



Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Muswellbrook Shire Council 2019-20

Final Report
Local Government

May 2019

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1 Executive summary

Muswellbrook Shire 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. It has applied for a **single-year SV** to:

- ▼ Increase its general income by **15.13%** in 2019-20
- ▼ Retain this increase in its rate base **permanently**.³

The Council intends to use the proposed SV funds to upgrade its Olympic Park Sports Precinct, develop the Regional Entertainment and Conference Centre, maintain existing services, improve stormwater infrastructure, and support the Job Creation program.⁴

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of \$2.2 million (15.1% of total income) over one year (see Table 1.1).⁵ As the proposed SV is permanent this would mean a cumulative increase in its PGI revenue of \$20.0 million above the assumed rate peg over 10 years.

The Council has one current SV, a 14.73%, 1-year temporary SV, expiring 30 June 2019.

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 Muswellbrook Shire 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 such as local roads and drains, maintain service levels at acceptable standards, improve stormwater infrastructure, fund the Job Creation program, and

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 Muswellbrook Shire Council, *Special Variation Application Form Part A 2019-20* (Muswellbrook Shire Council, *Application Part A*), Worksheet 1.

⁴ Muswellbrook Shire Council, *Application Part A*, Worksheet 6 and Muswellbrook Shire Council, *Special Variation Application Form Part B 2019-20* (Muswellbrook Shire Council, *Application Part B*), pp 6-7.

continue development of the Olympic Park Precinct and Regional Entertainment and Conference Centre.

The annual increase includes the rate peg of 2.7% in 2019-20. The cumulative increase that we have approved of 15.13% is 12.43 percentage points more than the rate peg for this year. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Muswellbrook Shire Council

Approved Special Variation: percentage increase to general income

	2019-20
Increase above rate peg – permanent	12.43
Rate peg	2.70
Total increase	15.13

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

We have attached conditions to this decision, including that the Council uses the income raised from the special variation for purposes consistent with those set out in its application.⁶

Conditions attached

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

- ▼ The Council uses the additional income from the special variation for the purposes 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 2021-22 on:
 - The program of expenditure that was actually funded by the additional income
 - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
 - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
 - Expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure
 - The outcomes achieved as a result of the actual program of expenditure.
- ▼ The Council is required to reduce its income for 2019-20 to reflect the expiring special variation amount of \$1,747,229 before increasing its general income for that year.

The Council estimates that in 2019-20, it will collect an additional \$2.2 million in rate revenue compared to a rate increase that is limited to the rate peg (see Table 1.1).⁷

⁶ The Office of Local Government is responsible for monitoring and ensuring compliance with the approved SV and its conditions.

⁷ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance with SV conditions.

Table 1.1 Permissible general income (PGI) of Muswellbrook Shire Council in 2019-20 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019 ^a					14,382,467
2019-20	15.13	15.13	1,787,741	2,176,067	16,558,535
Total cumulative increase approved				2,176,067	
Total above rate peg			1,787,741		

^a Includes adjustment of -\$1,747,229 for an SV that expires on 30 June 2019.

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

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

As the approved SV is permanent, it would mean a cumulative increase in the Council's PGI revenue of \$20.0 million above the assumed rate peg over 10 years. This represents 10.8% of the Council's total cumulative PGI over the 10-year period (see Table 2.1).

1.2 Reasons for our decision

Our decision reflects our finding that 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, given the Council's financial need for additional revenue to fund the proposed projects.

The Council's proposed SV allows it to generate revenue to fund its asset program and associated operational costs. This includes an upgrade to its Olympic Park Sports Precinct, development of the Regional Entertainment and Conference Centre, an improvement to stormwater infrastructure, and its Job Creation program.

The average Operating Performance Ratio (OPR) over five years would remain above the OLG Benchmark of greater than or equal to 0% with the proposed SV, at 1.4%.⁸ Without the proposed SV, the OPR is slightly higher at 1.7% as the costs associated with the developments such as maintenance, depreciation and interest costs are not incurred. The Council held a relatively small amount of unrestricted cash, cash equivalents and investments at around \$0.8 million as at 30 June 2018.

The Council considered alternatives to the rate rise and will be seeking both grants and voluntary planning agreements in addition to the SV revenue, but has ruled out securing a loan.

The Council has largely demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council has clearly communicated the rates increases in percentage terms using a variety of materials and engagement methods. However, the Council did not include the average rate dollar increase for each ratepayer category in its

⁸ Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

consultation materials. We note that the Council did include this in its Delivery Program, which was publicly exhibited. We also note that the Council has made it clear in its consultation material that this application is for a renewal of the temporary 1-year SV, which is due to expire on 30 June 2019. On balance, the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

We found that the impact on affected ratepayers would be reasonable, given that the proposed SV replaces the current expiring SV of 14.7% (which IPART found to be reasonable in 2018-19), its average rates are comparable to neighbouring councils, and the Council’s need for additional funding to implement the proposed projects without risking financial sustainability. We also found that a considerable number of ratepayers were willing to pay for the proposed SV. The Council’s phone survey indicated that 45% of residents supported the proposed SV.

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

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

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

Table 1.2 Assessment of Muswellbrook Shire Council’s proposed SV application

1. Financial Need	
Largely Demonstrated	<p>The Council largely demonstrated the financial need for the proposed SV. Its:</p> <ul style="list-style-type: none"> ▼ OPR (average 2019-2020 to 2023-24) is: <ul style="list-style-type: none"> – 1.4% with the proposed SV – 1.7% without the proposed SV revenue and expenditure (the Baseline Scenario) – -2.7% without the proposed SV revenue but with the proposed SV expenditure (the Baseline with SV expenditure Scenario). ▼ Net cash is \$2.6 million or 6.6% of income in 2018-19, with only \$0.8 million unrestricted cash and investments in 2017-18.
2. Community awareness	
Largely Demonstrated	<p>The Council largely demonstrated that the community is aware of the proposed rate rise. It:</p> <ul style="list-style-type: none"> ▼ Developed a consultation strategy and successfully used a range of effective engagement methods to make the community aware of the need for, and extent of, the proposed rate increase ▼ Provided detailed explanation about the purpose and impact of the proposed SV in cumulative percentage terms and sought feedback. The Council only communicated the dollar increase to average rates in its Delivery Program and not its consultation material. However, we note that with the SV, the actual increase between 2018-19 and 2019-20 would only be an increase of the rate peg, because of the expiring temporary SV. ▼ Sought and satisfactorily considered community feedback on the rate increase.

3. Reasonable Impact on ratepayers

Largely Demonstrated With the proposed SV, the average residential rate would increase by \$21 in 2019-20. Without the proposed SV, it would decrease by \$65 in 2019-20.⁹

The Council examined the impact of the proposed SV on ratepayers and found it would be reasonable. It considered:

- ▼ That it was a continuation of an existing temporary SV, which was due to expire on 30 June 2019.
- ▼ The negligible changes reflected in the number of outstanding rates ratio and hardship policy applicants since the implementation of the temporary SV in 2018-19.
- ▼ The Council's low average residential rates compared to other councils in the region.
- ▼ The levels of socio-economic disadvantage within the Council as indicated by its SEIFA¹⁰ index ranking
- ▼ Its phone survey indicated that 45% of residents supported and 47% opposed the proposed SV. Its online survey indicated that 16% supported and 72% opposed the proposed SV.

IPART considered information on ratepayers from 2016-17 and found:

- ▼ Average residential rates were 9% lower than the average for Group 11 councils and 10% lower than the weighted average of neighbouring councils.¹¹
- ▼ Average business rates were 14% lower than the average for Group 11 councils and 47% lower than the weighted average of neighbouring councils.
- ▼ The Council's SEIFA index ranking (22) was comparatively lower than its neighbouring councils, indicating a higher level of disadvantage.

IPART also considered a comparison of the Council's proposed average rate levels with the proposed SV to the OLG Group 11 average rate levels over the proposed 1-year SV period. We found that in 2019-20 the Council's:

- ▼ Average residential rates would be \$43 (5.0%) lower than the estimated Group 11 average
- ▼ Average business rates would be \$568 (24.4%) higher than the estimated Group 11 average

We found that the impact on affected ratepayers would be reasonable, given that the proposed SV replaces the current expiring SV of 14.7% (which IPART found to be reasonable in 2018-19), its average rates are comparable to neighbouring councils, and the Council's need for additional funding to implement the proposed projects without risking financial sustainability.

4. IP&R documents exhibition

Demonstrated The Council presented the need for, and purpose of, the proposed SV in both the Delivery Program and the Long Term Financial Plan (LTFP). The Council's Delivery Program also canvassed alternatives to the rate rise, such as grants, adjusting fees and charges, and applying for loans.

The Council publicly exhibited its Community Strategic Plan from 22 December 2016 to 24 January 2017 and adopted it on 7 February 2017. The Delivery Program was exhibited from 12 December 2018 to 10 January 2019 and the LTFP from 20 December 2018 to 17 January 2019. The Delivery Program, LTFP, and Asset Management Plan were adopted on 30 January 2019.

⁹ Muswellbrook Shire Council, *Application Part A, Worksheet 5a*.

¹⁰ The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 130 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up SEIFA.

¹¹ Muswellbrook Shire Council is in OLG Group 11, which is classified as Large Rural. The group comprises 19 councils, including Bellingen, Cabonne, Cootamundra-Gundagai, Cowra, Federation, Greater Hume, Gunnedah, Hilltops, Inverell, Leeton, Moree Plains, Murray River, Muswellbrook, Nambucca, Narrabri, Parkes, Snowy Valleys, Upper Hunter, and Yass Valley.

5. Productivity improvements and cost containment

Largely Demonstrated

Over recent years, the Council has realised annual savings through initiatives such as:

- ▼ Introduction of a new Planning and Regulatory Service team, with increased capability, leading to approximately \$300,000 in cost savings.
- ▼ Electronic printing system implementation, leading to approximately \$154,000 in cost saving.
- ▼ Fleet review policy, leading to approximately \$100,000 in cost savings.
- ▼ Reorganisation of works and networks staff to reduce overtime and inefficiencies.

The Council has also planned future efficiency measures over the proposed SV period, such as directing 1% of operating expenditure towards long term sustainable productivity improvements, server upgrades, a new online DA system, and a new ICT Strategy. However, these efficiency measures could not be quantified.

1.3 Structure of this report

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

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

2 Muswellbrook Shire Council's application

The Council has applied for an SV to retain the 12.4% increase to general income above the rate peg in 2018-19 and increase its general income by the rate peg of 2.7% in 2019-20 (cumulative increase of 15.1%). The application is for an increase that remains permanently in the rate base. The Council stated that the proposed rate increase would be applied across all rating categories.

2.1 Purpose

The purpose of the proposed SV is to fund the upgrade of the Olympic Park Sports Precinct, to develop the Regional Entertainment and Conference Centre, to fund ongoing operations such as infrastructure maintenance and renewal, maintain existing services, improve stormwater infrastructure and fund the Job Creation program.¹²

2.2 Need

The Council has identified the Olympic Park Precinct upgrade and Regional Entertainment and Conference Centre development as the reason for the bulk of the proposed SV. Having considered alternative funding measures, it has found that it requires the SV to deliver the proposed projects and remain financially sustainable.¹³

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of \$20.0 million above what the assumed rate peg would deliver over 10 years. This represents 10.8% 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 12.1% higher than if the Council increased rates by the rate peg (see Table 2.1).

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

Cumulative increase in PGI above rate peg (\$m)	Total PGI over 10 years (\$m)	SV revenue as a percentage of total PGI
20.0	185.5	10.8%

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

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

¹² Muswellbrook Shire Council, *Application Part A*, Worksheet 6; and *Application Part B*, pp 6-7.

¹³ Muswellbrook Shire Council, *Application Part B*, pp 6-7 and 28.

In terms of the Council's rates:¹⁴

- ▼ The average residential rate in 2018-19 is \$793. Without the proposed SV, the average residential rate in 2019-20 would decrease to \$728 due to the expiry of the Council's existing SV. With the proposed SV, the average residential rate in 2019-20 would increase to \$815. This means that the additional increase above the rate peg for residential ratepayers in 2019-20 is \$86.
- ▼ The average business rate in 2018-19 is \$2,824. Without the proposed SV, the average business rate in 2019-20 would decrease to \$2,660 due to the expiry of the Council's existing SV. With the proposed SV, the average business rate in 2019-20 would increase to \$2,900. This means that the additional increase above the rate peg for business ratepayers in 2019-20 is \$240.
- ▼ The average farmland rate in 2018-19 is \$3,001. Without the proposed SV, the average farmland rate in 2019-20 would decrease to \$2,817 due to the expiry of the Council's existing SV. With the proposed SV, the average farmland rate in 2019-20 would increase to \$3,082. This means that the additional increase above the rate peg for farmland ratepayers in 2019-20 is \$265.
- ▼ The average mining rate in 2018-19 is \$409,805. Without the proposed SV, the average mining rate in 2019-20 would decrease to \$363,947 due to the expiry of the Council's existing SV. With the proposed SV, the average mining rate in 2019-20 would increase to \$420,869. This means that the additional increase above the rate peg for mining ratepayers in 2019-20 is \$56,922.

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 30 January 2019.¹⁵

¹⁴ IPART calculations based on Muswellbrook Shire Council, *Application Part A, Worksheet 5a*.

¹⁵ Muswellbrook Shire Council, *Resolution to apply for the special variation*, p 2.

3 Submissions to IPART

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

Key issues and views raised were:

- ▼ High rates impacting affordability for ratepayers.
- ▼ The Council's poor financial management and restraint.
- ▼ The previous developments and investments.
- ▼ The proposed development projects.
- ▼ Lack of transparency and consultation in the Council's decisions, finances, and projects.
- ▼ Negative community feedback shown in the surveys about the proposed SV.

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

In particular:

- ▼ Some submissions suggested that the Council has shown a lack of sound financial management in the past, and that it does not need the additional revenue from the proposed SV. We have considered this in our analysis in section 4.1 and found that the Council has largely demonstrated a financial need for the proposed SV revenue.
- ▼ Some submissions suggested that the Council's rates were already high, and the proposed increase would make them unaffordable. We conducted our own analysis on this in section 4.3 and found that they were largely reasonable in comparison to the OLG Group 11 councils and its neighbouring councils.
- ▼ Some submissions suggested that there was negative community feedback to the proposed SV. The Council's willingness to pay survey indicated that the response to the proposed SV was split with 45% of respondents supportive and 47% opposed. We have considered this in our analysis in section 4.2. We note that the Council received 12 written submissions in relation to its proposed SV during its consultation period (see section 4.2.2).

4 IPART's assessment

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

The five criteria in OLG Guidelines are:

- ▼ **Criterion 1 – Financial need:** The need for, and purpose of, a different revenue path for a council's General Fund is clearly articulated and identified in the Council's Integrated Planning and Reporting (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 – 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 its productivity improvements and cost containment strategies.

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

Our Assessment

Our decision reflects our finding that 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, given the Council's financial need for additional revenue to fund the proposed projects.

The Council's forecast shows that there is largely a financial need to increase its recurrent revenue above the rate peg to deliver its proposed projects and be financially sustainable. The average Operating Performance Ratio (OPR) over five years would remain above the OLG Benchmark of greater than or equal to 0% with the proposed SV, but this would not be the case if the Council proceeded with the expenditure in its SV application without the SV revenue.¹⁶

The Council considered alternatives to the rate rise and will be seeking both grants and voluntary planning agreements in addition to the SV revenue, but it has ruled out securing a loan.

The Council has largely demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Council clearly communicated the proposed rate increases

¹⁶ Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

in percentage terms using a variety of materials and engagement methods. It did not include the dollar increase in the average rate for each ratepayer category in its consultation materials, however this was included in its Delivery Program, which was publicly exhibited. The Council's consultation material also made it clear that this application is for a renewal of the temporary 1-year SV which is due to expire on 30 June 2019.

We found that the impact on affected ratepayers would be reasonable, given that the proposed SV replaces the current expiring SV of 14.7% (which IPART found to be reasonable in 2018-19), its average rates are comparable to neighbouring councils, and the Council's need for additional funding to implement the proposed projects without risking financial sustainability. We also found that a considerable number of ratepayers were willing to pay for the proposed SV. The Council's phone survey indicated that 45% of residents supported the proposed SV.

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

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

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

4.1 Financial need for the proposed Special Variation

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

- ▼ The Council sets out the need for, and purpose of, the proposed SV in its IP&R documents, including its Delivery Program, 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:

$$OPR^{17} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

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).¹⁸ 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,

¹⁷ Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

¹⁸ Net debt is the book value of the Council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the Council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net debt is an indicator of the Council's financial performance and sustainability on a cash basis.

where relevant 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%.¹⁹ It is defined as:

$$\text{Infrastructure backlog ratio} = \frac{\text{Estimated cost to bring assets to a satisfactory standard}}{\text{Carrying value of infrastructure assets}}^{20}$$

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%.²¹ It is defined as:

$$\text{Infrastructure renewals ratio} = \frac{\text{Infrastructure asset renewals}}{\text{Depreciation, amortisation and impairment}}^{22}$$

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

The Council’s Delivery Program and LTFP clearly sets out the need for, and purpose of, the proposed SV, which is to:²³

- ▼ Maintain current service and maintenance levels
- ▼ Improve stormwater infrastructure
- ▼ Fund the Job Creation program
- ▼ Upgrade the Olympic Park sports Precinct
- ▼ Develop the Regional Entertainment and Conference Centre.

The Council’s Delivery Program and LTFP also canvassed alternatives to the rate rise:

- ▼ Grants: The Council will seek \$10.5 million in grants towards the combined costs of the proposed projects. These grants require the Council to match half of the cost. The Council notes that as this comprises a large portion (40%) of the total project costs, if the Council is unsuccessful in securing these grants then the projects may be delayed, reduced in size, or cancelled.²⁴
- ▼ Loans: The Council currently has a loan debt of \$6 million, which will be repaid by 2025. The Council forecasts that it will require a further \$11.8 million in loans to complete the proposed projects.²⁵

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

²⁰ Historical cost less accumulated depreciation.

²¹ Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

²² 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.

²³ Muswellbrook Shire Council, *Delivery Program*, p 32.

²⁴ Muswellbrook Shire Council, *Delivery Program*, p 32; and Muswellbrook Shire Council, *Application Part B*, p 24.

²⁵ Muswellbrook Shire Council, *Application Part B*, pp 24-25.

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- ▼ Voluntary Planning Agreements (VPA): The Council will seek \$3.7 million in VPAs towards the proposed projects from major mines within the Council's area. At this stage, the Council is still in discussions, with no firm assurances.²⁶

The Council has also reviewed the option of increasing other rates and charges or introducing new fees, but found that this would not be suitable due to the cost and long-term nature of the proposed projects. Without the proposed SV, the Council's proposed projects may be delayed, reduced in size, or cancelled.²⁷

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

Council's forecast operating result

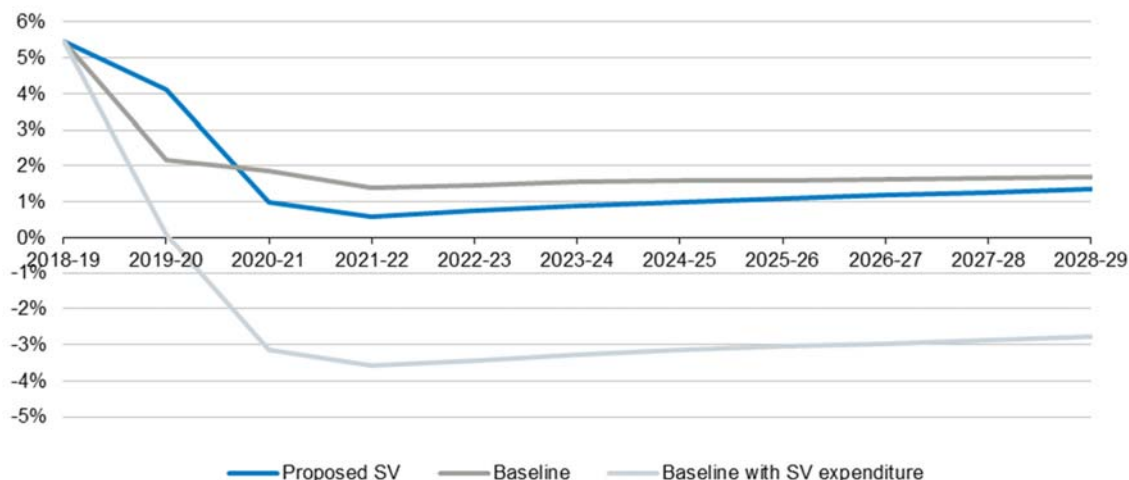
Under the **Proposed SV Scenario**, the Council forecasts operating surpluses falling to 1.3% by 2028-29. The cumulative value of the forecast operating results (before capital grants and contributions) is \$5.8 million to 2028-29. This would allow the Council to fund its proposed projects without becoming financially unsustainable.

Without the proposed SV, and assuming the Council's expenditure is the same as under the proposed SV scenario (the **Baseline with SV expenditure Scenario**), it forecasts lower operating results, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. Under this scenario, the Council forecasts operating surpluses falling to -2.8% by 2028-29. The cumulative value of these forecast operating results is -\$12.2 million to 2028-29 under this scenario.

²⁶ Muswellbrook Shire Council, *Delivery Program*, p 32; and Muswellbrook Shire Council, *Application Part B*, p 25.

²⁷ Muswellbrook Shire Council, *Delivery Program*, p 32 and *Application Part B*, pp 24-25.

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



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

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	4.1	1.0	0.6	0.7	0.9	1.0	1.1	1.2	1.3	1.3
Baseline	2.2	1.9	1.4	1.4	1.5	1.6	1.6	1.6	1.7	1.7
Baseline with SV expenditure	0.1	-3.1	-3.6	-3.4	-3.3	-3.2	-3.1	-3.0	-2.9	-2.8

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

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

- ▼ 1.4% under the Proposed SV Scenario
- ▼ 1.7% under the Baseline Scenario
- ▼ -2.7% under the Baseline with SV expenditure Scenario.

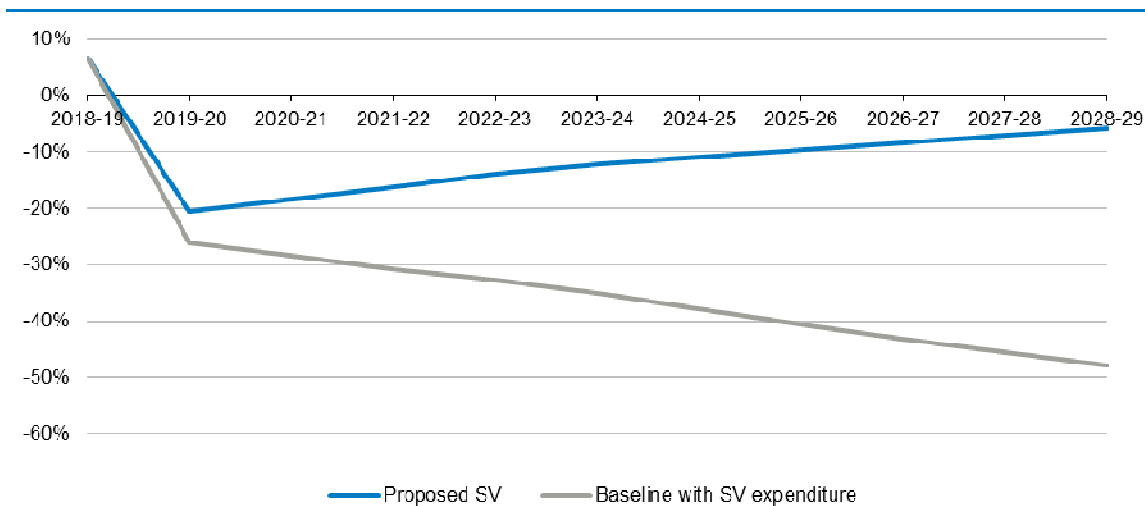
The Council's OPR under the Proposed SV Scenario is slightly lower than under the Baseline Scenario as the Council has indicated it will face higher operational costs such as maintenance, depreciation and interest costs associated with projects funded by the SV funds.

Impact on the Council's net cash (debt)

We calculate the Council's net cash is \$2.6 million or 6.6% of income in 2018-19. Net cash is forecast to decrease from 2018-19 to 2019-20, and then increase with the SV or decrease further under the Baseline with SV expenditure Scenario.

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

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



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

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

- ▼ -16.2% under the Proposed SV Scenario
- ▼ -30.8% under the Baseline with SV expenditure Scenario.

Submissions from the community to IPART

IPART received five submission during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, three of those submissions argued against the Council's financial need and the proposed projects that the SV would fund. Two submissions suggested that the Council has a poor past record of financial management.

4.1.3 Overall assessment of the Council's financial need

The Council's forecasts under the Baseline with SV expenditure Scenario show that if it proceeds with the expenditure included in its application (but without the proposed SV revenue), its OPR would average -2.7% over the next five years, and -2.8% over the 10 years to 2028-29. This suggests that there is largely a financial need for the Council to generate the additional SV revenue to be financially sustainable, if it is to deliver its proposed projects.

Under the Proposed SV Scenario, our analysis shows that the Council's OPR over the next five years falls to 0.9%. We have focused on the next 5 years given the uncertainty around longer term forecasts. We consider that the proposed SV revenue puts the Council on a more financially sustainable path, given the program of expenditure set out in its application.

We forecast that the Council will have a net cash position of \$2.6 million at 30 June 2019, with total cash and investments greater than total debt. On 30 June 2018, the Council held a total of \$53.5 million in cash, cash equivalents and investments, with:²⁸

- ▼ \$33.1 million externally restricted
- ▼ \$19.6 million internally restricted
- ▼ \$0.8 million unrestricted.

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

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 largely in financial need of the proposed SV if it is to deliver its proposed projects.

4.2 Community engagement and awareness

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

- ▼ The Council's Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the proposed SV. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category (see Section 4.4 for this assessment).
- ▼ The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

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

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

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

²⁸ Muswellbrook Shire Council, *Application Part A*, Worksheet 7; and IPART calculations.

4.2.1 Assessment of consultation with the community

The Council has published a Community Engagement Strategy in October 2016.²⁹ It used this to guide and inform the consultation it carried out in relation to the proposed SV.³⁰

Process and Content

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

Specifically, the Council:

- ▼ Clearly communicated the full impact of the proposed rate increase to ratepayers, including the cumulative increase and the rate increase across various categories of ratepayers.
- ▼ Communicated what the proposed SV would fund.
- ▼ Used a variety of engagement methods and materials.
- ▼ Provided opportunity for feedback.

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 October 2018 to November 2018.³¹ 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:³²

- ▼ A mail out to ratepayers on 5 October 2018 that detailed the size of the proposed SV in cumulative percentage terms and the proposed projects it would fund
- ▼ A paid varied panel discussion of 35 community members
- ▼ Traditional media releases and advertisements in the local paper and radio and posts on the Council's E-news site and Facebook page
- ▼ The Council's webpage home page section with details of the proposed SV and how to provide feedback

²⁹ Muswellbrook Shire Council, *Minutes of the Ordinary Meeting of Muswellbrook Shire Council on 11 October 2016*, p 7.

³⁰ Muswellbrook Shire Council, *Application Part B*, p 35.

³¹ Muswellbrook Shire Council, *Attachment 15 – Community Engagement Materials Consultation Report 201920*, pp 3-6.

³² Muswellbrook Shire Council, *2019-20 Special Variation consultation Report*, pp 4-5, 29-45 and 46-51.

- ▼ An independent telephone survey conducted by Jetty Research with 509 respondents
- ▼ An online opt-in survey with 395 respondents.

Using the various community engagement methods, the Council has communicated the full cumulative increase of the proposed SV in percentage terms. However, it only communicated the total increase in dollar terms for the average ratepayer by category in its Delivery Program.

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

4.2.2 Assessment of outcomes of consultation with community

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

The Council received 395 online submissions in relation to its proposed SV, including 72% opposing the application, 16% supporting the application, and the remaining balance being unsure. The main reasons for opposition were:³³

- ▼ The Council cannot be trusted/is wasteful
- ▼ Rates are already too high
- ▼ The residents can't afford the increase.

In 2018 the Council enlisted Jetty Research to run a randomised phone survey of residents. The survey selected 509 residents at random by verifying their landline and mobile numbers from a fixed database. The phone survey found that 45% of residents supported the increase and 47% opposed the increase.³⁴ An opt-in online survey was also carried out with 395 respondents, with 16% supporting the SV and 72% opposed.

The Council has considered its community's feedback and noted that it considered alternative options to the proposed SV. It concluded that without the rate increase, it would not be able to fund the proposed projects, and has decided to proceed with the SV application.³⁵

4.2.3 Submissions from the community to IPART

IPART received five submissions during our consultation period from 11 February 2019 to 14 March 2019. In relation to the Council's consultation on its proposed SV, three of those submissions mentioned issues with Council's communication with ratepayers. The main issues focused on the lack of transparency in relation to the Council's previous expenditure and the lack of support for the proposed development that is to be funded in part by the proposed SV.

³³ Muswellbrook Shire Council, *Attachment 15 – Community Engagement Materials – consultation Report 201920*, p 6.

³⁴ Muswellbrook Shire Council, *Attachment 15 – Community Engagement Materials – consultation Report 201920*, p 5-6.

³⁵ Muswellbrook Shire Council, *Delivery Program*, p 24-25.

4.2.4 Overall assessment of community engagement and awareness

The Council has clearly communicated the rates increases in percentage terms using a variety of materials and engagement methods. However, the Council did not include the average rate dollar increase for each ratepayer category in its consultation materials. We note that the Council did include it in its Delivery Program, which was publicly exhibited. We also note that the Council has made it clear in its consultation material that this application is for a renewal of the temporary 1-year SV which is due to expire in 2018-19.

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

4.3 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers 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 its rates and addressed affordability concerns.

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

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

- ▼ The average residential rate would increase by 2.7% or \$21 in 2019-20.
- ▼ The average business rate would increase by 2.7% or \$76 in 2019-20.
- ▼ The average farmland rate would increase by 2.7% or \$81 in 2019-20.
- ▼ The average mining rate would increase by 2.7% or \$11,065 in 2019-20.

Table 4.2 sets out the Council’s estimates of the expected increase in average rates for each main ratepayer category. These increases, which equate to the rate peg, reflect that the proposed SV is essentially replacing a temporary expiring SV in 2018-19.

Table 4.2 Indicative annual increases in average rates under Muswellbrook Shire Council’s proposed SV (2018-19 to 2019-20)

Ratepayer Category	2018-19	2019-20	Cumulative Increase
Residential rate \$	793	815	
\$ increase		21	21
% increase		2.7	2.7
Business rate \$	2,824	2,900	
\$ increase		76	76
% increase		2.7	2.7
Farmland rate \$	3,001	3,082	
\$ increase		81	81
% increase		2.7	2.7
Mining rate \$	409,805	420,869	
\$ increase		11,065	11,065
% increase		2.7	2.7

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

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

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

In its application, the Council examined socio-economic indicators such as the SEIFA index, residential rates in comparison to neighbouring councils, outstanding rates ratios, the median household wage and the unemployment rate to assess the impact on ratepayers. On the basis of these indicators, the Council found that:³⁶

- ▼ After the implementation of the temporary 12.43% increase above the rate peg in 2018-19:
 - There was a reduction of 3.71% in the percentage of uncollected council rates from 2017-18 to 2018-19.
 - The Council’s residential rates remain among the lowest in the Hunter Region. The Council used Singleton, Upper-Hunter and Cessnock as comparators.
- ▼ From publicly available ABS data:
 - The median annual income for households is \$69,992, with a high wage and salary component.
 - There is significant property income.
 - Indebtedness levels are high.
 - There is reasonable growth in household wealth.
 - The unemployment rate is moderate, with a high labour market participation rate.

³⁶ Muswellbrook Shire Council, *Application Part B*, pp 41-44.

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- 38.9% of dwellings in the local government area are rented, a high proportion of which are social housing. The continuation of the SV will have a negligible impact on the cost of rent.

The Council's current hardship policy and pensioner rebate policy provide assistance by offering:³⁷

- ▼ A cap or stop on interest charges
- ▼ Pensioner rebates
- ▼ Direct debit options
- ▼ The ability to pay in instalments.

The Council notes that it has only two ratepayers currently approved for financial hardship assistance, down from six last year. The Council does not expect that the replacement of the existing temporary SV expiring in 2018-19 will lead to a significant increase in financial hardship applications.

4.3.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the Council's SV history and the average annual growth of rates in various rating categories. We found that since 2007-08:

- ▼ The Council has applied for five, and been granted four SVs, including.
 - 2007-08: 9.44% permanent 1-year increase for infrastructure maintenance and renewal
 - 2011-12: 6.8% permanent 1-year increase for road maintenance
 - 2012-13: 7.6% permanent increase of mining rates category for continued road maintenance
 - 2018-19: 14.7% temporary 1-year increase for the upgrade of the Olympic Park Precinct and development of the Regional Entertainment and Conference Centre.

The average annual growth in residential, business, and farmland rates were 3.1%, 8.3%, and 4.4%, 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 11 and neighbouring councils as shown in Table 4.3.

³⁷ All rates including the rate peg of that year.

Table 4.3 Muswellbrook Shire Council – comparison of rates and socio-economic indicators with neighbouring councils and Group 11 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
Singleton (4)	829	6,713	87,464	0.9%	3.2%	85
Upper-Hunter (11)	739	898	64,584	1.1%	7.5%	67
Mid-Western (4)	832	1,813	58,812	1.4%	3.6%	44
Muswellbrook (11)	735	1,879	69,992	1.0%	15.1%	22
Group 11 Average	804	2,187	60,274	1.3%	5.3%	-

^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 or 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 Data Packs, 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 (\$735) were 9% lower than the average for Group 11 councils and 10% lower than the weighted average of its neighbouring councils.
- ▼ Average business rates (\$1,879) were 14% lower than the average for Group 11 councils and 47% lower than the weighted average of its neighbouring councils.
- ▼ Average rates to income ratio was 0.3 percentage points lower than the average for Group 11 councils and within the range of neighbouring councils.
- ▼ Outstanding rates ratio was 9.8 percentage points higher than the average for Group 11 councils.
- ▼ SEIFA ranking was comparatively lower than the neighbouring councils, indicating a higher level of disadvantage.

We also performed an analysis on the comparison of the Council's average rate levels with the proposed SV to the OLG Group 11 average rate levels over the proposed 1-year SV period and found that the Council's:³⁸

- ▼ Average residential rate (\$815) would be \$43 (5.0%) lower than the estimated 2019-20 average residential rate for Group 11 councils (\$857)
- ▼ Average business rate (\$2,900) would be \$568 (24.4%) higher than the estimated 2019-20 average business rate for Group 11 councils (\$2,332).

³⁸ Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 11 average rate levels by the rate peg each year from 2017-18 to 2019-20 to allow for the comparison of Muswellbrook Shire Council's proposed average rate levels with the SV over the proposed SV period.

4.3.3 Submissions from the community to IPART

IPART received five submissions during the consultation period from 11 February 2019 to 14 March 2019. Two of those submissions were in relation to impacts on ratepayers and financial hardship. In particular, one suggested that the Council's rates were higher than its neighbouring councils, and one raised concerns regarding the future impact on rates of increased borrowings and legal disputes.

4.3.4 Overall assessment of the impact on ratepayers

We found that, on balance, the impact of the proposed SV on affected ratepayers of the Council would be reasonable, given:

- ▼ The proposed SV is the continuation of a temporary SV approved in 2018-19 of the same magnitude.
- ▼ The comparison with similar councils shows that average rates are reasonably similar.
- ▼ There is a reasonable level of community willingness to pay for the SV, as shown by the results from the Council's commissioned survey.
- ▼ The Council's need for additional funding to implement the proposed projects without risking financial sustainability.

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 require that the LTFP be posted on the Council's website.

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

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

4.4.1 Assessment of the content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the need for, and purpose of, the proposed SV in both the Delivery Program and the LTFP. The Council's Delivery Program also canvassed alternatives to the rate rise, such as grants, adjusting fees and charges, and applying for loans. The Council found that the most effective option would be to apply for the proposed SV in conjunction with seeking grants and a VPA. According to the Council, in the absence of the proposed SV, the proposed projects may be delayed, scaled down, or cancelled.³⁹

The LTFP indicates the financial impact of the SV by presenting both a Baseline Scenario⁴⁰ reflecting the business as usual model excluding the proposed SV and a proposed SV Scenario⁴¹ reflecting the additional revenues and expenditures expected with the proposed SV in place.

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

The Delivery Program includes the full cumulative increase of the proposed SV in percentage terms for each ratepayer category and the total increase in dollar terms.⁴²

The impact of any rate rises upon the community

The Delivery Program shows that the Council considered the community's capacity and willingness to pay rates under the proposed SV. Within its IP&R documents, the Council presented information on how the Council has found that the proposed SV would have a reasonable impact on ratepayers. The Council has also outlined the extent of its consultation and feedback process, and its consideration of the community's willingness to pay.⁴³

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

The Council publicly exhibited its Community Strategic Plan from 22 December 2016 to 24 January 2017 and adopted it on 7 February 2017.⁴⁴ The Council publicly exhibited the Delivery Program from 12 December 2018 to 10 January 2019 and its LTFP from 20 December 2018 to 17 January 2019.⁴⁵ The Delivery Program, LTFP, and Asset Management Plan were adopted on 30 January 2019.⁴⁶

³⁹ Muswellbrook Shire Council, *Delivery Program*, p 32; and Muswellbrook Shire Council, *Application Part B*, pp 24-25.

⁴⁰ Muswellbrook Shire Council, *Long Term Financial Plan*, pp 31-34.

⁴¹ Muswellbrook Shire Council, *Long Term Financial Plan*, pp 39-42.

⁴² Muswellbrook Shire Council, *Delivery Program*, p 31.

⁴³ Muswellbrook Shire Council, *Delivery Program*, p 35.

⁴⁴ Muswellbrook Shire Council, *Application Part B*, p 47.

⁴⁵ Muswellbrook Shire Council, *Application Part B*, p 51.

⁴⁶ Muswellbrook Shire Council, *Application Part B*, p 52.

4.4.3 Overall Assessment of the IP&R documents

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

4.5 Productivity improvements and cost containment strategies

The OLG Guidelines require councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period.

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

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. In particular, it submitted that it had introduced:⁴⁷

- ▼ A new Planning and Regulatory Service team with increased capability, leading to approximately \$300,000 in cost savings.
- ▼ A phone audit and rationalisation review, leading to approximately \$20,000 in cost savings.
- ▼ An electronic printing system, leading to approximately \$154,000 in cost savings.
- ▼ A fleet review policy, leading to approximately \$100,000 in cost savings.
- ▼ Training program updates and field equipment upgrades.
- ▼ Reorganisation of works and networks staff to reduce overtime and inefficiencies.
- ▼ Upgraded connection speeds between all satellite offices.

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:⁴⁸

- ▼ Directing 1% of operating expenditure towards long-term sustainable productivity improvement.
- ▼ Planned implementation of a new ICT Strategy including an online DA system and integrated service request system.
- ▼ E-commerce digitalisation of Customer Relations management system.

⁴⁷ Muswellbrook Shire Council, *Application Part B*, p 54; and Email to IPART, Muswellbrook Shire Council, 20 March 2019.

⁴⁸ Muswellbrook Shire Council, *Application Part B*, p 54; and Email to IPART, Muswellbrook Shire Council, 20 March 2019.

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- ▼ Server upgrades.
 - ▼ Extension of fibre optics connections.
 - ▼ Video-conferencing enabled meeting rooms.
 - ▼ Online fleet management.

4.5.3 Overall assessment of productivity improvements and cost containment strategies

We found that the Council has sufficiently implemented, planned for, and quantified its productivity and efficiency initiatives.

The Council has explained its productivity improvements and cost containment strategies. It has also quantified the cost savings that have resulted from the implementation of some of these strategies. It has detailed reasonable future productivity improvements. However, it has not provided estimates of its future cost savings.

5 Our Decision

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

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

5.1 Our decision's impact on the Council

Our decision means that the Council may increase its general income from \$14.4 million in 2018-19 to \$16.6 million in 2019-20. Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the Council's revenue base. After 2019-20, the Council's PGI can increase up to the annual rate peg unless we approve a further SV.⁴⁹

Table 5.1 Permissible general income (PGI) of Muswellbrook Shire Council in 2019-20 arising from the approved SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019					14,382,467
2019-20	15.13	15.13	1,787,741	2,176,067 ^a	16,558,535
Total cumulative increase approved				2,176,067	
Total above rate peg			1,787,741		

^a Includes adjustment of -\$1,747,229 for an SV that expires on 30 June 2019.

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

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

The Council may collect an additional \$1.8 million of rate revenue in 2019-20 compared to a rate increase that is 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 such as local roads and drains, maintain service levels at acceptable standards, improve stormwater infrastructure, fund the Job Creation program, and

⁴⁹ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance with SV conditions.

continue development of the Olympic Park Precinct and Regional Entertainment and Conference Centre.⁵⁰

5.2 Our decision's impact on ratepayers

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

If the Council increases the rates as it has indicated in its application, the impact on ratepayers will be as shown in Table 4.2. Compared to 2018-19 rate levels, the average residential rate will increase by \$21 (2.7%), the average business rate by \$76 (2.7%), the average farmland rate by \$81 (2.7%) and the average mining rate by \$11,065 (2.7%) by the end of the 1-year approved SV period.

Our decision will allow an increase **above the rate peg** for the average residential rate by \$86 (11.8%), the average business rate by \$240 (9.0%), the average farmland rate by \$265 (9.4%) and the average mining rate by \$56,922 (15.6%) by the end of the 1-year approved SV period.⁵¹

⁵⁰ Muswellbrook Shire Council, *Application Part A*, worksheet 6; and Muswellbrook Shire Council, *Application Part B*, pp 6-7.

⁵¹ Muswellbrook Shire Council, *Application Part A*, Worksheet 5a; and IPART calculations.



Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria

Criterion 1 – Financial need

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate.

In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in its Long Term Financial Plan applying the following two scenarios:

- ▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
- ▼ Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish this criterion.

This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

Criterion 2 – Community awareness

Evidence that the community is aware of the need for, and extent of, a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.

The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

Criterion 3 – Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should:

- ▼ clearly show the impact of any rate rises upon the community,
- ▼ include the council's consideration of the community's capacity and willingness to pay rates, and
- ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

Criterion 4 – IP&R documents are exhibited

The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.

Criterion 5 – Productivity improvements and cost containment strategies

The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Additional matters

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

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

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

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

The Council will use the additional SV revenue above the rate peg of \$20.0 million over 10 years to fund:⁵²

- ▼ Improved stormwater infrastructure
- ▼ The Job Creation program
- ▼ Upgrade the Olympic Park Sports Precinct
- ▼ Develop the Regional Entertainment and Conference Centre.

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.

⁵² Muswellbrook Shire Council, *Application Part A*, Worksheet 6 and Muswellbrook Shire Council, *Application Part B 2019-20*, pp 6-7.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	1,788	1,832	1,878	1,925	1,973	2,023	2,073	2,125	2,178	2,233	20,029
Funding for increased operating expenditures	798	2,270	2,297	2,325	2,354	2,383	2,412	2,442	2,472	2,503	22,257
Other uses ^a	990	-438	-419	-400	-380	-360	-339	-317	-294	-271	-2,228
Total expenditure	3,575	3,665	3,756	3,850	3,947	4,045	4,146	4,250	4,356	4,465	40,057

^a Other uses of the income from an SV can include repayment of loan principal amounts.

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

Source: Muswellbrook Shire Council, *Application Part A*, Worksheet 6.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Entertainment Centre (Capital)	7,000	7,000	1,000	-	-	-	-	-	-	-	15,000
Olympic Park (Capital)	4,800	4,800	1,410	-	-	-	-	-	-	-	11,010
Bank Loans	-11,800	-	-	-	-	-	-	-	-	-	-11,800
Other new assets	-	-11,800	-2,410	-	-	-	-	-	-	-	-14,210
Total Asset Upgrades	11,800	11,800	2,410	-	-	-	-	-	-	-	26,010
Total Capital Expenditure	11,800	11,800	2,410	-	-	-	-	-	-	-	26,010

Note: Numbers may not add due to rounding.

Source: Muswellbrook Shire Council, *Application Part A*, Worksheet 6.

C Muswellbrook Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report annually from 2019-20 to 2021-22 against its projected revenue, expenses and operating balance as set out in its LTFF (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 Muswellbrook Shire Council (2019-20 to 2028-29) (\$000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	60,266	45,785	46,619	47,836	49,087	50,371	51,689	53,042	54,430	55,855
Total expenses	38,406	40,546	41,488	42,516	43,562	44,662	45,796	46,959	48,152	49,378
Operating result from continuing operations	21,860	5,239	5,131	5,320	5,525	5,709	5,894	6,083	6,278	6,478
Net operating result before capital grants and contributions	1,640	410	248	315	395	451	504	558	615	673

Note: Numbers may not add due to rounding.

Source: Muswellbrook Shire Council, *Application Part A, Worksheet 8*.

D Comparative indicators

Performance indicators

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

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

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

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	164	158	165	186	4.3
Ratio of population to FTE	100	104	100	89	-4.1
Average cost per FTE (\$)	78,071	81,000	78,036	74,285	-1.6
Employee costs as % operating expenditure (General Fund only) (%)	37.4	35.8	31.4	36.3	-

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 Muswellbrook Shire Council (2016-17)

	Muswellbrook Shire Council	OLG Group 11 average	NSW average
General profile			
Area (km ²)	3,405	-	-
Population (2016)	16,468	-	-
General Fund operating expenditure (\$m)	32.2	31.1	76.3
General Fund operating revenue per capita (\$)	2,457	-	-
Rates revenue as % General Fund income (%)	35.6	30.7	42.5
Own-source revenue ratio (%)	70.6	49.2	66.0
Average rate indicators^a			
Average rate – residential (\$)	735	804	1,053
Average rate – business (\$)	1,879	2,187	5,738
Average rate – farmland (\$)	2,627	3,304	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 (\$) ^b	69,992	60,274	77,272
Average residential rates to median income, 2016 (%)	1.0	1.3	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	22	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	15.1	5.3	3.5
Productivity (labour input) indicators^c			
FTE staff (number)	186	166	356
Ratio of population to FTE	88.5	-	-
Average cost per FTE (\$)	74,285	76,460	91,762
Employee costs as % operating expenditure (General Fund only) (%)	36.3	35.6	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	The Council's infrastructure assets' performance excluding the proposed SV. In this scenario, the Council's general income would increase by the rate peg, and it would not go ahead with the expenditure program included in its SV application.
Baseline with SV expenditure Scenario	Includes the Council's full expenses arising from its proposed SV, and the income received if we were to not approve its application. 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
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 councils' general income for a specified year may be varied as determined by IPART under delegation from the Minister.