Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Dungog Shire Council 2019-20

Final Report
Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

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1 Executive summary

Dungog Shire 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 7-year** SV to increase its general income by a **cumulative 97.8%** with:

- 15.0% per annum for each of 2019-20 and 2020-21
- 10.0% per annum for each of 2021-22, 2022-23 and 2023-24
- 6.0% per annum for each of 2024-25 and 2025-26.

It has applied to retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to enhance its financial sustainability, maintain and renew essential community infrastructure, reduce its infrastructure backlog and maintain existing services.[4] The Council proposes that the majority of the funds are spent on renewing its road and transport infrastructure assets.[5]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $19.2 million (30.4% of total income) over seven years (see Table 2.2). As the proposed SV is permanent, this would mean a cumulative increase in its PGI revenue of $33.4 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 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 Dungog Shire Council, *Special Variation Application Form Part A 2019-20 (Application Part A),* Worksheet 1.

4 This includes servicing borrowing costs of loans taken out for its timber bridges replacement program of $16.1 million. The loans are the Council's co-contribution for any grants it receives to undertake the program. Dungog Shire Council, *Special Variation Application Form Part B 2019-20 Application Part B (Application Part B)*, pp 10 and 20; and Email to IPART, Dungog Shire Council, 27 February 2019.

5 Dungog Shire Council, *Application Part A*, Worksheet 6; and Email to IPART Dungog Shire Council, 27 February 2019.

1.1 We have partially approved Dungog Shire Council's application for a Special Variation

We decided to **partially approve** the proposed SV for a **5-year** period from 2019-20 to 2023-24, a cumulative increase of **76.0%** with:

- 15.0% per annum for each of 2019-20 and 2020-21
- 10.0% per annum for each of 2021-22, 2022-23 and 2023-24.

Our decision means that the Council may increase its general income between 2019-20 and 2023-24 by the annual percentages outlined in Box 1.1. Although the Council has demonstrated a financial need for its proposed SV, our decision reflects the uncertainty of longer-term forecasts for expenditure and operating performance, in the context of the substantial impact of the proposed SV on the Council's ratepayers.

Over the 10 years from 2019-20 to 2028-29, the Council's cumulative increase in its PGI revenue would be $30.0 million (see Table 1.2) above the rate peg compared to $33.4 million (see Table 2.1) under its proposed SV application.

Therefore, the partial approval will allow the Council to continue to fund operating and capital expenditure for its key assets including its road network, timber bridges and community buildings, enhance its financial sustainability and begin to reduce its infrastructure backlog.[6] If it chooses, the Council may apply for a variation to this SV in the next five years or another SV after five years.

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 percentage increase that we have approved of 76.0% is 62.7 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**.

6 Dungog Shire Council, *Application Part B*, p 10.

Box 1.1 IPART Decision – Dungog Shire Council

Approved Special Variation: percentage increases to general income

	2019-20	2020-21	2021-22	2022-23	2023-24
Increase above rate peg – permanent	12.3	12.5	7.5	7.5	7.5
Rate peg[7]	2.7	2.5	2.5	2.5	2.5
Total increase[8]	**15.0**	**15.0**	**10.0**	**10.0**	**10.0**

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.[9]

Conditions attached

IPART's approval of the Council's application for a special variation over the period 2019-20 to 2023-24 is subject to the following conditions:

- The Council uses the additional income from the special variation for the purposes of improving financial sustainability and 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 2024-25 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
  - The outcomes achieved as a result of the actual program of expenditure.
  - The status and outcome of the Council's proposal to work with owners of farmland properties to ensure that multiple lot farmland properties receive only one rateable assessment, where possible.

We estimate that over the five years to 2023-24, the Council will collect an additional $10.8 million in rates 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).[10]

7 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.

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

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

10 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 Dungog Shire Council from 2019-20 to 2023-24 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					5,694,176
2019-20	15.0	15.0	700,384	853,513[a]	6,547,689
2020-21	15.0	32.3	1,536,354	1,835,667	7,529,843
2021-22	10.0	45.5	2,139,501	2,588,651	8,282,827
2022-23	10.0	60.0	2,814,201	3,416,934	9,111,110
2023-24	10.0	76.0	3,567,889	4,328,045	10,022,221
Total cumulative increase approved				13,022,810	
Total above rate peg			**10,758,330**		

[a] Includes adjustment of a prior excess amount of $613 ($5,694,176 x 0.15 – $613 = $853,513).

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

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

Table 1.2 Permissible general income (PGI) of Dungog Shire Council from 2019-20 to 2028-29 under the approved SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI
30.0	95.5	31.4%

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

Source: Dungog Shire 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 $30.0 million above the assumed rate peg over 10 years. This represents 31.4% of the Council's total cumulative PGI over the 10-year period (see Table 1.2). Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the approved SV would result in a PGI that is 55.3% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

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. We have identified some shortcomings in how some of the criteria have been addressed, as such, we consider that **partial approval** of the Council's application is reasonable in the circumstances.

Although the Council has demonstrated a financial need for its proposed SV, our decision reflects the uncertainty of longer-term forecasts for expenditure and operating performance, in the context of the substantial impact of the proposed SV on the Council's ratepayers.

The Council's proposed SV revenue and program of expenditure set out in its application aims to reduce its estimated infrastructure backlog to work towards meeting the OLG benchmark of less than 2%.[11] It estimates that with the proposed SV, its backlog will reduce

[11] Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

to 2.9% by 2028-29. Without the SV revenue and without the SV expenditure (Baseline Scenario), the Council estimates its infrastructure backlog ratio will grow to 18.2% by 2028-29.

We consider the Council has demonstrated it is in financial need of the proposed SV to renew its infrastructure and work towards meeting the OLG infrastructure backlog benchmark. However, due to the uncertainty around longer-term forecasts, we have decided to approve the SV up until 2023-24 (rather than until 2025-26 as proposed by the Council), after which time the Council can reassess expenditure requirements with more accuracy.

When assessing the Council's consultation with the community, we note that two individual pieces of consultation material (out of eight different types of consultation methods) contained all of the elements required by the OLG Guidelines. These were the community meeting presentation and the Council's Resourcing Strategy. The other engagement materials circulated by the Council during its consultation contained various combinations of the elements required by the OLG Guidelines. We consider the Council has, on balance, demonstrated that its community is aware of the need for, and extent of, the proposed rate increase as overall it has communicated all of the elements needed to ensure ratepayers were well informed using a range of community engagement methods and consultation materials.

We found that the Council's proposed average residential and farmland rates with the SV would appear to be substantially higher than the estimated average rate levels for OLG Group 10 councils[12] over the proposed SV period. We assessed the impact on affected ratepayers, though high, would be largely reasonable, given the Council's need for the additional funding to address its infrastructure backlog, to preserve an acceptable level of service, and given the Council had considered and concluded its alternative options for increasing revenue were limited.

We note the Council did not communicate the full impact of the proposed SV on its ratepayers, by rating category, in percentage terms or dollar terms in its Delivery Program. However, it clearly communicated this information in its Long Term Financial Plan (LTFP), which was publicly exhibited at the same time. Therefore, we consider 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 and quantified its productivity improvements and cost containment strategies.

Table 1.3 provides more detail about our assessment and key considerations in making our decision.

12 Dungog Shire Council is in OLG Group 10, which is classified as Rural Large Agricultural (population between 5,000 and 10,000). The group comprises 23 councils, including Berrigan, Cobar, Gwydir, Kyogle, Liverpool Plains and Walgett.

Table 1.3 Assessment of Dungog Shire Council's proposed SV application

1. Financial Need	
Demonstrated	The Council demonstrated the financial need for the proposed SV. Its: ▼ OPR (7-year average 2019-20 to 2025-26) is: – 0.1% under the Proposed SV Scenario (reaching 8.5% by 2025-26) – -12.4% without SV revenue and without the proposed SV expenditure under the Baseline Scenario (reaching -9.4% by 2025-26) – -16.7% without SV revenue and with the proposed SV expenditure under the Baseline with SV expenditure Scenario (reaching -14.1% by 2025-26) – With the proposed SV, the OPR generates operating surpluses to allow the Council to invest in capital expenditure and renew its assets. ▼ Net cash of $15.1 million or 96.5% of income in 2018-19, with only $0.6 million in unrestricted cash and investments (as at 30 June 2018). ▼ Infrastructure backlog ratio (OLG benchmark of <2%) by 2028-29 is: – 2.9% under the Proposed SV Scenario – 18.2% without SV revenue and without SV expenditure (the Baseline Scenario).
2. Community awareness	
Largely demonstrated	The Council largely demonstrated the community is 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 ▼ Satisfactorily considered community feedback on the rate increase. Only a few individual pieces of consultation material contained all of the elements needed to ensure ratepayers were well informed. However, we consider the Council has largely demonstrated that its community is aware of the need for, and extent of, the proposed rate increase as it did communicate all of those elements across various simultaneously available materials.
3. Reasonable Impact on ratepayers	
Largely demonstrated	The Council examined the impact on its ratepayers and considered its community would have the capacity and willingness to pay given: ▼ Median income is higher than the Group 10 average ▼ Its SEIFA[13] ranking is second highest amongst its Group 10 councils ▼ Its outstanding rates and charges ratio over the last three years has been below the 10% benchmark set by the OLG for rural councils ▼ The Council engaged a consultant who concluded the community has the capacity and willingness to pay. IPART considered information on ratepayers from 2016-17 and found the Council's: ▼ Average rate levels were comparable with its surrounding councils ▼ Rates to income ratio was similar to other councils ▼ 2016 SEIFA ranking (83) was relatively high compared to surrounding councils. IPART also compared the Council's average rate levels with its proposed SV rate increases against its OLG Group 10 average rate levels over the 7-year proposed SV period. We found that in 2025-26, the Council's: ▼ Average residential rate of $1,784 would be $943 (112.0%) higher than the estimated average residential rate of $842 for Group 10 councils ▼ Average business rate of $1,786 would be $90 (5.3%) higher than the estimated average business rate of $1,696 for Group 10 councils

13 The Socio-Economic Indexes for Areas (SEIFA) is a measure that rank 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.

	▼ Average farmland rate of $4,408 would be $1,450 (49.0%) higher than the estimated average business rate of $2,958 for Group 10 councils. We consider, on balance, the impact on ratepayers to be largely reasonable given the Council's need for the additional funding to address its infrastructure backlog to preserve an acceptable level of service, and as it considered all other possible options for increasing its revenue.
4. IP&R documents exhibition	
Demonstrated	The Council: ▼ Exhibited its Community Strategic Plan, Delivery Program and Resourcing Strategy (incorporating its LTFP setting the proposed SV and Baseline scenarios) from 21 November 2018 to 19 December 2018 ▼ Adopted these documents on 19 December 2018. We note the Council's: ▼ Delivery Program exhibited during November to December 2018 did not present the full cumulative impact of the proposed SV in percentage nor dollar terms. However, the Council's LTFP, which was exhibited at the same time, did reflect this information. ▼ Delivery Program was amended in late January 2019 (and adopted in February 2019) to include the full cumulative percentage impact of the proposed SV and the Council's LTFP as an addendum. The Council also wrote to all its ratepayers advising them of the inclusion of this information in the amended Delivery Program. Given these factors, we consider the Council's IP&R documents contained sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.
5. Productivity improvements and cost containment	
Demonstrated	The Council submitted it has undertaken productivity improvements and initiatives over the past few years. Examples included: ▼ Savings of $180,000 in the past three years by reducing its full time staff ▼ Savings of $129,000 in the past year through participation in Hunter Joint Organisation Regional Procurement. It also submitted examples of future initiatives including: ▼ $111,000 in annual savings from tendering through Regional Procurement for high value contracts ▼ $500,000 of additional income from potential sale of its properties.

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 Dungog Shire Council's application

The Council has applied for an SV to permanently increase its general income by a cumulative 97.8% over seven years from 2019-20 to 2025-26. The proposed increases including the rate peg are:

- 15.0% per annum for each of 2019-20 and 2020-21
- 10.0% per annum for each of 2021-22, 2022-23 and 2023-24
- 6.0% per annum for each of 2024-25 and 2025-26.

The application is for an increase that remains permanently in the rate base. The Council indicated that the proposed rate increases would be applied evenly across all rating categories.[14]

2.1 Purpose

The purpose of the proposed SV is to allow the Council to fund ongoing operations such as infrastructure maintenance and renewal, reduce its infrastructure backlog, maintain existing services and enhance its financial sustainability.[15]

2.2 Need

Through the IP&R process, a number of community priorities were identified by the Council. In particular, it identified its community prioritised safe and well maintained community assets, roads and bridge networks. The Council identified the proposed SV would enhance its financial sustainability to enable the Council to improve on its performance measure benchmarks, reduce the Council's dependence on grant funding and allow the Council to maintain its assets.[16]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $33.4 million above what the assumed rate peg would deliver over 10 years. This represents 33.7% of the Council's total cumulative PGI over the 10-year period.

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 66.1% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

14 Dungog Shire Council, *Application Part A*, Worksheet 1 and Worksheet 5a.
15 Dungog Shire Council, *Application Part B*, p 10.
16 Dungog Shire Council, *Community Strategic Plan 2030*, pp 18-21.

Table 2.1 Permissible general income (PGI) of Dungog Shire 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
33.4	98.9	33.7%

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

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

The Council has assessed and concluded its ratepayers have the capacity and willingness to pay its proposed rate increase based on its comparison of average rates, median income and SEIFA ranking with those of OLG Group 10 and neighbouring councils. It also engaged an external consultant to undertake an assessment of the community's capacity and willingness to pay. Based on both its own assessment and the findings of the external consultant, the Council concluded its rates are comparably lower and its ratepayers enjoy a relatively higher degree of wealth compared to other Group 10 councils.[17]

Table 2.2 Permissible general income (PGI) of Dungog Shire Council from 2019-20 to 2025-26 arising from the proposed SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019					5,694,176
2019-20	15.0	15.0	700,384	813,513[a]	6,547,689
2020-21	15.0	32.3	1,536,354	1,835,667	7,529,843
2021-22	10.0	45.5	2,139,501	2,588,651	8,282,827
2022-23	10.0	60.0	2,814,201	3,416,934	9,111,110
2023-24	10.0	76.0	3,567,889	4,328,045	10,022,221
2024-25	6.0	86.6	4,007,864	4,929,378	10,623,554
2025-26	6.0	97.8	4,479,885	5,566,791	11,260,967
Total cumulative increase approved				23,518,979	
Total above rate peg			**19,246,080**		

[a] Includes adjustment of a prior excess amount of $613 ($5,694,176 x 0.15 – $613 = $853,513).

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

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

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 19 December 2018, with six councillors voting for the application and three voting against.[18]

17 Dungog Shire Council, *Application Part B*, pp 74-76 and 80.

18 Dungog Shire Council, *Application Part B*, p 82; and Dungog Shire Council, *Ordinary Council Meeting 19 December 2018 – Resolution to apply for the special variation,* p 1.

3 Submissions to IPART

IPART received 120 submissions during the consultation period from 11 February 2019 to 14 March 2019. Key views and issues raised were:

- The Council should reconsider amalgamating with a neighbouring council or be placed under administration for its poor decision-making and financial management.
- The proposed SV is counterproductive as it defers the attention from the need for the Council to push harder to reclassify its roads with the State Government.
- The proposed rate increases are unaffordable, particularly for farmland ratepayers and pensioners.
- A higher portion of the rating revenue is received from the farmland ratepayers and they will bear a higher burden given the size of their farmland and reduced income caused by the drought.
- The Council's proposed rates do not justify the level of services it provides.
- The Council did not adequately communicate the cumulative impact of its proposed rate increase in its survey sent to all ratepayers in July 2018.
- The Council's community consultation sessions were poorly attended because ratepayers did not realise the extent of the proposed rate increase. Only those that attended the meetings were made aware of the proposed 97.8% increase in rates.
- The Council did not consider nor provide an option for a lower increase.
- IPART should delay its decision until the State Government has allocated funding it has promised to the Council.
- The Council has not demonstrated current or future levels of efficiency.

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

The key themes arising from the submissions were concerns surrounding the impact of the proposed SV on its ratepayers, the Council's consultation with its community and alternatives to the proposed rate rises. These are addressed in turn below.

The vast majority of submissions suggested that the proposed rate increases would be unaffordable, particularly for farmland ratepayers, pensioners and those on fixed incomes. Concerns were raised that residential and farmland rates were already high compared to other similar councils and if a 98% increase in rates was applied to each category, the Council's rates would end up significantly higher than those of similar councils by the end of the proposed SV period.

We examined the impact of the proposed SV on the Council's ratepayers, comparing the Council's average rates with the proposed SV to its OLG Group average, assuming that the rates of other councils increase with the rate peg (see Section 4.3). We found that the Council's proposed average residential and farmland rates with the SV would appear to be substantially higher than the estimated average rates for OLG Group 10 councils over the proposed SV period. However, we concluded that the impact on affected ratepayers, though high, would be largely reasonable, given the Council's need for the additional funding to address its infrastructure backlog to preserve an acceptable level of service and that the Council had considered and concluded that its alternative options for increasing its revenue were limited.

Some submissions also questioned the Council's consultation, suggesting the Council's consultation meetings were poorly advertised and poorly attended. These submissions also criticised the Council's consultation materials, particularly its mail-outs to all its ratepayers, suggesting the information provided was unclear and did not disclose the full cumulative impact of the proposed SV. We examined the Council's consultation and community engagement (see Section 4.2), and looked at all of the materials it used to engage with its community. We found, on balance, the Council demonstrated that its community is aware of the proposed rate increases as it communicated all of the elements needed to ensure its ratepayers were well informed using a range of engagement methods and consultation materials.

Many submissions suggested the Council should consider alternative funding sources such as grants or lobbying the State Government to reduce the burden of its infrastructure backlog. We note that the Council explored alternatives to the proposed SV before applying, as discussed in Section 4.1. The Council concluded the proposed SV would be required to sustain its assets, deliver current services and remain viable into the future. We assessed the Council's overall financial need for its proposed SV, including its infrastructure backlog in Section 4.1.

Other submissions suggested the Council should be placed in administration or reconsider amalgamating with a neighbouring council. This is outside the scope of the SV process.

The Council received seven written submissions, including three opposing the application and four in favour (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 a 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 SV proposed.

Our Assessment

We have assessed the Council's application as largely meeting the criteria in the OLG Guidelines. We decided to partially approve the proposed SV for a five year period, rather than the seven years the Council applied for. Although the Council has demonstrated a financial need for its proposed SV, our assessment reflects the uncertainty of longer-term forecasts for expenditure and operating performance in the context of the substantial increase in rates with the proposed SV.

The Council's proposed SV revenue and program of expenditure set out in its application aim to reduce its estimated infrastructure backlog of $22.8 million or 8.0% to work towards meeting the OLG benchmark of less than 2%. It estimates that with the proposed SV, its backlog will reduce to 2.9% by 2028-29. Without the SV revenue and without the SV expenditure (Baseline Scenario), the Council estimates its infrastructure backlog ratio will grow to 18.2% by 2028-29. On 30 June 2018, the Council held a total of $17.9 million in cash and investments, of which $0.6 million was unrestricted, suggesting that a significant balance of the Council's cash and investments is already committed to other purposes. The Council's forecast OPR with the proposed SV is 8.5% by the end of the 7-year proposed SV period, reaching 10.4% by 2028-29. We do not consider this excessive given the Council intends to spend $25.1 million or 75.4% of the additional revenue from the proposed SV on capital expenditure.[19]

We consider the Council has demonstrated it is in financial need of the proposed SV to renew its infrastructure and work towards meeting the OLG infrastructure backlog benchmark. However, due to the uncertainty around longer-term forecasts, we have decided to approve the SV up until 2023-24 (rather than until 2025-26 as proposed by the Council), after which time the Council can reassess expenditure requirements with more accuracy.

When assessing the Council's consultation with the community, we note that two individual pieces of consultation material (out of eight different types of consultation methods) contained all of the elements required by the OLG Guidelines. These were the community meeting presentation and the Council's Resourcing Strategy. The other engagement materials circulated by the Council during its consultation contained various combinations of the elements required by the OLG Guidelines. We consider the Council has, on balance, demonstrated that its community is aware of the need for, and extent of, the proposed rate increase as overall it has communicated all of the elements needed to ensure ratepayers were well informed using a range of community engagement methods and consultation materials.

We found that the Council's proposed average residential and farmland rates with the SV would appear to be substantially higher than the estimated average rate levels for OLG Group 10 councils over the proposed SV period. We assessed the impact on affected ratepayers, though high, would be largely reasonable, given the Council's need for the additional funding to address its infrastructure backlog to preserve an acceptable level of service, and given the Council had concluded its alternative options for increasing revenue were limited.

We note the Council did not communicate the full impact of the proposed SV by rating category, in percentage terms or dollar terms in its Delivery Program. However, it clearly communicated this information in its LTFP, which was publicly exhibited at the same time. Therefore, we consider 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 and quantified its productivity improvements and cost containment strategies.

Our assessment of the Council's application against each of the criteria 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.

19 The OPR ratio measures the Council's operating revenue and operating expenses. Dungog Shire Council's positive ratio indicates it will be able to use its operating surplus for capital expenditure as intended in its proposed SV application (see Section 4.1 for further explanation).

- 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:

- Operating performance
- 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 operating performance ratio (OPR).

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

$$OPR^{20} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the Council's application and LTFP (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 consistently well above 0% 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.

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

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).[21] 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.

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:

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets^{22}}$$

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%.[23] It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{24}}{Depreciation, amortisation\ and\ impairment}$$

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

The Council's Community Strategic Plan clearly sets out the need for, and purpose of, the proposed SV, which is to ensure its community assets, roads and bridge network are safe and well maintained.[25] Its Delivery Program also identified its intention to implement its Improvement Plan and work towards meeting the benchmarks set under the Fit For the Future (FFTF) reform initiative.[26]

The Council indicated that it considered all possible alternative options for increasing revenue, which it decided not to pursue:

21 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.

22 Historical cost less accumulated depreciation.

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

24 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.

25 Dungog Shire Council, *Community Strategic Plan 2030*, pp 18-21.

26 Dungog Shire Council submitted that the OLG continues to monitor the Council's performance against the FFTF benchmarks. The Council submitted is reassessment proposal to OLG in August 2018. Dungog Shire Council, *Application Part B*, p 18.

- Borrowing of funds – it concluded that this option is limited as the Council would first require increased revenue to fund borrowings, and its associated costs, given the Council's operating deficit.[27] The Council also indicated that as a result of being deemed not fit for the future, it is not able to take advantage of more agreeable borrowings rates and conditions with the NSW Treasury, and instead is locked into less favourable loans with banks.[28]
- Reviewing its fees and charges – it concluded it has very limited scope to generate additional revenue from fees and charges, as they can only be raised where they can be tied to reasonable costs and where the community is willing to pay for the services.[29]
- Relying on grant funding – it concluded that there is a high level of uncertainty about the ongoing level of funding.[30]

The Council also identified it has a relatively low cost per capita for the delivery of services, indicating it offers a smaller range of services to its ratepayers as compared to its peer councils. The Council identified that it has minimised costs to ratepayers through years of efficiency savings at the risk of under-resourcing its regulatory and compliance responsibilities. As a result, the Council concluded an SV would be required to sustain its assets, deliver current services and remain viable into the future.[31]

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

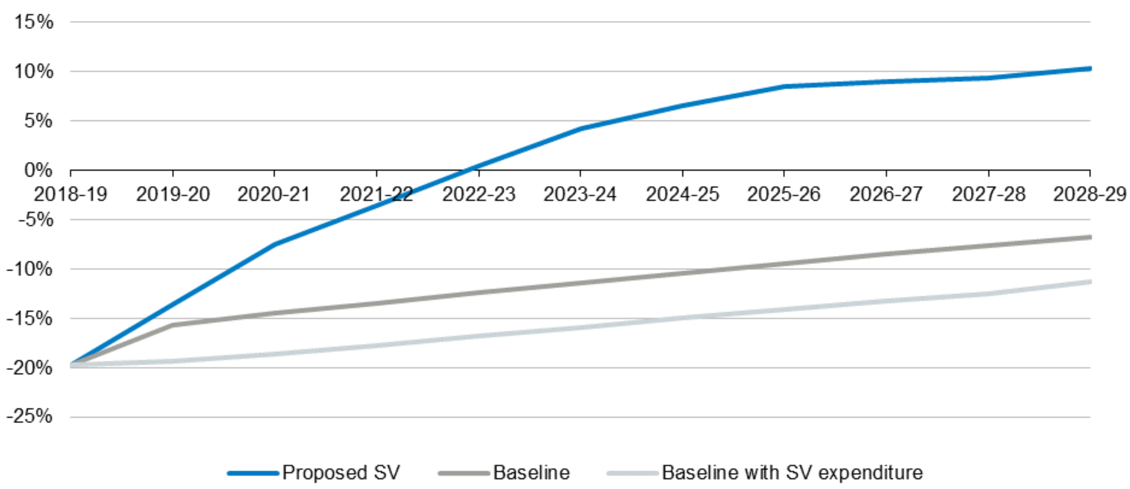
The Council's forecast operating result

Under the Proposed SV Scenario, the Council forecasts improving operating performance, growing to 10.4% by 2028-29. The cumulative value of the forecast operating surplus (before capital grants and contributions) is $7.4 million to 2028-29. This would allow the Council to undertake additional operating and capital expenditure to maintain and renew its road network, timber bridges and community buildings, maintain existing service levels, and enhance its financial sustainability.[32]

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), the Council forecasts consistent operating deficits, as shown in Figure 4.1 and Table 4.1. The cumulative value of these forecast deficits (before capital grants and contributions) is $27.9 million to 2028-29 under this scenario.

27 Dungog Shire Council, *Application Part B*, p 34.
28 Dungog Shire Council, *Application Part B*, p 17.
29 Dungog Shire Council, *Application Part B*, p 41.
30 Dungog Shire Council, *Amended Delivery Program 2018-2022*, p 66.
31 Dungog Shire Council, *Application Part B*, p 42.
32 Dungog Shire Council, *Application Part B*, p 10.

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



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

Table 4.1 Projected operating performance ratio (%) for Dungog Shire Council's proposed SV application (2018-19 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	-13.6	-7.5	-3.6	0.4	4.2	6.5	8.5	8.9	9.4	10.4
Baseline	-15.7	-14.5	-13.5	-12.4	-11.4	-10.4	-9.4	-8.4	-7.7	-6.7
Baseline with SV expenditure	-19.4	-18.6	-17.7	-16.7	-15.9	-15.0	-14.1	-13.2	-12.5	-11.3

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

Our analysis indicates that over the next five years, the Council's financial performance shows an average OPR of:

- -3.5% under the Proposed SV Scenario
- -13.4% under the Baseline Scenario
- -17.6% under the Baseline with SV expenditure Scenario.

Our analysis indicates that over the next seven years, the period of the proposed SV, the Council's financial performance shows an average OPR of:

- 0.1% under the Proposed SV Scenario
- -12.4% under the Baseline Scenario
- -16.7% under the Baseline with SV expenditure Scenario.

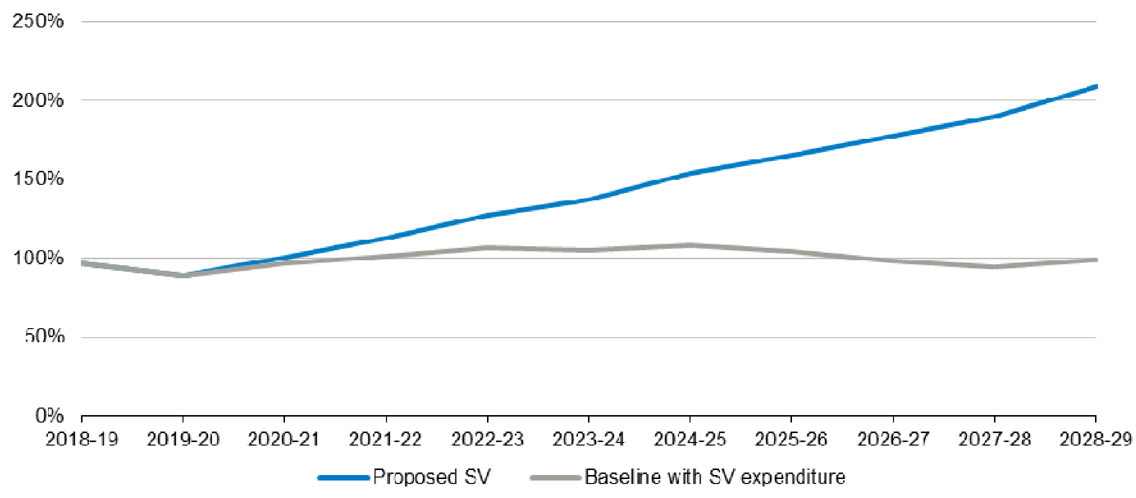
Impact on the Council's net cash (debt)

We calculate the Council's net cash is $15.1 million or 96.5% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase under the Proposed SV Scenario.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (Baseline with SV expenditure Scenario), we estimate that net cash would remain at similar levels by 2028-29. As at 2028-29, net cash would increase to 209.2% of income under the Proposed SV scenario and 99.1% of income under the Baseline with SV expenditure Scenario. The Baseline with SV expenditure Scenario indicates the Council's net cash position would not significantly improve given the program of expenditure set out in its application.

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

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



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

Our analysis indicates that over the next five years, the Council's net cash to income ratio averages:

- 114.9% under the Proposed SV Scenario
- 99.9% under the Baseline with SV expenditure Scenario.

Our analysis indicates that over the next seven years, the period of the proposed SV, the Council's net cash to income ratio averages:

- 129.6% under the Proposed SV Scenario
- 101.8% under the Baseline with SV expenditure Scenario.

Impact on the Council's infrastructure backlog ratio

The Council indicated its infrastructure backlog had increased to $22.8 million or 8.0% in the 2017-18 financial year.[33] The Council also indicated its infrastructure backlog ratio would reduce to 5.5% in 2018-19, however, this is still higher than the OLG benchmark of less than 2%.

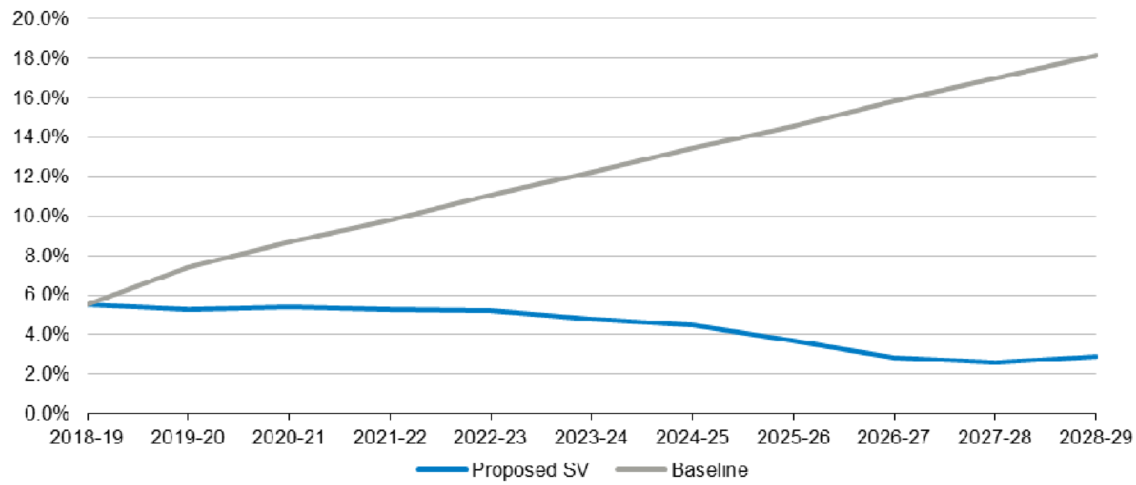
33 Dungog Shire Council, *Application Part A*, Worksheet 9; and Dungog Shire Council, *Application Part B*, p 42.

As Chapter 2 noted, the Council is planning to spend a substantial component of its additional SV revenue on reducing its infrastructure backlog. It plans to spend around $25.1 million or 75.4% of the additional revenue from the proposed SV on renewing its infrastructure assets.[34]

With the proposed SV, the Council's infrastructure backlog ratio decreases to 3.7% by the end of the 7-year proposed SV period. Without the proposed SV and without the SV expenditure (Baseline Scenario), the Council is further above the OLG benchmark of less than 2% at 14.6% by the end of the 7-year proposed SV period.

The Council's forecast infrastructure backlog ratio over the next 10 years is shown in Figure 4.3 and Table 4.2 below.

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



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

Table 4.2 Projected infrastructure backlog ratio (%) for Dungog Shire 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	5.3	5.4	5.3	5.2	4.8	4.5	3.7	2.8	2.6	2.9
Baseline	7.4	8.7	9.8	11.1	12.2	13.5	14.6	15.8	17.0	18.2

Source: Dungog Shire Council, *Application Part A*, Worksheet 9.

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

- 5.2% under the Proposed SV Scenario
- 9.8% under the Baseline Scenario.

Our analysis indicates that over the next seven years, the period of the proposed SV, the Council's infrastructure backlog ratio averages:

- 4.9% under the Proposed SV Scenario
- 11.0% under the Baseline Scenario.

34 Dungog Shire Council, *Application Part A*, Worksheet 6.

Submissions from the community to IPART

IPART received 120 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, some submissions proposed that the Council should consider alternative funding sources such as grants or lobbying the State Government to reduce the burden of its infrastructure backlog. Submissions also suggested that the proposed SV is counterproductive as it defers attention from the need for the Council to reclassify its roads with the State Government. Several submissions also questioned the magnitude of the rate rise and identified a smaller increase may have been more reasonable.

We have assessed the Council's financial need for the proposed SV in Section 4.1.3 below. We consider that the Council has explored alternatives to the proposed SV before applying. We have also assessed the impact of the proposed SV on the Council's ratepayers in Section 4.3.

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 additional income from the proposed SV), its OPR will average –17.6% over the next five years, -16.7% over the 7-year period of the proposed SV and –15.2% over the 10 years to 2028-29. This suggests that there is a financial need for the Council to increase its recurrent revenue above the rate peg to be financially sustainable.

Under the Proposed SV Scenario, our analysis shows that the Council's average OPR over the next five years is -3.5%. Its OPR also increases over the 7-year period of the proposed SV, averaging at 0.1% and 3.4% over the 10 years to 2028-29. The proposed SV revenue would put the Council on a more sustainable path, given the program of expenditure set out in its application.

With the proposed SV, the Council's forecast OPR by 2025-26 is 8.5%, growing to 10.4% by 2028-29. The Council indicated it intends to spend $25.1 million or 75.4% of the additional revenue from the proposed SV on capital expenditure.[35] The Council's positive OPR would enable it to use its operating surplus for capital expenditure as intended in its proposed SV application to reduce its backlog.

The OPR at year 10 is well above the OLG breakeven benchmark by the end of the proposed SV period. However, without the SV and assuming the Council proceeds with its SV expenditure, the Council's forecast OPR by 2025-26 is -14.1% and -11.3% by 2028-29. We note the inherent degree of uncertainty around longer-term forecasts, given the large increase in income and significant proposed expenditure program.

The Council submitted that it lodged its Improvement Proposal with OLG, demonstrating how it proposes to address its future financial sustainability.[36] OLG concluded that the Council satisfies the financial sustainability criteria and we note that its Improvement Proposal is reliant on its proposed SV.[37]

35 The Operating Performance Ratio 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. Therefore, a positive ratio indicates operating surplus available for capital expenditure.

36 Dungog Shire Council, *Application Part B*, p 16.

37 Email to IPART, Dungog Shire Council, 6 March 2019.

With the proposed SV revenue, the Council forecasts its infrastructure backlog will reduce to 2.9% by 2028-29. This does not meet the OLG benchmark of less than 2%. Without the proposed SV, the Council forecasts its infrastructure backlog ratio will continue to grow to 18.2% by 2028-29, creating a wider gap between its forecasted infrastructure backlog ratio and the OLG benchmark.

We forecast the Council will have a net cash position of $15.1 million at 30 June 2019, with total cash and investments greater than total debt. On 30 June 2018, the Council held a total of $17.9 million in cash and investments, with:[38]

- $9.1 million externally restricted
- $8.2 million internally restricted
- $0.6 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.

We have also considered other factors, including the Council's assessment of alternatives to the proposed SV and the uncertainty of longer-term forecasts.

On balance, we consider the Council has demonstrated a financial need for the proposed SV to enhance its financial sustainability, reduce its infrastructure backlog and prevent the backlog from growing larger.

4.2 Community engagement and awareness

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

- The Council's Delivery Program and LTFP 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 process used for consultation, 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.

38 Dungog Shire Council, *Application Part A*, Worksheet 7.

We also examine the effectiveness of the 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.[39] 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, taken as a whole, contained all 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 dollar impact of the proposed rate increase to ratepayers across various categories of ratepayers
- Communicated the full cumulative impact[40] of the proposed rate increase to ratepayers, across various categories of ratepayers
- Communicated what the proposed SV would fund.

We note that only two of the Council's individual pieces of consultation material explicitly contained all of the above elements. These were the community presentation materials[41] and the Council's IP&R documents.[42] However, we consider, on balance, the Council communicated all of the elements needed to ensure ratepayers were well informed, as the above elements were communicated across various, simultaneously available, consultation materials.[43]

Clarity

The Council's consultation material was, on balance, sufficiently 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. As mentioned above, the Council communicated all of the elements needed to ensure its ratepayers were well informed across various, simultaneously available, consultation materials. The Council also expressed the total rate increase, including the rate peg.

39 Dungog Shire Council, *Application Part B*, pp 50-52.

40 We note that not all of the consultation materials explicitly communicated the full cumulative percentage impact of 97.8%.

41 Presentation materials were available to download from July 2018 onwards communicating the full cumulative impact in percentage and dollar terms. The presentation materials also communicated the annual dollar impact for the average ratepayer, by rating category. Dungog Shire Council, *Attachment 21 – Community Engagement Materials*, p 86.

42 Specifically, the Council's Resourcing Strategy (see Section 4.4 for further explanation).

43 For example, a survey and community newsletter sent to all its ratepayers in July 2018 contained the annual percentage increases, but not the full cumulative increase nor annual dollar increase for the average ratepayer by rating category. The newsletter provided a link to the Council's website where other materials relating to the proposed SV were available for download. We note that neither the survey nor the newsletter contained all the elements required by the OLG Guidelines. However, a combination of the Council's survey, newsletter and its website materials communicated all of the elements required by the OLG Guidelines. Dungog Shire Council, *Attachment 21 – Community Engagement Materials*, pp 103-107.

Timeliness

The Council carried out community consultation on its SV proposal from July 2018 to January 2019.[44] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

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

- A survey and community newsletter sent to all its ratepayer in July 2018 indicating "… a rate increase over 7 years which increases rates in Year 1 & 2 by 15%, Years 3, 4 & 5 by 10% and Years 6 & 7 by 6%" and directing its ratepayers to the Council's website[45]
- Its webpage,[46] which included uploads of each of its proposed SV presentations made at community meetings and an information package sheet
- An on-line rates estimator, which estimated the dollar impact of the proposed SV over the proposed 7-year period[47]
- Six community meetings held at various locations in July 2018, attended by 88 community members[48]
- A Mayor drop-in mobile office held every Friday in 2018[49]
- Newspaper media releases and updates.[50]
- A letter sent to all its ratepayers in January 2019, communicating the full 97.8% cumulative impact of the proposed rate increase and that the Council's Delivery Program had been amended to align the document with its LTFP.[51]

We consider the variety of engagement methods used have provided the Council with an appropriate level of reach to its ratepayers and allowed the Council to reasonably communicate the impact of the proposed SV to its ratepayers.

4.2.2 Assessment of outcomes of consultation with the community

Although this criterion does not require the Council to demonstrate community support for the proposed SV, it is required to consider the results of its community consultation in preparing its application. The Council's consultation indicated its community's preference was for functional, accessible and well maintained infrastructure and effective local and

44 Dungog Shire Council, *Application Part B*, pp 52-57.

45 The survey and community newsletter did not contain the full cumulative percentage and dollar impact across the various categories of ratepayers, but provided a link to the Council's website and on-line rates estimator. Dungog Shire Council, *Attachment 21 – Community Engagement Materials*, p 104.

46 The Council's webpage contained download links for all of the Council's consultation materials. Dungog Shire Council, *Special Rate Variation*, https://www.dungog.nsw.gov.au/council/special-rate-variation, accessed 18 March 2019.

47 The on-line rates estimator provided estimates of the impact of the proposed SV in dollar terms over the seven years of the proposed SV. It also included the stormwater charge and the Council's Hunter Catchment Management Trust charge to the ad-valorem amount. The Council indicated it included the additional charges on-top of the ordinary rates so as to not mislead nor understate the impact on its ratepayers. Email to IPART, Dungog Shire Council, 6 March 2019.

48 Dungog Shire Council, *Application Part B*, p 53.

49 Dungog Shire Council, *Application Part B*, p 56.

50 Dungog Shire Council, *Application Part B*, pp 55-56.

51 Dungog Shire Council, *Application Part B*, pp 57-58.

regional transport networks. In particular, the consultation identified that the community prioritised safe roads and bridges and well maintained public facilities, local parks, sporting and recreation facilities.[52]

The Council distributed a survey in July 2018[53] to all its ratepayers. Of those that responded:

- 48% indicated support for the proposed SV
- 45% did not support the proposed SV
- 7% were undecided.

The Council also received feedback in relation to its proposed SV during its community meetings attended by 197 residents.[54] It also received seven written submissions, including three opposing the application and four in favour.[55]

In addition, the Council conducted a telephone survey in November 2018[56] to measure the community's understanding of and support for the proposed SV:

- 53% of residents indicated that the proposed SV was their preferred option
- 47% of residents selected the rate peg only option as their first preference.

The Council identified the main reasons for opposition of its proposed SV were:

- The proposed rates are unaffordable, particularly for pensioners and farmers.
- The Council should reduce its level of administration staff.
- The Council should reduce its number of councillors.
- The Council should apply more pressure on the State Government for additional funding.[57]

The Council provided the following responses to address the community's concerns:

- The circumstances of pensioners and ability to pay can be addressed under the Council's hardship policy.[58]
- The Council will work with owners of farmland properties held in multiple lots to seek one rateable assessment, where possible, for the purposes of a more favourable financial outcome.[59]
- The Council's full-time equivalent (FTE) staff per head of population is the lowest in the Group 10 councils.

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52 Dungog Shire Council, *Application Part B*, p 25.

53 4,895 rates notices were distributed with a survey requesting for the community's comments and preference between rate peg only increases or the proposed SV. The Council received 507 responses. Dungog Shire Council, *Application Part B*, p 54.

54 Dungog Shire Council, *Application Part B*, p 60.

55 Dungog Shire Council, *Application Part B*, p 68.

56 The Council engaged Micromex Research to conduct the survey using computer assisted telephone interviewing. 277 of the 302 respondents were randomly selected. The other 25 respondents were recruited from specific locations in the local government area. Micromex Research noted that the sample size provides a maximum sampling error of plus or minus 5.6% at 95% confidence. Dungog Shire Council, *Application Part B*, p 54.

57 Dungog Shire Council, *Application Part B*, pp 61-65.

58 Dungog Shire Council, *Application Part B*, p 61.

59 Dungog Shire Council, *Application Part B*, p 63.

- The Council has resolved to reduce its elected members from nine councillors to seven in 2020 to reduce governance costs.
- The Mayor and General Manager have lobbied the State Government for additional funding.[60]

Having considered its community consultation, the Council decided to apply for the proposed SV.

Submissions from the community to IPART

IPART received 120 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to community consultation, several submissions questioned the effectiveness and clarity of the Council's community consultation. In particular, submissions noted:

- The survey sent to all ratepayers in July 2018 did not communicate the full cumulative impact of the proposed increases and the annual rate increases were easily misinterpreted.
- The survey sent to all ratepayers in July 2018 presented an 'all or nothing' case for the proposed SV and did not present an option for a lower rate rise.
- The community consultation meetings were poorly attended because ratepayers did not understand the extent of the proposed rate increase and only those that attended meetings were made aware of the 97.8% cumulative impact.
- The proposed 97.8% cumulative increase was not clearly communicated to all ratepayers until the Council sent a second letter to ratepayers in January 2019. Some submissions also questioned why this was not included in its initial July 2018 survey.

4.2.3 Overall assessment of the community engagement and awareness

We note that few of the Council's individual pieces of consultation materials explicitly contained all of the elements needed to ensure ratepayers were well informed and able to engage with the Council during the consultation process. However, we consider the Council sufficiently communicated those elements needed to ensure ratepayers were well informed through various, simultaneously available, consultation materials. Its newsletter and survey sent to all its ratepayers directed its ratepayers to the Council's website and an on-line rates calculator, which showed the annual impact of the rates for its ratepayers, by rating category based on land value.

Therefore, on balance, the Council demonstrated that its community is 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 be reasonable, having regard to the current rate levels, existing ratepayer base and the purpose of the proposed SV. Specifically, the Delivery Program and LTFP should:

- Clearly show the impact of any rate rises upon the community

60 Dungog Shire Council, *Application Part B*, pp 62-63.

- 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 LTFP.

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 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 permanently increase its rates for each rating category by a cumulative 97.8% over seven years, with increases of:[61]

- 15.0% per annum for each of 2019-20 and 2020-21
- 10.0% per annum for each of 2021-22, 2022-23 and 2023-24
- 6.0% per annum for each of 2024-25 and 2025-26.

In its application, the Council has calculated that the:

- Average residential rate would increase by 97.8% or $882 over seven years, or by $135 in the first year
- Average business rate would increase by 97.8% or $883 over seven years, or by $135 in the first year
- Average farmland rate would increase by 97.8% or $2,179 over seven years, or by $334 in the first year.

Table 4.3 sets out the Council's estimates of the expected increase in average rates in each of the main ratepayer categories under its proposed SV.

61 Dungog Shire Council, *Application Part A*, Worksheet 1.

Table 4.3 Indicative annual increases in average rates under Dungog Shire Council's proposed SV (2018-19 to 2025-26)

Ratepayer Category	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Cumulative Increase
Residential $	**902**	**1,037**	**1,193**	**1,312**	**1,444**	**1,588**	**1,683**	**1,784**	
$ increase		135	156	119	131	144	95	101	882
% increase		15.0	15.0	10.0	10.0	10.0	6.0	6.0	97.8
Business $	**903**	**1,038**	**1,194**	**1,314**	**1,445**	**1,589**	**1,685**	**1,786**	
$ increase		135	156	119	131	144	95	101	883
% increase		15.0	15.0	10.0	10.0	10.0	6.0	6.0	97.8
Farmland $	**2,228**	**2,563**	**2,947**	**3,242**	**3,566**	**3,923**	**4,158**	**4,408**	
$ increase		334	384	295	324	357	235	249	2,179
% increase		15.0	15.0	10.0	10.0	10.0	6.0	6.0	97.8

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

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

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

The Council has considered the impact on its ratepayers in its application. The Council compared its average rates with its neighbouring councils and OLG Group 10 councils and examined socio-economic indicators such as household income, SEIFA rankings and the outstanding rates and charges ratio to assess the impact on ratepayers. It concluded that its ratepayers have the capacity to pay the rate levels under the proposed SV, as:[62]

- Its average rate across all assessments is lower than its neighbouring councils.
- Its median weekly income is higher than the average of Group 10 councils.
- Its SEIFA ranking is second highest amongst its Group 10 councils.
- Its outstanding rates and charges ratio over the last three years has been below the 10% benchmark for rural councils set by the OLG.

The Council also considered the impact of its proposed SV on its farmland ratepayers.[63] The Council notes that 37 of its 938 farmland assessments are eligible for pensioner rebates, where the majority of rebates issued are related to farmland assessments with a land value of less than $600,000.[64] The Council also proposes that it will work with the owners of farmland properties held in multiple lots to seek one rateable assessment where possible.[65]

The Council also engaged an external consultant to undertake an assessment of the community's capacity and willingness to pay for increased rates.[66] The consultant's report compared the Council to its OLG Group 10 councils and identified that "the community enjoys a relatively higher degree of wealth than the other Group 10 councils [and that the Council's] rates are comparatively low". It also noted there is a "level of evidence that indicates the majority of ratepayers are willing to pay for a range of services that meet the

62 Dungog Shire Council, *Application Part B,* pp 74-76.
63 The Council estimates a high portion of its rating income is related to farmland assessments (37%). Dungog Shire Council, *Application Part B,* p 78.
64 Dungog Shire Council, *Application Part B,* p 77.
65 Dungog Shire Council, *Application Part B,* p 79.
66 The Council engaged Morrison Low in December 2018. Dungog Shire Council, *Application Part B*, p 80.

needs of the household" based on the Council having the highest proportion of ratepayers with private health insurance of OLG group 10 councils.[67] Based on the report, the Council concluded its community has the capacity and willingness to pay for the proposed SV.[68]

The Council submitted that it also has a hardship policy in place that may assist ratepayers with periodical payment arrangements for overdue rates and charges, writing off or reducing interest accrued on rates and charges and abandoning, waiving or reducing rates, charges and interest for eligible pensioners.[69]

4.3.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the 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 SV in 2008-09 for an 8.24% permanent increase, including the rate peg, which was used for infrastructure maintenance.
- The average annual growth in rates was 4.1%, 2.5% and 2.8% for residential, business and farmland rates, respectively, which compares with the average annual growth in the rate peg of 2.6% over the same period.

We also compared 2016-17 rates and socio-economic indicators in the Local Government Area (LGA) with OLG Group 10 and surrounding councils as shown in Table 4.4.

Table 4.4 Dungog Shire Council – comparison of rates and socio-economic indicators with surrounding councils and Group 10 averages (2016-17)

Council (OLG Group)	Average residential rate ($)[a]	Average business rate ($)	Average farmland rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Upper Hunter (11)	739	898	3,414	64,584	1.1	7.5	67
Singleton (4)	829	6,713	1,990	87,464	0.9	3.2	85
Maitland (5)	1,224	6,552	3,056	73,580	1.7	2.1	75
Liverpool Plains (10)	638	989	4,116	53,664	1.2	9.2	15
Dungog (10)	**831**	**880**	**2,132**	**63,752**	**1.3**	**6.0**	**83**
Group 10 average	681	1,371	2,392	54,376	1.3	5.8	-

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 form 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.

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67 Morrison Low, *Assessment of Capacity to Pay – Dungog Shire Council,* December 2018, p 16.
68 Dungog Shire Council, *Application Part B*, p 80.
69 Dungog Shire Council, *Application Part B*, p 77.

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

- Average residential rates of $831 were 22% higher than the average for Group 10 councils and 21% lower than the weighted average of its surrounding councils
- Average business rates of $880 were 36% lower than the average for Group 10 councils and 83% lower than the weighted average of it surrounding councils
- Average farmland rates of $2,132 were 11% lower than the average for Group 10 councils and 34% lower than the weighted average of its surrounding councils
- Median household income of $63,752 was 17% higher than the average for Group 10 councils and relatively low compared to its surrounding councils
- Average rates to income ratio of 1.3% was similar to the average for Group 10 councils and relatively high compared to its surrounding councils
- Outstanding rates ratio of 6.0% was higher than the average for Group 10 councils and midway compared to its surrounding councils
- SEIFA ranking indicates the LGA was relatively advantaged compared to its surrounding councils.

We also compared the Council's average rate levels with the proposed SV to its OLG Group average[70] rate levels and found that the Council's:

- Average residential rate in 2025-26 of $1,784 would be $943 (112.0%) higher than the estimated average residential rate of $842 for OLG Group 10
- Average business rate in 2025-26 of $1,786 would be $90 (5.3%) higher than the estimated average business rate of $1,696 for OLG Group 10
- Average farmland rate in 2025-26 of $4,408 would be $1,450 (49.0%) higher than the estimated average farmland rate of $2,958 for OLG Group 10.

Submissions from the community to IPART

IPART received 120 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to impacts on ratepayers, many submissions raised affordability concerns. In particular, they mentioned:

- The proposed rate increases are unaffordable, particularly for farmland ratepayers, pensioners and those on fixed incomes.
- A high portion of the rating burden is skewed towards farmland ratepayers given their land sizes. The increase in rates are not aligned with the impacts of drought and the nature of rural activities.
- The Council experiences low employment rates and increases in CPI and salaries are not sufficient to cover the proposed rate increases.
- The magnitude of the rate increases would result in basic necessities being unaffordable.
- The findings of the external consultant's report were biased and with many submissions questioning the credibility of its conclusions.

70 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 10 average rate levels by the rate peg each year from 2017-18 to 2025-26 to allow for comparison of the Council's proposed average rate levels with the SV over the proposed SV period.

4.3.3 Overall assessment of the impact on affected ratepayers

Although the Council's SEIFA ranking compared to its surrounding councils indicates a higher level of advantage, we found that the Council's proposed average residential and farmland rates with the proposed SV would appear to be substantially higher than the estimated average rate levels for OLG Group 10 councils over the proposed SV period.

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

- The Council's need for the additional funding to address its infrastructure backlog to preserve an acceptable level of service for the community
- The Council considered all possible options for increasing its revenue and concluded its alternative options were limited.

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, LTFP 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 LTFP 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. 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 its Delivery Program and LTFP. The Council's Delivery Program and LTFP also canvassed alternatives to the rate rise, such as reviewing its user fees and charges, reviewing its developer contributions, relying on grant funding, using debt as a funding source, and funding from the Council's internal cash reserves.[71]

The LTFP indicates the financial impact of the proposed SV by presenting both the Baseline Scenario reflecting the business as usual model excluding the proposed SV and the proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.[72]

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

The Council's Delivery Program, which was exhibited during November 2018 to December 2018,[73] did not include the total increase in dollar terms for the average ratepayer, by rating category. It also did not communicate the full cumulative percentage increase of the proposed SV.[74] However, we note that the Council's LTFP clearly communicated all of this information.[75] We consider this is sufficient given the Council exhibited its Delivery Program and LTFP at the same time.

We note the Council amended its Delivery Program in January 2019 to align the document with its Resourcing Strategy (including its LTFP) by incorporating the total 97.8% cumulative impact of the proposed SV into the Delivery Program and attaching its LTFP as an addendum.[76] The Council also wrote to all its ratepayers advising them of the inclusion of this information in the amended Delivery Program.[77] However, as above, we consider the LTFP exhibited during November 2018 to December 2018 adequately communicated the extent of the general fund rate rise under the proposed SV.

The impact of any rate rises upon the community

The Council's IP&R documents show that the Council considered the community's capacity and willingness to pay the rates under the proposed SV. Within its IP&R documents, the Council presented information such as its average rate compared to its Group 10 councils, unemployment rates and its outstanding rates and charges ratio over the past three years demonstrating ratepayers' capacity to pay.[78] The Council addressed its ratepayers' willingness to pay within its IP&R documents by engaging an external consultant to evaluate whether its community is potentially able to and willing to pay for the proposed SV. The Council attached the external consultant's report to its Resourcing Strategy (incorporating its LTFP) in December 2018, which concluded "Dungog Shire's community has the capacity and willingness to pay for an SRV and is in a comparatively better position to do so than previous successful Group 10 SRV applicants".[79]

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71 Dungog Shire Council, *Amended Delivery Program 2018-2022*, p 4; and Dungog Shire Council, *Long Term Financial Plan*, pp 20-22.
72 Dungog Shire Council, *Long Term Financial Plan*, pp 46-51.
73 Dungog Shire Council, *Application Part B*, p 9.
74 Dungog Shire Council, *Amended Delivery Program 2018-2022*, pp 1-58.
75 Dungog Shire Council, *Long Term Financial Plan*, pp 25-27.
76 Dungog Shire Council, *Application Part B*, pp 57-58.
77 Dungog Shire Council, *Application Part B*, p 57.
78 Dungog Shire Council, *Long Term Financial Plan*, pp 28-29.
79 Dungog Shire Council, *Resourcing Strategy 2018-2022*, pp 128-146.

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

The Council publicly exhibited its Community Strategic Plan 2030, Delivery Program 2018-2022 and Resourcing Strategy 2018-2022 (which incorporates its LTFP) from 21 November 2018 to 19 December 2018.[80] The Council placed copies on the Council's website, promoted them in local media and advertised the availability of these documents for public comment.[81] The Council resolved to adopt these IP&R documents on 19 December 2018.[82]

The Council also amended its Delivery Program in January 2019 to align the document with its Resourcing Strategy by incorporating the total 97.8% cumulative impact of the proposed SV into the Delivery Program. It adopted its re-amended Delivery Program on 7 February 2019.[83]

4.4.3 Overall assessment of the IP&R documents

We note the Council did not communicate the full 97.8% cumulative percentage increase of the proposed SV in its Delivery Program. However, it clearly communicated this information in its LTFP, which was publicly exhibited at the same time.

Therefore, we consider that 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.

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 improvement and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had saved:[84]

- $180,000 in the past three years by reducing full time equivalent staff from 66 to 63
- $129,000 in the past year through its participation with Hunter Joint Organisation Regional Procurement, which provides councils with a rebate of 30% of the income it receives from general aggregated procurement processes

80 Dungog Shire Council, *Ordinary Meeting Minutes 21 November 2018*, p 42; and Dungog Shire Council, *Resolution to apply for the special variation*, p 1.

81 Dungog Shire Council, *Attachment 22 – Community Engagement Materials*, pp 121,122 and 223.

82 Dungog Shire Council, *Resolution to apply for the special variation*, p 1.

83 Dungog Shire Council, *Extraordinary meeting minutes - 7 February 2019*, p 3.

84 Dungog Shire Council, *Application Part B*, pp 87-90; and Email to IPART, Dungog Shire Council, 27 February 2019.

- $65,000 by reviewing its employee overhead costs and reducing its worker's compensation insurance premiums.

4.5.2 Assessment of strategies in place for future productivity improvements

The Council indicated that it is planning future efficiency incentives over the proposed SV period. Specifically, it estimates:[85]

- $111,000 in annual savings from tendering through Regional Procurement for high value contracts relating to bitumen spray sealing, fuel and emulsion services
- $38,000 in annual savings from tendering through Regional Procurement for street lighting electricity supply services
- $9,000 in annual savings from recently installed solar panels on its administrative centre
- $20,000 in savings from introducing software to streamline its business papers
- $500,000 of additional income from the potential sale of its properties
- Reductions in governance costs as the Council has resolved to reduce its elected members from nine to seven councillors in 2020.

Submissions from the community to IPART

IPART received 120 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to productivity, submissions noted that:

- The Council's proposed rate increases do not justify the level of services it provides.
- The Council should first clearly demonstrate sound financial planning for the future by setting specific benchmarks for its infrastructure projects before applying for an SV.
- The Council should reconsider amalgamating with a neighbouring council or be placed under administration for its poor decision-making and financial management.

4.5.3 Overall assessment of productivity improvements and cost containment strategies

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

85 Dungog Shire Council, *Application Part B*, pp 87-90; and Email to IPART, Dungog Shire Council, 27 February 2019.

5 Our Decision

We have **partially approved** the proposed SV for a **5-year period** from 2019-20 to 2023-24. 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 the Council may increase its income by.

5.1 Our decision's impact on the Council

Our decision means the Council may increase its general income over the 5-year SV period from $5.7 million in 2018-19 to $10.0 million in 2023-24. The decision to partially approve the application reflects our assessment of the uncertainty of long-term forecasts for expenditure and operating performance, particularly in the context of the substantial impact of the proposed SV on the Council's ratepayers.

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 adjustments. These increases will be permanently incorporated into the Council's revenue base. After 2023-24, the Council's PGI can increase up to the annual rate peg unless we approve a further SV.[86]

Table 5.1 Permissible general income (PGI) of Dungog Shire Council from 2019-20 to 2023-24 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					5,694,176
2019-20	15.0	15.0	700,384	853,513[a]	6,547,689
2020-21	15.0	32.3	1,536,354	1,835,667	7,529,843
2021-22	10.0	45.5	2,139,501	2,588,651	8,282,827
2022-23	10.0	60.0	2,814,201	3,416,934	9,111,110
2023-24	10.0	76.0	3,567,889	4,328,045	10,022,221
Total cumulative increase approved				13,022,810	
Total cumulative above rate peg			**10,758,330**		

[a] Includes adjustment of a prior excess amount of $613 ($5,694,176 x 0.15 – $613 = $853,513).

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

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

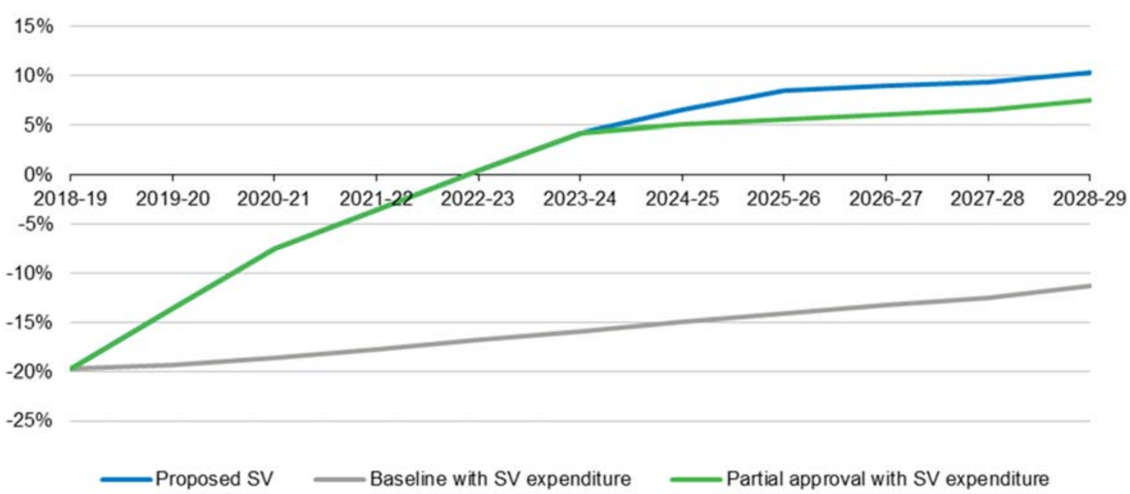
86 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government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

We estimate that over the five years from 2019-20 to 2023-24, the Council will collect an additional $10.8 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is some of the amount the Council requested to enable it to undertake additional operating and capital expenditure to maintain and renew its road network, timber bridges and community buildings, maintain existing service levels, and enhance its financial sustainability.[87]

Under our decision, the Council's OPR improves to 4.2% in 2023-24, which is above the OLG benchmark of greater or equal to breakeven as shown in Figure 5.1 and Table 5.2. The Council's positive OPR with the approved SV also indicates it will be able to use its operating surplus for capital expenditure as intended in its application to begin reducing its infrastructure backlog.

Figure 5.1 Projected Operating Performance Ratio (%) for Dungog Shire Council under three different scenarios (2018-19 to 2028-29)



Note: Partial approval Scenario shows the impact on the Council's operating performance under our decision with the SV revenue for the five years approved and if it were to go ahead with the SV projects. The projected operating performance ratio excludes capital grants and contributions.

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

Table 5.2 Projected operating performance ratio (%) for Dungog Shire Council under three different scenarios (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	-13.6	-7.5	-3.6	0.4	4.2	6.5	8.5	8.9	9.4	10.4
Partial Approval	-13.6	-7.5	-3.6	0.4	4.2	5.0	5.6	6.1	6.5	7.5
Baseline with SV expenditure	-19.4	-18.6	-17.7	-16.7	-15.9	-15.0	-14.1	-13.2	-12.5	-11.3

Note: The projected operating performance ratio excludes capital grants and contributions.

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

87 Dungog Shire Council, *Application Part A*, Worksheet 6; and Dungog Shire Council, *Application Part B*, p 10.

Over the 10 years from 2019-20 to 2028-29, the Council's cumulative increase in its PGI revenue would be $30.0 million (see Table 1.2) above the rate peg compared to $33.4 million (see Table 2.1) under its proposed SV application.

Therefore, our decision will still enable the Council to continue to improve its financial sustainability and begin addressing its infrastructure backlog. If it chooses, the Council may apply for an SV in the future.

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 5.3 below. By the end of the 5-year approved SV period, the:

- Average residential rate will increase by $685 (76.0%), or an average of $137 per annum from 2018-19 levels
- Average business rate will increase by $686 (76.0%), or an average of $137 per annum from 2018-19 levels
- Average farmland rate will increase by $1,694 (76.0%), or an average of $339 per annum from 2018-19 levels.

Our decision would allow an increase **above the rate peg**, by the end of the 5-year approved SV period (2023-24), for the:

- Average residential rate of $565 (55.3%), or an average of $113 per annum over the approved SV period
- Average business rate of $566 (55.3%), or an average of $113 per annum over the approved SV period
- Average farmland rate of $1,397 (55.3%), or an average of $279 per annum over the approved SV period.

Table 5.3 Indicative annual increases in the average rates under Dungog Shire Council's approved SV (2018-19 to 2023-24)

Ratepayer Category	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative Increase
Residential $	**902**	**1,037**	**1,193**	**1,312**	**1,444**	**1,588**	
$ increase		135	156	119	131	144	685
% increase		15.0	15.0	10.0	10.0	10.0	76.0
Business $	**903**	**1,038**	**1,194**	**1,314**	**1,445**	**1,589**	
$ increase		135	156	119	131	144	686
% increase		15.0	15.0	10.0	10.0	10.0	76.0
Farmland $	**2,228**	**2,563**	**2,947**	**3,242**	**3,566**	**3,923**	
$ increase		334	384	295	324	357	1,694
% increase		15.0	15.0	10.0	10.0	10.0	76.0

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

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

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.
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 under its application.

The Council intended to use the additional SV revenue above the rate peg, of $33.4 million over 10 years, to fund:[88]

- $6.0 million on asset maintenance expenditure
- $2.2 million on borrowing costs for new loans taken for its timber bridges replacement program
- $25.1 million on capital expenditure.

Under our approved SV, the Council will receive additional revenue, above the rate peg, of $30.0 million over 10 years (see Table 1.2).

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

88 Dungog Shire Council, *Application Part A*, Worksheet 6; and Email to IPART, Dungog Shire Council, 27 February 2019.

Table B.1 Dungog Shire Council – Revenue and proposed expenditure over 10 years related to the proposed SV ($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	**700**	**1,536**	**2,140**	**2,814**	**3,568**	**4,008**	**4,480**	**4,592**	**4,707**	**4,824**	**33,369**
Funding for increased asset maintenance	477	498	523	548	579	610	647	688	724	745	6,038
Loan repayments[a]	122	179	193	207	220	233	244	254	263	272	2,186
Funding for capital expenditure	102	859	1,424	2,059	2,769	3,165	3,589	3,650	3,720	3,807	25,145
Total expenditure	**700**	**1,536**	**2,140**	**2,814**	**3,568**	**4,008**	**4,480**	**4,592**	**4,707**	**4,824**	**33,369**

a The Council indicated it will take out new loans for its timber bridges replacement program of $16.1 million. The loans are the Council's co-contribution for any grants it receives to undertake the program. A portion of the additional SV revenue will be used to service its borrowing costs.

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure. The Council's proposed capital expenditure program related to the proposed SV is detailed in Table B.2.

Source: Dungog Shire Council, *Application Part A,* Worksheet 6, Email to IPART, Dungog Shire Council, 27 February 2019.

Table B.2 Dungog Shire 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											
Roads & transport	57	702	1,199	1,823	2,521	2,905	3,315	3,363	3,418	3,491	22,794
Buildings	-	63	127	133	140	147	154	164	170	178	1,273
Parks & recreation	45	47	50	52	55	57	60	63	66	70	566
Urban Stormwater	-	46	49	51	54	56	59	62	65	69	512
Total Asset Renewal	**102**	**859**	**1,424**	**2,059**	**2,769**	**3,165**	**3,589**	**3,650**	**3,720**	**3,807**	**25,145**
Total Capital Expenditure	**102**	**859**	**1,424**	**2,059**	**2,769**	**3,165**	**3,589**	**3,650**	**3,720**	**3,807**	**25,145**

Note: Numbers may not add due to rounding.

Source: Dungog Shire Council, *Application Part A,* Worksheet 6; and Email to IPART, Dungog Shire Council, 27 February 2019.

C Dungog Shire 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, 2023-24 and 2024-25 against its projected revenue, expenses and operating balance as set out in its LTFP (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 Dungog Shire Council with 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 revenue	22,908	22,489	23,640	24,937	26,287	27,412	28,533	29,309	30,082	30,965
Total expenses	19,102	19,528	19,951	20,397	20,843	21,320	21,810	22,323	22,826	23,286
Operating result from continuing operations	3,806	2,961	3,689	4,540	5,444	6,092	6,723	6,986	7,257	7,679
Net operating result before capital grants and contributions	-2,282	-1,362	-698	87	924	1,482	2,020	2,190	2,364	2,688

Note: Numbers may not add due to rounding.

Source: Dungog Shire 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 councils in its OLG Group, and for NSW councils as a whole.

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

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	65	65	67	66	0.5
Ratio of population to FTE	135	137	136	138	0.7
Average cost per FTE ($)	63,677	62,062	66,478	67,061	1.7
Employee costs as % operating expenditure (General Fund only) (%)	29.1	20.7	23.1	21.7	-

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 Dungog Shire Council (2016-17)

	Dungog Shire Council	OLG Group 10 average	NSW average
General profile			
Area (km^2)	2,250	-	-
Population (2016)	9,114	-	-
General Fund operating expenditure ($m)	20.4	21.5	76.3
General Fund operating revenue per capita ($)	2,474	-	-
Rates revenue as % General Fund income (%)	30.2	25.2	42.5
Own-source revenue ratio (%)	40.5	45.8	66.0
Average rate indicators[a]			
Average rate – residential ($)	831	681	1,053
Average rate – business ($)	880	1,371	5,738
Average rate – farmland ($)	2,132	2,392	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	63,752	54,376	77,272
Average residential rates to median income, 2016 (%)	1.3	1.3	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	83	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	6.0	5.8	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	66.0	109.5	356.0
Ratio of population to FTE	138.1	-	-
Average cost per FTE ($)	67,061	76,962	91,762
Employee costs as % operating expenditure (General Fund only) (%)	21.7	36.3	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.