Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Richmond Valley Council 2019-20

Final Report
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The Independent Pricing and Regulatory Tribunal (IPART)

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Contents

1 Executive summary 1

1.1 We have approved Richmond Valley Council's application for a Special Variation 1

1.2 Reasons for our decision 3

1.3 Structure of this report 6

2 Richmond Valley Council's application 7

2.1 Purpose 7

2.2 Need 7

2.3 Significance of proposal 7

2.4 Resolution by the Council to apply for a Special Variation 8

3 Submissions to IPART 9

4 IPART's assessment 10

4.1 Financial need for the proposed Special Variation 11

4.2 Community engagement and awareness 17

4.3 Impact on affected ratepayers 21

4.4 Integrated Planning and Reporting documents 25

4.5 Productivity improvements and cost containment strategies 27

5 Our Decision 29

5.1 Our decisions' impact on the Council 29

5.2 Our decision's impact on ratepayers 30

Appendices 31

A Assessment criteria for Special Variation applications 32

B Expenditures to be funded from the Special Variation above the rate peg 34

C Richmond Valley's projected revenue, expenses and operating balance 36

D Comparative indicators 38

E Glossary 40

1 Executive summary

Richmond Valley 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 **4-year** SV to:

- Increase its general income by 5.5% per annum for each year from 2019-20 to 2022-23, **a cumulative increase of 23.9%**.
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to enhance its financial sustainability, maintain existing services, and maintain and renew infrastructure.[4] The Council proposes directing the majority of its expenditure towards renewing community assets.[5]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $3.9 million (6.9% of total income) over the four years of the SV (see Table 1.1). As the proposed SV is permanent, this would mean a cumulative increase in its PGI revenue of $14.8 million above the assumed rate peg over 10 years (see Table 2.1).

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

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

1.1 We have approved Richmond Valley Council's application for a Special Variation

We decided to approve the proposed SV in full.

Our decision means that the Council may increase its general income between 2019-20 and 2022-23 by the annual percentages outlined in Box 1.1. This will allow the Council to improve its financial sustainability and to fund operating and capital expenditure for its infrastructure.

The annual increases include the rate peg of 2.7% in 2019-20, and an assumed rate peg of 2.5% in future years. The cumulative increase that we have approved of 23.9% is 13.3 percentage

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

4 Richmond Valley Council, *Application Part A*, Worksheet 6; and Richmond Valley Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, pp 4-5.

5 Richmond Valley Council, *Application Part A*, Worksheet 6.

points more than the assumed cumulative rate peg for these years. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Richmond Valley Council

Approved Special Variation: percentage increases to general income

	2019-20	2020-21	2021-22	2022-23
Increase above rate peg - permanent	2.8	3.0	3.0	3.0
Rate Peg[6]	2.7	2.5	2.5	2.5
Total increase[7]	**5.5**	**5.5**	**5.5**	**5.5**

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.[8]

Conditions attached

IPART's approval of the Council's application for a special variation over the period 2019-20 to 2022-23 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 2023-24 on:
  - The program of expenditure that was actually funded by the additional income
  - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the Council's application, and summarised in Appendix C
  - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - Expenditure consistent with the Council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
  - The outcomes achieved as a result of the actual program of expenditure.

The Council estimates that over the four years to 2022-23, it will collect an additional $3.9 million in 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).[9]

6 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.
7 The SV percentage approved will not change to reflect the actual rate peg in future years.
8 The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.
9 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates.

Table 1.1 Permissible general income (PGI) of Richmond Valley Council from 2019-20 to 2022-23 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					12,448,964
2019-20	5.5	5.5	348,571	732,454[a]	13,181,418
2020-21	5.5	11.3	752,728	1,457,432	13,906,396
2021-22	5.5	17.4	1,188,738	2,222,284	14,671,248
2022-23	5.5	23.9	1,658,594	3,029,202	15,478,167
Total cumulative increase approved				7,441,372	
Total above rate peg			**3,948,630**		

[a] Includes an adjustment of a prior catch-up of $47,761 ($12,448,964 x 0.055 + $47,761 = $732,454) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20.

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

Source: Richmond Valley Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

As the approved SV is permanent, it would mean a cumulative increase in the Council's PGI revenue of $14.8 million above the assumed rate peg over 10 years. This represents 9.3% of the Council's total cumulative PGI over the 10-year period (see Table 2.1).

1.2 Reasons for our decision

Our decision reflects our finding that, on balance, the Council's application largely meets the criteria in the OLG Guidelines. While we have identified some minor shortcomings in how two of the five criteria have been addressed, we consider that approval of the Council's application is reasonable in the circumstances, given the Council's financial need for additional revenue to improve its financial sustainability.

The Council's forecasts show that there is a financial need to increase its recurrent revenue above the rate peg to be financially sustainable. The average Operating Performance Ratio (OPR) over five years would remain below the OLG Benchmark of greater than or equal to 0% with the proposed SV, but would improve with the additional SV revenue.[10]

On balance, the Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Community Newsletter sent to all ratepayers only showed the impact over two of the four years of the proposed SV. However, we consider the community consultation was sufficient as the dollar impact over four years was available in other engagement materials and the Newsletter mentioned the total amount to be raised over the 4-year proposed SV period.

We found that the impact on affected ratepayers of the Council would be reasonable given its low rates compared to the Group 4 average and rates in neighbouring councils, and the Council's need to increase its revenue to be financially sustainable. We note that there is

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

currently a 5-year permanent SV with a cumulative impact of 39.1% ending in 2018-19 and the Council's area is considered to be relatively disadvantaged. However, the average rates at the end of the 4-year proposed SV period would be similar to the estimated Group 4 average rate levels.

The Council's Integrated Planning and Reporting (IP&R) documents contain sufficient information relating to the proposed SV and have been appropriately exhibited by the Council. The Council updated the previously adopted IP&R documents to include the proposed SV, however, the Council considered it to be an addendum only that was not required to be formally re-adopted.[11]

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

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

Table 1.2 Assessment of Richmond Valley Council's proposed SV application

1. Financial Need	
Demonstrated	The Council demonstrated the financial need for the proposed SV. Its: ▼ OPR (average 2019-20 to 2023-24) is: – -10.9% under the Proposed SV Scenario, below the OLG benchmark of greater than or equal to 0% – -14.1% without SV revenue and with the proposed SV expenditure (the Baseline with SV expenditure Scenario) and without SV revenue and without SV expenditure (the Baseline Scenario. ▼ Net cash is projected to be $17.6 million or 47.3% of income in 2018-19. ▼ The Council held no unrestricted cash and investments as at 30 June 2018.
2. Community awareness	
Largely demonstrated	The Council demonstrated the community is aware of the proposed rate rise. It: ▼ Used a range of engagement methods to make the community aware of the need for, and extent of, the proposed rate increase. ▼ Provided detailed explanation about the purpose and impact of the proposed SV and sought feedback. ▼ Satisfactorily considered community feedback on the rate increase. However, the Community Newsletter sent to all ratepayers only showed the dollar impact of the proposed SV over two of the four years and did not communicate the cumulative impact.
3. Reasonable Impact on ratepayers	
Demonstrated	The Council examined the impact on of the proposed SV on ratepayers and found it would be reasonable. It considered: ▼ Its average rates are lower than other Northern Rivers Councils, which include Ballina, Byron, Clarence Valley, Kyogle, Lismore and Tweed. ▼ The unemployment rate has decreased from 2013 to 2018. ▼ The outstanding rates and charges ratio has fallen and is below the local government benchmark. ▼ The median mortgage payment and weekly rent is lower than the NSW average.

11 Email to IPART, Richmond Valley Council, 22 February 2019.

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

- Average residential rate levels without the proposed SV were lower than the Group 4 average and lower than the weighted average for neighbouring councils.
- The rates to income ratio without the proposed SV was comparable to the Group 4 average and neighbouring councils.
- The outstanding rates ratio without the proposed SV was higher than the Group 4 average and neighbouring councils.
- The Council's SEIFA[12] ranking (6) is lower than the rankings of its neighbouring councils, indicating a higher level of disadvantage.

IPART also considered the comparison of the Council's average rate levels with the proposed SV against the OLG Group 4[13] average rate levels over the proposed 4-year SV period to 2022-23. We found that the Council's:

- Average residential rate with the proposed SV would be $1,198, which is higher than the estimated average residential rates of $1,186 for OLG Group 4.
- Average business rate with the proposed SV would be $3,484, which is lower than the estimated average business rates of $4,302 for OLG Group 4.
- Average farmland rate with the proposed SV would be $1,990, which is lower than the estimated average farmland rates of $2,327 for OLG group 4.

We consider that the impact is reasonable given the Councils low rates compared to Group 4 averages and neighbouring councils, and the Council's financial need. We also note that the Council is considered to be relatively disadvantaged and has a 5-year permanent SV with a cumulative impact of 39.1% ending in 2018-19.

4. IP&R documents exhibition

Partly demonstrated

The Council adopted its Community Strategic Plan in June 2017. It exhibited its Revised Delivery Program 2017-2021 (Delivery Program) and Long Term Financial Plan 2018-2028 (LTFP) during May 2018 to June 2018 and adopted these documents on 26 June 2018.

However, the Council did not appropriately update its IP&R documentation:

- The adopted Delivery Program and LTFP did not reflect the proposed SV application, but the documents showing the proposed SV were exhibited to the community during the consultation period.
- The IP&R documents did not show the cumulative impact of the proposed SV on rates.
- The Delivery Program only showed the impact over two of the 4-year proposed SV period.
- The IP&R documents did not discuss the community's willingness to pay or alternatives to raising revenue.

5. Productivity improvements and cost containment

Demonstrated

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

- Efficiency dividend in salary budgets following an organisational restructure ($360,500 savings in current year budget).
- Going to tender for the cost of premiums and risk management services in 2017 ($330,824 savings).

The Council has also planned future efficiency measures over the proposed SV period, including:

- Investment in a ground mounted solar panel farm (estimated $37,000 savings per year).
- Lighting upgrades (estimated $4,169 savings per year).

12 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.

13 See Appendix D. Richmond Valley Council is in OLG Group 4, which is classified as Regional Town/City, Small/Medium, part of an Urban Centre (population up to 70,000). The group comprises 26 councils, including Albury, Ballina, Byron, Clarence Valley, Lismore and Tamworth.

1.3 Structure of this report

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

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

2 Richmond Valley Council's application

The Council has applied for an SV to increase its general income by a cumulative 23.9% over four years from 2019-20 to 2022-23. The proposed SV is evenly spread across the period, with a 5.5% increase each year. The application is for an increase that remains permanently in the rate base. The Council indicated that it would be applied across all rating categories.[14]

The Council has an existing SV of 12.3% in 2014-15 and 5.5% each year for the following four years to 2018-19. This existing SV remains permanently in the rate base. The Council reports on the purpose of this SV, how much of the SV has been spent and on what expenditure, in its annual reports.[15]

2.1 Purpose

The purpose of the proposed SV is to enhance the Council's financial sustainability, maintain existing services, and maintain and renew council infrastructure and community facilities in response to increased population and visitation levels. The Council is committed to using the revenue generated by the proposed SV to focus on asset renewal and maintenance and to fully fund depreciation. It is also focused on long term financial sustainability as the current budget faces increasing deficits at current service levels.[16]

2.2 Need

The Council identified that the proposed SV is required to continue to achieve the financial benchmarks required under the Fit for the Future reforms. The Council also identified that shortfalls in maintaining essential services are due to an infrastructure renewal and maintenance backlog. During the consultation process, the community expressed a desire to maintain its current service levels and ensure its finances are sustainable.[17]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $14.8 million above what the assumed rate peg would deliver over 10 years. This represents 9.3% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 12.0% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

14 Richmond Valley Council, *Application Part B*, p 4.
15 Richmond Valley Council, *Annual Report 2017-18, Special Variation to General Income*, p 55.
16 Richmond Valley Council, *Application Part B*, pp 4-5.
17 Richmond Valley Council, *Application Part B*, pp 9-10.

Table 2.1 Permissible general income (PGI) of Richmond Valley 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 (%)
14.8	158.6	9.3

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

Source: Richmond Valley Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The Council would fund the proposed SV by increasing the rates for all rating categories. The Council stated that the rates are affordable, as the average residential rates are the lowest in the Northern Rivers region. The average rates for business and farmland rating categories are the second lowest in the Northern Rivers region (see Section 4.3.1).

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 7 February 2019. All councillors were in favour of the resolution.[18]

[18] Richmond Valley Council, *Extraordinary Council Meeting, 7 February 2019*, p 4.

3 Submissions to IPART

IPART received 12 submissions, including two petitions with 360 and 289 signatures, during the consultation period from 11 February 2019 to 14 March 2019. Key issues and views raised were:

- The Council is a serial SV applicant.
- The Council should live within its means and better manage its finances.
- The proposed SV would cause unfair hardship to pensioners as rates have already been increasing in the past five years and pensioner rebates have not increased for 26 years.
- Inefficient spending and bad investments by the Council.
- Concern about investment in Casino at the expense of Evans Head.
- The Council did not consult with a large enough portion of the population and show the total and cumulative impact over four years.
- The Council's area is the most disadvantaged in the region and the Council has not considered its ratepayers affordability and capacity to pay.
- The region has a higher population of seniors and unemployed people compared to the state average and the area has suffered recent drought and flooding.
- The burden of rates is unfairly placed on Evans Head, which has higher average land values and average rates.
- The Council has not been honest in communicating the reason for the proposed SV – which is cost shifting by state and federal governments.
- The Council's management of big development projects needs close and independent scrutiny.
- The Council received a windfall of around $1,000,000 from the sale of the Evans Head site for the proposed 'HealthOne' project, which could fund the proposed SV expenditure.

We considered all 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.

Five of the submissions raised issues around the Council's consultation process, specifically that the Council did not raise awareness of the proposed SV with a sufficient proportion of ratepayers. We examined the specific steps the Council undertook to communicate with ratepayers when examining the consultation process and materials in Section 4.2.1.

We note that the Council received nine written submissions in relation to its proposed SV during its consultation period, with eight of these opposing the proposed SV. This is discussed further in Section 4.2.2.

4 IPART's assessment

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

The five criteria in the OLG Guidelines are:

- **Criterion 1 - Financial need:** The need for, and purpose of, a different revenue path for 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 SV proposed.

Our Assessment

We found that the Council's application largely meets the requirements of the criteria, as set out in the OLG Guidelines.

The Council's forecast shows that there is a financial need to increase its recurrent revenue above the rate peg to be financially sustainable. The average OPR over five years is -10.9% under the Proposed SV Scenario and -14.1% without the proposed SV revenue and with the proposed SV expenditure (Baseline with SV expenditure Scenario). The Council has also forecast this result with no SV revenue and no SV expenditure (Baseline Scenario). All of these results are below the OLG benchmark of greater than or equal to 0%. The Council held no unrestricted cash and investments as at 30 June 2018.

On balance, the Council demonstrated that its community is aware of the need for, and extent of, the proposed rate increase. The Community Newsletter sent to all ratepayers only showed the impact over two of the four years of the proposed SV. However, we consider the community consultation was sufficient as the dollar impact over four years was available in other engagement materials and the Newsletter mentioned the total amount to be raised over the 4-year proposed SV period.

We found that the impact on affected ratepayers of the Council would be reasonable given its low rates compared to the Group 4 average and rates in neighbouring councils, and the Council's need to increase its revenue to be financially sustainable. We note that there is currently a 5-year permanent SV, with a cumulative impact of 39.1%, ending in 2018-19 and the Council's area is considered to be relatively disadvantaged. However, the average rates at the end of the 4-year proposed SV period would be similar to the estimated Group 4 average rate levels.

The Council's IP&R documents contain sufficient information relating to the proposed SV and have been appropriately exhibited by the Council. The Council updated the previously adopted IP&R documents to include the proposed SV, however, the Council considered it to be an addendum only that was not required to be formally re-adopted.

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

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

4.1 Financial need for the proposed Special Variation

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

- The Council sets out the need for and purpose of the proposed SV in its IP&R documents, including its Delivery Program, Long-Term Financial Plan and Asset Management Plan where appropriate.
- Relevant IP&R documents should canvas alternatives to the rate rise.
- The Council may include evidence of community need/desire for service levels or projects.

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

- Operating performance
- Net cash (debt).

Where relevant, IPART also uses information provided by the Council to assess its need for the proposed SV to reduce its infrastructure backlog and/or increase its infrastructure renewals, by assessing the Council's:

- Infrastructure backlog ratio
- Infrastructure renewals ratio.

Generally, we would consider a council with a consistent operating surplus to be financially sustainable. The Council's forecast operating result shows whether the income it receives covers its operating expenses each year. We consider that the most appropriate indicator of operating performance is the OPR.

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

$$OPR^{19} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

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. **Baseline with SV expenditure Scenario** - which includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.

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

While the OPR is a good guide to a council's ongoing financial performance (or sustainability), we may also have reference to a council's financial position, and in particular its net cash (or net debt).[20] This may inform us as to whether the Council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the Council's net cash position in 2018-19 and as a percentage of income to gauge its financial position.

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

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

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

Where relevant, 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%.[21] It is defined as:

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

Where relevant, we also consider the Council's infrastructure renewals ratio, which assesses the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG for the ratio is greater than 100%.[23] It is defined as:

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

These infrastructure ratios were not relevant to the Council's application.

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

The Council's Delivery Program clearly sets out the need for, and purpose of, the proposed SV, which is to:[25]

- Maintain existing services
- Enhance financial sustainability
- Fund infrastructure maintenance and renewal.

The Council's Delivery Program clearly sets out its need to maintain financial sustainability, meet levels of service expected by the community and maintain new assets. It also explained the Council has limited resources and government grants are not keeping pace with expenditure needs, which has resulted in the need for additional revenue.[26] Feedback from the Council's consultation showed that the community considered it necessary for the Council to improve infrastructure, maintain roads and maintain services.[27]

The Council's Long-Term Financial Plan (LTFP) does not discuss the need for, and purpose of, the proposed SV.

The IP&R documents do not have any discussion on alternatives to the rate rise.

In its application, the Council also considered the use of borrowings to fund its identified needs. The Council has existing borrowings in excess of $6.1 million over 10 years. The Council chose the proposed SV option over borrowings as additional borrowings would have worsened its debt service ratio and it considered building the rate base was more prudent. In

21 Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.
22 Historical cost less accumulated depreciation.
23 Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.
24 Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or refurbishment of old assets) that increases capacity/performance.
25 Richmond Valley Council, *Revised Delivery Program 2017-2021 (Delivery Program)*, pp 58-59.
26 Richmond Valley Council, *Delivery Program*, p 58.
27 Richmond Valley Council, *Application Part B*, p 34.

addition, the Council stated that the community wanted to increase service levels by increasing funding each year in line with the cost of providing the service.[28]

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

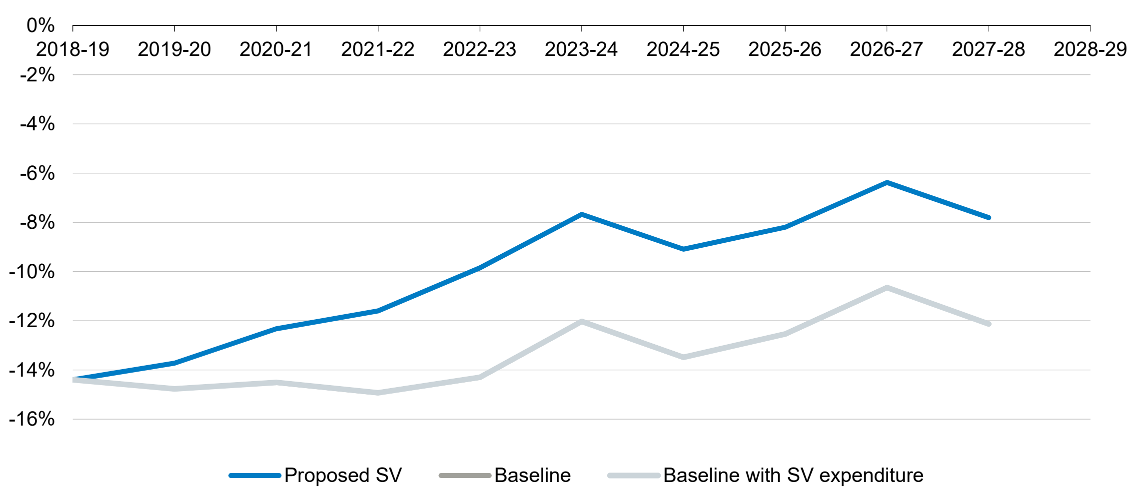
The Council's forecast operating result

Under the Proposed SV Scenario, the Council forecasts improving operating performance, reaching -7.8% by 2027-28. The cumulative value of the forecast operating deficits (before capital grants and contributions) is $33.0 million to 2027-28. The SV revenue would allow the Council to deliver its proposed levels of service, improve its financial sustainability and fund infrastructure maintenance and renewal.

Without the proposed SV and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts slower improvements in operating results, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The cumulative value of these forecast operating deficits (before capital grants and contributions) is $45.6 million to 2027-28 under this scenario.

The Council has forecast the same OPR under both the Baseline with SV expenditure Scenario and the Baseline Scenario as the expenditure is the same for both scenarios. This is because at the time of the Council's application, it was still in the process of preparing the budget for next year, which will confirm which service levels would be reduced with no SV revenue.[29]

Figure 4.1 Richmond Valley Council's Operating Performance Ratio (%) excluding capital grants and contributions (2018-19 to 2027-28)



Data source: Richmond Valley Council, *Application Part A*, Worksheet 8 and IPART calculations.

Note: The Baseline and Baseline with SV expenditure scenarios forecast the same OPRs and are represented by the Baseline line.

28 Email to IPART, Richmond Valley Council, 22 February 2019.

29 Email to IPART, Richmond Valley Council, 17 April 2019.

Table 4.1 Projected operating performance ratio (%) for Richmond Valley Council's proposed SV application (2019-20 to 2027-28)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Proposed SV	-13.7	-12.3	-11.6	-9.9	-7.7	-9.1	-8.2	-6.4	-7.8
Baseline	-14.8	-14.5	-14.9	-14.3	-12.0	-13.5	-12.5	-10.7	-12.1
Baseline with SV expenditure	-14.8	-14.5	-14.9	-14.3	-12.0	-13.5	-12.5	-10.7	-12.1

Source: IPART calculations based on Richmond Valley Council, *Application Part A*, Worksheet 8.

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

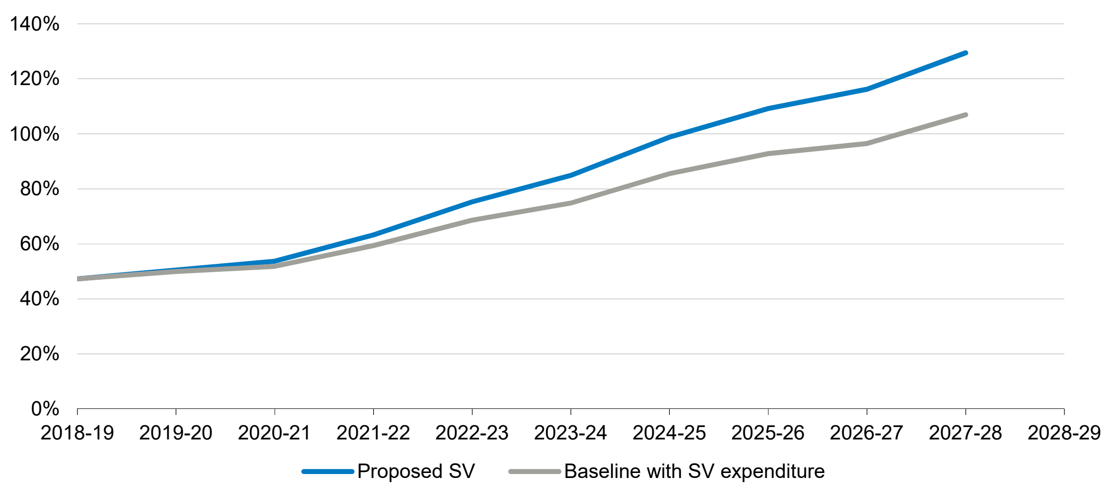
- -10.9% under the Proposed SV Scenario
- -14.1% under the Baseline Scenario
- -14.1% under the Baseline with SV expenditure Scenario.

Impact on the Council's net cash (debt)

We calculate the Council's net cash is $17.6 million or 47.3% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase.

We estimates that, as at 2027-28, the net cash to income ratio would be 129.5% under the Proposed SV Scenario and 107.0% under the Baseline with SV expenditure Scenario. The Council's forecast net cash (debt) position over the next nine years is shown in Figure 4.2 below.

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



Data source: Richmond Valley Council, *Application Part A*, Worksheet 8 and IPART calculations.

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

- 66.2% under the Proposed SV Scenario
- 61.3% under the Baseline with SV expenditure Scenario.

Submissions from the community to IPART

IPART received 12 submissions, including two petitions with 360 and 289 signatures, during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, the submissions raised concerns surrounding the management of large development projects and that the Council should live within its means as other regional councils have without applying for an SV. Two submissions also stated that the Council had received a windfall of around $1,000,000 from the sale of the Evans Head site for the proposed 'HealthOne' project that could obviate the need for a special rate rise.[30]

We have assessed the Council's projected financial performance overall and need for the proposed SV in Section 4.1.3.

4.1.3 Overall assessment of the Council's financial need

The Council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (but without the additional income from the proposed SV revenue), its OPR would average –14.1% over the next five years, reaching -14.3% over the four years of the proposed SV and -13.2% over the nine years to 2027-28. This suggests 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 -10.9%, reaching -9.9% in 2022-23 (the final year of the proposed SV) and -7.8% in 2027-28. The proposed SV revenue would put the Council on a more sustainable path, given the program of expenditure set out in its application, as it is closer to reaching the OLG's benchmark of greater than or equal to 0%. We note the inherent degree of uncertainty around longer-term forecasts, given the large increase in income and significant proposed expenditure program.

We forecast that the Council would have a net cash position of $17.6 million at 30 June 2019, with total cash and investments greater than total debt. As at 30 June 2018, the Council held a total of $45.0 million in cash, cash equivalents and investments, with:[31]

- $28.1 million externally restricted
- $16.9 million internally restricted
- No unrestricted cash and investments.

30 Anonymous, submission to IPART Special Variation Application, March 2019, p 2.

31 Richmond Valley Council, *Application Part A*, Worksheet 7; and IPART calculations.

This suggests all 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 its financial need for the proposed SV.

The Council has stated that if its application for the SV is not approved, it will continue to fund asset maintenance and renewals to reduce the infrastructure backlog and consequently, levels of service will be reduced.[32] Therefore, the Council's financial need focuses on financial sustainability rather than assets. As shown in our analysis above, we consider the Council has a financial need to improve financial sustainability.

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 4.4 for this assessment).
- The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occurred.

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

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

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

4.2.1 Assessment of consultation with the community

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.

32 Richmond Valley Council, *Application Part B*, p 15.

Specifically, the Council:

- Communicated the full impact of the proposed rate increase to ratepayers, including the cumulative percentage of the proposed SV and the rate increase across various categories of ratepayers. This was communicated in the Council's meeting presentation slides, which were available on the SV webpage.[33]
- Communicated what the proposed SV would fund. This was communicated in the Community Newsletter, sent to all ratepayers.

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.

However, the Community Newsletter distributed to all households only disclosed the impact over two years and not the impact over the proposed four years. The Council expressed the total rate increase, including the rate peg, under the proposed SV for these two years. The Council did communicate the full 4-year increase in its phone survey, in community presentations and on its SV webpage.

Timeliness

The Council carried out community consultation on its SV proposal from 20 November 2018 to 6 February 2019.[34] 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:

- A Community Newsletter distributed to 9,478 homes on 10 December 2018. This did not show the cumulative impact of the proposed SV and only showed the increase for all ratepayer categories over two of the four years proposed, but mentioned the amount to be raised after four years. It also outlined the need for, and purpose, of the proposed SV. A second newsletter was sent to the same distribution list, just prior to Christmas 2018 with the same content.[35]
- A dedicated SV website and submissions portal. The website provided copies of the presentation slides, had a 'Frequently Asked Questions' section and provided links to three LTFPs over the 4-year proposed SV period under a rate peg only option, a 5.5% SV option and a 7.0% SV option.

33 Richmond Valley Council, Special Rate Variation – Planning for our future together, https://richmondvalley.nsw.gov.au/council/special-rate-variation-planning-for-our-future-together/, accessed 4 March 2019.

34 Richmond Valley Council, *Application Part B*, pp 19; and 21; and Richmond Valley Council, *Ordinary Council Meeting*, 20 November 2018, p 10.

35 Richmond Valley Council, *Application Part B*, pp 19-20; and Richmond Valley Council, *Extraordinary Council Meeting*, 7 February 2019, pp 104-105; and 12.

- Social media (i.e. Facebook) posts. These posts reached 1,902, 3,208 and 2,942 people respectively.[36] These advertised how the community could make formal submissions, linked to the community newspaper, advertised the online survey and the Council meeting dates to discuss the proposed SV.
- Television and radio interviews.[37]
- Two public meetings attended by 33 residents across both meetings and outlining the cumulative impact of the proposed SV.[38] However, the second meeting was held at 6pm[39] after the feedback portal closed at 12pm (see Section 4.2.2).
- A survey – online, by mail and by telephone.[40] This survey presented three options; a rate peg option, a 5.5% SV and a 7.0% SV and asked ratepayers for their preference and why. The survey also gathered information on community satisfaction with the Council.
- Newspaper articles and advertisements.

While the Community Newsletter distributed to ratepayers did not disclose the cumulative impact of the proposed SV or the increase over four years for all ratepayer categories, on balance, we consider that the Council's methods were reasonable for communicating the impact of the proposed SV to the community.

4.2.2 Assessment of outcomes of consultation with the community

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

The Council received nine written submissions in relation to its proposed SV, including eight opposing the application and one in favour, before the closing date of 12pm, 6 February 2019.[41] The main reasons for opposition were:

- Existing financial pressure.
- The rate increase would be unaffordable for pensioners.
- SVs should be for special reasons only, not a yearly supplement.
- The Council should live within its means.
- The Council has an existing SV and the compounding increase would cause hardship.
- The capacity to pay has not been considered by the Council.

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36 Richmond Valley Council, *Extraordinary Council Meeting*, 7 February 2019, p 106.

37 14 interviews were conducted with the General Manager, Acting General Manager and Manager Communications between December 2018 and February 2019. Richmond Valley Council, *Extraordinary Council Meeting*, 7 February 2019, p 12.

38 Richmond Valley Council, *Application Part B*, pp 20; and 27-29.

39 Richmond Valley Council, *Community Engagement Materials*, p 1.

40 Micromax was engaged to conduct a phone survey with 404 respondents. This provided a maximum sampling error of plus or minus 4.9% at 95% confidence. These questions were repeated for the online and community meeting survey. The online survey was completed by 55 people and the survey in the community meetings by eight people. Richmond Valley Council, *Extraordinary Council Meeting*, 7 February 2019, p 8; and Richmond Valley Council, *Application Part B*, p 24.

41 Richmond Valley Council, *Extraordinary Council Meeting*, 7 February 2019, p 15.

- Pensioner concessions have remained the same for 26 years despite ongoing rate increases.
- The final community meeting was only after the submissions closed.

In addition, the Council conducted a phone survey. This indicated 62% of the community had a preference for an SV above the rate peg, specifically for a 5.5% increase.[42]

After considering community feedback, the Council decided to apply for its proposed SV of 5.5% as opposed to the rate peg only and 7.0% SV options.

Submissions from the community to IPART

IPART received 12 submissions during our consultation period from 11 February 2019 to 14 March 2019, five of which mentioned community consultation. Some of the issues raised include:

- [The Council should have completed] "A genuine and extensive consultation process with the broader community."[43]
- "Less than 2% of RVC's population" [were made aware of the proposed SV], and "90% of residents not aware of the Council's application."[44]
- Not many ratepayers were aware of the proposal as the consultation was limited.[45]
- The Council has not communicated why there is a funding problem.[46]

Notwithstanding, we found that the Council's consultation methods were reasonable in communicating the proposed SV to the wider community as the community newsletter was distributed to 9,478 homes.

4.2.3 Overall assessment of community engagement and awareness

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

42 Richmond Valley Council, *Application Part B*, p 23.
43 Anonymous, submission to IPART Special Variation Application, March 2019, p 1.
44 J. McCormack, submission to IPART Special Variation Application, March 2019, p 1.
45 Anonymous and Confidential, submission to IPART Special Variation Application, March 2019, p 1.
46 Anonymous and Confidential, submission to IPART Special Variation Application, March 2019, p 4.

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 the current rate levels, the 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 4.4 of this report considers the Council's Delivery Program and LTFP.

The focus of this criterion is to examine the impact the proposed SV would have on ratepayers, and in particular, consider the reasonableness of the rate increase in the context of the purpose of the proposed SV.

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

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

In its application, the Council indicated it intended to increase rates similarly for each rating category.[47] The Council has calculated that:

- The average residential rate would increase by 24.8% or $238 over four years, and by $54 in the first year.
- The average business rate would increase by 22.0% or $628 over four years, and by $170 in the first year.
- The average farmland rate would increase by 24.0% or $385 over four years, and by $94 in the first year.

Table 4.2 sets out the Council's estimates of the expected increase in average rates in each main ratepayer category.

47 Richmond Valley Council, *Application Part B*, p 29.

Table 4.2 Indicative annual increases in average rates under Richmond Valley Council's proposed SV (2018-19 to 2022-23)

Ratepayer Category	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative Increase
Residential rate $	**960**	**1,014**	**1,074**	**1,133**	**1,198**	
$ increase		54	60	59	65	238
% increase		5.6	5.9	5.5	5.7	24.8
Residential rate subcategory $	969	1,024	1,084	1,144	1,210	
% increase		5.6	5.9	5.5	5.8	24.9
Rural Residential rate subcategory $	847	896	941	993	1,041	
% increase		5.9	5.0	5.6	4.8	23.0
Business rate $	**2,857**	**3,027**	**3,156**	**3,318**	**3,484**	
$ increase		170	129	162	166	628
% increase		6.0	4.3	5.1	5.0	22.0
Farmland rate $	**1,606**	**1,699**	**1,791**	**1,893**	**1,990**	
$ increase		94	92	102	97	385
% increase		5.8	5.4	5.7	5.1	24.0

Note: 2018-19 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.
Source: Richmond Valley 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 ratepayers in its application. It has stated that the rating structure would not change and all categories would increase by the same approximate percentage.[48] This has been communicated in meetings, in the Community Newsletter, the phone survey and on the SV website.

The Council examined socio-economic indicators such as its SEIFA index, unemployment rates and the median mortgage payment compared to councils in the Northern Rivers region to assess the impact on ratepayers.[49] On the basis of these indicators, it concluded that residents have the capacity to pay:[50]

- Its average residential rate is currently the lowest, while its farmland and business rates are the second lowest of the Northern Rivers Councils.
- Its SEIFA index was ranked the lowest of the seven Northern Rivers Councils in 2016 and was in the lowest 20.0% of NSW councils on the Index of Relative Socio-economic Advantage and Disadvantage. This means the Council's area is relatively disadvantaged. However, it has remained stable since 2011.
- From 2013 to 2018, the unemployment rate in Evans Head decreased from 8% to 4.5%, and in Casino it has fallen from 9.9% to 7.9%.

48 Richmond Valley Council, *Application Part B*, p 26.
49 The Council compared its rates with councils including Kyogle, Ballina, Clarence Valley, Byron, Lismore and Tweed which make up the Northern Rivers region. Richmond Valley Council, *Application Part B*, pp 30-31.
50 Richmond Valley Council, *Application Part B*, pp 34-35; and 37.

- Property prices in the Council have risen 22.8% in the last calendar year, indicating a healthy real estate market.
- The median mortgage payment is $1,300 per month compared to the NSW average of $1,986, and the median weekly rent is $250 compared to the NSW average of $380.
- The outstanding rates and charges ratio fell from 8.3% in 2017 to 6.3% in 2018, below the local government benchmark of 10.0%.

The Council considered the community's willingness to pay via the phone survey conducted in January 2019 comprising 404 respondents. It found that 62% preferred an option above the rate peg, and that 66% of residents were at least somewhat supportive of a 5.5% increase.[51]

The Council submitted that it also has a hardship policy to assist residents that may be unable to meet their financial obligations. The policy provides assistance by not charging interest for a set period of time, writing off interest on rates and charges incurred, entering into a payment arrangement, or a combination of these.

The Council also noted in response to affordability concerns it will raise the concern that the pensioner rebate has not increased for 26 years with the NSW Government. The Council also charges a base amount close to the maximum amount allowed to reduce the disparity that those with higher land values pay more in rates.[52]

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 from 2008-09:

- The Council has applied for two and been granted one SV, which was used to improve financial sustainability and fund the capital works program. This was a permanent increase of 12.3% in 2014-15 and 5.5% each year up to 2018-19.

The average annual growth in residential rates has been 5.7%, 6.7% for business rates and 5.5% for farmland rates, which compares with the average annual growth in the rate peg of 2.6% over the same period.[53]

We also compared 2016-17 rates and socio economic indicators in the LGA with those of OLG Group 4 and neighbouring councils, as shown in Table 4.3.

51 Richmond Valley Council, *Application Part B*, p 23.
52 Richmond Valley Council, *Application Part B*, pp 37-38.
53 IPART calculations based on OLG data.

Table 4.3 Richmond Valley Council - comparison of rates and socio-economic indicators with neighbouring councils and Group 4 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]
Clarence Valley (4)	940	2,454	47,320	2.0	6.7	16
Kyogle (10)	846	1,185	43,264	2.0	4.5	13
Glen Innes Severn (10)	734	1,469	43,576	1.7	0.8	18
Tenterfield Shire (10)	466	1,012	39,884	1.2	6.9	10
Richmond Valley (4)	**826**	**2,147**	**49,556**	**1.7**	**8.3**	**6**
Group 4 average	1,032	3,746	62,430	1.7	4.3	-

[a] The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. Clarence Valley Council was granted rate increases above the rate peg in 2018-19. The data in this table does not capture the increases from this SV.

[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 $826 were 20.0% lower than the average for Group 4 councils and 3.7% lower than the weighted average for neighbouring councils.
- Average business rates of $2,147 were 42.7% lower than the average for Group 4 councils and 6.5% higher than the weighted average for neighbouring councils.
- Average rates to income ratio was equal to the average for Group 4 councils and within the range of neighbouring councils.
- Outstanding rates ratio was four percentage points higher than the average for Group 4 councils and higher than neighbouring councils.
- The SEIFA ranking indicates the Council area is relatively more disadvantaged than its neighbouring councils.

We also compared the Council's average rate levels with the proposed SV to the OLG Group 4 average[54] rate levels over the proposed 4-year SV period. We found that the Council's:

- Average residential rate in 2022-23 with the proposed SV would be $1,198, which is 1.1% higher than the estimated average residential rates of $1,186 for OLG Group 4.
- Average business rate in 2022-23 with the proposed SV would be $3,484, which is 19.0% lower than the estimated average business rates of $4,302 for OLG Group 4.
- Average farmland rate in 2022-23 with the proposed SV would be $1,990, which is 14.5% lower than the estimated average farmland rates of $2,327 for OLG group 4.

54 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 4 average rate levels by the rate peg each year from 2017-18 to 2022-23 to allow for the comparison of Richmond Valley's proposed average rate levels with the SV over the proposed SV period. We note that Kiama, Lithgow and Tamworth applied to IPART for proposed SVs in 2019-20.

Submissions from the community to IPART

IPART received 12 submissions during the consultation period from 11 February 2019 to 14 March 2019. The majority of the submissions received expressed concern surrounding the affordability of the proposed SV due to an existing permanent SV with a cumulative impact of 39.1% over the past five years and the Council being relatively disadvantaged. Submissions also stated that the pensioner rebate has not increased for 26 years and the area has experienced drought and flooding.

In addition, many of the submissions stated that rates would be particularly unaffordable in Evans Head, which has higher average land values and thus would attract higher rates.

4.3.3 Overall assessment of the impact on affected ratepayers

We found that the Council's proposed average farmland rate, and average business rate with the proposed SV would be lower than the estimated average rate for OLG Group 4 councils over the proposed SV period, while the average residential rate will only be marginally higher.

On balance, we considered the impact of the proposed SV on affected ratepayers of the Council would be reasonable, given:

- The Council's need for additional funding to be financially sustainable.
- Low rates compared to Group 4 averages and neighbouring councils.

4.4 Integrated Planning and Reporting documents

The IP&R framework provides a mechanism for councils and the community to engage in important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R framework therefore underpins decisions on the revenue required by each council to meet the community needs and demands.

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

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

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

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

4.4.1 Assessment of 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 the Revised Delivery Program 2017-2021 (Delivery Program) only, in an addendum added in December 2018.[55] The Delivery Program was not formally re-adopted after this addendum but was exhibited on the Council's website, at the Council's administration buildings and in its libraries.[56] It did not include any discussion on alternatives to the rate rise.

The adopted LTFP does not indicate the financial impact of the proposed SV by presenting both a Baseline Scenario reflecting the Baseline model excluding the proposed SV and a Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.

However, the Council publicly exhibited three updated LTFPs on its website, in the Council's administration buildings and libraries.[57] These showed the base and Proposed SV Scenarios under a rate peg only increase, a 5.5% SV increase and a 7.0% SV increase. These documents reflected the additional revenues and expenditures expected with the proposed SV in place.[58]

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

The Delivery Program does not include the full cumulative increase of the proposed SV in percentage terms. However, it does include the annual dollar increase for each ratepayer category over two of the four years of the proposed SV.[59] The Delivery Program states the total amount to be raised over 4-year proposed SV period and directs the community to the dedicated SV webpage for more information.

The impact of any rate rises upon the community

The Delivery Program did not include the Council's consideration of the community's willingness to pay rates under the proposed SV. It did consider the community's capacity to pay in its Delivery Program by comparing its average rates to other Northern Rivers Councils. This demonstrated the Council's average rates are the lowest for residential ratepayers and the second lowest for farmland and business ratepayers in this group.[60]

The LFTP did not discuss the community's willingness and capacity to pay.

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55 Richmond Valley Council, *Application Part B*, p 40; and Richmond Valley Council, *Delivery Program*, pp 58-59.
56 Email to IPART, Richmond Valley Council, 22 February 2019.
57 Email to IPART, Richmond Valley Council, 22 February 2019.
58 Richmond Valley Council, Rate rise scenarios (long term financial planning), https://richmondvalley.nsw.gov.au/council/special-rate-variation-planning-for-our-future-together/rate-rise-scenarios-long-term-financial-planning/, accessed 4 March 2019.
59 Richmond Valley Council, *Delivery Program*, p 59.
60 Richmond Valley Council, *Delivery Program*, p 58.

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

The Council publicly exhibited its Community Strategic Plan from 18 April 2017 to 2 June 2017 and adopted it on 27 June 2017.[61] It publicly exhibited its Delivery Program and LTFP from 15 May 2018 to 19 June 2018 and adopted these documents on 26 June 2018.[62] The Council advertised the availability of these documents for public comment, promoted them in local media, placed copies on the Council's website, the Council's Casino and Evans Head Customer Service Centres and invited face to face comment on the documents at the Council's meeting.[63]

4.4.3 Overall assessment of the IP&R documents

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

4.5 Productivity improvements and cost containment strategies

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

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

4.5.1 Assessment of efficiency gains achieved

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

- Saved $360,500 from the current year's budget through a 2% efficiency dividend against the salary budget each year since 2013 following an organisational restructure.
- Efficiencies in the outdoor work teams, which have resulted in approximately 20% less time a week travelling to and from worksites.
- Salary savings from the Youth Employment Scheme as new recruits come in on a lesser salary than the exiting staff member.
- Saved $330,824 or 43.3% on the cost of premiums and risk management services by going to tender for its insurance program in 2017.[64]

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61 Richmond Valley Council, Application Part B, p 39; and Richmond Valley Council, *Ordinary Council Meeting*, 18 April 2017, p 3.
62 Richmond Valley Council, Application Part B, pp 39-40; and Richmond Valley Council, *Ordinary Council Meeting*, 26 June 2018, pp 14-15.
63 Richmond Valley Council, *Ordinary Council Meeting*, 26 June 2018, p 17.
64 Richmond Valley Council, *Application Part B*, pp 41-42.

4.5.2 Assessment of strategies in place for future productivity improvements

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

- Savings of approximately $37,000 per annum from an investment in a ground mounted solar panel farm in the current year with a net capital cost of $138,670. This will result in a payback period of three to four years.
- The Council is investigating installing a similar size system at its raw water pump station on the Richmond River in Casino which would achieve similar savings.
- Savings of approximately $4,169 per annum from lighting upgrades, which are in progress, with a capital cost of $3,318. This will result in a payback period of less than one year.
- The establishment of a Project Management Office to deliver signature projects and monitor the delivery of the capital works program. This will allow the Council to enable the delivery of an increased scope of work with the funding available under a mixed delivery model.[65]

4.5.3 Overall Assessment of productivity improvements and cost containment strategies

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

65 Richmond Valley Council, *Application Part B*, pp 42-43.

5 Our Decision

We have approved the proposed SV in full. We have attached conditions to this decision, including that the Council uses the income generated 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 that the Council may increase its income by.

5.1 Our decisions' impact on the Council

Our decision means the Council may increase its general income over the 4-year approved SV period from $12.4 million in 2018-19 to $15.5 million in 2022-23. Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the Council's revenue base. After 2022-23, the Council's PGI can increase by up to the annual rate peg unless we approve a further SV.[66]

Table 5.1 Permissible general income (PGI) of Richmond Valley Council from 2019-20 to 2022-23 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					12,448,964
2019-20	5.5	5.5	348,571	732,454[a]	13,181,418
2020-21	5.5	11.3	752,728	1,457,432	13,906,396
2021-22	5.5	17.4	1,188,738	2,222,284	14,671,248
2022-23	5.5	23.9	1,658,594	3,029,202	15,478,167
Total cumulative increase approved				7,441,372	
Total above rate peg			**3,948,630**		

[a] Includes an adjustment of a prior catch-up of $47,761 ($12,448,964 x 0.055 + $47,761 = $732,454) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20.

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

Source: Richmond Valley Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

66 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.

The Council estimates that over the four years to 2022-23 it will collect an additional $3.9 million in rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the Council requested to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards and maintain and renew infrastructure demands.[67] The Council has stated it will continue to fund asset renewals with or without the SV and therefore the additional funding will help maintain service levels.[68]

5.2 Our decision's impact on ratepayers

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

If the Council increases the rates as it has indicated in its application, the impact on ratepayers will be as shown in Table 4.2. By the end of the 4-year approved SV period, the average:

- Residential rate will increase by $238 (24.8%), or an average of $60 per annum from 2018-19 levels
- Business rate will increase by $628 (22.0%), or an average of $157 per annum from 2018-19 levels
- Farmland rate will increase by $385 (24.0%), or an average of $96 per annum from 2018-19 levels.

Our decision would allow an increase **above the rate peg**, by the end of the 4-year approved SV period, for the average:

- Residential rate of $135 (12.7%), or an average of $34 per annum over the approved SV period
- Business rate by $317 (10.0%), or an average of $79 per annum over the approved SV period
- Farmland rate by $295 (11.5%), or an average of $74 over the approved SV period.[69]

67 Richmond Valley Council, *Application Part B*, pp 4-5.
68 Richmond Valley Council, *Application Part B*, p 15.
69 Richmond Valley Council, *Application Part A*, Worksheet 5a; and IPART calculations.

Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
Criterion 1 – Financial need The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios: ▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the Baseline 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.

Criterion 6 – Additional matters

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

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

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

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

The Council will use the additional SV revenue above the rate peg of $14.8 million over 10 years to fund:

- Existing service levels
- Renewal of community amenities.[70]

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

70 Richmond Valley Council, *Application Part A*, Worksheet 6; and Richmond Valley Council *Application Part B*, p 5.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	**349**	**753**	**1,189**	**1,659**	**1,700**	**1,743**	**1,786**	**1,831**	**1,877**	**1,923**	**14,808**
Funding for increased operating expenditures	124	528	964	1,434	1,475	1,518	1,561	1,606	1,652	1,698	12,558
Funding for capital expenditure	225	225	225	225	225	225	225	225	225	225	2,250
Total expenditure	**349**	**753**	**1,189**	**1,659**	**1,700**	**1,743**	**1,786**	**1,831**	**1,877**	**1,923**	**14,808**

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

Source: Richmond Valley Council, *Application Part A*, Worksheet 6.

Table B.2 Richmond Valley – 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
Community amenities											
Renewals	225	225	225	225	225	225	225	225	225	225	2,250
Total Asset Renewal	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**2,250**
Total Capital Expenditure	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**225**	**2,250**

Note: Numbers may not add due to rounding.

Source: Richmond Valley Council, *Application Part A*, Worksheet 6.

C Richmond Valley's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report each year from 2019-20 to 2023-24 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 Richmond Valley Council (2019-20 to 2027-28) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total revenue	55,785	56,704	58,925	60,878	62,522	64,220	66,259	67,656	69,986
Total expenses	56,212	57,344	59,037	60,278	60,844	63,000	64,244	64,902	67,308
Operating result from continuing operations	-427	-641	-112	600	1,678	1,220	2,015	2,754	2,677
Net operating result before capital grants and contributions	-3,507	-2,835	-2,154	-1,339	-269	-747	-161	768	301

Note: Numbers may not add due to rounding.

Source: Richmond Valley 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 Richmond Valley Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change
FTE staff (number)	210	244	253	253	6.4
Ratio of population to FTE	109	94	92	92	-5.7
Average cost per FTE ($)	72,614	65,680	67,482	71,957	-0.3
Employee costs as % operating expenditure (General Fund only) (%)	39.6	40.7	42.2	43.1	-

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 Richmond Valley Council (2016-17)

	Richmond Valley Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	3,047	-	-
Population (2016)	23,164	-	-
General Fund operating expenditure ($m)	35.9	66.2	76.3
General Fund operating revenue per capita ($)	1,769	-	-
Rates revenue as % General Fund income (%)	34.2	36.5	42.5
Own-source revenue ratio (%)	68.4	60.4	66.0
Average rate indicators[a]			
Average rate – residential ($)	826	1,032	1,053
Average rate – business ($)	2,147	3,746	5,738
Average rate – farmland ($)	1,419	2,026	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	49,556	62,430	77,272
Average residential rates to median income, 2016 (%)	1.7	1.7	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	6	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	8.3	4.3	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	253	341	356
Ratio of population to FTE	91.6	-	-
Average cost per FTE ($)	71,957	83,678	91,762
Employee costs as % operating expenditure (General Fund only) (%)	43.1	37.6	38.8

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

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

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

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

E Glossary

ABS	Australian Bureau of Statistics
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.