



Independent Pricing and Regulatory Tribunal
New South Wales

Special variation and minimum rate increase

Sutherland Shire Council 2019-20

Final Report
Local Government

May 2019

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1 Executive summary

Sutherland Shire Council (the Council) applied to IPART for a special variation (SV)¹ to increase its general income above the rate peg² of 2.7% for 2019-20. It has applied for a **single-year SV** to:

- ▼ Increase its general income by **8.76%** in 2019-20
- ▼ Retain this increase in its rate base **permanently**.³

It would apply this proposed SV to the minimum rate only. The Council has applied for an increase in the minimum amount of its ordinary rate⁴ from \$602.30 in 2018-19 to \$900.00 in 2019-20 for all ratepayer categories.⁵

The Council intends to use the proposed SV funds to improve financial sustainability and to provide additional funding for infrastructure renewals to address the deteriorating portfolio of the Council's assets.⁶ The Council indicates that the majority of the funds are to be spent on renewing parks and recreation assets and roads and bridges.⁷

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of \$7.3 million (5.57% of total income) over the year of the SV (see Table 1.1). As the proposed SV is permanent this would mean a cumulative increase in its PGI revenue of \$81.6 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 508(2) of the Local Government Act 1993 (NSW).

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

³ Sutherland Shire 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 548(3) of the Local Government Act 1993 (NSW).

⁵ Sutherland Shire Council, *Minimum Rate Application Form Part B 2019-20 (Minimum Rate Application Part B)*, pp 4-5.

⁶ Sutherland Shire, *Application Part A*, Worksheet 6; and Sutherland Shire, *Special Variation Application Form Part B 2019-20 (Application Part B)*, p 5.

⁷ Sutherland Shire Council, *Application Part A*, Worksheet 6.

1.1 We have approved Sutherland Shire Council's application for a Special Variation and Minimum Rate Increase

We decided to approve the proposed SV in full. We also decided to approve the proposed minimum rate increase.

Our decision means that the Council may increase its general income in 2019-20 by the annual percentage outlined in Box 1.1. This will allow the Council to improve its financial sustainability and to fund infrastructure renewals.

The annual increase includes the rate peg of 2.7% in 2019-20. The cumulative increase that we have approved of 8.76% is 6.06 percentage points more than the rate peg for this year. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Sutherland Shire Council

Approved Special Variation: percentage increase to general income

	2019-20
Increase above rate peg - permanent	6.06
Rate peg	2.70
Total increase	8.76

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 in 2019-20 is subject to the following conditions:

- ▼ The Council uses the additional income from the special variation for the purposes of improving financial sustainability 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 2021-22 on:
 - The Program of expenditure that was actually funded by the additional income
 - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the Council's application, and summarised in Appendix C
 - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
 - Expenditure consistent with the Council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure
 - The outcomes achieved as a result of the actual program of expenditure, and
 - All minimum rates that applied.

Our decision to approve the increase in the minimum rate means that the Council may set the minimum amount of its ordinary rates up to the amount shown in Box 1.2. This is an increase from the current minimum rate of \$602.30 in 2018-19.

⁸ The Office of Local Government is responsible for monitoring and ensuring compliance with this SV and its conditions.

Box 1.2 IPART Decision – Sutherland Shire Council

Approved Minimum Rate (\$)

	2019-20
Residential	900.00
Business	900.00

The approved minimum rate for 2019-20 may be retained permanently. From 2020-21, the Council may increase its ordinary minimum rate by the rate peg or a percentage allowed by a special variation.

The Council estimates that in 2019-20, it will collect an additional \$7.3 million of rate revenue compared to the rate increase that is limited to the rate peg (see Table 1.1).⁹

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

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019					120,213,168
2019-20	8.76	8.76	7,284,918	10,622,762 ^a	130,835,930
Total cumulative increase approved				10,622,762	
Total above rate peg			7,284,918		

^a Includes an adjustment of a prior catch-up of \$92,088 ($\$120,213,168 \times 0.0876 + \$92,088 = \$10,622,762$) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20. This will be applied to the Miranda Core Major Shopping Centre subcategory.

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

Source: Sutherland Shire Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations; and Sutherland Shire Council, *Application Part B*, p 39.

As the approved SV is permanent it would mean a cumulative increase in the Council's PGI revenue of \$81.6 million above the assumed rate peg over 10 years. This represents 5.57% of the Council's total cumulative PGI over the 10 year period (See Table 2.1).

1.2 Reasons for our decision

Our decision reflects our finding that the Council's application meets the criteria in the OLG Guidelines and OLG Minimum Rate Guidelines.

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.

Special variation

The Council's forecasts show there is financial need for it to increase its recurrent revenue above the rate peg to be financially sustainable and for it to meet its infrastructure renewal needs. Without the proposed SV, the average Operating Performance Ratio (OPR) over five years would remain below the OLG benchmark of greater than or equal to 0%.¹⁰

The Council's infrastructure backlog ratio will improve with the proposed SV, though it will still remain above the benchmark of less than 2%.¹¹ The infrastructure renewals ratio will not meet the OLG benchmark of greater than 100%¹² over the next five years with the proposed SV, but there will be marked improvement.

We found that the Council demonstrated that the community is aware of the need for, and extent, of the rate rise. The consultation material communicated it would affect the minimum rate only and showed the increase clearly.

The impact on affected ratepayers would be an increase of \$298, but the new minimum rate is reasonable when compared to the minimum rates of other councils in the Sydney metropolitan area and given the community's capacity to pay.

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

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

Minimum rate

The Council explained the rationale for the minimum rate increase, which is to improve financial sustainability, renew infrastructure to reduce the backlog and reduce the gap between rates paid by houses and units/apartments.

The Council considered the impact on the community and the change in the proportion of ratepayers on the minimum rate. It also considered the capacity of the community to pay and its intent to distribute the rate burden equitably, as the current minimum rate (\$602.30) is significantly lower than the average residential and business rates of ratepayers within the Council area who are not on the minimum (which are \$1,476 and \$4,713, respectively).

The Council consulted with the community on the increase in the minimum rate and the impact on ratepayers on the minimum through a variety of engagement methods. It clearly set out the increase in the minimum rate and provided opportunity for more information and feedback in a flyer sent to all ratepayers.

Tables 1.2 and 1.3 below provide more detail about our assessment and key considerations in making our decision.

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

¹¹ Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

¹² Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

Table 1.2 Assessment of Sutherland Shire Council's proposed SV application

1. Financial Need

- Demonstrated The Council demonstrated the financial need for the proposed SV. Its:
- ▼ OPR (average 2019-2020 to 2023-24) is:
 - 1.3% under the Proposed SV Scenario
 - -1.8% without SV revenue and with the proposed SV expenditure (the Baseline with SV expenditure Scenario).
 - -1.8% without SV revenue and without the proposed SV expenditure (the Baseline Scenario). This is below the OLG benchmark of equal to or greater than 0%.
 - ▼ Infrastructure backlog ratio (average 2019-20 to 2023-24) is:
 - 2.5% under the Proposed SV Scenario, above the OLG benchmark of less than 2%
 - 2.8% without SV revenue and without SV expenditure (the Baseline Scenario).
 - ▼ Infrastructure renewals ratio (average 2019-20 to 2023-24) is:
 - 76.3% under the Proposed SV Scenario, which is below the OLG benchmark of greater than 100%
 - 57.7% without the SV revenue and without SV expenditure (the Baseline Scenario).
 - ▼ Net cash is \$139.9 million (58.1% of income) in 2018-19, with only \$7.1 million of total cash and investments unrestricted at 30 June 2018.

2. Community awareness

- Demonstrated The Council demonstrated the community is aware of the proposed SV. 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.

3. Reasonable Impact on ratepayers

- Demonstrated The proposed SV increases the minimum rate to \$900.00 in 2019-20 from the current minimum rate of \$602.30 for all ratepayer categories.
- The Council examined the impact on ratepayers and found it would be reasonable. It considered:
- ▼ The current minimum rate is lower than the average of similar bayside and beach councils.
 - ▼ The median weekly income is 13% higher than Greater Sydney and 11% higher than councils in the Southern Sydney Region of Councils.¹³
 - ▼ Businesses predict a growth in turnover and full-time employment.
- IPART considered information on ratepayers from 2016-17 and found:
- ▼ The Council's SEIFA¹⁴ ranking (114) suggests that its local government area (LGA) is relatively advantaged compared to other LGAs.
- The Council has proposed that the average rate for those not on the minimum rate will only increase by the rate peg, while the minimum rate would increase by 49.4% from \$602.30 to \$900.00. We found this would not be significantly higher than the current and estimated 2019-20 average minimum rates for councils in the Sydney metropolitan area.

¹³ Councils in the Southern Sydney Region of Councils include Bayside, Burwood, Canterbury-Bankstown, Canada Bay, Georges River, Inner West, Randwick, Sutherland, Sydney, Waverley and Woollahra. Southern Sydney Region of Councils, About Us, <http://ssroc.nsw.gov.au/about-us/>, accessed 29 March 2019.

¹⁴ 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.

We consider that the increase in the minimum rate would be relatively large compared to the current rate, but reasonable, given the Council's need to raise additional revenue to become financially sustainable and the proposed minimum rate is not significantly higher than the estimated average minimum rate for councils in the Sydney metropolitan area in 2019-20.

4. IP&R documents exhibition

- Demonstrated The Council adopted its Community Strategic Plan in June 2017. It:
- ▼ Exhibited its Delivery Program from April 2018 to May 2018 and adopted it on 18 June 2018.
 - ▼ Exhibited its Resourcing Strategy, incorporating its Long Term Financial Plan (LTFP) from December 2018 to February 2019 and adopted it in February 2019. This sets out the Proposed SV Scenario, including the need, extent, impact and consideration of capacity to pay.
 - ▼ The IP&R documents did not consider the willingness of the community to pay, but a survey carried out by the Council on the rating structure was discussed in the Council's application.

5. Productivity improvements and cost containment

- Demonstrated Over the last seven years, the Council has realised savings, efficiencies and increased revenue. Some initiatives have included:
- ▼ Revision of light vehicle leasebacks and fleet procurement (\$55,000 savings, \$2.9 million efficiency).
 - ▼ Increased revenue from advertising and leasing of buildings/services (\$754,700).
 - ▼ Savings from maintenance services outsourced to a contractor (\$760,867).
- The Council has also planned further savings, efficiencies and increased revenue, which have been incorporated in the LTFP. Some have included:
- ▼ Rationalisation of assets during 2018-19 and 2019-20 (\$5.9 million).
 - ▼ Efficiencies from the change in procurement policy and its insurance program during 2018-19 (\$1.9 million).
 - ▼ Efficiencies in the next 15 years from the termination of the lease over a community hall (\$205,000).
-

Table 1.3 Assessment of Sutherland Shire Council's Minimum Rate application

M1. Rationale	
Demonstrated	<p>The Council clearly demonstrated the rationale for increasing the minimum rate. The purpose of the increase is:</p> <ul style="list-style-type: none">▼ To improve the Council's financial sustainability▼ Provide additional infrastructure renewals to reduce the backlog▼ Reflect equity in contribution to the Council's services by realigning the amount paid by houses and units/apartments. In 2018-19, the average rates paid by residential and business rate payers not on the minimum rate were \$1,476 and \$4,713, respectively, compared to the minimum rate of \$602. The current minimum rate is 59.2% lower than the average residential rate and 87.2% lower than the average business rate.
M2. Impact on ratepayers	
Demonstrated	<p>The Council demonstrated the impact on ratepayers:</p> <ul style="list-style-type: none">▼ The proportion of those on the minimum rate would increase from 25.4% to 33.5%▼ Ratepayers have the capacity to pay based on the SEIFA index▼ There is community support for a more equal distribution of rates▼ The Council has taken steps to distribute the rate burden equitably▼ The current minimum rate (\$602.30) is lower than the minimum rates of similar bayside and beach councils (ranging from \$805.68 to \$970.93). <p>We also compared the Council's proposed minimum rate levels with the minimum rates of other councils in the Sydney metropolitan area. In 2019-20, the Council's:</p> <ul style="list-style-type: none">▼ Residential minimum rate would be \$900, which would be 14.5% higher than the estimated average (\$786) of councils in the Sydney metropolitan area.▼ Business minimum rate would be \$900, which would be similar to the estimated average (\$906) of other councils in the Sydney metropolitan area.▼ The proposed minimum rate (\$900) would be the 9th highest residential and 14th highest business minimum rate compared to the current minimum rate charged by other councils in the Sydney metropolitan area.
M3. Community awareness	
Demonstrated	<p>The Council demonstrated the community is aware of the need for, and extent of, the proposed minimum rate increase. It:</p> <ul style="list-style-type: none">▼ Used a variety of engagement methods▼ Provided the impact on all ratepayers, the annual increase and change in proportion of ratepayers on the minimum▼ Clearly showed the minimum rate increase in a flyer sent to all ratepayers.

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 Sutherland Shire Council's application

The Council has applied for the proposed SV to increase its general income by 8.76% in 2019-20. The application is for an increase that remains permanently in the rate base. The Council indicated that it would be applied through an increase in the minimum rate for all ratepayer categories from \$602.30 in 2018-19 to \$900.00 in 2019-20.¹⁵

2.1 Purpose

The purpose of the proposed SV is to improve financial sustainability and to enable additional infrastructure renewals to reduce the infrastructure backlog. The Council also intends to reduce the gap between average rates paid by houses and rates paid by units/apartments to be more equitable, given the use of the Council's services and facilities.¹⁶

2.2 Need

The Council identified that the proposed SV was necessary for more investment in key assets such as footpaths, stormwater infrastructure and parks/playgrounds in response to the performance gaps identified by the community. The community has also indicated a desire to reduce the gap between rates paid by houses and rates paid by units/apartments.¹⁷

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of \$81.62 million above what the assumed rate peg would deliver over 10 years. This represents 5.57% 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 5.90% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

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

Cumulative increase in PGI above rate peg (\$m)	Total PGI over 10 years (\$m)	SV revenue as a percentage of total PGI (%)
81.62	1,465.80	5.57

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

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

¹⁵ Sutherland Shire Council, *Application Part B*, p 38.

¹⁶ Sutherland Shire Council, *Application Part B*, p 5.

¹⁷ Sutherland Shire Council, *Application Part B*, pp 12; and 15.

The Council would fund the proposed SV by increasing the minimum rate for all ratepayer categories. The Council has formed the view that the rates are affordable, particularly as the minimum rate is lower than other similar beach or bayside councils (see Section 4.4.1).

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 4 February 2019.¹⁸

¹⁸ Sutherland Shire Council, *Extraordinary Council Meeting – Resolution to apply for proposed SRV*, 4 February 2019, p 2.

3 Submissions to IPART

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

- ▼ The proposed increase in the minimum rate by virtually 50% at once would not be not fair, especially for those on low incomes and pensioners.
- ▼ The Council's survey was not robustly designed and the questions did not allow people to give the answers they wanted. In addition, it mainly targeted those in houses.
- ▼ Poor planning by the Council has led to an excessive increase in high density developments, which have placed high demand on public amenities.
- ▼ There will be increased revenue from the increase in units/apartments, which gives greater revenue per land area than houses.
- ▼ Unit owners have access to less land compared to owners of detached dwellings.
- ▼ Developer contributions should be increased.
- ▼ The consultation period was during the Christmas and New Year period when many people were away.
- ▼ Owners of investment properties would not be aware of these changes as the payment of rates is often handled by their managing agent.
- ▼ People in units/apartments do not receive more council services than houses and pay a separate waste charge.
- ▼ The gap between rates paid by units/apartments and houses has actually decreased.
- ▼ The comparison between the minimum rates for other councils is not valid.
- ▼ Unit owners are under financial pressure and the Council should live within its means.

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. Two key themes arising from the submissions were concerns surrounding the significant increase proposed to the minimum rate and the timing and design of the Council's consultation.

All of the submissions expressed concerns surrounding the affordability of the minimum rate increase due to the significant dollar increase in one year. We examined the affordability of the increase (see Section 4.3.2) and noted the Council's consideration of affordability (see Section 4.3.1).

Submissions also raised the issue of fairness, in terms of the gap between the minimum rate and average residential rates. We note that there is no one indicator that fully informs what is a 'fair' contribution to overall costs from a group of ratepayers. However, all other things being equal, a growing gap in dollar terms between the minimum rate and the average

ad valorem¹⁹ rate would result in an increased share of costs being met by those paying more than the minimum rate as total PGI is capped.

According to the Office of Local Government, the fairness of a rating structure should be considered using two principles: that those who receive the benefits of council's services also pay for those services (beneficiary pays principle); and the extent to which those who pay for services have the ability to pay (ability to pay principle).²⁰ We have considered these issues in our assessment of the rationale and impact of the proposed minimum rate increase (see Section 4.4.1).

We note that the Council received 28 written submissions in relation to its proposed SV during its consultation period, which raised similar themes to the above. This is discussed further in Section 4.2.2.

¹⁹ Rate based on the value of land.

²⁰ Office of Local Government (Former Department of Local Government), *Council Rating and Revenue Raising Manual, 2007*, p 14.

4 IPART's assessment

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

The five criteria in the OLG Guidelines for a special rate variation 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 M1 - Rationale:** The rationale for increasing minimum rates above the statutory amount.
- ▼ **Criterion M2 - 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 M3 - Consultation:** The consultation the Council has undertaken to obtain the community's views on the proposal.

Our Assessment

We found that the Council's application meets the criteria in the OLG Guidelines and OLG Minimum Rate Guidelines.

Special variation

The Council's forecasts show there is a need for it to increase its recurrent revenue above the rate peg to be financially sustainable and for it to meet infrastructure renewal requirements. The infrastructure renewals ratio would remain below the OLG benchmark of greater than 100% over 10 years under the Proposed SV Scenario, but would improve relative to the Baseline Scenario (no SV revenue or expenditure). The proposed SV would also improve the infrastructure backlog ratio, which would average 2.5% over five years under the Proposed

SV Scenario and 2.8% under the Baseline Scenario. These are both above the OLG benchmark of less than 2%.

The average OPR over five years is 1.3% under the Proposed SV Scenario, -1.8% under the Baseline with SV expenditure Scenario (no SV revenue and assuming the proposed SV expenditure) and -1.8% under the Baseline Scenario. This compares with the OLG benchmark of equal to or greater than 0%. The Council held unrestricted cash and investments of \$7.1 million at 30 June 2018, which could be used to invest in asset renewals. However, we consider the Council to be in need in order to be financially sustainable and meet OLG's benchmarks for asset ratios over the next five years.

We found that the Council demonstrated that the community is aware of the need for, and extent, of the rate rise. The consultation material communicated it would affect the minimum rate only and showed the increase clearly.

The impact on affected ratepayers would be an increase of \$298, but the proposed minimum rate is reasonable when compared to the minimum rates of other councils in the Sydney metropolitan area and given the community's capacity to pay.

The Council's IP&R documentation contains sufficient information relating to the proposed SV and has been appropriately exhibited, approved and adopted by the Council.

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

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

Minimum rate

The Council explained the rationale for the minimum rate increase, which is to improve financial sustainability, renew infrastructure to reduce the backlog and reduce the gap between rates paid by houses and units/apartments.

The Council considered the impact on the community and the change in the proportion of ratepayers on the minimum rate. It also considered the capacity of the community to pay and its intent to distribute the rate burden equitably, as the current minimum rate (\$602) is significantly lower than the average residential and business rates of ratepayers within the Council area who are not on the minimum (which are \$1,476 and \$4,713, respectively).

The Council consulted with the community on the increase in the minimum rate and the impact on ratepayers through a variety of engagement methods. It clearly set out the increase in the minimum rate and provided opportunity for more information and feedback in a flyer sent to all ratepayers.

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

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

- ▼ Operating performance
- ▼ Net cash (debt).

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

- ▼ Infrastructure backlog ratio
- ▼ Infrastructure renewals ratio.

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

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

$$OPR^{21} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

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

1. **The Proposed SV Scenario** - which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** - which shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.

²¹ Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

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).²² 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 infrastructure's 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:

$$\text{Infrastructure backlog ratio} = \frac{\text{Estimated cost to bring assets to a satisfactory standard}}{\text{Carrying value of infrastructure assets}}^{23}$$

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%. It is defined as:

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

²² 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.

²³ Historical cost less accumulated depreciation.

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.

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

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

- ▼ Improve financial strength
- ▼ Fund infrastructure maintenance/renewal
- ▼ Reduce infrastructure backlogs.

Feedback from the community consultation showed that the community did not want the maintenance and condition of key assets to reduce and saw financial sustainability as a significant contributor to overall satisfaction.²⁶

The Delivery Program does not set out the need for, and purpose of, the proposed SV, nor discuss alternatives to the rate rise. However, the LTFP mentions specific projects that would not proceed under the base model and briefly discusses alternatives.²⁷

In its application, the Council considered several alternatives to the proposed SV, which have been discussed at the Council level and included in various LTFP models in the past. They have also been included in the Finance Working Party discussions and will continue to be included as considerations.²⁸ These include:

- ▼ User fees and charges - the Council considered the introduction of paid parking and user charges for sporting fields. These were not introduced due to community dissatisfaction and the large administrative burden for relatively small income from user charges for sporting fields.
- ▼ Borrowings - the Council has significant capacity to borrow additional funds, however it considers this would severely impact future capacity to undertake infrastructure programs due to loan repayments. In recent years, operational expenditure has also increased relative to revenue.
- ▼ Asset divestment - the Council has identified a number of its properties for potential sale, however it notes that the income is one-off and does not provide long-term funding.

The Council has stated that its long-term financial sustainability and infrastructure management issues would not be fully addressed through the proposed SV and additional revenue sources or expenditure reductions are required. These could include the alternatives outlined above, which will be considered by the Finance Working Party. The LTFP also includes an efficiency dividend of 1.25% of expenditure in 2019-20, 2023-24 and 2027-28, with a cumulative impact of nearly \$54 million over ten years under both scenarios. The Council has stated that even with this efficiency dividend, additional funding from the SV is needed.²⁹

²⁵ Sutherland Shire Council, *Resourcing Strategy Part B - Long Term Financial Plan*, pp 52-53.

²⁶ Sutherland Shire Council, *Application Part B*, pp 13; and 18.

²⁷ Sutherland Shire Council, *Resourcing Strategy Part B - Long Term Financial Plan*, pp 42-43.

²⁸ Email to IPART, Sutherland Shire Council, 25 February 2019.

²⁹ Email to IPART, Sutherland Shire Council, 25 February 2019; and Sutherland Shire Council, *Application Part B*, p 7.

In addition, community research conducted by the Council has found that the community’s preferred option for raising revenue was reducing the rating gap between houses and apartments rather than selling community assets or introducing additional fees and charges.³⁰

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

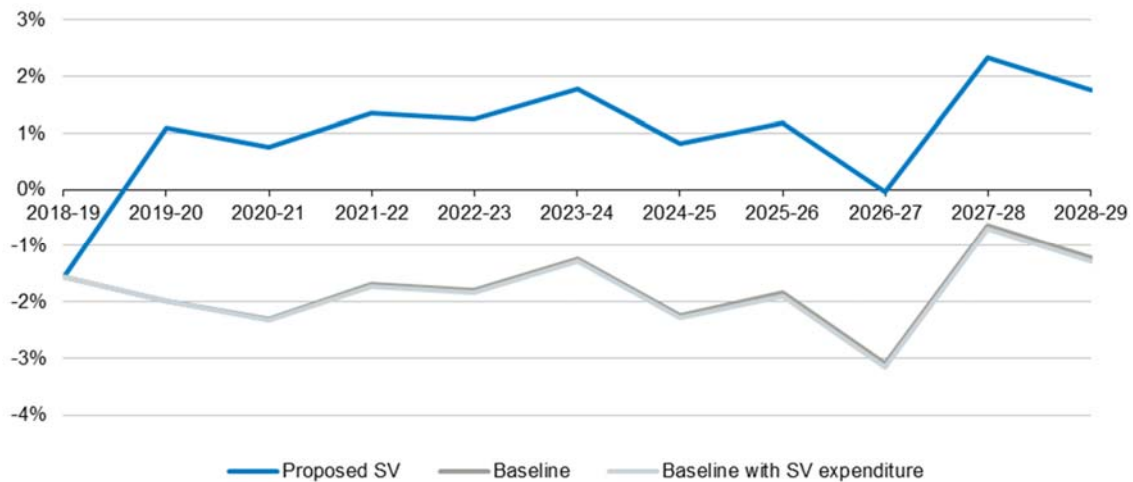
The Council’s forecast operating result

Under the Proposed SV Scenario, the Council forecasts consistent and then increasing operating performance, with its OPR growing to 1.8% by 2028-29. The cumulative value of the forecast operating results (before capital grants and contributions) is \$29.2 million to 2028-29. This would allow the Council to reduce its infrastructure backlog, fund infrastructure assets and renewals and improve its financial sustainability.

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 consistent operating deficits, 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 \$54.3 million to 2028-29 under this scenario.

Under both the Baseline Scenario and the Baseline with SV expenditure Scenario, the Council has forecast very similar OPRs. This is because the Council intends to use the additional SV revenue for capital expenditures.³¹ As such, the proposed SV expenditure does not alter operating expenditures. Therefore, in Figure 4.1 and Table 4.1 below, the OPR results of both these scenarios closely resemble each other.

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



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

Note: In this figure the 'Baseline' OPR essentially mirrors the 'Baseline with SV expenditure' OPR.

³⁰ Sutherland Shire Council, *Application Part B*, p 6.

³¹ Sutherland Shire Council, *Application Part A*, Worksheet 6.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	1.1	0.8	1.3	1.2	1.8	0.8	1.2	-0.1	2.3	1.8
Baseline	-2.0	-2.3	-1.7	-1.8	-1.2	-2.2	-1.8	-3.1	-0.6	-1.2
Baseline with SV expenditure	-2.0	-2.3	-1.7	-1.8	-1.3	-2.3	-1.9	-3.2	-0.7	-1.3

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

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

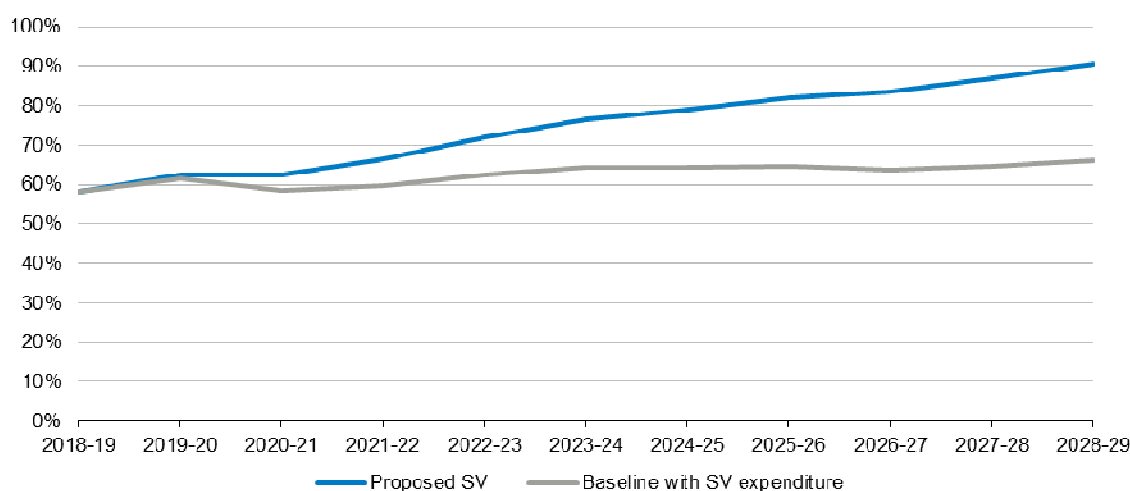
- ▼ 1.3% under the Proposed SV Scenario
- ▼ -1.8% under the Baseline Scenario
- ▼ -1.8% under the Baseline with SV expenditure Scenario.

Impact on the Council's net cash (debt)

We calculate the Council's net cash is \$139.9 million or 58.1% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase.

Without the proposed SV revenue 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 slightly increase by 2028-29. As at 2028-29, the net cash to income ratio would be 90.6% under the SV scenario and 66.1% under the Baseline with SV expenditure Scenario. The Council's forecast net cash (debt) position over the next 10 years is shown in Figure 4.2 below.

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



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

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

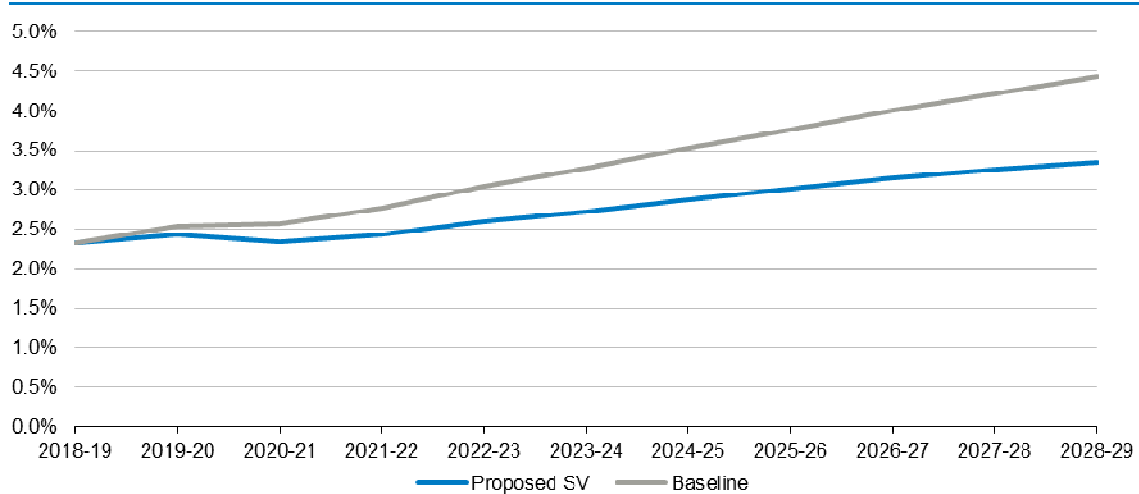
- ▼ 68.2% under the Proposed SV Scenario
- ▼ 61.3% under the Baseline with SV expenditure Scenario.

Impact on the Council’s infrastructure backlog ratio

The Council estimates its infrastructure backlog ratio to be 2.3% in 2018-19, before the start of the proposed SV period.³² The Council estimates an infrastructure backlog ratio of 2.4% in 2019-20 under the Proposed SV Scenario and 2.5% under the Baseline Scenario (no SV revenue or expenditure), which are both above the OLG benchmark of less than 2%.

Figure 4.3 and Table 4.2 show the projected infrastructure backlog ratio under the Proposed SV Scenario and the Baseline Scenario. The Council forecasts its infrastructure backlog ratio to increase over the next 10 years, but by less with the proposed SV revenue and expenditure. With the proposed SV revenue and expenditure, it forecasts the ratio to increase to 3.4% in 2028-29. Under the Baseline Scenario it is forecast to increase to 4.4%. Both of these results are above the OLG benchmark of less than 2%. The increase from 2018-19 is due to the level of projected renewal expenditure, which, according to the Council, would see the backlog grow to \$114 million by 2028-29 without the proposed SV.³³

Figure 4.3 Sutherland Shire Council’s infrastructure backlog ratio (%) (2018-19 to 2028-29)



Data source: Sutherland Shire Council, *Application Part A*, Worksheet 9.

³² Sutherland Shire Council, *Application Part A*, Worksheet 9.

³³ Sutherland Shire Council, *Application Part B*, p 24.

Table 4.2 Projected infrastructure backlog ratio (%) for Sutherland Shire Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	2.4	2.4	2.4	2.6	2.7	2.9	3.0	3.2	3.3	3.4
Baseline	2.5	2.6	2.8	3.1	3.3	3.5	3.8	4.0	4.2	4.4

Source: Sutherland Shire Council, *Application Part A*, Worksheet 9.

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

- ▼ 2.5% under the Proposed SV Scenario
- ▼ 2.8% under the Baseline Scenario, i.e., without the proposed SV expenditure.

The ratio is above the benchmark of less than 2% in both scenarios. However, it shows an improvement under the Proposed SV Scenario of 0.3 percentage points over the next five years.

Impact on the Council's infrastructure renewals ratio

The Council estimates its infrastructure renewals ratio to be 70.3% in 2018-19, before the start of the proposed SV period.³⁴ The Council estimates an infrastructure renewals ratio of 72.8% in 2019-20 under the Proposed SV Scenario and 55.2% under the Baseline Scenario (no SV revenue or expenditure), which are both below the OLG benchmark of greater than 100%. The Council has stated that the decrease is due to recent cost increases, most notably electricity costs, which have eroded the level of funding available for renewals.³⁵ The Council has also explained that the primary contributor to the ratio being below the benchmark is the low level of required investment in stormwater assets in comparison to the depreciation of these assets.³⁶ The Council proposes to use all the additional income generated from the proposed SV to fund capital renewals.

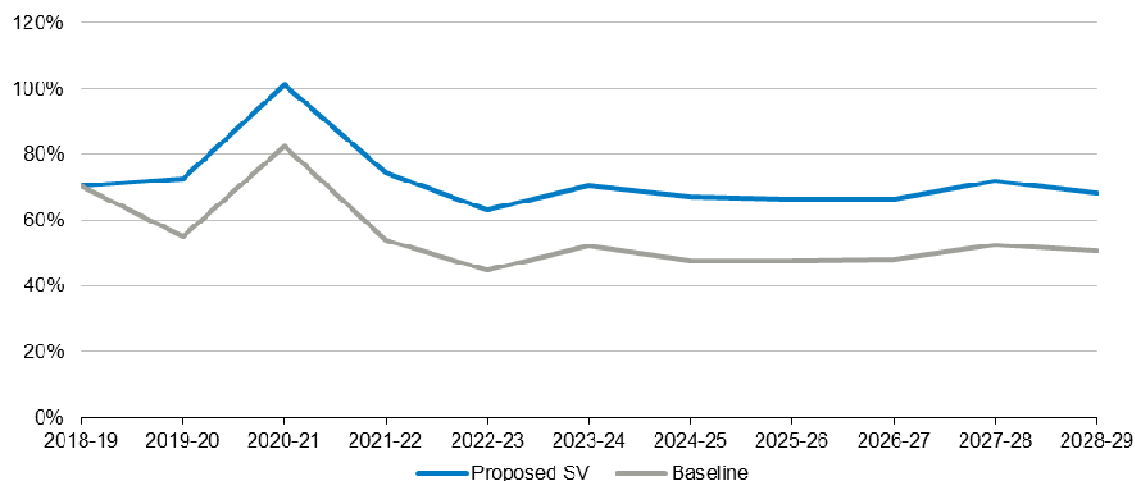
Figure 4.4 and Table 4.3 show the projected infrastructure renewals ratio under the Proposed SV Scenario and the Baseline Scenario. The Council forecasts its infrastructure renewals ratio to decrease over the next 10 years, but not as much with the proposed SV revenue and expenditure. With the proposed SV revenue and expenditure, it forecasts the ratio to reduce to 68.3% in 2028-29. Under the Baseline Scenario, it is forecast to decrease to 50.6%. Both of these results are below the OLG benchmark of greater than 100%.

³⁴ Sutherland Shire Council, *Application Part A*, Worksheet 9.

³⁵ Sutherland Shire Council, *Application Part B*, p 18.

³⁶ Sutherland Shire Council, *Application Part B*, p 23.

Figure 4.4 Sutherland Shire Council's infrastructure renewals ratio (%) (2018-19 to 2028-29)



Data source: Sutherland Shire Council, *Application Part A*, Worksheet 9.

Table 4.3 Projected infrastructure renewals ratio (%) for Sutherland Shire Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	72.8	101.1	74.5	63.0	70.3	67.1	66.3	66.4	71.8	68.3
Baseline	55.2	82.5	53.8	44.9	52.2	47.7	47.9	48.1	52.7	50.6

Source: Sutherland Shire Council, *Application Part A*, Worksheet 9.

Our analysis indicates that over the next five years, the Council's average infrastructure renewals ratio is:

- ▼ 76.3% under the Proposed SV Scenario
- ▼ 57.7% under the Baseline Scenario.

This indicates a significant improvement in the infrastructure renewals ratio with the additional SV revenue and expenditure under the Proposed SV Scenario. However, the Council would still be below the OLG benchmark of greater than 100%.

Submissions from the community to IPART

IPART received four submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, the submissions suggested the financial needs of the Council should be provided by increased developer contributions, a restoration of funding from the NSW Government and the increase in high density units/apartments.

We note that new development in the form of units/apartments is likely to result in an increased share of total PGI paid by minimum rate payers as a group, but it does not increase overall income for the Council as the rate peg caps PGI.

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 SV revenue), its OPR would reach -2.0% over the period of the proposed SV, averaging -1.8% over the next five years, and reaching -1.3% in 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, while improving its infrastructure renewals and backlog ratios.

Under the Proposed SV Scenario, our analysis shows that the Council's average OPR over the next five years increases to 1.3%. Its OPR reaches 1.1% in 2019-20, rising to 1.8% in 2028-29. This is not significantly higher than the OLG breakeven benchmark of 0%. We also note the inherent degree of uncertainty around longer-term forecasts. Given the large increase in income and significant proposed expenditure program, the SV revenue would put the Council on a more sustainable path, with the positive OPR allowing the Council to fund capital expenditure to improve its infrastructure renewals and backlog without compromising existing levels of service.

Our analysis suggests that the Council would have a net cash position of \$139.9 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 \$153.4 million in cash and cash equivalents, with:³⁷

- ▼ \$87.9 million externally restricted
- ▼ \$58.4 million internally restricted
- ▼ \$7.1 million unrestricted.

Our analysis indicates that the Council's net cash to income ratio is forecast to average 68.2% under the Proposed SV Scenario and 61.3% under the Baseline with SV expenditure Scenario over the next five years.

Although the Council maintains a net cash position, the 30 June 2018 financial accounts suggest the majority 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. This would not be sufficient to fund the Council's \$81.6 million proposed SV expenditure over 10 years or meet the OLG asset ratio benchmarks. As such, we consider the net cash position of the Council does not significantly dampen its financial need for the proposed SV.

Further, additional income above the rate peg is needed for the Council to meet the OLG infrastructure renewals ratio benchmark of greater than 100%, as all of the additional revenue generated from the proposed SV will be used for renewals. Although the Council would still average below 100% over five years under both scenarios (76.3% under the Proposed SV Scenario, and 57.7% under the Baseline Scenario), the ratio would significantly improve with the proposed SV. The proposed SV would also allow the Council to improve its infrastructure backlog ratio. The backlog ratio would average 2.5% over five years under the Proposed SV Scenario and 2.8% under the Baseline Scenario. These are both above the OLG benchmark of less than 2%, however there is an improvement under the Proposed SV Scenario.

³⁷ Sutherland Shire Council, *Annual Report 2017-18*, p 140; and IPART calculations.

Therefore, the Council has a demonstrated need for the proposed SV; to improve its financial performance and the condition of its infrastructure assets.

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).
- ▼ The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and that 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 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.

Specifically, the Council:

- ▼ Communicated the full impact of the proposed rate increase to ratepayers and the rate increase across various categories of ratepayers.³⁸ This was communicated in a flyer distributed to all ratepayers in a direct letterbox mail-out and as part of the rates notice distributions.

³⁸ As the Council is only applying for a 1-year permanent increase, the annual increase is also the cumulative impact.

-
- ▼ Communicated what the proposed SV would fund. This information was provided in the 'Frequently asked questions' page³⁹ on the Council's website, which was promoted in the flyer.

Clarity

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

Timeliness

The Council carried out community consultation on its SV proposal from 10 December 2018 to 4 February 2019.⁴⁰ 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:

- ▼ An information flyer to all ratepayers on 17 December 2018 and 14 January 2019.⁴¹ This outlined the increase to the minimum rate and confirmed those not on the minimum would not be affected by the proposal.⁴²
- ▼ A dedicated SV website. This communicated the total percentage impact, including the rate peg, who would be affected and the reason for the proposed SV.⁴³
- ▼ Advertisements in local media, which promoted the SV webpage and community information sessions and asked for feedback on the proposal.⁴⁴
- ▼ Community information sessions across all five wards during December 2018 and January 2019,⁴⁵ with approximately 134 attendees.⁴⁶ These included the flyer, the draft LTFP, Ratepayer reports and 'Frequently asked questions' from the SV website.
- ▼ Social media (Facebook) posts reaching 11,996 people.⁴⁷ These posts advertised the Council's decisions, provided links for feedback and promoted the community information sessions and dedicated SV webpage.

³⁹ Sutherland Shire Council, Special Variation Frequently asked questions, <http://www.sutherlandshire.nsw.gov.au/Council/Council-Rates/Special-Rate-Variation-Frequently-Asked-Questions>, accessed 2 April 2019.

⁴⁰ Sutherland Shire Council, *Application Part B*, p 28.

⁴¹ Sutherland Shire Council, *Community Engagement Materials*, p 9.

⁴² This was delivered to 88,000 households and mailed to 63,000 ratepayers. It was also provided as part of the rates notice to all ratepayers. Sutherland Shire Council, *Community Feedback*, p 2.

⁴³ The 'Frequently asked questions' page received 1,470 total page visits with 100 documents downloaded. Sutherland Shire Council, *Community Feedback*, p 2.

⁴⁴ Five advertisements were placed with a readership of 181,000 and circulation of 293,873. Sutherland Shire Council, *Community Feedback*, p 2.

⁴⁵ Sutherland Shire Council, *Community Engagement Materials*, p 17.

⁴⁶ Sutherland Shire Council, *Community Feedback*, p 2; and Sutherland Shire Council, *Application Part B*, p 30.

⁴⁷ Sutherland Shire Council, *Community Feedback*, p 2.

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- ▼ A media release to local media outlets in November 2018.⁴⁸ This outlined the proposed increase in the minimum rate and why the proposed SV was needed.
 - ▼ Community research, and online and phone surveys.⁴⁹ Only the online survey sought feedback on the proposed SV. The community research and phone surveys discussed the community's satisfaction with the Council, its priorities and preferences for raising additional revenue.
 - ▼ Requests for submissions online.

We consider these methods were reasonable to communicate the proposed SV to the community.

4.2.2 Assessment of outcome of consultation with the community

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

The Council received 28 written submissions in relation to its proposed SV. It observed the following key themes within the feedback:⁵⁰

- ▼ Affordability impact
- ▼ Misconceptions about income from new developments
- ▼ Lack of understanding of rates models and what rates pay for
- ▼ What other savings and efficiencies the Council is making.

In addition, the Council conducted community research between June 2017 and December 2017.⁵¹ This indicated its community's preference was for a rate increase compared to other options such as selling community halls, charging for use of playing fields and parking, and selling assets. The research also indicated support for reducing the difference in rates between houses and units/apartments, with 50% of high density dwellers surveyed preferring a reduction in the rate gap rather than increasing rates for all ratepayers.⁵²

The online survey during the consultation period found 90 of 149 residents in houses agreed the proposal is fair, while only six of 157 residents in units agreed.⁵³

The Council has considered its community's feedback by responding to specific questions raised by individuals and updating the 'Frequently asked questions' on the SV website.⁵⁴

⁴⁸ Sutherland Shire Council, *Community Engagement Materials*, p 2.

⁴⁹ The research conducted surveys between November to December 2017 and surveyed 2,183 ratepayers (10% of which were high density) and the online survey was completed by 355 residents. Sutherland Shire Council, *Community Feedback*, pp 2, 216; and 242.

⁵⁰ Sutherland Shire Council, *Community Feedback*, p 8.

⁵¹ Sutherland Shire Council, *Community Feedback*, p 214.

⁵² Sutherland Shire Council, *Application Part B*, p 15; and Sutherland Shire Council, *Community Feedback*, p 243.

⁵³ Sutherland Shire Council, *Community Feedback*, p 4.

⁵⁴ Sutherland Shire Council, *Community Feedback*, p 8.

Based on this outcome, the Council decided to raise the minimum rate only as it believes it would make the rate burden more equitable between houses and units/apartments.⁵⁵

Submissions from the community to IPART

IPART received four submissions during our consultation period from 11 February 2019 to 14 March 2019. All of these submissions expressed some concern surrounding the Council's consultation, particularly its timing and the design of the survey. Some comments included:

- ▼ The online survey was not robustly designed and would lead to skewed results.⁵⁶
- ▼ The survey was manipulative as the vast majority of ratepayers live in houses.
- ▼ "Holding the 'consultation' period and information sessions during the Christmas and New Year holiday period whilst many (affected) constituents are away, appears to be in an effort to provide as little opportunity as possible for any objections to be lodged."⁵⁷

We note that the Council conducted its consultation from 26 November 2018 to 4 February 2019, providing ratepayers with nine weeks to provide feedback on the proposed SV.

4.2.3 Overall assessment of the Council's community engagement and awareness

We found that taking into account the factors discussed above, the Council demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed rate increase.

4.3 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers must be reasonable, having regard to 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 4.5 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.

⁵⁵ Sutherland Shire Council, *Application Part B*, p 5.

⁵⁶ Anonymous, submission to IPART Special Variation Application, March 2019, p 1.

⁵⁷ Anonymous, submission to IPART Special Variation Application, February 2019, p 2.

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

In its application, the Council indicated it intended to increase rates only for those ratepayers on the minimum rate.⁵⁸ The Council has calculated that:

- ▼ The average residential rate would increase by 9.3% or \$116 in one year
- ▼ The average business rate would increase by 6.2% or \$220 in one year
- ▼ The minimum rate for residential and all business rate subcategories would increase by 49.4%, or \$298 in one year.⁵⁹

The Council has indicated that ratepayers who would be paying above the minimum rate in 2019-20 would only see an increase in their rates of the rate peg.⁶⁰ The average rate would change with the proposed increase in minimum rate. This is shown in Table 4.4 below, which sets out the Council's estimates of the expected increase in average rates in each ratepayer category. We use this information to compare the reasonableness of the proposed SV.

Table 4.4 Indicative annual increases in average rates under Sutherland Shire Council's proposed SV (2018-19 to 2019-20)

Ratepayer Category	2018-19	2019-20	Cumulative Increase
Residential rate \$	1,257	1,373	
\$ increase		116	116
% increase		9.3	9.3
Business rate \$	3,540	3,760	
\$ increase		220	220
% increase		6.2	6.2
Business rate subcategories:			
Caringbah Commercial Centre \$	3,503	3,703	
% increase		5.7	5.7
Cronulla Commercial Centre \$	4,611	4,798	
% increase		4.1	4.1
Engadine Commercial Centre \$	2,758	2,942	
% increase		6.7	6.7
Kurnell Finished Fuel Terminal Facility \$	61,504	63,204	
% increase		2.8	2.8
Kurnell Industrial \$	12,615	12,963	
% increase		2.8	2.8
Kurnell Sand Mining \$	84,699	86,983	
% increase		2.7	2.7

⁵⁸ Sutherland Shire Council, *Application Part B*, p 39.

⁵⁹ Sutherland Shire Council, *Minimum Rate Application Form Part A 2019-20 (Minimum Rate Application Part A)*, Worksheet 1.

⁶⁰ Sutherland Shire Council, *Application Part B*, p 39.

Ratepayer Category	2018-19	2019-20	Cumulative Increase
Menai Commercial Centre \$	4,778	5,061	
% increase		5.9	5.9
Menai Quarrying and filling \$	2,918	2,996	
% increase		2.7	2.7
Miranda Commercial Centre \$	2,621	2,846	
% increase		8.6	8.6
Miranda Core Major Shopping Complex \$	215,933	240,773	
% increase		11.5	11.5
Business Ordinary \$	2,821	2,997	
% increase		6.3	6.3
Sutherland Commercial Centre	2,068	2,282	
% increase		10.3	10.3
Sylvania Southgate Commercial Centre	42,313	43,455	
% increase		2.7	2.7
Cronulla Beach CBD Special Rate	1,749	1,797	
% increase		2.7	2.7

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

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

The Council has proposed that the increase above the rate peg would be limited to those on the minimum rate. Under the SV, the minimum rate would increase from \$602.30 in 2018-19 to \$900.00 in 2019-20. We have also analysed the reasonableness of the minimum rate increase in Section 4.4.2.

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

In its application, the Council stated that the only impact to rates would be an increase in the minimum rate from \$602.30 to \$900.00 rather than by the rate peg to \$618.56.⁶¹ The same minimum rate applies to residential and all business subcategories. Rates for all other properties not subject to the minimum rate would increase by the rate peg, with the exception of the Miranda Core Major Shopping Centre subcategory, which will increase by the rate peg plus a catch up allowance of 0.08%.⁶²

The Council has proposed that the Domestic Waste Charge will remain fixed until operating expenditure exceeds operating revenue, projected for 2024-25. The Stormwater Management Charge will remain the same throughout the term of the LTFP.⁶³

The Council examined socio-economic indicators such as housing tenure, median weekly income, unemployment rates and its SEIFA index compared across NSW to assess the impact

⁶¹ Sutherland Shire Council, *Application Part B*, p 39.

⁶² Sutherland Shire Council, *Application Part B*, p 39.

⁶³ Sutherland Shire Council, *Application Part B*, pp 39-40.

on ratepayers.⁶⁴ It also compared its minimum rate to other similar beach and bayside councils.⁶⁵ On the basis of these indicators, it concluded that residential ratepayers have the capacity to pay for the proposed SV:

- ▼ The minimum rate is lower than the average of other bayside and beach councils, including Randwick, Manly, Pittwater, Kogarah and Warringah.
- ▼ Housing ownership within the shire is 74% compared to 59% across Greater Sydney.
- ▼ The median weekly income is \$1,975 (2016 Census), which is 13% (\$230) higher than Greater Sydney and 11% higher (\$192) than councils in the Southern Sydney Region of Councils.
- ▼ The current level of unemployment is only 3.5%, compared with a rate of 6% across Greater Sydney.
- ▼ The SEIFA index for the shire is 1,080, which is above the NSW average of 1,000 and represents a comparatively low level of socio-economic disadvantage.⁶⁶

The Council considered the community's willingness to pay as part of its research, "A Shout out to the Shire" between June 2017 and December 2017⁶⁷, which found:⁶⁸

- ▼ 76% of people surveyed believe that the amount paid to the Council should be fair between apartments and houses.
- ▼ Additional revenue to meet financial sustainability should be achieved through various ways, including increasing rates.
- ▼ 68% of people surveyed think the Council should reduce the gap between rates charged for houses and units/apartments.
- ▼ A minimum rate of \$955 is considered reasonable in comparison to Sydney rates.
- ▼ Reducing the rate gap between houses and units/apartments is preferred over selling community halls, implementing user fees for sporting fees or paid parking.

The Council also considers that the existing business community has the capacity to pay as a survey found:⁶⁹

- ▼ The mean annual turnover was \$544,000 in 2017-18, up 40.21% from 2015-16.
- ▼ Businesses predict a further 6.3% increase in 2018-19 to \$578,000.
- ▼ 78% of businesses see growth opportunities in the next five years from population growth and nearby developments.
- ▼ The growth in full time employment has been 9% between 2016 and 2018.
- ▼ 52% of businesses indicated they have plans to add more staff in the next two years, with 20% of this increase coming from full-time employees.

⁶⁴ Sutherland Shire Council, *Application Part B*, pp 47-48.

⁶⁵ Sutherland Shire Council, *Application Part B*, pp 41-42.

⁶⁶ A score of 1,000 is the average and any score above this means an area is considered to be more advantaged. Australian Bureau of Statistics, *An Introduction to Socio-Economic Indexes for Areas (SEIFA)*, 2016, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/2039.0Main%20Features42006?opendocument>, accessed 29 March 2019.

⁶⁷ Sutherland Shire Council, *Community Feedback*, p 214.

⁶⁸ Sutherland Shire Council, *Application Part B*, p 15.

⁶⁹ Sutherland Shire Council, *Minimum Rate Application Part B*, pp 11-12.

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 offering payment deferral options to all eligible pensioners, allowing them to accrue their rates and charges (including interest) against their estate for payment when the property is eventually transferred.

The Council enters into payment arrangements with all ratepayers and does not undertake recovery action against pensioners and those with payment arrangements.⁷⁰ The Council also noted that, in response to affordability concerns, it would consider waiving interest for all ratepayers who enter into a payment arrangement and satisfy that arrangement, if they are subject to hardship, particularly from the proposed SV.⁷¹

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. We found that since 2008-09:

- ▼ The Council has applied for, and been granted, one SV of 6.6% in 2010-11 for the maintenance and renewal of assets.
- ▼ The Council has applied for, and been granted, one minimum rate increase in 2009-10.

We also compared 2018-19 rates and 2016-17 socio-economic indicators in the LGA with those of OLG Group 3⁷² and similar councils, as shown in Table 4.5.

Table 4.5 Sutherland Shire Council - comparison of rates and socio-economic indicators with similar councils and Group 3 averages (2016-17 to 2018-19)

Council (OLG Group)	Minimum Rate (2018-19) (\$) ^a	Median annual household income (\$) ^b	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Blacktown (3)	952	88,972	4.1	95
Canada Bay (3)	691	107,172	1.3	119
Liverpool (3)	-	80,600	4.3	82
Randwick (3)	806	99,632	2.8	117
Sutherland (3)	602	102,908	3.6	114
Group 3 Average	-	98,249	3.2	-

a OLG does not maintain a database of minimum rates for NSW Councils. IPART checked the individual websites of similar councils for the minimum rate charged.

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 2016-17; 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*; Individual Council Websites and IPART calculations.

⁷⁰ Sutherland Shire Council, *Application Part B*, p 51.

⁷¹ Sutherland Shire Council, *Application Part B*, p 51.

⁷² See Appendix D. Sutherland Shire Council is in OLG Group 3, which is classified as part of an Urban Centre, Large/Very Large Metropolitan Developed (population over 70,000). The group comprises 18 councils including Blacktown, Canada Bay, Ku-ring-gai, Randwick, Ryde and Willoughby.

We found that the Minimum rate of \$602.30 is 26.2% lower than the average for similar councils.

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

- ▼ Outstanding rates ratio was 0.4 percentage points higher than the average for Group 3 councils and in the middle range of similar councils.
- ▼ SEIFA ranking indicates the Council's LGA is relatively advantaged compared to LGAs of similar councils.

The Council has proposed that the average rate for ratepayers not on the minimum would only increase by the rate peg of 2.7%, while the minimum rate would increase by 49.4% from \$602.30 to \$900.00

Submissions from the community to IPART

IPART received four submissions during the consultation period from 11 February 2019 to 14 March 2019. The submissions expressed concern that the large increase in the minimum rate would not be affordable, especially for pensioners.

We have considered the one-off increase in rates and its impacts. Where substantial increases in the minimum rate are proposed, consideration should be given to smoothing any increase over a number of years. Given the application from the Council is for a 1-year permanent increase, it is not possible for IPART to approve a smoothed price increase. This would be possible if a proposed SV included a minimum rate increase over a number of years.

4.3.3 Overall assessment of the impact on affected ratepayers

We found that the impact on affected ratepayers of the Council would be substantial, but reasonable given:

- ▼ The community's capacity to pay with a high SEIFA index and median household income
- ▼ The SV revenue is required for financial sustainability and infrastructure renewals
- ▼ The community's preference for raising rates as opposed to other revenue raising methods and reducing the gap between rates paid by houses and units/apartments.

We also note that the Council has a hardship policy in place and has stated that it would consider waiving interest for all ratepayers who enter into a payment arrangement and satisfy that arrangement, if they are experiencing hardship from the proposed SV.

The impact on the minimum rate is explored in Section 4.4.2.

4.4 Proposed Minimum Rate Increase

The Council has requested an increase in the minimum rate from \$602.30 in 2018-19 to \$900.00 in 2019-20.

We have decided to approve the minimum rate increase based on our finding that the Council meets the assessment criteria for the minimum rate, discussed in the sections below.

4.4.1 The Council's rationale for increasing the minimum rate

The Council explained that the rationale for increasing the minimum rate is to improve the Council's financial sustainability and provide additional infrastructure renewals to address a deteriorating profile of the Council's assets.⁷³

The Council also wants to reduce the gap between the rate paid by the average detached dwelling and the minimum rate (paid by many units/apartments), in line with the levels of service provided to rate payers. In 2018-19, the minimum rate for residential ratepayers was \$602.30 and the Council indicated that the average rate for residential ratepayers paying above the minimum was \$1,476.⁷⁴ In 2019-20, with the SV, the Council has indicated that the minimum rate would be \$900.00, while all other ratepayers will see their rates increase by the 2.7% rate peg.⁷⁵

There are currently 22,121⁷⁶ ratepayers from the residential and business categories paying the minimum amount (\$602.30 in 2018-19). As seen in Table 4.6, this represents 25.1% and 31.5%, respectively, of the two categories and 25.4% of all ratepayers.

Table 4.6 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	20,628	82,286	25.1
Business	1,493	4,743	31.5
Total	22,121	87,029	25.4

Source: Sutherland Shire Council, *Minimum Rate Application Part A*, Worksheet 1.

The Council submitted that it took into account the number of ratepayers on the minimum rate for each category and decided to increase the minimum rate to make it more similar to the minimum rates for units/apartments in similar bayside or beach councils (see Table 4.7).⁷⁷

Table 4.7 Sutherland Shire Council's minimum rate comparison (2018-19)

Council	Minimum rate (\$)
Sutherland	602
Randwick	806
Manly	817
Pittwater	885
Kogarah	917
Warringah	971

Source: Sutherland Shire, *Minimum Rate Application Part B*, p 5.

One of the submissions received by IPART considered these comparisons were not valid as they did not take into account factors such as rate structure, financial condition, number and

⁷³ Sutherland Shire Council, *Minimum Rate Application Part B*, p 4.

⁷⁴ Email to IPART, Sutherland Shire Council, 5 March 2019.

⁷⁵ Sutherland Shire Council, *Minimum Rate Application Part B*, p 39.

⁷⁶ Sutherland Shire Council, *Minimum Rate Application Part A*, Worksheet 1.

⁷⁷ Sutherland Shire Council, *Minimum Rate Application Part B*, p 5.

level of services, future projects and socio-demographics.⁷⁸ We have conducted our own analysis in Section 4.4.2.

We found that the Council explained its rationale for increasing the minimum rate.

4.4.2 The impact on ratepayers

The Council has proposed that the minimum rate for all residential and business ratepayers would increase from \$602.30 to \$900.00 in 2019-20, an increase of 49.4%, while rates for all other ratepayers would increase by the rate peg of 2.7%.

We found the Council's minimum rate (\$602.30) for 2018-19 is:

- ▼ 59.2% lower than the average residential rate of those ratepayers who are paying above the minimum rate (\$1,475.85)
- ▼ 87.2% lower than the average business rate of those ratepayers who are paying above the minimum rate (\$4,712.73).⁷⁹

We also compared the proposed minimum rate to other councils in the Sydney metropolitan area. This found that the proposed minimum rate is higher than the average (see Table 4.8).

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 (%)
Sutherland (proposed minimum rate in 2019-20)	900	900	33
Sutherland (current minimum rate in 2018-19)	602	602	25
Former Ashfield (now Inner West)	-	778	Not available
Former Auburn (now Cumberland)	580	580	Not available
Blacktown	952	952	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	-	569	Not available

⁷⁸ D. Biro, submission to IPART Special Variation Application, March 2019, p 4.

⁷⁹ Email to IPART, Sutherland Shire Council, 5 March 2019.

Council	Residential 2018-19 (\$)	Business 2018-19 (\$)	Percentage of ratepayers on the minimum rate 2018-19 (%)
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
North Sydney ^a	526	526	73
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
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 (Residential other/Rural)	1,418	1,418	Not available
Wollondilly (Residential Town Centre)	1,304	-	Not available
Woollahra	626	626	1
Average (\$)	765	877	-
Proposed minimum rate variance from average (%)	18	3	-
Average escalated with 2.7% rate peg (\$)	786	900	-
Proposed minimum rate variance from escalated average (%)	14	0	-

^a North Sydney 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 \$526 in 2018-19 to \$563 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, Randwick, Sutherland, Burwood, Ku-ring-gai, Hunter's Hill; and IPART calculations.

We consider the impact of the minimum rate increase is reasonable, given:

- ▼ The minimum rates of other councils in the Sydney metropolitan area, many of which are not vastly different from the Council's proposed minimum rate, particularly when compared on a 2019-20 basis
- ▼ The need for the increase in income for the Council to be financially sustainable and reduce its infrastructure backlog
- ▼ The case to reduce the gap between rates paid by houses and those paid by units/apartments (which are usually subject to the minimum rates), on the basis that each class of rate-payer receives similar services from the Council.

We also note that the Council will consider waiving interest for rate-payers experiencing hardship who enter into a payment arrangement.

4.4.3 The Council's consultation with the community

The Council's consultation material, including its information flyer which was sent to all ratepayers, specifically set out the current minimum rate and proposed increase.⁸⁰ It also explicitly stated that ratepayers not paying the minimum would not be affected by the proposed SV.

The Council created a specific webpage for all 'Frequently asked questions' on the proposal, including outlining the change in the proportion of ratepayers on the minimum rate under the proposal from 25% of ratepayers to 33% and the percentage increase in general income under the proposal including the rate peg (8.76%).⁸¹ The website was advertised in the flyer, sent to all households (see Section 4.2.1).

The increase in the minimum rate from the current to the proposed new rate for all ratepayer categories was also stated in the LTFP.⁸²

We consider the Council has satisfactorily consulted the community on its proposal to increase the 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 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.

⁸⁰ Sutherland Shire Council, *Minimum Rate Application Part B*, p 19.

⁸¹ Sutherland Shire Council, *Minimum Rate Application Part B*, pp 19-20; and Sutherland Shire Council, *Special Variation Frequently asked questions*, <http://www.sutherlandshire.nsw.gov.au/Council/Council-Rates/Special-Rate-Variation-Frequently-Asked-Questions>, accessed 2 April 2019.

⁸² Sutherland Shire Council, *Resourcing Strategy Part B - Long Term Financial Plan*, p 54.

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.

4.5.1 Assessment of content of IP&R documents

The need for, and purpose of, the proposed SV

The Council did not present the need for, and purpose of, the proposed SV in the Delivery Program. It also did not canvass alternatives to the rate rise.

However, the Council’s Resourcing Strategy, incorporating its LTFP, presented the need for, and purpose of, the proposed SV.⁸³ It also discussed what projects would be scaled back under the Baseline Scenario and discussed an efficiency dividend to reduce costs and increase financial performance. In addition, it also discussed raising user fees as an alternative way to increase revenue. However, the Council indicated that this would not be enough to reduce backlogs and improve financial sustainability (see Section 4.1.1). Therefore, the Council concluded that the proposed SV is necessary.

The LTFP indicates the financial impact of the proposed SV by presenting both a 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.⁸⁴

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 nor the total increase in dollar terms for the average ratepayer, by rating category.

However, the LTFP includes the full cumulative increase in percentage terms and the total dollar amount to be paid by affected minimum ratepayers for each rating category.⁸⁵

⁸³ Sutherland Shire Council, *Resourcing Strategy – Part B Long Term Financial Plan*, pp 52-53.

⁸⁴ Sutherland Shire Council, *Resourcing Strategy – Part B Long Term Financial Plan*, pp 46-51; and 56-61.

⁸⁵ Sutherland Shire Council, *Resourcing Strategy – Part B Long Term Financial Plan*, p 54.

The impact of any rate rises upon the community

It is not evident from the Delivery Program that the Council considered the community's capacity and willingness to pay rates under the proposed SV.

However, the Council added an addendum to the LTFP in January 2019 to discuss the community's capacity to pay. The Council presented information on household incomes, housing tenure, employment status and the SEIFA index relative to Greater Sydney and Southern Sydney Councils.⁸⁶ It concluded from this information that ratepayers have the capacity to pay the proposed SV. The Council also stated that the domestic waste charge would remain at the existing rate until at least 2023-24 under either scenario.⁸⁷ The LTFP did not discuss the community's willingness to pay.

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

The Council publicly exhibited its Community Strategic Plan from 17 May 2017 to 15 June 2017, and adopted it on 21 June 2017.⁸⁸ It publicly exhibited its Delivery Program 2017-2021 from 19 April 2018 to 17 May 2018 and its LTFP from 10 December 2018 to 4 February 2019.⁸⁹ The Delivery Program was adopted on 18 June 2018 and the LTFP on 4 February 2019.⁹⁰ The Council advertised the availability of these documents for public comment, placed copies on the Council's website, in the library and in the customer service centre, and invited face to face comment on the documents at a series of community information sessions.⁹¹

4.5.3 Overall assessment of the IP&R documents

We consider, on balance, the Council's IP&R documents contain sufficient information on 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.

⁸⁶ Sutherland Shire Council, *Resourcing Strategy – Part B Long Term Financial Plan*, p pp 62-63.

⁸⁷ Sutherland Shire Council, *Resourcing Strategy – Part B Long Term Financial Plan*, p 22.

⁸⁸ Sutherland Shire Council, *Council Meeting Minutes*, 15 May 2017, p 15; and Sutherland Shire Council, *Extraordinary Council Meeting Minutes*, 21 June 2017, p 2.

⁸⁹ Sutherland Shire Council, *Application Part B*, p 53.

⁹⁰ Sutherland Shire Council, *Council Meeting Minutes*, 18 June 2018, p 5; and Sutherland Shire Council, *Extraordinary Council Meeting*, 4 February 2019, p 7.

⁹¹ Sutherland Shire Council, *Application Part B*, p 30.

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. In particular, it submitted that it had achieved:⁹²

- ▼ \$55,000 in savings and \$2.9 million in efficiencies from the revision of light vehicle leasebacks and fleet procurement and management reviews during 2013-14
- ▼ \$1.0 million in efficiencies from alternative road rejuvenation treatments and recycling of road asphalt
- ▼ \$760,867 in savings from maintenance services outsourced to a contractor over the last seven years
- ▼ \$472,610 in efficiencies from the restructure of the legal services and governance and customer service units and Excess of Loss Worker's Compensation Insurance limit change
- ▼ \$754,700 of increased revenue from advertising and leasing of several buildings and services
- ▼ \$160,000 of increased revenue from the incorporation of administrative duties into the building security/concierge role, freeing up public safety officers.

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. Its proposal included:⁹³

- ▼ \$1.3 million of increased revenue from the rationalisation of assets and the termination of a lease over a children's services centre at a school during 2018-19
- ▼ \$1.9 million in efficiencies from changes in procurement and its insurance program during 2018-19
- ▼ \$5.9 million of increased revenue from the rationalisation of assets during 2018-19 and 2019-20
- ▼ \$2.4 million of increased revenue from the rationalisation of assets, including relocation of Orana, during 2020-21
- ▼ \$125,000 in efficiencies from the replacement of the existing vehicle fleet with full electric propulsion in the future
- ▼ \$205,000 in efficiencies from the termination of the lease over a community hall, which would save on asset renewal costs over the next 15 years.

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.

⁹² Sutherland Shire Council, *Productivity Improvements and Cost Containment Strategies*, pp 2-3.

⁹³ Sutherland Shire Council, *Productivity Improvements and Cost Containment Strategies*, p 4.

5 Our Decision

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

We have also approved the increase in the minimum rate. The Council can increase its minimum rate from \$602.30 in 2018-19 to \$900.00 in 2019-20, 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 1-year approved SV period from \$120.2 million in 2018-19 to \$130.84 million in 2019-20. Table 5.1 shows the percentage increase we have approved, and estimates the annual increase in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

The increase will be permanently incorporated into the Council's revenue base. After 2019-20, the Council's permissible general income can increase up to the annual rate peg unless we approve a further SV.⁹⁴

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

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg (\$)	Cumulative increase in PGI (\$)	PGI (\$)
Adjusted notional income 1 July 2019					120,213,168
2019-20	8.76	8.76	7,284,918	10,622,762 ^a	130,835,930
Total cumulative increase approved				10,622,762	
Total above rate peg			7,284,918		

^a A prior catch-up of \$92,088 ($\$120,213,168 \times 0.0876 + \$92,088 = \$10,622,762$) that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2019-20. This will be applied to the Miranda Core Major Shopping Centre subcategory.

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

Source: Sutherland Shire Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations; and Sutherland Shire Council, *Application Part B*, p 39.

⁹⁴ 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 in 2019-20 it will collect an additional \$7.3 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the Council requested to enable it to improve its financial sustainability, while increasing its infrastructure renewals and reducing its infrastructure backlog.⁹⁵

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.

The minimum rate for residential and business ratepayers will increase from \$602.30 to \$900.00. Our decision would allow an increase **above the rate peg** for the minimum rate of \$281.44 (45.5%) in 2019-20.⁹⁶

All other ratepayers would only see an increase in their rates of the 2.7% rate peg in 2019-20.

⁹⁵ Sutherland Shire Council, *Application Part B*, p 5.

⁹⁶ Sutherland Shire Council, *Application Part A*, Worksheet 5b; and IPART calculations.



Appendices

A Assessment criteria for Special Variation and Minimum Rate Increase applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
<p>Criterion 1 – Financial need</p> <p>The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate.</p> <p>In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:</p> <ul style="list-style-type: none">▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and▼ Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation. <p>The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.</p>
<p>Criterion 2 – Community awareness</p> <p>Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.</p> <p>The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.</p>
<p>Criterion 3 – Impact on ratepayers is reasonable</p> <p>The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none">▼ clearly show the impact of any rate rises upon the community,▼ include the council's consideration of the community's capacity and willingness to pay rates, and▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.
<p>Criterion 4 – IP&R documents are exhibited</p> <p>The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.</p>
<p>Criterion 5 – Productivity improvements and cost containment strategies</p> <p>The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>

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 M1 – Rationale

The rationale for increasing minimum rates above the statutory amount.

Criterion M2 – 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 M3 – 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

Tables B.1 and B.2 shows 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 \$81.6 million over 10 years to fund renewals for:⁹⁷

- ▼ Buildings
- ▼ Parks and recreation
- ▼ Roads and bridges
- ▼ Waterways.

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.

⁹⁷ Sutherland Shire Council, *Application Part A*, Worksheet 6; and Sutherland Shire Council, *Application Part B*, p 5.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	7,285	7,467	7,654	7,845	8,041	8,242	8,448	8,659	8,876	9,098	81,616
Funding capital expenditure (renewals)	7,285	7,467	7,654	7,845	8,041	8,242	8,448	8,659	8,876	9,098	81,616
Total expenditure	7,285	7,467	7,654	7,845	8,041	8,242	8,448	8,659	8,876	9,098	81,616

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure. The Council has indicated it intends to use all of the additional revenue from the proposed SV for capital expenditure.

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

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Renewals											
Buildings	425	656	-	-	-	-	-	67	-	-	1,148
Other assets	610	1,249	1,998	2,964	1,733	1,720	1,832	1,878	1,852	1,973	17,810
Parks and recreation	3,595	2,916	3,504	2,687	4,116	4,227	4,267	4,310	4,561	4,605	38,789
Roads and bridges	2,158	2,107	1,626	1,656	1,695	1,730	1,769	1,810	1,853	1,896	18,300
Waterways	497	539	525	538	497	566	580	594	609	624	5,570
Total Asset Renewal	7,285	7,467	7,654	7,845	8,041	8,242	8,448	8,659	8,876	9,088	81,616
Total Capital Expenditure	7,285	7,467	7,654	7,845	8,041	8,242	8,448	8,659	8,876	9,088	81,616

Note: Numbers may not add due to rounding.

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

C Sutherland Shire's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report in 2019-20, 2020-21 and 2021-22 against its projected revenue, expenses and operating balance as set out in its LTFF (shown in Table C.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate ongoing trends in operating revenues and expenses, our analysis of the Council's operating account in the body of this report excludes capital grants and contributions.

Table C.1 Summary of projected operating statement for Sutherland Shire Council (2019-20 to 2028-29) (\$000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	265,985	287,320	292,016	280,312	285,633	291,779	299,587	306,549	314,339	322,668
Total expenses	244,101	251,626	256,070	262,505	267,211	276,471	282,906	294,053	294,679	304,468
Operating result from continuing operations	21,884	35,694	35,946	17,807	18,422	15,308	16,681	12,496	19,660	18,200
Net operating result before capital grants and contributions	2,163	1,400	2,985	2,814	4,339	1,759	2,887	-648	6,534	4,953

Note: Numbers may not add due to rounding.

Source: Sutherland Shire 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 Sutherland Shire Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	1,054	1,018	1,028	1,052	-0.1
Ratio of population to FTE	211	220	220	215	0.6
Average cost per FTE (\$)	93,220	92,596	95,790	94,523	0.5
Employee costs as % operating expenditure (General Fund only) (%)	48.7	47.8	47.8	48.5	-

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 Sutherland Shire Council (2016-17)

	Sutherland Shire Council	OLG Group 3 average	NSW average
General profile			
Area (km ²)	369	-	-
Population (2016)	226,041	-	-
General Fund operating expenditure (\$m)	205.1	181.2	76.3
General Fund operating revenue per capita (\$)	1,194	-	-
Rates revenue as % General Fund income (%)	55.7	48.3	42.5
Own-source revenue ratio (%)	76.7	70.8	66.0
Average rate indicators^a			
Average rate – residential (\$)	1,169	1,005	1,053
Average rate – business (\$)	3,619	6,396	5,738
Average rate – farmland (\$)	-	2,840	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 (\$) ^b	102,908	98,249	77,272
Average residential rates to median income, 2016 (%)	1.1	1.0	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	114	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	3.6	3.2	3.5
Productivity (labour input) indicators^c			
FTE staff (number)	1,052	761	356
Ratio of population to FTE	214.9	-	-
Average cost per FTE (\$)	94,523	100,803	91,762
Employee costs as % operating expenditure (General Fund only) (%)	48.5	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
<i>Ad valorem</i> rate	A rate based on the value of real estate.
Baseline Scenario	Shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the Council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	<i>Local Government Act 1993</i> (NSW)
OLG	Office of Local Government
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the Council. A council must make rates and charges for a year so as to produce general income of an amount that is lower than the PGI.
Proposed SV Scenario	Includes the Council's proposed SV revenue and expenditure.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in

Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).

SV

Special variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.