Special variation and minimum rate increase

North Sydney Council 2019-20

Final Report
Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

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1 Executive summary

North Sydney Council (the Council) applied to IPART for a special variation (SV)[1] to increase its general income above the rate peg[2] of 2.7% for 2019-20. It **has applied for a 5-year** SV to:

- Increase its general income by 7.0% per annum for each year from 2019-20 to 2023-24, a **cumulative increase of 40.3%**
- Retain this increase in its rate base **permanently**.[3]

The Council also applied to increase the minimum amount of its ordinary rates[4] by 7.0% per annum for five years from 2019-20 to 2023-24.[5]

The Council intends to use the proposed SV funds to enhance its financial sustainability, maintain and renew infrastructure, reduce its infrastructure backlog, invest in new infrastructure and maintain existing services.[6] The Council proposes that the majority of the funds are spent on renewals for its roads, footpaths, stormwater drainage and seawalls.[7]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $34.3 million (12.3% of total income) over the five years of the proposed SV (see Table 2.2). As the proposed SV is permanent, it would mean a cumulative increase in its PGI revenue of $100.0 million above the assumed rate peg over 10 years (see Table 2.1).

IPART has assessed the Council's application against the criteria in the Office of Local Government's *Guidelines for the preparation of an application for a special variation to general income* (the OLG Guidelines) and *Guidelines for the preparation of an application to increase minimum rates above the statutory limit* (the OLG Minimum Rate Guidelines).

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

1 In this context, the term 'special variation' refers to an instrument in writing given to the council by IPART (under delegation from the Minister) under s 508A of the Local Government Act 1993 (NSW).

2 The term 'rate peg' refers to the annual order published by IPART (under delegation from the Minister) in the gazette under s 506 of the Local Government Act 1993 (NSW).

3 North Sydney Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.

4 In this context, the term 'minimum amount' refers to an instrument in writing given to the council by IPART (under delegation from the Minister) under s 548(3) of the Local Government Act 1993 (NSW).

5 North Sydney Council, *Application Part A*, Worksheet 5a.

6 North Sydney Council, *Special Variation Application Form Part B 2019-20* (*Application Part B)*, p 7.

7 Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A*, Updated Worksheet 6.

1.1 We have partially approved North Sydney Council's application for a Special Variation and Minimum Rate Increase

We decided to partially approve the proposed SV, for a **3-year** period only. From 2019-20 to 2021-22 the Council may permanently increase its general income by 7.0% per annum, a cumulative increase of **22.5%**.[8]

We decided to approve an increase of 7.0% per annum for three years to the ordinary minimum rate, from $526 in 2018-19 to $563 in 2019-20, $602 in 2020-21 and $644 in 2021-22. From 2022-23, the Council may increase its ordinary minimum rate by the rate peg or percentage allowed by a future SV.

Our decision means that the Council may increase its general income between 2019-20 and 2021-22 by the annual percentages outlined in Box 1.1. It reflects our assessment that the Council has only partly demonstrated a financial need for the proposed SV to enhance its financial sustainability and address its infrastructure backlog.

The partial approval will allow the Council to fund operating and capital expenditure for its infrastructure assets including footpaths, roads, seawalls and drainage to address deteriorating asset conditions, invest in public open space and recreation areas, enhance its financial sustainability, and reduce its infrastructure backlog.[9]

Over the 10 years from 2019-20 to 2028-29, we estimate the Council's cumulative increase in its PGI revenue would be $64.1 million (see Table 1.2) above the rate peg under its approved SV, compared to $100.0 million (see Table 2.1) under its proposed SV application. Therefore, our decision allows the Council to continue to improve its financial sustainability and also address its infrastructure backlog to meet the OLG benchmark of less than 2%.[10] If it chooses, the Council may apply for a variation to this SV in the next three years or another SV after three years.

Our decision to approve the proposed increases in minimum rates for the next three years means the Council may set the minimum amount of its ordinary rates for 2019-20, 2020-21 and 2021-22 as shown in Box 1.2.

The annual SV increases include the known rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years. The cumulative percentage increase that we have approved of 22.5% is 14.6 percentage points more than the assumed cumulative rate peg increase for these years. This increase may be retained in the Council's general income base **permanently**.

8 IPART calculations based on North Sydney Council, *Application Part A*, Worksheet 1.
9 North Sydney Council, *Application Part B*, pp 7-8.
10 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.

Box 1.1 IPART Decision – North Sydney Council

Approved Special Variation: percentage increase to general income

	2019-20	2020-21	2021-22
Increase above rate peg – permanent	4.3	4.5	4.5
Rate peg[11]	2.7	2.5	2.5
Total increase[12]	**7.0**	**7.0**	**7.0**

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

We have attached conditions to this decision, including that the Council uses the income raised from the special variation for purposes consistent with those set out in its application.[13]

Conditions attached

IPART's approval of the Council's application for a special variation over the period 2019-20 to 2021-22 is subject to the following conditions:

- The Council uses the additional income from the special variation for the purposes of improving financial sustainability and as outlined in the Council's application and listed in Appendix B.
- The Council reports in its annual report for each year from 2019-20 to 2022-23 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, and
  - All minimum rates that applied.

Box 1.2 IPART Decision – North Sydney Council

Approved Minimum Rate ($)

	2019-20	2020-21	2021-22
Residential	563	602	644
Business	563	602	644

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

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

13 The Office of Local Government is responsible for monitoring and ensuring compliance with this special variation and its conditions.

We estimate that over the three years to 2021-22, the Council will collect an additional $12.8 million of rate revenue compared to rate increases that are limited to the known rate peg in 2019-20 and assumed rate peg for future years (see Table 1.1).[14]

Table 1.1 Permissible general income (PGI) of North Sydney Council from 2019-20 to 2021-22 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					45,554,825
2019-20	7.0	7.0	1,958,857	2,941,697[a]	48,496,522
2020-21	7.0	14.5	4,190,172	6,336,453	51,891.279
2021-22	7.0	22.5	6,630,034	9,968,843	55,523.668
Total cumulative increase approved				19,246,993	
Total above rate peg			**12,779,063**		

[a] Includes adjustment of a prior catch-up of -$247,141 ($45,554,825 x 0.07 – $247,141 = $2,941,697) that had not been recouped by the time the application was submitted to IPART and is to be recouped in 2019-20.

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

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

Table 1.2 Permissible general income (PGI) of North Sydney Council from 2019-20 under the approved SV

Cumulative increase in PGI above rate peg over 10 years ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total income over 10 years
64.1	585.4	10.9%

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

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

As the approved SV is permanent, it would mean an increase in the Council's PGI revenue of $64.1 million above the rate peg over 10 years. This represents 10.9% of the Council's total cumulative PGI over the 10-year period (see Table 1.2). Assuming a rate peg increase of 2.5% per annum from 2020-21 to 2028-29, the approved SV would result in a PGI that is 13.6% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

1.2 Reasons for our decision

Special variation

Our decision reflects our finding that, on balance, the Council's application partially meets the criteria in the OLG Guidelines. We have identified some shortcomings in how some of the criteria have been addressed, as such, we consider that **partial approval** of the Council's application is reasonable in the circumstances. The partial approval reflects our assessment

14 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.

that the Council has only partly demonstrated a financial need for the proposed SV, given the improvement in the Council's forecast Operating Performance Ratio (OPR) by 2021-22 and that it meets the OLG infrastructure backlog ratio benchmark within the same timeframe.

With the proposed SV, the Council's forecast OPR is 7.4% by the end of the proposed SV period, reaching 5.3% by 2028-29. Without the proposed SV revenue and assuming the SV expenditure goes ahead (Baseline with SV expenditure Scenario), the Council's forecast OPR by 2023-24 is -1.5% and continues to deteriorate to -3.8% by 2028-29 (see Section 4.1 for further explanation). Therefore, we consider there is a financial need for an SV to prevent the Council's OPR from deteriorating, while allowing it to reduce its infrastructure backlog.

The Council estimates that with the proposed SV expenditure, its backlog ratio will reduce to 0.0% by 2023-24 and 0.4% by 2028-29. Without the proposed SV expenditure (Baseline Scenario), the Council estimates that, at 3.7%, it would not meet the OLG infrastructure backlog ratio benchmark of less than 2% by 2023-24, and that its backlog ratio would grow to 4.6% by 2028-29. However, given the forecast backlog ratio meets the OLG benchmark in 2021-22 and is forecast to be 0.0% in multiple future years under the proposed SV, we consider the proposed 5-year SV goes beyond addressing the financial need of the Council.

The Council's OPR is forecast to reach 5.7% within three years with its proposed SV, and remain relatively high by both the fourth and fifth year of the proposed SV period (at 6.6% and 7.4%, respectively). In addition, with the proposed SV, the Council's forecast backlog ratio meets the OLG benchmark of less than 2% within three years, remaining low and continuing to meet the OLG benchmark by the fourth and fifth year of the proposed SV period (at 0.5% and 0%, respectively). Therefore, taking into consideration these factors, we consider the Council has only partly demonstrated a financial need for its proposed SV to enhance its financial sustainability and reduce its infrastructure backlog. We consider the Council has demonstrated a financial need for the first three years of its proposed SV, given its OPR improves from 3.1% in 2019-20 to 5.7% in 2021-22 and the Council meets the OLG infrastructure backlog ratio benchmark within three years, with its infrastructure backlog ratio falling from 4.1% in 2019-20 to 1.6% in 2021-22.

The Council communicated a lower cumulative percentage increase in its consultation materials than it applied for, for its residential and business ratepayer categories. However, we note its consultation materials correctly communicated the annual dollar increase and full dollar increase across the five years of the proposed SV period. Given this, we consider the Council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayer. We consider the Council has, on balance, demonstrated that its community is aware of the need for, and extent of, the proposed rate increase.

We consider the impact of the proposed SV on ratepayers would be reasonable given the Council's need for the additional funding to address its infrastructure backlog and the community's capacity to pay (its SEIFA[15] ranking indicates a higher level of advantage compared to its surrounding councils). We also found the Council's proposed average rates with the SV would appear to be reasonable compared to the estimated average rate levels for

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

OLG Group 3[16] councils over the proposed SV period. We note the average rate calculated includes the ordinary rate, minimum rate, and any special rates applying to each rating category.

The Council's Delivery Program communicated a slightly lower cumulative percentage increase for the proposed SV over the five years and did not communicate the annual dollar impact of the proposed SV. However, the Delivery Program included the cumulative dollar impact of the proposed SV over the five years for the average residential and average business ratepayer. In addition, its Delivery Program directed ratepayers to an information sheet on its website. Although this information sheet also communicated the incorrect cumulative percentage impact of the proposed SV, it did communicate the full dollar impact of the proposed SV across the five years for the average residential and average business ratepayer.

The Council exhibited its Delivery Program and Resourcing Strategy, incorporating its Long Term Financial Plan (LTFP) from 1 November 2018 to 16 January 2019, and adopted these documents on 29 January 2019. Therefore, we consider, on balance, 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 also outlined and quantified its productivity improvements and cost containment strategies.

Minimum rate

We also found that the Council's application met the requirements for an increase to its minimum rate, as set out in the OLG Minimum Rate Guidelines.

The Council explained the rationale for increasing the minimum rate, which is to ensure equity in sharing the rating burden and to minimise the gap between those on the minimum rate and ad valorem ratepayers.[17] We note that while applying the full SV percentage to the minimum rate minimises the gap into the future, the Council will still have a minimum rate that is in the bottom third when compared with other councils in the Sydney metropolitan area (see Section 4.4).

The Council considered the impact on the community and noted its minimum rate is comparatively lower than its neighbouring councils. It also noted that residents living in houses will effectively bear a greater percentage of the rating burden if the minimum rate is not increased to the full proposed SV percentage, despite all ratepayers having the same access to the Council's services.

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16 North Sydney Council is in OLG Group 3, which is classified as Metropolitan Developed Large/Very Large (population greater than 70,000). The group comprises 18 councils, including Blacktown, Canada Bay, Randwick, Sutherland and Willoughby.

17 Ratepayers who pay a rate based on the value of their land.

The Council communicated it intended to increase its minimum rate through its IP&R documents and community materials. We note the Council did not clearly communicate the annual dollar value nor dollar impact of its proposed minimum rate increase. However, an Information Sheet sent to all ratepayers and its Delivery Program indicated the proposed SV would apply across all ratepayers including those paying the minimum rate. Therefore, we consider the Council sufficiently communicated its minimum rate would increase by 7.0% per year.

Around 73% of North Sydney ratepayers are paying the minimum rate in 2018-19. Although rates would increase proportionately by 7.0% each year, we note that the dollar gap between those paying the minimum rate and those who are not will continue to grow in future years even under the approved SV. To close the gap would require a minimum rate increase application that would increase the minimum rate faster than the ad valorem rates.

Tables 1.3 and 1.4 below provide more detail about our assessment and key considerations in making our decision.

Table 1.3 Assessment of North Sydney Council's proposed SV application

1. Financial Need	
Partly demonstrated	The Council partly demonstrated the financial need for the proposed SV. Its: ▼ OPR (average 2019-20 to 2023-24) with starting point of -1.9% in 2018-19 is:[18] – 5.4% under the Proposed SV Scenario (reaching 7.4% by 2023-24) – 1.3% under the Baseline Scenario (without SV revenue and without SV expenditure) deteriorating to -0.5% by 2023-24 – 0.2% under the Baseline with SV expenditure Scenario (without SV revenue and assuming SV expenditure goes ahead) deteriorating to -1.5% by 2023-24. ▼ Net cash is $32.3 million or 28.8% of income in 2018-19, with $4.5 million in unrestricted cash and investments (as at 30 June 2018). ▼ Infrastructure backlog ratio (OLG benchmark of <2%) is: – 0.0% by 2023-24 and 0.4% by 2028-29 under the Proposed SV Scenario – 3.7% by 2023-24 and 4.6% by 2028-29 under the Baseline Scenario (without SV revenue and without SV expenditure).
2. Community awareness	
Largely demonstrated	The Council largely demonstrated the community is aware of the rate rise. It: ▼ Used a range of engagement methods to make the community aware of the need for, and extent of, the rate increase ▼ Provided detailed explanations about the purpose and impact of the proposed SV and sought feedback ▼ Satisfactorily considered community feedback on the rate increase. Although the Council communicated a lower cumulative percentage increase in its consultation materials, it correctly communicated the annual dollar increase and full dollar increase of the proposed SV across the five years of the proposed SV period. Given this, we consider the Council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayer.

18 North Sydney Council, *Application Part A,* Worksheet 9.

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 average rates across all rating categories are lower than most neighbouring councils and most councils within its OLG Group ▼ Its SEIFA ranking is high within Australia ▼ Its outstanding rates and charges ratio has been consistently below the 5% industry benchmark for the past three years. IPART considered information on ratepayers from 2016-17 and found the Council's: ▼ Average rate levels were lower than its neighbouring councils and OLG group average ▼ 2016 SEIFA ranking (127) was relatively high compared to surrounding councils ▼ Rates to income ratio (0.6%) was lower than neighbouring councils and lower than the OLG Group 3 average (1.0%). IPART also compared the Council's average rate levels with its proposed rate increases against its OLG Group 2016-17 average increased by the rate peg. In 2023-24, the Council's average: ▼ Residential rate ($1,097) would be $86 (7.3%) lower than the estimated average residential rate for Group 3 councils ($1,183) ▼ Business rate ($6,691) would be $838 (11.1%) lower than the estimated average business rate for Group 3 councils (7,529).
4. IP&R documents exhibition	
Largely demonstrated	The Council adopted its Community Strategic Plan in June 2018. It: ▼ Exhibited its Delivery Program and Resourcing Strategy (incorporating its LTFP) from 1 November 2018 to 16 January 2019 ▼ Adopted its Delivery Program and Resourcing Strategy on 29 January 2019. We note the Council's Delivery Program: ▼ Briefly considered alternatives to the rate rise ▼ Communicated a slightly lower cumulative percentage increase for the proposed SV over the 5-year period ▼ Did not communicate the annual impact of the proposed SV in dollar terms for its average ratepayer, by rating category. However, its Delivery Program did: ▼ Include the cumulative dollar impact of the proposed SV over the five years for the average residential and average business ratepayer. ▼ Direct ratepayers to an information sheet on its website, which communicated the full dollar impact of the proposed SV across the five years for the average residential and average business ratepayer. Therefore, we consider the Council's IP&R documents contained sufficient information relating to the proposed SV, and they have been appropriately exhibited and adopted.
5. Productivity improvements and cost containment	
Demonstrated	The Council submitted it has undertaken productivity improvements and initiatives over the past few years. Examples included: ▼ Savings between $300,000 to $445,000 per annum since 2012-13 for its carers program from improved scheduling practices ▼ Savings of $193,000 since 2012-13 by reviewing its organisational structure. It also submitted examples of future initiatives including: ▼ $92,000 in annual savings from renewable energy initiatives ▼ $70,000 in annual savings from reducing costs associated with running kerbside collection services.

Table 1.4 Assessment of North Sydney Council's Minimum Rate application

M1. Rationale	
Demonstrated	The Council clearly demonstrated the rationale for increasing its minimum rate. The purpose of the increase is to: ▼ Ensure equity in sharing the rating burden ▼ Minimise the gap between those on the minimum rate and ad valorem (levied on land value) ratepayers. We note that while applying the full SV percentage to the minimum rate minimises the gap into the future, the Council will still have a minimum rate that is in the bottom third when compared with other councils in the Sydney metropolitan area.
M2. Impact on ratepayers	
Demonstrated	The Council demonstrated the impact on ratepayers: ▼ The current minimum rate ($526) is 26.7% lower than the average minimum residential rate of other councils in the Sydney metropolitan area ($768) and 36.0% lower than the average business rate of other councils in the Sydney metropolitan area ($879) ▼ Maintaining the same percentage increase maintains the relative rating burden across the rate base in the local government area (LGA).
M3. Community awareness	
Largely demonstrated	The Council largely demonstrated the community is aware of the need for, and extent of, the proposed minimum rate increase. We note the Council did not communicate the annual dollar value nor cumulative dollar impact of the proposed minimum rate increase. However, it did communicate: ▼ The proposed SV would be applied to all its ratepayers including those residents and businesses paying the minimum rate ▼ Its proposed 7.0% per annum increase would be applied to the minimum rate Therefore, we consider the Council sufficiently communicated its minimum rate would increase by 7.0% per year.

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 and minimum rate increase
- 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 and the OLG Minimum Rate Guidelines.
- Chapter 5 discusses how our decision will impact the Council and its ratepayers.

2 North Sydney Council's application

The Council has applied for its proposed SV to increase its general income by a cumulative 40.3% over five years from 2019-20 to 2023-24. The proposed increase is spread evenly across the period, with an increase of 7.0% per annum over the five years. The application is for an increase that remains permanently in the rate base. The Council indicated it would be applied to all rating categories.[19] It has concurrently applied for a 7.0% per annum increase in its minimum rate for five years.

2.1 Purpose

The purpose of the proposed SV is to fund ongoing operations such as infrastructure maintenance and renewal, invest in new infrastructure, reduce the Council's infrastructure backlog, maintain existing services and enhance the Council's financial sustainability.[20]

2.2 Need

Through the IP&R process, a number of community priorities were identified by the Council. In particular, it identified its community prioritised access to open space and recreation facilities and better use of existing infrastructure.[21] The Council identified the proposed SV would enhance its financial sustainability; increase infrastructure renewal expenditure on footpaths, roads, seawalls and drainage to address deteriorating asset conditions; and allow more investment in public open space and recreational areas.[22]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $100.0 million above what the assumed rate peg would deliver over 10 years. This represents 16.1% of the Council's total cumulative PGI over the 10-year period (see Table 2.1).

Assuming a rate peg increase of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 23.8% higher in 2028-29 than if the Council increased its rates by the assumed rate peg alone.

19 North Sydney Council, *Application Part B*, p 42.
20 North Sydney Council, *Application Part B*, p 7.
21 North Sydney Council, *Community Strategic Plan 2018-2028*, p 9.
22 North Sydney Council, *Application Part B*, pp 7-8.

Table 2.1 Permissible general income (PGI) of North Sydney 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
100.0	621.4	16.1%

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

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

The Council has assessed and concluded its ratepayers have the capacity to pay its proposed rate increases based on its median income levels, SEIFA ranking and comparison of average rates and minimum rate with its neighbouring councils. It also compared its average rates to councils in its OLG group.[23] It has assessed its ratepayers are willing to pay the proposed rate increases based on its consultation during the exhibition of its draft IP&R documents from 10 May 2018 to 7 June 2018 and its SV community consultation during the period 1 November 2018 to 16 January 2019.[24]

Table 2.2 Permissible general income (PGI) of North Sydney Council from 2019-20 to 2023-24 arising from the proposed SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019					45,554,825
2019-20	7.0	7.0	1,958,857	2,941,697[a]	48,496,522
2020-21	7.0	14.5	4,190,172	6,336,453	51,891.279
2021-22	7.0	22.5	6,630,034	9,968,843	55,523.668
2022-23	7.0	31.1	9,294,350	13,855,500	59,410.325
2023-24	7.0	40.3	12,200,174	18,014,222	63,569.047
Total cumulative increase approved				51,116,715	
Total above rate peg			**34,273,588**		

a Includes adjustment of a prior catch-up of -$247,141 ($45,554,825 x 0.07 – $247,141 = $2,941,697) that had not been recouped by the time the application was submitted to IPART and is to be recouped in 2019-20.

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

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

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 29 January 2019, with six councillors voting for the application and four councillors voting against.[25]

23 North Sydney Council, *Application Part B,* pp 49-51.
24 North Sydney Council, *Application Part B,* p 52.
25 North Sydney Council, *Application Part B,* pp 60-61.

3 Submissions to IPART

IPART received 77 submissions (including three petitions with a combined total of 304 signatures and submissions from five precincts) during the consultation period from 11 February 2019 to 14 March 2019. One submission was also received from three of the four Councillors who opposed the application.[26]

Key issues or views raised were:

- The increase is not affordable, particularly for pensioners who are on fixed incomes.
- The Council is in a strong financial position, with continuing surpluses and significant reserves. The Council also meets and exceeds the OLG Financial Benchmarks and the backlog of capital works has been largely addressed.
- The resourcing strategy was flawed as it did not take into account increased revenue from new rateable properties from developments, development contributions, investments and grant revenue, Valuer General revaluations, interest on investments and parking charges.
- The current rating structure should be reviewed before the Council applies for any SV.
- The consultation period was inadequate as ratepayers were not aware of the meetings and it was during the holiday period.
- The consultation material did not provide the correct cumulative increase, current rates for comparison, make it clear it was a permanent increase and was the proposed SV advertised in the Mosman Daily, which is not delivered to several suburbs within the Council's area. In addition, precincts were not consulted until after the feedback period closed.
- The majority of ratepayers supported the second option in the survey, which was a 5.5% per annum SV for five years, with implied threats to cut services under this option; and option one (rate peg only).
- The Council should look at ways to become more efficient and find cost savings before it increases rates.
- The T-Corp Financial Assessment Report dated April 2013, which the Council relies on for its SV application, has previously been discredited by the Council.
- No information has been provided on the success of the previous SV, which was promoted as a one-off to fix structural issues.

However, some submissions have also raised reasons to support the proposal including:

- The majority of the Council's available cash is restricted and the area has high household incomes with low rates.
- Ratepayers expect the Council to provide a high level of maintenance and improvement to all its public facilities. In addition, there is pressure for more expenditure from increased development projects.
- The minimum rate should increase to better reflect equity in the market value of houses compared to units.

26 Baker, Z, Beregi, M & Carr, T, submission to IPART, Special Variation Application, March 2019.

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.

Key themes arising from the submissions related to concerns surrounding the Council's financial need for its proposed SV and the impact of the proposed SV on its ratepayers:

- A vast majority of submissions suggested that there is no financial need for the Council to increase rates as it is in "sound financial shape", it holds a significant amount of reserves and the Council has been meeting and exceeding the OLG financial benchmarks. We examine the Council's net cash position and forecast financial ratios in Section 4.1 of this report, taking into account the Council's infrastructure backlog.
- Many submissions also raised concerns about the Council's current rating structure and the lack of contribution to Council income from units, ie, those on the minimum rate. We discuss this issue when considering the minimum rate increase and note that the approved minimum rate increase will only partially address this issue (see section 4.4).
- Some submissions also suggested the level of development and construction in the LGA will result in significant increases in general income. We note that new development is likely to result in an increased share of total PGI paid by minimum rate payers as a group, but it does not automatically increase the overall income for the Council under the current ratings system. The amount by which councils can increase their general income is regulated by the rate peg.[27]

We note the Council received 549 written submissions in relation to its proposed SV, with 279 opposing any SV (see Section 4.2.2), which raised similar views to the above.

27 The Council also noted in its LTFP that growth in development is leading to increased demand from the public for access to open space and for the Council to monitor and enforce regulations regarding construction and parking. North Sydney Council, *Resourcing Strategy 2018-2028*, p 85.

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 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 proposed SV.

The three criteria in the OLG Minimum Rate Guidelines are:

- **Criterion 1 – Rationale:** The rationale for increasing minimum rates above the statutory amount.
- **Criterion 2 – Impact:** The impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category.
- **Criterion 3 – Consultation:** The consultation the Council has undertaken to obtain the community's views on the proposal.

Our Assessment

Special Variation

We have assessed the Council's application as partially meeting the criteria in the OLG Guidelines. Our assessment reflects the Council partly demonstrating financial need for the proposed SV to enhance its financial sustainability and address its infrastructure backlog.

With the proposed SV, the Council's forecast OPR is 7.4% by the end of the proposed SV period, reaching 5.3% by 2028-29. Under the Baseline with SV expenditure Scenario, the Council's forecast OPR by 2023-24 is -1.5% and continues to deteriorate to -3.8% by 2028-29. Therefore, we consider there is a financial need for an SV to prevent the Council's OPR from deteriorating, while allowing it to reduce its infrastructure backlog.

The Council estimates that with the proposed SV expenditure, its backlog ratio will reduce to 0.0% by 2023-24 and 0.4% by 2028-29. Under the Baseline Scenario, the Council estimates that, at 3.7%, it would not meet the OLG infrastructure backlog ratio benchmark of less than 2% by 2023-24, and that its backlog ratio would grow to 4.6% by 2028-29. However, given the forecast backlog ratio meets the OLG benchmark in 2021-22 and is forecast to be 0.0% in multiple future years under the proposed SV, we consider the proposed 5-year SV goes beyond addressing the financial need of the Council.

The Council's OPR is forecast to reach 5.7% within three years with its proposed SV, and remain relatively high by both the fourth and fifth year of the proposed SV period (at 6.6% and 7.4%, respectively). In addition, with the proposed SV, the Council forecasts its backlog ratio meets the OLG benchmark of less than 2% within three years, remaining low and continuing to meet the OLG benchmark by the fourth and fifth year of the proposed SV period (at 0.5% and 0%, respectively). Therefore, taking into consideration these factors, we consider the Council has only partly demonstrated a financial need for its proposed SV to enhance its financial sustainability and reduce its infrastructure backlog. We consider the Council has demonstrated a financial need for the first three years of its proposed SV, given its OPR improves from 3.1% in 2019-20 to 5.7% in 2021-22 and the Council meets the OLG infrastructure backlog ratio benchmark within three years with its infrastructure backlog ration falling from 4.1% in 2019-20 to 1.6% in 2021-22.

The Council communicated a lower cumulative percentage increase in its consultation materials than it applied for, for its residential and business ratepayer categories. However, we note its consultation materials correctly communicated the annual dollar increase and full dollar increase across the five years of the proposed SV period. Given this, we consider the Council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayer. We consider the Council has, on balance, demonstrated that its community is aware of the need for, and extent of, the proposed rate increase.

We consider the impact of the proposed SV on ratepayers would be reasonable given the Council's need for the additional funding to address its infrastructure backlog and the community's capacity to pay (its SEIFA ranking indicates a higher level of advantage compared to its surrounding councils). We also found the Council's proposed average rates with the SV would appear to be reasonable compared to the estimated average rate levels for OLG Group 3 councils over the proposed SV period. We note the average rate calculated includes the ordinary rate, minimum rate, and any special rates applying to each rating category.

The Council's Delivery Program communicated a slightly lower cumulative percentage increase for the proposed SV over the five years and did not communicate the annual dollar impact of the proposed SV. However, the Delivery Program included the cumulative dollar impact of the proposed SV over the five years for the average residential and average business ratepayer. In addition, the Council's Delivery Program directed ratepayers to an information sheet on its website. Although this information sheet also communicated the incorrect cumulative percentage impact of the proposed SV, it did communicate the full dollar impact of the proposed SV across the five years for the average residential and average business ratepayer. The Council exhibited its Delivery Program and Resourcing Strategy (incorporating its LTFP) from 1 November 2018 to 16 January 2019, and adopted these documents on 29 January 2019. Therefore, we consider, on balance, the Council's IP&R

documents contain sufficient information relating to the proposed SV and they have been appropriately exhibited, approved and adopted by the Council.

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

Minimum rate

We also found that the Council's application for an increase in its minimum rate met the requirements set out in the OLG Minimum Rate Guidelines.

The Council explained the rationale for increasing the minimum rate, which is to ensure equity in sharing the rating burden and to minimise the gap between those on the minimum rate and ad valorem ratepayers. We note that while applying the full SV percentage to the minimum rate minimises the gap into the future, the Council will still have a minimum rate that is in the bottom third when compared with other councils in the Sydney metropolitan area (see Section 4.4).

The Council considered the impact on the community and noted its minimum rate is comparatively lower than its neighbouring councils. It also noted that residents living in houses will effectively bear a greater percentage of the rating burden if the minimum rate is not increased to the full proposed SV percentage, despite all ratepayers having the same access to the Council's services.

The Council communicated it intended to increase its minimum rate through its IP&R documents and community materials. We note the Council did not clearly communicate the annual dollar value nor dollar impact of its proposed minimum rate increase. However, an Information Sheet sent to all ratepayers and its Delivery Program indicated the proposed SV would apply across all ratepayers including those paying the minimum rate. Therefore, we consider the Council sufficiently communicated its minimum rate would increase by 7.0% per year.

Around 73% of North Sydney ratepayers are paying the minimum rate in 2018-19. Although rates would increase proportionately by 7.0% each year, we note that the dollar gap between those paying the minimum rate and those who are not will continue to grow in future years even under the approved SV. To close the gap would require a minimum rate application that would increase the minimum rate faster than the ad valorem rates.

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 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:

$$OPR^{28} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

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

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** - which shows the impact on the Council's operating and infrastructure assets' performance **without the proposed SV revenue and expenditure**.
3. **The Baseline with SV expenditure Scenario** - which includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.

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

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

affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.[29]

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).[30] This may inform us whether the Council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the Council's net cash position in 2018-19 and as a percentage of income to gauge its financial position.

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

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

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets^{31}}$$

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%.[32] It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{33}}{Depreciation, amortisation\ and\ impairment}$$

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

The Council's Delivery Program clearly set out the need for, and purpose of, the proposed SV, which are to ensure its continues to maintain existing services, enhance its financial sustainability, increase infrastructure renewal expenditure to address deteriorating asset condition and deliver a number of high priority public domain and public recreation projects including Bradfield Park South and St Leonards park.[34] The Council's Resourcing Strategy

29 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
30 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.
31 Historical cost less accumulated depreciation.
32 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
33 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.
34 North Sydney Council, *Delivery Program 2018/19-2020/21*, p 18.

(incorporating its LTFP) also identified it intended to achieve operating surpluses, whilst meeting community expectations for improvements in facilities and essential infrastructure.[35]

In its application, the Council indicated it considered several alternatives to the proposed SV, which have also been included in its LTFP. It considered increasing revenue through the following options:

- Reviewing its user fees and charges – it noted that the Council has had an emphasis on the 'user pays' principle since the 1980s and concluded that whilst the Council continually explores new opportunities for additional user pays fees, the need to increase renewal expenditure on infrastructure assets and the desire to provide improved public recreation spaces is placing greater pressure on general rate revenue.[36]
- Considering its investment revenue – it noted funds invested in recent years in the Council's portfolio have been reduced as a result of an accelerated capital works program and concluded that the reduction in investment income places further funding pressures on the Council.[37]
- Seeking grant funding – it noted it seeks new grants as the need arises and is currently actively exploring grant opportunities to help fund the redevelopment of the North Sydney Olympic Pool complex and concluded reliance on grants is limited as State and Federal grant opportunities are often prioritised to regional and developing councils.[38]
- Borrowing of funds – it noted it has already borrowed $9.5 million for street parking projects and under its current resourcing strategy has allocated $20.5 million of its current approved debt facility towards the redevelopment of the North Sydney Olympic Pool complex. It concluded that this option is limited as the Council is currently renegotiating its debt facility.[39]

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

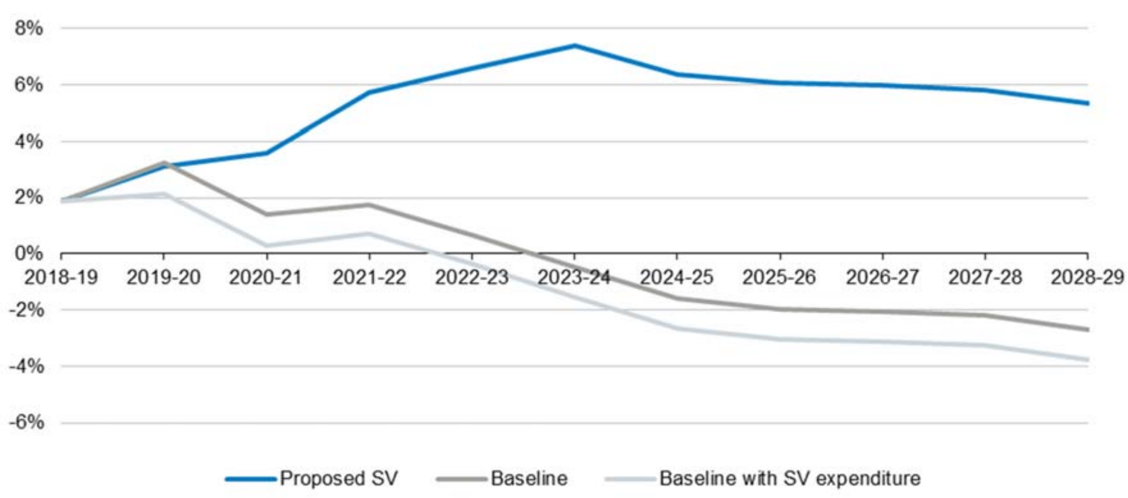
Under the Proposed SV Scenario, the Council forecasts operating surpluses increasing to 5.3% by 2028-29. The cumulative value of the forecast operating surpluses (before capital grants and contributions) is $80.3 million to 2028-29. This would allow the Council to fund operating and capital expenditure for its infrastructure including footpaths, roads, seawalls and drainage to address deteriorating asset conditions, invest in public open space and recreation areas, enhance its financial sustainability and reduce its infrastructure backlog.[40]

Without the proposed SV and assuming the council's expenditure is the same as under the Proposed SV Scenario (Baseline with SV expenditure Scenario), it forecasts operating deficits, as shown in Figure 4.1 and Table 4.1. The cumulative value of these forecast deficits (before capital grants and contributions) is $15.6 million to 2028-29 under this scenario.

35 North Sydney Council, *Resourcing Strategy 2018-2028*, p 38.
36 North Sydney Council, *Application Part B*, p 14.
37 North Sydney Council, *Resourcing Strategy 2018-2028*, p 25.
38 Email to IPART, North Sydney Council, 28 February 2019.
39 Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Resourcing Strategy 2018-2028*, p 29.
40 North Sydney Council, *Application Part B*, pp 7-8.

Without the proposed SV revenue and without the SV expenditure (Baseline Scenario), the Council 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 North Sydney Council's Operating Performance Ratio (%) excluding capital grants and contributions (2018-19 to 2028-29)



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

Table 4.1 Projected operating performance ratio (%) for North Sydney 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	3.1	3.6	5.7	6.6	7.4	6.4	6.1	6.0	5.8	5.3
Baseline	3.2	1.4	1.7	0.7	-0.5	-1.6	-2.0	-2.0	-2.2	-2.7
Baseline with SV expenditure	2.1	0.3	0.7	-0.3	-1.5	-2.6	-3.0	-3.1	-3.3	-3.8

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

Our analysis indicates that over the next five years, the Council's OPR averages:

- 5.4% under the Proposed SV Scenario
- 1.3% under the Baseline Scenario
- 0.2% under the Baseline with SV expenditure Scenario.

Impact on the Council's net cash (debt)

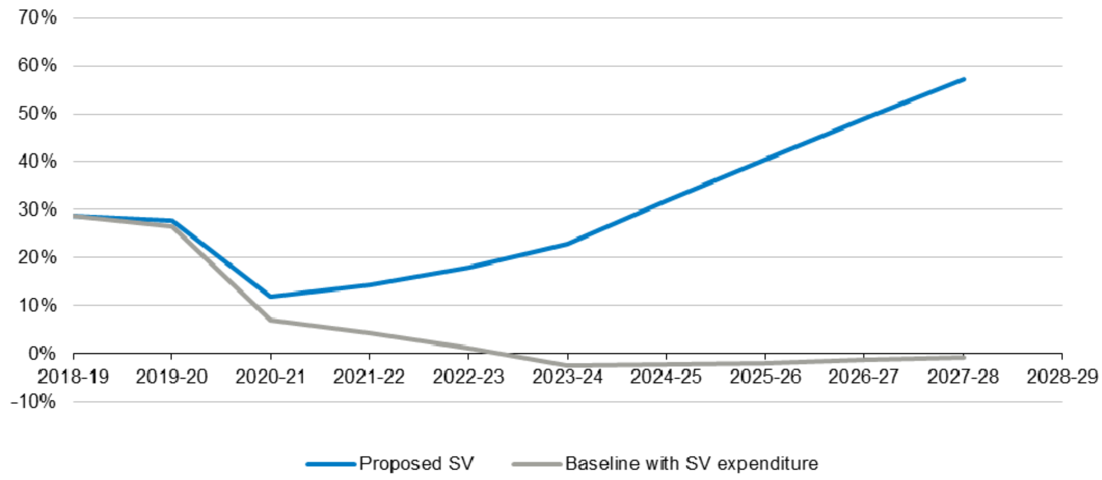
We calculate the Council's net cash is $32.3 million or 28.8% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (Baseline with SV expenditure Scenario), we estimate that net cash would decrease by 2027-28. As at 2027-28, net cash would be 57.3% of income under the

Proposed SV Scenario and -0.7% of income under the Baseline with SV expenditure Scenario. The Baseline with SV expenditure Scenario indicates the Council's net cash position would deteriorate given the program of expenditure set out in its application.

The Council's forecast net cash position over the next nine years is shown in Figure 4.2 below.

Figure 4.2 North Sydney Council's net cash (debt) to income ratio (%) (2018-19 to 2027-28)



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

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

- 19.1% under the Proposed SV Scenario
- 7.2% under the Baseline with SV expenditure Scenario.

Impact on the Council's infrastructure backlog ratio

The Council indicated its infrastructure backlog as at 30 June 2018 is $45.0 million. It noted these are assets in very poor condition (assets classified as condition 5 assets).[41] It also indicated it estimated there is a further $44.6 million of assets in poor condition (assets classified as condition 4 assets) and noted that, in combination, these are the assets that require priority attention to improve their condition through remedial works or replacement. It noted that the combined total estimated cost to bring these assets to a satisfactory standard would be $89.6 million.[42] The Council also indicated its infrastructure backlog ratio will be 5.4% in 2018-19,[43] which does not meet the OLG benchmark of less than 2%.

41 The Council's infrastructure backlog is made up of condition 5 assets (and not condition 4 assets). North Sydney Council, *Financial Statements for the year ended 30 June 2018 – Special Schedule 7*, p 10.

42 North Sydney Council, *Application Part B*, p 8.

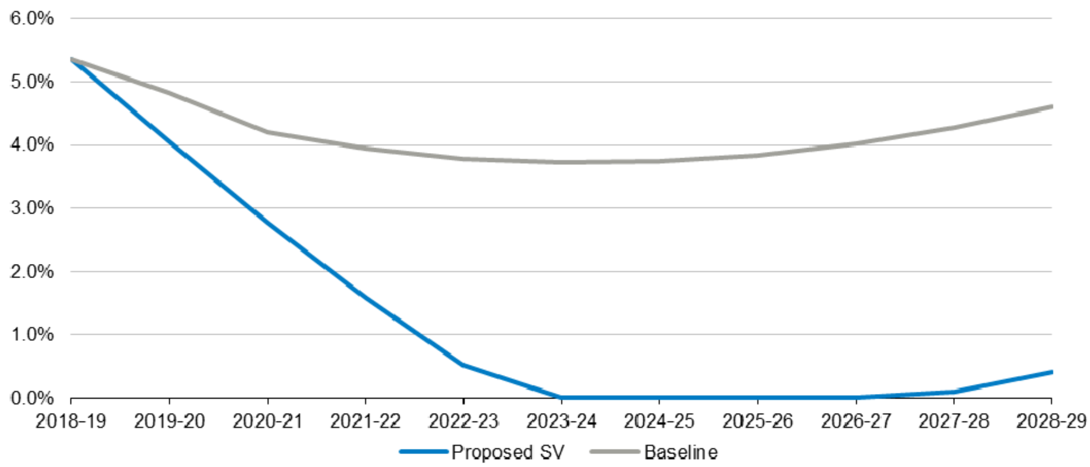
43 North Sydney Council, *Application Part B*, p 20.

The Council is planning to spend a substantial component of its additional SV revenue on capital expenditure and renewing its infrastructure. It plans to spend around $91.8 million or 91.7% of the additional revenue from the proposed SV on renewing its assets.[44]

Under the Proposed SV Scenario, the Council's infrastructure backlog ratio would decrease to 0.0% by the end of the 5-year period of the proposed SV. Without undertaking the expenditure it plans to under the Proposed SV Scenario (Baseline Scenario), the Council's infrastructure backlog ratio would be 3.7% by the end of the 5-year period of the proposed SV, which would not meet the OLG benchmark (of less than 2%).

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

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



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

Table 4.2 Projected infrastructure backlog ratio (%) for North Sydney 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	2.8	1.6	0.5	0.0	0.0	0.0	0.0	0.1	0.4
Baseline	4.8	4.2	3.9	3.8	3.7	3.7	3.8	4.0	4.3	4.6

Source: North Sydney Council, *Application Part A,* Worksheet 9.

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

- 1.8% under the Proposed SV Scenario
- 4.1% under the Baseline Scenario.

Submissions from the community to IPART

IPART received 77 submissions (including three petitions with a combined total of 304 signatures and submissions from five precincts) during the consultation period from 11 February 2019 to 14 March 2019. One submission was also received from three of the four

44 Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A,* Updated Worksheet 6.

Councillors who opposed the application. In response, we received a letter from the Mayor[45] addressing each issue raised by the three Councillors, including the level of cash reserves and financial modelling issues, amongst others.

A vast majority of these submissions suggested that there is no financial need for the Council to increase rates as it is in a strong financial position. Many submissions also suggested that additional funding could be raised from other sources and the Council should undertake efficiency improvements before applying for an SV.

We have assessed the Council's financial need for the proposed SV in Section 4.1.3. We consider that the Council has also explored alternatives to the proposed SV before applying, and we have considered the Council's productivity improvements and cost containment strategies in Section 4.6.

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 without the SV revenue, its OPR would average 0.2% over the next five years, reaching -3.8% by 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 5.4%, reaching 5.3% by 2028-29. 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 7.4%. We note that this is relatively high compared to breakeven (0%) by the end of the proposed SV period. The Council's positive OPR[46] with the proposed SV indicates it will be able to use its operating surplus for capital expenditure as intended in its application to reduce its infrastructure backlog.

The Council indicated its infrastructure backlog is made up of condition 5 assets (and not condition 4 assets). We note the Council's intended capital expenditure program aims to reduce its backlog of its condition 5 assets (very poor condition) and also perform further renewals for its condition 4 assets (poor condition). Taking into consideration that there is uncertainty around longer-term forecasts and that the Council's backlog is made up of condition 5 assets (and not its condition 4 assets), this suggests that:

- There is a partial need for the proposed SV for the Council to remain financially sustainable.
- There is a partial financial need for the proposed SV to reduce its infrastructure backlog to OLG benchmark levels. The Council's OPR under its proposed SV goes beyond addressing its backlog (which consists of its condition 5 assets), given it intends to spend $91.8 million or 91.7% of the additional revenue from the proposed SV on capital expenditure to reduce its infrastructure backlog of condition 5 assets ($45.0 million) and perform further renewals for condition 4 assets ($44.6 million).

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45 Gibson, J, submission to IPART, Special Variation Application, March 2019.

46 The Council's positive ratio indicates operating surplus available for capital expenditure.

That is, with the proposed SV revenue, the Council forecasts its infrastructure backlog to reduce to 0.0% by 2023-24, the end of the proposed SV period. This exceeds the OLG benchmark of less than 2%. It also forecasts the backlog will continue to be 0.0% for a further three years from 2024-25 to 2026-27. Given the forecast backlog ratio meets the OLG benchmark in 2021-22 and is forecast to be 0.0% in multiple future years, we consider the proposed SV goes beyond addressing the financial need of the Council to reduce its backlog. We also note that without the proposed SV, the Council forecasts its infrastructure backlog will be 3.7% by 2023-24, which does not meet the OLG benchmark.

We forecast the Council will have a net cash position of $32.3 million at 30 June 2019, with total cash and investments greater than total debt. On 30 June 2018, the Council held a total of $69.0 million in cash and investments, with:[47]

- $18.9 million externally restricted
- $45.5 million internally restricted
- $4.5 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 an SV.

Overall, we note that under the Proposed SV Scenario, the Council forecasts it will meet the OLG infrastructure backlog ratio benchmark of less than 2% by 2021-22, the third year of its proposed SV, and for each year to 2028-29. In addition, the Council's OPR is forecast to reach 5.7% within three years and remains relatively high by the fourth year of the proposed SV period at 6.6%. With the proposed SV, the Council's OPR continues to grow to 7.4% by the end of the five years of the proposed SV period.

Therefore, taking all factors into account, as well as the Council's assessment of alternatives to the proposed SV, we consider the Council is in partial financial need for the proposed SV to enhance its financial sustainability and reduce its infrastructure backlog. We consider the Council has demonstrated a financial need for the first three years of its proposed SV, given its OPR improves from 3.1% in 2019-20 to 5.7% in 2021-22 and the Council meets the OLG infrastructure backlog ratio benchmark within three years, from 4.1% in 2019-20 to 1.6% in 2021-22.

4.2 Community engagement and awareness

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

- The Council's Delivery Program and 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 4.5 for this assessment).

47 North Sydney Council, *Application Part A*, Worksheet 7.

- 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 the any direct community engagement and the Council's response to community feedback.

4.2.1 Assessment of consultation with the community

The Council has a published Community Consultation Strategy.[48] It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and Content

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

Specifically, the Council:

- Communicated the full impact of the proposed rate increase to ratepayers in dollar terms across various categories of ratepayers. The Council communicated the full cumulative dollar impact over the five years of the proposed SV for both its residential and business ratepayers. The Council also communicated the average annual rate and average rate increase over the five years in dollar terms, for each rating category.
- Did not communicate the full impact of the proposed rate increase to ratepayers in cumulative percentage terms. The Council's consultation materials communicated the total percentage cumulative increase over the five years of the proposed SV as 36.40% for its average residential ratepayer and 32.70% for its average business ratepayer.[49] This was based on adding the year-to-year percentage increases over each of the five years of the proposed SV for each rating category. Based on the Council's application, the actual average cumulative increase over the five years is 41.98% for residential ratepayers and 35.96% for business ratepayers. We note the differences occurred due to the Council mistakenly applying an incorrect method to calculate the total cumulative percentage.[50]

48 The Council prepared a community engagement strategy specifically for its proposed SV in September 2018. North Sydney Council, *Application Part B*, p 23; and North Sydney Council, *Community Engagement Strategy.*

49 For example, the Council's 'information sheet' mailed to all of its ratepayers communicated the cumulative increase over the five years of the proposed SV as 36.40% for its average residential ratepayer and 32.70% for its average business ratepayer. North Sydney Council, *Application Part B*, p 25; and North Sydney Council, *Information Sheet – Investing in our future*, p 3.

50 Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A*, Worksheet 5a.

- Communicated the proposed SV would apply to those paying the minimum rate.
- Communicated what the SV would fund.

Although the cumulative percentage increase communicated by the Council is lower than the actual full cumulative impact, we note the Council's consultation materials did communicate the full dollar impact of the proposed SV across the five years. Therefore, we consider the Council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayer.

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 proposed SV from 1 November 2018 to 16 January 2019.[51] 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:[52]

- Mail-outs to all of its ratepayers – a direct letter outlining the proposed SV was sent to all residential and business ratepayers accompanied by a 4-page 'information sheet' detailing the impact of the proposed SV.
- Emails to real estate agents to forward the Council's intention to apply for an SV to the appropriate ratepayer.
- Its website, including a dedicated SV webpage – over 2,300 visits were made to the dedicated webpage, with over 400 responses submitted to the Council.[53]
- Local newspaper advertisements were distributed via two local papers.
- Public information sessions and drop-in kiosks at various locations and on various days – over 170 residents attended these sessions, which occurred from 7 November 2018 up to 12 January 2019.[54]
- Social media posts (eg Facebook, Twitter and Instagram).

The variety of engagement methods used provided the Council with an appropriate level of reach to its ratepayers.

51 North Sydney Council, *Application Part B*, p 60.
52 North Sydney Council, *Application Part B*, pp 24-28.
53 North Sydney Council, *Application Part B*, p 24.
54 North Sydney Council, *Application Part B*, pp 27-28.

4.2.2 Assessment of outcomes of consultation with the community

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

The Council conducted a telephone survey between 20 November 2018 and 4 December 2018[55] to measure the community's awareness and attitude towards the Council's intention to apply for an SV. 45% of all respondents were aware of the proposed SV prior to the survey. The Council also sought feedback on three funding options: [56]

- Option 1 – rate peg only increase
- Option 2 – 5.5% increase (including the rate peg) per annum for five years
- Option 3 – 7.0% increase (including the rate peg) per annum for five years.

Among residential ratepayers:

- 25% preferred Option 1
- 45% preferred Option 2
- 30% preferred Option 3.

Among business ratepayers:

- 39% preferred Option 1
- 38% preferred Option 2
- 23% preferred Option 3.

The Council concludes its community consultation indicated its community's preference was for high quality infrastructure and services.[57]

The Council also received 549 written submissions in relation to its intention to apply for an SV, including 279 opposing any SV, 99 in favour of Option 2 and 116 in favour of Option 3.[58] The Council submitted the main reasons for opposition were because the community considered:[59]

- The rate increases were unaffordable.

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55 The Council engaged Jetty Research to conduct the survey using computer assisted telephone interviewing. Surveys were conducted after an initial telephone recruitment process. 419 residential ratepayers completed survey responses from an initial 500 recruited. 200 business ratepayers completed surveys from an initial 340 recruited. Jetty Research noted that the sample sizes provide a maximum sampling error plus or minus 4.3% among residents and plus or minus 6.9% for businesses at 95% confidence. Jetty Research also noted the total sample size provides a maximum sampling error of plus or minus 3.9% at 95% confidence. North Sydney Council, *Application Part B,* p 33; and Jetty Research, *A random survey of resident and business in the North Sydney LGA to measure awareness of, and support for/opposition to a proposed Special Rate Variation – Final Report,* 24 January 2019, p 5.

56 North Sydney Council, *Application Part B*, p 33-34; and Jetty Research, *A random survey of resident and business in the North Sydney LGA to measure awareness of, and support for/opposition to a proposed Special Rate Variation – Final Report,* 24 January 2019, pp 5 and 28.

57 North Sydney Council, *Application Part B,* p 36.

58 North Sydney Council, *Application Part B,* pp 34-35.

59 North Sydney Council, *Attachment 5 – Community Feedback,* pp 8 and 42-52.

- The Council should explore alternative options, such as a one-off special levy for specific projects, obtaining State and Federal funds and increasing user pays for council services.
- The Council's consultation was poor, for example the tone of the engagement materials were designed to produce an emotional response, particularly to threaten or scare the public with reduced community services, and it was also not conducted in a timely manner.
- The Council should improve its financial management, for example the Council should reduce internal inefficiencies, stop wasting money and streamline costs before burdening rate payers.
- Councillors who campaigned on a platform of ensuring "no rate increases" should maintain that position.
- The Council is already receiving increased revenue from new developments, particularly from high-rise apartments.

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

- It has applied to increase its minimum rate by the same percentage as the SV to distribute the rate burden equitably across all ratepayers.[60]
- It consulted on its intention to apply for an SV over a two and a half month period.[61]
- The Council will review its corporate project management framework to improve decision-making, project delivery and resource allocation.[62]
- Growth from current and planned development will increase the demand for council services and infrastructure maintenance and renewal.[63]

Based on its community consultation, the Council decided to apply for the proposed SV.

Submissions from the community to IPART

IPART received 77 submissions (including three petitions with a combined total of 304 signatures and submissions from five precincts) during the consultation period from 11 February 2019 to 14 March 2019. One submission was also received from three of the four Councillors who opposed the application. In relation to community engagement:

- Many submissions stated the consultation materials were intentionally designed to favour the proposed rate increase, with implied threats to cut services under the 5.5% SV option and rate peg only option.
- The submissions questioned the timeliness of the Council's consultation as it was performed during holiday periods and this did not allow timely feedback from the community.
- A large number of submissions expressed they were unaware of the proposed SV and the newspapers advertising meetings do not deliver to several suburbs within the Council's area.

60 North Sydney Council, *Application Part B*, p 45.
61 North Sydney Council, *Application Part B*, p 38.
62 North Sydney Council, *Application Part B*, p 37.
63 North Sydney Council, *Application Part B*, p 37.

- One submission also pointed out that the cumulative percentage consulted on is not correct per the Council's application.
- Some submissions noted the majority of ratepayers supported Option 2.

4.2.3 Overall assessment of community engagement and awareness

The Council communicated a lower cumulative percentage increase in its consultation materials. It communicated the total percentage cumulative increase over the five years of the proposed SV as 36.40% (instead of 41.98%) for its average residential ratepayer and 32.70% (instead of 35.96%) for its average business ratepayer. However, we note the Council did communicate the annual dollar increase and full dollar increase of the proposed SV across the five years of the proposed SV period. Given this, we consider the Council sufficiently communicated the impact of the proposed SV for its average residential and average business ratepayers.

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

4.3 Impact on affected ratepayers

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

- Clearly show the impact of any rate rises upon the community
- 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 4.5 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 undertook our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the Council's rates in recent years, how the Council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking.

In its application, the Council indicated it intended to permanently increase its rates for each rating category and has calculated that the:[64]

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64 North Sydney Council, *Application Part* A, Worksheets 1 and 5a.

- Average residential rate would increase by 42.0% or $324 over five years, or by $62 in the first year
- Average business rate would increase by 36.0% or $1,770 over five years, or by $190 in the first year
- Minimum rate would increase by 40.1% or $211 over five years, or by $37 in the first year.

Table 4.3 sets out the Council's estimates of the expected increase in average rates in the main ratepayer categories. Table 4.6 sets out the Council's estimates for the expected increase in the minimum rate.

Table 4.3 Indicative annual increases in average rates under North Sydney Council's proposed SV (2018-19 to 2023-24)

Year	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative Increase
Residential rate $	**772**	**835**	**894**	**957**	**1,024**	**1,097**	
$ increase		62	59	63	68	72	324
% increase		8.1	7.1	7.1	7.1	7.1	42.0
Business rate $	**4,921**	**5,112**	**5,477**	**5,855**	**6,259**	**6,691**	
$ increase		190	366	378	404	432	1,770
% increase		3.9	7.2	6.9	6.9	6.9	36.0

Note: 2018-19 is included for comparison. The average rate is calculated by North Sydney Council and includes the ordinary rate and any special rates applying to the rating category.

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

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

The Council has considered the impact on its ratepayers in its application. The Council compared its average rates with its neighbouring councils and OLG Group 3 councils and examined socio-economic indicators such as household income, SEIFA rankings and outstanding rates and charges ratios to assess the impact on ratepayers. It concluded that its ratepayers have the capacity to pay the rate levels proposed by the SV as:[65]

- Its outstanding rates and charges ratio over the last three years has been below the 5% benchmark for Sydney metropolitan councils set by the industry
- Its average residential and business rates are lower than most of its neighbouring councils and lower than most councils within its OLG Group
- Households earning more than $2,500 per week make up 42% of the Council's households compared to 28% of households in Greater Sydney
- Households earning less than $650 per week make up 10% of the Council's households compared to 15% of households in Greater Sydney
- Its median weekly income ($2,356) is higher than that of Greater Sydney ($1,745)
- Its SEIFA ranking (7) indicates a high level of advantage compared to other LGAs across Australia.

65 North Sydney Council, *Application Part B*, pp 50-51.

The Council submitted that it also has a hardship policy that covers situations where ratepayers believe they have suffered financial hardship by way of the Council utilising a General Revaluation for rating purposes for the first time. It also submitted it has a debt recovery policy in place that may assist ratepayers with periodic payment arrangements.[66]

The Council also indicated it offers all pensioner ratepayers a discount of 50% off the cost of the standard domestic waste management charge, in addition to the mandatory concessions under the Pensioner Concession Scheme. It also submitted it offers an annual Christmas cash bonus for eligible aged pensioners.[67]

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 2008-09:

- The Council has applied for and been granted four SVs in:
  - 2008-09 for a 3.96% 5-year temporary increase, including the rate peg, which was used for an infrastructure levy.
  - 2010-11 for a 10.54% 3-year temporary increase, including the rate peg, which continued an environmental levy and continued the Crows Nest Main Street levy.
  - 2011-12 for a permanent increase of 5.50% per annum for seven years (cumulative 45.5%), including the rate peg, for renewal works on the North Sydney Olympic Pool and car park related projects.
  - 2012-13, which replaced the 2011-12 increase and included an additional 6.84% in 2012-13 to replace the temporary increase approved in 2008-09 and an additional 9.07% in 2013-14 to replace the 2010-11 temporary increase.
- The average annual growth in residential rates was 5.9% and 7.0% for business rates, 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 OLG Group 3 and surrounding councils as shown in Table 4.4.

66 North Sydney Council, *Application Part B*, p 53.

67 The Council indicated the amount available varies each year based on the number of applicants. North Sydney Council, *Application Part B*, p 53.

Table 4.4 North Sydney Council – comparison of rates and socio-economic indicators with surrounding councils and Group 3 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]
Willoughby (3)	986	6,578	118,092	0.8	1.4	123
Mosman (2)	1,349	2,878	131,144	1.0	2.6	128
Lane Cove (2)	1,187	4,579	123,552	1.0	1.9	126
Sydney (1)	634	10,834	100,152	0.6	1.2	116
North Sydney (3)	**751**	**3,696**	**122,720**	**0.6**	**1.1**	**127**
Group 3 average	1,005	6,396	98,249	1.0	3.2	-

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 $751 were 25% lower than the average for Group 3 councils and 7% lower than the weighted average of its surrounding councils
- Average business rates of $3,696 were 42% lower than the average for Group 3 councils and 62% lower than the weighted average of it surrounding councils
- Median household income of $122,720 was 25% higher than the average for Group 3 councils and midway compared to its surrounding councils
- Average rates to income ratio of 0.6% was relatively low compared to the average for Group 3 councils and low compared to its surrounding councils
- Outstanding rates ratio of 1.1% was lower than the average for Group 3 councils and low compared to its surrounding councils
- SEIFA ranking indicates the LGA is relatively advantaged compared to its surrounding councils.

We also compared the Council's average rate levels with the proposed SV to its OLG Group average[68] and found that the Council's average 2023-24:

- Residential rate of $1,097 would be $86 (7%) lower than the estimated 2023-24 average residential rate for Group 3 councils of $1,183
- Business rate of $6,691 would be $838 (11%) lower than the estimated 2023-24 average business rate for Group 3 councils of 7,529.

68 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 3 average rate levels by the rate peg each year from 2017-18 to 2023-24 to allow for comparison of the Council's proposed average rate levels with the SV over the proposed SV period. We note that Ku-ring-gai, Randwick and Sutherland are also applying for a special variation in 2019-20.

Submissions from the community to IPART

IPART received 77 submissions (including three petitions with a combined total of 304 signatures and submissions from five precincts) during the consultation period from 11 February 2019 to 14 March 2019. One submission was also received from three of the four Councillors who opposed the application. In relation to the impact on ratepayers:

- Many of the submissions expressed affordability concerns, particularly for pensioners on fixed incomes.
- The submissions also raised concerns on the cost of living pressures, with bills increasing without a corresponding increase in wages.
- Some submissions noted the Council did not consider willingness to pay.
- Some submissions noted the current rating structure is inequitable and should be reviewed before the Council applies for an SV, particularly its minimum rate.

4.3.3 Overall assessment of the impact on affected ratepayers

We consider the impact of the proposed SV on ratepayers would be reasonable given:

- The Council's need for the additional funding to address its infrastructure backlog
- The Council's proposed average rates with the SV would appear to be reasonable compared to the estimated average rate levels for OLG Group 3 councils over the proposed SV period
- The community's capacity to pay given its SEIFA ranking indicates a higher level of advantage compared to its surrounding councils.

4.4 Proposed Minimum Rate Increase

The Council has requested an increase in the minimum amount of its ordinary rates by 7.0% per annum for five years from 2019-20 to 2023-24.

We have decided to approve the minimum rate increase from 2019-20 to 2021-22 for three years as outlined in Box 1.2, based on our finding that the Council meets the assessment criteria for the minimum rate, as discussed in the sections below, and to align with the three year approval of the special variation.

4.4.1 The Council's rationale to increase the minimum rate

The Council explained its rationale for increasing its minimum rate in its application and IP&R documents. The Council indicated there are currently 28,630[69] ratepayers from the residential and business categories paying the minimum amount ($526 in 2018-19).[70] As seen in Table 4.5 this represents 76.5% of residential ratepayers and 33.5% of business ratepayers, or 72.5% of its total ratepayers.

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69 North Sydney Council, *Minimum Rate Application Form Part A 2019-20* (*Minimum Rate Application Part A)*, Worksheet 1.

70 North Sydney Council, *Minimum Rate Application Part A*, Worksheet 2.

Table 4.5 Proportion of ratepayers on the minimum rate (2018-19)

Ratepayer category	Assessments on the minimum rate	Total number of assessments	Proportion on the minimum rate
Residential	27,415	35,844	76.5%
Business	1,215	3,631	33.5%
Total	**28,630**	**39,475**	**72.5%**

Source: North Sydney Council, *Minimum Rate Application Part A*, Worksheet 2.

In 2018-19, 72.5% of North Sydney ratepayers are paying the minimum rate. Although the Council intends to increase rates proportionately by 7.0% across all its rates, we note the dollar gap between those paying the minimum rate and those who are not will continue to grow in the future. We note that while applying the full SV percentage to the minimum rate minimises the gap into the future, the Council will still have a minimum rate that is in the bottom third when compared to the 2018-19 minimum rates of other councils in the Sydney metropolitan area (see Table 4.8).[71]

The Council noted that residents living in houses will effectively bear a greater percentage of the rating burden if the minimum rate is not increased to the full proposed SV percentage, despite all ratepayers having the same access to the Council's services.[72] The Council submitted that it took into account the number of ratepayers on the minimum rate for each rating category and decided to increase the minimum rate by the same percentage as the SV to ensure the rate gap between minimum rate and ad valorem ratepayers is minimised.

We consider the Council's rationale for increasing its minimum rate is reasonable in the circumstances.

4.4.2 The impact on ratepayers

The Council has requested an increase in the minimum rate from $526 in 2018-19 to $737 in 2023-24, a cumulative increase of 40.1% over the next five years as shown in Table 4.6.

71 We compared the Council's proposed minimum rate of $563 in 2019-20 to the 2018-19 minimum rates of other councils in the Sydney metropolitan area.

72 North Sydney Council, *Application Part B*, p 47.

Table 4.6 North Sydney Council's proposed increases in the minimum rate (2018-19 to 2023-24)

Rating category	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Cumulative increase
Residential $	**526**	**563**	**602**	**644**	**689**	**737**	
$ increase		37	39	42	45	48	211
% increase		7.0	6.9	7.0	7.0	7.0	40.1
Business $	**526**	**563**	**602**	**644**	**689**	**737**	
$ increase		37	39	42	45	48	211
% increase		7.0	6.9	7.0	7.0	7.0	40.1

Note: 2018-19 is included for comparison.

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

Table 4.7 Comparison of ordinary the minimum rate to average ordinary rates (2018-19)

	Minimum rate	Average of ratepayers not on minimum	Variance ($)	Variance (%)
Residential	526	1,179	653	55.4
Business	526	6,738	6,212	92.2

Note: The table shows the average ordinary rate and excludes any special rates applying to each rating category.

Source: IPART calculations based on North Sydney Council, *Application Part A*, Worksheet 2.

We compared the Council's minimum residential rate with its average residential rate and found that its current minimum rate of $526 is 55.4% lower than the average residential rate of those ratepayers who are paying above the minimum rate ($1,179). We also found that its minimum business rate of $526 is 92.2% lower than the average business rate of those ratepayers who are paying above the minimum rate ($6,738). These figures for the 2018-19 rating year are shown in Table 4.7.

We note the comparison above does not take into consideration special rates applying to each rating category. The Council indicated its various special rates for both its residential and business ratepayers consist of both a base amount and an ad valorem rate.[73] Therefore, if the rate increase proposed for the other rates is not applied to the minimum amount, the increase in rates would disproportionately impact other ratepayers in the rating category. We note applying the percentage increases across all of the ratepayer base maintains the same relative rating burden that currently exists between those paying the minimum amounts and those who are not.

We also compared the proposed minimum rate to other councils in the Sydney metropolitan area. This found that the proposed minimum rate is lower than the average for other councils in the Sydney metropolitan area, as shown in Table 4.8.

73 North Sydney Council, *Application Part A*, Worksheet 2.

Table 4.8 Councils in the Sydney metropolitan area Minimum Rates (2018-19 to 2019-20)

Council	Residential 2018-19 ($)	Business 2018-19 ($)	Percentage of ratepayers on the minimum rate 2018-19 (%)
North Sydney (proposed minimum rate in 2019-20)	**563**	**563**	**72**
North Sydney (current rate in 2018-19)	526	526	73
Former Ashfield (now Inner West)	-	778	Not available
Former Auburn (now Cumberland)	580	580	Not available
Blacktown	952	925	Not available
Blue Mountains	706	1,292	Not available
Former Botany (now Bayside)	525	525	Not available
Burwood	930	1,017	31
Burwood (Residential Town Centre/Business D and Town Centre Minor)	1,186	1,301	22
Canada Bay	691	691	55
Canterbury Bankstown	604	739	22
Hunter's Hill	545	-	26
Former Holroyd (now Cumberland)	508	1,175	Not available
Hornsby Shire	-	569	Not available
Former Hurstville (now Georges River)	556	556	32
Former Kogarah (now Georges River)	917	917	47
Ku-Ring-Gai	526	526	36
Lane Cove	886	886	Not available
Former Leichhardt (now Inner West)	652	652	25
Former Manly (now Northern Beaches)	817	1,066	Not available
Former Marrickville (now Inner West)	674	-	36
Former Parramatta (now Cumberland)	672	686	Not available
Parramatta	672	686	Not available
Penrith	1,059	1,277	Not available
Former Pittwater (now Northern Beaches)	885	1,129	Not available
Randwick	806	1,298	54
Former Rockdale (now Bayside)	729	729	28
Ryde	552	552	Not available
Sutherland[a]	602	602	25
Sydney	557	713	76
Former Warringah (now Northern Beaches)	971	1,247	Not available
Waverley	627	-	Not available
Willoughby	834	1,191	Not available
Wollondilly Shire (Residential other/Rural)	1,418	1,418	Not available
Wollondilly Shire (Residential Town Centre)	1,304	-	Not available
Woollahra Municipal	626	626	1

Council	Residential 2018-19 ($)	Business 2018-19 ($)	Percentage of ratepayers on the minimum rate 2018-19 (%)
Average	**768**	**879**	-
Proposed minimum rate variance from average	**-27%**	**-36%**	-
Average escalated with 2.7% rate peg	789	903	-
Proposed minimum rate variance from escalated average	-29%	-38%	-

a Sutherland Shire has also applied to increase its minimum rate in 2019-20. It proposed to increase its minimum ordinary rate for residential and business ratepayers from $602 in 2018-19 to $900 in 2019-20.

Note: OLG does not maintain a database of the minimum rate for all councils. IPART checked the website of councils in the Sydney metropolitan area for the minimum rate charged.

Source: Individual Council websites, *Application Part A* for North Sydney Council, Randwick City Council, Sutherland Shire Council, Burwood Council, Ku-ring-gai Council and Hunter's Hill Council; and IPART calculations.

We consider the minimum rate increase is reasonable as it reduces the gap paid by those on the minimum rate and those not on the minimum rate to reflect equity in the services consumed by ratepayers, compared to if the full proposed SV percentage is not applied to the minimum residential and business rate. In addition, the proposed minimum rate is lower than most other councils in the Sydney metropolitan area.

4.4.3 The Council's consultation with the community

The Council communicated it intended to increase its minimum rate through its IP&R documents and community materials. We note the Council did not clearly communicate the annual dollar value nor dollar impact of its proposed minimum rate increase. However, an Information Sheet sent to all ratepayers and its Delivery Program indicated "The proposed variation will apply across all ratepayers including the 76% of residential ratepayers and 33% of business ratepayers paying the minimum rate".[74] Given that its consultation materials communicated the Council was seeking a "special rate variation of 7% per annum for five years"[75] we consider the Council sufficiently communicated the impact on its minimum rate. That is, we consider the Council communicated that its minimum rate would increase by 7.0% per year.

Therefore, we consider, on balance, the Council has sufficiently consulted the community on its proposal to increase its minimum rate.

4.5 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's needs and demands.

74 North Sydney Council, *Application Part B*, p 25; and North Sydney Council, *Attachment 8 – Community Engagement Materials – Information Sheet*, p 1.

75 North Sydney Council, *Application Part B*, p 24; and North Sydney Council, Proposed SRV and Minimum Rate Increase, https://yoursay.northsydney.nsw.gov.au/proposed-srv, accessed 1 March 2019.

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

The relevant documents are the Community Strategic Plan, Delivery Program, LTFP and, where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended) public exhibition for 28 days. The OLG Guidelines require that the LTFP be posted on the Council's website.

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

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

4.5.1 Assessment of the content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the need for, and purpose of, the proposed SV in both its Delivery Program and LTFP. The Council's LTFP also briefly canvassed alternatives to the rate rise, such as reviewing its user fees and charges as discussed in Section 4.1.1.

The LTFP indicates the financial impact of the proposed SV by presenting both the Baseline Scenario reflecting the business as usual model excluding the proposed SV and the Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.[76]

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

The Council's IP&R documents did not communicate the correct full impact of the proposed rate increase to ratepayers in cumulative percentage terms. Its Delivery Program communicated the total percentage cumulative increase over the five years of the proposed SV as 36.40% for its average residential ratepayer and 32.70% for its average business ratepayer.[77] This was based on adding the year-to-year percentage increases over each of the five years of the proposed SV for each rating category.[78] Based on the Council's application, the actual average cumulative increase over the five years is 41.98% for residential ratepayers and 35.96% for business ratepayers.[79] We note the differences occurred due to the Council applying a different method to calculate the total cumulative percentage.

The IP&R documents also did not include the annual dollar impact of the proposed rate increases for its average ratepayer, by rating category. Instead, the Delivery Program

76 North Sydney Council, *Resourcing Strategy 2018-2028*, pp 95-107.
77 North Sydney Council, *Delivery Program 2018/19-2020/21*, p 18.
78 Email to IPART, North Sydney Council, 28 February 2019.
79 North Sydney Council, *Application Part A*, Worksheet 5a.

included the cumulative dollar impact of the proposed SV over the five years for the average residential and average business ratepayer.[80]

Although the Council's IP&R documents communicated a slightly lower cumulative percentage increase of the proposed SV over the five years and did not communicate the annual dollar impact of the proposed SV, we note the Council's Delivery Program did direct its ratepayers to an information sheet on its website.[81] This information sheet also communicated the incorrect cumulative percentage impact of the proposed SV, but it did communicate the full dollar impact of the proposed SV across the five years for the average residential and average business ratepayer. Therefore, on balance, we consider the Council sufficiently communicated the impact of the proposed SV.

The impact of any rate rises upon the community

The Council's IP&R documents identify that its proposed SV would enable the Council to respond in a meaningful way to asset management and the desired outcomes of the Community Strategic plan. Its Delivery Program also noted "North Sydney's rates are currently comparably low and will remain amongst the lowest with a SRV – comparative to OLG Group 3 councils and neighbouring councils," demonstrating ratepayers' capacity to pay.[82] The Council's Delivery Program also acknowledged it considered its community's willingness to pay during its consultation period from 1 November 2018 to 16 January 2019.[83]

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

The Council publicly exhibited its draft Community Strategic Plan 2018-2028 from 10 May 2018 to 7 June 2018 and adopted it on 25 June 2018.[84] It also publicly exhibited its Delivery Program 2018-19 to 20-21 and Resourcing Strategy 2018-19 to 2027-28 (which incorporates its LTFP) from 1 November 2018 to 16 January 2019 setting out its proposed SV.[85] The Council placed copies on the Council's website and advertised the availability of these documents for public comment. It adopted its Delivery Program and LTFP on 29 January 2019.[86]

4.5.3 Overall assessment of the IP&R documents

We note the Council briefly discussed the community's capacity and willingness to pay the proposed rate increase and canvassed alternatives to the rate rise in its IP&R documents. Its Delivery Program communicated a slightly lower cumulative percentage increase of the proposed SV over the five years and did not communicate the annual dollar impact of the proposed SV. However, the Delivery Program included the cumulative dollar impact of the proposed SV over the five years for the average residential and average business ratepayer. In addition, its Delivery Program directed ratepayers to an information sheet on its website, which communicated the full dollar impact of the proposed SV across the five years for the average residential and average business ratepayer.

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80 North Sydney Council, *Delivery Program 2018/19-2020/21*, p 18.
81 North Sydney Council, *Delivery Program 2018/19-2020/21*, p 18.
82 North Sydney Council, *Delivery Program 2018/19-2020/21*, pp 18-20.
83 North Sydney Council, *Delivery Program 2018/19-2020/21*, p 17.
84 North Sydney Council, *Application Part B*, pp 56-58.
85 North Sydney Council, *Application Part B*, pp 59-60.
86 North Sydney Council, *Application Part B*, p 61.

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

4.6 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.

4.6.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvement and cost containment initiatives it has undertaken in recent years.[87] In particular, some of these include that it had saved:

- Approximately $300,000 to $445,000 per annum since 2012-13 for its carers program due to improved efficiency in scheduling practices[88]
- $193,000 per annum since 2012-13 from reviewing its organisation structure[89]
- $233,256 per annum since 2012-13 and an additional one-off cost saving of $456,905 from energy efficiency initiatives[90]
- $50,000 per annum since 2016-17 by reducing one IT staff related position.[91]

4.6.2 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, some of the measures it proposes include:[92]

- $92,444 in annual savings by replacing its GreenPower purchases with its renewable energy contract
- $70,000 in annual savings associated with running kerbside collection services
- $40,000 in annual savings by replacing its current communication technology with Skype for Business
- $30,000 in annual savings by establishing an asset management working group for improved and informed decision making

87 North Sydney Council, *Application Part B*, pp 63-34.
88 North Sydney Council, *Attachment 12 – Productivity improvements summary 2012/13 to future*, p 1.
89 North Sydney Council, *Attachment 11 – Planned Productivity Improvements Completed (as per 2012/13 SRV application)*, p 1.
90 North Sydney Council, *Attachment 12 – Productivity improvements summary 2012/13 to future*, pp 1-2, 6; and 9-10.
91 North Sydney Council, *Attachment 12 – Productivity improvements summary 2012/13 to future*, p 3.
92 North Sydney Council, *Application Part B*, pp 63-64; and North Sydney Council, *Attachment 12 – Productivity improvements summary 2012/13 to future*, pp 4, 7; and 9-11.

- $20,000 in annual savings by introducing electronic delivery of notices to reduce mailing and posting costs.

Submissions from the community to IPART

In relation to productivity improvements and cost containment:

- Many submissions stated that the Council should pursue greater efficiencies before applying for an SV
- The submissions expressed concern that the Council's spending is wasteful and unnecessary.

4.6.3 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.

5 Our Decision

We have partially approved the proposed SV for a 3-year period from 2019-20 to 2021-22. We have attached conditions to this decision, including that the Council uses the income raised from the SV for purposes consistent with those set out in its application, as outlined in Box 1.1.

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

We have also approved increases in the minimum rate for three years. The Council can increase its minimum rate from $526 in 2018-19 to $563 in 2019-20, $602 in 2020-21 and $644 in 2021-22, as outlined in Box 1.2.

5.1 Our decision's impact on the Council

Our decision means the Council may increase its general income over the 3-year SV period from $45.6 million in 2018-19 to $55.5 million in 2021-22. It reflects our assessment that the Council has only partly demonstrated the financial need for the proposed SV to enhance its financial sustainability and address its infrastructure backlog.

Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income, incorporating various adjustments that may occur. These increases will be permanently incorporated into the Council's revenue base. After 2021-22, the Council's PGI can increase by the annual rate peg unless we approve a further SV.[93]

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

Table 5.1 Permissible general income (PGI) of North Sydney Council from 2019-20 to 2021-22 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					45,554,825
2019-20	7.0	7.0	1,958,857	2,941,697[a]	48,496,522
2020-21	7.0	14.5	4,190,172	6,336,453	51,891.279
2021-22	7.0	22.5	6,630,034	9,968,843	55,523.668
Total cumulative increase approved				19,246,993	
Total above rate peg			**12,779,063**		

[a] Includes adjustment of a prior catch-up of -$247,141 ($45,554,825 x 0.07 – $247,141 = $2,941,697) that had not been recouped by the time the application was submitted to IPART and is to be recouped in 2019-20.

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

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

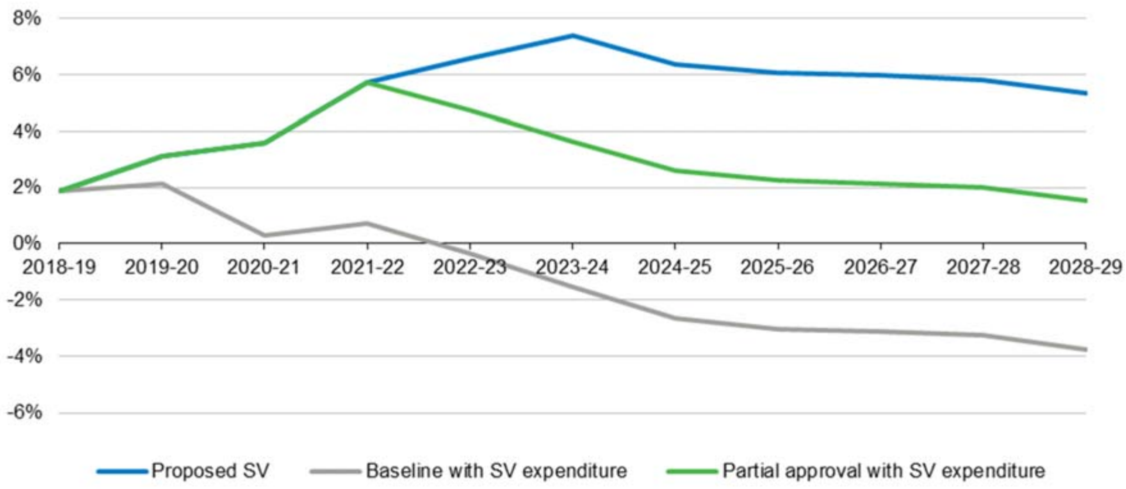
We estimate that over the three years to 2021-22, the Council will collect an additional $12.8 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is a portion of the amount the Council requested to enable it to undertake additional operating and capital expenditure for its infrastructure assets including footpaths, roads, seawalls and drainage to address deteriorating asset conditions; invest in public open space and recreation areas; enhance its financial sustainability and reduce its infrastructure backlog.[94]

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

94 North Sydney Council, *Application Part B*, pp 7-8.

Figure 5.1 Projected operating performance ratio (%) for North Sydney under three different scenarios (2018-19 to 2028-29)



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

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

Table 5.2 Projected operating performance ratio (%) for North Sydney Council under three different scenarios (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	3.1	3.6	5.7	6.6	7.4	6.4	6.1	6.0	5.8	5.3
Partial Approval	3.1	3.6	5.7	4.7	3.6	2.6	2.2	2.2	2.0	1.5
Baseline with SV expenditure	2.1	0.3	0.7	-0.3	-1.5	-2.6	-3.0	-3.1	-3.3	-3.8

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

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

Over the 10 years from 2019-20 to 2028-29, we estimate the Councils cumulative increase in its PGI revenue would be $64.1 million (see Table 1.2) above the rate peg under its approved SV, compared to $100.0 million (see Table 2.1) under its proposed SV application.

Therefore, our decision allows the Council to continue to improve its financial sustainability and also address its infrastructure backlog to meet the OLG benchmark of less than 2%. If it chooses, the Council may apply for a variation to this SV in the next three years or another SV after three years.

5.2 Our decision's impact on ratepayers

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

If the Council increases the rates as it has indicated in its application, the impact on ratepayers will be as shown in Table 5.3 and Table 5.4. By the end of the 3-year approved SV period (2021-22), the:

- Average residential rate will increase by $184 (23.9%), or an average of $61 per annum from 2018-19 levels
- Average business rate will increase by $933 (19.0%), or an average of $311 per annum from 2018-19 levels
- Minimum residential and business rate will increase by $118 (22.4%), or an average $39 per annum from 2018-19 levels.

Our decision would allow an increase **above the rate peg**, by the end of the approved 3-year SV period, for the:[95]

- Average residential rate of $115 (13.7%), or an average of $38 per annum over the approved SV period
- Average business rate of $701 (13.6%), or an average of $234 per annum over the approved SV period
- Minimum residential and business rate of $76 (13.5%), or an average of $25 per annum over the approved SV period.

95 IPART calculations based on North Sydney Council, *Application Part A*, Worksheet 5a.

Table 5.3 Indicative annual increases in average rates under North Sydney Council's approved SV (2018-19 to 2021-22)

Rating category	2018-19	2019-20	2020-21	2021-22	Cumulative Increase
Residential rate $	**772**	**835**	**894**	**957**	
$ increase		62	59	63	184
% increase		8.1	7.1	7.1	23.9
Business rate $	**4,921**	**5,112**	**5,477**	**5,855**	
$ increase		190	366	378	933
% increase		3.9	7.2	6.9	19.0

Note: 2018-19 is included for comparison. The average rate is calculated by North Sydney Council and includes the ordinary rate and any special rates applying to the rating category.

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

Table 5.4 Indicative minimum rate under North Sydney Council's approved minimum rate application (2018-19 to 2021-22)

Rating category	2018-19	2019-20	2020-21	2021-22	Cumulative increase
Residential $	**526**	**563**	**602**	**644**	
$ increase		37	39	42	118
% increase		7.0	6.9	7.0	22.4
Business $	**526**	**563**	**602**	**644**	
$ increase		37	39	42	118
% increase		7.0	6.9	7.0	22.4

Note: 2018-19 is included for comparison.

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

Appendices

A Assessment criteria for Special Variation and Minimum Rate Increase applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
Criterion 1 – Financial need The need for, and purpose of, a different revenue path for the Council's General Fund (as requested through the special variation) is clearly articulated and identified in the Council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios: ▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and ▼ Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation. The IP&R documents and the Council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.
Criterion 2 – Community awareness Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. The Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.
Criterion 3 – Impact on ratepayers is reasonable The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should: ▼ clearly show the impact of any rate rises upon the community, ▼ include the Council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.
Criterion 4 – IP&R documents are exhibited The relevant IP&R documents must be exhibited (where required), approved and adopted by the Council before the Council applies to IPART for a special variation to its general income.
Criterion 5 – Productivity improvements and cost containment strategies The IP&R documents or the Council's application must explain the productivity improvements and cost containment strategies the Council has realised in past years, and plans to realise over the proposed special variation period.
Additional matters In assessing an application against the assessment criteria, IPART considers the size and resources of the Council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.

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

Table A.2 Assessment criteria for minimum rate increase applications

Assessment criteria
Criterion 1 – Rationale The rationale for increasing minimum rates above the statutory amount.
Criterion 2 – Impact on ratepayers The impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category.
Criterion 3 – Consultation The consultation the Council has undertaken to obtain the community's views on the proposal.

Source: Office of Local Government, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit*, September 2018, p 9.

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

Table B.1 and Table B.2 show the Council's proposed expenditure of the SV funds over the next 10 years under its application.

The Council intended to use the additional SV revenue above the rate peg of $100.0 million over 10 years to fund:

- $8.3 million on operating expenditure to maintain existing services relating to graffiti removal, street cleaning, tree planning and various other council services.
- $91.8 million on capital expenditure.[96]

Under our approved SV, the Council will receive additional revenue above the rate peg of $64.1 million over 10 years (see Table 1.2).

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

96 Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A*, Updated Worksheet 6.

Table B.1 North Sydney Council – Income 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 income above assumed rate peg	**1,959**	**4,190**	**6,630**	**9,294**	**12,200**	**12,505**	**12,818**	**13,138**	**13,467**	**13,803**	**100,005**
Graffiti removal	-	68	70	72	74	76	78	81	83	86	688
Grass verge mowing	-	90	92	95	98	101	104	107	110	113	910
Street cleaning	-	120	123	127	130	134	134	143	147	151	1,210
Precinct support and economic development	-	130	133	137	141	146	150	154	159	164	1,315
Events	-	130	90	137	142	146	150	155	159	164	1,274
Tree planting	-	60	62	63	65	67	69	71	73	76	607
Subsidies to community groups	-	64	22	66	68	70	72	74	77	79	592
Maintain library and customer service centre	-	88	-	93	96	99	102	105	108	111	800
Sydney Coastal Councils contribution	-	36	-	38	39	40	41	42	44	45	325
Aboriginal Heritage Office contribution	-	40	-	64	66	68	70	72	75	77	534
Capital expenditure[a]	1,959	3,364	6,038	8,402	11,280	11,558	11,847	12,134	12,432	12,738	91,751
Total expenditure	**1,959**	**4,190**	**6,630**	**9,294**	**12,200**	**15,505**	**12,818**	**13,138**	**13,467**	**13,803**	**100,005**

a The Council's proposed 10-year capital expenditure program is detailed in Table B.2 on the following page.

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

Source: Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A,* Updated Worksheet 6.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Renewals											
Streetscape upgrades	1,000	1,000	2,000	-	-	-	-	-	-	-	4,000
Parks and reserves master plan implementation	-	1,200	1,200	2,200	2,200	1,000	1,000	700	1,200	1,200	11,900
Parks and playground	200	-	300	200	-	400	350	1,050	800	1,000	4,300
Walking tracks	-	90	90	120	180	-	-	-	-	-	480
Sports field	-	-	300	450	300	350	550	-	-	-	1,950
Public amenities	-	-	-	-	350	350	400	400	400	400	2,300
Roads and footpaths	75	-	449	1,570	2,050	3,000	3,000	3,400	3,400	3,500	20,444
Stormwater drainage and gross pollutant traps	120	14	447	2,640	3,400	3,400	3,400	3,400	3,400	3,400	23,621
Seawalls and marine structures	455	604	835	824	1,485	1,658	1,747	1,784	1,832	1,838	13,061
Retaining walls	109	220	121	40	940	1,000	1,000	1,000	1,000	1,000	6,430
Streetscape lighting	-	236	296	358	375	400	400	400	400	400	3,265
Total Asset Renewal	**1,959**	**3,364**	**6,038**	**8,402**	**11,280**	**11,558**	**11,847**	**12,134**	**12,432**	**12,738**	**91,751**
Total Capital Expenditure	**1,959**	**3,364**	**6,038**	**8,402**	**11,280**	**11,558**	**11,847**	**12,134**	**12,432**	**12,738**	**91,751**

Note: Numbers may not add due to rounding.

Source: Email to IPART, North Sydney Council, 28 February 2019; and North Sydney Council, *Application Part A,* Updated Worksheet 6.

C North Sydney Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report in 2019-20, 2020-21, 2021-22 and 2022-23 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 North Sydney Council's proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	120,471	121,823	127,851	132,443	137,347	140,165	143,077	146,783	150,600	154,682
Total expenses	113,396	114,115	118,226	121,454	124,959	128,932	132,098	135,718	139,544	144,095
Operating result from continuing operations	7,076	7,708	9,625	10,989	12,388	11,233	10,980	11,065	11,056	10,586
Net operating result before capital grants and contributions	4,036	4,668	7,585	8,949	10,348	9,193	8,940	9,025	9,016	8,546

Note: Numbers may not add due to rounding.

Source: North Sydney 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 North Sydney Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	383	391	398	389	0.5
Ratio of population to FTE	180	179	181	185	1.0
Average cost per FTE ($)	92,843	99,120	101,869	106,342	4.6
Employee costs as % operating expenditure (General Fund only) (%)	38.1	41.4	40.9	39.0	-

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 North Sydney Council (2016-17)

	North Sydney Council	OLG Group 3 average	NSW average
General profile			
Area (km^2)	11	-	-
Population (2016)	72,037	-	-
General Fund operating expenditure ($m)	106.2	181.2	76.3
General Fund operating revenue per capita ($)	1,853	-	-
Rates revenue as % General Fund income (%)	38.6	48.3	42.5
Own-source revenue ratio (%)	81.1	70.8	66.0
Average rate indicators[a]			
Average rate – residential ($)	751	1,005	1,053
Average rate – business ($)	3,696	6,396	5,738
Average rate – farmland ($)	-	2,840	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	122,720	98,249	77,272
Average residential rates to median income, 2016 (%)	0.6	1.0	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	127	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	1.1	3.2	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	389	761	356
Ratio of population to FTE	185.2	-	-
Average cost per FTE ($)	106,342	100,803	91,762
Employee costs as % operating expenditure (General Fund only) (%)	39.0	41.5	38.8

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

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

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

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

E Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	Shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
Proposed SV Scenario	Includes the Council's proposed SV revenue and expenditure.

SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV	Special Variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.