



Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Hawkesbury City Council 2018-19

Determination
Local Government

May 2018

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1 Executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has set the rate peg for 2018-19 at 2.3%. Councils may apply to increase their general income above the rate peg. For most councils, general income consists entirely of rates revenue.

Hawkesbury City Council (Hawkesbury Council) applied for a multi-year special variation to:

- ▼ increase its general income by 9.50% each year in 2018-19, 2019-20 and 2020-21, a cumulative increase of 31.29%, and
- ▼ retain this increase in its rate base permanently.¹

IPART has assessed the council's application against the criteria in the Office of Local Government (OLG) Guidelines. This report sets out our decision, and explains how and why we reached that decision. Box 1.1 below outlines the context for this process.

1.1 We have approved Hawkesbury Council's application for a special variation

We decided to allow the special variation as requested.

Our decision means that Hawkesbury Council may increase its general income between 2018-19 and 2020-21 by the annual percentages shown in Table 1.1. This will allow the council to fund operating and capital expenditure for its key assets - roads, parks, buildings and recreation facilities and improve its financial sustainability.²

The annual increases include the rate peg of 2.3% in 2018-19, and an assumed rate peg of 2.5% in future years.³

The cumulative increase of 31.29% that we have approved is 23.81% more than the assumed cumulative rate peg for these years. This increase may be retained in the council's general income base permanently.

Table 1.1 IPART's decision on Hawkesbury City Council's application for a special variation in 2018-19

	2018-19	2019-20	2020-21
Percentage increase approved	9.50	9.50	9.50

¹ Hawkesbury Council, *Special Variation Application Form Part A 2018-19* (Hawkesbury, *Application Part A*), Worksheet 1.

² Hawkesbury, *Application Part A*, Worksheet 6 and Hawkesbury Council, *Special Variation Application Form Part B 2018-19* (Hawkesbury, *Application Part B*), pp 10-11.

³ The special variation percentage approved will not change to reflect the actual rate peg in future years.

Box 1.1 Context for IPART's decision

Each year, IPART sets the rate peg, which is the maximum amount by which councils can increase their general income in that year.

Councils may apply for a special variation that allows them to increase their general income by more than the rate peg. For a single year increase, they apply under section 508(2) of the *Local Government Act 1993* (the Act). For successive year increases (up to a maximum of seven years), they apply under section 508A of the Act.

IPART assesses these applications against the criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for a special variation to general income* (OLG Guidelines).

The OLG Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan (LTFP), must contain evidence that supports a council's application for a special variation.






The criteria for assessing applications for special variations are listed in Appendix A.

1.2 The council's application meets the criteria

Our decision reflects our finding that the council's application meets the requirements in the OLG criteria.

Our assessment against each criterion is summarised in Table 1.2.

Table 1.2 Assessment of Hawkesbury City Council's special variation application

1. Financial Need	
	<p>The council demonstrated the financial need for the special variation (SV):</p> <ul style="list-style-type: none"> ▼ Operating Performance Ratio (average 2018-19 to 2027-28) is: <ul style="list-style-type: none"> – 1.27% with SV – -8.78% without SV revenue and assuming SV expenditure ▼ Infrastructure backlog ratio improves to 0.8% (\$5.5 million) in 2026-27 with SV. Without SV it would be 2.7% (\$17.3 million). ▼ Without SV we forecast a modest net debt position (around 70% of annual income).
2. Community awareness	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> ▼ used a range of engagement methods to make the community aware of the need for and extent of the rate increase including through town meetings, newsletters, surveys, social media, mail-outs and fact sheets ▼ provided detailed explanations about the purpose and impact of the SV and sought submissions, and ▼ satisfactorily considered community feedback on the rate increase.
3. Impact on ratepayers	
	<p>Impact on ratepayers will be significant as rates will increase by 31% over three years, but reasonable given Hawkesbury's:</p> <ul style="list-style-type: none"> ▼ current rate levels are lower than Group 6 and most neighbouring councils ▼ rates to income ratio is similar to Group 6 and neighbouring councils, and ▼ SEIFA ranking of 99, which indicates relative advantage in comparison to most NSW councils.
4. IP&R documents exhibited	
	<p>The council adopted its Community Strategic Plan in March 2017. It updated its IP&R documents clearly setting out three investment options including the proposed SV, and:</p> <ul style="list-style-type: none"> ▼ exhibited its 'Supplementary Resourcing Strategy incorporating its Supplementary Delivery Program (and Long Term Financial Plan)' in October to November 2017, and ▼ adopted the revised IP&R documents on 28 November 2017.
5. Productivity improvements and cost containment	
	<p>Over the past 10 years, the council has implemented cost containment and efficiency measures to realise savings of \$1.6 million in operating expenditure, \$9.2 million from asset sales and \$0.8 million from non-rating revenue. It considers it will generate further savings from implementing its Fit for the Future (FFTF) Improvement Plan, including:</p> <ul style="list-style-type: none"> ▼ \$2.4 million pa from process and system reforms ▼ \$2.4 million pa of increased non-rating revenue from user charges, and ▼ \$1.5 million in revenue from further property sales.

1.3 We have attached conditions on how the council can spend its extra revenue

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. Box 1.2 summarises these conditions.

Box 1.2 Conditions attached to Hawkesbury City Council's approved special variation

IPART's approval of Hawkesbury City Council's application for a special variation over the period 2018-19 to 2020-21 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding operational and capital expenditure, reducing its infrastructure backlog and improving financial sustainability as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report for each year from 2018-19 to 2027-28 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
 - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

1.4 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 special variation.
- ▼ Chapter 3 explains our assessment of the council's application against each criterion.
- ▼ Chapters 4 and 5 discuss how our decision will impact the council and its ratepayers.

2 Hawkesbury City Council's application

Hawkesbury Council applied for a special variation to increase its general income by a cumulative 31.29% over the 3-year period from 2018-19 to 2020-21, and to permanently retain this increase in its general income base.⁴ As required under the OLG Guidelines,⁵ the council applied for the special variation on the basis of its most recent, adopted Integrated Planning and Reporting (IP&R) documents, in particular the:

- ▼ Community Strategic Plan 2017-2036
- ▼ Resourcing Strategy 2017-2027 (which includes the council's Long Term Financial Plan and Asset Management Strategy), and
- ▼ Supplementary Resourcing Strategy 2017-2027 Incorporating Supplementary Delivery Program 2017-2027.

The council estimates its permissible general income would increase from \$31.44 million in 2017-18 to \$41.27 million in 2020-21 if the requested special variation is approved. Over the 3-year period of the special variation to 2020-21, this would generate additional revenue of \$14.48 million compared to rate increases at the assumed rate peg. This figure would increase to \$72.39 million over a 10-year period, as the additional revenue raised would remain permanently in the council's rate base.⁶

The council indicated it intends to use the additional revenue to fund operating and capital expenditure for its key assets – roads, parks, recreation facilities and community buildings, to progressively reduce its infrastructure backlog and improve its financial sustainability in the long term.⁷

When we assessed the council's Fit for the Future (FFTF) proposal in 2015, it indicated it was considering a special variation with cumulative increases of 29.7% over the 5-year period from 2017-18 to 2021-22, including the rate peg.

The council's FFTF proposal included the use of \$25 million of borrowings to address its infrastructure backlog and annual maintenance expenditure shortfalls. It indicated the additional special variation revenue would service the loan repayments on the proposed borrowings, provide funding for its road works program over the long term, and enhance its infrastructure renewal program to stabilise the infrastructure backlog.⁸

The council's special variation application is consistent with its FFTF strategy although it now proposes a \$40 million infrastructure borrowings program. The additional revenue from the special variation will provide the council with the financial capacity to meet the

⁴ Hawkesbury, *Application Part A*, Worksheet 1.

⁵ OLG Guidelines, November 2017, p 6.

⁶ Hawkesbury, *Application Part A*, Worksheet 6.

⁷ Hawkesbury, *Application Part A*, Worksheet 6 and *Application Part B*, pp 10-11.

⁸ Hawkesbury Council, *Fit for the Future Council Improvement Proposal*, June 2015, pp 28 and 71.

principal and interest payments on the loan facility.⁹ The balance of the special variation revenue will fund asset renewal and maintenance and improve its financial sustainability.

The council's Long Term Financial Plan indicates that over the period 2018-19 to 2027-28 it proposes to spend the additional special variation revenue as follows:

- ▼ \$17.5 million on increased operating expenditure (including \$6.2 million on loan interest payments)
- ▼ \$37.7 million on capital expenditure, and
- ▼ \$16.6 million on loan principal repayments.¹⁰

More detail on the council's proposed program of expenditure to 2027-28 is provided in Appendices B and C.

⁹ Hawkesbury, *Application Part B*, p 22.

¹⁰ Hawkesbury, *Application Part A*, Worksheet 6.

3 IPART's assessment

To make our decision, we assessed Hawkesbury Council's application against the criteria in the OLG Guidelines. We also considered the council's most recent IP&R documents, its FFTF proposal, and a range of comparative data about the council set out in Appendix D.¹¹

We found that Hawkesbury Council's application met the requirements of the criteria. Our assessment of the council's application against the criteria is summarised in Table 1.2 and discussed in more detail in the sections below.

3.1 The council demonstrated financial need for the special variation

We found that Hawkesbury Council's IP&R documents clearly set out the need for, and purpose of the requested special variation, which is to:

- ▼ fund maintenance and renewal of infrastructure to maintain existing service levels and improve service levels for key assets in order to respond to population growth and support sustainable development¹²
- ▼ reduce its infrastructure backlog, and
- ▼ improve financial sustainability.¹³

Feedback from the council's consultation showed that the community supported increased investment in infrastructure to improve the condition of assets.¹⁴ In particular, maintaining road infrastructure was the highest priority for the community.¹⁵

The council has also analysed the financial impact of the special variation on its operating performance and infrastructure backlog and canvassed alternative funding strategies. The sections below discuss this in more detail.

¹¹ See Appendix D. Hawkesbury is in OLG Group 6, which is classified as Urban Small/Medium Fringe (population up to 70,000). The group comprises Camden, Wollondilly Shire and Hawkesbury City Councils.

¹² Hawkesbury, *Application Part B*, p 20.

¹³ Hawkesbury City Council, *Supplementary Resourcing Strategy 2017-2027 Incorporating Supplementary Delivery Program 2017-2027* (Hawkesbury, *Supplementary Resourcing Strategy and Delivery Program*), p 157.

¹⁴ Hawkesbury, *Supplementary Resourcing Strategy and Delivery Program*, p 64.

¹⁵ Hawkesbury City Council, *Asset Management*, Survey prepared by Micromex Research, August 2016 (Hawkesbury, Micromex Survey).

3.1.1 Impact on council's operating performance

The operating performance ratio (OPR) measures whether a council's revenues fund its costs. The OPR is defined as:

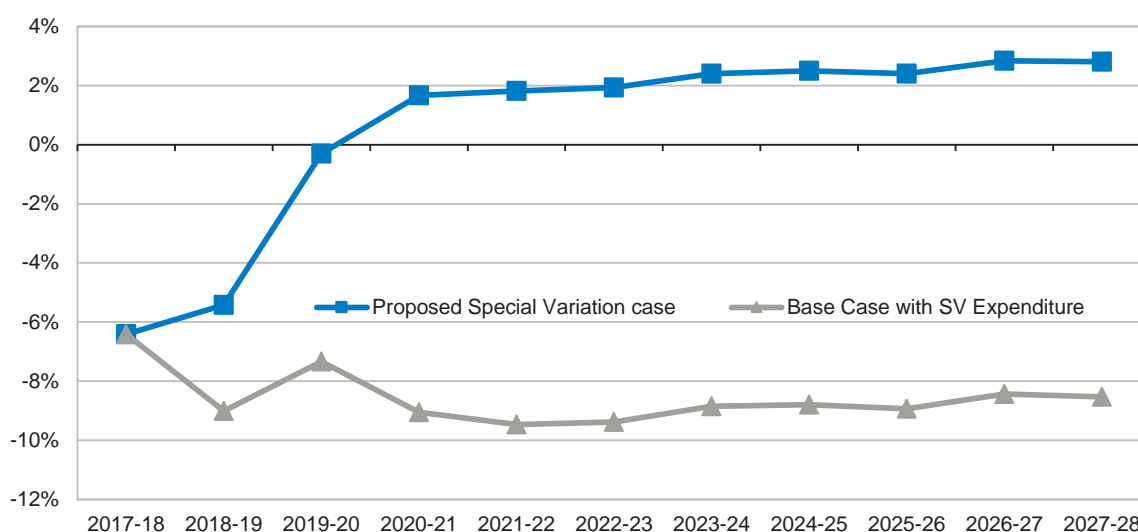
$$OPR^{16} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

Under the special variation scenario, the council forecasts consistent operating surpluses, growing to 2.8% by 2027-28 (see Figure 3.1). The cumulative value of these forecast surpluses is \$11.2 million over the 10 years to 2027-28.

Without the special variation and assuming its expenditure is the same as under the special variation scenario, Hawkesbury Council forecasts consistent operating deficits, as shown by the 'base case with SV expenditure' scenario in Figure 3.1 and Table 3.2. The cumulative value of these forecast deficits (before capital grants and contributions) is \$62.5 million over the 10 years to 2027-28.

Hence, without the special variation, the council's sustainability would deteriorate. With the special variation, the council would generate sufficient funds to reduce its infrastructure backlog over the next 10 years and service a growing community.

Figure 3.1 Hawkesbury City Council's Operating Performance Ratio (%) excluding capital grants and contributions (2017-18 to 2027-28)



Note: The base case with SV expenditure scenario shows the impact on the council's operating position if the special variation projects were to go ahead without the special variation revenue.

Source: Hawkesbury Council, *Application Part A, Worksheet 7* and IPART calculations.

¹⁶ Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

Table 3.1 Projected operating performance ratio (%) for Hawkesbury City Council's special variation application

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Application - including SV	-5.43	-0.30	1.67	1.82	1.93	2.40	2.50	2.40	2.85	2.81
Base Case with SV expenditure	-9.01	-7.34	-9.05	-9.47	-9.38	-8.85	-8.80	-8.94	-8.44	-8.53

Source: IPART calculations based on Hawkesbury, *Application Part A*, Worksheet 7

3.1.2 Impact on council's infrastructure backlog

The council's LTFP estimates a cumulative infrastructure funding gap of \$69 million over the next 10 years ie, to operate, maintain, replace and upgrade infrastructure. It notes that ongoing under-investment in asset renewal would increase its infrastructure backlog as assets deteriorate.¹⁷

The council's infrastructure backlog ratio (measured as a percentage of the written down value of infrastructure assets) was 1.57% (\$10 million) in 2017-18.¹⁸

With the special variation, the council forecasts its infrastructure backlog ratio will improve to 0.77% (\$5.5 million) in 2026-27. However, without the special variation, it forecasts this ratio will deteriorate to 2.65% (\$17.3 million) in 2026-27.¹⁹ This is above the FFTF benchmark of less than 2%.

3.1.3 Impact on council's net debt position

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 council's change in net debt is an indicator of the council's financial performance and sustainability on a cash basis.

As seen in Figure 3.2, with the special variation, the council's net debt position is around 5% of its annual income in 2026-27. By contrast, without the special variation revenue and based on the council's balance sheet forecasts, we forecast a net debt position of around 70% of its annual income in 2026-27.²⁰

This suggests a special variation will improve the council's financial sustainability in the long term. The additional revenue will provide the council with the financial capacity to fund operating and capital expenditure to maintain its key assets without incurring

¹⁷ Hawkesbury, *Application Part B*, p 18 and Hawkesbury, *Supplementary Resourcing Strategy and Delivery Program*, pp 111 and 156.

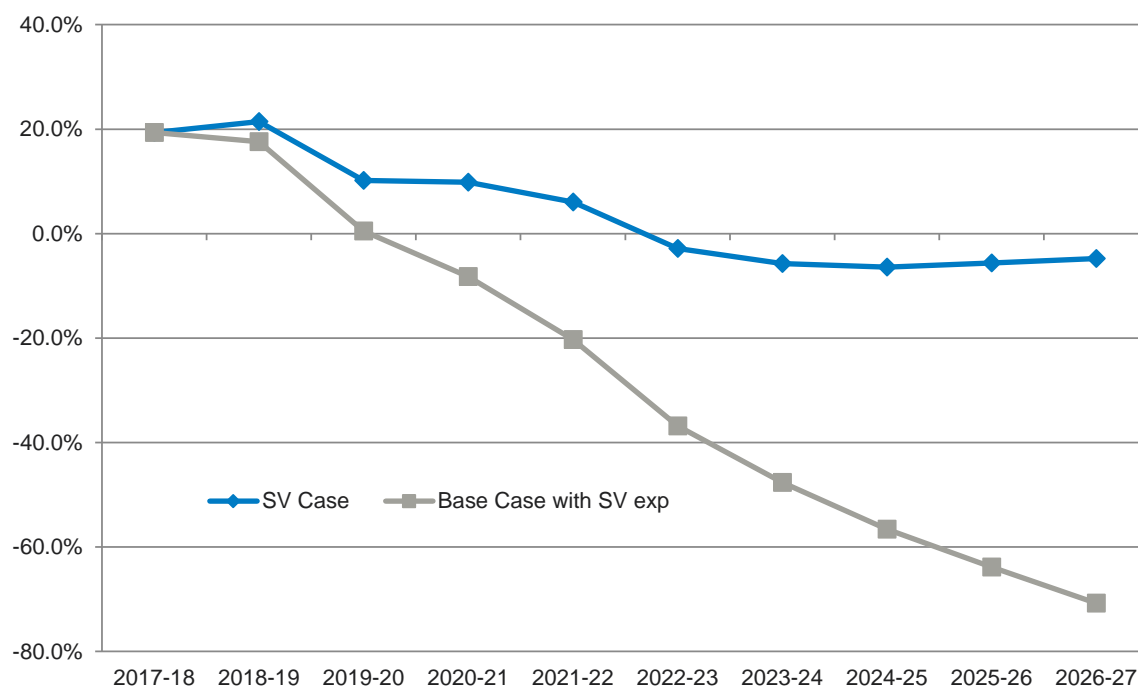
¹⁸ Historical cost less accumulated depreciation.

¹⁹ Hawkesbury City Council, *Resourcing Strategy 2017-2027 (Hawkesbury, Resourcing Strategy)*, pp 35 and 45 and Hawkesbury, *Supplementary Resourcing Strategy*, p 55.

²⁰ This analysis includes current investments. Of the \$44.6 million in cash, cash equivalents and investments: \$15.4 million is externally restricted, \$19.1 million is internally restricted and \$10.1 million is unrestricted. Hawkesbury City Council, *Financial Statements for the year ended 30 June 2017*, Note 6c.

increasing levels of debt, and to ensure the infrastructure backlog does not deteriorate further.

Figure 3.2 Hawkesbury City Council's Net Debt to Income Ratio (%) 2017-18 to 2026-27



Note: Base case with SV exp assumes the council undertakes the special variation projects without the additional revenue.

Source: IPART calculations based on Hawkesbury, *Application Part A*, Worksheet 7 and the council's LTFP.

The council's application is consistent with its FFTF proposal.

Box 3.1 summarises our assessment of Hawkesbury Council's 2015 FFTF proposal.

Box 3.1 IPART's FFTF assessment of Hawkesbury City Council

IPART's Fit for the Future assessment in 2015 found that Hawkesbury Council:

- ▼ Did not meet the criterion for financial sustainability based on a forecast negative **operating performance ratio** by 2019-20 despite a proposed special variation of 29.7% cumulative over five years from 2017-18. The council forecast it would meet the own source revenue and asset renewal benchmarks by 2019-20.
- ▼ Met the criterion for infrastructure and service management based on reducing its **infrastructure backlog** close to 2% and improvements in its asset maintenance ratio to meet the benchmark by 2019-20. It met the debt service ratio based on increased use of borrowings following its proposed special variation in 2017-18.
- ▼ Met the efficiency criterion based on a forecast decline in real operating expenditure per capita from \$880 in 2015-16 to \$840 by 2019-20. However this improvement relied on a reduction in service levels.

TCorp observed in 2013 the council's financial position was 'moderate' and its outlook was 'negative'. This meant that while the council had adequate capacity to meet its financial commitments in the short to medium term, its financial sustainability had the potential to deteriorate over the long term.

The council submitted a revised FFTF Proposal to the Office of Local Government (OLG) in November 2016. OLG assessed the council as Fit for the Future based on adjusted revenue and expenditure targets and confirmation of the need for a special variation.

Source: Hawkesbury Council, *Fit for the Future Council Improvement Proposal*, June 2015; IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 229-230; NSW Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 17; Hawkesbury, *Application Part B*, pp 25 and 48 and Correspondence from Minister Upton, *Outcome of FFTF Reassessment*, August 2017.

3.1.4 Alternative funding strategies

Hawkesbury Council indicated that since 2007 it has undertaken cost containment, efficiency and revenue measures to improve its long term financial sustainability and to direct additional investment to maintaining service levels and funding the maintenance of community assets.²¹

These measures included a number of strategies suggested by its residents, such as:

- ▼ investigating alternative service delivery models for revenue generation and operating efficiencies
- ▼ aggregating service contracts, and
- ▼ joint procurement and service arrangements with its Regional Strategic Alliance Partners (Blue Mountains and Penrith).

The council indicated it also investigated other strategies which it decided not to pursue:

- ▼ amalgamation – in 2016, the independent public inquiry recommended that a proposed merger with part of The Hills Shire Council should not proceed subsequent to considering public submissions, including Hawkesbury's submission that the proposed

²¹ Hawkesbury, *Application Part B*, p 5.

merger would not address the asset renewal funding gap and would have a negative impact on the local economy

- ▼ service level reductions – this option had limited support from residents, and
- ▼ large scale residential development - the community indicated a preference for sensitive, small scale development to preserve the rural and heritage value of the area.²²

The council notes that since 2015 it has been implementing its Fit for the Future Improvement Plan which incorporates initiatives to reform its processes and systems and to align its operations, financial and staffing resources to deliver on the priorities of the community.²³ As discussed in Section 3.5, the council anticipates these measures will generate further efficiency savings and non-rating revenue to supplement income from the rate base including the special variation income.

3.2 The council demonstrated community engagement and awareness

We found Hawkesbury Council demonstrated that its community is aware of the need for and extent of the proposed rate increase.

The council identified a need for special variation rate increases in its 2012 IP&R documents and has reaffirmed the need for additional revenue in successive years. Between October and November 2017 it exhibited its Supplementary Resourcing Strategy and Delivery Program which clearly explained the need for, purpose, and extent of the proposed special variation.²⁴ In particular, it communicated the increase of the special variation in percentage terms, and the total increase in dollar terms for the average ratepayer by rate category.²⁵

Between July 2016 and November 2017 the council undertook a community engagement program to gauge community satisfaction with service levels and its proposed special variation application.²⁶ It provided opportunities for feedback and used a variety of methods to engage with its community including:

- ▼ town meetings and drop in forums
- ▼ information kiosks at shopping centres and community events
- ▼ community surveys (telephone, on-line, mail-out postal ballots), and
- ▼ display materials such as fact sheets, local paper advertisements, newsletters, Mayoral columns, Facebook posts, media releases, information post cards and displays at libraries and council offices.²⁷

3.2.1 Outcome of consultation with community

Although this criterion does not require councils to demonstrate community support for the special variation, they are required to consider the results of their community consultation in

²² Hawkesbury, *Application Part B*, pp 21-22.

²³ Hawkesbury, *Application Part B*, p 8.

²⁴ Hawkesbury, *Application Part B*, p 39.

²⁵ Hawkesbury, *Application Part B*, pp 31-32 and Hawkesbury, *Supplementary Resourcing Strategy and Delivery Program*, pp viiii, 42-43 and 67.

²⁶ Hawkesbury, *Application Part B*, pp 32-33.

²⁷ Hawkesbury, *Application Part B*, pp 32-33.

preparing their application. Hawkesbury Council's consultation indicated its community prioritised improvements in service levels and future investments on roads, public spaces and town centres.²⁸

The council also conducted a telephone survey in July 2017²⁹ seeking community feedback on three funding options:

- ▼ Option 1 – Rate peg only
- ▼ Option 2 – 'Stabilise' consisting of a special variation of 9.5% per year for two years, and
- ▼ Option 3 – 'Improve' consisting of a special variation of 9.5% per year for three years (the council's preferred option and the current proposed special variation).³⁰

The community's preference favoured a special rate variation, either to stabilise or improve the quality of local infrastructure:

- ▼ 57% of residents selected a rate variation increase above the rate peg increase indicating either Option 2 or 3, and
- ▼ 43% of residents nominated Option 1 as a preferred outcome.³¹

Based on this, the council decided to apply for Option 3.

3.2.2 Submissions from the community

The council received 138 submissions in response to the public exhibition of the Draft Supplementary Resourcing Strategy and Delivery Program which outlined the proposed special variation. Of these, 123 submissions opposed the council's preferred special variation. The council identified that the main reasons cited in the opposing submissions were:

- ▼ the current rating system discriminates against properties with higher land values and the council should defer the special variation until the rating structure is reviewed
- ▼ the council should control unnecessary spending before considering a special variation
- ▼ the outcomes of the surveys were not representative of the community
- ▼ the council has misled residents about being Fit for the Future and amalgamating with the Hills Shire, and
- ▼ the council is increasing rates but delivering very few services.³²

The council considered its community's feedback. It noted that a large proportion of opposing submissions were from ratepayers in three specific locations; Maraylya, Oakville

²⁸ Hawkesbury, *Application Part B*, p 39.

²⁹ The council engaged Micromex Research to conduct the survey using telephone interviewing (CATI). 367 of the 401 respondents were randomly selected. The other 34 respondents were recruited from specific locations in the local government area. Micromex noted that the sample size provides a maximum sampling error of plus or minus 4.9% at 95% confidence.

³⁰ Hawkesbury, Micromex Survey, pp 14-18.

³¹ Hawkesbury, Micromex Survey, p 8.

³² Hawkesbury, *Application Part B*, pp 45-47.

and Windsor Downs. Many comments were related to the effect of rating changes,³³ land valuations and urban development in these localities. It considered that many of the issues raised would not be resolved through deferring the special variation. It concluded that without the rate increases it would not be able to generate the revenue required to achieve the FFTF financial benchmarks, or address its funding shortfall for asset renewal whilst maintaining long term financial sustainability.³⁴

IPART received 137 submissions during our consultation period.³⁵ The majority opposed the application citing similar concerns as those raised with the council such as affordability, council inefficiency and an unfair rating distribution. A high proportion of the submissions we received were also from residents in localities the council noted were affected by recent rating changes and land revaluations. We note the council's acknowledgement of, and response to these issues, and that it has applied for the special variation as it considers it is necessary to address its revenue shortfalls. As seen in Section 3.3.1 below, the council has also considered its ratepayers' capacity to pay the increased rates in making its application.

3.3 The impact on ratepayers is substantial but reasonable

As Chapter 1 discussed, Hawkesbury Council requested a 3-year cumulative increase of 31.29% that will remain permanently in the rate base, ie, 9.50% in each year 2018-19, 2019-20 and 2020-21.

We found that the impact of these increases on ratepayers will be significant but reasonable, given the current average rate levels, the council's special variation history, and the council's financial sustainability and projected infrastructure backlog. The socio-economic indicators for Hawkesbury Council in comparison to similar and neighbouring councils and the council's consideration of affordability support our conclusion.

3.3.1 Council's consideration of impact on ratepayers

Hawkesbury Council provided a comprehensive comparison of its average rates with its OLG Group 6 peers (Camden Council and Wollondilly Shire Council) as well as three adjoining councils (The Hills Shire Council, Penrith Council and Blue Mountains City Council). It also compared rating increases in each rating category (residential, farmland and business) across each council. It noted that in 2016-17, its:

- ▼ average residential rate was the lowest among its OLG Group 6 councils and the rate of increase in residential rates was also lower than comparable councils
- ▼ average farmland rate was lower than its Group 6 peers and only slightly above the average for the six councils, and
- ▼ average business rate was the second lowest among comparable councils.³⁶

³³ The council recently reviewed its rating structure to redress previous inconsistencies which adversely affected properties of less than two hectares. This resulted in rate increases for some properties with higher land values. In addition, the NSW Valuer General's 2016 land revaluations substantially increased land values for some properties in these localities, relative to other areas in Hawkesbury. This revaluation further increased rates in these localities. Hawkesbury, *Application Part B*, pp 46–54.

³⁴ Hawkesbury, *Application Part B*, pp 45, 47-48.

³⁵ We also received some submissions outside our consultation period.

³⁶ Hawkesbury, *Application Part B*, pp 58-60, 67-68.

The council also examined various socio-economic indicators for its local government area (LGA) to assess the impact on ratepayers, including income and wealth, housing costs, and household and population characteristics. It concluded that its ratepayers would generally have the capacity to pay the increased rates based on the following factors:

- ▼ the median household income is above the NSW average and the proportion of household income spent on rates is lower than most 'like' councils³⁷
- ▼ the council is near the top 20% of most advantaged LGAs in NSW
- ▼ lower housing stress in the LGA (19.7%) compared to the NSW average of (20.3%), and
- ▼ recent rating changes which have reduced rates for low-income households and will lessen the impact of the proposed special variation rate increases.³⁸

The council submitted that it has a hardship policy to assist residents that may be unable to meet their financial obligations. It provides concessions to more than 3,100 eligible pensioners and a number of its pensioner concessions are above the mandatory concession levels under the NSW Government Mandatory Pensioner Concession Scheme.³⁹

3.3.2 IPART's assessment of impact on ratepayers

To assess the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. We found that:

- ▼ a single year special variation increase of 8.5% was granted to Hawkesbury Council in 2002-03 for a stormwater management levy
- ▼ the stormwater management levy expired in 2006-07 and was replaced with a single year special variation of 9.5% 2007-08 for an infrastructure renewal program, and
- ▼ since 2007-08, the average annual growth in residential rates was 2.60% and 6.92% for business rates, which compares with the average annual growth in the rate peg of 2.71% over the same period.

We also compared current rates and socio economic indicators in Hawkesbury with its OLG Group 6 councils and two neighbouring councils as shown in Table 3.2.

³⁷ Based on Hawkesbury's analysis of 2016-17 rates and median annual household income of the six comparison council. Hawkesbury, *Application Part B*, pp 64 and 68.

³⁸ Hawkesbury, *Application Part B*, p 71.

³⁹ Hawkesbury, *Application Part B*, p 72.

Table 3.2 Hawkesbury City Council - comparison of rates and socio-economic indicators with neighbouring councils and Group 6 averages (2015-16)

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$)	Median annual household income (2016) ^b	Average rate to median income ratio (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Blue Mountains City (7)	1,308	3,085	76,336	1.7	3.6	105
Camden (6)	1,229	4,655	106,444	1.2	3.7	109
Wollondilly Shire (6)	1,317	2,093	97,292	1.4	6.5	104
The Hills Shire (7)	1,000	1,946	122,876	0.8	2.5	122
Hawkesbury (6)	1,061	1,928	86,736	1.2	5.2	99
OLG Group 6 average	1,193	3,161	96,824	1.2	5.1	N/A

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

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

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

Source: OLG, Time Series Data 2015-2016; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Based on 2015-16 data, we found that Hawkesbury Council's:

- ▼ average residential rate was 11% lower than the average for Group 6 councils and 8% lower than the average of its two neighbouring (Group 7) councils
- ▼ average business rate was 39% lower than the average for Group 6 councils and 23% lower than the average of its two neighbouring (Group 7) councils
- ▼ average rate to income ratio was similar to the average for Group 6 and neighbouring (Group 7) councils, and
- ▼ SEIFA ranking is lowest in its OLG Group and lower than its neighbouring councils, nevertheless its ranking indicates lower levels of disadvantage than the average NSW council.

Taking all these factors into account, we consider the impact of the increases is reasonable.

3.4 The council's IP&R documents were exhibited

The council adopted its Hawkesbury Community Strategic Plan in March 2017.⁴⁰ It updated its IP&R documents in late 2017 to clearly set out and consult on its three investment options including its preferred special variation option.

The council exhibited its Supplementary Resourcing Strategy 2017-2027 incorporating its Supplementary Delivery Program 2017-2027 between 13 October and 10 November 2017 and adopted this on 28 November 2017. These documents also comprise its:

- ▼ Long Term Financial Plan
- ▼ Workforce Management Plan, and

⁴⁰ Hawkesbury, *Application Part B*, p 73.

▼ Asset Management Strategy.⁴¹

The adopted Delivery Program and Long Term Financial Plan clearly set out the special variation option, the cumulative increase in rates in percentage and dollar terms, and the average impact on ratepayers.

3.5 The council explained its productivity improvements and cost containment strategies

Hawkesbury Council's application sets out the productivity improvement and cost containment initiatives it has undertaken in recent years and plans to implement in the future.

As noted in Section 3.1.4, the council commenced a program of cost containment, efficiency and non-rating measures in 2007 as part of a broader strategy to address its long term financial sustainability. It provided some examples of initiatives it has undertaken, including:

- ▼ changing its leaseback fleet from 6-cylinder vehicles to 4-cylinder vehicles
- ▼ installing solar panels, energy efficient hot water systems, timers and remote sensors for lighting, LED bulbs for street lighting and an electronic fuel monitoring facility
- ▼ centralising procurement, standardising stationery and implementing a customer call centre to enable greater specialisation of other staff
- ▼ reviewing and updating various operational systems eg, telecommunications, electronic signatures, computerised work flows
- ▼ implementing fairer user pay systems and credit card surcharges to recover higher transaction fees, and
- ▼ selling underperforming assets.

These measures enabled the council to:

- ▼ reduce its operating costs by \$1.6 million (in real terms)
- ▼ raise \$9.2 million from the sale of assets no longer needed by the community, and
- ▼ increase its non-rating revenue by \$800,000.⁴²

The council indicated these savings enabled it to increase spending on asset renewal and maintenance from an average of \$9.4 million between 2004 and 2010 to an average of \$16.8 million every year between 2011 and 2016.⁴³

Since 2015, the council has been implementing its Fit for the Future Improvement Plan and has included a number of revenue and efficiency initiatives in its 10-year LTFFP.⁴⁴ By 2021, it forecasts further efficiency savings of \$2.4 million per year, increases in non-rating revenue of \$2.4 million a year, and realisation of a further \$1.5 million from property sales.⁴⁵

⁴¹ Hawkesbury, *Application Part B*, pp 73-74.

⁴² Hawkesbury, *Application B*, p 82.

⁴³ Hawkesbury, *Application B*, p 82.

⁴⁴ Hawkesbury, *Application B*, p 8.

⁴⁵ Hawkesbury, *Application B*, p 40.

4 Our decision's impact on the council

Our decision means Hawkesbury Council may increase its general income over the 3-year special variation period from \$31.4 million in 2017-18 to \$41.3 million in 2020-21. Table 4.1 shows the percentage increases we have approved, and estimates the annual increases in the council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2020-21, the council's permissible general income can increase up to the annual rate peg unless we approve a further special variation.⁴⁶

Table 4.1 Permissible general income of Hawkesbury City Council from 2018-19 to 2020-21 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2018				31,435,252
2018-19	9.50	9.50	2,987,377	34,422,629 ^a
2019-20	9.50	19.90	3,270,150	37,692,779
2020-21	9.50	31.29	3,580,814	41,273,593
Total increase approved			9,838,341	

^a A prior catch-up of \$1,028 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2018-19.

Note: The above information is correct at the time of the council's application (February 2018).

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

The council estimates that over the three years to 2020-21 it will collect, in total, an additional \$14.5 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the council requested to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards, improve service levels for some key assets, address the infrastructure backlog and improve its financial sustainability.

⁴⁶ 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.

5 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.

In its application, Hawkesbury Council indicated it intended to increase rates uniformly by 9.5% per year over the three years, or 31.3% in total, for each category.

The council has calculated that:

- ▼ the average residential rate would increase by 31.3% or \$351 over three years, or by \$107 in the first year
- ▼ the average business rate would increase by 31.3% or \$692 over three years, or by \$211 in the first year, and
- ▼ the average farmland rate would increase by 31.3% or \$728 over three years, or by \$221 in the first year.⁴⁷

Table 5.1 sets out Hawkesbury Council's estimates of the expected increase in average rates in the main ratepayer categories.

⁴⁷ Hawkesbury, *Application Part A*, Worksheet 5a. The average business rate is the average of the council's three business rating categories listed in Table 5.1.

Table 5.1 Indicative annual increases in average rates under Hawkesbury City Council's approved special variation 2017-18 to 2020-21

Year	2017-18	2018-19	2019-20	2020-21	Cumulative Increase 2018-19 to 2020-21
Residential rate \$	1,121.08	1,227.66	1,344.29	1,471.99	
\$ increase	-	106.57	116.63	127.71	350.91
% increase	-	9.51	9.50	9.50	31.30
Business Area 1 rate \$	2,137.31	2,340.91	2,563.29	2,806.80	
\$ increase	-	203.60	222.39	243.51	669.50
% increase	-	9.53	9.50	9.50	31.32
Business Area 2 rate \$	2,076.93	2,274.77	2,490.87	2,727.50	
\$ increase	-	197.83	216.10	236.36	650.57
% increase	-	9.53	9.50	9.50	31.32
Business Other rate \$	2,450.76	2,684.28	2,939.29	3,218.52	
\$ increase	-	233.53	255.01	279.23	767.77
% increase	-	9.53	9.50	9.50	31.33
Farmland rate \$	2,323.95	2,545.37	2,787.18	3,051.96	
\$ increase	-	221.42	241.81	264.78	728.01
% increase	-	9.53	9.50	9.50	31.33

Note: 2017-18 is included for comparison. The average rate is calculated by Hawkesbury Council and includes the ordinary rate and any special rates applying to the rating category.

Source: Hawkesbury, *Application Part A*, Worksheet 5a.



Appendices



A Assessment criteria for special variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
<p>Criterion 1 – Financial need</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> ▼ 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. <p>Evidence to establish this criterion 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.</p>
<p>Criterion 2 – Community awareness</p> <p>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. 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. 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.</p>
<p>Criterion 3 – Impact on ratepayers is reasonable</p> <p>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 Program and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ 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.
<p>Criterion 4 – IP&R documents are exhibited</p> <p>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.</p>
<p>Criterion 5 – Productivity improvements and cost containment strategies</p> <p>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.</p>
<p>Criterion 6 – Additional matters</p> <p>IPART's assessment of 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.</p>
<p>Source: OLG Guidelines, November 2017, pp 7-9.</p>

B Expenditures to be funded from the special variation above the rate peg

Table B.1 and Table B.2 show Hawkesbury Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of \$72.4 million, over 10 years to fund:

- ▼ loan interest and principal repayments
- ▼ roads maintenance and renewal
- ▼ renewal and upgrade of parks, river & waterway foreshores, sporting & recreation facilities and other public spaces, building of new pathways, and
- ▼ renewal of community buildings.⁴⁸

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

⁴⁸ Hawkesbury, *Application Part A*, Worksheet 6 and Hawkesbury, *Application Part B*, pp 10-11.

Table B.1 Hawkesbury City Council – Income and proposed expenditure over 10-years related to the special variation (\$000)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Special variation income above assumed rate peg	2,263	4,730	7,486	7,673	7,865	8,062	8,264	8,470	8,682	8,899	72,393
Transfers from reserves	1,034	1,467	2,854	-264	-1,255	-63	-846	-1,269	-1,358	-300	0
Funding for increased operating expenditures	536	723	1,546	1,711	1,864	1,950	1,959	2,265	2,467	2,438	17,460
Funding for capital expenditure	512	1,953	2,083	4,814	5,423	4,017	4,796	5,012	5,000	4,115	37,725
Other uses ^a	163	548	945	1,352	1,771	2,094	2,289	2,395	2,504	2,575	16,636
Total expenditure	2,245	4,692	7,427	7,613	7,803	7,998	8,198	8,403	8,613	8,828	71,821

^a Infrastructure Program loan principal repayments. The council's Infrastructure Loan Interest repayments are included in its operating expenditures.

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Hawkesbury, *Application Part A*, Worksheet 6.

Table B.2 Hawkesbury City Council – Proposed 10-year capital expenditure program related to the special variation (\$000)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Roads Renewals	512	1,000	1,000	3,500	3,500	2,000	3,000	3,000	3,000	2,500	23,012
Buildings Renewals	0	250	0	250	500	500	500	500	500	500	3,500
Public Domain (town centres, villages and public spaces)											
Renewals	0	250	250	250	250	250	250	250	250	250	2,250
Upgrades	0	203	583	564	673	767	546	762	750	412	5,261
Pathways New Shared	0	250	250	250	500	500	500	500	500	452	3,702
Total Capital Expenditure	512	1,953	2,083	4,814	5,423	4,017	4,796	5,012	5,000	4,115	37,725

Note: Numbers may not add due to rounding.

Source: Hawkesbury, *Application Part A*, Worksheet 6 and Hawkesbury, *Application Part B*, pp 10-11.

C Hawkesbury City Council's projected revenue, expenses and operating result

As a condition of IPART's approval, Hawkesbury Council is to report annually against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (shown in Table C.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate continuing 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 Hawkesbury City Council, 2018-19 to 2027-28 (\$000)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Total revenue	72,627	79,681	82,528	86,251	85,509	87,476	88,393	90,248	92,385	93,981	859,080
Total expenses	70,087	70,910	73,754	75,386	76,853	78,313	79,716	81,512	83,122	84,804	774,457
Operating result from continuing operations	2,540	8,771	8,774	10,865	8,656	9,163	8,677	8,736	9,264	9,177	84,623
Net operating result before capital grants and contributions	-3,608	-215	1,251	1,397	1,516	1,928	2,046	2,007	2,435	2,448	11,206

Note: Numbers may not add due to rounding.

Source: Hawkesbury, *Application Part A*, Worksheet 7.

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 Hawkesbury Council have changed over the four years to 2015-16. Table D.2 compares selected published and unpublished data about Hawkesbury Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

Overall, the tables below show that:

- ▼ total employee numbers have been maintained at around 2012-13 numbers and the ratio of population to Full-Time Equivalent (FTE) staff has increased by around 0.9%, and
- ▼ while the average cost per FTE (\$) has increased by 6.4% over the four years to 2015-16, the council's employee costs as a percentage of operating expenditure has decreased in 2015-16 relative to the previous three years, showing a declining trend.

Table D.1 Trends in selected performance indicators for Hawkesbury City Council, 2012-13 to 2015-16

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	273	274	288	272	-0.1
Ratio of population to FTE	237	238	227	243	0.9
Average cost per FTE (\$)	80,835	87,788	87,663	97,397	6.4
Employee costs as % of operating expenditure (General Fund only)	36.4	36.2	37.8	34.7	N/A

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 and IPART calculations.

Table D.2 Select comparative indicators for Hawkesbury City Council, 2015-16

	Hawkesbury Council	OLG Group 6 average	NSW average
General profile			
Area (km ²)	2,775	-	-
Population	66,136	-	-
General Fund operating expenditure (\$m)	72.2	70.0	70.2
General Fund operating revenue per capita (\$)	1,197	-	-
Rates revenue as % of General Fund income	53.7	34.8	43.6
Own-source revenue ratio (%)	68.5	46.2	67.3
Average rate indicators^a			
Average rate – residential (\$)	1,061	1,193	1,017
Average rate – business (\$)	1,928	3,161	5,118
Average rate – farmland (\$)	2,595	2,625	2,366
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 (\$) ^b	86,736	96,824	77,272
Average residential rate to median income ratio (%)	1.2	1.2	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	99	-	-
Outstanding rates and annual charges ratio (%)	5.2	4.9	3.6
Productivity (labour input) indicators^c			
FTE staff (number)	272	278	354
Ratio of population to FTE	243.1	-	-
Average cost per FTE (\$)	97,397	98,705	83,193
Employee costs as % of operating expenditure (General Fund only)	34.7	38.6	39.7

^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 Data includes General Fund, Water & Sewer and other funds, if applicable (unless noted otherwise). 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.

Note: Except as noted, data is based upon total council operations for General Fund only.

Source: OLG, *Time Series Data 2015-2016*, 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.