

Proposed Special Rate Variation Muswellbrook Shire Council

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Introduction

Muswellbrook Shire Council ('Council') is considering a Special Rate Variation (SRV) application to help secure the economic prosperity of the area and the ongoing financial sustainability of the Council before coal mining declines in the region.

This background paper on the proposed SRV has been prepared to inform and support community engagement activities. It provides all the key information that is relevant for the SRV proposal that Council is considering. This document aims to explain for the community of Muswellbrook Shire:

- What is an SRV?
- Why does Council need an SRV?
- What is the size of the rate increase being considered?
- How will the proposed rates increase affect your rates?
- What would the SRV be used for?
- What would happen if Council was not successful in its proposed SRV application?
- What is the process that Council must go through to apply for an SRV?



What is a special rate variation?

New South Wales councils operate in a rate capping regime, which has been in place since the 1970's. Each year, the Independent Pricing and Regulatory Tribunal (IPART) sets a “rate peg”, which is the maximum percentage increase in total general rates that councils are allowed to implement. If a council needs to increase rates by more than the rate peg, it must apply to IPART for a Special Variation (SV) to its rates¹.

An SRV allows a council to increase its general rates income above the rate peg as set by IPART. If IPART approves an SRV for a council, the approved rate increases replace the rate peg as the maximum allowable increase to general rates that the council can implement for that time frame. When the SRV implementation period ends, the council then goes back to the rate peg as the maximum allowable increase in each year after that.

There are two types of SRVs:

- **a temporary SRV** increases total rates for a fixed amount of time. When the temporary SRV timeframe ends, a council's total general rates will go back to what it would have been if it had just increased rates by the rate peg for that timeframe.
- **a permanent SRV** remains in the rate base. That is, at the end of a permanent SRV implementation period, the total rates remain as a result of the SRV, and the rate peg increases apply to this going forward.

Councils need to consider what the SRV will be for when deciding whether the SRV should be temporary or permanent. Temporary SRVs are usually approved to fund specific one-off projects, such as significant infrastructure projects.

Councils also have options on the timeframe they have to implement an SRV. They can apply for an SRV to be implemented over one to seven years, although most SRV applications are made for one to three year implementation periods. Selecting an implementation period depends on a combination of how much money is required over what period of time to meet the need for the SRV and how much the community can reasonably be expected to pay in each of the years of the SRV.

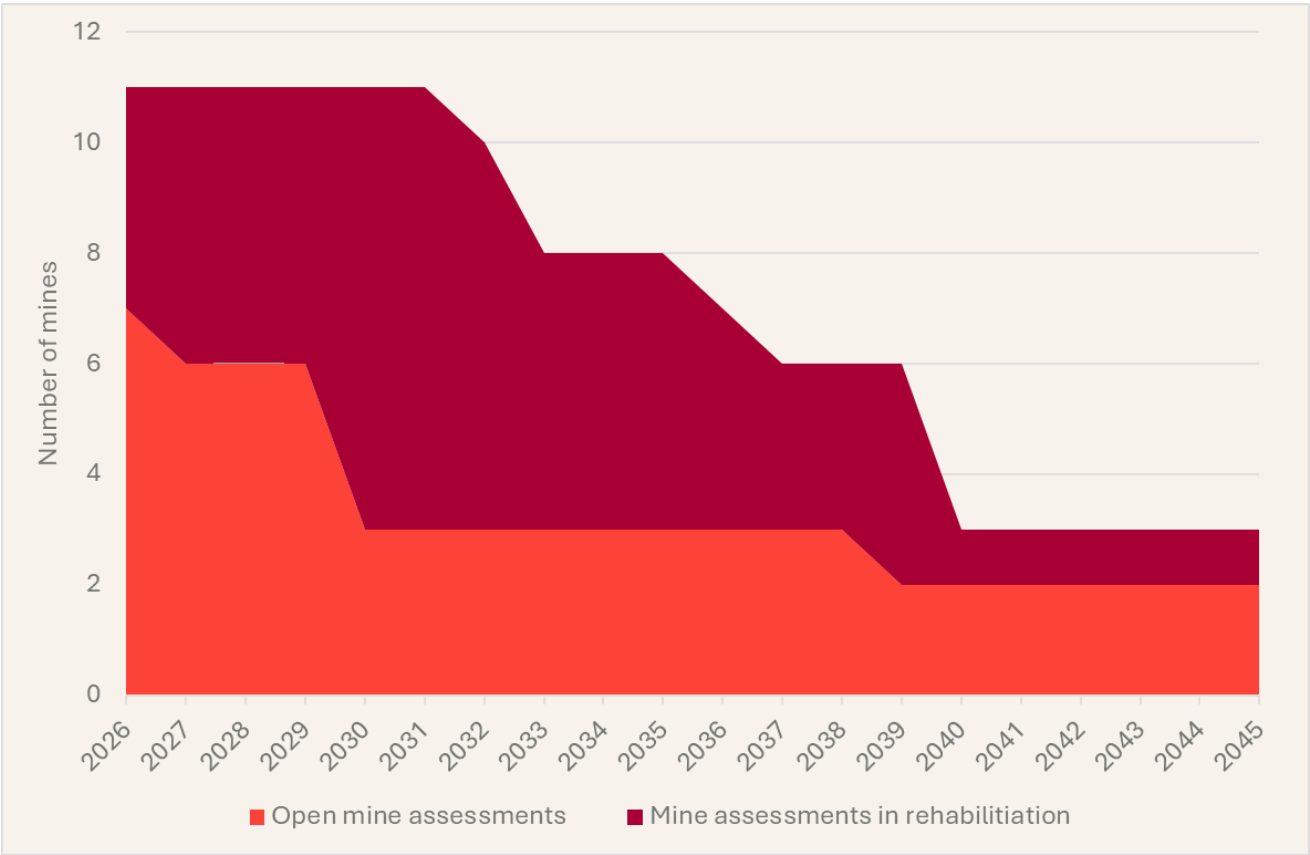
¹ Throughout this report and all other materials, we refer to this as an SRV or Special Rates Variation. This is the same as the term used by IPART of a Special Variation or SV.

Why does Council need a special rate variation?

Muswellbrook Shire is facing significant disruptive economic change because of the phasing out of coal as a source of power which will have widespread impacts on the region, its communities and the Council.

The Council currently raises approximately 56% of its rates income from approximately 11 mine assessments in the Muswellbrook Local Government Area (LGA). This revenue is expected to decline significantly over the coming years. Two mines (three mine assessments) have already ceased operations and being rehabilitated, a further five mine assessments are scheduled to close over the next 15 years, as shown in Figure 1 below.

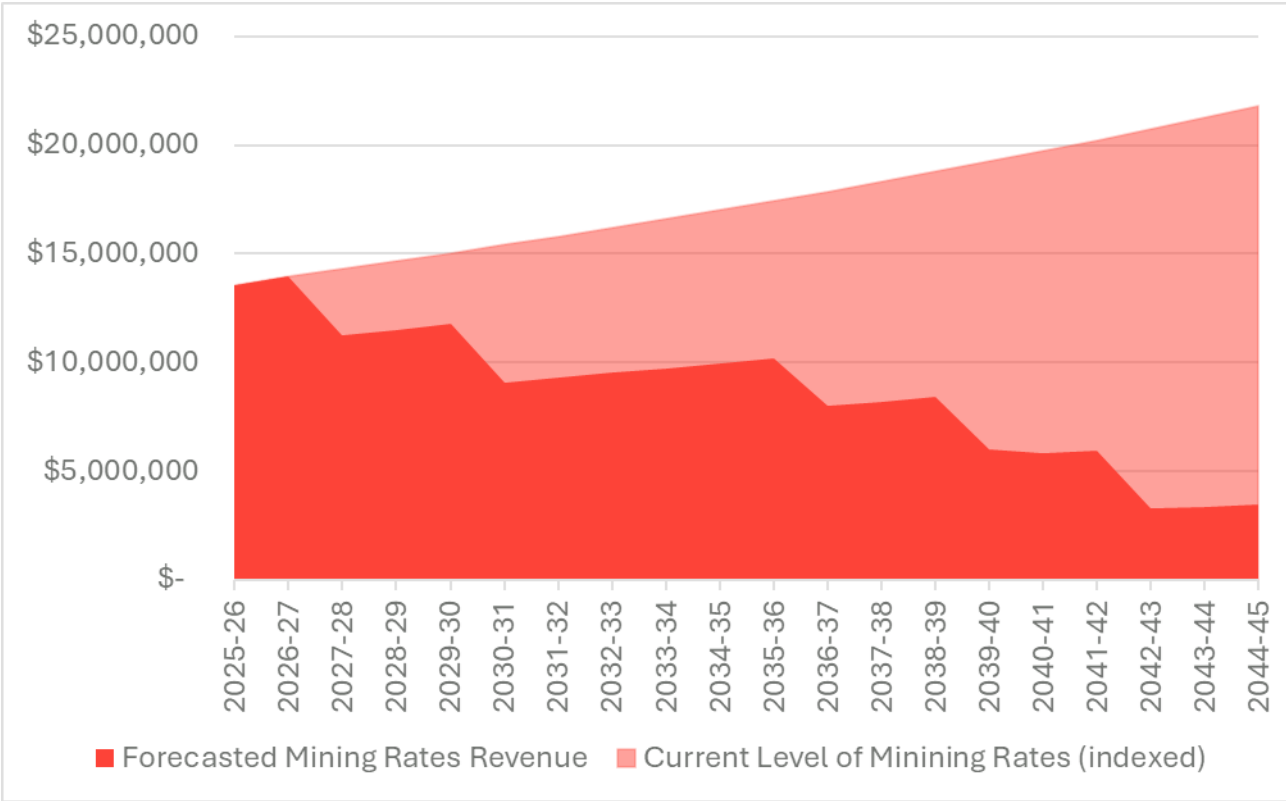
Figure 1 Expected mine closures in the LGA over the next 20 years





As a result of these expected closures, Council is expecting to see a loss of mining rates of an average of \$5 million over the next ten years. The mining rates revenue gap continues to grow to \$18 million in 2044-45, as Figure 2 below demonstrates.

Figure 2 Expected decline in mine rates revenue over the next 20 years



As this happens, Council must ensure it has enough revenue to be able to continue to provide services to the community, as well as play an integral role in supporting the economic development to attract businesses, new industry and employment opportunities to the region.

Over the last 15 years, Council has established and grown a Future Fund, which is largely a property investment portfolio, to help generate additional revenue to help address the looming gap in revenue that will shortly be created by the loss of mining rates. However, this is not sufficient to fully cover the revenue gap that will be created.

Council has decided to consider an SRV to address this decline now. The proposed rates increase will be borne by mining ratepayers only and will be invested in a mix of:

- efficiency and productivity initiatives to reduce Council’s ongoing costs
- economic development activities to attract alternative industries and jobs to the area to replace mining
- further invest in Council’s Future Fund to create an alternative income stream to rates into the longer term.

Introducing an SRV now, while mining companies are still operating in the LGA, is intended to alleviate some of the burden of rates being shifted on residents and businesses as the mines cease their operations and start to pay less rates.

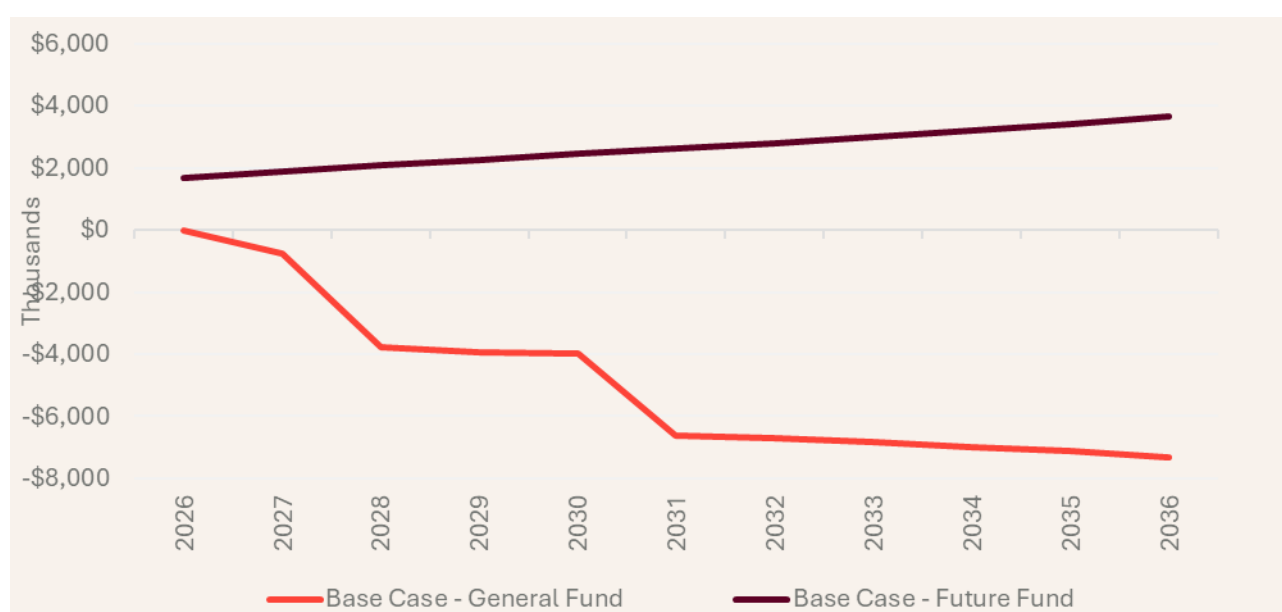
Council's current financial situation

An independent review of Council's long term financial modelling has been undertaken to confirm the impact on the loss of mining rates on Council's financial sustainability. The review looked at two scenarios:

- **Base case:** under this scenario, Council would continue as it currently is. The mining rates will start to decline as set out in Figure 2 above. This scenario also includes the expected revenue stream created from the current Future Fund.
- **SRV scenario:** this scenario looks at what is required to ensure the ongoing sustainability of the Council as mining rates decline. It includes:
 - Ongoing implementation of Council's efficiency and productivity improvement plan and the realisation of associated efficiencies, revenue increases and cost savings that would come as a result.
 - Delivery of Council's economic development plan to support future industry, employment and business to replace mining in the region. This is targeting business rates growth of approximately 5% from 2030 as a result, which is also modelled in the SRV scenario. This initiative is also expected to address the potential decline in socio-economic advantage that would occur from mining moving out of the region without other industry and opportunities created to replace it.
 - Further investment in the Council's Future Fund. Council intends to use the revenue stream created from the SRV to fund borrowings of \$50 million and further invest in the Future Fund portfolio of investment.

Under the base case, Council would start to incur persistent deficits as the mining rates revenue declines, which means that Council would not have sufficient revenue to continue to fund the costs of providing services at their current level and maintain and renewing existing infrastructure in its current condition. The already-established Future Fund is starting to deliver some additional revenue, and this will continue to grow over the next 10 years. However, as Figure 3 below shows, this additional revenue will not fully fill the funding gap caused by the retraction of mining rates.

Figure 3 Forecasted base case operating results of General Fund and Future Fund





When councils record consistent deficits, they are faced with a number of challenges. They must either reduce costs or use cash reserves to fund the gap. Neither option is ideal. If a council opts to reduce costs, this will come at the expense of either reducing services and services levels or a deterioration in the condition of infrastructure, such as roads, parks and sports facilities, buildings and stormwater. A council will eventually run out of unrestricted cash reserves if it opts to use these to fund the gap.

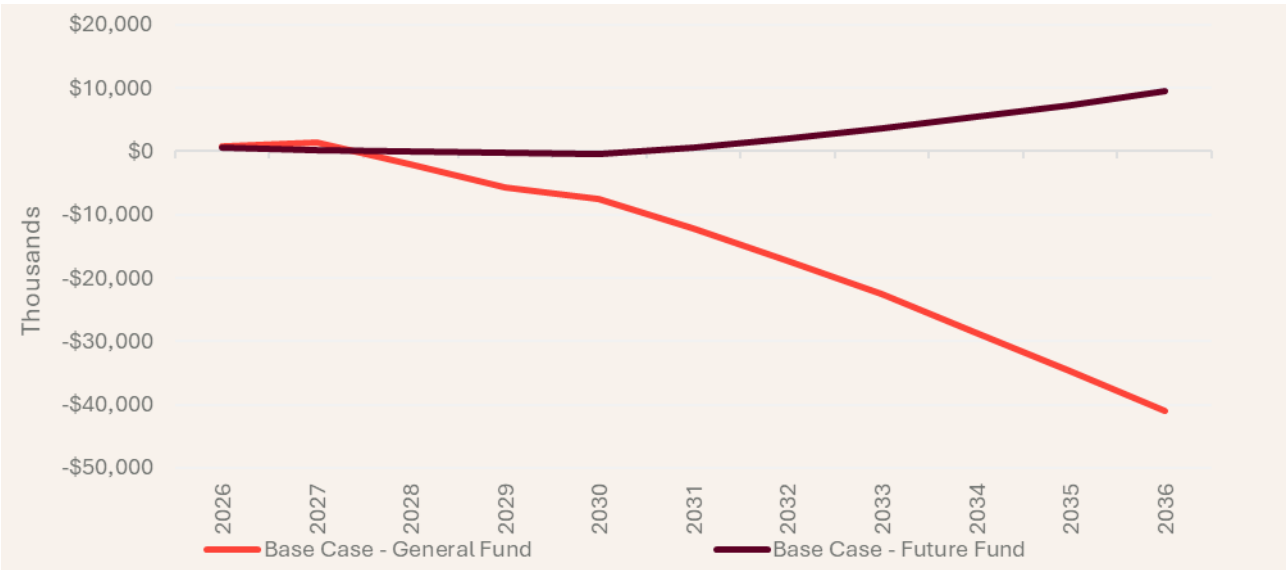
What is “unrestricted cash” and why is it important?

Councils often seem to have a lot of cash when you look at their financial statements, but much of this cash is either externally or internally restricted. **Externally restricted** cash is money councils are required under legislation to keep for a specific purpose (like developer contributions). **Internally restricted** cash is money councils have resolved to retain for a specific purpose. What is left is called **unrestricted cash** - this is the cash left for the council to run its day-to-day operations.

Councils need to have enough unrestricted cash to cover costs as they fall due, like paying creditors and staff. As a rule of thumb, unrestricted cash balances should be at least three months of expenses or at least 25% of council’s total annual operating expenses.

As Figure 4 below demonstrates, if Council attempts to continue to provide services at their current service levels and maintain infrastructure at its current condition, Council will run out of unrestricted cash by 2027-28.

Figure 4 Forecasted base case unrestricted cash in General Fund and Future Fund





What is the size of the rate increase being considered?

Council is proposing a permanent increase to rates of 29% (inclusive of the rate peg) in 2026-27, as set out in Table 1 below. This increase will be levied against mining ratepayers only, with residential, business and farming rates to go up by the rate peg, as it would in any other year. After 2026-27, rates income for all rates categories will continue to increase in line with the rate peg set by IPART.

Table 1 Proposed Special Rate Variation

Percentage increase of total rates income	2026/27
Rate peg set for 2026-27	3.10%
Proposed increase above the rate peg	25.9%
Proposed SRV (including rate peg)	29.0%

How will the proposed rates increase affect your rates?

The proposed rate increase of 25.9% above the rate peg is intended to be levied against mining rates only. This means that if the SRV is approved, residential, business and farmland ratepayers will see their rates bill increase only by the set rate peg for 2026-27 of 3.1%, as they would have if there was no approved SRV.

For mining rates under the proposed SRV, rates will increase by 45% above what it would have been without the SRV, as Table 2 below indicates.

Table 2 Impact on average rates

Rates category	2025-26 average rate	2026-27 average rate (no SRV – rate peg only)	2026-27 average rate (with proposed SRV)	Percentage increase in rates under the SRV
Residential	\$988	\$1,019	\$1,019	3.1%
Business	\$3,693	\$3,807	\$3,807	3.1%
Farmland	\$3,468	\$3,575	\$3,575	3.1%
Mining	\$1,225,438	\$1,263,427	\$1,834,446	49.7%

How do Council average rates compare with other similar councils?

The Office of Local Government groups councils with other similar councils for comparison purposes. Muswellbrook Shire Council is in Group 11 with 18 other large rural councils. This group of councils represents a diverse cross section of geographies and communities across New South Wales, including Bellingen, Cabonne, Cootamundra-Gundagai Regional, Cowra, Federation, Greater Hume, Gunnedah, Hilltops, Inverell, Leeton, Moree Plains, Murray River, Muswellbrook, Nambucca Valley, Narrabri, Parkes, Snowy Valleys, Upper Hunter and Yass Valley councils.

The tables below show how Muswellbrook Council's average 2026-27 rates will compare with other councils in group 11. As many Group 11 councils don't have mining operations in their LGA, other councils outside of Group 11 with significant mining operations have been included for comparison, these include Blayney (Group 10 – large rural), Broken Hill (Group 4 – regional town/city) and Mid-Western Regional (Group 4 – regional town/city) councils.



While comparison can be useful, there is a limit to their value. Each council is different and has a different set of circumstances, including mix of rates categories and subcategories, socio-economic factors, mix of services and service levels they are expected to deliver and size of infrastructure (e.g. kilometres of roads) they must maintain. All of these factors influence the revenue required and how the burden of rates is distributed across the ratepayers.

Comparing mining average rates in particular has limited value as each council area has very different levels and types of mining operations. While Blayney, Muswellbrook, Mid-Western and Broken Hill all have larger scale mining operations in their LGAs, they are all different types of mines. Blayney and Parkes have gold and copper mining operations, Broken Hill operations mine for lead, zinc and silver, with some copper. Only Muswellbrook and Mid-Western have large scale coal mines. Many of the other councils in Group 11 have some smaller scale mining operations, these may not be comparable to the scale of Muswellbrook.

Table 3 Average mining rates comparison

Council	Estimated 2026-27 Average Mining Rate	Mining Rank
Blayney	\$2,959,055	1
Muswellbrook (SRV)	\$1,834,446	2
Mid-Western Regional	\$1,617,353	3
Broken Hill	\$1,522,448	4
Muswellbrook (rate peg)	\$1,263,427	5
Parkes	\$845,997	6
Gunnedah	\$406,954	7
Cabonne	\$361,631	8
Upper Hunter	\$165,770	9
Cowra	\$24,877	10
Hilltops	\$23,703	11
Snowy Valleys	\$3,584	12

As the below tables indicates, Muswellbrook's average residential rates are among the lowest within Group 11, with average business and farmland rates in the middle of the group. As there is no difference for residential, business and farmland ratepayers between the amount of rates that they would pay under the SRV proposal, and if there was no proposed SRV, the average rates for these rates categories do not change.

Table 4 Average residential rates comparison

Council	Estimated 2026-27 Average Residential Rate	Residential Rank
Bellingen	\$1,639	1
Federation	\$1,446	2
Gunnedah	\$1,428	3
Nambucca Valley	\$1,215	4
Inverell	\$1,199	5
Yass Valley	\$1,193	6
Parkes	\$1,151	7
Leeton	\$1,142	8
Upper Hunter	\$1,122	9
Cootamundra-Gundagai Regional	\$1,063	10
Greater Hume	\$1,030	11
Muswellbrook	\$1,019	12
Murray River	\$1,015	13
Snowy Valleys	\$972	14
Cabonne	\$776	15
Hilltops	\$736	16
Cowra	\$581	17

Table 5 Average business rates comparison

Council	Estimated 2026-27 Average Business Rate	Business Rank
Gunnedah	\$7,180	1
Inverell	\$4,980	2
Parkes	\$4,950	3
Muswellbrook	\$3,807	4
Cowra	\$3,639	5
Yass Valley	\$3,461	6
Nambucca Valley	\$2,474	7
Federation	\$2,074	8
Hilltops	\$1,987	9
Snowy Valleys	\$1,983	10
Bellingen	\$1,778	11
Upper Hunter	\$1,126	12
Leeton	\$1,072	13
Murray River	\$982	14
Greater Hume	\$642	15
Cabonne	\$636	16
Cootamundra-Gundagai Regional	\$399	17



Table 6 Average farmland rates comparison

Council	Estimated 2026-27 Average Farmland Rate	Farmland Rank
Federation	\$7,452	1
Gunnedah	\$6,947	2
Upper Hunter	\$4,803	3
Cootamundra-Gundagai Regional	\$4,544	4
Leeton	\$4,125	5
Bellingen	\$3,635	6
Muswellbrook	\$3,575	7
Inverell	\$3,567	8
Murray River	\$3,529	9
Yass Valley	\$3,472	10
Parkes	\$3,417	11
Cabonne	\$3,280	12
Hilltops	\$3,256	13
Snowy Valleys	\$2,903	14
Greater Hume	\$2,711	15
Cowra	\$2,458	16
Nambucca Valley	\$2,442	17



What would the special rate variation be used for?

Council will use the additional revenue from the Special Rate Variation in three main ways:

- To continue to improve, find costs savings and/or increase non-rates revenue, including:
 - Digital transformation – technology investment to improve customer and operational efficiency and effectiveness.
 - Asset Management improvements – improving management of infrastructure
 - Investment in energy efficient infrastructure to save on power costs.
- To fund economic development activities to reduce reliance on mining for economic prosperity and employment opportunities.
- To invest in growing the Future Fund.

Table 7 below shows the costs and benefits assumed from these initiatives.

Table 7 Summary of initiatives

Stream	Initiatives	Average net annual financial benefit 2026-27 to 2035-36 (\$ thousands)	Other benefits
Efficiency and productivity gains	Asset management improvement plan	-\$19.3	Improved management of assets and infrastructure
Efficiency and productivity gains	Digital transformation: software & systems improvements, including customer experience & service delivery	-\$233.9	Improved DA processing time and integration with planning portal Improved cyber security Improved customer service portal
Efficiency and productivity gains	Investment in energy efficient infrastructure	\$185.5	Contribution to net zero target
Economic Development	Economic development activities to attract alternative industry and businesses	-\$396.4	Targeting an increase in business rates of 5% pa from 2031-32
Tourism and Events	Activities to attract visitor economy	-\$957.4	
Future Fund	Further investment in future fund to build an alternative revenue stream	-\$100	Unencumbered additional revenue stream of approx. \$4 million per annum by 2048



How will this affect Council’s financial forecasts?

The proposed SRV will address the gap in mining rates as it begins to grow and enable council to invest in efficiencies, attracting new industries and develop alternate revenue streams to rates. The figures below show the forecasted operating results and unrestricted cash balances under the SRV option.

Figure 5 Forecasted SRV scenario operating results of General Fund and Future Fund

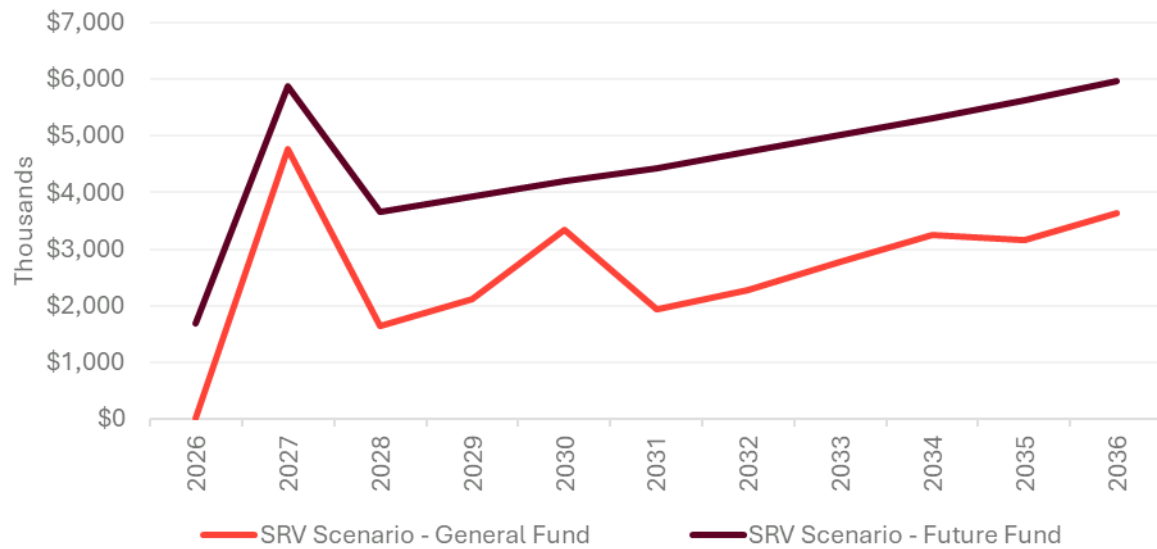
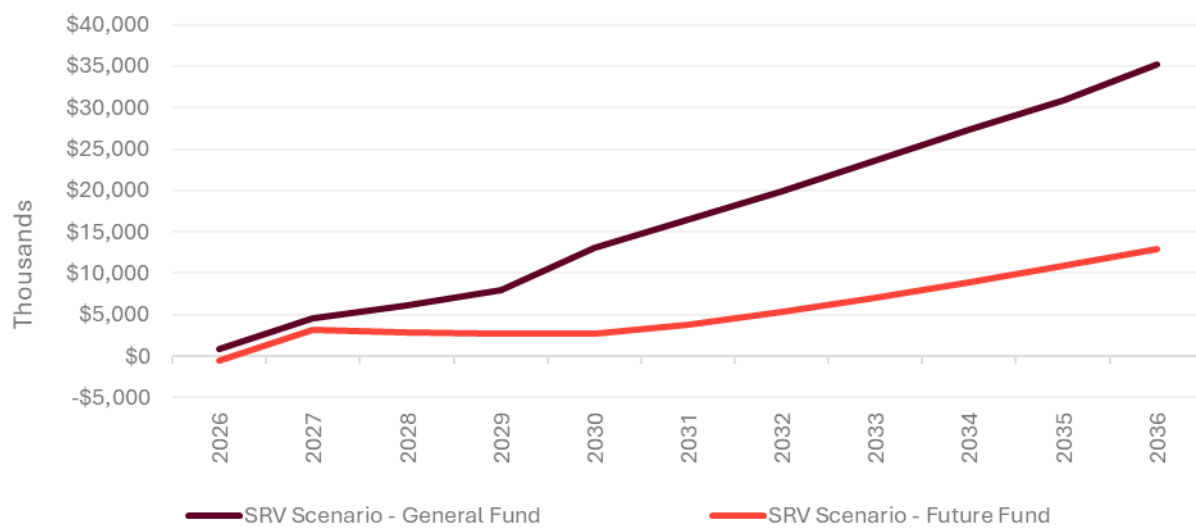


Figure 6 Forecasted SRV scenario unrestricted cash in General Fund and Future Fund



What would happen if Council was not successful?

If Council was not successful in seeking the proposed SRV, there is expected to be several impacts over the next 20 years, including:

- As mining rates fall off, the burden of rates would need to shift to other ratepayers. Council would likely need to consider another SRV to fund the loss of rates revenue in future years. However, this would need to be levied on all ratepayers, including residential, business and farmland.
- Without the proposed SRV funding investment in economic development, Council would find it difficult to support the attraction of industry and visitors to the region.
- Without alternate industry replacing mining, it is likely that socio-economic indicators will fall, and more people may need to move away from the area for employment.

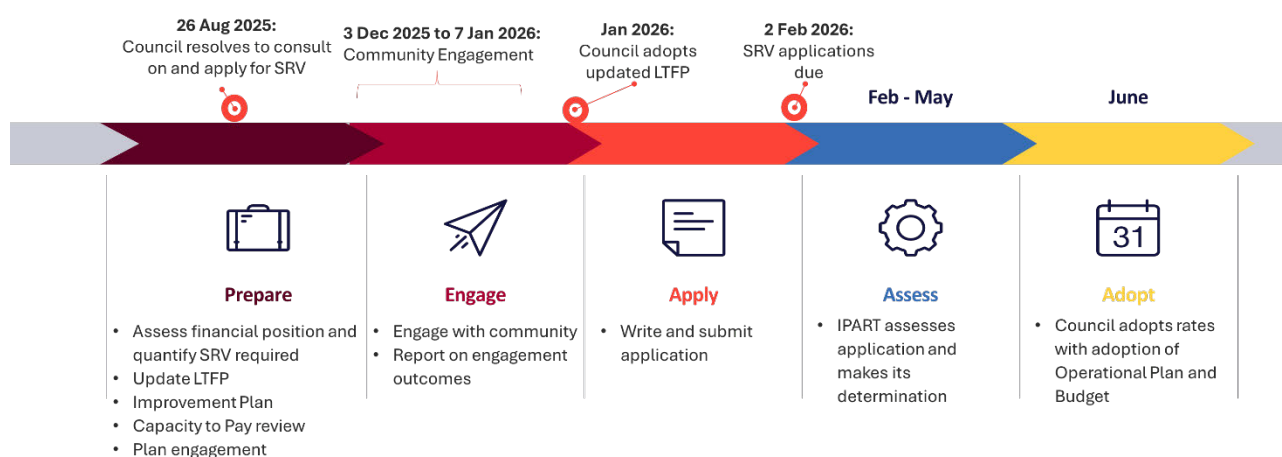
The longer term impacts of not acting now, while coal mining is still in the region and able to contribute to not only the current but the future economic prosperity, could lead to a longer term spiral of financial and economic uncertainty that would be increasingly difficult and costly to come out of.

What is the process that Council must go through to apply for an SRV?

Once the community consultation period concludes on 7 January 2026, Council will review the feedback received. A report will then go to Council for its consideration in January 2026. Council will then finalise and submit its application to IPART.

The application must be submitted to IPART by 2 February 2026. IPART will conduct its own consultation, with public submissions likely to be sought in March 2026, before IPART makes its determination in May 2026. If successful, the SRV will be included in rates from 1 July 2026.

Figure 7 Special Rate Variation timeline





Where to go for more information

More information on the proposed SRV is available from Council's SRV webpage at the following link:
<https://www.muswellbrook.nsw.gov.au/srv/>

Council will also be including information on the proposed SRV in its regular newsletters, fact sheet, information display or kiosks, e-Newsletter, social media, public exhibition, survey, newspaper advertisements and media releases.

We will also be running public face-to-face and online drop-in sessions for the community to find out more and to ask questions. Dates and locations will be advised on Council's SRV webpage: 'What is the process for Council to apply for an SRV?'

Council must apply to IPART for approval to increase rates through an SRV. Before doing so, Council must demonstrate that it has engaged the community about the possibility of an SRV and has considered its views. IPART will also seek community feedback.

IPART will assess council applications on the following criteria:

1. The **need and purpose** of a different rate path for the council's General Fund is clearly articulated and identified in council's Integrated Planning and Reporting (IP&R) documents.
2. Evidence that the **community is aware** of the need for and the extent of a rate rise.
3. The **impact on affected ratepayers** must be reasonable.
4. The relevant IP&R documents must be exhibited, approved and adopted by council.
5. The IP&R documents or council's application must explain and quantify the **productivity improvements and cost containment** strategies.
6. Any other matter that IPART considers relevant.

More information on SRVs can be found on IPART's website:

<https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations>.



Who is Morrison Low Advisory and why is their name on this report?

Morrison Low Advisory is a multi-disciplined management consultancy that has the ability to draw on the experience of a range of experts from different professions. Muswellbrook Shire Council has engaged Morrison Low Advisory to provide strategic advice and assistance on Council's financial position. Our prime focus is local government; we pride ourselves on our deep understanding of the industry and the matters confronting it.

We consider that our team has the depth, experience, expertise and analytical capability necessary to provide independent strategic advice to Council. We have extensive strategic advice, communication, presentation and engagement, strategic asset management, financial strategy and management, service planning, review and delivery experience. Our team members are widely recognised as experienced strategic specialists in local government, providing advice councils can act on.

Undertaking a Special Rate Variation process is not a usual occurrence for a council, nor should it be, so when a council is faced with the challenge of considering a Special Rate Variation, they often need to engage specialist assistance to supplement staff expertise. Morrison Low Advisory regularly works with councils to supplement staff's expertise and support councils through the process. Morrison Low Advisory has been engaged by Muswellbrook Shire Council to support it in this process of considering the SRV application. Our work has included reviewing the asset financial data, undertaking Long Term Financial Plan (LTFP) financial modelling, supporting the development of SRV strategy and options, supporting the community engagement, and developing Council's SRV application.

Document Status

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7888	2.0				27 Nov 2025



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