Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Lithgow City Council 2019-20

Final Report
Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

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1 Executive summary

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

- Increase its general income by **11.7%** in 2019-20, and
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to enhance its financial sustainability, maintain existing services, maintain and renew infrastructure and to reduce the infrastructure backlog.[4] The Council proposes that the majority of the funds would be used for the maintenance and renewal of infrastructure assets such as transport assets, stormwater drainage, buildings and business improvement capital projects.[5]

The Council's proposed SV would generate an additional increase to its permissible general income (PGI) of $1.1 million (8.1% of total income) over one year (see Table 2.1). As the proposed SV is permanent, it would mean a cumulative increase in its PGI revenue of $12.8 million above the assumed rate peg over 10 years (see Table 2.2).

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

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

1.1 We have approved in part Lithgow City Council's application for a Special Variation

We decided to approve the proposed SV **in part** for an increase of **9.0%**.

Our decision means that the Council may increase its general income in 2019-20 by the annual percentage outlined in Box 1.1. This will allow the Council to fund operating and capital expenditure for its key assets, such as roads, buildings, business improvement capital projects and stormwater drainage, to improve its financial sustainability and to reduce its infrastructure backlog.[6]

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 Lithgow City Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.
4 Lithgow City Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, p 4; Lithgow City Council, *Delivery Program*, pp 4 and 15; and Lithgow City Council, *Long Term Financial Plan*, pp 5-6.
5 Lithgow City Council, *Application Part A*, Worksheet 6.
6 Lithgow City Council, *Application Part A*, Worksheet 6; and Lithgow City Council, *Application Part B*, p 4.

The annual increase includes the rate peg of 2.7% in 2019-20. The increase that we have approved of 9.0% is 6.3 percentage points more than the assumed rate peg for this year. This increase may be retained in the Council's general income base **permanently**.

Box 1.1 IPART Decision – Lithgow City Council

Approved Special Variation: percentage increase to general income

	2019-20
Increase above rate peg – permanent	6.3
Rate peg	2.7
Total increase	**9.0**

The approved increase of 9.0% 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.[7]

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 in 2019-20 and 2020-21 on:
  - The program of expenditure that was actually funded by the additional income
  - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
  - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - Expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
  - The outcomes achieved as a result of the actual program of expenditure.
- The Council is required to reduce its income for Year 2019-20 to reflect the expiring special variation amount of $636,992 before increasing its general income for that year.

IPART estimates that in 2019-20, the Council will collect an additional $0.8 million of rate revenue compared to rate increases that are limited to the rate peg (see Table 1.1).[8]

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

8 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates.

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

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019[a]					12,717,138
2019-20	9.0	9.0	801,180	1,144,542	13,861,680
Total cumulative increase approved				1,144,542	
Total above rate peg			**801,180**		

[a] Includes adjustment of –$636,992 for an SV that expires on 30 June 2019.

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

Source: Lithgow City Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

As the approved SV is permanent, it would mean a cumulative increase in the Council's PGI revenue of $9.0 million above the assumed rate peg over 10 years. This represents 5.8% of the Council's total cumulative PGI over the 10 year period (see Table 1.2).

Table 1.2 Permissible general income (PGI) of Lithgow City Council from 2019-20 to 2028-29 under the approved SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI
9.0	155.3	5.8%

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

Source: Lithgow City Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

1.2 Reasons for our decision

Our decision reflects our finding that, on balance, the Council's application partly meets the criteria in the OLG Guidelines. The material the Council used to engage with its community did not clearly identify that the proposed SV was for 11.7%, instead expressing the proposed SV as 9.0% plus the rate peg. This resulted in some confusion for ratepayers around the magnitude of the SV. We consider that **partial approval** of the Council's application for an increase of 9.0% is reasonable in the circumstances, given the Council's financial need for the proposed SV to enhance its financial sustainability and to reduce its infrastructure backlog.

The Council's forecasts show that there is a financial need for it to increase its recurrent revenue above the rate peg to be financially sustainable. The average Operating Performance Ratio (OPR) over five years would improve both with the proposed SV and under our decision to approve the SV in part and would remain above the OLG benchmark of greater than or equal to break-even of 0% (see Section 4.1 for further explanation).[9] The Council held no unrestricted cash and investments as at 30 June 2018.

We note that the Council did not communicate the total cumulative increase and impact of its proposed 11.7% SV for 2019-20 in its Delivery Program and Long Term Financial Plan (LTFP)

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

or in the majority of its other consultation material. The cumulative increase was stated on the Council's website and in some of its media releases. In its engagement materials, it communicated its intention to apply for a permanent SV of 9.0% plus the rate peg in 2019-20. We found that the 9.0% total cumulative increase was more consistently understood by the community than the requested 11.7% cumulative increase. On balance, we found that the Council only partly demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed 11.7% rate increase.

We found that the impact on affected ratepayers of the Council would be largely reasonable, given the Council's financial need for additional funding to be financially sustainable. The proposed SV replaces an expiring SV of 4.77%, which means the proposed SV will result in an increase in average rates of 4.23% above the rate peg or 6.93% compared to 2018-19 rates. In addition, the Council's average residential and farmland rates with the proposed SV in 2019-20 would be lower than the OLG Group 4[10] estimated average residential and farmland rates increased in line with the rate peg.

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

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

Table 1.3 below provides more detail about our assessment and key considerations in making our decision.

Table 1.3 Assessment of Lithgow City 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: – 2.5% with the Proposed SV Scenario – -9.2% without the proposed SV revenue and with the proposed SV expenditure (the Baseline with SV expenditure Scenario). ▼ Net cash is $10.1 million or 36.5% of income in 2018-19, with no unrestricted cash and investments as at 30 June 2018. ▼ Infrastructure backlog ratio is estimated at 1.0% in 2028-29 under the Proposed SV Scenario but 13.0% in 2028-29 without the SV revenue and without the SV expenditure (the Baseline Scenario). The OLG benchmark is less than 2%.[11]
2. Community awareness	
Partly Demonstrated	The Council partly demonstrated that the community is aware of the proposed rate rise. It: ▼ Used a range of engagement methods to make the community aware of the need for, and extent of, the proposed rate increase. ▼ Provided detailed explanation about the purpose and impact of the proposed SV and sought feedback. ▼ Satisfactorily considered community feedback on the proposed rate increase.

10 Lithgow City Council is in OLG Group 4, which is classified as Regional Town/City Small/Medium (population up to 70,000). The group comprises 26 councils, including Richmond Valley, Clarence Valley, Lismore and Tamworth.

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

- Did not communicate the total cumulative increase and impact of the proposed 11.7% SV in its Delivery Program and Long Term Financial Plan and the majority of its other consultation materials except for on its website and in some of its media releases. However, it consistently expressed its intention to make an SV application for a permanent 9.0% increase to its general income plus the rate peg in 2019-20 and indicated that this would replace the current expiring SV of 4.77% and include an additional increase of 4.23%.

3. Reasonable Impact on ratepayers	
Largely Demonstrated	With the proposed SV, the average residential rate would increase by $49 in 2019-20. Without the proposed SV, it would decrease by $17 as the current SV is due to expire on 30 June 2019.[12] The Council examined the impact of the proposed SV on ratepayers and stated that it would be reasonable. Amongst other indicators, it considered: ▼ The 2015 taxable income in the Council's Local Government Area (LGA) was the highest of the Central West Group 4 Councils.[13] ▼ From the OLG Time Series Data 2016-17, the Council's average residential rates were higher than other Central West Group 4 councils. This is because OLG has included water and sewerage charges in its calculation of the Council's average residential rates. Average rates for business and farmland ratepayers were at the lower end compared with neighbouring councils. ▼ The median residential land values have been relatively stable for the past five years. ▼ Its relative socio-economic disadvantage, by limiting the proposal to a one-off total SV increase of 11.7% in 2019-20. IPART considered information on ratepayers from 2016-17 and found: ▼ Average residential rates without the SV were lower than both the average for Group 4 councils and the weighted average of neighbouring councils. ▼ Average business rates without the SV were lower than the average for Group 4 councils but higher than the weighted average of neighbouring councils. ▼ The average rates to household income ratio without the SV was lower than the average for Group 4 councils. ▼ The SEIFA[14] index ranking (17) was lower than the neighbouring councils, indicating a higher level of disadvantage. IPART also compared the Council's average rate levels with the proposed SV to the OLG Group 4 average rate levels over the proposed 1-year SV period. We found that in 2019-20 the Council's: ▼ Average residential rate with the proposed SV would be $812, which would be lower than the estimated Group 4 average residential rates of $1,101. ▼ Average business rate with the proposed SV would be $4,619, which would be higher than the estimated Group 4 average business rates of $3,994. ▼ Average farmland rate with the proposed SV would be $1,532, which would be lower than the estimated Group 4 average farmland rates of $2,161. We considered the impact on ratepayers to be largely reasonable given the proposed SV would replace the current expiring SV of 4.77%, plus an additional increase of 4.23%, and the Council's financial need for additional funding to be financially sustainable.

12 Lithgow City Council, *Application Part A*, Worksheet 5a.

13 Central West Group 4 councils consist of Blue Mountains, Bathurst, Oberon and Mid-Western. Lithgow City Council, *Application Part B*, pp 49-50.

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.

4. IP&R documents exhibition	
Largely Demonstrated	The Council adopted its Community Strategic Plan in June 2017. It: ▼ Updated its Delivery Program and Long Term Financial Plan to include modelling and further information about the proposed SV and exhibited the updated documents from 27 November 2018 to 11 January 2019. ▼ Adopted these IP&R documents on 29 January 2019. ▼ Did not communicate the total cumulative increase and impact of 11.7% in 2019-20 in its Delivery Program and Long Term Financial Plan and the majority of its other consultation materials except for on its website and in some of its media releases. However, it consistently expressed its intention to make a proposed SV application for a permanent 9.0% increase to its general income plus the rate peg in 2019-20, and indicated that this would replace the current expiring SV of 4.77%, plus an additional increase of 4.23%.
5. Productivity improvements and cost containment	
Demonstrated	The Council has implemented a number of cost savings initiatives in the past. Some examples include: ▼ 25,000 tonnes of recycled material being sourced from the Roads and Maritimes Services for re-use on rural unsealed roads, which produced savings of $165,000. ▼ Installation of five modern public toilet systems, which resulted in annual estimated savings of $80,000 per annum and a reduction of 1.0 Full-Time equivalent (FTE) position. ▼ Replacement of 1,490 street lamps with LED technology to reduce greenhouse emissions and running costs, which resulted in estimated savings of $90,000 per annum. It also estimates savings from future initiatives including: ▼ Implementation of store replenishment software, which is forecast to result in a reduction of 1.0 FTE and $60,000 including on-costs. ▼ Changeover of the Council's fleet of lease vehicles to small/medium vehicles, hybrid or medium SUV All-Wheel Drive (AWD) vehicles, which is expected to achieve savings of $20,000 per annum in operational costs and $50,000 in capital plant costs.

1.3 Structure of this report

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

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

2 Lithgow City Council's application

The Council has applied for an SV to increase its general income by 11.7% in 2019-20. The proposed SV application is for a single-year increase that remains permanently in the rate base. The Council indicated that the proposed rate increase will be applied across all rating categories.[15] This will replace the current expiring SV of 4.77%, with an additional increase of 4.23%. The current SV is due to expire on 30 June 2019.

2.1 Purpose

The purpose of the proposed SV is to fund ongoing operations such as infrastructure maintenance and renewal, to maintain existing services, to enhance financial sustainability and to reduce the infrastructure backlog.[16]

2.2 Need

Through the IP&R process, a number of priorities were identified by the Council. These include the need to fund infrastructure renewals for transport (ie, sealed roads, unsealed roads, footpaths, cycle ways, bridges and road drainage), stormwater drainage and buildings in response to the community's requests and concerns. The Council has also identified enhanced financial sustainability as one of the drivers for the SV application.[17]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $12.8 million above what the assumed rate peg would deliver over 10 years. This would represent 8.1% of the Council's total cumulative PGI over the 10 year period (see Table 2.2).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 8.8% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

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15 Lithgow City Council, *Application Part B*, p 46.
16 Lithgow City Council, *Application Part B*, p 4; Lithgow City Council, *Delivery Program*, pp 4 and 15; and Lithgow City Council, *Long Term Financial Plan*, pp 5-6.
17 Lithgow City Council, *Application Part B*, pp 4 and 34.

Table 2.1 Permissible general income (PGI) of Lithgow City Council in 2019-20 arising from the proposed SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019[a]					12,717,138
2019-20	11.7	11.7	1,144,542	1,487,905	14,205,043
Total cumulative increase approved				1,487,905	
Total above rate peg			**1,144,542**		

b Includes adjustment of –$636,992 for an SV that expires on 30 June 2019.

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

Source: Lithgow City Council, *Application Part A,* Worksheets 1 and 4 and IPART calculations.

Table 2.2 Permissible general income (PGI) of Lithgow City 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
12.8	159.1	8.1%

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

Source: Lithgow City Council, *Application Part A,* Worksheets 1 and 4 and IPART calculations.

The Council intends to increase the rates for all rating categories by the proposed SV percentage. The Council has examined the impact of the proposed SV on ratepayers and considered that its SEIFA index indicates that the Council's LGA is more socio-economically disadvantaged than the neighbouring councils. From the OLG Time Series Data 2016-17[18], the Council's average residential rates are lower than the average for Group 4 councils and the weighted average of neighbouring councils. Average rates for business and farmland ratepayers are also below those of neighbouring councils. Average mining rates are not comparable due to the low number of rating assessments (see Section 4.3.1 for further explanation).

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 29 January 2019. Two councillors were against the application and eight councillors were in favour of the resolution.[19]

18 The OLG Time Series Data 2016-17 includes the sewerage special rate and the parking special rate amounts in the Council's total residential rate revenue which results in the average residential rate being presented as $1,407; the average residential rate for 2016-17 is $689 after correcting for this.

19 Lithgow City Council, *Resolution to apply for the special variation,* p 1.

3 Submissions to IPART

IPART received 242 submissions during the consultation period from 11 February 2019 to 14 March 2019, with submissions strongly opposing the Council's proposed SV. Views, positions or issues put forward in submissions included the following:

- The Council's previous inefficient use of funds.
- The Council displayed poor financial management of funds.
- Lack of jobs and high unemployment rate in the area.
- The Council should have amalgamated with nearby councils.
- The Council is charging one of the highest rates in the state compared to other cities with more infrastructure and better living conditions.
- The affordability of paying rates at proposed levels, especially for pensioners and people on limited incomes.
- Certain areas receiving little council support and minimal servicing.
- The consultation process for the phone survey was flawed, biased and selective, with no acknowledgement of the properties and ratepayers in the Meadow Flat and other localities within the Lithgow LGA.

Approximately 66 submissions mentioned a proposed SV increase of 9.0%, while only two mentioned 11.7%, which indicates there may be confusion amongst the community about what the Council's proposal would specifically mean in terms of the percentage increase to general income (ie, 9.0% or 11.7%).

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

The key themes arising from the submissions were concerns surrounding the Council's efficiencies and the impact of the proposed SV on its ratepayers. A significant number of ratepayers who made submissions referred to the proposed SV as being a 9% increase rather than the 11.7% increase proposed by the Council. We have considered the consultation carried out by the Council to inform the community about the proposed SV (see Section 4.2).

The majority of the submissions received raised concerns about the affordability of the proposed increase to rates, especially for pensioners and people on limited incomes. We have examined the impact on ratepayers of the proposed SV (see Section 4.3).

Many of the submissions claimed that the Council displayed poor financial management of funds, had demonstrated inefficient use of funds previously, should have amalgamated with another council and should consider efficiency measures to save money for funding renewals and maintenance of its infrastructure assets. We have examined the Council's productivity improvements and cost containment strategies (see Section 4.5).

4 IPART's assessment

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

The five criteria in the OLG Guidelines are:

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

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

Our Assessment

Our decision reflects our finding that, on balance, the Council's application partly meets the criteria in the OLG Guidelines. The material the Council used to engage with its community did not clearly identify that the proposed SV was for 11.7%, instead expressing the proposed SV as 9.0% plus the rate peg. This resulted in some confusion for ratepayers around the magnitude of the SV. We consider that **partial approval** of the Council's application for an increase of 9.0% is reasonable in the circumstances, given the Council's financial need for the proposed SV to enhance its financial sustainability and to reduce its infrastructure backlog.

The Council's forecast shows that there is a financial need for it to increase its recurrent revenue above the rate peg to be financially sustainable. The Operating Performance Ratio (OPR) over five years is 2.5% under the proposed SV Scenario, 1.4% under our decision to approve the SV in part, and -9.2% without SV revenue and with the proposed SV expenditure (Baseline with SV expenditure Scenario), which is below the OLG benchmark of greater than or equal to break-even of 0% (see Section 4.1 for further explanation). The Council held no unrestricted cash and investments as at 30 June 2018.

We note that the Council did not communicate the total cumulative increase and impact of its proposed 11.7% SV for 2019-20 in its Delivery Program and Long Term Financial Plan or in the majority of its other consultation material. The cumulative increase was stated on the Council's website and in some of its media releases. In its engagement materials, it communicated its intention to apply for a permanent SV of 9.0% plus the rate peg in

2019-20. We found that the 9.0% total cumulative increase was more consistently understood by the community than the requested 11.7% cumulative increase. On balance, we found that the Council only partly demonstrated that its community is sufficiently aware of the need for, and extent of, the proposed 11.7% rate increase.

We found that the impact of the proposed SV on ratepayers would be largely reasonable, given the proposed SV would replace the current expiring SV of 4.77%, plus an additional increase of 4.23%, and the Council's financial need for additional funding to be financially sustainable. In addition, the Council's average residential and farmland rates with the proposed SV in 2019-20 would be lower than the OLG Group 4 estimated average residential and farmland rates increased in line with the rate peg.

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

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

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

4.1 Financial need for the proposed Special Variation

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

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

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

- Operating performance
- Net cash (debt).

Where relevant, IPART also uses information provided by the Council to assess 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:

$$OPR^{20} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

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

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

We consider that a council's average OPR over the next 10 years should be 0% or greater, as this is typically the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV. We note that other factors, such as the level of borrowings and/or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.[21]

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's infrastructure ratios, where relevant to the Council's application, given the management of infrastructure assets is an important component of the Council's function.

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

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

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.

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

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

Where relevant, we may also consider the Council's infrastructure renewals ratio, which assesses the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG for the ratio is greater than 100%.[24] It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{25}}{Depreciation, amortisation\ and\ impairment}$$

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

The Council's Delivery Program clearly sets out the need for, and purpose of, the proposed SV, which is to:[26]

- Maintain existing services
- Enhance financial sustainability
- Fund maintenance and renewal of infrastructure assets such as transport assets, stormwater drainage and buildings
- Reduce the infrastructure backlog.

The Council's application and its Long Term Financial Plan also clearly set out the need for, and purpose of, the proposed SV.[27]

The Council's Delivery Program also canvassed alternatives to the rate rise, such as reduced levels of service delivered to the community.[28] The IP&R documents did not discuss any other alternatives to the rate rise.

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

The Council's forecast operating result

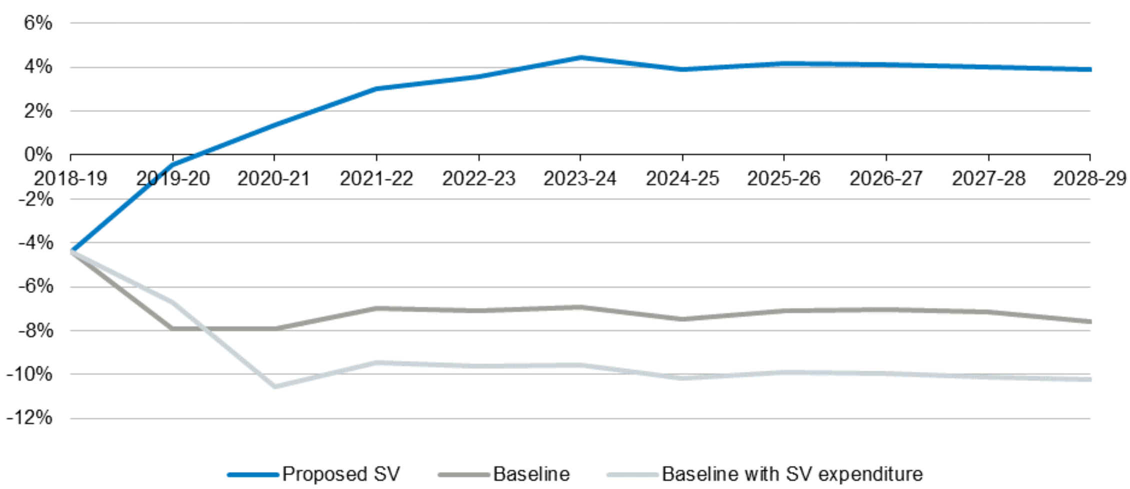
Under the Proposed SV Scenario, the Council forecasts improving operating performance, with its OPR growing to 3.9% by 2028-29. The cumulative value of the forecast operating results (before capital grants and contributions) is $11.4 million to 2028-29. This would allow

23 Historical cost less accumulated depreciation.
24 Office of Local Government, *Improvement Proposal Reassessment Report Round 3 – June 2018*, p 10.
25 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.
26 Lithgow City Council, *Delivery Program*, pp 4 and 15.
27 Lithgow City Council, *Application Part B*, p 4; and Lithgow City Council, *Long Term Financial Plan*, pp 5-6.
28 Lithgow City Council, *Delivery Program*, p 4.

the Council to reduce its infrastructure backlog, fund continuous maintenance and renewal of existing infrastructure assets, deliver its proposed levels of service, and improve its financial sustainability.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts 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 results is -$29.4 million to 2028-29 under this scenario.

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



Data source: Lithgow City Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 4.1 Projected operating performance ratio (%) for Lithgow City 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	-0.4	1.4	3.0	3.6	4.5	3.9	4.2	4.1	4.0	3.9
Baseline	-7.9	-7.9	-7.0	-7.1	-6.9	-7.5	-7.1	-7.1	-7.1	-7.6
Baseline with SV expenditure	-6.7	-10.6	-9.5	-9.6	-9.6	-10.2	-9.9	-10.0	-10.1	-10.2

Source: IPART calculations based on Lithgow City 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:

- 2.5% under the Proposed SV Scenario
- -7.4% under the Baseline Scenario
- -9.2% under the Baseline with SV expenditure Scenario.

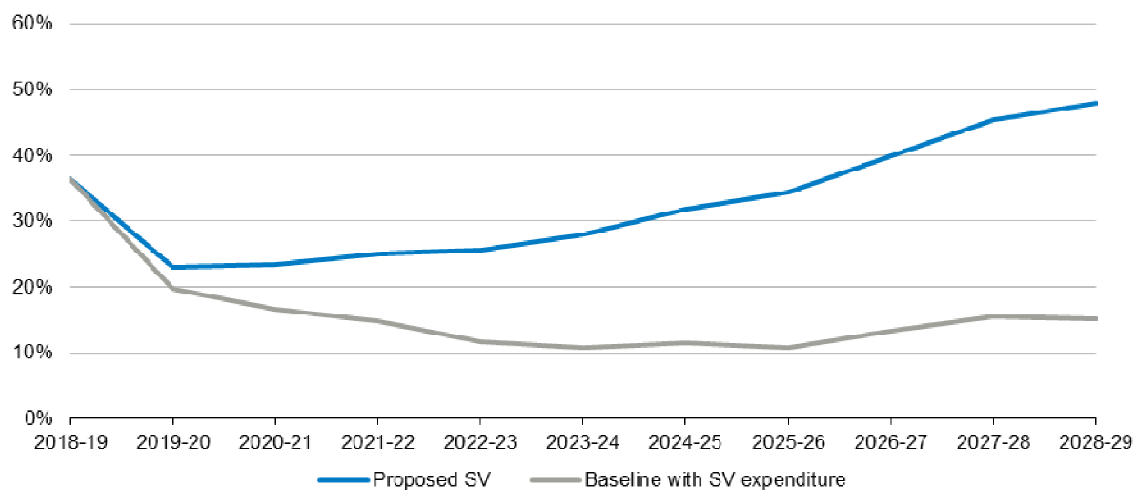
Impact on the Council's net cash (debt)

We calculate the Council's net cash is $10.1 million or 36.5% 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 (the Baseline with SV expenditure Scenario), we estimate that net cash would still increase by 2028-29. As at 2028-29, the net cash to income ratio would be 47.9% under the Proposed SV Scenario and 15.1% 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 Lithgow City Council's net cash (debt) to income ratio (%) (2018-19 to 2028-29)



Data source: Lithgow City 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:

- 25.1% under the Proposed SV Scenario
- 14.6% under the Baseline with SV expenditure Scenario.

Impact on the Council's infrastructure backlog ratio

The Council estimated its infrastructure backlog to be $28.0 million in 2017-18.[29] The Council estimates an infrastructure backlog ratio of 6.0% in 2018-19, which is higher than the OLG benchmark of less than 2%.

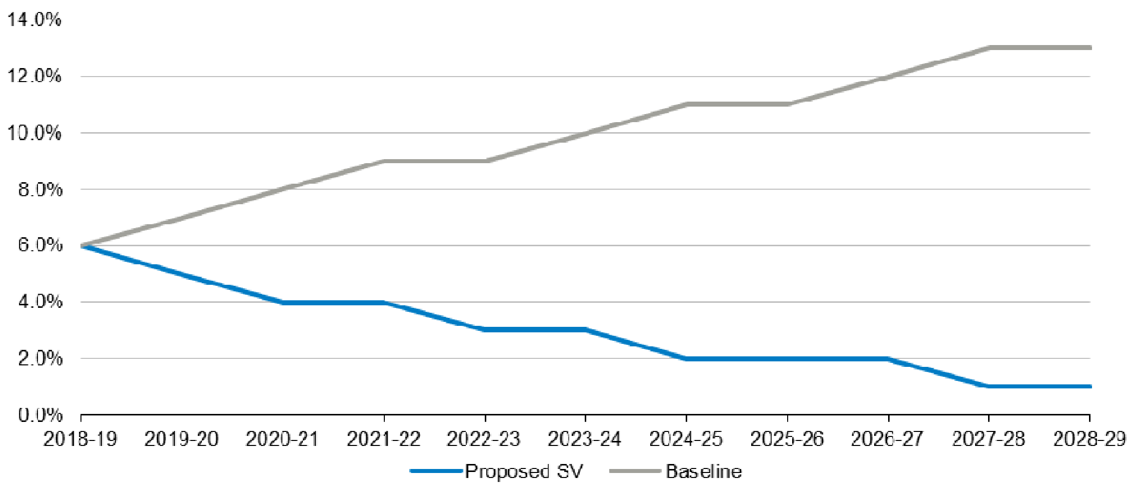
Figure 4.3 and Table 4.2 show the projected infrastructure backlog ratio under the proposed SV and Baseline Scenarios. The Council forecasts its infrastructure backlog ratio to decrease

29 Lithgow City Council, *Strategic Asset Management Plan*, p 15; and Lithgow City Council, *Application Part B*, p 35.

significantly under the Proposed SV Scenario. Under the Proposed SV Scenario, it forecasts the infrastructure backlog ratio to reduce to 1.0% in 2028-29.

Under the Baseline Scenario (assuming the Council does not receive the SV revenue and does not go ahead with its proposed SV expenditure), it forecasts the infrastructure backlog ratio to increase to 13.0% in 2028-29. This is much higher than the OLG benchmark of less than 2%.

Figure 4.3 Lithgow City Council's Infrastructure Backlog Ratio (%) excluding capital grants and contributions (2018-19 to 2028-29)



Data source: Lithgow City Council, *Application Part A*, Worksheet 9.

Table 4.2 Projected infrastructure backlog ratio (%) for Lithgow City 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	5.0	4.0	4.0	3.0	3.0	2.0	2.0	2.0	1.0	1.0
Baseline	7.0	8.0	9.0	9.0	10.0	11.0	11.0	12.0	13.0	13.0

Source: Lithgow City Council, *Application Part A*, Worksheet 9.

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

- 3.8% under the Proposed SV Scenario
- 8.6% under the Baseline Scenario.

4.1.3 Overall assessment of the Council's financial need

The Council's forecast under the Baseline with SV expenditure Scenario shows that if it proceeds with the expenditure included in its application (without the proposed SV revenue), its OPR will average -9.2% over the next five years, reaching -10.2% 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, if it is to proceed with the expenditure in its SV proposal. Under the Proposed SV Scenario (with SV revenue and expenditure), our analysis shows that the Council's OPR over the next five years averages 2.5% and its forecast OPR in 2023-24 is 4.5%. We consider that the proposed SV revenue puts the council on a more sustainable path, given the program of expenditure set out in its application.

We forecast that the Council will have a net cash position of $10.1 million at 30 June 2019. However, while this shows that total cash and investments is greater than total debt, the Council's application indicates that of the total $34.0 million in cash, cash equivalents and investments it held at 30 June 2018:

- $21.1 million was externally restricted
- $12.9 million was internally restricted
- The Council held no unrestricted cash and investments.[30]

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

Under the Baseline Scenario, the Council forecasts its infrastructure backlog to increase to 13.0% in 2028-29, which is well above the 2% OLG benchmark. Under the Proposed SV Scenario, the Council forecasts the infrastructure backlog to improve to 1.0% in 2028-29. Taking this into account, we have assessed that the Council is in financial need for the proposed SV to enhance its financial sustainability and reduce its infrastructure backlog.

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

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

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

30 Lithgow City Council, *Application Part A*, Worksheet 7; and IPART calculations.

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

4.2.1 Assessment of consultation with the community

The Council has published a Community Engagement Strategy.[31] It used this to guide and inform the consultation it carried out in relation to the proposed SV.

Process and Content

The material the Council prepared for ratepayers on its proposed SV contained some 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 impact of the proposed rate increase to ratepayers, including the cumulative percentage of the proposed SV and the rate increase across various categories of ratepayers, though there was some confusion created by the way the Council presented this information (see below).
- Communicated what the proposed SV would fund.

Clarity

The Council did not express the total cumulative increase of its proposed SV of 11.7% in its Delivery Program and Long Term Financial Plan or the majority of its consultation materials, except for on its website and in some of its media releases. In its letter from the Mayor, sent out to all ratepayers, and some of its media releases, it communicated its intention to make a proposed SV application for a permanent 9.0% increase to its general income plus the rate peg in 2019-20, and that this would replace the current expiring SV of 4.77% with an additional increase of 4.23%.[32]

This may have contributed to confusion amongst the community regarding the magnitude of the Council's proposed SV, with ratepayers anticipating an increase of 9.0% rather than 11.7%.

This suggests the Council's consultation material may not have clearly outlined the proposed SV and rate increase.

Timeliness

The Council carried out community consultation on its proposed SV from 24 April 2018 to 11 January 2019.[33] This consultation period provided sufficient opportunity for ratepayers to be informed and engaged on the proposed SV.

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31 Lithgow City Council, *Application Part B*, pp 28-29.
32 Lithgow City Council, *Letter from the Mayor to Ratepayers*, 1 December 2018, pp 1-2.
33 Lithgow City Council, *Application Part B*, p 30.

Engagement methods used

The Council provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community, including:[34]

- A letter from the Mayor, sent to all ratepayers – 9,867 letters[35] were distributed on 1 December 2018. This letter did not show the full cumulative increase of 11.7%. It communicated the Council's intention to make an application for a permanent 9.0% increase to its general income plus the rate peg of 2.7% in 2019-20.
- Media releases and Council's eNewsletters providing regular updates about the proposed SV.
- A dedicated SV website to explain the SV application, including fact sheets and an online rates calculator.
- An on-line survey.
- An independent phone survey conducted by Micromex Research Pty Ltd.[36]
- Request for feedback/submissions online and by mail by 11 January 2019.

On balance, we consider these methods were reasonable to communicate the need for the proposed rate increase to the community and reach a cross section of ratepayers. However the lack of clarity in the way the proposed SV was expressed in some of the materials means the extent of the SV may have been misunderstood by ratepayers as 9.0% rather than 11.7%.

4.2.2 Assessment of outcomes of consultation with the community

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

The Council received 33 written submissions (including five submissions received after the cut-off date and one petition with 386 signatures on it) in relation to its proposed SV, with its community strongly opposing it. The main reasons for opposition were:[37]

- The rates being higher than other councils
- Affordability of paying higher rates
- The Council's inefficient use of funds
- A view that the Council should look for more efficiencies and improve financial management before considering an SV.

34 Lithgow City Council, *Application Part B*, pp 30-31.

35 Lithgow City Council, *Application Part B*, p 30.

36 In November 2018, Lithgow City Council engaged an independent research firm, Micromex Research to undertake a random and representative telephone survey of 401 local residents to seek the community's support or otherwise for the proposed SV. Lithgow City Council, *Application Part B*, p 42.

37 Lithgow City Council, *Application Part B*, p 39; and Lithgow City Council, *Community Feedback – Community Submissions*, pp 45-58.

In addition, the online survey conducted by the Council from December 2018 to January 2019 reported that 85% of the 160 residents who completed the survey preferred the Baseline Scenario (without the proposed SV revenue and expenditure) to the proposed SV option.[38]

However, feedback from the community also indicated that the maintenance and renewal of infrastructure assets, such as roads should be a priority.[39] The phone survey conducted in November 2018 also reported that 58% of the 401 residents being surveyed were at least somewhat supportive of the proposed SV.[40]

The Council has considered its community's feedback and noted that it considered alternative options to the proposed SV. It concluded that without the rate increase, it would continue to operate in deficit and would not be able to fund extra asset renewal expenditure to ensure Fit for the Future asset ratios are achieved.[41]

Submissions from the community to IPART

IPART received 242 submissions during our consultation period from 11 February 2019 to 14 March 2019. In relation to community consultation, one of these claimed that the phone survey was flawed, biased, and selective, with no acknowledgement of the properties and ratepayers in the Meadow Flat and other localities within the Council's LGA.[42]

In addition, approximately 66 submissions to IPART mentioned a proposed SV increase of 9.0%, whereas only two submissions mentioned 11.7%. There may be potential confusion between community members on the full extent of the Council's application for a single-year permanent increase of 11.7%. This is a result of unclear information in its consultation material, Delivery Program and Long Term Financial Plan.

4.2.3 Overall assessment of community engagement and awareness

The Council did not communicate the total cumulative increase and impact of 11.7% in 2019-20 in its Delivery Program and Long Term Financial Plan and the majority of its other consultation materials, except for on its website and in some of its media releases. It only communicated its intention to make a proposed SV application for a permanent 9.0% increase to its general income plus the rate peg in 2019-20.

We note that the 9.0% total cumulative increase was more consistently understood by the community instead of the proposed 11.7% cumulative increase. On balance, we found that the Council demonstrated that its community is more sufficiently aware of the need for, and extent of, a rate increase of 9.0% instead of the requested 11.7%.

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38 Lithgow City Council, *Application Part B*, p 43.
39 Lithgow City Council, *Application Part B*, p 14.
40 Lithgow City Council, *Application Part B*, pp 42-43.
41 Lithgow City Council, *Application Part B*, pp 5 and 23.
42 J. Povey, submission to IPART Special Variation Application, March 2019, p 1.

4.3 Impact on affected ratepayers

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

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

Section 4.4 of this report considers the Council's Delivery Program and Long Term Financial Plan.

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

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

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

In its application, the Council indicated it intended to increase rates evenly for each rating category.[43] The Council has calculated that:

- The average residential rate would increase by 6.4% or $49 in 2019-20.
- The average business rate would increase by 6.4% or $277 in 2019-20.
- The average farmland rate would increase by 6.4% or $92 in 2019-20.
- The average mining rate would increase by 6.4% or $10,224 in 2019-20.

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

43 Lithgow City Council, *Application Part B*, p 46.

Table 4.3 Indicative annual increases in average rates under Lithgow City Council's proposed SV (2018-19 to 2019-20)

Ratepayer Category	2018-19	2019-20	Cumulative Increase
Residential rate $	**763**	**812**	
$ increase		49	49
% increase		6.4	6.4
Business rate $	**4,342**	**4,619**	
$ increase		277	277
% increase		6.4	6.4
Farmland rate $	**1,440**	**1,532**	
$ increase		92	92
% increase		6.4	6.4
Mining rate $	**160,461**	**170,685**	
$ increase		10,224	10,224
% increase		6.4	6.4

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: Lithgow City Council, *Application Part A*, Worksheet 5a.

The increases in average rates in 2019-20 are less than the proposed rise in general income of 11.7% because the 2019-20 proposed SV replaces an expiring SV of 4.77%, which is already being paid by ratepayers.

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

As Chapter 2 discussed, the Council requested a single-year permanent increase of 11.7%, including the rate peg, to remain permanently in the rate base.

The Council examined socio-economic indicators such as average rates relative to neighbouring councils, average income levels within the LGA, median residential land values and SEIFA index rankings to assess the impact on ratepayers. On the basis of these indicators, it concluded that the community has the capacity to pay:[44]

- The Council's SEIFA Indexes indicate that the Council's LGA is more socio-economically disadvantaged than neighbouring councils.
- From the OLG Time Series Data 2016-17, the Council's average residential rates appear comparatively higher than other Central West Group 4 councils. However, the average residential rates presented in this database includes sewerage special rates so is not comparable. Average rates for business and farmland ratepayers are at the lower end compared with neighbouring councils.
- The 2015 taxable income in the Council's LGA ($56,849) is the highest of the Central West Group 4 councils.
- The median residential land values have been relatively stable (below $100,000) for the past five years.

44 Lithgow City Council, *Application Part B*, pp 49-51.

- Individual income levels in the Council's LGA in 2016 compared to Regional NSW show that there was a similar proportion of people earning a high income ($1,750 per week or more) and a higher proportion of people earning a low income (less than $500 per week).
- The Council's ratio of outstanding rates and annual charges in 2016-17 was 5.8%, which is below the average of 6.0% in the 10 areas including the Council and its surrounding regions.

The Council considers the existing community has the willingness to pay. In the July 2018 phone survey, findings from the survey demonstrated that there were high levels of support for the Council to increase investment in order to achieve better outcomes in regards to the quality of assets. Results from the survey indicated that half of the Council's LGA residents accept that they need to pay more, either indirectly via rates or directly via service fees and charges, in order for the council to have the required funding to increase investment in community assets.[45]

The Council also has a financial hardship policy in place. The Council submitted that it addresses these issues in a fair and equitable manner according to the policy, which was reviewed against the OLG Debt Management and Hardship Guidelines.[46] In addition, the Council provides concessions on rates and charges for eligible pensioners. Approximately 20% of the Council's ratepayers receive a pensioner concession on their rates.[47]

Based on the socio-economic indicators and additional considerations, the Council concluded that the community has the willingness and capacity to pay the rates resulting from the proposed SV.

4.3.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the Council's SV history and the average annual growth of rates in various rating categories. We found that from 2008-09 to 2018-19:

- The Council has applied for, and been granted, one SV in 2009-10, which was used for road and building maintenance and library resources. This was a temporary increase of 8.27% and is due to expire on 30 June 2019.
- The average annual growth in residential rates was 4.1%, 4.6% for business rates and 4.5% for farmland rates, which compares with the average annual growth in the rate peg of 2.6% over the same period.[48]

We also compared 2016-17 rates and socio economic indicators in the LGA with OLG Group 4 and neighbouring councils as shown in Table 4.4.

45 Lithgow City Council, *Application Part B*, pp 42 and 52.
46 Lithgow City Council, *Application Part B*, p 57.
47 Lithgow City Council, *Application Part B*, p 56.
48 IPART calculations based on OLG data.

Table 4.4 Lithgow City Council – comparison of rates and socio-economic indicators with neighbouring councils and Group 4 averages (2016-17)

Council (OLG Group)	Average residential rate ($)[a]	Average business rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Blue Mountains (7)	1,457	3,365	76,336	1.9	3.4	105
Bathurst (4)	992	3,962	68,120	1.5	5.5	84
Oberon (10)	769	853	64,428	1.2	7.3	59
Mid-Western (4)	832	1,813	58,812	1.4	3.6	44
Lithgow (4)	**689[d]**	**3,521**	**51,168**	**1.3**	**5.4**	**17**
Group 4 average	1,032	3,746	62,430	1.7	4.3	-

[a] The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2017-18 or 2018-19.

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

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

[d] We note that the OLG has included the sewerage special rate and the parking special rate amounts in the Council's total residential rating revenue, which resulted in the average residential rate for 2016-17 being presented as $1,407. The Council has indicated that the correct average residential rate for 2016-17 is $689 (excluding the sewerage special rate and the parking special rate amounts).[49]

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

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

- Average residential rates of $689 without the SV were 33% lower than the average for Group 4 councils and 43% lower than the weighted average of neighbouring councils.
- Average business rates of $3,521 without the SV were 6% lower than the average for Group 4 councils but 13% higher than the weighted average of neighbouring councils.
- Average rates to income ratio without the SV was 0.4 percentage points lower than the average for Group 4 councils.
- Outstanding rates ratio without the SV was higher than the average for Group 4 councils and higher than its neighbouring councils except for Bathurst and Oberon.
- SEIFA ranking was comparatively lower than the neighbouring councils, indicating a higher level of disadvantage.

We also performed an analysis on the comparison of the Council's average rate levels with the proposed SV to the OLG Group 4 average rate levels over the proposed 1-year SV period and found that the Council's:[50]

- Average residential rate in 2019-20 with the proposed SV would be $812, which is lower than the estimated average residential rates of $1,101 for OLG Group 4.

49 Email to IPART, Lithgow City Council, 17 April 2019.

50 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 4 average rate levels by the rate peg each year from 2017-18 to 2019-20 to allow for the comparison of Lithgow City Council's proposed average rate levels with the SV over the proposed SV period.

- Average business rate in 2019-20 with the proposed SV would be $4,619, which is higher than the estimated average business rates of $3,994 for OLG Group 4.
- Average farmland rate in 2019-20 with the proposed SV would be $1,532, which is lower than the estimated average residential rates of $2,161 for OLG Group 4.

Submissions from the community to IPART

IPART received 242 submissions during the consultation period from 11 February 2019 to 14 March 2019. The majority of submissions mentioned the affordability of increased rates, especially for pensioners and people on limited incomes.

We have documented our overall assessment of the impact of the proposed rate increase on ratepayers in Section 4.3.3 below.

4.3.3 Overall assessment of the impact on affected ratepayers

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

- The Council's proposed average residential and farmland rates would be lower than the estimated average OLG Group 4 residential rates over the proposed 1-year SV period.
- The proposed SV replaces the current SV of 4.77%, which is due to expire on 30 June 2019, plus an additional increase of 4.23%.
- The Council's need for additional funding to be financially sustainable and to reduce its infrastructure backlog.

4.4 Integrated Planning and Reporting documents

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

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

The relevant documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and, where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended) public exhibition for 28 days. It would also be expected that the Long Term Financial Plan be posted on the Council's web site.

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 and exhibited, approved and adopted its IP&R documents. According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

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

4.4.1 Assessment of content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the need for, and purpose of, the proposed SV in both the Delivery Program and the Long Term Financial Plan.[51] The Council's Delivery Program also canvassed alternatives to the rate rise, such as reduced levels of service delivered to the community.[52] The IP&R documents did not discuss any other alternatives to the rate rise.

The Long Term Financial Plan shows the financial impact of the SV by presenting both a Baseline Scenario reflecting the business as usual model excluding the proposed SV (ie, excluding proposed expenditure and revenues) and a Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.[53]

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

The Delivery Program did not include the full cumulative increase of the proposed SV in percentage terms. It also did not communicate the total increase in dollar terms for the average ratepayer, by rating category.

However, the Long Term Financial Plan includes the total increase in dollar terms for the average ratepayer, by rating category on an annual basis, but not on a percentage basis.[54]

The impact of any rate rises upon the community

The Long Term Financial Plan shows that the Council considered the community's capacity and willingness to pay rates under the proposed SV. Within its Long Term Financial Plan, the Council presented information on average rates relative to neighbouring councils, average income levels within the LGA, median residential land values, SEIFA rankings, and survey results showing ratepayer willingness to fund the SV expenditure through rate increases.[55]

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

The Council exhibited its Community Strategic Plan for 28 days from 15 May 2017[56] and adopted it on 26 June 2017.[57] The Delivery Program was publicly exhibited from 23 April 2018

51 Lithgow City Council, *Delivery Program*, pp 4 and 15; and Lithgow City Council, *Long Term Financial Plan*, pp 4-6.
52 Lithgow City Council, *Delivery Program*, p 4.
53 Lithgow City Council, *Long Term Financial Plan*, pp 40-47 and 56-60.
54 Lithgow City Council, *Long Term Financial Plan*, p 31.
55 Lithgow City Council, *Long Term Financial Plan*, pp 29-32.
56 Lithgow City Council, *Minutes – Extraordinary Meeting of Council on 15 May 2017*, p 5.
57 Lithgow City Council, *Strategic Plans and Reports*, http://council.lithgow.com/ipr/, accessed 18 March 2019.

to 21 May 2018 and adopted by the Council on 25 June 2018.[58] As the Delivery Program and Long Term Financial Plan were revised to include the new modelling option and further information about the proposed SV, the Council exhibited its updated documents from 27 November 2018 to 11 January 2019.[59] The Council received 33 written submissions (including five submissions received after the cut-off date and one petition with 386 signatures on it) during the exhibition period (see Section 4.2.2 for the main issues identified in submissions).[60] The IP&R documents were subsequently adopted by the Council on 29 January 2019.[61]

4.4.3 Overall assessment of the IP&R documents

We note that the Council did not communicate the total cumulative increase and impact of 11.7% in 2019-20 in its Delivery Program and Long Term Financial Plan. In these materials, it only communicated its intention to make a proposed SV application for a permanent 9.0% increase to its general income plus the rate peg in 2019-20, and that this would replace the current expiring SV of 4.77% plus an additional increase of 4.23%.

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

4.5 Productivity improvements and cost containment strategies

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

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

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvement and cost containment initiatives it has undertaken in recent years. In particular, some initiatives it submitted included:[62]

- Reduced average expenditure per animal from $1.66 to $1.00 per day over the past two years through the building improvement program and implementation of an electronic animal management database for the Lithgow Animal Shelter.
- Installed five modern Exeloo public toilet systems, which resulted in annual estimated savings of $80,000 per annum and a reduction of 1.0 FTE position due to reduced call-outs and repairs.

58 Lithgow City Council, *Minutes of Ordinary Meeting of the Council on 23 April 2018*, p 11; and Lithgow City Council, *Minutes of Ordinary Meeting of the Council on 25 June 2018*, p 5.
59 Lithgow City Council, *Application Part B*, p 30.
60 Lithgow City Council, *Application Part B*, p 39.
61 Lithgow City Council, *Application Part B*, p 66.
62 Lithgow City Council, *Application Part B*, pp 68-77.

- Sourced 25,000 tonnes of recycled material from the Roads and Maritimes Services for re-use on rural unsealed roads to reduce the environmental impact within the local area and an increase in the scope of these projects, which resulted in savings of $165,000 (0.54% of 2017-18 operating expenditure).
- Replaced 1,490 Mercury Vapour Street Lamps with LED technology to reduce greenhouse emissions and running costs, estimated to save $90,000 per annum.
- Implemented Bookable, a venue booking system to ease and improve the process of venue bookings at the Council, with forecast savings of 0.5 of an FTE or $40,000 per annum.

4.5.2 Assessment of strategies in place for future productivity improvements

The Council indicated that it is planning future efficiency measures over the proposed SV period. Specifically, it proposes:[63]

- Implementation of store replenishment software, which is forecast to result in a saving of 1.0 FTE and $60,000 including on-costs.
- Changeover of the Council's fleet of lease vehicles to small/medium vehicles, hybrid or medium SUV AWD vehicles, which is expected to save $20,000 per annum in operational costs and $50,000 in capital plant costs.
- Installation of solar panels at the JM Robson Aquatic Centre and Lithgow Library Learning Centre, saving an estimated $23,600 per annum.
- Continuation of the upgrade of the Union Theatre, with forecast savings of $20,000 per annum.
- Accessing additional grants and corporate sponsorship contributions, estimated to save $90,000 per annum.

Submissions from the community to IPART

IPART received 242 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to productivity improvements and cost containment strategies, the majority of the submissions stated the Council displayed poor financial management, had inefficiently used funds, should have amalgamated and should consider efficiency measures to save money for funding renewals and maintenance of its infrastructure assets.

Our assessment found that the Council's explanation of its productivity and cost containment strategies that have been realised in the past years and are expected to be realised over the proposed SV period were reasonable.

4.5.3 Overall assessment of productivity improvements and cost containment strategies

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

63 Lithgow City Council, *Application Part B*, pp 77-85.

5 Our Decision

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

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

5.1 Our decision's impact on the Council

Our decision means that the Council may increase its general income over the 1-year SV period from $12.7 million in 2018-19 to $13.8 million in 2019-20. Table 5.1 shows the percentage increases we have approved, and estimates the annual increases in the Council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the Council's revenue base. After 2019-20, any increase in the Council's PGI is limited by the annual rate peg unless we approve a further SV.[64]

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

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019[a]					12,717,138
2019-20	9.0	9.0	801,180	1,144,542	13,861,680
Total cumulative increase approved				1,144,542	
Total above rate peg			**801,180**		

[a] Includes adjustment of –$636,992 for an SV that expires on 30 June 2019.

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

Source: Lithgow City Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

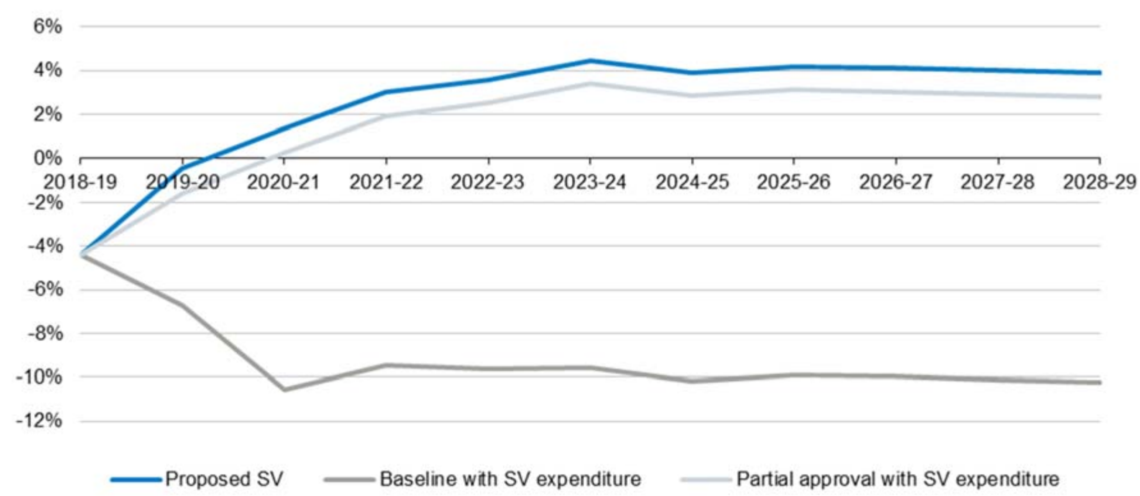
Over the 10 years from 2019-20 to 2028-29, the Council's cumulative increase in its PGI revenue would be $9.0 million (see Table 1.2) above the rate peg compared to $12.8 million (see Table 2.2) under its proposed SV application.

64 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.

Our decision will still enable the Council to undertake additional operating and capital expenditure to maintain service levels at acceptable standards, fund the maintenance and renewal of infrastructure assets, address the infrastructure backlog and improve its financial sustainability.[65] If it chooses, the Council may apply for an SV in the future.

Under our decision, the Council would still forecast an improving operating performance growing to 2.8% by 2028-29, which remains above the OLG benchmark of greater or equal to breakeven as shown in Figure 5.1 and Table 5.2. Therefore, this would still allow the Council to improve its financial sustainability, fund continuous maintenance and renewal of existing infrastructure assets, deliver its proposed levels of services and reduce its infrastructure backlog.

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



Note: Partial approval with SV expenditure Scenario shows the impact on the Council's operating performance under our decision with the SV revenue for the 9.0% approved and if it were to go ahead with the SV projects.

Data source: Lithgow City Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 5.2 Comparison of Lithgow City Council's Operating Performance Ratio (%) excluding capital grants and contributions under three different scenarios (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Full approval of SV	-0.4	1.4	3.0	3.6	4.5	3.9	4.2	4.1	4.0	3.9
Partial approval with SV Expenditure	-1.6	0.3	1.9	2.5	3.4	2.8	3.1	3.0	2.9	2.8
Baseline SV Expenditure	-6.7	-10.6	-9.5	-9.6	-9.6	-10.2	-9.9	-10.0	-10.1	-10.2

Source: IPART calculations based on Lithgow City Council, *Application Part A*, Worksheet 8.

65 Lithgow City Council, *Application Part B*, p 4; Lithgow City Council, *Delivery Program*, pp 4 and 15; and Lithgow City Council, *Long Term Financial Plan*, pp 5-6.

5.2 Our decision's impact on ratepayers

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

If the Council increases the rates based on our approval of the 9.0% cumulative increase, the impact on ratepayers will be as shown in Table 5.3 below. Compared to 2018-19 rate levels, the average residential rate will increase by $29 (3.8%), the average business rate by $165 (3.8%), the average farmland rate by $55 (3.8%) and the average mining rate by $6,099 (3.8%) by the end of the 1-year approved SV period.

Table 5.3 Indicative annual increases in average rates under Lithgow City Council's approved SV (2018-19 to 2019-20)

Ratepayer Category	2018-19	2019-20	Cumulative Increase
Residential rate $	**763**	**792**	
$ increase		29	29
% increase		3.8	3.8
Business rate $	**4,342**	**4,507**	
$ increase		165	165
% increase		3.8	3.8
Farmland rate $	**1,440**	**1,495**	
$ increase		55	55
% increase		3.8	3.8
Mining rate $	**160,461**	**166,560**	
$ increase		6,099	6,099
% increase		3.8	3.8

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: Lithgow City Council, *Application Part A*, Worksheet 5a and IPART calculations.

The increases in average rates in 2019-20 are less than the rise in general income of 9.0% allowed by the SV because the 2019-20 SV includes continuing an SV of 4.77%, which currently ends in 2018-19.

Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for Special Variation applications

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

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

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

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

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

The Council intended to use the additional SV revenue above the rate peg, of $12.8 million over 10 years, to fund:[66]

- $5.1 million in operating expenditure
- $7.7 million in capital expenditure.

Based on our decision to approve the Council's proposed SV in part, the additional SV revenue above the rate peg over 10 years would be $9.0 million.

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

66 Lithgow City Council, *Application Part A*, Worksheet 6.

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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	**1,145**	**1,173**	**1,202**	**1,233**	**1,263**	**1,295**	**1,327**	**1,361**	**1,395**	**1,429**	**12,823**
Transfers from reserves	-	-	-	-	-	-	-	-	-	-	-
Funding for increased operating expenditures (including loan interest costs)	460	472	483	495	508	520	533	547	560	574	5,154
Funding for capital expenditure	685	702	719	737	756	774	794	814	834	855	7,669
Total expenditure	**1,145**	**1,173**	**1,202**	**1,233**	**1,263**	**1,295**	**1,327**	**1,361**	**1,395**	**1,429**	**12,823**

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

Source: Lithgow City Council, *Application Part A,* Worksheet 6.

Table B.2 Lithgow City 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
Roads											
Renewals	365	374	383	393	403	413	423	434	445	456	4,089
Stormwater Drainage											
Renewals	75	77	79	81	83	85	87	89	91	94	840
Buildings											
Renewals	175	179	184	188	193	198	203	208	213	219	1,961
Business Improvement Capital Project											
Renewals	70	71	73	75	77	79	81	83	85	87	779
Total Asset Renewal	**685**	**702**	**719**	**737**	**756**	**774**	**794**	**814**	**834**	**855**	**7,669**
Total Capital Expenditure	**685**	**702**	**719**	**737**	**756**	**774**	**794**	**814**	**834**	**855**	**7,669**

Note: Numbers may not add due to rounding.

Source: Lithgow City Council, *Application Part A*, Worksheet 6.

C Lithgow City Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the Council is to report in 2019-20 and 2020-21 against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (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 Lithgow City Council (2019-20 to 2028-29) ($000) under its proposed SV application

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Total revenue	32,115	34,445	35,411	36,444	37,549	38,377	39,225	40,092	40,981	41,888
Total expenses	29,232	30,971	31,358	32,122	32,840	33,775	34,446	35,255	36,101	36,967
Operating result from continuing operations	2,883	3,474	4,053	4,322	4,709	4,602	4,779	4,837	4,880	4,921
Net operating result before capital grants and contributions	-123	438	971	1,194	1,534	1,377	1,503	1,510	1,500	1,488

Note: Numbers may not add due to rounding.

Source: Lithgow City 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 the councils in its OLG Group, and for NSW councils as a whole.

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

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	187	188	169	176	-2.0
Ratio of population to FTE	113	113	127	122	2.7
Average cost per FTE ($)	77,225	81,260	90,276	91,341	5.8
Employee costs as % operating expenditure (General Fund only) (%)	46.5	46.2	37.5	37.9	-

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 Lithgow City Council (2016-17)

	Lithgow City Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	4,512	-	-
Population (2016)	21,524	-	-
General Fund operating expenditure ($m)	35.1	66.2	76.3
General Fund operating revenue per capita ($)	1,628	-	-
Rates revenue as % General Fund income (%)	46.9	36.5	42.5
Own-source revenue ratio (%)	64.9	60.4	66.0
Average rate indicators[a]			
Average rate – residential ($)	1,407	1,052	1,053
Average rate – business ($)	3,521	3,746	5,738
Average rate – farmland ($)	1,351	2,026	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	51,168	62,430	77,272
Average residential rates to median income, 2016 (%)	2.7	1.7	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	17	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	5.4	4.3	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	176.0	340.5	356.0
Ratio of population to FTE	122.3	-	-
Average cost per FTE ($)	91,341	83,678	91,762
Employee costs as % operating expenditure (General Fund only) (%)	37.9	37.6	38.8

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

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

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

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

E Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	The Council's infrastructure assets' performance excluding the proposed SV. In this scenario, the Council's general income would increase by the rate peg, and it would not go ahead with the expenditure program included in its SV application.
Baseline with SV expenditure Scenario	Includes the Council's full expenses arising from its proposed SV, and the income received if we were to not approve its application. This scenario is a guide to the Council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
Proposed SV Scenario	Includes the Council's proposed SV revenue and expenditure.

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