Independent Pricing and Regulatory Tribunal | NSW

Lithgow City Council

Special variation Application 2023-24

Final Report

June 2023

Local Government

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:
Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

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Foreword from the Chair

The 128 councils in NSW are an important part of our democracy and significant providers of essential services. On average they raise about a third of their revenue through rates and the Independent Pricing and Regulatory Tribunal of NSW (IPART) determines how much each council's total rates revenue can increase each year through the rate peg.

IPART has recently consulted widely with ratepayers, councillors, council staff and other stakeholders across NSW about council rates. Our consultation has been an important part of IPART's current review of the rate peg methodology which is how we calculate the rate peg for each council each year.

When councillors decide they need total rates revenue to increase above the rate peg, they can apply to IPART for a special variation. We have also consulted about 17 council special variation applications, received in February and March 2023, seeking rates increases above the rate peg, including some very large proposed increases.

We want to thank every single person who has come forward and provided feedback. We have considered every issue raised in that consultation.

We have heard that some councils are experiencing financial sustainability problems, which they suggest are related to the current financial model for councils. This is requiring strong financial management and council action to either increase rates or cut services, at a time when many people are less able to afford higher rates or to do without essential council services.

We heard that ratepayers are indeed concerned about cost of living pressures and affordability of rates while they also depend on and value council services.

This has raised the question of whether the funding and financial model for councils is as good as it needs to be, at a time when NSW has faced drought, bushfires, floods, COVID, supply chain disruption, labour shortages, higher inflation and rising interest rates.

Feedback to IPART indicates communities want councils to demonstrate good financial management and provide services that are efficient and value for money, so they can be confident the rates they pay are well used. Councillors, as the representatives of the community, play a key role in holding council management to account, and need the tools and information to do so.

Ratepayers have told us they want to be better consulted about council priorities, so councils deliver good quality services that are needed by their local community. We also heard ratepayers would like more consultation about the way rates are set - so rates are fair, reasonable and affordable.

Some councils have stronger financial sustainability than others. A range of reasons have been suggested for why this is the case. We have heard that the capability, workforce shortages, resources and alternative sources of revenue available to councils are not the same across NSW. Populations, economies, distances and geography are quite varied. Councils are very diverse and we have heard that a 'one size fits all' financial model does not make sense.

Our proposed new rate peg methodology is designed to respond to many of the issues raised in the review so far, including being more forward looking and agile, while recognising the diversity of councils. But it cannot address all the issues people have identified.

The rate peg sets the appropriate movement in a council's existing cost base but does not address the cost base itself. Trying to fix the cost base through the rate peg could potentially lead to unwarranted increases for some councils that could do more to control costs, and insufficient increases for councils with genuine financial need.

In assessing special variation applications, in line with current laws and guidelines, the Tribunal has carefully considered the impact of any increases in rates on individual ratepayers and whether increases in total rates revenue are needed so council services can continue to be provided. We note that, within the total rates revenue approved by IPART, it remains the responsibility of councillors to set rates in a way that takes into account the circumstances of their constituents. Councillors also have the authority to provide hardship programs that lessen the impact on people who cannot afford increased rates.

The Tribunal also questions whether the large special variation applications lodged in February and March 2023 indicate the financial model needs closer investigation, if the only way a council is able to address financial sustainability is through seeking substantial rates revenue increases.

The Tribunal believes it would be timely for NSW Government to initiate an independent investigation into the financial model for councils in NSW, including the broader issues highlighted in our draft report on the rate peg methodology.

IPART stands ready to work with the NSW Government, councillors, ratepayers and communities to address the issues we have heard through our consultation over recent months.

Carmel Donnelly PSM
IPART Chairperson

1 Executive summary

Lithgow City Council (the council) applied for a permanent special variation (SV) to increase its general income by 45.70% (including the rate peg of 3.70%) in 2023-24. The council sought the special variation to:

- improve its financial sustainability
- maintain its existing services
- reduce its infrastructure backlog and increase its infrastructure renewals.

The council has indicated that it intends to apply a lower average increase to residential and farmland ratepayers (27.50%), with business and mining ratepayers facing larger increases on average (53.70% and 134.70% respectively[1]).

Additionally, the council has applied for, and been granted, a Crown Land Adjustment (CLA) of 0.08% through a separate assessment process.

1.1 IPART's decision

Our assessment found that the council met the Office of Local Government (OLG) criteria for its proposed SV and therefore we have approved the council's application. Our decision means the council can raise up to an additional $6.24 million in rates revenue (above the rate peg) over the 1-year SV period, and permanently retain this revenue in its rate base.

Without the SV, the council forecasts a deteriorating financial position. The council states that it requires a more sustainable financial base to enable it to renew infrastructure and continue delivering services the community needs.

Some stakeholders have told us that the SV is likely to create affordability challenges – particularly when combined with other cost-of-living pressures, such as high inflation and increases in mortgage interest rates. Some community members also stated the council has not effectively managed its finances in the past, and that some infrastructure the community relies on such as roads, is not being maintained to the standard that ratepayers would like. Stakeholders also raised these concerns during the councils' consultation, where 75% of submissions were in favour of reducing service levels and limiting rate increases to the rate peg rather than the higher permanent SV proposed by the council.

We have considered these concerns as part of our assessment and acknowledge that affordability pressures have been increasing since the council consulted on, and applied for, its SV.

On balance, we consider that the impact of the increases is generally reasonable, given the proposed purpose of the SV which includes maintaining existing services and improving financial sustainability. However, we acknowledge that there are some ratepayers that are more vulnerable to increases in rates under the SV. Ultimately, the council needs to balance the impacts on all ratepayers with its long-term financial sustainability and decide on what is in the best interests of the community. We are satisfied that Lithgow City Council is aware of the impacts on its community, considered other funding sources available to it, and undertook actions to reduce the impact of the proposed SV on vulnerable ratepayers where possible in preparing its application.

1.2 IPART's assessment of the council's application

To make our decision, we assessed the council's proposed SV against the 6 criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for an SV to general income* (OLG Special Variation Guidelines). We found that the proposal met these OLG criteria. Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	✔ Demonstrated	**Financial need** The council demonstrated a financial need for the SV to address its forecast deficits and maintain service levels. Additionally, the council has investigated alternative revenue streams, including providing estimates of a proposed fund.
02	✔ Demonstrated	**Community awareness** The council consulted its community, and the communication materials it provided appropriately informed the community about the need, and size, of the proposed SV. However, we acknowledge that the council's IP&R documents could have more clearly set out the SV's impact on certain ratepayer categories and encourage the council to address this when implementing the SV.
03	✔ Demonstrated	**Reasonable impact on ratepayers** We found that the impact on ratepayers is reasonable. The council's average rates with the proposed SV will be similar to those of neighbouring and comparable councils. The council has indicated it intends to apply a lower average rate increase to residential and farmland ratepayers, and a higher average increase to business and mining ratepayers.

Criteria	Grading	Assessment
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited and adopted all necessary Integrated Planning and Reporting (IP&R) documents.
05	Demonstrated	**Productivity improvement and cost containment** The council listed its past and planned achievements in productivity and cost containment strategies. It also outlined and quantified several measures to increase productivity gains over the SV period.
06		**Other matters IPART considers relevant** In 2019-20, the council applied for a permanent 1-year SV of 11.70% to improve its financial sustainability and fund its infrastructure renewals. We did not approve this application in full. Instead, we approved an increase of 9.00%, allowing it to permanently increase its general income by 9.00% (including the rate peg). We consider the council complied with the conditions attached to this SV. Additionally, the council has received an Additional Special Variation (ASV) of 2.50% for 2022-23[2].

1.3 Stakeholders' feedback

We expect the council to engage and consult with its community so that ratepayers are fully aware of any proposed SV and the impact on them and have opportunities to provide feedback to the council. This is one of the OLG criteria we use to assess the council's application.

Lithgow City Council consulted on its proposed SV with its community using a variety of engagement methods. The council received 1,167 survey responses, held public meetings and pop-up café sessions as well as mailing out 10,067 information packs to residents.[3]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. Through this process we received 22 submissions on Lithgow City Council's proposed SV. Stakeholders that made submissions to us raised concerns on the following:

- council's financial management
- consultation with the community and the clarity of the information it provided
- affordability of the proposed rate increases
- level of services and infrastructure the council provides
- impact of recent land valuations on the council's income.

We consider the council's community engagement in more detail in section 4.2, and stakeholder feedback to IPART in more detail in section 3 and throughout this report where relevant.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the 4-year period. The council can defer rate increases up to this maximum amount for up to 10 years.[4] We encourage the council to consult with its community to decide how best to implement the increase. Below are the council's proposed increases. It retains the discretion to revise how it raises its general income across the rating categories.

We also note that the council will still need to deliver on its proposed productivity improvements. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

The council's proposed impact on rates

	Increase in 2023-24	Cumulative increase
Residential	27.50%	27.50%
Business	53.70%	53.70%
Farmland	27.50%	27.50%
Mining	134.70%	134.70%

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct. These are the council's proposed increases and it retains the discretion to apply the general income across the rating categories.

The rest of this report explains in more detail how and why we reached our decision on Lithgow City Council's proposed special variation.

2 The council's special variation application

Lithgow City Council applied to IPART to increase its general income through a permanent SV of 45.70% (including the rate peg) in 2023-24. This is in addition to a Crown Land Adjustment (CLA) increase of 0.08%.

The council sought the SV to:

- improve its financial sustainability
- maintain its existing services
- reduce its infrastructure backlog and increase its infrastructure renewals.

2.1 Impact of the special variation on ratepayers

While the council proposed increases to all rating categories, it proposed that residential and farmland rates would increase on average by considerably less than business and mining rates. On average, it proposed by 2023-24:

- Residential rates by 2023-24 will increase by $239 or 27.50%
- Business rates by 2023-24 will increase by $2,771 or 53.70%
- Farmland rates by 2023-24 will increase by $465 or 27.50%
- Mining rates by 2023-24 will increase by $190,195 or 134.70%.

The council has provided the number of rate notices that were issued for 2022-23 in Table 2.1.

Table 2.1 Number of ratepayers by category in 2022-23

Ratepayer category	Number of rate notices
Residential	9,712
Business	471
Farmland	1,261
Mining	13

Source: Lithgow City Council, Part A application Worksheet 2

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases. The council's analysis recognised that while the community will face financial challenges in paying the proposed rate increases, it must consider the consequences of not addressing its financial sustainability for future generations. In assessing these consequences, the council considered the public safety risks, social and economic impacts, and impact on essential or valued infrastructure.

The council commissioned a capacity to pay analysis that examined the socio-economic characteristics of the community in the Lithgow LGA, and compared them to other NSW LGAs. These characteristics include the levels of employment, income and expenditure, housing costs, and the levels of homeownership and renting. It also examined the impact of COVID-19 and recent increases in inflation on the LGA.

We also note that the council has a hardship policy, which makes assistance and support available to community members who are experiencing financial stress and are unable to cover the costs of rates and annual charges.

2.3 Impact of the special variation on the council's general income

The council estimated that the proposed SV would result in an increase in its permissible general income of:

- $6.24 million increase above what the assumed rate peg would deliver over 1 year
- $69.9 million cumulative increase above what the assumed rate peg would deliver over 10 years.

2.4 Further information provided

Following our preliminary assessment of its application, we asked the council to provide further evidence of its:

- consultation with quarrying, power generation and mining ratepayers who the council indicated will experience a larger increase in average rates
- assessment of infrastructure in the council area
- feedback from ratepayers regarding contingency plans for unexpected events, including natural disaster
- implementation of recommendations made by Morrison Low
- differences in impacts of rates noted in the council's Delivery Program and the council's SV application.

The council sent a reply detailing the required information for our assessment. This included confidential information provided by the council regarding certain ratepayer categories.

3 Stakeholders' submissions to IPART

We expect the council to engage with its community so that ratepayers are fully aware of any proposed special variation and the full impact on them. This is one of the OLG criteria we use to assess the council's application (see Appendix A).

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period, and stakeholders could make submissions directly to us. The Tribunal has taken all submissions into account in making its decision in accordance with our Submissions Policy, including any confidential submissions. In this section, we summarise the key issues raised in all published (non-confidential) submissions.

3.1 Summary of submissions we received

We received 22 submissions from stakeholders between 10 February 2023 and 3 March 2023. The key issues and views raised in these submissions, and our response to them, are summarised below. There are approximately 12,000 ratepayers in the council's local government area.

3.1.1 The council's financial management

Approximately 70% of submissions raised concerns that the council has not used its resources efficiently and that the proposed SV is a way for the council to mitigate its financial mismanagement. One submission noted that the council used considerable funding on a Halloween event. Another stated that it used grant funding designated for bushfire recovery for sports field irrigation. As the council is responsible for managing its finances, IPART's ability to assess the council's financial decisions outside of the SV assessment is limited.

Some stakeholders that made submissions also said that to improve the existing services and infrastructure, the council requires a change in management or operating strategy. We discuss the council's efficiency in section 4.5.

3.1.2 The council's consultation with the community

Around half of the submissions we received expressed concern about the council's community consultation on the proposed SV. For example, some stated that:

- the council did not have the best interests of the community at heart
- the council decided to apply for an SV despite most respondents to its survey indicating they were in favour of reduced services, which shows that its views were in contrast with the community
- the community sessions the council ran as part of the consultation were poorly planned
- the limited availability of in-person consultation affected the council's engagement with pensioners.

Our assessment of the council's consultation, including stakeholder comments, is discussed in section 4.2.

3.1.3 Affordability of proposed rate increase

Around one-third of submissions raised concerns about the impacts of the council's proposed SV on the affordability of rates, and suggested this would lead to financial hardship. Many of these noted the worsening financial circumstances brought about by a high inflationary environment with a focus on an increase in mortgage interest rates.

In addition:

- some submissions stated that Lithgow has a high rate of unemployment and a lower average salary than comparable LGAs
- one said the current hardship policy is geared mainly towards pensioners, and that it is unfair for other ratepayers to subsidise the rates of others.

Our assessment of the affordability of the proposed rate increases, including our consideration of stakeholder comments, is in section 4.3.

3.1.4 The council's current services and infrastructure

Around one-third of submissions put forward the view that the council's current services and infrastructure are unsatisfactory, comparing performance to other councils. Several stated that transport infrastructure was in disrepair, and recent work on this infrastructure was of low quality. One said Lithgow's main streets are subject to regular flooding, despite the council receiving federal grants to address this.

Our consideration of these comments is discussed in section 4.5.

3.1.5 Impact of recent land valuations on the council's income

Around a quarter of submissions stated that the recent increases in land valuation would automatically increase councils' income and therefore the SV was not required.

This is not the case. Land valuations do not vary how much general income a council can raise. General income can only be varied by a rate peg or through a special variation application. However, land valuations may affect an individual ratepayer's rates relative to those of other ratepayers in the LGA. That is, land valuations can affect individual ratepayers' contributions to total rates revenue, but not the total amount of rates revenue. See Box 3.1 for more information.

Box 3.1 Effect of land valuation on rates

Routine changes to land valuations do not increase the total amount of general income the council can recover from ratepayers (also known as the 'permissible general income' or PGI). A council's PGI for each year is limited by the rate peg or a percentage determined by IPART in a special variation.[a] However, individual ratepayers may pay either higher or lower rates.

Individual rates depend on the combination of:

- the council's rating structure
- the relevant rating category
- the property's unimproved land value.

The variable component of rates, ad valorem, is determined by:

$$\textit{ad valorem component} = \textit{amount in the dollar} \times \textit{land value}$$

Generally, the council recalculates the 'amount in the dollar' rate every year to ensure the council does not collect rates above its PGI.

A routine increase in a ratepayer's land value by the Valuer-General does not mean that a ratepayer's rates will automatically increase. The impact on rates depends on whether the land value has increased or decreased compared to others in the ratepayer's local government area.

[a] Councils' PGI may be affected by supplementary valuations of rateable land under the *Valuation of Land Act 1916* and estimates provided under section 513 of the *Local Government Act 1993*. Such supplementary valuations and estimates are made when land within a council area has changed outside the general valuation cycle (such as where land has been subdivided or rezoned). This is distinct from the routine changes in land value by the Valuer-General.

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations to IPART.[b] We are required to assess the council's SV application against the 6 OLG criteria set out in the OLG's Guidelines. We found that the council met all OLG criteria for its proposed SV. Specifically, we found the council:

- demonstrated a financial need for the proposed SV, and that alternatives to the SV were considered
- provided evidence that it engaged effectively with the ratepayers and the community to ensure they are aware of the need for, and extent of, the rate rise associated with the SV
- showed that the impact of the SV on ratepayers is reasonable
- exhibited, approved, and adopted its IP&R documentation appropriately
- explained and quantified the productivity improvements and cost containment strategies it has realised in past years and plans to realise over the SV period
- complied with the conditions of a permanent SV we approved for 2019-20.

Our detailed assessment against each criterion is discussed below.

4.1 OLG Criterion 1: The council has demonstrated a financial need

Criterion 1 requires the council to clearly articulate and identify the need for, and purpose of, the proposed SV in its IP&R documents. It also requires the council to demonstrate the financial need for the SV by assessing the impact of the SV on its financial performance and position, and to canvass alternatives to the SV to meet the financial need.

Note: See Appendix A for full details

To assess whether the council met this criterion, we reviewed the council's IP&R documents and the information in its application. We undertook our own analysis of the council's financial performance and position. We also considered stakeholders' comments on financial need in the submissions we received. We do not audit council finances, as this is not part of our delegated authority.

The sections below discuss our assessment, and why we found that the council met this criterion.

[b] By delegation dated 6 September 2010, the Minister for Local Government delegated to the Tribunal all her functions under sections 506, 507, 508(2), 508(6), 508(7), 508A, 548(3) and 548(8) of the *Local Government Act 1993* (NSW), pursuant to section 744 of that Act.

4.1.1 Stakeholder comments on financial need

In their submissions to us, stakeholders raised a range of concerns related to the financial need criterion. In particular, they:

- questioned whether the council needed the rate increase at all
- said that investment in infrastructure is required but questioned whether the additional SV income would be used for its intended purpose
- suggested additional income could come from alternate funding sources
- questioned how the council will be held to account going forward.
- considered the financial need for the SV resulted from poor financial management and oversight.

We considered these concerns, taking account of all the information available to us. We found the council does have a financial need for the SV and thoroughly canvassed alternative funding sources to the SV (section 4.1.3). We did not audit council's finances, as this is not part of our delegated authority.

The conditions of our decision to approve the SV include that the council must use the additional income for the purposes outlined in its application, and report annually on this and other matters to ensure accountability (see section 5).

4.1.2 Council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP), Delivery Program and Asset Management Program, clearly identify and articulate the need for and purpose of the SV. The documents state that the proposed SV of 45.7% in 2023-24 is needed to:

- improve council's financial sustainability
- maintain existing services
- renewing and maintaining infrastructure

In its LTFP and Delivery Program, the council indicates the SV revenue would be used to:

- maintain and renew transport, stormwater and building assets
- assist the local economy (which depends heavily on the coal mining and coal-fired power generation industries) in transitioning to a low carbon future environment
- fund depreciation and renewals in all asset categories, and reduce its roads infrastructure backlog
- build its operational capacity, particularly in the areas of governance and strategy, transitions management and capacity building to improve productivity
- establish $250,000 (4%) of operating surplus as a contingency for financial shocks and improve its financial position[5].

4.1.3 Our analysis of the council's financial performance and position

We used information provided by the council in its application and IP&R documents to do our own analysis on the impact of the proposed SV on the council's financial performance and financial position. This involved calculating financial forecasts under 3 scenarios:

1. **Proposed SV Scenario** – which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure 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 through the rate peg.

We then used these forecasts to examine the impact of the proposed SV on key indicators of its financial performance and position – namely its operating performance ratio, net cash (or net debt) and infrastructure ratios.

Impact on Operating Performance Ratio (OPR)

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than 0% is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[6] The OLG has set a benchmark for the OPR of greater than 0%. (See Box 4.1 for more information).

Box 4.1 Operating Performance Ratio

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

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

Where: expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.

The OLG has set a benchmark for the ratio of greater than 0%.

The ratio measures net operating results against operating revenue and does not include capital expenditure. That is, a positive ratio indicates that an operating surplus is available for capital expenditure.

Generally, IPART considers that a council's average OPR over the next 10 years should be 0% or greater, as this represents the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV.

However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the breakeven benchmark as set by OLG.

Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

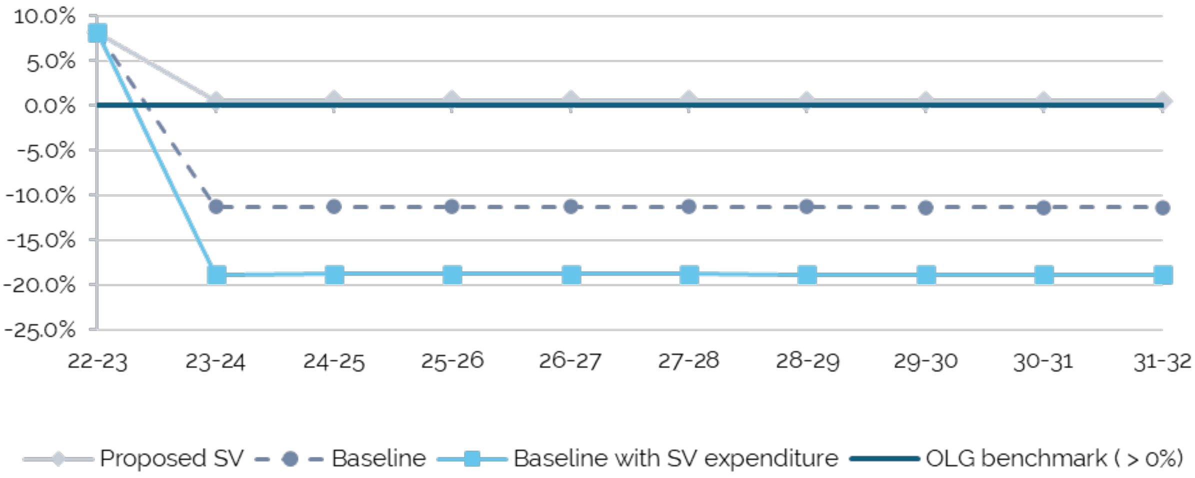
We calculated the council's forecast OPR over the next 10 years under the 3 scenarios (see Figure 4.1 and Table 4.1). Our analysis found that, over the next 5 years:[c]

- **Under the Baseline Scenario**, the council's average OPR would be -11.3%, which is significantly below the OLG benchmark of greater than 0%.
- **Under the Baseline with SV expenditure Scenario**, the council's average OPR would be -18.8%, which is significantly lower than the OLG benchmark
- **Under the Proposed SV Scenario**, the council's average OPR would be 0.5%, which is in line with the OLG benchmark of greater than 0%.

This suggests that without the SV, the council may not be able to maintain current service levels and expenditure, as its OPR would be well below the OLG benchmark. In this situation, council may not be financially sustainable and may need to reduce expenditure, including the possibility of service level reductions.

[c] We averaged over a 5-year period rather than 10 years because we recognise forecasts are subject to variability.

Figure 4.1 The council's OPR from 2022-23 to 2031-32



Source: Lithgow City Council, Application Part A
Note: OPR shown excludes capital grants and contributions

Table 4.1 The council's projected OPR with proposed special variation, 2023-24 to 2031-32 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	0.5%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Baseline	-11.3%	-11.3%	-11.3%	-11.3%	-11.3%	-11.3%	-11.3%	-11.3%	-11.3%
Baseline with SV expenditure	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%	-18.9%	-18.9%

Source: Lithgow City Council, Application Part A.

Impact on net cash

A council's net cash (or net debt) position is another indicator of its financial position. For example, it indicates whether a council has significant cash reserves that could be used to fund the purpose of the proposed SV.

On 30 June 2022, the council held a total of $25.5 million in cash reserves, with:

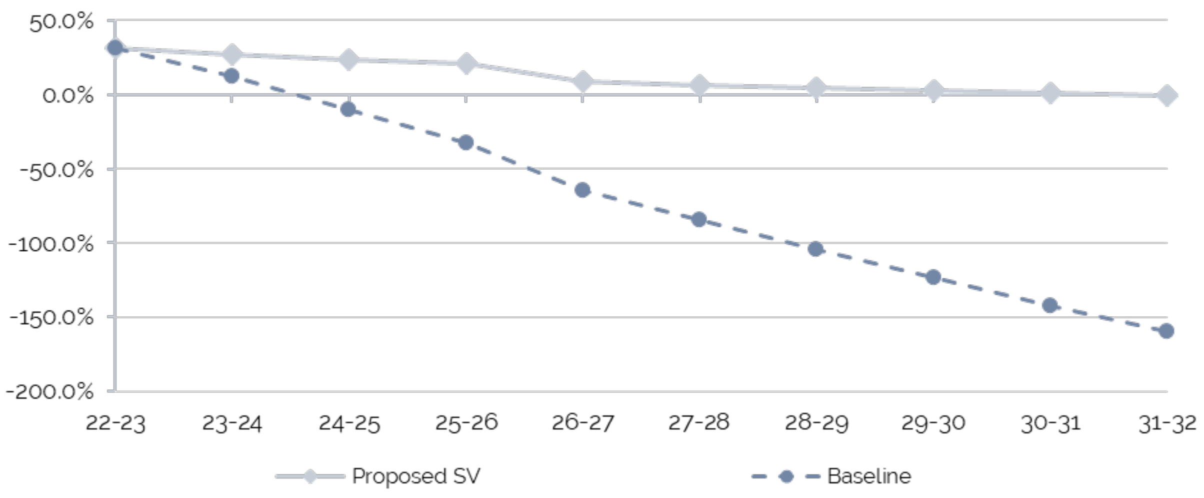
- $17.0 million was externally restricted (i.e. subject to external legislative or contractual obligations)
  - Examples include developer contributions and monies belonging to the council's water, sewer and domestic waste management funds.
- $8.5 million was internally restricted (i.e. subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations)
  - Examples include funds set aside for employee leave entitlements and amounts collected by the council as deposits and bonds.
- $0 unrestricted

This shows the council's cash reserves were committed to other purposes, and not available to fund the proposed SV expenditure. Alternatively, if the council had positive levels of unrestricted cash reserves, it could use these to fund expenditure needed to maintain services and reduce its infrastructure backlog rather than an SV. However, unrestricted cash reserves are only a short-term solution and councils would require a positive OPR as a long-term solution to fund such expenditure.

We calculate that as of 30 June 2023, the council's net cash will be $13.1 million, or 31.7% of its total revenue. As Figure 4.2 shows, our analysis indicates that in 9 years' time:

- **under the Proposed SV Scenario**, the council's net cash would be about -$0.37 million (or net debt of $0.37 million), with a net cash (debt) to income ratio of -0.7% of its $50.7 million income (excluding grants and contributions)
- **under the Baseline Scenario**, its net cash would be about -$67.8 million (or net debt of $67.8 million), with a net cash (debt) to income ratio of -159.9% of its $42.4 million income (excluding grants and contributions).

Figure 4.2 The council's net cash (debt) to income ratio, 2022-23 to 2031-32 (%)



Data source: Lithgow City Council, Application Part A.

Taking into account the council's OPR and net cash position, we consider the council is in financial need for the proposed SV to enhance its financial sustainability and deliver adequate service levels.

Impact on infrastructure ratios

Managing infrastructure assets is an important council function. A council's ability to maintain and renew these assets as they depreciate is another indicator of its financial position. To measure this indicator, we used information provided by the council to assess its infrastructure backlog and infrastructure renewals ratios, and compared them to OLG's benchmarks:

- The infrastructure backlog ratio indicates whether the council has a need for additional revenue to maintain its infrastructure assets. It shows the infrastructure backlog as a proportion of the total value of a council's infrastructure. OLG's benchmark for the infrastructure backlog ratio is less than 2.0%[7].
- The infrastructure renewals ratio measures the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. OLG's benchmark for the infrastructure renewals ratio is greater than 100%. (See Box 4.2 for more information on these ratios and how we interpret them.)

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its total written down value of its infrastructure, and is defined as:

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

where: the carrying value of infrastructure assets is the historical cost less accumulated depreciation.

OLG has set a benchmark for the ratio of less than 2%.

Infrastructure renewals ratio

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. It is defined as:

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

OLG has set a benchmark for the ratio of greater than 100%.

Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

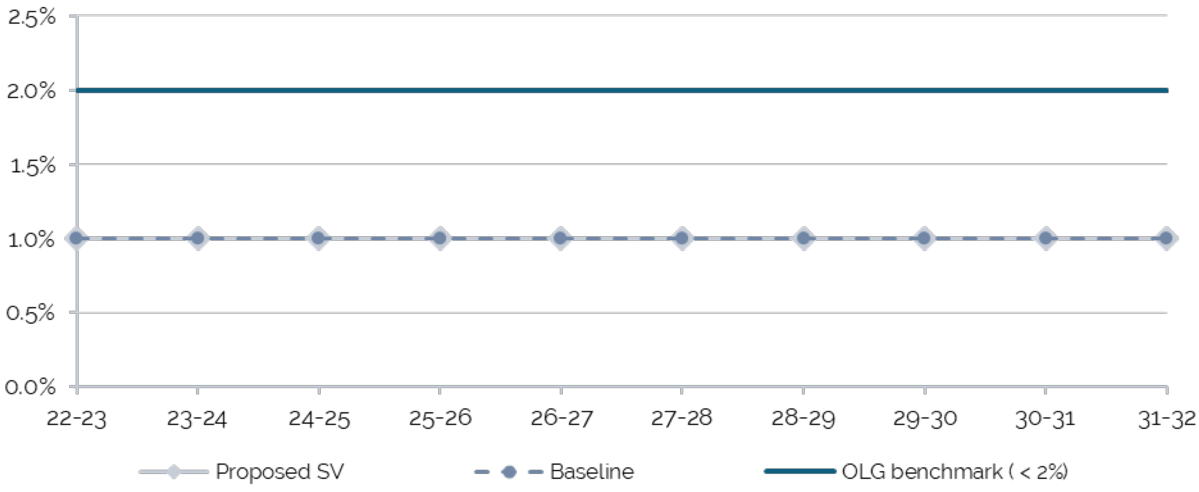
Impact on infrastructure backlog ratio

The council's assessment found that over the next 9 years, the council's infrastructure backlog ratio would be the same with or without the SV. As Figure 4.3 shows, under both the Proposed SV Scenario and the Baseline Scenario, the council's infrastructure backlog ratio would be below the OLG benchmark of 2.0%.

The council has informed us that the ratios with or without the SV will remain relatively similar in the period 2023 to 2032. However, as infrastructure maintenance is conducted at sub-optimal periods in a Baseline scenario, the backlog ratio in this scenario will increase significantly post-2032.

In principle, a consistently decreasing infrastructure ratio backlog indicates decreased costs to bring assets to a satisfactory condition.

Figure 4.3 The council's infrastructure backlog ratio, 2022-23 to 2031-32 (%)

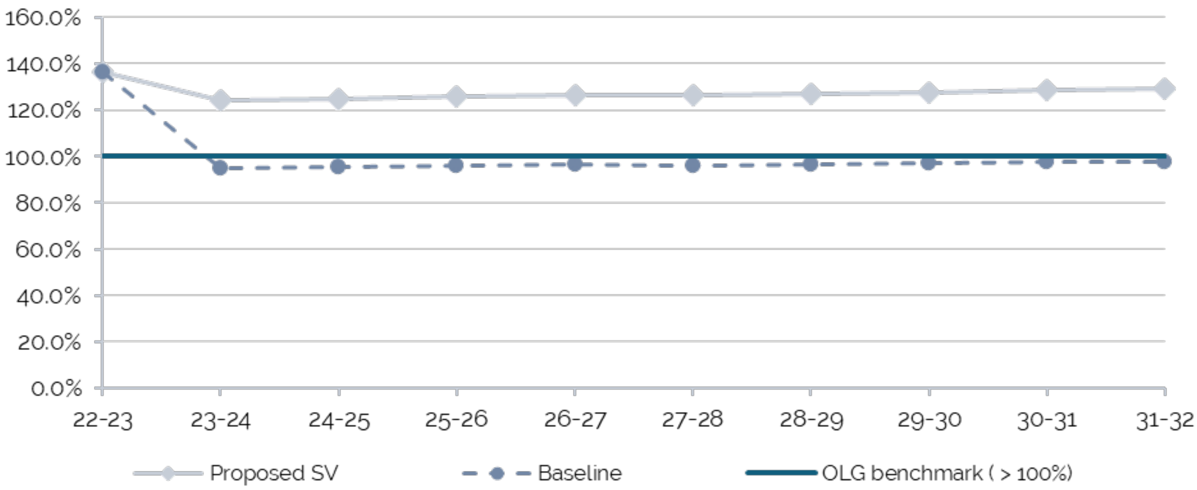


Source: Lithgow City Council Application Part A

Impact on infrastructure renewals ratio

Under the Baseline scenario, the council noted their infrastructure renewals ratio would fall below the OLG benchmark of greater than 100% from 2023-24 onwards. However, under the Proposed SV scenario, this ratio would be above this benchmark over the next 9 years. (See Figure 4.4 for more information).

Figure 4.4 The council's infrastructure renewal ratio, 2022-23 to 2031-32 (%)



Source: Lithgow City Council, Application Part A

We consider the council's infrastructure ratios show that without an SV, the council is not in a position to maintain infrastructure over the next 9-year period.

Alternatives to the rate rise

We investigated whether, and to what extent, the council has any available deferred rate increases. We found it does not have any available deferred rate increases.

We also assessed whether, in establishing the need for the SV, the council's relevant IP&R documents canvassed alternatives to the rate rise to meet the financial need. We found that the council did thoroughly canvass alternative funding sources including estimating savings for several sources.

In its IP&R documents (including the LTFP), the council indicated that an Economic Transition Fund would be set up and the business power generation rating sub-category and mining rating category would contribute $1.092 million per year to assist the local economy in transitioning to a low carbon future environment This fund contribution would diminish the rates payable by these businesses [8].

However, in its February 2023 application to IPART, the council advised that the Economic Future Fund had not been finalised as the parties to the proposal did not complete due diligence and signoffs. The council submitted that the decision not to proceed with the Economic Future Fund proposal does not impact other rating categories (residential, business and farmland) nor the proposed SV expenditure allocation included in the LTFP. [xv] This implies that the proposed SV revenue increase from $5.1 million to $6.2 million (which is consistent with council's application[9]).

The council's LTFP considered a 'service levels reduced' scenario. Under this scenario, the council would redirect revenue to asset maintenance and renewal while significantly reducing more discretionary services. [10] This would enable to council to become financially viable over the 10-year life of the plan, but the value of required service reductions would grow in each future year.

The council's application indicated that under its Financial Sustainability Plan, it is pursuing alternative pathways to achieve financial sustainability (not only the proposed SV). These include:[11]

- Financial Assistance Grants: increasing its financial assistance grants.
- Mining royalties: increasing its NSW Government funding for local economic transformation; funded from royalties paid to the NSW Government from local mining.
- Development contributions: ensuring the infrastructure and service cost impact of major development is recovered through the NSW planning framework.
- Land rating strategy: increasing its own source revenue through a contemporary and fair land rating structure.
- Financial Sustainability Plan: continuously identifying and implementing productivity, cost containment, and cost recovery initiatives.

4.2 OLG Criterion 2: The council demonstrated community awareness

Criterion 2 requires the council to provide evidence that the community is aware of the need for, and extent of, the proposed rate increase. It requires the council to:

- communicate the full cumulative increase of the proposed SV in percentage terms and in dollar terms for the average ratepayer, by rating category
- outline its ongoing efficiency measures and performance
- use a variety of engagement methods to ensure community awareness and provide opportunities for community input.

The criterion does not require the council to demonstrate community support for the SV application.

Note: See Appendix A for full details

To assess this criterion, we considered stakeholder comments about community awareness. We also analysed the council's community engagement on the proposed SV. The sections below discuss our assessment, and why we found that the council met this criterion.

4.2.1 Stakeholder comments on community awareness

In submissions to IPART, stakeholders raised concerns that the council:

- was not transparent in its consultation
- did not account for the community's feedback
- did not respond to their concerns

- did not make the community aware of IP&R documentation
- did not inform them of the rate increase
- was not clear about the reason for the rate rise or the alternatives
- did not include community's input in informing the council's strategic priorities.

We considered these concerns, alongside other available information. Our assessment is discussed in section 4.2.2.

4.2.2 Our assessment of council's engagement and consultation

To assess the effectiveness of the council's community engagement and consultation on the proposed SV, we considered whether:

- the information provided to ratepayers was sufficient and clear
- the variety of engagement methods used were effective
- the process used to consult the community provided timely opportunities for ratepayers to provide input and feedback on the proposed SV, and
- the outcomes from the consultation were considered in preparing the SV application.

Information provided to ratepayers

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

For example, the council mailed out 10,027 information packs to all ratepayers that outlined:

- the need for the SV
- the alternative options it had considered
- some of the efficiency and productivity measures it had undertaken
- the opportunities for stakeholders to have their say
- the proposed rates with and without the SV over 2023-24 to 2026-27, for residential, business and farmland ratepayers
- the average annual and cumulative rate increases in percentage terms with and without the SV over 2023-24 to 2026-27, for residential, business and farmland ratepayers[12].

In addition, the council's Delivery Program, LTFP and Our Place Our Future website summarised the impact of the 2 options (SV and no SV) on average rates for residential, business and farmland ratepayers.

The council provided a range of information specifically for large ratepayers in the power generation, mining and quarrying categories. This included information letters tailored to each of these categories, and a rating review of the council's land rates conducted by third-party consultants. It also provided confidential information outlining the specific dollar and percentage term impacts on their rates to most ratepayers in these categories.

We consider the material provided to the community on the impact of the proposed SV for its average residential, business and farmland ratepayers was clear. However, the materials for its large mining, quarrying and power generation ratepayers contained minor inconsistencies. Overall, we found that these materials did clearly communicate the impact (in both dollar and percentage terms) of the SV on these ratepayers.[13] [14]

Engagement methods used

The council used an appropriate variety of engagement methods to promote awareness of, and obtain community views on, its proposed rate increase.

The council mailed information packs directly to all Lithgow ratepayers. The packs outlined the SV's impact, the council's consideration of alternatives and measures to contain costs, and how ratepayers could participate further and have their say. It also raised awareness, provided information and sought submissions and feedback through a range of channels. For example, it:

- placed full page advertisements in local papers
- placed corflute signs and fact sheets at community meetings
- raised awareness and provided information via its website and social media channels, newsletters, and mayoral messages in council columns published in the Village Voice newspapers.
- held 6 community information sessions, and 6 pop-up cafes for one-on-one meetings
- published a video of the General Manager presenting the options available for a sustainable Lithgow council published on its YouTube channel and website
- commissioned a telephone survey of 405 residents and ratepayers, which was conducted by Micromex Research
- provided a tool to enable residential and business ratepayers to calculate the proposed SV's precise impact on their rates on its website
- provided telephone and face-to-face assistance to residents who found the tool difficult to use or did not have access to the internet.[15]

In addition, the council consulted with large ratepayers in the quarrying, mining and power generation categories individually. For the most affected quarrying ratepayer, it also facilitated a meeting with Valuer-General officers to assist the ratepayer in understanding its land valuation.[16]

Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was effective. In particular, it provided opportunities and sufficient time for ratepayers to provide input and feedback on the proposed SV.

The council primarily consulted the community from August to October 2022. For example, it sought submissions via its website from 1 August to 10 October 2022. The information pack it mailed to ratepayers occurred from 1-5 August 2022, and its community information sessions were held from 3 to 19 October 2022[17].The council consulted large mining, quarrying and power generation ratepayers during August and September 2022.[18]

Outcomes of community consultation

Criterion 2 does not require the council to demonstrate community support for the proposed. However, it does require the council to consider the results of community consultation in preparing its application.

We found that the council did consider these results in preparing its application. It prepared a community engagement report that summarised the results. For example, this report indicated that:

- Of the 762 community submissions the council received that chose between the 2 options, 573 submissions (75%) preferred Option 2 (service levels reduced, rates increase by the rate peg only) while the remaining 189 submissions (25%) preferred Option 1 (service levels maintained, rates increase in line with proposed SV). [19] The top responses for preferring Option 2 were cost of living pressures and poor management/lack of trust in council.[20]
- Of the 405 ratepayers and residents who participated in the random telephone survey, most (58%) preferred Option 2. Key reasons centred on affordability/cost considerations (24%) and a lack of confidence in the council financial management (24%). [21]
- The council has also committed to increasing the pensioner rebate from $250 to $300. This is in addition to re-enforcing Council's commitment to limit any increase in the residential, farming and business (general) rating categories to 27.5% (including the 3.7% rate peg),

4.3 OLG Criterion 3: The council demonstrated that the impact of the SV on ratepayers is reasonable

Criterion 3 requires the council to show that the impact on ratepayers is reasonable considering current rates, the community's capacity to pay, and the proposed purpose of the special variation.

Note: See Appendix A for full details

To assess this criterion, we analysed the council's assessment of the impact of its proposed SV on ratepayers and undertook our own analysis. We also considered stakeholder comments on the SV's impact on ratepayers, and whether the council has policies in place to mitigate impacts of rate rises, including whether there is a hardship policy.

The sections below discuss our assessment, and why we found that the council met this criterion.

4.3.1 Stakeholder comments on impact on ratepayers

Approximately 70% of the submissions we received raised concerns about the impact of the proposed SV on the affordability of rates, particularly for those experiencing financial hardship. For example, they said the proposed rate increases would have a:

- significant impact on ratepayers due to broader circumstances such as ongoing economic pressures of high inflation
- large impact for ratepayers on fixed incomes
- disproportionate impact on pensioners and ratepayers who are currently unemployed.

We note that this is in the context of 9,712 residential rating assessments for the council in 2022-23.

We have considered these concerns as part of our assessment of this criterion, alongside other available information. We acknowledge that ratepayers are experiencing cost-of-living pressures, and the rate increases associated with the SV will add to those. However, on balance, we consider the impact of the increases is reasonable, given the council has a hardship policy (see section 4.3.3) and the council's average rates are relatively low, even with the SV (see section 4.3.2).

4.3.2 Our analysis of the council's assessment of the SV's impact on ratepayers

We analysed the council's assessment of the impact of the proposed SV on ratepayers, and the community's financial capacity to pay the proposed rate increases. We also considered how the council's rates have changed over the past 6 years, and how its rates compare to those of other councils.

Impact on average rates

The council assessed the impact on ratepayers of the proposed SV and considered the community's capacity to pay. As Table 4.2 shows, it estimated that in 2023-24, average residential and farming rates would increase by 27.5%. Average business and mining rates would increase by 53.7% and 134.7% respectively.

Table 4.2 Impact of the proposed special variation on average rates

	2022-23	2023-24	Cumulative Increase ($)	Cumulative increase (%)
Residential average $ rates	871	1,110		
$ increase		239	239	
% increase		27.5		27.5
Business average $ rates	5,161	7,932		
$ increase		2,771	2,771	
% increase		53.7		53.7
Farmland average $ rates	1,691	2,156		
$ increase		465	465	

	2022-23	2023-24	Cumulative Increase ($)	Cumulative increase (%)
% increase		27.5		27.5
Mining average $ rates	141,057	331,072		
$ increase		190,195	190,195	
% increase		134.7		134.7

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: IPART calculations

Community's capacity to pay

The council's capacity to pay analysis was undertaken by its consultants, Morrison Low. This analysis found that the Lithgow LGA has significant levels of disadvantage. Its SEIFA score for relative socio-economic disadvantage indicates it is in the 14th percentile in the Index of Relative Socio-Disadvantage (IRSD); compared to Regional NSW, which is in the 29th percentile. This means than the council area is more disadvantaged than 86% of council areas in Australia[22].

However, Morrison Low also found its current rates are relatively low compared to comparable regional/city councils (those in OLG Group 4). Its average:

- residential rates are below the average of these councils
- farmland rates are below the average of these councils
- business rates are above the average of these council.[23]

The council's current rates income as a percentage of operating expenses is also low relative to other OLG Group 4 councils.

Its current level of outstanding rates are moderate (9.6% in 2022) and this is below the OLG benchmark for regional city councils of 10%.[24] In addition, the median household income in the Lithgow LGA is similar to comparable LGAs.

Based on these findings, the report concluded that ratepayers do have a capacity to pay the proposed rate increases. It noted that there is a minority of the council's population who may experience a high level of financial disadvantage. However, this could be addressed with an appropriate hardship policy, including reviewing and ensuring such policies are targeted towards ratepayers likely to be adversely affected by the SV.

How the council's rates changed over time

As noted in Table 4.3, since 2017-18, the council's rates have increased at an average annual rate of between -2.0% and 7.9%, with residential rates decreasing by 9.3% in the same period. This compares to the average rate peg of 2.1% over the same period.

Table 4.3 Historical average rates in Lithgow City Council 2017-18 to 2022-23 ($)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	1,423	1,464	1,529	837	854	871	-9.3
Business	3,529	3,648	3,797	4,021	4,101	5,161	7.9
Farmland	1,378	1,423	1,496	1,518	1,549	1,691	4.2
Mining	156,538	160,462	151,143	110,133	112,336	141,057	-2.1
Average rate peg	1.5%	2.3%	2.7%	2.6%	2.0%	1.0%	

Note: FY22 and FY23 are estimated based on FY21 escalated by the rate peg or the council's SV.
Source: IPART calculations

How the council's rates compare to other councils

The council's current average rates – that is, before the proposed SV – are low compared to those of its neighbouring councils and comparable NSW councils in terms of their SEIFA score (which measures their population's relative socio-economic disadvantage) and their population's median household income. Further information about this is available in Box 4.3.

Box 4.3 Comparable councils

In our analysis, we have compared Lithgow City Council to other councils in several ways.

Office of Local Government (OLG) groups

- The Office of Local Government (OLG) groups similar councils together for comparison purposes.
- Lithgow City Council is in OLG Group 4 which is considered a regional town/city area and also includes Camden Council, Blue Mountains City Council, Campbelltown City Council and Central Coast Council.
- The OLG groupings are based on broad demographic variables such as total population, level of development, and typical land use. It should be noted that there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.

Box 4.3 Comparable councils

- Lithgow City Council has a SEIFA rank of 17 out of 128 councils in ABS 2016 which is low and indicates relative disadvantage
- The 4 councils with closest SEIFA rank within the OLG Group 4 are Eurobodalla Shire Council, Mid-Western Regional Council, Clarence Valley Council and Cessnock City Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Lithgow City Council to the 4 councils within OLG group 4 with closest median income ranking. These are Bega Valley Shire Council, Lismore City Council, Broken Hill City Council and Eurobodalla Shire Council.

Neighbouring councils

- We compared Lithgow City Council to the neighbouring councils of Oberon Council, Bathurst Regional Council, Blue Mountains City Council, Mid-Western Regional Council, Hawkesbury City Council and Singleton Council.
- We consider that neighbouring councils are those councils in the nearby geographic surroundings of a council area and may or may not share a border.

As Table 4.4 shows, in 2022-23 before the proposed SV the council's:

- Average residential rates are the lowest among its neighbouring councils and comparable councils based on SEIFA score and income, and lower than the average for other OLG Group 4 councils.
- Average business rates are the highest among its neighbouring councils and comparable councils based on SEIFA score, one of the highest among comparable councils based on income, and higher than the average for other OLG Group 4 councils.
- Average farmland rates are lower than average among its neighbouring councils and comparable councils based on SEIFA score and income, and lower than the average for other OLG Group 4 councils.
- Average mining rates are lower among comparable councils based on SEIFA and income, lower than average for other OLG Group 4 councils and higher than those of neighbouring councils with an active mining rate.
- Outstanding rates ratio is highest among its neighbouring councils and comparative councils based on SEIFA score, higher than the average for comparable councils based on income, and higher than the average for other OLG Group 4 councils.

Table 4.4 Comparison of the council's average rates and socio-economic indicators with those of other councils prior to the SV (2022-23)

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rates ($)	Average mining rates ($)	Median annual household income[b] ($)	Average residential rates to median household income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Lithgow (4)	**871**	**5,161**	**1,691**	**141,057**	**62,192**	**1.4**	**9.6**	**17**
Neighbouring councils								
Oberon	988	1,125	2,048	.	74,932	1.3	9.2	59
Bathurst Regional	1,192	4,525	1,591	.	82,420	1.4	8.6	84
Blue Mountains	1,922	4,486	2,893	.	91,312	2.1	5.8	105
Mid-Western Regional	997	2,228	2,614	.	77,272	1.3	3.1	44
Hawkesbury	1,497	3,378	3,069	2,089	102,960	1.5	8.2	99
Singleton	1,219	2,564	2,166	.	104,832	1.2	3.9	85
Average	**1,303**	**3,051**	**2,397**	**2,089**	**88,955**		**6.4**	**79**
Comparable councils (SEIFA)								
Eurobodalla	1,136	3,832	1,685	.	60,684	1.9	2.7	40
Mid-Western Regional	997	2,228	2,614	1,600,284	77,272	1.3	3.1	44
Clarence Valley	1,269	3,161	1,722	.	58,396	2.2	7.1	16
Cessnock	1,299	3,714	3,196	295,040	77,636	1.7	5.6	12
Average	**1,175**	**3,233**	**2,304**	**947,662**	**68,497**		**4.6**	**28**
Comparable councils (Income)								
Bega Valley	1,187	2,705	2,445	.	62,400	1.9	11.1	57
Lismore	1,365	4,887	2,566	.	68,588	2.0	7.7	45
Broken Hill	1,128	6,337	.	1,188,501	60,996	1.8	16.4	7
Eurobodalla	1,136	3,832	1,685	.	60,684	1.9	2.7	40
Average	**1,204**	**4,440**	**2,232**	**1,188,501**	**63,167**		**9.4**	**37**
Group 4 average (excluding Lithgow)	**1,248**	**3,938**	**2,626**	**369,853**	**78,133**	**1.6**	**6.4**	**61**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130, which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2018-19; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the SV, the council's residential, farmland and mining rates are still expected to be relatively low, and its business rates are expected to remain relatively higher. As Table 4.5 shows by 2023-24, the council's:

- average residential rates would be lower than the average for other councils in its OLG Group and comparable councils based on both SEIFA and income and higher for neighbouring councils,
- average business rates would be higher than the average for other councils in its OLG Group, neighbouring councils, and comparable councils based on both SEIFA and income.
- average farmland rates would be lower than the average for other councils in its OLG Group, neighbouring councils, and comparable councils based on both SEIFA and income
- average mining rates would be lower than the average for other councils in its OLG Group and comparable councils based on both SEIFA and income and higher for those of neighbouring councils.

We note there are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards.

Table 4.5 Comparison of the council's average rates with those of other councils for period of the SV ($)

Council (OLG Group)	2022-23	2023-24
Residential		
Lithgow	871	1,110
OLG Group 4 (excluding Lithgow)	1,254	1,305
Neighbouring councils (average)	1,013	1,055
Comparable councils (SEIFA) (average)	1,175	1,227
Comparable councils (Income) (average)	1,204	1,251
Business		
Lithgow	5,161	7,932
OLG Group 4 (excluding Lithgow)	3,956	4,113
Neighbouring councils (average)	3,011	3,134
Comparable councils (SEIFA) (average)	3,233	3,375
Comparable councils (Income) (average)	4,440	4,613
Farmland		
Lithgow	1,691	2,156
OLG Group 4 (excluding Lithgow)	2,638	2,743
Neighbouring councils (average)	2,212	2,303
Comparable councils (SEIFA) (average)	2,304	2,402
Comparable councils (Income) (average)	2,232	2,321
Mining		
Lithgow	141,057	331,072
OLG Group 4 (excluding Lithgow)	369,853	384,256
Neighbouring councils (average)	2,089	2,166
Comparable councils (SEIFA) (average)	947,662	985,274
Comparable councils (Income) (average)	1,188,501	1,232,475

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 2018-19.
b. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

4.3.3 The council's hardship policy

We are satisfied that council has a hardship policy in place. A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We examined the council's hardship policy, which is explained on the council's website.

The policy offers assistance to ratepayers who are experiencing genuine financial difficulties in paying their rates and charges. The OLG criteria for assessing hardship includes but is not limited to the following:[25]

- the amount of any rate increase when compared to the average rate increase for the rate category
- income from all sources
- living expenses
- reason for financial hardship
- length of occupancy.

This assistance may take the form of: [26]

- waiving interest
- entering into payment agreements with rate payers
- waiving, reducing or deferring payment, at the discretion of the council
- retrospective provision of pensioner discounts.

From the information that council has provided, we are satisfied that council has a hardship policy that is available for ratepayers who may be vulnerable to rate rises.

4.4 OLG Criterion 4: The council exhibited and adopted its IP&R documents

Criterion 4 requires the council to exhibit, approve and adopt the relevant Integrated Planning and Reporting (IP&R) documents before applying for the proposed SV.

Note: See Appendix A for full details

To assess whether the council met this criterion, we checked the information provided by the council. We found that it met the criterion. The council:

- publicly exhibited its previous Community Strategic Plan, Delivery Program, Long-Term Financial Plan, and Strategic Asset Management Plan from 27 April to 29 May 2022
- adopted these IP&R documents on 27 June 2022
- publicly exhibited its current Community Strategic Plan, Delivery Program, Long-Term Financial Plan, and Strategic Asset Management Plan from 29 November to 30 December 2022

- approved and adopted these IP&R documents on 23 January 2023
- submitted its SV application by 3 February 2023[27].

Box 4.4 IP&R documents

The Integrated Planning and Reporting (IP&R) framework allows councils and the community to engage in important discussions about service levels and funding priorities, and to plan for a sustainable future. This framework therefore underpins decisions on the revenue required by each council to meet the community's needs.

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

Source: Office of Local Government Integrated Planning and Reporting Guidelines

4.5 Criterion 5: The council explained and quantified its productivity and cost containment strategies

Criterion 5 requires 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.

Councils should present their productivity improvements and cost containing strategies in the context of ongoing efficiency measures, and indicate if the estimated financial impact of those measures have been incorporated in the council's Long Term Financial Plan.

To assess this criterion, we considered stakeholders' comments on the council's productivity and cost containment strategy, analysed the information provided by the council, and examined some key indicators of the council's efficiency. The sections below discuss our assessment, and why we found that the council met this criterion.

4.5.1 Stakeholder comments on productivity and cost containment

Some submissions to IPART raised concerns relevant to this criterion. In particular, some stakeholders said the council could:

- improve its own efficiency to cover the revenue shortfall
- improve its labour productivity
- reduce the amount spent on consultants and contingent labour
- demonstrate its ability to deliver on productivity improvements and cost savings.

We have considered these concerns as part of our assessment of this criterion, alongside other available evidence.

4.5.2 Our analysis of the council's information productivity and cost containment strategies

The council provided information on its past and proposed productivity and cost containment strategies and initiatives in its SV application, IP&R documents and correspondence with IPART. The SV application and LTFP quantify the productivity gains it expects to realise over the SV period.

Based on our assessment, we consider the council has:

- demonstrated that it has achieved some productivity improvements and cost containment in the past
- proposed strategies and activities for improving its productivity and efficiency over the term of the proposed SV, although they appear relatively modest
- identified potential productivity measures in its application, but not clearly identified and quantified these in its LTFP.

Productivity and cost containment strategies to date

The council detailed initiatives undertaken to improve productivity and contain costs in the past 3 years in its Financial Sustainability Plan, which it attached as part of its application.

This attachment indicated the council achieved gains of:[28]

- $1.669 million (3.3% of operating expenditure) in 2020-21 by:
  - reducing operating service levels (e.g. maintenance) in Transport and Recreation by 10% ($266,000)
  - reducing its operational business case initiatives ($627,000)
  - reducing its capital works program ($776,000).
- $2.550 million (4.6% of operating expenditure) in 2021-22 by:
  - moving to TechnologyOne cloud and using Application Managed Services ($61,474)
  - restructuring its mechanics workshop ($100,000)
  - reviewing programs and service standards for libraries ($49,400)

  - pausing all non-essential recruitment and filling essential vacancies only ($500,000)
  - reviewing vacant full-time equivalent (FTE) positions ($187,000)
  - adding new/reviewing existing fees and charges ($20,000)
  - closing its Aquatic Centre kiosk and installing vending machines ($47,312)
  - focusing grant funding on existing projects within its adopted operational plan ($300,000)
  - reviewing on-site sewerage management charges and properties charged ($34,000)
  - selling property for 2021/22 budget ($60,000)
  - reviewing overtime budget and tightening controls ($92,500)
  - removing its contribution for non-compulsory uniforms ($6,500)
  - increasing leaseback fees ($4,200)
  - requiring staff with excessive annual leave entitlements to take leave ($100,000)
  - allowing natural attrition of FTEs in non-essential areas through retirements ($250,000)
  - reducing its workers comp premium ($108,241)
  - phasing out leaseback vehicles ($17,673)
  - making tax equivalent payments from sewer fund to general fund ($612,000).
- $3.607 million (6.4% of operating expenditure) in 2022-23 (budgeted) by:
  - deploying artificial day-cover liners at its Lithgow waste facility ($250,000)
  - implementing comprehensive service standards (N/A)
  - pausing all non-essential recruitment and filling essential vacancies only ($500,000)
  - focusing grant funding on existing projects within its adopted operational plan ($300,000)
  - reviewing plant hire rates ($1,390,640)
  - making savings in electricity contracts ($91,527)
  - installing LED street lighting ($26,000)
  - installing solar panels on Aquatic Centre ($18,456)
  - reviewing on-site sewerage management charges & properties charged ($34,850)
  - increasing leaseback ($39,766)
  - saving on workers comp premium ($200,392)
  - making a tax equivalent payment from sewer fund to general fund ($134,680)
  - adding new/reviewing existing fees & charges ($114,648)
  - increasing investment income ($289,737)
  - reducing depreciation ($204,000)
  - savings on uniforms & rags ($7,500)
  - changing to lower cost work boots ($5,200).

Productivity and cost containment strategies over the SV period

In July 2022, council engaged consultants Future Together Group (FTG) to conduct a comprehensive rating structure and revenue review. This review examined the council's financial sustainability issues to date.[29] As part of this review, FTG explored potential productivity, savings or other revenue options available to council in the future. It recommended a conceptual $1.3 million of structural productivities, cost containments and cost recovery measures in 2023-24 (the SV period).[30]

The council indicated it intends to implement several measures to achieve its target of $1.3 million in productivity gains. These include:[31]

- $360,000 of additional productivity gains from the operational deployment of day-cover liners at its landfill operations ($600,000 of cumulative structural savings)
- $510,000 of additional cost recovery at its landfill operations following review of its administrative overhead apportionments
- $90,000 of additional cost recovery measures related to its Domestic Waste Management Fees (for commercial-related waste disposal services)
- $57,000 of cost containments related to levels of service on redundant road-related infrastructure
- $283,000 of other measures.

In addition, the council indicated it would undertake a range of reviews which it expects to result in (as yet unbudgeted) productivities, cost containments or cost recovery outcomes. These include reviews of its:[32]

- service plans to define the range of council services, including service levels, service cost, service targets, performance indicators, and the reporting framework
- on-going implementation of the Financial Sustainability Plan and annual budget strategies
- on-going implementation of planned improvements to asset management practices via technological solutions.

The council stated that its $1.3 million of planned productivity and cost savings in 2023-24 equates to 2.35% of its 2021-22 operating expenditure. It plans to undertake further work to quantify gains from other planned initiatives. [33]

We note that the SV scenario presented in council's LTFP refers to "$1.3 million of productivities and improvements as detailed in the Rating Review Technical paper", but does not detail or quantify the savings arising from each of the individual proposed measures to be implemented (and discussed above) [34].

We consider the council has:

- demonstrated past achievements in delivering productivity improvements and cost containment, which are proportionate to the size and resources of the council
- outlined strategies and activities for further improving its productivity and efficiency, and quantified savings for several initiatives although these appear relatively modest.

Although we consider the planned efficiency savings relatively modest, when assessed with the council's larger savings to date, we assess that the council has demonstrated this criterion.

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management; including those of Full-Time Employees (FTE), including looking at how these indicators have changed over time and how they compare with those of similar councils. This data is presented in Table 4.6 and Table 4.7 below.

We found that, over recent years:

- the council's staff numbers (FTE) have increased by an average annual rate of about 3.2% per annum
- the ratio of the population to the council's FTEs has declined by an average of 3.1% per annum
- the council's average costs per FTE have increased by an average of 2.2% per annum, but employee costs as a percentage of operating costs have fluctuated from year to year.

We also found that, compared to other councils in its OLG Group, the council has a significantly lower number of FTEs, but the same ratio of population to FTE and a higher average cost per FTE.

These performance indicators only provide a high-level overview of the council's productivity at a point in time and additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings.

Table 4.6 Trends in selected performance indicators, for Lithgow City Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	184.0	181.0	195.0	202.0	3.2
Ratio of population to FTE	117.2	119.5	110.8	106.5	-3.1
Average cost per FTE ($)	86,255	95,177	94,272	92,208	2.2
Employee costs as % of operating expenditure (General Fund only) (%)	42.2	41.4	40.2	41.3	

Source: IPART calculations

Table 4.7 Select comparator indicators for Lithgow City Council

	Lithgow Council	OLG Group 9 Average	NSW Average
General profile			
Area (km2)	4,512	4,330	5,538
Population	21,516	40,070	64,134
General Fund operating expenditure ($m)	36.0	79.7	94.9
General Fund operating revenue per capita ($)	1,732	2,464	
Rates revenue as % of General Fund income (%)	49.5	37.2	46.0
Own-source revenue ratio (%)	59.8	57.3	67.2
Productivity (labour input) indicators			
FTE staff	202.0	376.3	381.9
Ratio of population to FTE	106.5	106.5	167.9
Average cost per FTE ($)	92,208	88,092	98,945
Employee costs as % of operating expenditure (General Fund only) (%)	41.3	36.2	37.6
General Fund operating expenditure per capita ($)	1,674	1,990	1,479

Source: IPART calculations

4.6 Any other matter that IPART considers relevant

IPART may take into account any other matter that it considers relevant.

We consider that a relevant matter is whether the council has been granted an SV over the past 5 years, and if so, whether the council has complied with any conditions.

Over the past 5 years, the council has applied for one SV to increase its general income. Specifically, for 2019-20, the council was authorised to increase its general income by 9.0% (inclusive of the rate peg).

As conditions of this SV approval, the council was required to:

- use the additional income for the for the purposes of improving its financial sustainability as outlined in the council's application
- report on its expenditure, outcomes, productivity savings and significant variations from its forecasted financial results in its annual report.

We consider that the council has complied with these conditions.

More recently, the council received an ASV of 2.5% in 2022-23. The guidelines require councils to show that they had budgeted for higher income than that provided by the rate peg, and that they need the additional money to deliver on the projects they have already planned and included in their budgets.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG criteria and consideration of stakeholder submissions, we have approved in full the council's proposed permanent SV to general income for a single year.

The approved increase to general income is set out in Table 5.1 below.

Table 5.1 IPART's decision on the special variation to general income (%)

	2023-24
Permanent increase above the rate peg	42.00
Rate peg	3.70
Crown Land Adjustment[b]	0.08
Total increase	45.78

a. The 2023-24 rate peg is the actual rate peg issued by IPART.
b. IPART has been approved this through a separate Crown Lands Adjustment assessment process

Source: Lithgow City Council Application Part A, Worksheets 1 and 4

The special variation is subject to the following conditions:

- The council must use the additional income for the purposes outlined in its application.
- For the next year, the council must provide details in its annual report on:
  - the program of expenditure that was actually funded by the additional income, and any differences between this program and the proposed expenditure in the council's application
  - any significant differences between the council's actual revenues, expenses and operating balance and the projected revenues, expenses and operating balance as outlined in its Long-Term Financial Plan (LTFP), and the reasons for those differences
  - the outcomes achieved as a result of the additional income
  - the productivity savings and cost containment measures the council has in place, the annual savings achieved through these measures, and what these savings equate to as a proportion of the council's total annual expenditure; and
  - whether or not the productivity improvements identified in its application have been implemented, and if not, the rationale for not implementing them.

5.1 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council has told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 5.2 below.

This shows that from 2023-24, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate would increase by $239 or 27.50%
- the average business rate would increase by $2,771 or 53.70%
- the average farmland rate would increase $465 or 27.50%
- the average mining rate would increase $190,195 or 134.70%.

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24)

	2022-23	2023-24	Cumulative Increase ($)	Cumulative increase (%)
Residential average $ rates	871	1,110		
$ increase		239	239	
% increase		27.50		27.50
Business average $ rates	5,161	7,932		
$ increase		2,771	2,771	
% increase		53.70		53.70
Farmland average $ rates	1,691	2,156		
$ increase		465	465	
% increase		27.50		27.50
Mining average $ rates	141,057	331,072		
$ increase		190,195	190,195	
% increase		134.70		134.70

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: Lithgow City Council, Application Part A

5.2 Impact on the council

Our decision means that the council may increase its general income by $6.24 million above the rate peg by 2023-24, $32.8 million by 2027-28 and $69.9 million by 2032-33. This increase can remain in the rate base permanently.

Table 5.3 shows the percentage increases we have approved and estimates the annual increases in the council's permissible general income (PGI).

Table 5.3 Permissible general income in 2023-24

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg($'000)	Total increase in PGI ($'000)	PGI[d] ($'000)
2023-24	45.78	45.78	6,240.1	6,811.9	21,669.3
Total above rate peg	45.78		6,240.1		

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

We estimate that over the 10 years from 2023-24 to 2032-33 the council will collect an additional $69.9 million in rates revenue compared with an increase limited to the assumed rate peg.

This extra income will enable the council to:

- improve its long-term financial sustainability
- maintain infrastructure and service levels

With the SV:

- the council's projected OPR will remain close to the OLG benchmark of greater than 0% over the SV period (as shown in Figure 4.1 in section 4.1.3)
- the council's net cash to income ratio will remain close to the OLG benchmark by 2032-33 (as shown in Figure 4.2 in section 4.1.3).

[d] Lithgow City Council has also been granted a Crowns Land Adjustment of 0.08% that will apply to Crown Land properties that have become rateable

Appendices

A Assessment criteria

The Office of Local Government (OLG) sets the criteria for assessing special variation applications in its special variation guidelines. The guidelines help councils prepare an application to increase general income by means of a special variation.

A special variation allows a council to increase its general income above the rate peg. Special variations can be for a single year or over multiple years and can be temporary or permanent.

IPART applies the OLG criteria in the guidelines to assess councils' applications. In brief, the 6 OLG criteria for a special variation include:

- the need for, and purpose of a different revenue path for the council's General Fund must be clearly set out and explained in the council's IP&R documents
- there must be evidence that the community is aware of the need for and extent of a proposed rate rise
- the impact on affected ratepayers must be reasonable
- the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
- the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
- any other matter that IPART considers relevant.

We also provide comprehensive guidance on our approach to assessing special variation applications in fact sheets and information papers available on our website. Additionally, we publish information for councils on our expectations of how to engage with their community on any proposed rate increases above the rate peg.

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[e]:

- 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.

[e] Page 71, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013

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

In assessing this criterion, IPART will also consider whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

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. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. 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 the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's 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, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[f] 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. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

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

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures have been incorporated in the council's Long-Term Financial Plan.

Any other matter that IPART considers relevant

The OLG criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the OLG criteria is a matter for IPART.

[f] The relevant documents are the Community Strategic Plan, Delivery Program, and 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 (General Fund) be posted on the council's web site.

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

As a condition of IPART's approval, the council is to report over the next 5 years against its proposed SV expenditure and its projected revenue, expenses and operating balance as set out in its LTFP (see Table B.1 and Table B.2).

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 B.1 Summary of projected operating statement for Lithgow City Council under its proposed SV application 2023-24 to 2031-32 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total revenue	43,461	44,560	45,689	46,845	48,031	49,245	50,489	51,767	53,077
Total expenses	41,424	42,433	43,485	44,571	45,685	46,826	47,995	49,194	50,423
Operating result from continuing operations	2,037	2,127	2,204	2,274	2,346	2,419	2,494	2,573	2,654
Net operating result before capital grants and contributions	212	236	244	246	247	248	250	254	258
Cumulative net operating result before capital grants and contributions	212	448	692	938	1,185	1,433	1,682	1,936	2,194

Note: Numbers may not add due to rounding.
Source: Lithgow City Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table B.2 Summary of projected expenditure plan for Lithgow City Council under its proposed SV application 2023-24 to 2032-33 ($)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Sum of 10 years
General Asset Transport Maintenance	1,664,816	1,706,436	1,749,097	1,792,825	1,837,645	1,883,586	1,930,676	1,978,943	2,028,417	2,079,127	18,651,568
General Asset Stormwater Maintenance	279,390	286,374	293,534	300,872	308,394	316,104	324,006	332,107	340,409	348,919	3,130,110
General Other Asset Classes Maintenance	395,802	405,697	415,839	426,235	436,891	447,813	459,009	470,484	482,246	494,302	4,434,319
General Asset Transport Maintenance	1,664,816	1,706,436	1,749,097	1,792,825	1,837,645	1,883,586	1,930,676	1,978,943	2,028,417	2,079,127	18,651,568
Governance and Strategy Capacity	250,000	256,250	262,656	269,223	275,953	282,852	289,923	297,171	304,601	312,216	2,800,845
Capacity Building	250,000	256,250	262,656	269,223	275,953	282,852	289,923	297,171	304,601	312,216	2,800,845
Transitions Management	1,092,000	1,119,300	1,147,283	1,175,965	1,205,364	1,235,498	1,266,385	1,298,045	1,330,496	1,363,758	12,234,093
Roads Renewal	1,372,745	1,407,064	1,442,241	1,478,297	1,515,254	1,553,135	1,591,964	1,631,763	1,672,557	1,714,371	15,379,389
Stormwater Drainage Renewal	179,623	184,113	188,716	193,434	198,270	203,226	208,307	213,515	218,853	224,324	2,012,380
Other Asset Classes Renewal	517,487	530,425	543,685	557,277	571,209	585,489	600,127	615,130	630,508	646,271	5,797,608
Contingency	250,000	256,250	262,656	269,223	275,953	282,852	289,923	297,171	304,601	312,216	2,800,845

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

Glossary

ABS	Australian Bureau of Statistics
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
Crown Land Adjustment (CLA)	Crown Land Adjustments increase the general income of councils for parcels of Crown land that have become rateable.
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.
IP&R	Integrated Planning & Reporting framework (Link to OLG's summary)
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OPR	The Operating Performance Ratio (OPR) measures whether a council's income will fund its costs, where expenses and

	revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.
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.
Rate peg	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*.
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 4 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 or SRV	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.

1 Lithgow City Council, 2023-24 Special Variation Part B Application Form, p 52
2 LG Determination for Lithgow City Council Additional Special Variation
3 Lithgow City Council, Community Engagement Strategy Feedback report, p 4
4 *Local Government Act 1993* (NSW), Section 511.
5 Lithgow City Council - Long-Term Financial Plan 2022-2032, p 32.
6 Office of Local Government, Performance Benchmarks, May 2020.
7 Office of Local Government, Special schedules – Local Government Code of Accounting 2021/22 – Section 4, p 10
8 Lithgow City Council – Long-Term Financial Plan 2022-2032, p 28
9 Lithgow City Council, - Resolution to adopt revised Community Strategic Plan and/or Delivery Program , p 2
10 Lithgow City Council – Long-Term Financial Plan 2022-2032, p 31.
11 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 20.
12 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 34.
13 Future Together Group - Rating Review Technical Paper p 34.
14 Lithgow City Council - 2023-24 Special Variation Part A Application Form, WK5a
15 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 31.
16 Lithgow City Council – Attachment – Community Feedback, p 24.
17 Lithgow City Council – 2023-24 Special Variation Part B Application Form, p 30
18 Lithgow City Council – Attachment – Community Feedback, p 24.
19 Our Place Our Future, Options for a sustainable future, Community Engagement Strategy Feedback report, p 14.
20 Our Place Our Future, Options for a sustainable future Community Engagement Strategy Feedback report, p 15.
21 Our Place Our Future, Options for a sustainable future Community Engagement Strategy Feedback report, p 20.
22 Morrison Lowe, Capacity to Pay Report Lithgow City Council, p 2
23 Lithgow City Council - Attachment - Other Attachment - Capacity to pay study, p 26.
24 Lithgow City Council - Attachment - Other Attachment - Capacity to pay study, p 26.
25 Lithgow City Council - Hardship Policy v6, p 2.
26 Lithgow City Council - Hardship Policy v6, p. 2-4
27 Lithgow City Council – 2023-24 Special Variation Part B Application Form, p 50
28 Lithgow City Council - Attachment - Other Attachment - Outcomes Achieved V1
29 Lithgow City Council - Attachment - Other Attachment - FTG Rating Review Technical Paper
30 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 54.
31 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 57.
32 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 57.
33 Lithgow City Council - 2023-24 Special Variation Part B Application Form, p 57.
34 Lithgow City Council – LTFP Post-Consultation Update, p 32

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