172	179	186	193	201	209	218

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

Glossary

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

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

[1] Walcha Council, Application Part B, February 2023, pp 8-9.
[2] Walcha Council, Application Part B, February 2023, p 23.
[3] Walcha Council, Application Part B, February 2023, p 19; Drew, Ferreira and Miyazaki, Walcha Council Capacity to Pay Report, pp 35-36; Drew, Ferreira and Miyazaki, Walcha Council Debt Capacity Report.
[4] Walcha Council, Hardship Policy.
[5] Walcha Council, Application Part B, February 2023, p 27.
[6] *Local Government Act 1993* (NSW), Section 511
[7] Walcha Council, Application Part B, February 2023, p 8.
[8] Walcha Council, Application Part B, February 2023, p 9.
[9] Drew, Ferreira and Miyazaki, Walcha Council Capacity to Pay Report.
[10] Walcha Council, Application Part B, February 2023, p 40.
[11] Walcha Council, Hardship Policy.
[12] Walcha Council, Application Part B, February 2023, p 40.
[13] Walcha Council, Application Part B, February 2023, p. 53.
[14] Walcha Council, Delivery Program 2022-2025, 2022-2023 Operational Plan, June 2022, p 80; and Walcha Council, Long-Term Financial Plan 2023-2032, December 2022, p 50.
[15] Walcha Council, Long-Term Financial Plan 2023-2032, December 2022, p 7.
[16] Walcha Council, Long-Term Financial Plan 2023-2032, December 2022, p 9.
[17] Office of Local Government, Performance Benchmarks, May 2020.
[18] Walcha Council, Application Part B, February 2023, pp 21, 23.
[19] Walcha Council, Application Part A, February 2023, Worksheet WK7 – Financials.
[20] Walcha Council, General Purpose Financial Statements as at 30 June 2022, pp 35-36.
[21] Walcha Council, General Purpose Financial Statements as at 30 June 2022, pp 35-36.
[22] Walcha Council, Application Part A, February 2023, Worksheet WK7 – Financials.
[23] Walcha Council, Application Part B, February 2023, p 23.
[24] Walcha Council, Application Part B, February 2023, pp 19, 53.
[25] Walcha Council, Application Part B, February 2023, p 20.
[26] Walcha Council, Application Part B, February 2023, p 14.
[27] Walcha Council, Fact Sheet: Application for a Special Rate Variation, September 2022, Walcha Council, Ratepayer Mail Out – Rates Example.
[28] Walcha Council, Delivery Program 2022-2025, 2022-2023 Operational Plan, p 80
[29] Walcha Council, Long-Term Financial Plan 2023-2032, December 2022, pp 9-16.
[30] Drew, Ferreira and Miyazaki, Report on Community Engagement for Walcha Council.
[31] Drew, Ferreira and Miyazaki, Report on Community Engagement for Walcha Council, pp 11-12.
[32] Email to IPART, Walcha Council, 3 March 2023.
[33] Drew, Ferreira and Miyazaki, Report on Community Engagement for Walcha Council, p 6.
[34] Email to IPART, Walcha Council, 3 March 2023.
[35] Drew, Ferreira and Miyazaki, Report on Community Engagement for Walcha Council, p 8; and email from Walcha Council, 3 March 2023.
[36] Drew, Ferreira and Miyazaki, Walcha Council Capacity to Pay Report.
[37] Walcha Council, Application Part B, February 2023, p 40.
[38] Walcha Council, Hardship Policy.
[39] Walcha Council, Application Part B, February 2023, pp 51-55.
[40] Walcha Council, Application Part B, February 2023, p 55.
[41] Drew, Ferreira and Miyazaki, Walcha Council Efficiency Report, p 20.
[42] Walcha Council, Fact Sheet: Application for a Special Rate Variation, September 2022, p 1.
[43] Walcha Council, Application Part B, February 2023, p 56.
[44] Walcha Council, Application Part B, February 2023, p 9.

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