IPART
Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Burwood Council 2019-20

Final Report
Local Government

May 2019

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1 Executive summary

Burwood Council (the Council) applied to IPART for a special variation (SV)[1] to increase its general income above the rate peg[2] of 2.7% for 2019-20. It has applied for a **4-year** SV to:

- Increase its general income by 4.7% in 2019-20, and 4.5% per annum for each of 2020-21, 2021-22 and 2022-23, **a cumulative increase of 19.5%**.
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to maintain existing services, maintain and renew infrastructure and to reduce its infrastructure backlog.[4] The Council proposes that the majority of the funds would be used for the renewal of infrastructure assets, including the Council's roads, footpaths, kerbs and gutters to reduce the infrastructure backlog.[5]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $4.9 million (4.8% of total income) over four years (see Table 1.1). As the proposed SV is permanent, it would mean a cumulative increase in its PGI revenue of $18.0 million above the assumed rate peg over 10 years (see Table 2.1).

IPART has assessed the Council's application against the criteria in the Office of Local Government's *Guidelines for the preparation of an application for a special variation to general income* (the OLG Guidelines).

This report sets out our decision (Section 1.1) and explains how and why we reached that decision.

1.1 We have approved Burwood Council's application for a Special Variation

We decided to approve the proposed SV in full.

Our decision means that the Council may increase its general income between 2019-20 and 2022-23 by the annual percentages outlined in Box 1.1. This will allow the Council to fund operating and capital expenditure for its key assets, such as local roads and drains, maintain service levels at acceptable standards and reduce the infrastructure backlog.[6]

1 In this context, the term 'Special Variation' refers to an instrument in writing given to the council by IPART (under delegation from the Minister) under s 508A of the Local Government Act 1993 (NSW).
2 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 (NSW).
3 Burwood Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.
4 Burwood Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, p 4.
5 Burwood Council, *Application Part A*, Worksheet 6; and Burwood Council, *Application Part B*, p 5.
6 Burwood Council, *Application Part A*, Worksheet 6; and Burwood Council, *Application Part B*, pp 4-6.

The annual increases include the rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years. The cumulative increase that we have approved of 19.5% is 8.9[7] percentage points more than the assumed cumulative rate peg for these years. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Burwood Council

Approved Special Variation: percentage increases to general income

	2019-20	2020-21	2021-22	2022-23
Increase above rate peg – permanent	2.0	2.0	2.0	2.0
Rate Peg[8]	2.7	2.5	2.5	2.5
Total increase[9]	**4.7**	**4.5**	**4.5**	**4.5**

The approved increase may be retained in the Council's general income base permanently.

We have attached conditions to this decision, including that the Council uses the income raised from the special variation for purposes consistent with those set out in its application.[10]

Conditions attached

IPART's approval of the Council's application for a special variation over the period 2019-20 to 2022-23 is subject to the following conditions:

- The Council uses the additional income from the special variation for the purposes as outlined in the Council's application and listed in Appendix B.
- The Council reports in its annual report for each year from 2019-20 to 2023-24 on:
  - The program of expenditure that was actually funded by the additional income
  - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
  - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - Expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
  - The outcomes achieved as a result of the actual program of expenditure.

The Council estimates that over the four years to 2022-23 it will collect an additional $4.9 million in rate revenue compared to rate increases that are limited to the known rate peg in 2019-20 and assumed rate peg for future years (see Table 1.1).[11]

7 Burwood Council, *Application Part A*, Worksheet 1.

8 The rate peg of 2.5% for future years is assumed and may vary with the setting of the rate peg by IPART in September each year.

9 The SV percentage approved will not change to reflect the actual rate peg in future years.

10 The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.

11 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates.

Table 1.1 Permissible general income (PGI) of Burwood Council from 2019-20 to 2022-23 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019					22,650,650
2019-20	4.7	4.7	453,013	995,564[a]	23,646,213
2020-21	4.5	9.4	937,263	2,059,643	24,710,293
2021-22	4.5	14.3	1,454,900	3,171,606	25,822,256
2022-23	4.5	19.5	2,007,718	4,333,608	26,984,258
Total cumulative increase approved				10,560,421	
Total above rate peg			**4,852,893**		

[a] Includes adjustment of a prior excess amount of $69,017 ($22,650,650 x 0.047 – $69,017 = $995,564).

Note: The above information is correct at the time of the Council's application (February 2019).

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

As the approved SV is permanent, it would mean a cumulative increase in the Council's PGI revenue of $18.0 million above the assumed rate peg over 10 years. This represents 6.5% of the Council's total cumulative PGI over the 10-year period (see Table 2.1).

1.2 Reasons for our decision

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how two of the five criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances, given the Council's financial need for the proposed SV to reduce the infrastructure backlog.

The Council's proposed SV revenue and program of expenditure as set out in its application aims to reduce its existing infrastructure backlog to be in line with the OLG infrastructure backlog benchmark of less than 2% in 2028-29.[12] The average Operating Performance Ratio (OPR) over five years would also improve with the proposed SV and would remain above the OLG benchmark of greater than or equal to breakeven of 0% (see Section 4.1 for further explanation).[13] The Council held a relatively small amount of unrestricted cash, cash equivalents and investments at around $5.8 million as at 30 June 2018.

The Council also reviewed other alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. However, the Council considered this would place the budget in a net deficit moving forward and this additional cost would not be feasible in the short term.

The Council has demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council has communicated the rates increase in dollar terms for

12 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
13 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

each year over the 4-year proposed SV period, though we note that it omitted describing the increase in percentage terms on an annual basis for each rating category. On balance, the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

We found that the impact on affected ratepayers would be reasonable, given the Council's implementation of an increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners and the Council's need for additional funding to address its infrastructure backlog.

The Council's Integrated Planning and Reporting (IP&R) documents contain sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.

The Council has also outlined its productivity improvements and cost containment strategies, however, its future efficiency measures could not be fully quantified.

Table 1.2 below provides more detail about our assessment and key considerations in making our decision.

Table 1.2 Assessment of Burwood Council's proposed SV application

1. Financial Need	
Demonstrated	The Council demonstrated a financial need for the proposed SV. Its: ▼ OPR (average 2019-2020 to 2023-24) is: – 2.6% with the proposed SV (the proposed SV Scenario) – 0.1% without the proposed SV revenue and expenditure (the Baseline Scenario) – 0.1% without the proposed SV revenue and assuming the SV expenditure (the Baseline with SV expenditure Scenario). ▼ Net cash is $44.2 million or 92.0% of income in 2018-19, with $5.8 million in unrestricted cash and investments as at 30 June 2018. ▼ Infrastructure backlog ratio is estimated at 2.0% in 2028-29 under the Proposed SV Scenario, but 6.0% in 2028-29 without SV revenue and without the SV expenditure (the Baseline Scenario). The OLG benchmark is <2%. ▼ Infrastructure backlog is forecast to improve from $20.3 million to $7.7 million by 2028-29 under the Proposed SV Scenario, but will only be reduced to $18.2 million by 2028-29 under the Baseline Scenario.
2. Community awareness	
Demonstrated	The Council demonstrated the community is sufficiently aware of the proposed rate rise. It: ▼ Used a range of engagement methods to make the community aware of the need for, and extent of, the proposed rate increase. ▼ Provided detailed explanation about the purpose and impact of the proposed SV and sought feedback. ▼ Considered community feedback on the proposed rate increase. ▼ Did not communicate the total increase in percentage terms for the average ratepayer by rate category on an annual basis. However, it has clearly communicated the rates increase in dollar terms for each year over the proposed 4-year SV period.

3. Reasonable Impact on ratepayers	
Largely Demonstrated	With the proposed SV, the average residential rates would increase by $59 in 2019-20 and an average of $65 per annum for 2020-21 to 2022-23. Without the proposed SV, these increases would be $33 and $35, respectively.[14] The Council examined the impact of the proposed SV on ratepayers and found it would be reasonable. It considered: ▼ The employment rate is high at 92.4%. ▼ Its SEIFA[15] index ranking is lower than its neighbouring councils, but still relatively high. IPART considered information on ratepayers from 2016-17 and found: ▼ Average residential rates without the SV were lower than the Group 2[16] average but higher than the weighted average for most neighbouring councils. ▼ Average business rates without the SV were higher than the Group 2 average but lower than the weighted average for the neighbouring councils. ▼ The rates to income ratio without the SV was higher than the average for Group 2 councils and highest compared to neighbouring councils. ▼ The outstanding rates ratio without the SV was lower than the Group 2 average and lower than most of its neighbouring councils except for Canada Bay. IPART also compared the Council's average rate levels with the proposed SV to the OLG Group 2 average rate levels over the proposed 4-year SV period. We found that the Council's: ▼ Average residential rate in 2022-23 with the proposed SV would be $1,581, which is higher than the estimated average residential rates of $1,408 for OLG Group 2 in 2022-23. ▼ Average business rate in 2022-23 with the proposed SV would be $7,023, which is higher than the estimated average business rates of $4,780 for OLG Group 2 in 2022-23. We considered the impact on ratepayers to be reasonable given the Council's implementation of an increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners, and the Council's need for additional funding to address its infrastructure backlog.
4. IP&R documents exhibition	
Demonstrated	The Council adopted its Community Strategic Plan in June 2018. It: ▼ Exhibited its Delivery Program and Long Term Financial Plan from 23 May 2018 to 20 June 2018 and adopted the documents on 26 June 2018. ▼ Adopted the revised Delivery Program and Long Term Financial Plan, which set out the SV scenarios, on 5 February 2019. ▼ Did not communicate the increase in percentage terms for the average ratepayer by rate category on an annual basis in its Delivery Program. However, it has clearly communicated the rates increase in dollar terms for each year over the proposed 4-year SV period.

14 Burwood Council, *Application Part A*, Worksheet 5a.

15 The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 130 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up SEIFA.

16 Burwood Council is in OLG Group 2, which is classified as Metropolitan Developed Small/Medium (population up to 70,000). The group comprises 6 councils, including Hunter's Hill Council, Lane Cove Council and Strathfield Council.

5. Productivity improvements and cost containment	
Largely Demonstrated	The Council has implemented a number of cost saving initiatives in the past. Some examples include: ▼ Two organisational restructures since 2009-10, which saved more than $380,000. ▼ A new procurement and contract management policy and corporate practices, which have reduced legal costs from $1.37 million per year to approximately $600,000 per year. ▼ A reduction to the Council's workers compensation premium from $1 million to $460,000 ▼ Negotiated new contracts, such as insurance contracts, producing savings of $400,000. The Council also indicated that it is planning future efficiency measures over the proposed SV period, however, these efficiency measures could not be quantified.

1.3 Structure of this report

The rest of this report explains our decision and assessment of the Council's application in more detail:

- Chapter 2 outlines the Council's application for the proposed SV
- Chapter 3 summarises the submissions received by IPART
- Chapter 4 explains our assessment of the Council's application against each criterion in the OLG Guidelines
- Chapter 5 discusses how our decision will impact the Council and its ratepayers.

2 Burwood Council's application

The Council has applied for its proposed SV to increase its general income by a cumulative 19.5% over four years from 2019-20 to 2022-23. The proposed increase is evenly spread across the period, with a 2.0% increase above rate peg in each year. The application is for an increase that remains permanently in the rate base. The Council indicated that the proposed rate increase would be applied across all rating categories.

2.1 Purpose

The purpose of the proposed SV is to fund ongoing operations such as infrastructure maintenance and renewal, maintain existing services and to reduce the infrastructure backlog.[17]

2.2 Need

The Council has stated that as its major source of revenue has been limited in growth due to rate pegging, the community's increasing demand for services and the rising costs associated with providing them will mean that the Council will not be able to address the backlog in infrastructure.[18]

According to the Council, the proposed SV would reduce the Council's existing infrastructure backlog from $20.3 million to $7.7 million over ten years without having to compromise existing levels of service.[19] The Council has not identified enhanced financial stability as a driver of the proposed SV.[20]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $18.0 million above what the assumed rate peg would deliver over 10 years. This represents 6.5% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 8.0% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

17 Burwood Council, *Delivery Program 2018-2021 (Delivery Program)*, p 20; and Burwood Council, *Application Part B*, p 22.
18 Burwood Council, *Delivery Program*, p 20.
19 Burwood Council, *Application Part B*, p 22.
20 Burwood Council, *Application Part B*, p 4.

Table 2.1 Permissible general income (PGI) of Burwood Council from 2019-20 to 2028-29 under the proposed SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI
18.0	277.8	6.5%

Note: The above information is correct at the time of the Council's application (February 2019).

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

The proposed SV would:[21]

- Increase the average rates for a residential property by $59 in 2019-20, $62 in 2020-21, $65 in 2021-22 and $68 in 2022-23.
- Allow an average increase above the rate peg for a residential property of $25 in 2019-20, $54 in 2020-21, $84 in 2021-22, and $116 in 2022-23.

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 5 February 2019.[22]

21 Burwood Council, *Application Part A*, Worksheet 5a.

22 Burwood Council, *Minutes of Burwood Council meetings, Annexure H – Resolution to apply for SRV*, 5 February 2019, p 2.

3 Submissions to IPART

IPART received two submissions during the consultation period from 11 February 2019 to 14 March 2019.

Key issues and views raised were:

- The increase in apartments in the town centre and surrounding area in the LGA should provide enough funds for the needs of the Council.
- The Council states that the rate increase is for fixing damaged roads, however, most of the damage is caused by the trucks involved with the construction of new buildings for which the developers are levied for road damage.
- The Council needs to improve its financial management of its income and expenditure.
- The unaffordability of paying higher rates, especially for pensioners.
- The Council's history of inefficient use of funds.

We considered all the submissions as part our assessment of the Council's application against the criteria in the OLG Guidelines, which is discussed in the next chapter.

Two key themes arising from the submissions were concerns surrounding the Council's financial need for its proposed SV and the impact on its ratepayers.

One of the submissions received suggested that the financial needs of the Council should be met by the increase in apartments in the town centre and surrounding areas in the LGA. We have examined the Council's net cash (debt) position and forecast financial ratios (see Section 4.1). To obtain increased income from an increase in apartments within the LGA, a proposed SV is required as PGI is capped by the rate peg.

Two submissions also raised issues on the affordability of paying higher rates. We have examined the impact on the ratepayers more closely in Section 4.3.

We note that the Council received 37 written submissions (31 opposed to the application and 6 requesting further information) in relation to its proposed SV during the exhibition of its IP&R documents (see Section 4.2.2).

4 IPART's assessment

To make our decision, we assessed the Council's application against the criteria in the OLG Guidelines.

The five criteria in the OLG Guidelines are:

- **Criterion 1 – Financial need**: The need for, and purpose of, a different revenue path for the Council's General Fund is clearly articulated and identified in the Council's IP&R documents.
- **Criterion 2 – Community awareness**: Evidence that the community is aware of the need for, and extent of, a rate rise.
- **Criterion 3 – Reasonable impact**: The impact on affected ratepayers must be reasonable.
- **Criterion 4 – Integrated Planning and Reporting (IP&R)**: The relevant IP&R documents must be exhibited (where required), approved and adopted by the Council.
- **Criterion 5 – Productivity**: The Council must explain the productivity improvements and cost containment strategies.

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the proposed SV.

Our Assessment

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how two of the five criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances, given the Council's financial need for the proposed SV to reduce the infrastructure backlog.

The Council's proposed SV revenue and program of expenditure (under the Proposed SV Scenario) set out in its application aims to reduce its existing $20.3 million or 7.0% infrastructure backlog to $7.7 million or 2.0% in 2028-29, which is in line with the OLG infrastructure backlog benchmark of less than 2% . The average OPR over five years is 2.6% under the Proposed SV Scenario, and 0.1% under the Baseline with SV expenditure Scenario, which is slightly above the OLG benchmark of greater than or equal to breakeven of 0%. The Council held a relatively small amount of unrestricted cash, cash equivalents and investments at around $5.8 million as at 30 June 2018.

The Council also reviewed other alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. However, the Council considered this would place the budget in a net deficit moving forward and this additional cost would not be feasible in the short term.

The Council has demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council has communicated the rates increase in dollar terms for each year over the 4-year proposed SV period, though we note that it omitted describing the increase in percentage terms on an annual basis for each rating category. On balance, we consider the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

We found that the impact on affected ratepayers would be reasonable, given the Council's implementation of an increase to the Pensioner Rebate Scheme to minimise the impact of the proposed SV on pensioners and the Council's need for additional funding to address its infrastructure backlog.

The Council's IP&R documents contain sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.

The Council has also outlined its productivity improvements and cost containment strategies, however, its future efficiency measures could not be fully quantified.

Our assessment of the Council's application against each of the criterion is discussed in more detail in the sections below.

4.1 Financial need for the proposed Special Variation

This criterion examines the Council's financial need for the proposed SV. The OLG Guidelines require the Council to clearly articulate and identify the need for, and purpose of, a different revenue path for its General Fund. This includes that:

- The Council sets out the need for, and purpose of, the proposed SV in its IP&R documents, including its Delivery Program, Long-Term Financial Plan and Asset Management Plan where appropriate.
- Relevant IP&R documents should canvas alternatives to the rate rise.
- The Council may include evidence of community need/desire for service levels or projects.

IPART uses information provided by the Council in its application to assess the impact of the proposed SV on the Council's financial performance and financial position, namely the Council's forecast:

- Forecast operating performance
- Forecast net cash (debt).

Where relevant, IPART also uses information provided by the Council to assess its need for the proposed SV to reduce its infrastructure backlog and/or increase its infrastructure renewals, by assessing the Council's:

- Infrastructure backlog ratio
- Infrastructure renewals ratio.

Generally, we would consider a council with a consistent operating surplus to be financially sustainable. The Council's forecast operating result shows whether the income it receives covers its operating expenses each year. We consider that the most appropriate indicator of operating performance is the OPR.

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

$$OPR^{23} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the Council's application and Long Term Financial Plan (where appropriate), we calculate forecasts under three scenarios:

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** – which shows the impact on the Council's operating and infrastructure assets' performance **without the proposed SV revenue and expenditure**.
3. **The Baseline with SV expenditure Scenario** – which 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.

We consider that a council's average OPR over the next 10 years should be 0% or greater, as this is typically the minimum level needed to demonstrate financial sustainability. An OPR well above the benchmark would bring into question the financial need for an SV. We note that other factors, such as the level of borrowings and/or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.

While the OPR is a good guide to a council's ongoing *financial performance* (or sustainability), we may also have reference to a council's *financial position*, and in particular its net cash (or net debt).[24] This may inform us as to whether the Council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the Council's net cash position in 2018-19 and as a percentage of income to gauge its financial position.

We note the OPR is a measure of the Council's financial performance measuring how well a council contains its operating expenditure within its operating income. As the ratio measures net operating results against operating revenue, it does not include capital expenditure. That is, a positive ratio indicates operating surplus available for capital expenditure. Therefore, we also further consider the impact of the proposed SV on the Council's infrastructure ratios, where relevant to the Council's application, given the management of infrastructure assets is an important component of the Council's function.

23 Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

24 Net debt is the book value of the Council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the Council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net debt is an indicator of the Council's financial performance and sustainability on a cash basis.

Where relevant, we consider the Council's infrastructure backlog ratio, which measures the Council's backlog of assets against its total written down value of its infrastructure. The benchmark set by OLG for the ratio is less than 2%. It is defined as:

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets^{25}}$$

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. The benchmark set by OLG for the ratio is greater than 100%.[26] It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{27}}{Depreciation, amortisation\ and\ impairment}$$

4.1.1 Assessment of the Council's IP&R documents and alternatives to the rate rise

The Council's Delivery Program clearly sets out the need for, and purpose of, the proposed SV, which is to:[28]

- Maintain existing services
- Fund maintenance and renewal of infrastructure assets such as local roads and drains
- Reduce the $20 million infrastructure backlog.

The Council's Delivery Program and Long Term Financial Plan also briefly canvassed alternatives to the rate rise, such as maintaining current service levels in the short term, but seeing them decline over time. Without the proposed SV, the Council's capital works program may be compromised and priority would be given to essential infrastructure projects.[29]

The Council also considered other alternatives to the rate rise such as the use of external borrowings to fund its capital expenditure. It obtained a $1 million loan through the OLG in 2017-18 and a further $1 million loan for drainage works in 2018-19. At June 2019, the Council estimates loans outstanding to peak at $6.8 million. Despite these actions, the Council indicated that it has not been able to significantly reduce its infrastructure backlog.[30] Based on the current Long Term Financial Plan, an additional $1 million in loan borrowings over a 10-year term would cost the Council an extra $117,000 per year in interest and principal repayments. According to the Council, this would place the budget in a net deficit moving forward and this additional cost would not be feasible in the short term. The Council noted it may seek additional loan funding to further reduce its infrastructure backlog after the Local Government Elections are held in September 2020, depending upon the priorities of a new

25 Historical cost less accumulated depreciation.
26 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
27 Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or refurbishment of old assets) that increases capacity/performance.
28 Burwood Council, *Delivery Program*, p 20; and Burwood Council, *Application Part B*, pp 4-6.
29 Burwood Council, *Delivery Program*, p 21; and Burwood Council, *Resourcing Strategy – Long Term Financial Plan*, p 10.
30 Burwood Council, *Application Part B*, pp 11-12.

council. However, the Council considered this option not to be the preferred policy of its elected members historically.[31]

As a result, the Council decided that the proposed SV would provide the most feasible funding source without relying on debt or having to make loan repayments.[32]

4.1.2 Assessment of the impact of the proposed SV on the Council's financial performance and position

The Council's forecast operating result

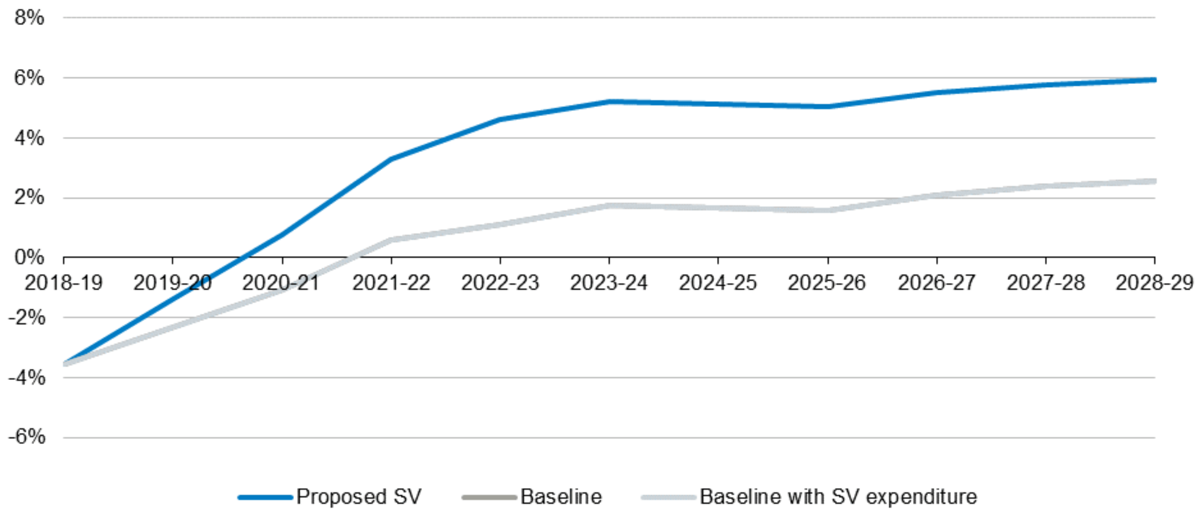
Under the Proposed SV Scenario, the Council forecasts increasing operating surpluses, growing to 5.9% by 2028-29. The cumulative value of the forecast operating results is $24.6 million to 2028-29. This would allow the Council to reduce its infrastructure backlog, fund continuous maintenance and renewal of existing infrastructure assets and deliver its proposed levels of service.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts lower operating surpluses (2.6% by 2028-29), as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The Council also forecasted the same result without the proposed SV revenue and expenditure (the Baseline Scenario) over the next 10 years. The cumulative value of these forecast operating results (before capital grants and contributions) is $6.6 million to 2028-29 under this scenario.

Under both the Baseline Scenario and the Baseline with SV expenditure Scenario, the Council has forecast very similar OPRs. This is because the Council intends to use the additional SV revenue for capital expenditures.[33] As such, the proposed SV expenditure does not alter operating expenditures. Therefore, in Figure 4.1 and Table 4.1 below, the OPR results of both these scenarios closely resemble each other.

31 Email to IPART, Burwood Council, 20 March 2019.
32 Burwood Council, *Application Part B*, p 16.
33 Burwood Council, *Application Part A*, Worksheet 6.

Figure 4.1 Burwood Council's Operating Performance Ratio (%) excluding capital grants and contributions (2018-19 to 2028-29)



Data source: Burwood Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 4.1 Projected operating performance ratio (%) for Burwood Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	-1.4	0.8	3.3	4.6	5.2	5.1	5.0	5.5	5.8	5.9
Baseline	-2.3	-1.1	0.6	1.1	1.7	1.6	1.6	2.1	2.4	2.6
Baseline with SV expenditure	-2.3	-1.1	0.6	1.1	1.7	1.6	1.6	2.1	2.4	2.6

Source: IPART calculations based on Burwood Council, *Application Part A*, Worksheet 8.

Our analysis indicates that over the next five years, the Council's financial performance under each scenario results in an average OPR of:

- 2.6% under the Proposed SV Scenario
- 0.1% under the Baseline Scenario
- 0.1% under the Baseline with SV expenditure Scenario.

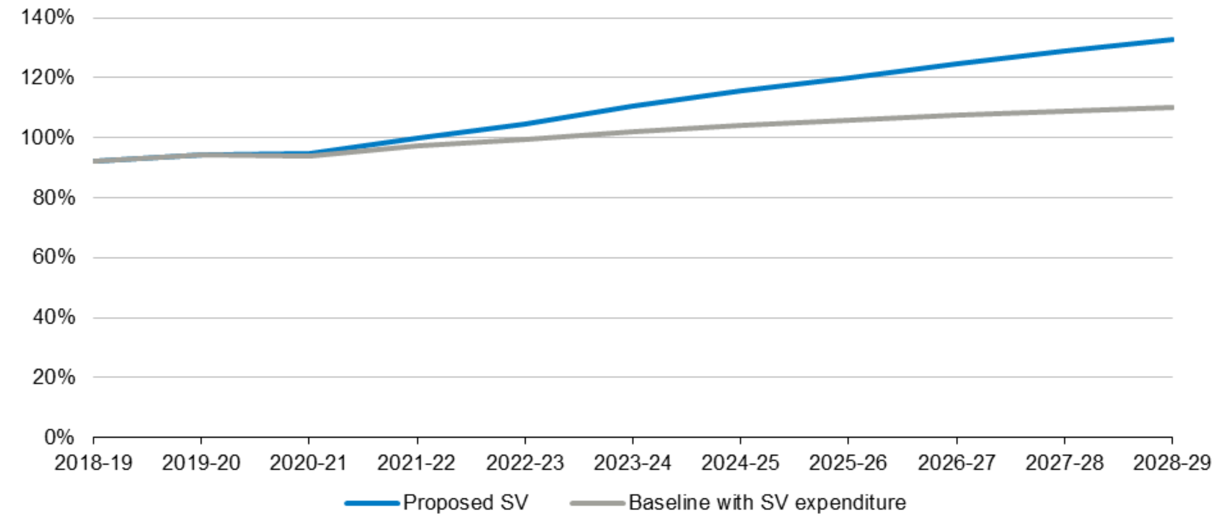
Impact on the Council's net cash (debt)

We calculate the Council's net cash is $44.2 million or 92.0% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), we estimate that net cash would still increase by 2028-29. As at 2028-29, the net cash to income ratio would be 133.0% under the Proposed SV Scenario and 110.0% under the Baseline with SV expenditure Scenario.

The Council's forecast net cash (debt) position over the next 10 years is shown in Figure 4.2 below.

Figure 4.2 Burwood Council's net cash (debt) to income ratio (%) (2018-19 to 2028-29)



Data source: Burwood Council, *Application Part A*, Worksheet 8 and IPART calculations.

Our analysis indicates that over the next five years, the Council's financial performance under each scenario results in an average net cash to income ratio of:

- 101.1% under the Proposed SV Scenario
- 97.5% under the Baseline with SV expenditure Scenario.

Impact on the Council's infrastructure backlog ratio

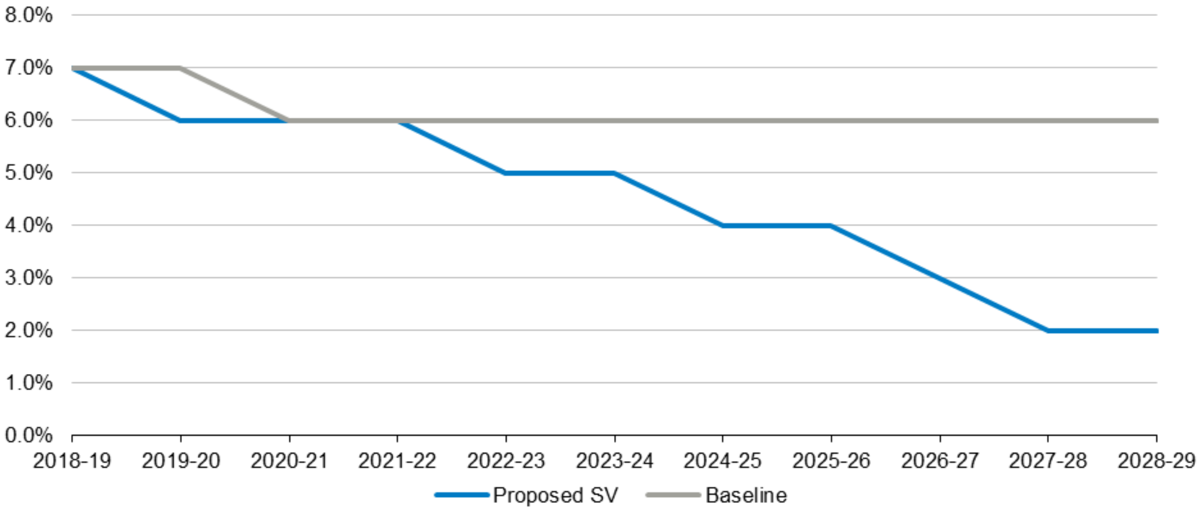
The Council estimates its current infrastructure backlog to be $20.3 million in 2018-19 without the proposed SV expenditure.[34] The Council estimates an infrastructure backlog ratio of 7.0% in 2018-19, which is higher than the OLG benchmark of less than 2%.

Figure 4.3 and Table 4.2 show the projected infrastructure backlog ratio under the proposed SV and Baseline Scenarios. The Council forecasts its infrastructure backlog ratio to decrease, but by a larger amount with the proposed SV. Under the Proposed SV Scenario, it forecasts the infrastructure backlog to reduce to $7.7 million or 2.0% in 2028-29.[35]

Under the Baseline Scenario, it forecasts an infrastructure backlog of $18.2 million or 6.0% in 2028-29.[36] This is higher than the OLG benchmark of less than 2%.

34 Burwood Council, *Resourcing Strategy - Asset Management Plan*, p 38.
35 Burwood Council, *Application Part B*, p 16; and Burwood Council, *Application Part A*, Worksheet 9.
36 Burwood Council, *Application Part B*, p 13; and Burwood Council, *Application Part A*, Worksheet 9.

Figure 4.3 Burwood Council's infrastructure backlog ratio (%) (2018-19 to 2028-29)



Data source: Burwood Council, *Application Part A*, Worksheet 9.

Table 4.2 Projected infrastructure backlog ratio (%) for Burwood Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	6.0	6.0	6.0	5.0	5.0	4.0	4.0	3.0	2.0	2.0
Baseline	7.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Source: Burwood Council, *Application Part A*, Worksheet 9.

Our analysis indicates that over the next five years, the Council's infrastructure backlog ratio averages:

- 5.6% under the Proposed SV Scenario
- 6.2% under the Baseline Scenario.

Submissions from the community to IPART

IPART received two submissions during the consultation period from 11 February 2019 to 14 March 2019, in which one mentioned financial need. It stated the financial needs of the Council should be met by the increase in apartments in the town centre and surrounding areas in the LGA. We note that an increase in apartment numbers does not allow a Council to increase its PGI.

4.1.3 Overall assessment of the Council's financial need

The Council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (but without the proposed SV revenue), its OPR would average 0.1% over the next five years, and 1.2% over the 10 years to 2028-29.

Under the Proposed SV Scenario, our analysis shows that the Council's OPR over the next five years averages at 2.6% and its forecast OPR in 2023-24 is 5.2%. We have focussed on the next five years given the uncertainty around longer-term forecasts. We consider that the proposed SV revenue puts the Council on a more sustainable path, given the program of expenditure set out in its application to reduce its existing $20 million infrastructure backlog without having to compromise existing levels of service.

We forecast that the Council will have a net cash position of $44.2 million at 30 June 2019, with total cash and investments greater than total debt. On 30 June 2018, Council held a total of $57.2 million in in cash, cash equivalents and investments, with:[37]

- $22.7 million externally restricted
- $28.7 million internally restricted
- $5.8 million unrestricted.

This suggests that a significant balance of the Council's cash and investments are committed to other purposes and are not available for discretionary use to fund part of the Council's proposed SV expenditure. As such, we consider that the net cash position of the Council does not dampen the Council's financial need for the proposed SV.

With the proposed SV expenditure, the Council also forecasts its infrastructure backlog to reduce to $7.7 million or 2.0% in 2028-29. This is in line with the OLG benchmark of less than 2%. Taking this into account, as well as the Council's assessment of alternatives to the proposed SV, we have assessed that the Council is in financial need for the proposed SV to reduce the infrastructure backlog.

4.2 Community engagement and awareness

The OLG Guidelines outline consultation requirements for councils when proposing an SV application. Specifically:

- The Council's Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the proposed SV. 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 (see Section 4.4 for this assessment).
- The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

Ultimately, we consider evidence that the community is aware of the need for, and extent of, a rate rise. That is, whether the consultation conducted by the Council with ratepayers has been effective.

In this section, we assess the consultation process, including the clarity of the consultation, the timeliness of the consultation and whether an effective variety of engagement methods were used to reach as many ratepayers as possible across all relevant rating categories.

37 Burwood Council, *Application Part A*, Worksheet 7; and IPART calculations.

We also examine the effectiveness of any direct community engagement and any council response to community feedback.

4.2.1 Assessment of consultation with the community

The Council has published a Community Consultation Strategy.[38] It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and Content

The material the Council prepared for ratepayers on its proposed SV contained most of the elements needed to ensure ratepayers were well informed and able to engage with the Council during the consultation process.

Specifically, the Council:

- Communicated the full impact of the proposed rate increase to ratepayers, including the cumulative percentage of the proposed SV and the rate increase[39] across various categories of ratepayers.
- Communicated what the proposed SV would fund.

Clarity

The Council's consultation material was clear in its presentation of the proposed SV and not likely to confuse ratepayers about the need for, or impact of, the proposed rate increase. The Council expressed the total rate increase including the rate peg.

Timeliness

The Council carried out community consultation on its SV proposal from 12 December 2018 to 20 January 2019.[40] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

The Council provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community, including:[41]

- A mail out to ratepayers, including a newsletter in January 2019
- A dedicated SV website to explain the proposed SV application
- A Media release and advertisements in the local paper
- Facebook and Wechat social media accounts, providing regular updates about the proposed SV

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38 Burwood Council, *Community Strategic Plan – Engagement Strategy*, March 2018.

39 The council communicated the rate increase across various categories of ratepayers in dollar terms for each year over the 4-year proposed SV period, but not on an annual percentage basis. It also communicated the average annual dollar increase for each rating category.

40 Burwood Council, *Application Part B*, pp 24-28.

41 Burwood Council, *Application Part B*, pp 23-29.

- An online survey
- An independent phone survey conducted by Micromex Research Pty Ltd.[42]

The Council used various engagement methods to engage with its community. It did not communicate the rate increase in percentage terms on an annual basis for each rating category. However, it has communicated the full cumulative percentage increase of the proposed SV, and the total increase in dollar terms for the average ratepayer by rating category at the end of the 4-year proposed SV period. It also communicated the average annual dollar increase for each rating category.

On balance, we consider these methods were reasonable to communicate the impact of the proposed SV to the community.

4.2.2 Assessment of outcomes of consultation with the community

Although this criterion does not require councils to demonstrate community support for the proposed SV, councils are required to consider the results of their community consultation in preparing their application.

The Council received 37 written submissions in relation to its proposed SV during the exhibition of its IP&R documents. Thirty one were opposed to the application and six requested further information. The main reasons for opposition were:[43]

- The rates being higher than other councils
- Affordability of increased rates
- The Council is in a sound financial position with a positive financial outlook
- Income received from major developments should be used to fund infrastructure projects
- To seek funding from the NSW Government for new capital projects
- A view that the Council should look for more efficiencies and improve financial management before considering its proposed SV.

In addition, the Council conducted an online survey from December 2018 to January 2019. The Council reported that a total of 228 participants took part in the online survey, which represented approximately 1.8% of the total ratepayer population. This survey indicated its community's preference was for the Council to maintain the Baseline Scenario.[44]

The Council has considered its community's feedback and noted that it considered alternative options to the proposed SV. It concluded that without the rate increase, it would not be able to reduce the current $20 million infrastructure backlog without having to potentially compromise existing levels of service.[45]

42 Burwood Council, *Community Strategic Plan – Engagement Strategy*, March 2018, pp 23-55.
43 Burwood Council, *Application Part B*, pp 29-30.
44 Burwood Council, *Application Part B*, p 28.
45 Burwood Council, *Application Part B*, p 30.

4.2.3 Overall assessment of community engagement and awareness

We note that the Council did not communicate the total increase in percentage terms for the average ratepayer by rating category on an annual basis. However, it clearly communicated the rates increases in dollar terms for each year over the proposed 4-year SV period.

Therefore, on balance, the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

4.3 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers must be reasonable, having regard to the current rate levels, the existing ratepayer base and the proposed purpose of the variation. Specifically, the 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
- Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay.

Section 4.4 of this report considers the Council's Delivery Program and Long Term Financial Plan.

The focus of this criterion is to examine the impact the proposed SV would have on ratepayers, and in particular consider the reasonableness of the rate increase in the context of the purpose of the proposed SV.

In this section, we consider how the Council has informed ratepayers of the impact of the proposed SV on their rates and addressed affordability concerns.

We also undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the council's rates in recent years, how the Council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking.

In its application, the Council indicated it intended to increase rates evenly for each rating category.[46] The Council has calculated that:

- The average residential rate would increase by 19.1% or $254 over four years, or by $59 in the first year (and an average of $65 for each of the three years after that).
- The average business rate would increase by 19.1% or $1,125 over four years, or by $257 in the first year (and an average of $290 for each of the three years after that).

Table 4.3 sets out the Council's estimates of the expected increase in average rates in each main ratepayer category.

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46 Burwood Council, *Application Part B*, p 32.

Table 4.3 Indicative annual increases in average rates under Burwood Council's proposed SV (2018-19 to 2022-23)

Ratepayer Category	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative Increase
Residential rate $	**1,327**	**1,385**	**1,447**	**1,512**	**1,581**	
$ increase		59	62	65	68	254
% increase		4.4	4.5	4.5	4.5	19.1
Business rate $	**5,897**	**6,154**	**6,431**	**6,720**	**7,023**	
$ increase		257	277	289	302	1,125
% increase		4.4	4.5	4.5	4.5	19.1

Note: 2018-19 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.

Source: Burwood Council, *Application Part A*, Worksheet 5a.

4.3.1 Assessment of the Council's consideration of impact on ratepayers

In its application the Council examined socio-economic indicators such as its SEIFA index ranking, 2016 Census data, the median weekly income and the employment rate to assess the impact on ratepayers. On the basis of these indicators, it found that:[47]

- Although its SEIFA index is slightly below the National and State averages, the lower scoring suburbs within the Council's LGA are concentrated towards the town centres where a majority of the residential population live in apartments and rent, and therefore are not directly impacted by the SV.
- The remaining suburbs including Croydon Park, Croydon and Enfield/Burwood Heights have an index above the State and Federal index. This demonstrates that a majority of the ratepayer base have a lower level of disadvantage.
- The median weekly income for households of $1,658 is anticipated to increase over the next 10 years.
- 25.2% of households earn more than $2,500 or more per week. This is an increase of 4.8% since 2011.
- The Burwood LGA has an employment rate of 92.4%, with 43.6% of residents having some form of tertiary education.

The Council considers the existing community has the willingness to pay. In its 2017 phone survey,[48] one of the main priorities identified was the need to improve and maintain local infrastructure such as roads, footpaths, kerbs and gutters, drainage and parks, with 84% of residents considering this an important priority for the Council.

47 Burwood Council, *Application Part B*, pp 36-37.

48 In 2017, the Council engaged an independent research firm to undertake a random telephone survey of 400 residents aged 18 and over to seek feedback on whether the residents were aware that an SRV was in place at the time of the survey and asked their level of support for the Council to continue with the implementation of a new SRV. It also asked the residents for their level of satisfaction with council services and the importance of providing these to the community. Burwood Council, *Application Part B*, p 10; and Burwood Council, *Community Consultation Report*, January 2019, p 8.

In addition, the Council concluded from its 2018 online survey that 82% of the participants said it was important for the Council to implement programs to provide better infrastructure. However, there appears to be some unwillingness to pay among a significant proportion of the participants. In particular, 74% of the respondents were somewhat supportive of maintaining the Baseline Scenario. This choice was despite the fact that the current service levels would only be maintained in the short term and would later decline under the Baseline Scenario.[49]

The Council submitted that it also has a hardship policy in place for residential ratepayers, including pensioners, who are suffering genuine hardship with the payment of rates and charges. In addition, the Council implemented an incremental increase to the Pensioner Rebate Scheme commencing in 2018-19, to minimise the impact of the proposed SV on pensioners.[50]

4.3.2 IPART's consideration of the impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the Council's SV history and the average annual growth of rates in various rating categories. We found that since 2008-09:

- The Council has applied for, and been granted one permanent SV, for a cumulative increase of 29.2% over four years from 2014-15 to 2017-18, which was used to improve its financial sustainability and fund part of its infrastructure renewals program.
- The average annual growth in residential and business rates was 4.5% and 2.6%, respectively, which compares with the average annual growth in the rate peg of 2.6% over the same period.[51]

We also compared 2016-17 rates and socio-economic indicators in the LGA with those of OLG Group 2 and neighbouring councils as shown in Table 4.4.

49 The Council offered an opt-in online survey for its ratepayers and residents. A total of 228 participants took part in the online survey, approximately 1.8% of the total ratepayer population. Burwood Council, *Application Part B*, p 28.

50 Burwood Council, *Application Part B*, p 38.

51 IPART calculations based on OLG data.

Table 4.4 Burwood Council – comparison of rates and socio-economic indicators with neighbouring councils and Group 2 averages (2016-17)

Council (OLG Group)	Average residential rate ($)[a]	Average business rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Strathfield Municipal (2)	851	4,868	92,612	0.9	3.0	113
Hunter's Hill (2)	1,743	1,117	128,284	1.4	3.0	125
Canada Bay (3)	882	2,855	107,172	0.8	1.3	119
City of Ryde (3)	741	13,273	92,872	0.8	3.6	115
Burwood (2)	**1,186**	**5,408**	**81,588**	**1.5**	**2.5**	**106**
Group 2 average	1,226	4,163	116,151	1.1	3.0	-

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2017-18 nor 2018-19.

b Median annual household income is based on 2016 ABS Census data.

c The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2016-2017; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Based on 2016-17 data, we found that the Council's:

- Average residential rates of $1,186 were 3% lower than the average for Group 2 councils but 38% higher than the weighted average of its neighbouring councils.
- Average business rates of $5,408 were 30% higher than the average for Group 2 councils. It was 24% lower than the weighted average for its neighbouring councils, however, it was the second highest of the five councils we have compared in its local area.
- Average rates to income ratio was 0.4 percentage points higher than the average for Group 2 councils and was the highest compared to neighbouring councils.
- Outstanding rates ratio was lower than the average for Group 2 councils and lower than most of its neighbouring councils except for Canada Bay.
- SEIFA ranking indicates that the Council is more disadvantaged than its neighbouring councils.

We also compared the Council's average rate levels with the proposed SV to the OLG Group 2 average[52] rate levels over the proposed 4-year SV period and found that the Council's:[53]

- Average residential rate in 2022-23 with the proposed SV would be $1,581, which is higher than the estimated average residential rates of $1,408 for OLG Group 2.

52 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 2 average rate levels by the rate peg each year from 2017-18 to 2022-23 to allow for the comparison of the Council's average rate levels with the SV over the proposed SV period. We note that Hunter's Hill Council has applied to IPART for a proposed SV in 2019-20.

53 We note that Burwood's surrounding councils were merged in May 2016. Since being merged, these councils have only been allowed to increase their rates by the annual rate peg and have not been permitted to apply for an SV for four years until at least the 2020-21 rating year.

- Average business rate in 2022-23 with the proposed SV would be $7,023, which is higher than the estimated average business rates of $4,780 for OLG Group 2.
- The business rate in 2022-23 would be $7,023 compared to $5,591[54] for Strathfield if the rate peg was applied to its current 2018-19 business rate.

Submissions from the community to IPART

IPART received two submissions during the consultation period from 11 February 2019 to 14 March 2019, in which one mentioned affordability. It stated the difficulty in the community members' affordability of paying higher rates, especially for pensioners.

4.3.3 Overall assessment of the impact on affected ratepayers

We found that the Council's proposed average residential and business rates with the SV would appear to be significantly higher than the estimated average rate levels for OLG Group 2 councils over the proposed SV period.

However, on balance, we consider the impact of the proposed SV on ratepayers of the Council would be reasonable, given:

- The Council implemented an incremental increase to the Pensioner Rebate Scheme commencing in 2018-19, to minimise the impact of the proposed SV on pensioners.
- The Council's need for additional funding to address its infrastructure backlog without compromising existing levels of service.

4.4 Integrated Planning and Reporting documents

The IP&R framework provides a mechanism for councils and the community to engage in important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R framework therefore underpins decisions on the revenue required by each council to meet the community needs and demands.

The OLG Guidelines require the Council to exhibit, approve and adopt the relevant IP&R documents before submitting an application for a proposed SV, to demonstrate adequate planning.

The relevant documents are the Community Strategic Plan, Delivery Program, 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. The OLG Guidelines require that the Long Term Financial Plan be posted on the Council's website.

In this section, we assess whether the Council has included the proposed SV in its IP&R framework as outlined in Criterion 1 to 3 of the OLG Guidelines and exhibited, approved and adopted its IP&R documents.

54 OLG, Time Series Data 2016-2017; and IPART calculations.

According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

- The need for, and purpose of, the proposed SV
- The extent of the general fund rate rise under the proposed SV
- The impact of any rate rises upon the community.

4.4.1 Assessment of the content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the need for, and purpose of, the proposed SV in both the Delivery Program and the Long Term Financial Plan. The Council's Delivery Program and Long Term Financial Plan also briefly canvassed alternatives to the rate rise, such as maintaining current service levels in the short term, but seeing them decline later. According to the Council, in the absence of the proposed SV, its capital works program may be compromised and priority would be given to essential infrastructure projects.[55] The IP&R documents did not include discussion on other alternatives to the rate rise.

The Long Term Financial Plan indicates the financial impact of the proposed SV by presenting both a Baseline Scenario reflecting the business as usual model excluding the proposed SV and a Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.[56]

The extent of the general fund rate rise under the proposed SV

The Delivery Program includes 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 at the end of the 4-year proposed SV period, but not on an annual percentage basis.[57]

The impact of any rate rises upon the community

The Delivery Program shows that the Council considered the community's capacity and willingness to pay rates under the proposed SV. Within its IP&R documents, the Council presented information on how the Council has ensured that the proposed SV has minimal impact on ratepayers. The rate increase would cost less than $4 per week by the final year for 66% of the ratepayers. In addition, the Council implemented an incremental increase to the Pensioner Rebate Scheme commencing 2018-19 in order to minimise the impact of the proposed SV.[58]

4.4.2 Assessment of the exhibition, approval and adoption of IP&R documents

The Council publicly exhibited its Community Strategic Plan, Delivery Program 2018-2021 and Long Term Financial Plan from 23 May 2018 to 20 June 2018. These IP&R documents

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55 Burwood Council, *Delivery Program*, pp 20-21; and Burwood Council, *Resourcing Strategy – Long Term Financial Plan*, p 10.
56 Burwood Council, *Resourcing Strategy – Long Term Financial Plan*, pp 16-19.
57 Burwood Council, *Delivery Program*, p 22.
58 Burwood Council, *Delivery Program*, p 21.

were adopted by the Council on 26 June 2018. As the Delivery Program and Long Term Financial Plan were revised to include the new modelling option, which includes the Proposed SV Scenario and further information about the proposed SV, the Council exhibited its updated documents between 12 December 2018 and 20 January 2019. The Council indicated that no objections or submissions were received from the community. The documents were subsequently adopted by the Council on 5 February 2019.[59]

4.4.3 Overall assessment of the IP&R documents

We consider that, on balance, the Council's IP&R documents contain sufficient information relating to the proposed SV, and they have been appropriately exhibited, approved and adopted by council.

4.5 Productivity improvements and cost containment strategies

The OLG Guidelines require 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.

Achieving cost savings through improved productivity can reduce the need for, or extent of, the increase to general income needed through a proposed SV.

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had:[60]

- Implemented two organisation restructures since 2009-10, which saved more than $380,000.
- Implemented a property strategy, which continued to generate additional income of $70,000.
- Implemented a new procurement and contract management policy and other corporate practices generating substantial savings and increasing accountability, which has reduced the Council's legal costs from $1.37 million per year to approximately $600,000 per year.
- Negotiated new contracts, such as insurance contracts, producing savings of $400,000.
- Reduced its workers compensation premium from $1 million to $460,000.
- Instigated a large number of service reviews, which resulted in the Council being more efficient in the way it delivers services.
- Introduced an Audit, Risk and Improvement Committee with three reviews undertaken annually and more efficiently.
- Reviewed major projects while delivering outcomes more efficiently.

59 Burwood Council, *Application Part B*, pp 40-41.
60 Burwood Council, *Application Part B*, pp 42-43.

4.5.2 Assessment of strategies in place for future productivity improvements

The Council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes:[61]

- Implementation of the Australian Business Excellence Framework with Guided Self-Assessment.
- Creation of a Business Excellence Coordinator position.
- Creation of a Project Management Function.

4.5.3 Overall assessment of productivity improvements and cost containments strategies

We found that the Council has explained its productivity improvements and cost containment strategies. It has also partially quantified the cost savings resulting from these efficiency measures.

61 Burwood Council, *Application Part B,* p 43.

5 Our Decision

We have approved the proposed SV in full. We have attached conditions to this decision, including that the Council uses the income raised from the SV for purposes consistent with those set out in its application as outlined in Box 1.1.

The approved variation to general income is the maximum amount that the Council may increase its income by.

5.1 Our decision's impact on the Council

Our decision means that the Council may increase its general income over the 4-year SV period from $22.7 million in 2018-19 to $27.0 million in 2022-23. Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the Council's revenue base. After 2022-23, the Council's PGI can increase up to the annual rate peg unless we approve a further SV.[62]

Table 5.1 Permissible general income (PGI) of Burwood Council from 2019-20 to 2022-23 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019					22,650,650
2019-20	4.7	4.7	453,013	995,564[a]	23,646,213
2020-21	4.5	9.4	937,263	2,059,643	24,710,293
2021-22	4.5	14.3	1,454,900	3,171,606	25,822,256
2022-23	4.5	19.5	2,007,718	4,333,608	26,984,258
Total cumulative increase approved				10,560,421	
Total above rate peg			**4,852,893**		

[a] Includes adjustment of a prior excess amount of $69,017 ($22,650,650 x 0.047 – $69,017 = $995,564).

Note: The above information is correct at the time of the Council's application (February 2019).

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

62 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance with the SV conditions.

The Council estimates that over the four years from 2019-20 to 2022-23, it will collect an additional $4.9 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the Council requested to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards, fund maintenance and renewal infrastructure assets such as local roads and drains, and address the infrastructure backlog.[63]

5.2 Our decision's impact on ratepayers

IPART sets the allowable increase in general income, but it is a matter for each council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

If the Council increases the rates as it has indicated in its application, the impact on ratepayers will be as shown in Table 4.3. The average residential rate will increase by $254 (19.1%) and the average business rate by $1,125 (19.1%) by the end of the 4-year approved SV period.

Our decision would allow an increase **above the rate peg** for the average residential rate by $116 (7.9%) and the average business rate by $513 (7.9%) by the end of the 4-year approved SV period.[64]

63 Burwood Council, *Delivery Program*, p 20; and Burwood Council, *Application Part B*, pp 4-6.
64 Burwood Council, *Application Part A*, Worksheet 5a; and IPART calculations.

Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
Criterion 1 – Financial need The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios: ▼ 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. The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of 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.
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. The 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 both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan 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.
Criterion 4 – IP&R documents are exhibited The relevant IP&R documents 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.
Criterion 5 – Productivity improvements and cost containment strategies The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Assessment criteria
Additional matters In assessing an application against the assessment criteria, IPART considers the size and resources of the council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.

Source: Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income*, October 2018, pp 8-9.

B Expenditures to be funded from the Special Variation above the rate peg

Tables B.1 and B.2 show the Council's proposed expenditure of the SV funds over the next 10 years.

The Council will use the additional SV revenue above the rate peg of $18.0 million over 10 years to fund[65] the renewal of infrastructure assets, including the Council's roads, footpaths, kerbs and gutters to reduce the infrastructure backlog.

As a condition of IPART's approval, the Council will indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

65 Burwood Council, *Application Part A*, Worksheet 6; and Burwood Council, *Application Part B*, p 5.

Table B.1 Burwood Council – Revenue and proposed expenditure over 10 years related to the proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	**453**	**937**	**1,455**	**2,008**	**2,058**	**2,109**	**2,162**	**2,216**	**2,272**	**2,328**	**17,998**
Funding for capital expenditure	453	937	1,455	2,008	2,058	2,109	2,162	2,216	2,272	2,328	17,998
Total expenditure	**453**	**937**	**1,455**	**2,008**	**2,058**	**2,109**	**2,162**	**2,216**	**2,272**	**2,328**	**17,998**

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for capital expenditure.

Source: Burwood Council, *Application Part A,* Worksheet 6.

Table B.2 Burwood Council – Proposed 10-year capital expenditure program related to the proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Renewals											
Drainage Works (Kerb and Gutter and Road Restoration)	453	937	1,455	2,008	2,058	2,109	2,162	2,216	2,272	2,328	17,998
Total Asset Renewal	**453**	**937**	**1,455**	**2,008**	**2,058**	**2,109**	**2,162**	**2,216**	**2,272**	**2,328**	**17,998**
Total Capital Expenditure	**453**	**937**	**1,455**	**2,008**	**2,058**	**2,109**	**2,162**	**2,216**	**2,272**	**2,328**	**17,998**

Note: Numbers may not add due to rounding.

Source: Burwood Council, *Application Part A*, Worksheet 6; and Burwood Council, *Application Part B*, p 5.

C Burwood Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report in 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24 against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (shown in Table C.1).

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 C.1 Summary of projected operating statement for Burwood Council (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	56,992	59,331	61,180	61,982	63,830	65,704	67,835	69,382	71,345	73,165
Total expenses	50,139	51,390	52,328	53,758	55,083	56,794	58,688	60,002	61,653	63,214
Operating result from continuing operations	6,854	7,941	8,852	8,224	8,748	8,910	9,146	9,379	9,691	9,951
Net operating result before capital grants and contributions	-676	401	1,776	2,607	3,034	3,059	3,108	3,503	3,772	3,988

Note: Numbers may not add due to rounding.

Source: Burwood Council, *Application Part A,* Worksheet 8.

D Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or for a group of similar councils, or by comparing similar councils at a point in time.

Table D.1 shows how selected performance indicators for the Council have changed over the four years to 2016-17. Table D.2 compares selected published and unpublished data about the Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

Table D.1 Trends in selected performance indicators for Burwood Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	170	170	170	173	0.6
Ratio of population to FTE	213	219	226	223	1.5
Average cost per FTE ($)	95,129	99,629	103,729	100,936	2.0
Employee costs as % operating expenditure (General Fund only) (%)	39.9	41.0	41.2	41.1	-

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

Table D.2 Select comparative indicators for Burwood Council (2016-17)

	Burwood Council	OLG Group 2 average	NSW average
General profile			
Area (km^2)	7	-	-
Population (2016)	38,495	-	-
General Fund operating expenditure ($m)	42.5	43.3	76.3
General Fund operating revenue per capita ($)	1,279	-	-
Rates revenue as % General Fund income (%)	50.6	48.3	42.5
Own-source revenue ratio (%)	84.0	84.2	66.0
Average rate indicators[a]			
Average rate – residential ($)	1,186	1,226	1,053
Average rate – business ($)	5,408	4,163	5,738
Average rate – farmland ($)	-	-	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	81,588	116,151	77,272
Average residential rates to median income, 2016 (%)	1.5	1.1	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	106	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	2.5	3.0	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	173	190	356
Ratio of population to FTE	222.5	-	-
Average cost per FTE ($)	100,936	92,442	91,762
Employee costs as % operating expenditure (General Fund only) (%)	41.1	40.6	38.8

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

b Median annual household income is based on 2016 ABS Census data.

c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, *Time Series Data 2016-2017*, OLG, unpublished data; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

E Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
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
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
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.
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	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.