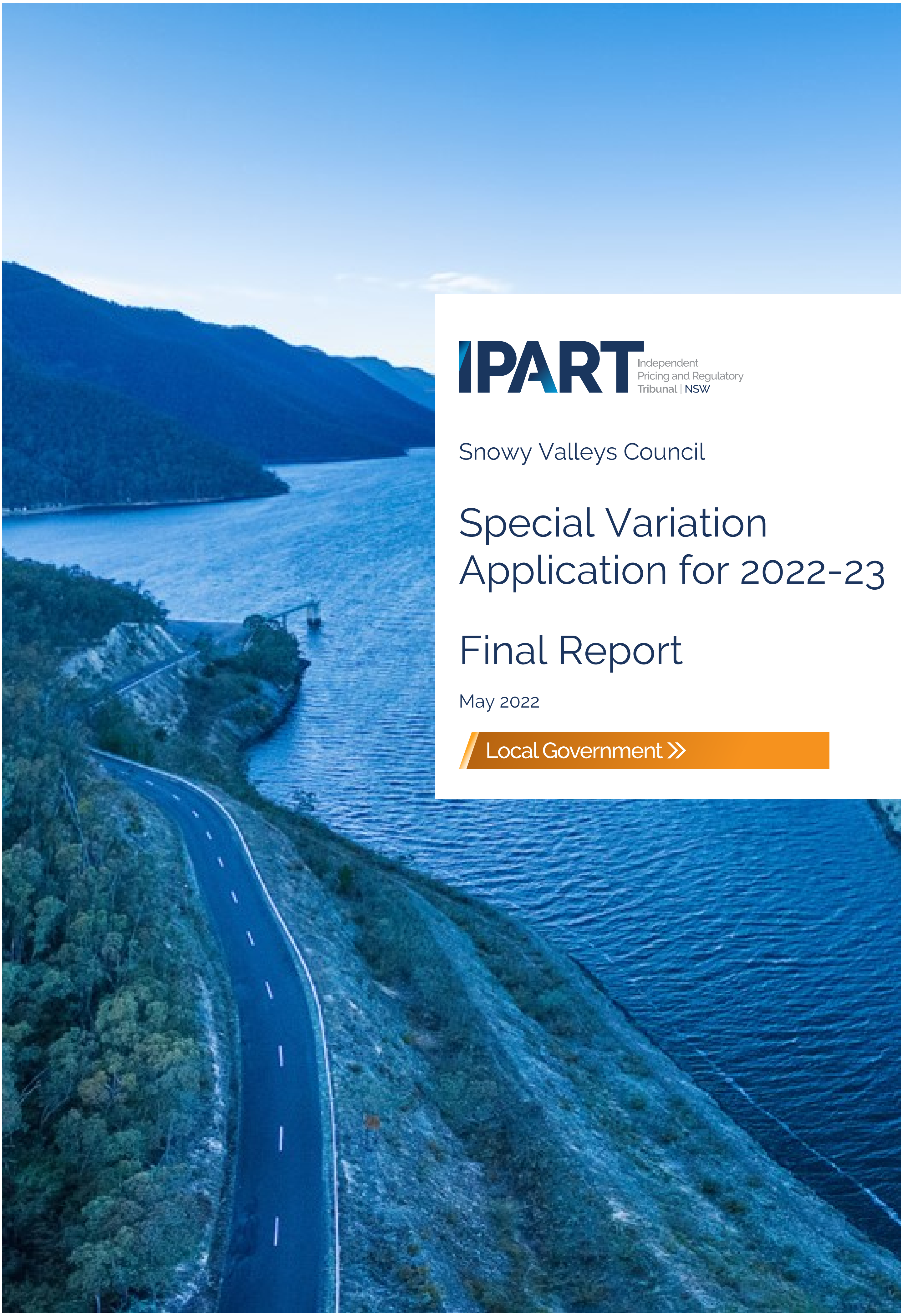

IPART Independent Pricing and Regulatory Tribunal | NSW

Snowy Valleys Council

Special Variation Application for 2022-23

Final Report

May 2022

Local Government

Tribunal Members

The Tribunal members for this review are:
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Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's website.

Acknowledgment of Country

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

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

Contents

1 Executive summary

Snowy Valleys Council (the council) has applied to IPART to increase its general income through a special variation (SV) of 35.95% (inclusive of the rate peg) over 2022-23 to 2023-24.

Under the proposed special variation, the council would increase its income from rates by 15.7% in 2022-23 and 17.5% in 2023-24. This increase would be permanent and applied across all rating categories.[1]

The council has sought the special variation to ensure long-term financial sustainability, which would allow the council to:

- maintain current service levels
- renew infrastructure assets and deteriorating assets
- reduce reliance on external grant funding for asset renewals
- fund ongoing asset maintenance.[2]

1.1 We approve the special variation application

We have approved the proposed special variation in full. Our decision means the council can increase its general income over 2022-23 to 2023-24 as shown in Table 1.1.

The approved special variation is permanent, which means the council can retain the increase in its rating base after the 2-year period.

Table 1.1 Approved SV increase to the council's general income (%)

	2022-23	2023-24
Permanent increase above the rate peg	15.0	15.0
Rate peg	0.7	2.5
Total increase	**15.7**	**17.5**
Cumulative increase		**35.95**

Our decision means the council could have $31.5 million additional income over the next 10 years as a consequence of the SV.

However, the approved percentage increase is a maximum increase in general income. Snowy Valleys Council can decide how much of the approved special variation it will implement to improve its financial sustainability. In its decision, the council should continue considering the community's desire for current and future levels of council services and assets. The council's community consultation has not yet resulted in a clear priority for council services and assets, which would influence the amount of special variation income needed.

The SV is subject to the following condition:

- The council report, in its annual report for each year from 2022-23 to 2026-27, on the following for those years:
  - the program of expenditure that was actually funded by the additional income
  - the outcomes achieved as a result of the additional income
  - the council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance as outlined in its Long-Term Financial Plan (provided in the council's application and summarised in Appendix B)
  - 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 and the reasons for those differences.

1.2 Rates can increase over 2 years

The impact of the approved special variation on average rates in Snowy Valleys Council is outlined in Table 1.2.

Table 1.2 Impact of approved SV on average rates, 2022-23 to 2023-24 ($)

	2021-22 average rates	15.7% SV increase 2022-23	17.5% SV increase 2023-24	Total SV increase over 2 years	2023-24 average rates
Residential	661	104	134	**238**	**899**
Business	1,521	239	308	**547**	**2,067**
Farmland	2,007	315	406	**722**	**2,729**
Mining	2,489	391	504	**895**	**3,383**

Note: Numbers may not add due to rounding.
Source: IPART calculations.

1.3 The council's application met the assessment criteria

To make our decision, we assessed the council's proposed special variation against the 5 criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for a special variation to general income* (OLG Special Variation Guidelines).[3] We found the council's proposal meets these criteria. Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	Fully demonstrated	**Financial need** Without the special variation, the council's financial position would continue to deteriorate over the next 10 years. The council's financial modelling showed without the special variation, it would have an operating deficit of $27.3 million by 2031-32.
02	Largely demonstrated	**Community engagement and awareness** The council used a range of consultation methods to inform the community of the proposed special variation, its need and its impact on rates. However, the council's consultation materials could have been clearer about the permanent nature of the SV and the types of assets and services the proposed SV would fund.
03	Fully demonstrated	**Impact on ratepayers** We found the impact of the special variation on ratepayers is generally reasonable, as the council's average rates after the application of the special variation would be similar to neighbouring and comparable councils' rates. However, we note the impact on individual ratepayers will vary.
04	Fully demonstrated	**Integrated Planning and Reporting documents** The council has appropriately exhibited and adopted all necessary IP&R documents.
05	Largely demonstrated	**Productivity and cost containment** The council has delivered about $1.5 million in cost savings since 2019. Its Financial Sustainability Plan shows its ongoing efforts towards productivity and cost savings. However, the plan does not quantify its key actions.

1.4 We considered the community's feedback

In making our assessment, we considered the community's feedback on the proposed special variation.

The council's SV application meets the assessment criteria. In particular, the council demonstrated financial need and that the impact on ratepayers is generally reasonable. However, we acknowledge the community has reasons for opposing the proposed SV. Considering this, we encourage the council to continue consulting with the community to balance the priority of council services/assets with the level of special variation increase to be implemented by the council.

We considered the community's feedback in more detail in the 'Community's submissions to IPART' section.

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

2 The council's special variation application

The council applied for the special variation (SV) set out in Table 2.1.

Table 2.1 Proposed special variation (%)

	2022-23	2023-24
Permanent increase above the rate peg	15.0	15.0
Rate peg	0.7	2.5
Total increase	**15.7**	**17.5**
Cumulative increase		**35.95**

Source: Snowy Valleys Council, *Application Part A*, Worksheet 1.

2.1 The council must improve its long-term financial sustainability

The council explained that it needs the proposed SV to its general income to:[4]

- Continue delivering existing services without significantly reducing service levels.
- Manage a range of financial impacts, such as maintenance of grant-funded new assets and natural disasters.

2.2 Special variation increase in income over 10 years

The council has estimated that the proposed SV would result in a cumulative increase in the council's permissible general income (PGI) of $31.5 million above what the assumed rate peg would deliver over 10 years. This increase would represent 23.2% of the council's total cumulative PGI over the 10-year period (see Table 2.2).

Table 2.2 The council's permissible general income from 2022-23 to 2031-32 under the proposed special variation

SV income over 10 years ($m)	31.5
Total PGI over 10 years ($m)	135.8
SV income as a percentage of total PGI (%)	23.2

Note: The above information is correct at the time of the council's application (February 2022).
Source: IPART calculations.

2.3 Special variation would improve the council's financial indicators

The council forecasted how the proposed SV would impact its key financial indicators over the 10-year planning period (see Table 2.3). In particular, the council noted the most significant change under the proposed SV is a projected small operating surplus for the General Fund and positive operating performance ratio from 2023-24. The council also forecasted it will meet the own source revenue ratio benchmark (greater than 60%) in 9 out of 10 years.

Table 2.3 Council's key financial indicators with proposed special variation, 2021-22 to 2031-32 (%)

Ratio	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Operating performance	-4.3	-0.4	2.6	1.8	1.7	1.6	1.6	1.5	1.4	1.4	1.3
Own source revenue	45.5	58.3	68.6	68.5	68.5	68.5	68.6	68.6	68.7	68.7	68.7
Building & asset renewal	209	84	83	99	94	85	88	81	89	85	89
Infrastructure backlog	1.4	1.5	1.5	1.6	1.6	1.7	1.8	1.8	1.8	1.9	1.9
Asset maintenance	187	185	178	178	178	178	178	178	178	178	178
Debt service	6.6	5.8	4.8	4.0	3.3	2.8	2.3	2.0	1.7	1.4	1.2

Source: Snowy Valleys Council, *Application Part A*, Worksheet 9.

2.4 Special variation would increase rates

The council would increase its rating income from all rating categories by the total increase percentages shown in Table 2.4. The average annual rates would increase for:

- Residential ratepayers by $104 in 2022-23, and $134 in 2023-24.
- Business ratepayers by $239 in 2022-23, and $308 in 2023-24.
- Farmland ratepayers by $315 in 2022-23, and $406 in 2023-24.
- Mining ratepayers by $391 in 2022-23, and $504 in 2023-24.

The impact on ratepayers is shown in Table 2.4.

Table 2.4 Impact of the proposed special variation on average rates

	2021-22	2022-23	2023-24	Cumulative increase
Residential	661	765	899	-
Increase ($)	-	104	134	238
Increase (%)	-	15.7	17.5	35.9
Business	1,521	1,759	2,067	-
Increase ($)	-	239	308	547
Increase (%)	-	15.7	17.5	35.9
Farmland	2,007	2,322	2,729	-

	2021-22	2022-23	2023-24	Cumulative increase
Increase ($)	-	315	406	722
Increase (%)	-	15.7	17.5	35.9
Mining	2,489	2,879	3,383	-
Increase ($)	-	391	504	895
Increase (%)	-	15.7	17.5	35.9

Source: Snowy Valleys Council, *Application Part A*, Worksheet 5a and IPART calculations.

2.4.1 The council considered affordability and capacity to pay

The council assessed the affordability of the proposed SV for ratepayers. It engaged Morrison Low to assess the community's capacity to pay and prepare a report accordingly. The report investigated social disadvantage, vulnerable groups, household expenditure, and the impact of COVID-19 and the 2019-20 bushfire in the local government area. The report concluded certain ratepayers would be more impacted by a rate increase.

2.4.2 The council has a hardship policy

The council considers the impact on certain ratepayers will be partly offset by the provisions in its Hardship Policy, which include pensioner rebates and rates relief, deferrals and repayment arrangements.

2.5 The council resolved to apply for a special variation

The council resolved to apply for the proposed special variation on 20 January 2022.[5]

2.6 The council provided us more information on its application

Following our preliminary assessment of the council's application, we issued an information request. We sought more information on the council's grant-funded new assets, to better understand the scope of the SV needed. We also requested an update on the council's estimated savings from 2019, and its realised and estimated future savings from its Financial Sustainability Plan.

The council responded to our information request with a list of its main grant-funded new assets, historic asset maintenance costs, justification of high asset renewal ratios and an update on its productivity savings.

We considered this information in our assessment in section 3.1 (Financial need) and section 3.5 (Productivity and cost containment).

3 Our assessment of the council's application

We assessed the council's special variation application against the 5 criteria set out in the OLG Special Variation Guidelines (and outlined in Appendix A).

We found the council's special variation application met the criteria because:

- Additional revenue is needed for the council to improve its long-term financial sustainability.
- Increased rates are reasonable and in line with comparable and neighbouring councils.
- Community was engaged and informed of the special variation.
- Productivity improvements and cost containment strategies have been, and plan to be, realised by the council.
- All necessary IP&R documents were appropriately exhibited and adopted.

Our detailed assessment and the reasons for our decision are set out below.

3.1 Criterion 1: Financial need

This criterion examines the council's financial need for the proposed SV. The council must clearly articulate and identify the need for, and purpose of, the proposed SV in its Long-Term Financial Plan, Delivery Program and Asset Management Plan (where appropriate).

We use information in the council's application to:

- assess the impact of the proposed SV on the council's financial performance and financial position, namely the council's forecast operating performance and net cash (debt)
- assess its need for the proposed SV to maintain its infrastructure renewals and asset maintenance, by assessing the council's infrastructure renewals ratio and asset maintenance ratio
- consider whether the council has considered alternative funding sources such as increasing own source revenue.

Appendix A provides more detail on the assessment criteria.

3.1.1 The council demonstrated a financial need

We found the council demonstrated it met this criterion.

To reach this finding, we considered the financial performance forecasts over the next 10 years provided by the council. The council forecasts its cumulative operating deficit by 2031-32 would be $27.3 million if it does not receive the proposed special variation.

Based on the council's forecasts, its average Operating Performance Ratios (OPR) under the Baseline Scenario[a] and under the Proposed SV Scenario over the next 5 years are:

- Under the Baseline Scenario, the council's average OPR would be -7.4%. It would reach -9.4% in 2031-32, which is below the OLG benchmark of greater than or equal to 0%.
- Under the Proposed SV Scenario, the council's average OPR would be 1.4%. It would reach 1.3% in 2031-32, which meets the OLG benchmark of greater than or equal to 0%.

We forecast under the Proposed SV Scenario, the council will continue to have an acceptable net cash to income ratio, infrastructure renewals ratio and asset maintenance ratio.

We also found the council has considered alternative funding sources such as increasing own source revenue (i.e. increasing fees and charges and asset sales).

3.1.2 The council must improve its long-term financial sustainability

The council explained its reasons for the proposed special variation in its application and Long-Term Financial Plan.[6] The council stated that it needs the additional income to improve its long-term financial sustainability, which would allow it to:[7]

- continue delivering existing services without significantly reducing service levels
- manage a range of financial impacts, such as grant-funded new assets and natural disasters.

The council considered alternatives to the rate rise, and these alternatives are summarised in the SV Community Engagement Final Report by Morrison Low.[8]

The council decided that the proposed special variation would provide the most feasible funding source to address its financial need. This is because the alternatives would involve significant reductions to the council's service range and levels.[9]

[a] I.e. no income or expenditure from the special variation.

3.1.3 Special variation will improve the council's financial sustainability

Operating performance ratio

Generally, we consider a council with a consistent operating surplus to be financially sustainable. An operating surplus is where the income the council receives covers its operating expenses each year. We use the Operating Performance Ratio (OPR) as a measure of a council's ongoing financial performance or sustainability. Box 3.1 defines the OPR and how we interpret it.

Box 3.1 Operating Performance Ratio as a measure of financial performance

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 revenue and expenses exclude capital grants and contributions and are net of gains/losses on the sale of assets. The ratio also excludes capital expenditure.

The Office of Local Government has set a benchmark for the ratio of greater than or equal to 0%.

Generally, we consider 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. A consistent OPR substantially 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 OLG's breakeven benchmark.

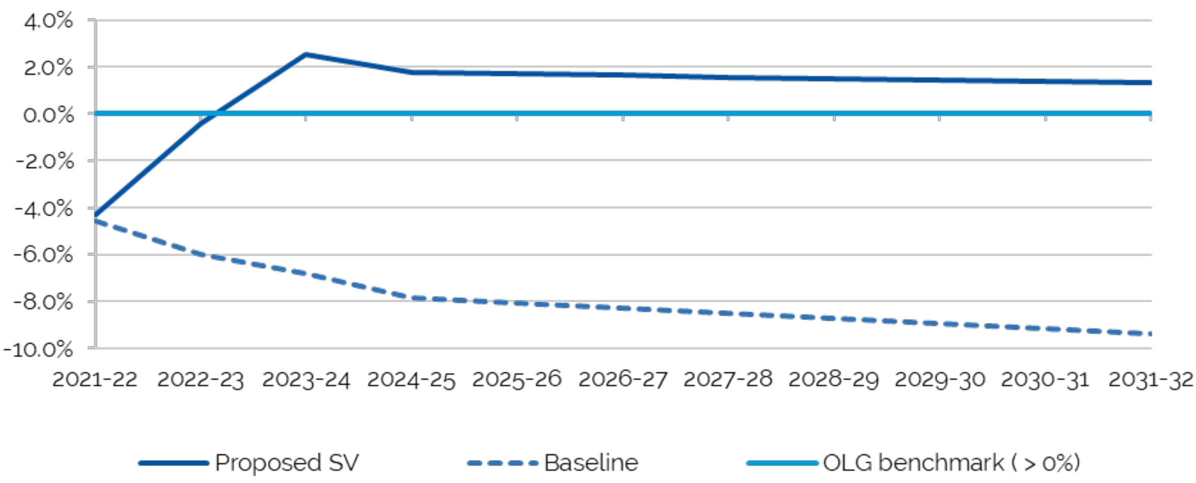
We considered the council's OPR with and without the proposed special variation.

Under the Proposed SV Scenario, the council forecasts that its OPR will improve from -4.3% in 2021-22, to an OPR of 1.3% by 2031-32. This meets the OLG benchmark of greater than or equal to 0%.

Under the Baseline Scenario[b], the council forecasts that its operating results will decline, as shown in Table 3.1. Its OPR will reach -9.4% in 2031-32, which is significantly below the OLG benchmark of greater than or equal to 0%.

[b] I.e. no income or expenditure from the special variation.

Figure 3.1 The council's operating performance ratio excluding capital grants and contributions, 2021-22 to 2031-32 (%)



Source: Snowy Valleys Council, *Application Part A*, Worksheet 8 and IPART calculations.

Table 3.1 The council's projected operating performance ratio with proposed special variation, 2022-23 to 2031-32 (%)

	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	-0.4	2.6	1.8	1.7	1.6	1.6	1.5	1.4	1.4	1.3
Baseline	-6.0	-6.8	-7.9	-8.1	-8.3	-8.5	-8.7	-8.9	-9.2	-9.4

Source: Snowy Valleys Council, *Application Part A*, Worksheet 9 and IPART calculations.

Our analysis indicates that over the next 5 years, the council's financial performance results in a simple average OPR under each scenario of:

- 1.4% under the Proposed SV Scenario
- -7.4% under the Baseline Scenario.

We consider that the council's baseline operating performance ratio shows a financial need for the proposed special variation.

Net cash (debt)

As discussed above, the OPR is a good guide to a council's ongoing financial performance or sustainability. We may also consider a council's financial position, and in particular the net cash (or net debt). This may indicate that a council has significant cash reserves that could be used to fund the purpose of the proposed SV.

On 30 June 2021, the council held a total of $38 million in cash and investments, with:[10]

- $31.2 million externally restricted
- $9.2 million internally restricted
- -$2.4 million unrestricted[c].

We consider the council does not have enough unrestricted cash reserve to fund the purposes of the proposed SV.

We calculated that the council's net cash as at 30 June 2022 will be $37.2 million, or 107% of its general permissible income. Our forecasts show:

- Under the Proposed SV Scenario, the net cash would increase over the longer term. As at 30 June 2032 we estimate it would be about $62 million, or 134% of its $46.4 million income.
- Under the Baseline with SV Expenditure Scenario, the net cash would decrease. As at 30 June 2032, we estimate it would be about $28.5 million, or 68% of its $42.2 million income.

Our analysis indicates that the council's average net cash to income ratio over the next 5 years would be:

- 89.5% under the Proposed SV Scenario
- 75.7% under the Baseline with SV Expenditure Scenario.

We consider the council's net cash position will be improved by the SV.

[c] At 30 June, the council recognised outstanding Disaster Recovery Funding Arrangements (DRFA) claims in excess of $5.5M as receivables for work delivered during the financial year 2020-21. These claims were still being evaluated and payment was yet to be received from the State Government, resulting in the council holding a negative unrestricted cash balance at year end.

Infrastructure ratios

The management of infrastructure assets is an important council function. We use information provided by the council to assess its need for the proposed SV to maintain its infrastructure renewals and asset maintenance. We do this by assessing the council's infrastructure renewals ratio and asset maintenance ratio. Box 3.2 defines these ratios and how we interpret them.

Box 3.2 Infrastructure ratios for councils

Infrastructure renewals ratio

The infrastructure renewals ratio measures the proportion spent on asset renewals against asset depreciation and is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Building\ and\ infrastructure\ asset\ renewals}{Depreciation, amortisation\ and\ impairment\ of\ building\ and\ infrastructure\ assets}$$

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

Generally, we consider that a council's average infrastructure renewals ratio over the next 10 years should be 100% or greater, as this represents assets near their original condition.

Asset maintenance ratio

The asset maintenance ratio compares the actual versus required annual asset maintenance and is defined as:

$$Asset\ maintenance\ ratio = \frac{Actual\ asset\ maintenance}{Required\ asset\ maintenance}$$

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

Generally, we consider that a council's average asset maintenance ratio over the next 10 years should be 100% or greater, as this represents the council investing enough funds within the year to manage the infrastructure backlog and continue meeting service delivery requirements.

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

The council indicated its infrastructure renewals ratio in 2021-22 is 209%. The council stated the renewal ratio is higher than usual because it received additional renewal funding which brought forward planned transport capital works. Also, the council stated certain grant funding streams required the council to fund renewals at the level of funding received plus its own contribution, rather than planned renewal requirements.

The council also indicated its asset maintenance ratio is 187% in 2021-22.

Our analysis indicates that over the next 5 years, the council's average infrastructure ratios under the Baseline and Proposed SV Scenarios[d] would be:

- 89% infrastructure renewals ratio, which is under the OLG benchmark of greater than 100%.
- 179% asset maintenance ratio, which meets the OLG benchmark of greater than 100%.

We consider the council's infrastructure ratios are at an acceptable level in the long-term.

Available income and alternative funding sources

The council has indicated it does not have any deferred rate increases it can apply.

The council has considered alternative funding sources to the proposed special variation in its application. In particular, it considered increasing revenue through the following options:

- Fees and charges increase. However, the council conducted a community survey that showed respondents consider maintaining current fees and charges as the most important service.[11] This was compared to the council's range of services, current service levels and range of assets.
- Asset sales. However, the community survey showed 63% of respondents considered the council's range of assets as important.[12]

Also, the council is applying for a special variation to reduce its existing reliance on grant funding for asset renewals.[13]

[d] The council forecasted the infrastructure ratios as the same under both the Baseline and Proposed SV Scenarios in its application. The council's forecast assumed the level of asset expenditure would not change between the scenarios, and that the proposed SV would fund operating expenses and expense increases over the years.

3.2 Criterion 2: Community engagement and awareness

This criterion assesses the council's breadth of evidence that the community is appropriately aware of the need for. and extent of, the proposed rate increase. This criterion also requires the council to discuss its ongoing efficiency measures when explaining the need for the SV.

Appendix A provides more detail on the assessment criteria.

3.2.1 The council largely demonstrated community engagement and awareness

We found that the council largely demonstrated it met this criterion.

In our view, the council consulted with ratepayers, and the community is aware of the need for, and extent of, a rate rise associated with the special variation. In particular, we found that:

- The council's community consultation material sets out the extent of the General Fund rate rise under the proposed SV. However, the council could have been clearer about the permanent nature of the SV, and the types of assets and services the SV would fund. The council's Long-Term Financial Plan also discussed the SV.
- The council communicated the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms, for the average ratepayer by rating category.
- The consultation material included a brief discussion of the council's ongoing efficiency measures in explaining the need for the SV.
- The council's engagement methods were reasonable for communicating the impact of the proposed SV to the community, and the community had enough opportunity to provide their feedback.

3.2.2 The council's community consultation process was appropriate

We assessed the council's community consultation content, clarity, timeliness and engagement methods.

Content

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

- the average annual rate increase and the average total rate increase in dollar terms, for residential, business and farmland ratepayers
- what the additional income from the proposed SV would fund
- what the council is doing to be more financially sustainable.

Clarity

The council's consultation material stated the need for the proposed SV and the average annual and cumulative dollar impact for an average ratepayer.

However, the council's consultation material could have been clearer:

- that the proposed SV is a permanent SV that is maintained in the rating base permanently
- about the types of assets and services the proposed SV would fund.

Overall, we consider the council sufficiently communicated the impact of the proposed SV for its average ratepayers.

Timeliness

The council consulted with the community on the proposed special variation from May to November 2021. This consultation period provided enough opportunity for ratepayers to be informed and engaged on the proposal.

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. This included communicating the council's SV options and its preferred SV option through:

- advertisement and print runs
- letterbox drops[e], which also outlined the council's financial sustainability
- the council's website submissions
- online community engagement meetings. There were also specific online meetings for NSW farmers and prospective Councillors.

3.2.3 The council considered results of community consultation

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

Regarding the council's proposed SV, the council received 15 website submissions and 5 attendees at its online meeting.[14] It also received 62 responses to its website poll, 40 attendees at its online meetings and 15 website submissions, with regard to its SV options.

[e] To all letter boxes, PO boxes, roadside boxes and business addresses in the LGA.

Most respondents during the community consultation were not supportive of the council's proposed SV. Of those who opposed the SV, the main reasons were:

- the council needed to make further cost-savings
- the council should not accept grant-funded assets if it cannot afford the operating costs
- the effect on lower-income earners.

Of those who supported the SV, the main reason was they understood why the SV is needed.

In response to the community consultation feedback, the council:

- confirmed there was insufficient clarity/information on the need for an SV and alternative options that could reduce an SV, after feedback from its IP&R engagement process. The council commissioned Morrison Low to develop alternative options for another round of community consultation
- considered community feedback on SV options at the council's meeting on 21 October 2021
- decided it was critical for the council to be financially sustainable. The council considered alternative options and resolved to inform IPART of its intent to make an SV application
- decided to further engage the community on the council's preferred SV option
- considered community feedback on the council's preferred SV option at the council's meeting on 11 January 2022.

We assess that the council has considered the results of community consultation in preparing its application.

3.3 Criterion 3: Impact on ratepayers

This criterion assesses whether the impact on ratepayers is reasonable considering current rates, existing ratepayer base and the proposed purpose of the special variation. The council must demonstrate it has considered the community's capacity and willingness to pay.

Appendix A provides more detail on the assessment criteria.

3.3.1 We found the impact on ratepayers is reasonable

We found that the council fully demonstrated it met this criterion.

Specifically, we consider the impact of the proposed SV on most ratepayers will be reasonable given:

- The council's average rates with the proposed SV will be below the estimated average rates for its OLG Group 11 and neighbouring councils, in 2023-24 across all rating categories.
- The community appears to have the capacity to pay, as assessed by the council's Capacity to Pay report. However, the impact on ratepayers will vary across the local government area.

We note that the council has a hardship policy in place to assist ratepayers experiencing financial hardship. In addition, the council states it situationally considers community support. The council waived interest from July to October 2021 due to the State-imposed lockdowns. After the bushfire crisis in early 2020, the council waived interest on all arrears for a period of 6 months. It also granted a reduction in water usage charges for residents that had firefighting requirements.

In terms of reporting ratepayers' uptake of the council's financial hardship policy, we note the Office of Local Government issued Debt Management and Hardship Guidelines. The guidelines do not provide advice on a council reporting its number of financial hardship assessments. However, the guidelines recommend the council monitor and report their 'outstanding rates and charges' ratio to reflect the level of uncollected rates.

3.3.2 The council determined the impact on ratepayers is reasonable

The council assessed the impact on ratepayers of the proposed SV and addressed affordability concerns. It compared its rates income with similar councils. It also examined socioeconomic data and investigated vulnerable groups in its Capacity to Pay report.

Based on these indicators, the council concluded that its ratepayers have the capacity to pay the increased rates from the proposed SV. In particular, it noted that in 2019-20 its rates income contributed 18% of its general fund revenue, which is lower than similar regional merged councils at 24%.[15]

In its application, the council explained that by 2022-23 under its proposed SV the average:

- residential rate would increase by $238
- business rate would increase by $547
- farmland rate would increase by $722
- mining rate would increase by $895.

Table 2.4 shows the council's estimates of the increase in average rates for each ratepayer category.

The council also has a hardship policy for individuals who are experiencing financial hardship. The policy includes pensioner rebates and rates relief, deferrals and repayment arrangements.[16]

3.3.3 Increased rates would be lower than comparable councils

To assess whether the impact of the proposed special variation on ratepayers is reasonable, we considered the impact of the council's rate harmonisation and its SV history.

In 2016, Snowy Valleys Council was formed by merging Tumut Shire Council and Tumbarumba Shire Council. As a result of the rate harmonisation, Tumbarumba residential and business ratepayers experienced a large percentage increase in their average rates.[17]

In 2005 and 2006 the former Tumut Shire Council applied for, and was granted, a special variation of a total 10% for 15 years, which expired at 30 June 2020. The special variation was used to maintain infrastructure (i.e. roads, bridges and stormwater).[18]

We also compared the council's rates in 2019-20 and socio-economic indicators with those of OLG Group 11 and neighbouring councils (see Table 3.2 and Table 3.3).

Based on 2019-20 data, we found that the council's:

- Average rates are lower than the average rate for Group 11 councils and the weighted average for neighbouring councils, across all rating categories.
- Average rate to income ratio is lower than the average ratios for Group 11 councils and most neighbouring councils.
- Outstanding rates ratio is lower than Group 11 councils and most neighbouring councils.
- SEIFA ranking is 34, which is lower than most neighbouring councils (i.e. Snowy Valleys Council has more disadvantage than most neighbouring councils).

Table 3.2 Comparison of the council's average rates and socio-economic indicators with Group 11 councils and neighbouring councils, 2019-20

Council (OLG group)	Snowy Valleys (11)	Group 11 average	Cootamundra-Gundagai Regional (11)	Greater Hume (11)	Wagga Wagga (4)	Yass Valley (11)
Average residential rate[a] ($)	701	855	676	841	1,114	1,022
Average business rate ($)	1,654	2,138	1,599	457	6,009	2,986
Average farmland rate ($)	1,894	3,287	2,727	2,262	2,807	2,888
Average mining rate ($)	-	402,390	-	-	-	-
Median annual household income ($)[b]	58,400	59,904	50,266	60,903	70,601	97,976
Ratio of average rate to median income (%)	1.2	1.4	1.3	1.4	1.6	1.0
Outstanding rates ratio (%)	6.8	7.5	8.2	7.2	5.3	7.3
SEIFA Index NSW rank[c]	34	-	27	79	88	111

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 2016 ABS Census data.

c. The highest possible ranking is 128 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2019-20; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

Table 3.3 Difference between the council's average rates and those in Group 11 councils and neighbouring councils, 2019-20

Rate category	Snowy Valleys Council	Group 11 councils	Neighbouring councils	Difference between Snowy Valleys Council and Group 11 councils (%)	Difference between Snowy Valleys Council and neighbouring councils (%)
Residential	701	855	1,023	-18.1	-31.5
Business	1,654	2,138	4,136	-22.6	-60.0
Farmland	1,894	3,287	2,628	-42.4	-27.9

Notes: All averages are weighted averages, weighted by the number of assessments.

We have excluded mining rates because data on Snowy Valleys Council's mining rates for 2019-20 are unavailable.

Source: OLG, Time Series Data 2019-20 and IPART calculations

In addition, we compared the council's average rate levels under the proposed SV with the projected average rate levels for OLG Group 11 councils and neighbouring councils (see Table 3.4). We found that in 2023-24, the council's average rates with the proposed SV would be lower than the estimated average rates for Group 11 and neighbouring councils, across all rating categories.

Table 3.4 Comparison of the council's, Group 11 councils' and neighbouring councils' average rates under the proposed SV, 2023-24 ($)

Rate category	Snowy Valleys Council	Group 11 councils	Neighbouring councils	Difference between Snowy Valleys Council and Group 11 councils (%)	Difference between Snowy Valleys Council and neighbouring councils (%)
Residential	899	924	1,105	-2.7	-18.6
Business	2,067	2,309	4,468	-10.5	-53.7
Farmland	2,729	3,551	2,838	-23.2	-3.9
Mining	3,383	434,659	-	-99.2	-

Note: All averages are weighted averages, weighted by the number of assessments.

Source: OLG, Time Series Data 2019-20; and IPART calculations.

3.3.4 The council considered the community's capacity to pay

The council's Capacity to Pay report found, on average, there will be larger rate increases in the Tumut area due to its relative land values.[19] Of Tumut households, about 40%[f] are considered 'at-risk' (i.e. a lone person or one-parent family with a reduced/singular income stream)[20] and 10%[g] experience housing stress[21].

The council has higher levels of disadvantage than the Regional NSW average i.e. there are fewer opportunities, such as employment.[22] The recent bushfire disaster impacted the timber and forestry industry/jobs, which is a key employer in the council area.[23] In addition, COVID-19 has mainly impacted the accommodation and food services and manufacturing industries in the local government area (LGA). The Capacity to Pay report showed within a year there was a net loss of 189 jobs for residents living within the LGA and a net loss of 135 jobs within the LGA.[24]

The council acknowledges the proposed rate increase will impact some ratepayers more than others and considers this will be partially offset by its hardship policy.

3.3.5 Submissions emphasise some ratepayers would be affected more

Some submissions we received raised concerns about the affordability of a rate rise. The submissions claimed:

- Pension income has twice not been increased by the CPI.
- Businesses are recovering from COVID-19 restrictions.
- Farmland ratepayers are recovering from the Dunns Road Bushfire and their enterprise would be greatly affected by the rate rise.

The council commissioned a Capacity to Pay report which investigated vulnerable groups of individuals (including pensioners) and the impacts of COVID-19 and the 2019-20 bushfire. The council considers its hardship policy will provide financial assistance if required.

[f] About 6 percentage points higher than the council's average.

[g] The Regional NSW average is 11.4%.

3.4 Criterion 4: Integrated Planning and Reporting 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. Therefore, this framework underpins each council's decisions on the revenue it requires to meet its community's needs.

This criterion requires councils to exhibit, approve and adopt the relevant IP&R documents before applying for a proposed SV, to demonstrate adequate planning.

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.

3.4.1 The council appropriately exhibited and adopted IP&R documents

We found that the council fully demonstrated it met this criterion.

We consider that the relevant IP&R documents contained enough information relating to the proposed special variation, and were appropriately exhibited, approved and adopted by the council.

3.4.2 The council's IP&R documents were clear

Need and purpose of the SV

The council presented the need for, and purpose of, the proposed SV in its revised Long-Term Financial Plan. The council considered alternatives to the rate rise in its community consultation material. That is, lower SV rates with more savings (e.g. reviewing fees and charges and asset sales).

Extent of the SV rate increase

The council's revised Long-Term Financial Plan does not include the extent of the SV rate increase on ratepayers. However, the council's community consultation material includes the proposed SV average rates in 2022-23 to 2023-24 for each rating category.

SV impact on the community

The council's revised Long-Term Financial Plan does not include the council's consideration of the community's capacity to pay rates under the proposed SV. However, the council commissioned a Capacity to Pay report to assess the impact of the proposed SV on ratepayers.

3.4.3 The council exhibited and adopted IP&R documents in a timely manner

The council:

- Publicly exhibited its Community Strategic Plan from 14 May to 11 June 2018 and adopted it on 28 June 2018.
- Publicly exhibited its Delivery Program from 14 May to 11 June 2018 and adopted it on 28 June 2018.
- Revised its Long-Term Financial Plan following Morrison Low's review of the council's financial sustainability. The council placed its revised LTFP on its website on 25 October 2021. The council endorsed the revised LTFP on 20 January 2022 and placed it on the council's website on 24 January 2022.
- Publicly exhibited its Asset Management Plan from 18 April to 18 May 2019 and adopted it on 13 June 2019. It was placed on the council's website on 17 June 2019.

3.5 Criterion 5: Productivity and cost containment

This criterion requires councils to explain and quantify 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. It also requires them to:

- incorporate the financial impact of the ongoing efficiency gains in their Long-Term Financial Plan
- provide evidence of strategies and activities to improve the productivity of their operations and asset management, and robust data quantifying the efficiency gains from these initiatives, as well other cost-saving and revenue-raising initiatives.

3.5.1 The council largely demonstrated productivity and cost savings

We found that the council largely demonstrated it met this criterion.

In particular, we consider that the council:

- has delivered cost savings through employee restructures and reductions
- assumed efficiency savings through staff savings of $600,000 annually from 2022-23 (with some savings effected during 2021-22) in its revised Long-Term Financial Plan
- shows ongoing efforts towards productivity and cost containment through its Financial Sustainability Plan. However, the plan does not quantify the efficiency gains expected from its key actions.

3.5.2 The council has made cost savings

The council's application sets out the productivity improvements and cost containment initiatives it has undertaken in recent years. We also received additional information from the council in response to our information request. In particular, the council stated it has:

- saved almost $1 million from employee restructures and reductions.[25] This includes part of the estimated $600,000 staff savings across 2021-23 from its revised Long-Term Financial Plan[26]
- realised net $500,000 savings from its merger restructure in October 2019.[27]

3.5.3 The council is expected to save more in the future

The council confirmed in its response to our information request that it plans to deliver future savings from further employee reductions, reviewing non-core services for transfer/divestment and consulting with the community about service level reductions and asset rationalisations.[28]

The council's Financial Sustainability Plan provides a summary of its key actions towards productivity and cost containment. The council plans to achieve these actions over the period until December 2023. The plan does not quantify the efficiency gains expected from its key actions.

3.5.4 Our analysis of the council's efficiency indicators

We examined a range of indicators on the efficiency of the council's operations and asset management.

We considered how the council's efficiency has changed over time (see Table 3.5). We found that since 2016-17, the council's:

- number of full-time equivalent (FTE) staff has decreased
- ratio of population to FTE has increased
- average cost per FTE has increased
- employee costs as a proportion of its operating expenditure has increased.

Table 3.5 Trends in selected performance indicators for Snowy Valleys Council, 2016-17 to 2019-20

Performance indicator	2016-17	2017-18	2018-19	2019-20	Average annual change (%)
FTE staff	228	228	213	209	-2.9
Ratio of population to FTE	64	64	68	69	2.6
Average cost per FTE ($)	81,474	80,737	85,488	98,469	6.5
Employee costs as % of operating expenditure (General Fund only) (%)	33	38	38	40	-

Source: IPART calculations.

The council has reviewed its staff resources and structure since its 2016 merger. The organisational review included removal of FTE positions, contract to casual staff, regrading staff positions and changing staff levels for some services.[29]

We also assessed whether there is any scope for the council to achieve further productivity savings, by examining certain productivity indicators (see Table 3.6). We found that in 2019-20, the council's:

- number of FTE staff was higher than the OLG Group 11 average
- ratio of population to FTE staff was lower than the OLG Group 11 average
- average cost per FTE staff was higher than the OLG Group 11 average
- employee costs as a proportion of its operating expenditure was higher than the OLG Group 11 average
- General Fund operating expenditure per capita was higher than the OLG Group 11 average.

Table 3.6 Select comparative indicators for Snowy Valleys Council, 2019-20

	Snowy Valleys Council	OLG Group 11 Average	NSW Average
General profile			
Area (km^2)	8,959	6,454	5,530
Population	14,479	14,148	63,194
General Fund operating expenditure ($m)	48.9	35.9	87.7
General Fund operating revenue per capita ($)	3,729	2,975	-
Rates revenue as % of General Fund income (%)	22.0	33.4	46.2
Own-source revenue ratio (%)	56.9	53.4	68.3
Productivity (labour input) indicators[a]			
FTE staff	209	176.7	381
Ratio of population to FTE	69.3	80.1	165.7
Average cost per FTE ($)	98,469	83,220	96,272
Employee costs as % of operating expenditure (General Fund only) (%)	40	35	38
General Fund operating expenditure per capita ($)	3,377	2,540	1,366

a. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Note: Except as noted, data is based upon total council operations for General Fund only.
Source: OLG, Time Series Data 2018-2019, OLG, unpublished data; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

We compared the council's operating expenditure per capita and found that it is higher than the Group 11 average. This indicates there may be scope for efficiency gains in other cost items. However, we do not have enough data to undertake a comprehensive analysis of the council's expenditure by category.

We note that 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 whether there is scope for the council to achieve future productivity/cost savings.

4 Community's submissions to IPART

We expect the council to be responsible for engaging 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 criteria we use to assess the council's application (see section 3.2).

However, as part of our process we also accept written submissions directly from stakeholders on the council's proposed special variation.

4.1 Summary of submissions we received

We received 10 submissions from community members and 1 petition (with 153 signatures against the SV from the Tumut community) during the submission period from 15 February to 7 March 2022.

Key issues and views raised in these submissions were:

- The need and impact of the council's (capital) grant-funded new assets were not consulted with the community.
- The council did not provide enough detail and quantification on its productivity improvements and cost containment strategies for past and future years.
- The council is in a safe cash position in the short-term to re-assess its capital projects and asset management.
- Increased rates would be a burden particularly given low pension incomes, bushfire disaster impact and the COVID-19 impact on businesses.
- Approving the council's proposed SV would reduce incentives for the council to review its operations.
- Claims increased rates would affect real estate prices (e.g. that the price for a similar dwelling in Wagga Wagga is lower).

The submissions to IPART are like those raised in the council's community consultation, regarding grant-funded assets, productivity and impact on low-income earners.

4.2 Our response to the community's concerns

We considered all the concerns and issues raised in these submissions, and our responses are outlined below.

Grant-funded new assets

We acknowledge the council has accepted capital grant-funding for new assets, and part of the special variation income would be used to fund operating expenses for these assets. We encourage the council to further consult with its community on the priority of the council's services/assets, which would influence the amount of special variation income needed/implemented by the council.

Productivity and cost containment

The council provided us with more information on its past and future cost savings during our assessment of the SV application. This information is discussed in section 3.5.

Safe short-term cash position

We consider the council does not have enough unrestricted cash reserve to ensure financial sustainability (as discussed in section 3.1.3).

Additional burden of increased rates

We realise the impact of the special variation on ratepayers will vary. The council is aware of the community's circumstances through its Capacity to Pay report. The council considers its hardship policy will provide some assistance.

Approving the SV reduces incentive for the council

The council's special variation application has met the assessment criteria. In particular, it has demonstrated financial need and generally reasonable impact on ratepayers. The council needs additional income to ensure long-term financial sustainability. However, we encourage the council to consider the amount of the special variation increase it will implement, with additional community consultation on the priority of the council's services/assets.

Effect on real estate prices

The council's average residential rate is lower than most of its neighbouring council's average residential rates.

We considered all stakeholder submissions and all information received from the council to make our final decision on the special variation application.

5 We approve the special variation

Based on our assessment of the council's application against the 5 criteria and consideration of community submissions, we have approved in full the council's proposed permanent special variation to general income from 2022-23 to 2023-24.

However, the approved special variation percentage is the maximum amount by which the council can increase its general income. The council can decide how much of the special variation it will implement to improve its financial sustainability. In its decision, the council should continue considering the community's desire for current and future levels of council services and assets. The council's community consultation has not yet resulted in a clear priority for council services and assets, which would influence the amount of special variation income needed.

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

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

	2022-23	2023-24
Permanent increase above the rate peg	15.0	15.0
Rate peg	0.7	2.5
Total increase	**15.7**	**17.5**
Cumulative increase		**35.95**

The following conditions are attached to this decision:

- The council report, in its annual report for each year from 2022-23 to 2026-27, on the following for those years:
  - the program of expenditure that was actually funded by the additional income
  - the outcomes achieved as a result of the additional income
  - the council's actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance as outlined in its Long-Term Financial Plan (provided in the council's application and summarised in Appendix B)
  - 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 and the reasons for those differences.

5.1 Impact on the council

Table 5.2 shows the percentage increases we have approved and estimates the annual increases in the council's general income.

Table 5.2 Permissible general income (PGI) of the council from 2022-23 to 2023-24 from the approved SV

	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate ($'000)	Cumulative increase in PGI ($'000)	PGI ($'000)
Adjusted notional income 1 July 2022	-	-	-	-	9,244
2022-23	15.7	15.7	1,387	1,451	10,695
2023-24	17.5	35.95	3,026	3,323	12,567
Total cumulative increase approved	-	-	-	4,774	-
Total above rate peg	-	-	4,412	-	-

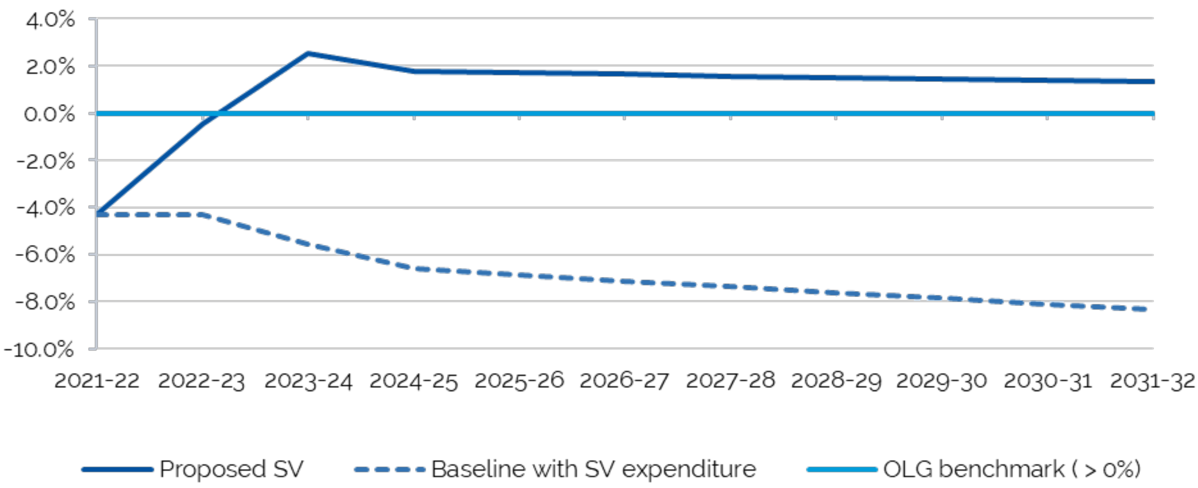
Note: The information in Table 5.2 is correct at the time of the council's application (February 2022).

Source: Snow Valleys Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

We estimate that over the 10 years from 2022-23 to 2031-32, the council will collect an additional $31.5 million in rates revenue compared with an increase limited to the assumed rate peg. This extra income will enable the council to ensure it is financially sustainable in the long-term.

Under our decision, the projected operating performance ratio will be above the OLG benchmark of greater than 0% over most of the SV period as shown below.

Figure 5.1 Council's Projected Operating Performance Ratio from the approved SV, 2022-23 to 2031-32 (%)



Source: Snowy Valleys Council, *Application Part A*, Worksheets 9 and IPART calculations.

5.2 Impact on ratepayers

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

The impacts on ratepayers based on our forecasts are shown below. From 2022-23 to 2023-24, the average:

- residential rate will increase by $238
- business rate will increase by $547
- farmland rate will increase by $722
- mining rate will increase by $895.

Table 5.3 Indicative annual increases in average rates under the approved SV, 2022-23 to 2023-24

Ratepayer Category	2021-22	2022-23	2023-24	Cumulative Increase
Residential	661	765	899	
Increase ($)		104	134	238
Increase (%)		15.7	17.5	35.9
Business	1,521	1,759	2,067	
Increase ($)		239	308	547
Increase (%)		15.7	17.5	35.9
Farmland	2,007	2,322	2,729	
Increase ($)		315	406	722
Increase (%)		15.7	17.5	35.9
Mining	2,489	2,879	3,383	
Increase ($)		391	504	895
Increase (%)		15.7	17.5	35.9

Note: 2021-22 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category and includes the ordinary rate and any special rates applying to the rating category.

Source: Snowy Valleys Council, Application Part A, Worksheet 5a and IPART calculations.

We forecast in 2023-24, the council's rates under the proposed SV would be lower than the Group 11 average and the average rates of neighbouring councils (see Table 3.4).

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 criteria in the guidelines to assess councils' applications. In brief, the 6 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[8]:

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and

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

- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

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

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
- 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
- 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

The relevant IP&R documents[9] 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 and cost containment

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.

Criterion 6: Other matters that IPART considers relevant

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

9 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 Snowy Valleys Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, the council is to report in 2022-23 to 2026-27 against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table B.1).

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

Table B.1 Summary of projected operating statement for Snowy Valleys Council under its proposed SV application (2022-23 to 2031-32) ($000)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Total revenue	44,755	41,184	41,766	42,652	43,560	44,488	45,438	46,409	47,401	48,415
Total expenses	37,209	38,433	39,279	40,143	41,028	41,932	42,857	43,802	44,768	45,756
Operating result from continuing operations	7,546	2,751	2,487	2,509	2,533	2,556	2,581	2,608	2,633	2,659
Net operating result before capital grants and contributions	-164	1,007	708	695	682	668	655	644	630	616
Cumulative net operating result before capital grants and contributions	-164	843	1,552	2,247	2,928	3,597	4,252	4,896	5,526	6,141

Note: Numbers may not add due to rounding.

Source: Snowy Valleys Council, *Application Part A*, Worksheet 8 and IPART calculations.

Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
Local Government Act	*Local Government Act 1993* (NSW)
Minimum rate	A minimum amount of the rate specified under section 548 of the *Local Government Act*, 1993.
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OLG MR Guidelines	Guidelines for the preparation of an application to increase minimum rates above the statutory limit.
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 four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV 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.

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