



Special variation increase

Hunter's Hill Council 2019-20

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1 Executive summary

Hunter's Hill Council (the Council) applied to IPART for a special variation (SV)¹ to increase its general income above the rate peg² of 2.7% for 2019-20.

The Council applied for an SV to increase its general income by 9.74%³ in 2019-20 to fund operating and capital expenditure for its buildings, parks, reserves and playgrounds, maintain its existing services and improve its financial sustainability.⁴ The Council proposes that the majority of the funds are spent on maintaining current service levels and renewing its community buildings.⁵

The proposed SV is a combination of the following:

- ▼ **4.04% increase to be retained temporarily in its rate base for 10 years from 2019-20 to 2028-29⁶** – which is a renewal of a previous SV for its community facilities and asset renewal program, which expired on 30 June 2017.⁷ The expired SV was originally approved as 4.1% above the rate peg for 10 years from 2007-08 to 2016-17 to fund infrastructure works and maintenance of community facilities.⁸ The Council intends to collect this increase as a special rate levied across all rating categories.⁹
- ▼ **3.00% increase to be retained permanently in its rate base** – the Council intends to collect this increase as a special rate across all categories based on land values.¹⁰
- ▼ **2.70% rate peg increase.¹¹**

The Council proposed that its minimum rates will increase by the rate peg.¹²

The proposed SV would generate an additional increase in its permissible general income (PGI) of \$0.61 million (6.41% of total income) in 2019-20, of which \$0.26 million may be retained for 10 years and \$0.35 million would be permanently incorporated into the revenue base.

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 508(2) 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 Hunter's Hill Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.

⁴ Hunter's Hill Council, *Application Part A*, Worksheet 6; and Hunter's Hill Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, pp 4-5.

⁵ Hunter's Hill Council, *Application Part A*, Worksheet 6.

⁶ Hunter's Hill Council, *Important Information about your Hunter's Hill Council Rates*, pp 1 and 5.

⁷ The Council was not permitted to seek an extension of the expired SV in 2018-19 as it was subject to a merger proposal at the time.

⁸ IPART, *Hunter's Hill Council's application for a special variation 2012/13 – Determination*, June 2012, p 8; and Hunter's Hill Council, *Application Part B*, p 12.

⁹ Hunter's Hill Council, *Application Part B*, p 26.

¹⁰ Hunter's Hill Council, *Application Part B*, p 26.

¹¹ Hunter's Hill Council, *Application Part A*, Worksheet 1.

¹² Hunter's Hill Council, *Application Part A*, Worksheet 5a; and Hunter's Hill Council, *Application Part B*, p 28.

The Council also has two existing temporary SVs:

- ▼ 6.80%, a 10-year temporary SV, expiring on 30 June 2022 – which is a roads infrastructure levy and an operational special rate, to enable the Council to partly address a funding gap for its expenses.¹³
- ▼ 5.27%, a 10-year temporary SV, expiring on 30 June 2023 – which is recovered through two special rates to improve environmental works and fund road-related infrastructure.¹⁴

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

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

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

We decided to approve the proposed SV in full.

Our decision means that the Council may increase its general income in 2019-20 by the annual percentage outlined in Box 1.1. This will allow the Council to fund operating and capital expenditure for its key assets (buildings, parks, reserves and playgrounds), maintain its services and improve its financial sustainability.¹⁵

The annual increase includes the rate peg of 2.7% in 2019-20. The increase of 4.04% in the first year over the rate peg may be retained in the Council's general income base for 10 years and is to be removed from the Council's rate base after 2028-29. The increase of 3.00% may be retained in the Council's general income base **permanently**.

¹³ IPART, *Hunter's Hill Council's application for a special variation 2012/13 – Determination*, June 2012, p 3.

¹⁴ IPART, *Hunter's Hill Council application for a special variation for 2013/14 – Determination*, June 2013, p 2.

¹⁵ Hunter's Hill Council, *Application Part A*, Worksheet 6; and Hunter's Hill Council, *Application Part B*, pp 4-5.

Box 1.1 IPART Decision – Hunter’s Hill Council

Approved Special Variation: percentage increases to general income

	2019-20
Increase above rate peg – 10-year temporary	4.04
Increase above rate peg – permanent	3.00
Rate peg	2.70
Total increase	9.74

The increase of 5.70% (known rate peg and 3.00% increase above rate peg) may be retained in the Council’s general income base permanently. On 1 July 2029, the Council must reduce its general income to what it would have been without the 4.04% temporary special variation.

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.¹⁶

Conditions attached

IPART’s approval of Hunter’s Hill Council’s application for a special variation in 2019-20 is subject to the following conditions:

- ▼ The Council uses the additional income from the special variation for the purposes of improving financial sustainability, maintaining existing services and renewing and maintaining its infrastructure 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 2029-30 on:
 - The program of expenditure that was actually funded by the additional income
 - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the Council’s application, and summarised in Appendix C
 - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
 - Expenditure consistent with the Council’s application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
 - The outcomes achieved as a result of the actual program of expenditure.
- ▼ After 1 July 2029, the Council should report in its annual report that it has reduced its income to what it would have been without the 4.04% temporary special variation. This involves reducing it by \$349,853 plus the equivalent cumulative proportion of this increase from rate peg increases or special variation increases approved for the years 2020-21 to 2028-29 inclusive.

The Council estimates that, with the SV, over the 10 years to 2028-29 it will collect an additional \$6.8 million of rate revenue compared to rate increases that are limited to the known rate peg in 2019-20 and the assumed rate peg for future years (see Table 1.1).¹⁷

¹⁶ The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.

¹⁷ 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, adjustments for previous under or over-collection of rates and the expiry of any temporary SVs.

Table 1.1 Permissible general income (PGI) of Hunter's Hill Council from 2019-20 to 2028-29 arising from the approved SV

Year	Increase approved ^a (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019					8,659,733
2019-20	9.74	9.74	609,645	847,163 ^b	9,506,896
2020-21	2.50	12.48	624,886	237,672	9,744,568
2021-22	2.50	15.30	640,508	243,614	9,988,182
2022-23	2.50	18.18	656,521	-375,335 ^c	9,612,847
2023-24	2.50	21.13	672,934	-223,870 ^d	9,388,977
2024-25	2.50	24.16	689,758	234,724	9,623,702
2025-26	2.50	27.26	707,001	240,593	9,864,294
2026-27	2.50	30.45	724,677	246,607	10,110,902
2027-28	2.50	33.71	742,793	252,773	10,363,674
2028-29	2.50	37.05	761,363	259,092	10,622,766
Total cumulative increase approved				1,963,033	
Total above rate peg			6,830,088		

a The annual increases include the rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years.

b Includes adjustment of a prior catch-up of \$3,705 ($\$8,659,733 \times 0.00974 + \$3,705 = \$849,163$) that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2019-20.

c Includes an adjustment estimated by OLG of -\$609,795 for an SV that expires on 30 June 2022.

d Includes an adjustment estimated by OLG of -\$452,869 for an SV that expires on 30 June 2023.

e The rate peg of 2.5% for years 2020-21 and beyond is assumed and may vary with the setting of the rate peg by IPART in September each year.

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

Source: Hunter's Hill Council, *Application Part A*, Worksheets 1 and 4; and IPART calculations.

Of the \$6.8 million increase in PGI above the rate peg, \$2.9 million (42.61%) is derived from the permanent increase relating to the rate peg increase and additional 3.00% permanent increase, and \$3.9 million (57.39%) is derived from the 4.04% temporary increase.

On 1 July 2029, the Council must reduce its general income to what it would have been without the 4.04% temporary component of the SV. The Council can increase its PGI up to the annual rate peg from 2020-21 unless we approve a further SV.

1.2 Reasons for our decision

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how some of the criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances.

The Council's forecast shows that there is a financial need to increase its recurrent revenue above the rate peg to be financially sustainable. Its Operating Performance Ratio (OPR) over five years with the proposed SV remains below the OLG benchmark of greater than or equal

to 0%.¹⁸ The Council's infrastructure renewals ratio will not meet the OLG benchmark of greater than 100%¹⁹ over the next five years with the proposed SV (see Section 4.1 for further explanation). Therefore, we consider the Council has financial need for the proposed SV.

The Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council communicated its proposed 2019-20 rate increases, and used a variety of engagement methods to engage with its community.

We found the impact on affected ratepayers would be reasonable. We took into account that a portion of its proposed SV replaces an SV the community was already paying, which expired on 30 June 2017; that the council area's SEIFA²⁰ ranking indicates a relatively high level of advantage; and the Council's financial need for the proposed SV to increase its infrastructure renewals and address its operating deficits.

Although the Council's Integrated Planning and Reporting (IP&R) documents were appropriately exhibited, approved and adopted, they contained only brief information relating to the proposed SV. The Long Term Financial Plan (LTFP) did not indicate the financial impact of business as usual, excluding the proposed SV. However, the Council's IP&R documents did communicate the purpose of the proposed SV, what it would fund and the impact of the proposed SV on its ratepayers. Therefore, we consider, on balance, the Council's IP&R documents contained sufficient information relating to the proposed SV.

The Council has also outlined and quantified its productivity improvements and cost containment strategies.

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

Table 1.2 Assessment of Hunter's Hill Council's proposed SV application

1. Financial Need

Demonstrated	<p>The Council demonstrated a financial need for the proposed SV. Its:</p> <ul style="list-style-type: none"> ▼ Average OPR over 2019-20 to 2023-24 is: <ul style="list-style-type: none"> – -1.2% with the proposed SV, deteriorating to -3.6% by 2028-29 (below the OLG benchmark of greater than or equal to 0%) – -3.5% without the proposed SV revenue and without the proposed SV expenditure, deteriorating to -6.0% by 2028-29 – -5.1% without the proposed SV revenue, but with the SV expenditure, deteriorating to -7.6% by 2028-29. ▼ Net cash is \$18.1 million or 109.0% of income in 2018-19, which is forecast to: <ul style="list-style-type: none"> – Deteriorate with the proposed SV to 91.5% by 2028-29 – Deteriorate further without the proposed SV revenue and assuming the proposed SV expenditure goes ahead (the Baseline with SV expenditure Scenario) to 60.4% by 2028-29.
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¹⁸ Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

¹⁹ Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

²⁰ 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.

- ▼ Infrastructure renewals ratio is:
 - 76.5% by 2028-29 with the proposed SV (which is below the OLG benchmark of > 100%)
 - 67.3% by 2028-29 under the Baseline Scenario (without the proposed SV revenue and without the proposed SV expenditure), which is further below the OLG benchmark.

2. Community awareness

- Demonstrated The Council 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 explanation about the purpose and impact of the proposed SV and sought feedback.
 - ▼ Considered community feedback on the proposed rate increase.
 - ▼ Communicated the impact of its proposed SV on rates in 2019-20.

3. Reasonable Impact on ratepayers

- Demonstrated The Council examined the impact on its ratepayers and considered its community would have the capacity and willingness to pay, given:
- ▼ Its SEIFA ranking is relatively high within NSW
 - ▼ Its survey results indicated 71% of residents supported an additional levy.
- IPART found that the Council's:
- ▼ 2016-17 median household income is higher than its neighbouring councils and higher than the average for OLG Group 2²¹ councils
 - ▼ 2016 SEIFA ranking (125) is relatively high compared to its neighbouring councils.
- We also compared the Council's average rate levels with the proposed SV against its OLG Group 2 average increased by the rate peg. In 2019-20, the Council's average:
- ▼ Residential rate of \$605 (46.3%) would be higher than the estimated OLG Group 2 average
 - ▼ Business rate of \$3,018 (68.0%) would be lower than the estimated OLG Group 2 average.
- We consider the impact on ratepayers would be reasonable, given the Council's SEIFA ranking indicates a relatively high level of advantage; a portion of the increase replaces an SV that expired on 30 June 2017, meaning the community had already been paying a portion of the amount the proposed SV seeks to renew; and the Council's financial need to increase its infrastructure renewals and address its operating deficits.

4. IP&R documents exhibition

- Largely demonstrated The Council:
- ▼ Exhibited its combined Community Strategic Plan, Delivery Program and Operational Plan and its LTFP from 12 November 2018
 - ▼ Adopted these IP&R documents on 12 December 2018.
- We note that although the Council's IP&R documents did not communicate the impact of the proposed SV on its business ratepayers, it did communicate that a portion of the proposed SV was seeking to renew an expired SV, which all its ratepayers had been paying. It also communicated that the proposed SV seeks to add an additional ongoing operational rate.
- However, it did not:
- ▼ Appropriately update its Long-Term Financial Plan (LTFP) to show the baseline scenario, excluding the proposed SV. The Council updated its LTFP in its application to IPART.
 - ▼ Explicitly establish that the proposed rate increases are affordable.
- We have assessed these issues as having a minor impact on the effectiveness of consultation and consideration of affordability.

²¹ Hunter's Hill Council is in OLG Group 2, which is classified as Metropolitan Developed Small/Medium (population up to 70,000). The group comprises 6 councils, which includes Burwood, Lane Cove, Mosman, Strathfield and Woollahra.

5. Productivity improvements and cost containment

Demonstrated	<p>Over the last five years, the Council has realised savings of \$450,000 of operating expenditure. Examples of its past initiatives included:</p> <ul style="list-style-type: none">▼ \$221,000 in savings from restructuring its truck fleet▼ \$150,000 in savings from service innovation initiatives, such as using electronic business papers. <p>Examples of future initiatives in the Council's application included:</p> <ul style="list-style-type: none">▼ \$31,000 in annual savings from energy efficient lighting▼ \$237,000 in additional annual income from property income.
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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 Hunter's Hill Council's application

The Council applied for its proposed SV to increase its general income by **9.74%**²² in 2019-20 to fund operating and capital expenditure for its buildings, parks, reserves and playgrounds, maintain its existing services and improve its financial sustainability.²³ The Council applied for a combination of the following:

- ▼ **4.04%, 10-year temporary increase**²⁴ – which is a renewal of a previous SV for its community facilities and asset renewal program, which expired on 30 June 2017.²⁵ The expired SV was originally approved as 4.1% above the rate peg for 10 years from 2007-08 to 2016-17 to fund infrastructure works and maintenance of community facilities.²⁶ The Council intends to collect this increase as a special rate levied across all rating categories.²⁷
- ▼ **3.00% increase to be retained permanently in its rate base** – which is an ongoing operational special rate. The Council proposed to apply this special rate across all rating categories based on land values.²⁸
- ▼ **2.70% rate peg increase.**²⁹

The Council also proposed that its minimum rates increase by the rate peg.³⁰

The Council also has two existing temporary SVs:

- ▼ 6.80%, a 10-year temporary SV, expiring on 30 June 2022 – which is a roads infrastructure levy and an operational special rate, to enable the Council to partly address a funding gap for its expenses.³¹
- ▼ 5.27%, a 10-year temporary SV, expiring on 30 June 2023 – which is recovered through two special rates to improve environmental works and fund road-related infrastructure.³²

Its annual reports outline the purpose of these existing SVs, their years of approval, how much of each SV has been spent and what they have been spent on.³³

²² Hunter's Hill Council, *Application Part A*, Worksheet 1.

²³ Hunter's Hill Council, *Application Part A*, Worksheet 6; and Hunter's Hill Council, *Application Part B*, pp 4-5.

²⁴ Hunter's Hill Council, *Important Information about your Hunter's Hill Council Rates*, pp 1 and 5.

²⁵ The Council was not permitted to seek an extension of the expired SV in 2018-19 as it was subject to a merger proposal at the time.

²⁶ IPART, *Hunter's Hill Council's application for a special variation 2012/13 – Determination*, June 2012, p 8; and Hunter's Hill Council, *Application Part B*, p 12.

²⁷ Hunter's Hill Council, *Application Part B*, p 26.

²⁸ Hunter's Hill Council, *Application Part B*, p 26.

²⁹ Hunter's Hill Council, *Application Part A*, Worksheet 1.

³⁰ Hunter's Hill Council, *Application Part A*, Worksheet 5a; and Hunter's Hill Council, *Application Part B*, p 28.

³¹ IPART, *Hunter's Hill Council's application for a special variation 2012/13 – Determination*, June 2012, p 3.

³² IPART, *Hunter's Hill Council application for a special variation for 2013/14 – Determination*, June 2013, p 2.

³³ For example see: Hunter's Hill Council, *Annual Report 2015-2016*, pp 18-19; Hunter's Hill Council, *Annual Report 2016-2017*, p 20; and Hunter's Hill Council, *Annual Report 2017-2018*, pp 43-44.

2.1 Purpose

The purpose of the proposed SV is for the Council to fund ongoing operations such as infrastructure maintenance and renewals as it seeks to continue its community facilities asset renewal program that was funded by an SV which expired on 30 June 2017.³⁴ It also proposes that the proposed SV will enhance financial sustainability by addressing the lost revenue from that expired SV as well as providing ongoing operational funding.³⁵

2.2 Need

Through the Integrated Planning and Reporting (IP&R) process, a number of priorities were identified by the Council. These include the maintenance of community assets and for the Council to continue to deliver high levels of service.³⁶ The Council noted that its key assets would deteriorate overtime to a level that would result in operational inefficiencies and increased maintenance expenditure. It concluded that insufficient funds would lead to lower levels of service and a backlog of work to maintain and improve community assets.³⁷

The Council also identified that an SV was required to continue to achieve the financial benchmarks of the Fit for the Future reforms and to fund its ongoing operations such as infrastructure maintenance and renewal.³⁸

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of \$6.8 million above what the assumed rate peg would deliver over 10 years. This represents 6.9% of the Council's total cumulative PGI over the 10-year period (see Table 2.1).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 7.7% higher in 2028-29 than if the Council increased rates by the rate peg alone.

Table 2.1 Permissible general income (PGI) of Hunter's Hill 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 percentage of total PGI
6.8	98.8	6.9%

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

Source: Hunter's Hill Council, *Application Part A*, Worksheets 1 and 4; and IPART calculations.

The Council will recover this by increasing the average rate for all rating categories.³⁹ The Council stated that the rates are affordable as the Council ranks as the 10th most advantaged Local Government Area (LGA) in Australia in the 2016 SEIFA index. It also submitted that few of its responses from its ratepayers indicated difficulty in paying a rate increase.⁴⁰

³⁴ Hunter's Hill Council, *Application Part B*, pp 4, 5 and 12.

³⁵ Hunter's Hill Council, *Application Part B*, pp 12-13.

³⁶ Hunter's Hill Council, *Application Part B*, p 10.

³⁷ Hunter's Hill Council, *Application Part B*, p 11.

³⁸ Hunter's Hill Council, *Application Part B*, pp 4-5.

³⁹ Hunter's Hill Council, *Application Part A*, Worksheet 5a.

⁴⁰ Hunter's Hill Council, *Application Part B*, p 29.

2.4 Resolution by council to apply for a Special Variation

The Council resolved to apply for its proposed SV on 11 February 2019, with five councillors voting for the application and two councillors voting against.⁴¹

⁴¹ Hunter's Hill Council, *Ordinary Meeting No. 4454*, 11 February 2019, p 20, <http://www.huntershill.nsw.gov.au/Files/CouncilMinutes20152019/4454.pdf>, accessed 6 March 2019.

3 Submissions to IPART

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

- ▼ The Council has not proposed any efficiency measures to cut costs or save money for its residents and should further explore cost sharing alternatives with nearby councils.
- ▼ The Council should reconsider an amalgamation with a nearby council.
- ▼ The Council has not appropriately considered the impact of the rate rise on its residents in terms of affordability and capacity to pay.
- ▼ The Council's consultation materials were misleading and skewed towards obtaining an SV.
- ▼ The Council's community engagement was rushed.
- ▼ The Council's phone survey did not contact a representative sample of its ratepayers.

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

Three key themes arising from the submissions were concerns surrounding the Council's financial efficiency, the impact on its ratepayers and the Council's consultation with the community. These are addressed in turn below.

The submissions raised concerns that that the Council has not considered efficiencies from cost cutting and sharing costs with nearby councils. We examined the Council's productivity improvements and cost containment strategies and note the Council explained and quantified its past and future efficiency measures (see Section 4.5).

The submissions also suggested that the Council's proposed rate increase would be unaffordable, particularly for pensioners and those on fixed incomes. We examined the impact on ratepayers (see Section 4.3). We found that the Council's average residential rates would be 46% higher and its average business rates would be 68% lower than the estimated 2019-20 average rates of its OLG Group by rating category, respectively. We also considered the community has the capacity to pay given its SEIFA ranking indicates a relatively high level of advantage.

The submissions also criticised the Council's consultation with the community, suggesting that the Council's consultation was rushed, largely misleading and wasteful. We examined the timeliness and clarity of the Council's consultation materials and found that its consultation period provided sufficient opportunity for its ratepayers to be informed and engaged on the proposed SV, and its materials were clear in the presentation of the proposed SV (see Section 4.2).

4 IPART's assessment

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

The five criteria in the OLG Guidelines are:

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

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

Our Assessment

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how some of the criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances.

The Council's forecast shows that there is a financial need to increase its recurrent revenue above the rate peg to be financially sustainable. It's OPR over five years with the proposed SV averages -1.2%, reaching -3.6% by 2028-29. This does not meet the OLG benchmark of greater than or equal to 0%. Without the proposed SV and assuming its proceeds with the expenditure included in its application (Baseline with SV expenditure Scenario), its five year OPR further deteriorates and averages -5.1%. Therefore, we consider the Council has financial need for the proposed SV.

The Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council's consultation materials consistently acknowledged that it had considered its existing levy and special rates in applying for the proposed SV, and the Council appropriately communicated the extent of its 2019-20 proposed rate increases. It also used a variety of engagement methods to engage with its community.

We found the impact on affected ratepayers would be reasonable. We took into account that a portion of its proposed SV replaces an SV the community was already paying, which expired on 30 June 2017; that the council area's SEIFA ranking indicates a relatively high level of

advantage; and the Council's financial need for the proposed SV to increase its infrastructure renewals and address its operating deficits.

Although the Council's IP&R documents were appropriately exhibited, approved and adopted, they contained only brief information relating to the proposed SV. The LTFP did not indicate the financial impact of business as usual, excluding the proposed SV. However, the Council's IP&R documents did communicate the purpose of the proposed SV, what it would fund and the impact of the proposed SV on its ratepayers. Therefore, we consider, on balance, the Council's IP&R documents contained sufficient information relating to the proposed SV.

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 (LTFP) and Asset Management Plan where appropriate.
- ▼ Relevant IP&R documents should canvas alternatives to the rate rise.
- ▼ The Council may include evidence of community need/desire for service levels or projects.

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

- ▼ 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 OPR.

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

$$OPR^{42} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

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.

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).⁴³ 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%.⁴⁴ It is defined as:

$$\text{Infrastructure backlog ratio} = \frac{\text{Estimated cost to bring assets to a satisfactory standard}}{\text{Carrying value of infrastructure assets}^{45}}$$

⁴² Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

⁴³ 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.

⁴⁴ Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

⁴⁵ Historical cost less accumulated depreciation.

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%. It is defined as:

$$\text{Infrastructure renewals ratio} = \frac{\text{Infrastructure asset renewals}^{46}}{\text{Depreciation, amortisation and impairment}}$$

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

The Council's combined Community Strategic Plan, Delivery Program and Operational Plan clearly set out the need for, and purpose of, the proposed SV, which are to improve financial sustainability, fund infrastructure maintenance and renewals and maintain current service levels. It also identified that without the SV, no new facility projects will be delivered and maintenance standards on buildings, parks and reserves will reduce.⁴⁷

The Council's application and IP&R documents also canvassed the alternatives it considered before applying for an SV. The Council indicated that it considered alternatives such as:

- ▼ Reducing operational expenditure – the Council decided not to pursue this option as it concluded this would see service levels drop below community expectations.⁴⁸
- ▼ Determining a charge or fee for discretionary works or services, such as the use of community facilities and access to community services – it concluded these charges are volatile and difficult to predict.⁴⁹
- ▼ Seeking grant funding – it concluded that grants are dependent on becoming available and limited by the purpose of the grant.⁵⁰

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 declining operating results to -3.6% by 2028-29. The cumulative value of the forecast operating deficits (before capital grants and contributions) is \$5.8 million to 2028-29. The proposed SV would allow the Council to fund ongoing operations such as infrastructure maintenance and renewal and address the lost revenue from the SV that expired 30 June 2017.⁵¹

Without the proposed SV and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts a higher level of declining operating performance, as shown in Figure 4.1 and Table 4.1. The cumulative

⁴⁶ 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.

⁴⁷ Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, pp 38-39.

⁴⁸ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁴⁹ Hunter's Hill Council, Long Term Financial Plan 2019/20 – 2028/2029, p 16.

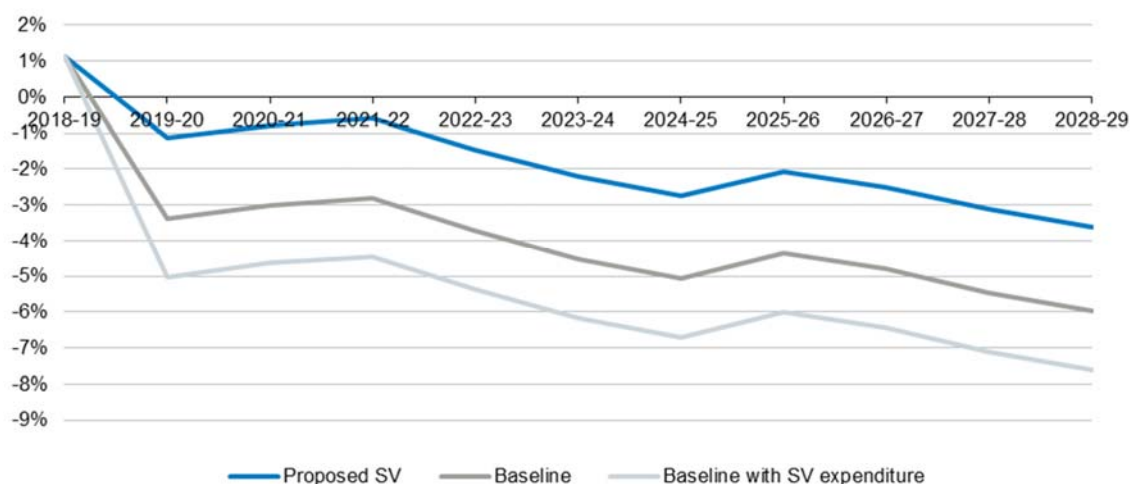
⁵⁰ Hunter's Hill Council, Long Term Financial Plan 2019/20 – 2028/2029, p 18.

⁵¹ Hunter's Hill Council, *Application Part B*, pp 12-13.

value of these forecast operating deficits (before capital grants and contributions) is \$12.7 million to 2028-29 under this scenario.

Without the proposed SV revenue and without the SV expenditure (Baseline Scenario), it also forecasts a declining operating performance over the next 10 years, as shown in Figure 4.1 and Table 4.1 below.

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



Data source: Hunter's Hill Council, *Application Part A*, Worksheet 8; and IPART calculations.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	-1.1	-0.8	-0.6	-1.5	-2.2	-2.8	-2.1	-2.5	-3.1	-3.6
Baseline	-3.4	-3.0	-2.8	-3.7	-4.5	-5.1	-4.4	-4.8	-5.5	-6.0
Baseline with SV expenditure	-5.0	-4.6	-4.4	-5.4	-6.2	-6.7	-6.0	-6.4	-7.1	-7.6

Source: IPART calculations based on Hunter's Hill 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:

- ▼ -1.2% under the Proposed SV Scenario
- ▼ -3.5% under the Baseline Scenario
- ▼ -5.1% under the Baseline with SV expenditure Scenario.

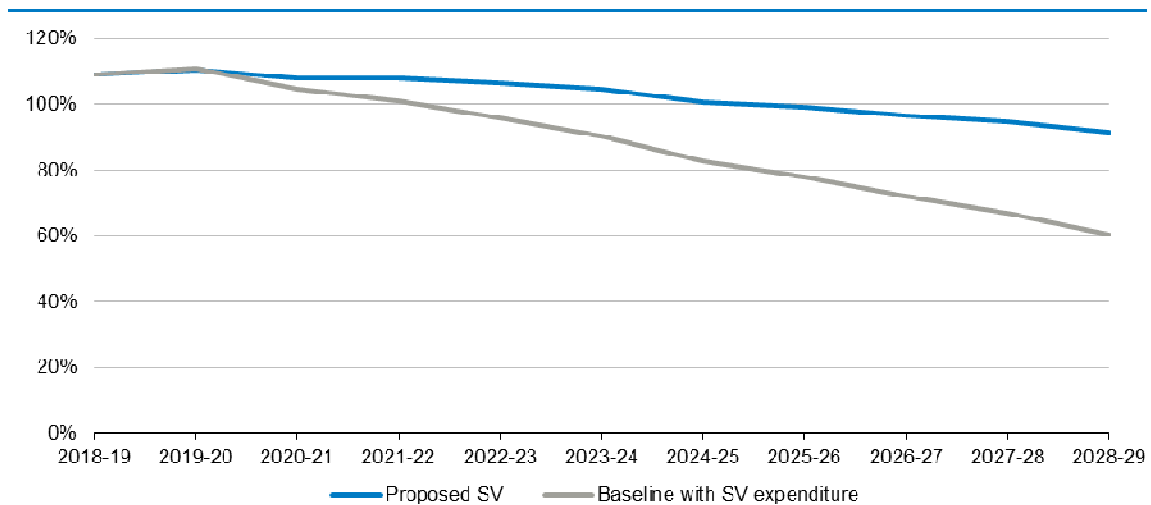
Impact on the Council's net cash (debt)

We calculate the Council's net cash is \$18.1 million or 109.0% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would decrease as the Council maintains its existing levels of service and invests in its capital expenditure.

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 decrease by 2028-29. We forecast under the Baseline with SV expenditure Scenario that if the Council proceeds with the expenditure included in its application (but does not receive the SV revenue), its net cash position would average 100.3% over the next five years, deteriorating to 60.4% by 2028-29. With the proposed SV, its net cash position will average 107.5% over the next five years, deteriorating at a slower rate to 91.5%.

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

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



Data source: Hunter's Hill Council, *Application Part A*, Worksheet 8; and IPART calculations.

Impact on the Council's infrastructure renewals ratio

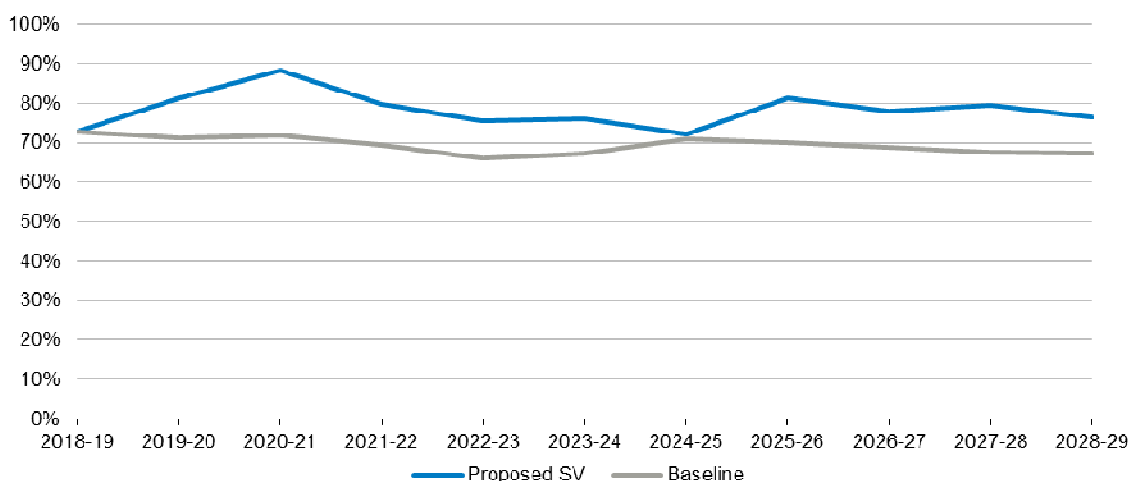
As chapter 2 noted, the Council is planning to spend a substantial component of its additional SV revenue on renewing its assets and community facilities. The Council plans to spend around \$3.6 million or 52.3% of the additional revenue from the proposed SV on renewing assets relating to its community buildings, upgrading its car parks, recreation facilities and walking tracks.⁵²

With the proposed SV, the Council's infrastructure renewals ratio increases to 81.3% in 2019-20, averaging 78.8% over 10 years. Without the proposed SV and without going ahead with the expenditure planned under the Proposed SV Scenario (the Baseline Scenario), the Council is further below the OLG benchmark of greater than 100%, at 71.3% in 2019-20 and averaging 69.1% over 10 years.

The Council's forecast infrastructure renewals ratio is shown in Figure 4.3 and Table 4.2 below.

⁵² Hunter's Hill Council, *Application Part A*, Worksheet 6.

Figure 4.3 Hunter's Hill Council's infrastructure renewals ratio (%) (2018-19 to 2028-29)



Data source: Hunter's Hill Council, *Application Part A*, Worksheet 9.

Table 4.2 Projected infrastructure renewals ratio (%) for Hunter's Hill 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	81.3	88.4	79.7	75.4	76.0	72.2	81.2	77.9	79.4	76.5
Baseline	71.3	71.8	69.3	66.1	67.4	71.1	70.1	68.8	67.7	67.3

Source: Hunter's Hill Council, *Application Part A*, Worksheet 9.

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

- ▼ 80.2% under the Proposed SV Scenario
- ▼ 69.2% under the Baseline Scenario.

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, the submissions mentioned the Council should consider alternative funding methods and reducing its costs.

We note the Council did consider alternative options before applying for the proposed SV. We have also considered the Council's productivity improvements and cost containment strategies in Section 4.5.

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 would average -5.1% over the next five years, and -6.0% 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 increases to -1.2%. We consider that the SV revenue puts the Council on a more sustainable path, given the program of expenditure set out in its application. With the proposed SV revenue, the Council's forecast OPR in 2023-24 is -2.2%. We note that even under the Proposed SV Scenario, the Council does not meet OLGs benchmark of greater than or equal to 0%, which suggests that the Council's operating performance is not excessive given its proposed expenditure program.

We forecast the Council will have a net cash position of \$18.1 million at 30 June 2019, with total cash and investments greater than total debt. On 30 June 2018, the Council held a total of \$20.5 million in cash and investments, with:⁵³

- ▼ \$3.4 million externally restricted
- ▼ \$4.8 million internally restricted
- ▼ \$12.3 million unrestricted.

We note that under the Proposed SV Scenario, the Council's cumulative value of operating deficits is \$5.8 million to 2028-29. Without the proposed SV and assuming the Council's expenditure is the same under the SV scenario (Baseline with SV expenditure Scenario), the cumulative value of its forecast operating deficits is \$12.7 million to 2028-29. Given its forecast operating deficits under both its Proposed SV Scenario and the Baseline with SV expenditure Scenario, a significant balance of the Council's cash and investments would likely be constrained to servicing those deficits. As such, we consider that the net cash position of the Council does not significantly dampen the Council's financial need for the proposed SV.

The Council is applying to renew its community facilities special rate, which expired on 30 June 2017 and provide operational funding for its ongoing expenditure. As such, it intends to maintain the same levels of service with its proposed SV revenue as ratepayers have received over recent years. The Council forecasts that, by 2028-29, its infrastructure renewals ratio is closer to meeting the OLG benchmark (greater than 100%) at 76.5% with the proposed SV compared to 67.3% under the Baseline Scenario (without the proposed SV revenue and without the proposed program of expenditure under the Proposed SV Scenario). This suggests there is a financial need for the proposed SV to allow the Council to deliver the community priorities it identified in its combined Community Strategic Plan, Delivery Program and Operational Plan relating to asset renewal and maintenance.⁵⁴

Taking into account the above factors as well as the Council's assessment of alternatives to the proposed SV, we have assessed that the Council is in financial need for the proposed SV.

4.2 Community engagement and awareness

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

⁵³ Hunter's Hill Council, *Application Part A*, Worksheet 7; and IPART calculations.

⁵⁴ Hunter's Hill Council, *Application Part B*, p 10.

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- ▼ The Council's Delivery Program and LTTP 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 will 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.

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

4.2.1 Assessment of consultation with the community

The Council has published a Community Consultation Strategy.⁵⁵ It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and Content

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

Specifically, the Council:

- ▼ Communicated the need for the proposed SV to meet the community's desire to maintain buildings, parks, reserves and playgrounds.
- ▼ Communicated the impact of the proposed rate increase to ratepayers, including the percentage increase of the proposed SV, across various categories of ratepayers.
- ▼ Communicated that its existing SVs, relating to its road infrastructure special rate, which commenced on 1 July 2012 for 10 years, and its environmental levy and other infrastructure special rate, which commenced on 1 July 2013 for 10 years, would continue to remain in place.
- ▼ Communicated what the proposed SV would fund.

Although not necessary, we note the Council did not communicate the annual impact beyond the first year of the proposed SV in dollar terms nor percentage terms to show the impact of the future expiring SVs.⁵⁶ The Council's materials consistently acknowledged that it had

⁵⁵ Hunter's Hill Council, *Attachment 6 – Communication and Engagement Strategy*.

⁵⁶ Email to IPART, Hunter's Hill Council, 1 March 2019.

considered its existing levy and special rates in applying for the proposed SV. We consider that the Council sufficiently communicated the impact on its ratepayers as the increase it has applied for in its 2019-20 application is an increase above the rate peg in the first year. That is, the Council appropriately communicated the extent of its 2019-20 proposed rate increases.

Clarity

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

Timeliness

The Council carried out community consultation on its SV proposal from 5 November 2018 to 19 December 2018.⁵⁷ This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

Engagement methods used

The Council provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community including:⁵⁸

- ▼ Its website communicating what the additional funding would be used for, the dollar impact of its proposed SV on residential and business ratepayers and its existing SVs in place
- ▼ An online rates calculator estimating the impact of the proposed SV for its residential and business ratepayers available from 5 November 2018
- ▼ Mail-outs to all its ratepayers delivered on 12 November 2018, which included the first year dollar impact of the proposed SV for both its residential and business ratepayers, identified the Council's existing SVs in place and directed its ratepayers to its website
- ▼ Newspaper advertisements and media releases highlighting the exhibition of its IP&R documents and directing the community to its website
- ▼ Social media posts (eg Facebook) directing its community to its website.

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 councils to demonstrate community support for the proposed SV, councils are required to consider the results of their community consultation in preparing their application. The Council's consultation indicated its community prioritised maintaining buildings, parks, reserves, playgrounds and services.⁵⁹

⁵⁷ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁵⁸ Hunter's Hill Council, *Application Part B*, p 21.

⁵⁹ Email to IPART, Hunter's Hill Council, 1 March 2019.

The Council received 65 written submissions in relation to the application of an SV. Of these, 34 submissions opposed the Council applying for any SV.⁶⁰ The main reasons for opposition were:

- ▼ A review of the Council's activities should be performed to identify costs, wastage and efficiencies before considering an SV.
- ▼ Rate increases are unaffordable, particularly for pensioners and those on fixed incomes.
- ▼ The Council should have amalgamated.

The Council has considered its community's feedback by providing the following feedback:⁶¹

- ▼ The Council currently has some level of shared services in place including internal auditing and some waste services, but will continue to review its expenditure.
- ▼ The Council offers a pensioner rebate to eligible pensioners and has a Hardship Policy in place available for residents experiencing payment difficulties.
- ▼ The decision not to amalgamate has been finalised.

The Council also conducted a telephone survey between November 2018 and December 2018⁶² seeking community feedback on three funding options:

- ▼ Option 1 – rate peg only
- ▼ Option 2 – rate peg plus 4.04% 10-year community facilities special rate
- ▼ Option 3 – rate peg plus 4.04% 10-year community facilities special rate, plus 3.00% permanent operational special rate.⁶³

The survey indicated that 71% of those surveyed supported an additional levy to cover the shortfall needed for renewal and maintenance of infrastructure:⁶⁴

- ▼ 29% preferred Option 1
- ▼ 38% preferred Option 2
- ▼ 33% preferred Option 3.⁶⁵

Having considered its community consultation, the Council decided to apply for Option 3.

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to community engagement, some submissions:

⁶⁰ Hunter's Hill Council, *Application Part B*, p 22.

⁶¹ Hunter's Hill Council, *Extraordinary Meeting No. 4453*, 12 December 2019, <http://www.huntershill.nsw.gov.au/Page/Download.aspx?c=4911>, accessed 6 March 2019.

⁶² The Council engaged Illawarra Regional Information Service Limited (IRIS Research) to conduct the survey using telephone interviewing (CATI). Survey responses were received from 405 out of 863 randomly selected individuals contacted by IRIS Research. IRIS Research noted that the sample size provides a maximum error rate of plus or minus 4.9% at a 95% confidence interval. IRIS Research, *Hunter's Hill Special Rates Variation Survey 2018*, p 2.

⁶³ IRIS Research, *Hunter's Hill Special Rates Variation Survey 2018*, p 10.

⁶⁴ IRIS Research, *Hunter's Hill Special Rates Variation Survey 2018*, p ii.

⁶⁵ IRIS Research, *Hunter's Hill Special Rates Variation Survey 2018*, p 11.

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- ▼ Questioned the timeliness of the consultation and stated the materials were misleading and skewed towards obtaining an SV.
 - ▼ Questioned the validity of the phone survey results.

4.2.3 Overall assessment of the Council's consultation with its community

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

4.3 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the SV. Specifically, the Delivery Program and LTFP should:

- ▼ Clearly show the impact of any rate rises upon the community
- ▼ Include the Council's consideration of the community's capacity and willingness to pay rates
- ▼ Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay.

Section 4.4 of this report considers the Council's Delivery Program and 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 proposed SV.

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

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

In its application, the Council indicated it intended to:

- ▼ Renew its previous community facilities special rate, which expired on 30 June 2017 and apply it across all rating categories for 10 years
- ▼ Permanently add an ongoing operational special rate to be applied across all categories based on land values.

The Council has calculated that in 2019-20:

- ▼ The average residential rate will increase by 9.8% or by \$170
- ▼ The average business rate will increase by 12.9% or by \$162.⁶⁶

⁶⁶ Hunter's Hill Council, *Application Part A*, Worksheet 5a.

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

Table 4.3 Indicative annual increases in average rates under Hunter's Hill Council's proposed SV (2018-19 to 2028-29)

Year	Residential			Business		
	Rate (\$)	\$ increase	% increase	Rate (\$)	\$ increase	% increase
2018-19	1,742			1,258		
2019-20	1,912	170	9.8	1,420	162	12.9
2020-21	1,960	48	2.5	1,456	36	2.5
2021-22	2,009	49	2.5	1,492	36	2.5
2022-23	1,881	-128	-6.4	1,388	-105	-7.0
2023-24	1,830	-50	-2.7	1,337	-50	-3.6
2024-25	1,876	46	2.5	1,371	33	2.5
2025-26	1,923	47	2.5	1,405	34	2.5
2026-27	1,971	48	2.5	1,440	35	2.5
2027-28	2,020	49	2.5	1,476	36	2.5
2028-29	2,071	51	2.5	1,513	37	2.5
Cumulative increase		329	18.9		255	20.3

Note: 2018-19 is included for comparison. The average rate is calculated by Hunter's Hill Council, and includes the ordinary rate and any special rates applying to the rating category. The above information is correct at the time of the Council's application (February 2019). At the time of its application the Council also calculated its future average residential rate and average business rate will fall in year 2022-23 and again in year 2023-24, due to the expiry of two existing SVs. Average rates in future years cannot be determined with precision, as they will be influenced by several factors in addition to the rate peg including any further approved SVs.

Source: Hunter's Hill, *Application Part A*, Worksheet 5a and IPART calculations.

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

The Council has considered the impact on ratepayers in its application. It examined socio-economic indicators such as SEIFA and household incomes to assess the impact on ratepayers. It concluded its ratepayers have the capacity to pay the rate levels proposed by the SV as:⁶⁷

- ▼ The Council ranks as the 10th most advantaged LGA in Australia in the 2016 SEIFA index.
- ▼ Households with incomes less than \$33,000 per annum account for 15% of Hunter's Hill households compared to 20% of households in New South Wales.
- ▼ Households with incomes greater than \$156,000 per annum account for 45% of Hunter's Hill households compared to 19% of households in New South Wales.

The Council also submitted that only a few responses received from its ratepayers indicated difficulty in paying a rate increase.⁶⁸ Further, as Section 4.2.2 outlined, the Council's survey

⁶⁷ Hunter's Hill Council, *Application Part B*, pp 28- 29.

⁶⁸ Hunter's Hill Council, *Application Part B*, p 29.

results indicated that 71% of residents supported an additional levy to cover the shortfall needed for renewal and maintenance of infrastructure.⁶⁹

The Council submitted that it also has a hardship policy. The policy allows ratepayers experiencing financial difficulties to apply for and make arrangements with the Council to pay outstanding rates and annual charges by regular payments.⁷⁰ The Council also noted it offers a pensioner rebate for eligible pensioners.⁷¹

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.

From 2007-08 to 2018-19, the Council has applied for and been granted three SVs in:

- ▼ 2007-08, a 10-year temporary increase of 4.1% above the rate peg to fund infrastructure works and asset maintenance of community facilities (the SV that expired on 30 June 2017, which the Council proposes to replace in this year's application)
- ▼ 2012-13, a 10-year temporary increase of 6.80% above the rate peg for a roads infrastructure levy and a special rate to address operational funding gaps
- ▼ 2013-14, a 10-year temporary increase of 5.27% above the rate peg for special rates for environmental improvements and road-related infrastructure, and an additional 2.00% permanent increase.

We found that since 2008-09, the average annual growth in residential and business rates were 3.8% and 2.7%, 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 LGA with those of OLG Group 2 and neighbouring councils as shown in Table 4.4.

⁶⁹ IRIS Research, *Hunter's Hill Special Rates Variation Survey 2018*, p ii.

⁷⁰ Hunter's Hill Council, *Application Part B*, p 30; and Hunter's Hill Council, *Hardship Policy*, p 1.

⁷¹ Hunter's Hill Council, *Application Part B*, p 30.

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

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$)	Median annual household income (\$) ^b	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Lane Cove (2)	1,187	4,579	123,552	1.0	1.9	126
Ryde (3)	741	13,273	92,872	0.8	3.6	115
Canada Bay (3)	882	2,855	107,172	0.8	1.3	119
Willoughby (3)	986	6,578	118,092	0.8	1.4	123
Hunter's Hill (2)	1,743	1,117	128,284	1.4	3.0	125
Group 2 average	1,226	4,163	116,151	1.1	3.0	-

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

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

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

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

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

- ▼ Average residential rates of \$1,743 were 42% higher than the average for Group 2 councils and 95% higher than the weighted average of its neighbouring councils
- ▼ Average business rates of \$1,117 were 73% lower than the average for Group 2 councils and 84% lower than the weighted average of its neighbouring councils
- ▼ Median household income of \$128,284 was 10% higher than the average for Group 2 Councils and highest amongst its neighbouring councils
- ▼ Average rates to income ratio was higher than the average for Group 2 councils and the highest amongst its neighbouring councils
- ▼ Outstanding rates ratio was similar to the average for Group 2 councils and higher than most of its neighbouring councils
- ▼ SEIFA ranking indicates its LGA is relatively advantaged compared to its neighbouring councils.

We also compared the Council's average rate levels with the proposed SV to its OLG Group average⁷² rate levels and found that the Council's:

- ▼ Average residential rate in 2019-20 of \$1,912 would be \$605 (46.3%) higher than the estimated average residential rate of \$1,307 for OLG Group 2
- ▼ Average business rate in 2019-20 of \$1,420 would be \$3,018 (68.0%) lower than the estimated average business rate of 4,439 for OLG Group 2.

⁷² Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 2 average rate levels by the rate peg each year from 2017-18 to 2019-20 to allow for comparison of the Council's proposed average rate levels with the SV over the proposed SV period. We note that Burwood has also proposed to increase its rates in 2019-20.

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to impacts on ratepayers, the submissions mentioned that the Council has not considered the affordability of its proposed rate increases on its ratepayers.

4.3.3 Overall assessment of the impact on affected ratepayers

We found that the impact on affected ratepayers would be reasonable, given:

- ▼ The Council's financial sustainability and need for operational funding to increase its infrastructure renewals and address its operating deficits
- ▼ A portion of the proposed SV replaces an SV that expired on 30 June 2017, which means the community was already paying a portion of the proposed SV⁷³
- ▼ The community's capacity to pay, given its SEIFA ranking indicates a relatively high level of advantage compared to its neighbouring councils.

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 also expect 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.

⁷³ The Council was not permitted to seek an extension of the expired SV in 2018-19 as it was subject to a merger proposal at the time.

4.4.1 Assessment of 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 combined Community Strategic Plan, Delivery Program and Operational Plan and LTFP. The Council's LTFP also canvassed alternatives to the rate rise, such as reducing operational expenditure and seeking grant funding, as discussed in Section 4.1.1.

The LTFP indicated the financial impact of the Proposed SV Scenario, reflecting the additional revenues and expenditures expected with the proposed SV in place. However, it did not indicate the financial impact of the Baseline Scenario, reflecting the business as usual model excluding the proposed SV.⁷⁴ The Council's LTFP did not identify nor forecast which services the Council would reduce under the Baseline Scenario.⁷⁵ However, we note that the Council's combined Community Strategic Plan, Delivery Program and Operational Plan identified that without the proposed SV, no new facility projects would be delivered and maintenance standards on buildings, parks and reserves would reduce.⁷⁶

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

The Council's combined Community Strategic Plan, Delivery Program and Operational Plan included the full increase of the proposed SV in percentage terms. It consistently communicated the proposed SV as a combination of a 4.04% 10-year temporary increase, 3.00% permanent increase and the 2.7% rate peg increase.

Its combined Community Strategic Plan, Delivery Program and Operational Plan communicated the total increase in dollar terms for the average residential ratepayer, but not for the average business ratepayer.⁷⁷ The Council estimates approximately 4.5% of its rate assessments are classified as business assessments and indicated that the impact of the proposed SV on its business ratepayers was outlined in its community consultation materials.⁷⁸ We note that although the Council's IP&R documents did not communicate the impact of the proposed SV on its business ratepayers, it did communicate that a portion of the proposed SV was seeking to renew an expired SV,⁷⁹ which all its ratepayers had been paying. The Council also clearly communicated the proposed SV was seeking to add an ongoing additional rate to be retained permanently in the rate base. We consider its IP&R documents sufficiently communicated its proposed SV would be applied across all its ratepayers.

The Council's IP&R documents also did not communicate the annual impact beyond the first year of the proposed SV in dollar terms nor percentage terms to show the impact of the future expiring SVs on the average ratepayer, by rating category.⁸⁰ However, the Council's IP&R documents openly acknowledged that it had considered its existing temporary levy and special rates in applying for the proposed SV. We consider the Council sufficiently

⁷⁴ The Council updated its LTFP reflecting the Baseline Scenario in its application to IPART reflecting its forecast figures arising from the impact of the services it expected to reduce. Email to IPART, Hunter's Hill Council, 1 March 2019

⁷⁵ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁷⁶ Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, p 38.

⁷⁷ Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, pp 38-39; and Email to IPART, Hunter's Hill Council, 1 March 2019.

⁷⁸ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁷⁹ Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, p 37.

⁸⁰ Email to IPART, Hunter's Hill Council, 1 March 2019.

communicated the impact on its ratepayers as the increase it has applied for in its 2019-20 application is an increase above the rate peg in the first year.

The impact of any rate rises upon the community

The Council's combined Community Strategic Plan, Delivery Program and Operational Plan identified that in order to meet the community's priority to maintain buildings, parks and recreation at agreed levels, it would need to apply for an SV.⁸¹ The Council presented Census results such as median household income in its combined Community Strategic Plan, Delivery Program and Operational Plan, but did not explicitly establish how those results indicate that the proposed rate increases are affordable, having regards to the community's capacity to pay.⁸²

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

The Council publicly exhibited its combined Community Strategic Plan, Delivery Program and Operational Plan and LTFP from 12 November 2018 to 12 December 2018.⁸³ The Council placed copies on the Council's website, promoted them in local media and advertised the availability of these documents for public comment. The Council resolved to adopt these documents on 12 December 2018.⁸⁴

4.4.3 Overall assessment of the IP&R documents

The Council's IP&R documents contained brief information on the SV application, and were appropriately exhibited, approved and adopted by the Council. Although the LTFP did not indicate the financial impact of the Baseline Scenario, reflecting the business as usual model excluding the proposed SV, its IP&R documents did communicate the purpose for the proposed SV was to meet community priorities. The Council also communicated what the proposed SV would fund and the impact of the proposed SV on its ratepayers. Therefore, we consider that, on balance, the Council's IP&R documents contained sufficient information relating to the proposed SV.

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.

⁸¹ Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, p 38.

⁸² Hunter's Hill Council, *Hunter's Hill Community Strategic Plan – Your Vision for Our Future 2018-2028*, p 8.

⁸³ Hunter's Hill Council, *Application Part B*, pp 31-32.

⁸⁴ Hunter's Hill Council, *Application Part B*, p 32.

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had implemented several initiatives that have reduced expenditure and/or increased efficiency and saved around \$450,000 over the past five years.⁸⁵ A few examples provided in its application are quantified as follows:⁸⁶

- ▼ \$221,000 in savings from restructuring of its truck fleet
- ▼ \$150,000 in savings from service innovation initiatives, such as replacing 'stop' signs with line markings, cancelling the Bedlam Bay Park maintenance contract and use of electronic business papers
- ▼ \$54,000 in savings from a favourable purchasing contract for street sweeping.

4.5.2 Assessment of strategies in place for future productivity improvements

The Council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes:⁸⁷

- ▼ \$250,000 in additional income in 2019-20 from a new contract for maintenance and advertising rights over council bus shelters, which includes a one-off payment of \$1 million
- ▼ \$31,000 in annual savings from energy efficient lighting
- ▼ \$237,000 in additional average annual income from property
- ▼ To work towards the delivery of a number of shared service opportunities with its neighbouring councils.⁸⁸

Submissions from the community to IPART

IPART received three submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to productivity, the submissions mentioned the Council should have amalgamated, explore cost sharing options with nearby councils, consider efficiency measures to save money and not allow its councillors to receive a pay rise.

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 Hunter's Hill Council, *Application Part B*, p 36.

⁸⁶ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁸⁷ Email to IPART, Hunter's Hill Council, 1 March 2019.

⁸⁸ Hunter's Hill Council, *Application Part B*, p 37.

5 Our Decision

We have approved the proposed SV in full. We have attached conditions to this decision, including that the Council use 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 10-year SV period from \$8.7 million in 2018-19 to \$10.6 million in 2028-29. The approved SV contains a 10-year temporary component for its community facilities special rate. Hence, on 1 July 2029, the Council must reduce its general income to what it would have been without the 4.04% temporary component. After 2028-29, the Council's PGI can increase up to the annual rate peg unless we approve a further SV.⁸⁹

Table 5.1 shows the percentage increase 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.

⁸⁹ 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, adjustments for previous under or over-collection of rates and the expiry of any temporary SVs. The Office of Local Government is responsible for monitoring and ensuring compliance with SV conditions.

Table 5.1 Permissible general income (PGI) of Hunter's Hill Council from 2019-20 to 2028-29 arising from the approved SV

Year	Increase approved ^a (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019					8,659,733
2019-20	9.74	9.74	609,645	847,163 ^b	9,506,896
2020-21	2.50	12.48	624,886	237,672	9,744,568
2021-22	2.50	15.30	640,508	243,614	9,988,182
2022-23	2.50	18.18	656,521	-375,335 ^c	9,612,847
2023-24	2.50	21.13	672,934	-223,870 ^d	9,388,977
2024-25	2.50	24.16	689,758	234,724	9,623,702
2025-26	2.50	27.26	707,001	240,593	9,864,294
2026-27	2.50	30.45	724,677	246,607	10,110,902
2027-28	2.50	33.71	742,793	252,773	10,363,674
2028-29	2.50	37.05	761,363	259,092	10,622,766
Total cumulative increase approved				1,963,033	
Total above rate peg			6,830,088		

a The annual increases include the known rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years.

b Includes adjustment of a prior catch-up of \$3,705 ($\$8,659,733 \times 0.0974 + \$3,705 = \$849,163$) that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2019-20.

c Includes an adjustment estimated by OLG of -609,795 for an SV that expires on 30 June 2022.

d Includes an adjustment estimated by OLG of -452,869 for an SV that expires on 30 June 2023.

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

Source: Hunter's Hill Council, *Application Part A*, Worksheets 1 and 4; and IPART calculations.

The Council estimates that over the 10 years to 2028-29, it will collect an additional \$6.8 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 fund operating and capital expenditure for its key assets – buildings, parks, reserves and playgrounds, and to maintain its services and improve its financial sustainability.⁹⁰

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 its rates as it has indicated in its application, then the impact on ratepayers will be as shown in Table 4.3. The average residential rate will increase by \$170 (9.8%) and the average business rate will increase by \$162 (12.9%) in the first year of the approved SV period. The average residential rate will increase by \$329 (18.9%) and the average business rate will increase by \$255 (20.3%) by the end of the 10 years.

⁹⁰ Hunter's Hill Council, *Application Part A*, Worksheet 6; and Hunter's Hill Council, *Application Part B*, pp 4-5.

The average rates at the end of 10 years are also affected by two expiring temporary SVs that cease in 2022-23 and 2023-24.

Our decision would allow an increase **above the rate peg** for the average residential rate of \$127 (7.1%) and the average business rate of \$136 (10.6%) in 2019-20. This also represents an increase above the rate peg for the average residential rate of \$157 (8.2%) and the average business rate of \$165 (12.3%) at the end of 10 years in 2028-29.

As the approved SV contains a 10-year temporary component of 4.04%, there will be a downward effect on average rates due to the PGI being reduced on 1 July 2029.



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>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.</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. 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>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.</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 Plan 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>

Assessment criteria

Additional matters

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

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

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

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

The Council will use the additional SV revenue above the rate peg of \$6.8 million over 10 years to fund:⁹¹

- ▼ \$2.9 million in operating expenditure to maintain current service levels
- ▼ \$3.9 million in capital expenditure for renewals of its community buildings, public toilets and parks and reserves assets.

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.

⁹¹ Hunter's Hill Council, *Application Part A*, Worksheet 6.

Table B.1 Hunter's Hill Council – Revenue and proposed expenditure over 10 years related to the proposed SV (\$000)
(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	Total
SV revenue above assumed rate peg	610	625	641	657	673	690	707	725	743	761	6,830
Funding for operating expenditures to maintain current service levels	260	266	273	280	287	294	301	309	316	324	2,910
Funding for capital expenditure	385	440	358	435	385	395	330	350	355	390	3,823
Total expenditure	645	706	631	715	672	689	631	659	671	714	6,733

Note: Numbers may not add due to rounding. The total expenditure has been forecast to be slightly lower than the SV revenue raised from the proposed SV. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure

Source: Hunter's Hill Council, *Application Part A*, Worksheet 6.

Table B.2 Hunter's Hill Council – Proposed 10-year capital expenditure program related to the proposed SV (\$000) (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	Total
Renewals											
Buildings	235	35	223	210	190	80	100	220	20	310	1,623
Public Toilets	0	80	0	0	45	200	0	0	0	0	325
Parks and reserves	150	275	135	25	150	115	230	130	335	80	1,625
Total Asset Renewal	385	390	358	235	385	395	330	350	355	390	3,573
New assets											
Public toilets	0	0	0	180	0	0	0	0	0	0	180
Fitness equipment	0	50	0	20	0	0	0	0	0	0	70
Total New Assets	0	50	0	200	0	0	0	0	0	0	250
Total Capital Expenditure	385	440	358	435	385	395	330	350	355	390	3,823

Note: Numbers may not add due to rounding.

Source: Hunter's Hill Council, *Application Part A*, Worksheet 6.

C Hunter's Hill Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report annually from 2019-20 up to and including 2029-30 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 Hunter's Hill Council with the proposed SV (\$000) (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
Total revenue	16,880	17,343	17,665	18,058	18,450	18,984	19,478	20,033	20,399	20,906
Total expenses	16,857	17,333	17,620	18,186	18,665	19,306	19,699	20,300	20,842	21,463
Operating result from continuing operations	23	9	44	-128	-215	-323	-221	-267	-444	-557
Net operating result before capital grants and contributions	-315	-336	-310	-490	-585	-701	-609	-664	-851	-974

Note: Numbers may not add due to rounding.

Source: Hunter's Hill 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 Hunter's Hill Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	59	59	57	57	-1.1
Ratio of population to FTE	241	244	257	257	2.1
Average cost per FTE (\$)	-	-	-	90,877	-
Employee costs as % operating expenditure (General Fund only) (%)	-	-	-	51.4	-

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 Hunter's Hill Council (2016-17)

	Hunter's Hill Council	OLG Group 2 average	NSW average
General profile			
Area (km ²)	6	-	-
Population (2016)	14,638	-	-
General Fund operating expenditure (\$m)	10.1	43.3	76.3
General Fund operating revenue per capita (\$)	1,065	-	-
Rates revenue as % General Fund income (%)	71.2	48.3	42.5
Own-source revenue ratio (%)	90.7	84.2	66.0
Average rate indicators^a			
Average rate – residential (\$)	1,743	1,226	1,053
Average rate – business (\$)	1,117	4,163	5,738
Average rate – farmland (\$)	-	-	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 (\$) ^b	128,284	116,151	77,272
Average residential rates to median income, 2016 (%)	1.4	1.1	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	125	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	3.0	3.0	3.5
Productivity (labour input) indicators^c			
FTE staff (number)	57	190	356
Ratio of population to FTE	256.8	-	-
Average cost per FTE (\$)	90,877	92,442	91,762
Employee costs as % operating expenditure (General Fund only) (%)	51.4	40.6	38.8

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

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

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

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

E Glossary

ABS	Australian Bureau of Statistics
<i>Ad valorem</i> 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	<i>Local Government Act 1993</i> (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 than 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.