IPART Independent Pricing and Regulatory Tribunal | NSW

Kempsey Shire Council
Special Variation Application 2024-25

Final Report

May 2024

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
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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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1 Executive summary

Kempsey Shire Council applied to permanently increase its general income by 42.70% over a 3-year period from 2024-25 to 2026-27 inclusive.

We did not approve this application in full, but instead approved a permanent increase of 24.09% over 2 years from 2024-25.

Kempsey Shire Council (the council) applied to IPART[a] to increase its general income through a permanent special variation (SV) of 42.70% over the 3 years from 2024-25 to 2026-27.[1]

It proposed a relatively small increase in 2024-25 and larger increases in each of the following years (Table 1.1). It told us that it intends to apply these increases across all rating categories.

Table 1.1 Annual increases under the council's application

	2024-25	2025-26	2026-27
Annual increase (%)	7.90	15.00	15.00
Cumulative increase (%)		24.09	42.70
Additional annual income ($'000)	1,890	3,871	4,452

The council sought the SV to:

- improve financial sustainability
- maintain existing services and service levels generally
- address current and forecast infrastructure backlogs for asset renewals
- meet cost pressures it is facing.

a The Minister for Local Government delegated the power to grant SVs to IPART. By delegation dated 6 September 2010, the then Minister for Local Government delegated to the Tribunal all 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.

1.1 IPART's decision

We did not approve the council's proposed SV in full. Instead, we have approved a permanent SV of 24.09% over 2 years from 2024-25, as shown in Table 1.2.

Table 1.2 Maximum increases under our decision

	2024-25	2025-26
Annual increase (%)	7.90	15.00
Cumulative increase (%)		24.09
Additional annual income ($'000)[b]	1,890	3,871

Our decision aligns with the first 2 years of the council's proposed SV. It means the council can raise an additional $5.8 million in general income (in total) over the next 2 years and retain this income permanently in its rate base. It does not prevent the council from making a new application for an SV in subsequent years.

Our approval is subject to certain conditions, including that the council:

- use the additional income for the purpose outlined in its application
- report in its annual report from 2024-25 until 2030-31 the actual program of expenditure funded by the additional income and the outcomes achieved.

The full conditions are set out in Chapter 10.

Our *Instrument Under Section 508A of the Local Government Act 1993 - Special Variation Instrument - 2024-25 - Kempsey Shire Council* gives legal effect to this decision and sets out the conditions of approval.

1.2 IPART's assessment of the council's application

To make our decision on the council's SV application, we assessed the application and supporting materials 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 Guidelines). We found it met 4 of these criteria. After considering our findings against all criteria together, we are not satisfied that it has done enough to justify its full proposed SV.

In particular, we are concerned about the balance between the council's financial need for the SV on one hand, and the community's understanding of the need for the proposed rate rises and their impact on ratepayers on the other hand:

[b] The additional annual revenue may vary slightly if the council receives other adjustments in the future, such as crownland adjustments. These are typically very minor adjustments.

- **The council did broadly demonstrate a financial need for an SV to maintain its financial sustainability** while continuing to provide services and maintain infrastructure required by its community (criterion 1). However, it did not demonstrate that it needs the full 42.70% increase it proposed over 3 years. This is because it has scope to continue to explore alternatives to this proposed increase over the next 2 years. This could reduce the size of the rate increase required beyond this period.
- **The council did not demonstrate the community is aware of the need for and extent of the proposed rate increases** (criterion 2). It did engage with and consult its community on the proposed SV. However, its consultation materials did not include key information that ratepayers required to properly understand why the rate rise is necessary, and the specific expenditure priorities driving the size of the increase. For example, it did not clearly explain that without the SV, it will have to increase its borrowings to fund its infrastructure priorities, and that the cost of servicing this additional debt will approach 20% of its operating revenue by 2032-33.
- **The council did not show the impact of the proposed SV on ratepayers is reasonable** (criterion 3). It did evaluate the relative wealth and financial capacity to pay across the Kempsey area. It concluded its community has both capacity and willingness to pay the proposed rate increases, provided that support is available for those with higher levels of disadvantage. However, this conclusion is not well supported by the council's analysis. Our assessment found that currently its average residential rates are slightly higher than the average for neighbouring and comparable councils. However, by the end of the proposed 3-year SV period, they would be significantly higher than the averages for those councils. We note its area has more disadvantage than 122 council areas in the state (out of the total of 128).

Our decision to approve a 2-year SV of 24.09% instead of the proposed 3-year SV of 42.70% reflects the council's clear need for additional income while also taking account of the shortcomings in its application and community feedback on the proposed SV.

Our decision will allow the council to maintain a stable financial position over the next 2 years, while it undertakes the work required to establish whether it can reduce its costs and improve its financial sustainability through alternative means. For example, this work should include conducting a thorough review of the alternatives to further rate rises, transparently communicating the review's findings to the community, and consulting them to understand their preferences and willingness to pay.

We consider the impact of our decision on ratepayers is reasonable. With the approved SV, the council's average residential rates will be slightly higher than comparable and neighbouring councils. We note that the council has a hardship policy in place to assist ratepayers experiencing difficulty paying their rates.

We have attached reporting conditions to this SV approval, and we expect the council to fully comply. IPART will consider whether a council has complied with its SV conditions in assessing future SV applications. The OLG is the body responsible for enforcing compliance with the conditions attached to SVs.

Our assessment against each criterion is summarised below. Chapters 4 - 9 provide our complete assessment, and the full criteria are set out in Appendix A.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** On balance, the council demonstrated it has a financial need for the SV to improve its financial sustainability, maintain existing services and service levels, and maintain healthy debt serviceability ratios in line with its Community Strategic Plan. However, it did not show that it had fully explored alternatives to the SV, such as a service level review, or consulted with ratepayers regarding the appropriate level of service for its assets.
02	Not demonstrated	**Community awareness** On balance, while the council engaged with and consulted its community and provided information about the need for and extent of the proposed SV, it did not provide sufficiently clear information regarding the purpose of the SV or explain the difference between the base case and proposed SV scenarios.
03	Not demonstrated	**Reasonable impact on ratepayers** On balance, the council did not show that the impact of its proposed SV on ratepayers is reasonable, considering its current rates and the community's capacity to pay. The analysis it provided did not support its conclusions that its community has both capacity and willingness to pay. By the end of the council's proposed SV period, the council's average residential rates would be significantly above the averages for neighbouring and comparable councils.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited and adopted all necessary Integrated Planning and Reporting (IP&R) documents before preparing its SV application.
05	Demonstrated	**Productivity improvement and cost containment** The council listed and quantified productivity improvement and cost containment initiatives that saved approximately $5.6 million per annum.[2] However, its Long-Term Financial Plan could have more clearly identified and quantified its future efficiency strategies over the term of the SV. Although there were shortcomings with the council's planned initiatives, based on our assessment of the council's savings to date, we consider it met this criterion.
06	Demonstrated	**Other matters IPART considers relevant** In the past 10 years, the council was granted 4 SVs – 2 permanent SVs (2012-13: 11.37%, 2014-2019: 37.54%), a permanent Additional Special Variation (ASV) (2022-23: 2%), and a 10-year temporary SV (6.5% environmental levy).[3] It has complied with the conditions of all past SVs.

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the IP&R framework. The OLG criteria that we assess SV applications against requires us to look at the consultation the council has undertaken as part of our assessment.

Kempsey Shire Council consulted on its proposed SV with its community using a variety of engagement methods. The council received 667 survey responses, distributed 15,000 information brochures to residents, held public meetings attended by over 380 participants and published website content that had over 7,000 visitors.[4]

There are approximately 15,500 rateable properties in the Kempsey Shire Council.[5]

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period and invited stakeholders to provide feedback directly to IPART.

Through this process, we received 637 responses to our feedback form, and 74 additional submissions on Kempsey Shire Council's proposed SV. These submissions and responses raised concerns about the:

- affordability of the proposed rate increases
- council's consultation with the community
- community's willingness to pay the proposed rate increases
- council's financial management
- poor general service levels and infrastructure.

We also received some submissions that supported the increase in rates to maintain service levels and conduct infrastructure renewals and maintenance.

We consider stakeholder feedback in more detail in Chapter 3 and throughout this report as relevant to our assessment.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over 2024-25 and 2025-26. The council can defer rate increases up to this maximum amount for up to 10 years.[6]

The council has proposed to increase rates in these years as set out in Table 1.3. It retains the discretion to revise how it raises its general income across the rating categories. We encourage the council to consult with its community to decide how best to implement the increase and any changes to the rating structure.

The council should continue to pursue productivity improvements, to minimise costs to ratepayers and ensure its financial stability over the long term.

Table 1.3 Average rate increases under the approved SV

	2024-25	2025-26	Cumulative increase
Residential	7.8%	14.5%	23.4%
Business	7.8%	14.8%	23.8%
Farmland	7.8%	14.5%	23.4%

Note: These figures have been rounded in calculation. These are the council's approved increases, but it retains the discretion to determine the structure of its rates.

Should the council require another SV, we strongly advise it to address the issues we identified in its 2024-25 application. In particular, we advise it to explore alternatives to another SV, including service level adjustments and asset sales:

- In exploring service levels adjustments, it should conduct a comprehensive review of its infrastructure and services with the aim of ensuring ratepayers receive the combination of services at the level they desire with a reasonable impact on rates. This should include investigating alternative levels of service for assets and the associated costs, transparently communicating the findings to the community, and consulting ratepayers to discuss the trade-offs involved and to understand their preferences.
- In exploring asset sales, particularly the sale of Kempsey airport, it should consult the community and consider the findings in decision making. This should involve clearly communicating the costs associated with the council's ownership of the specific asset and the impact on rates, while also seeking feedback to better understand community preferences.

We consider that these actions will improve ratepayers' confidence in the council's Integrated Planning and Reporting (IP&R) and help find an acceptable balance between financial sustainability and meeting the community's needs.

The rest of this report explains how and why we reached our decision on Kempsey Shire Council's SV application in more detail.

2 The council's special variation application

This section of our report sets out the council's proposal and summarises the information that the council provided to support its application. The full application and all non-confidential supporting documents are available on our website.

The council applied for a multi-year SV with a cumulative increase of 42.70% over the 3 years from 2024-25 to 2026-27.[7] Table 2.1 sets out the percentage by which the council proposed to increase its general income, and the expected annual revenue this would raise.

Table 2.1 Proposed SV

	2024-25	2025-26	2026-27
Annual increase (%)	7.90	15.00	15.00
Cumulative increase (%)		24.09	42.70
Additional annual income ($'000)	1,890	3,871	4,452

Source: Kempsey Shire Council Application Part A, WS 2 and WS 6

The proposed SV is permanent. This means that the increases would remain in the rate base permanently and not be reduced at the end of 2026-27.

The council sought the special variation to:[8]

- improve its financial sustainability
- maintain its existing services and service levels generally
- address its current and forecast infrastructure backlogs for asset renewals
- meet cost pressures it is facing.

The council's increased expenditure on asset maintenance and renewals is not conditional on the proposed SV. The additional income from the proposed SV would allow the council to borrow less funds and incur less interest costs to complete these works. This is assessed in more detail in Chapter 4.

2.1 Impact of the proposed special variation on ratepayers

The council proposed that rates would increase for all categories over the 3-years the SV is in place.[9] It proposed that, on average:

- **residential rates** by 2026-27 would increase by $549 or 41.3%
- **business rates** by 2026-27 would increase by $1,395 or 42.1%
- **farmland rates** by 2026-27 would increase by $1,001 or 41.3%.

The council provided the number of rate notices that it expects to issue for 2024-25, shown in Table 2.2.

Table 2.2 Number of ratepayers per category in 2024-25

Ratepayer category	Number of rate notices
Residential	13,222
Business	804
Farmland	1,513
Total	**15,539**

Source: Kempsey Shire Council, Part A application Worksheet 4.

2.2 The council's assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay. It submitted a Capacity to Pay Report based on the 3 SV scenarios it presented in its LTFP adopted in June 2023.[10]

The Capacity to Pay Report found that the socio-economic landscape within the Kempsey Shire LGA is mixed. There are areas of significant advantage as well disadvantage. Notably, it found that a substantial segment of the population lives in rental and social housing, and suggested the SV would have minimal direct impact on them.[11]

The region has some of the lowest socio-economic indicators (SEIFA rankings), with a significant portion of the population falling into the lower income quartiles. Despite these findings, the report indicates there is a modest capacity to pay among residential ratepayers, provided a robust hardship policy is in place.[12]

Specifically, the council's report concluded that in areas such as 'Coastal North' and 'Rural (West)', where there is considerable economic hardship, there is a level of capacity to pay "given the relativity of the rate increases and an appropriate hardship policy". In areas like 'Coastal South' and 'Aldavilla – Airport', where there are higher levels of advantage, there is a greater ability to absorb the proposed rate increase.[13]

In reviewing the council's proposed rate increase scenarios, the Capacity to Pay Report endorsed an increase of 51.2% over a 3-year SV period (Option 1) as the most viable. It said that this option addresses "financial sustainability, manage asset maintenance and backlog at current level of service, has the lowest level of increase over SV period … therefore delivers the better capacity to pay for all grouping areas and ratepayers".[14] In contrast, Options 2 and 3 with their respective increases of 85.1% and 94.2% were seen as less affordable for the community.[15]

The council ultimately applied for a lower SV than any of the 3 options discussed in the report.

2.3 Impact of the proposed SV on the council's general income

The council estimated that if approved its proposed SV, with a cumulative increase of 42.7% over 3 years, would increase its permissible general income from the current $23.9 million to $34.1 million.[16]

2.4 Further information provided

Following our preliminary assessment of the council's application, we asked the council to provide further clarification on:

- infrastructure spending details
- the impact of not having the SV on capital expenditure and financing alternatives
- incorporation of past operational savings into the LTFP
- hardship application details
- asset management plan in relation to SV spending
- debt serviceability.

The council provided correspondence to clarify the items above.[17] We considered this additional information in our assessment.

3 Stakeholders' feedback 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 criteria we use to assess the council's application (see Chapter 5 for our assessment and Appendix A for the full criterion).

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period from 27 February 2024 to 18 March 2024. Stakeholders could complete a survey-style feedback form and make submissions directly to us.

The Tribunal has taken all stakeholder feedback into account in making its decision in accordance with our Submissions Policy, including the responses to our feedback form and any confidential submissions. In this section, we summarise the key issues raised in the feedback form and all published (non-confidential) submissions.

3.1 Summary of feedback we received

We received 637 responses to our feedback form, and 74 additional public submissions from stakeholders. Kempsey Shire residents also submitted a petition opposing the proposed SV with over 8,000 signatures through the "Figure It Out KSC" campaign.[18] During the 21 November 2023 Ordinary Council Meeting, these residents requested this petition to be on file.[19] We note that the petition may include participants who are not residents in the Kempsey Shire Council area.

There are approximately 15,500 rateable properties in the council's local government area. There are 13,222 residential assessments, 804 business assessments and 1,513 farming assessments.[20]

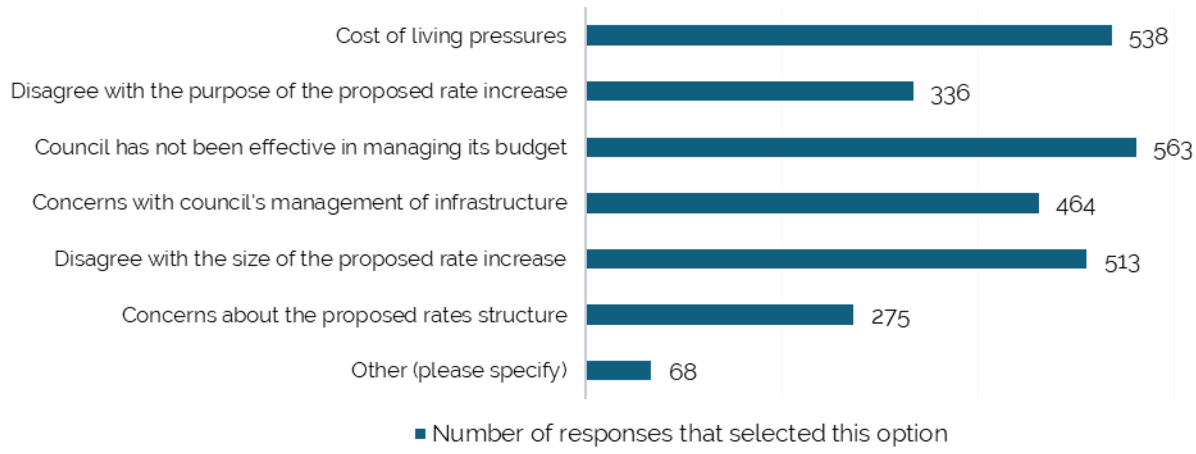
3.1.1 Response to the feedback form

We published a feedback form to assist stakeholders to provide information to IPART. This sought stakeholders' sentiments on the proposed SV generally, and specifically on the topics of affordability, the council's consultation, and council financial management. We note that while this was a survey-style feedback form, it was not a statistically representative survey and participants self-selected to provide feedback.

We received 637 responses relating to Kempsey Shire Council's application. Of these, 95.4% respondents opposed the proposed SV, 3.3% partly supported it, and 1.3% supported it.

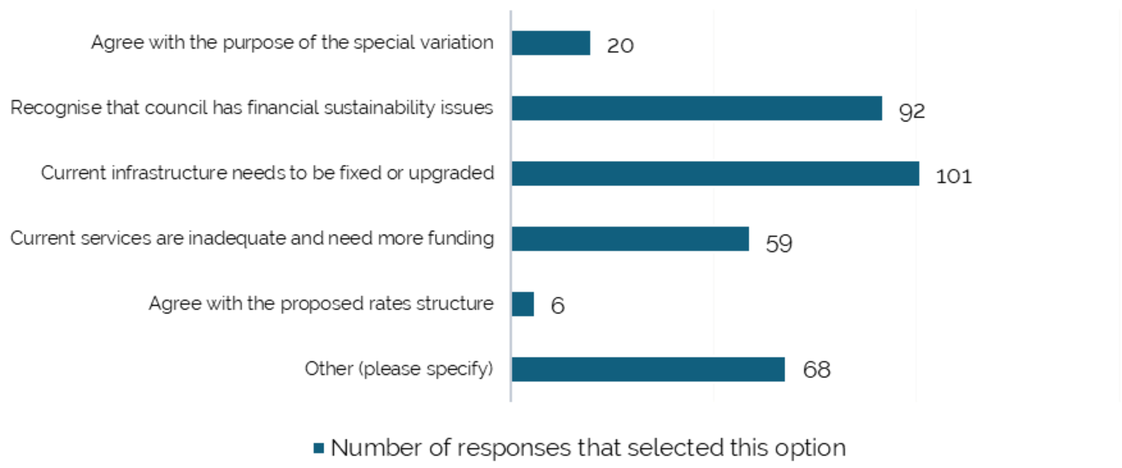
Figure 3.1 and Figure 3.2 show the main reasons that stakeholders said they might oppose or support the proposed rate increase.

Figure 3.1 Reasons respondents said they might oppose the proposed SV



Note: We received 637 responses. For this question, respondents could select more than one option. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.
Source: IPART

Figure 3.2 Reasons respondents said they might support the proposed SV



Note: We received 637 responses. For this question, respondents could select more than one option. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.
Source: IPART

The other responses to the feedback are considered in Chapters 5, 6 and 8. The full results are available in Appendix C.

3.2 Summary of issues raised

The key issues and views raised in these submissions and the feedback form, and our responses to them, are summarised below.

3.2.1 Affordability of proposed rates increases

The vast majority of respondents to IPART's feedback form and submissions raised affordability as a concern.

These stakeholders suggested that the proposed increase in rates will lead them to financial hardship. Many submissions said that the timing of the SV was poor in the current economic climate. They cited increasing costs of living and mortgage stress to support their view that any increases in rates would have a detrimental effect.

We have considered these concerns and outlined our conclusion in Chapter 6.

3.2.2 The council's financial management

A significant portion of submissions raised concerns about the council's efficiency and ability to cut costs, with some saying there has been financial mismanagement.

Some stakeholders also said that to address the forecast financial deficit, the council needs to tighten its spending and spend on more essential services like roads.

As the council is responsible for managing its finances, IPART's ability to assess its financial decisions outside of the SV assessment is limited.

We have considered stakeholders' concerns and outlined our conclusion in Chapter 8.

3.2.3 The council's current services and infrastructure

Around one-third of feedback form responses and submissions to IPART expressed the view that the council's current services and infrastructure are unsatisfactory, specifically mentioning essential services and infrastructure like roads, water and waste disposal. Several stated that there is a lack of road maintenance to address issues like potholes and unsafe dirt roads.

We note that water and waste disposal have their own specific funds and are outside the scope of the SV, which only affects a council's general income.

We have considered these concerns and outlined our conclusion in Chapter 8.

Box 3.1 What is and is not funded by councils' 'general income'?

Councils set different rates and annual charges for different services.

Most landowners pay 'ordinary rates' which cover facilities to which most customers typically have access and the council's day-to-day activities. This includes roads and transport, open space and recreation, building maintenance, and community services including libraries and swimming pools. Other council responsibilities can include planning work, food safety inspections, weed management, disability and seniors support programs, amongst others.

A council's special variation application only applies to general income, which is typically made up of 'ordinary rates' and some special rates. This could be shown as environmental or town-centre levies on a rates notice.

However, some other major services are funded by separate charges. These charges may appear as a separate line on rates notices, including:

- a domestic waste charge
- water and sewer charges and/or
- stormwater management and coastal protection services.

Not all ratepayers receive these services from their council. This is particularly the case in regional and rural areas, especially those living outside of a township. In most cases, if ratepayers do not have these services available to them, they do not pay these charges.

The revenue collected from these fees are typically kept separate by the council to ensure they are used on the purpose for which they were collected.

3.2.4 The council's consultation with the community

The vast majority of respondents to our feedback form expressed concerns about the community consultation conducted by the council. For example, they put forward the view that the outreach to the aging population was ineffective, and noted the reliance on using the internet, and casual radio mentions, which they considered were not sufficient. Some noted that the council's survey had only 300 respondents and said this did not accurately represent the wider community sentiment.

Some stakeholders who made submissions said that during presentation sessions by the council, many questions were taken on notice without being addressed, which they say indicated disregard for genuine community feedback.

In response to the strong opposition expressed in its consultation with ratepayers, the council applied for an SV of 42.7% rather than one of the higher increases it consulted on, which ranged from 51% to 94%.[21]

We have considered these concerns and outlined our conclusion in Chapter 5.

3.2.5 The community's willingness to pay for a special variation

A third of the stakeholders who made submissions or responded to IPART's feedback form indicated they were unwilling to pay for some of the council's proposed projects, while 40% said that ratepayers should not 'pay' for the council's shortcomings (mentioning previously wasted funds). For example, some said the council should 'live within its means' and provide greater transparency about the use of the General Fund. They put the view that the council should not use the SV to fund non-essential projects, citing the cinema and Slim Dusty Centre projects as examples of past mismanagement.

We have considered these concerns and outlined our conclusion in Chapter 6.

3.2.6 Equity of the current rating system

A few submissions expressed concern that the current rating system is inequitable, especially to pensioners, farmers, and those on minimum wage. We note that this mainly relates to affordability challenges for vulnerable groups, as rates make up a larger proportion of their disposable income, rather than how rates are calculated.

We acknowledge stakeholders' concerns about the distribution of rates.

It is a matter for the council to determine the rating structure, including distribution of rates among ratepayers in compliance within the current regulatory framework. For example, the council cannot levy ordinary rates on exempt land,[22] and must categorise land[23] according to the Local Government Act and Regulations.[c] These requirements, which are outside the scope of IPART's role in assessing SVs, may contribute to some stakeholders' sense of inequity in how rates are distributed.

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

One submission said that rates would already increase considerably due to the recent land valuations. The submitter noted that such valuations would lead to higher rates being paid than for more highly valued properties in other councils.

As set out in Box 3.2 below, the council is required to adjust its rates following routine changes in land valuations to ensure the total amount of general income recovered from ratepayers does not exceed the maximum permitted amount.

[c] See, for example, section 556(1)(h) of the *Local Government Act 1993* (NSW) which provides land owned by public benevolent institutions or charities used for certain purposes is exempt land, and clause 122 of the *Local Government (General) Regulation 2021* (NSW) which relates to the categorisation of land used for retirement villages, serviced apartments or a time-share scheme.

Box 3.2 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.[d] Changes in land valuations can mean 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 (or sub-category)
- the property's unimproved land value.

The variable component of rates, 'ad valorem', is determined as:

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

Generally, the council recalculates the 'amount in the dollar' rate every year to ensure the council does not collect rates above its PGI. For example, if overall land values increase, it may need to reduce the 'amount in the dollar' charged.

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.

[d] 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 Our assessment: OLG Criterion 1 – Financial need

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

On balance, we found that the council met Criterion 1, as it demonstrated that it needs an SV to maintain its financial sustainability while continuing to provide existing services and service levels to the community. However, we also found it did not demonstrate that it needs the full 42.70% increase it proposed over 3 years. This is because it has not fully explored alternatives to this proposed increase, which could reduce the total size of the rate increase required.

This finding, together with findings on other criteria, are a key reason why we decided to approve a different SV, as discussed in Chapter 10.

> 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 the full criterion.

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 received via feedback form and submissions. 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.

4.1 Stakeholder comments on financial need

In their submissions to us, many stakeholders raised concerns related to the financial need criterion. In particular, they said:

- the council should defer non-essential projects to avoid the need for an SV
- the council's need for rate increases results from its poor financial management and oversight
- additional funds could come from efficiency savings, including cutting the council's staff numbers and reducing its reliance on consultants.

We considered these concerns, taking account of all the information available to us.

4.2 The council's IP&R documents

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP), Delivery Program and Asset Management Strategy, only broadly identify and articulate the need for and purpose of the SV.

The documents state that the proposed SV of 42.7% over 3 years is needed to:

- improve financial sustainability
- maintain existing services and service levels generally
- address current and forecast infrastructure backlogs for asset renewals
- meet special cost pressures faced by the council.[24]

However, the IP&R documents do not provide sufficient transparency and detail about the need for the SV.

The LTFP shows that the council is forecasting an annual operating deficit (before capital grants & contributions) of $1.9 million in 2023-24, which is expected to grow to an annual operating deficit 12.4 million by 2032-33 without the proposed SV.[25] However, it does not clearly explain that most of the planned additional expenditure is required for infrastructure renewal and maintenance. This makes it difficult for the community to understand the need for the SV. This is evident in the feedback from stakeholders, many of whom appear to think the deficit is due to planned spending on non-essential projects such as the cinema and Slim Dusty Centre.

In addition, the LTFP does not explain the council's strategic choice between maintaining current levels of expenditure resulting in lower service levels and increasing expenditure on assets to required levels through debt financing.[26] In particular, it does not clearly convey the associated costs of borrowing funds with and without the SV. This oversight is significant, as without this information, the community cannot understand that an SV would provide a more sustainable source of funding than borrowing.

The Delivery Program makes references to applying for an SV but lacks key details such as the extent of the rate rise.[27] Council could enhance transparency and community awareness about providing some high-level information about the strategic options that are being considered.

The recently completed Asset Management Plan identifies that the council has a shortfall of $7 million a year on maintaining infrastructure, mainly roads and commercial businesses.[28] However, the information is not very detailed. For example, the planned expenditure is not broken down to show the amounts required for certain roads or categories of road. It is also not clear that the spending on 'commercial businesses' is mainly on the council-owned Kempsey airport. In addition, it is not clear whether the council consulted the community to understand its priorities in developing its asset maintenance priorities.

Without this level of detail and transparency, the community is unable to fully understand the urgency of the financial need, the financial consequences of not having an SV and the strategic options available to council. Without such information, there may be reduced public confidence in the council's integrated planning and reporting process, making it more difficult for ratepayers to understand the financial need.

4.3 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 analyse the council's financial performance and financial position and the impact the proposed SV would have on these. This involved calculating financial forecasts under 3 scenarios:

1. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
2. **Proposed SV Scenario** – which includes the council's proposed SV revenue and 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 the full expenditure program included in its application but could only increase general income by the rate peg.

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

4.3.1 Impact on Operating Performance Ratio

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 zero is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[29] The OLG has set a benchmark for the OPR of greater than zero (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 OLG breakeven benchmark as set by OLG.

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

For this analysis, we have excluded Baseline with SV Expenditure Scenario. The council said in its application that most of its proposed increased expenditure on asset maintenance and renewals is essential. If it does not receive the SV, the council plans to increase borrowings to fund this expenditure. However, the interest savings from reduced borrowings cannot be realised without an SV, so the Baseline with SV Expenditure line would be misrepresentative to include.

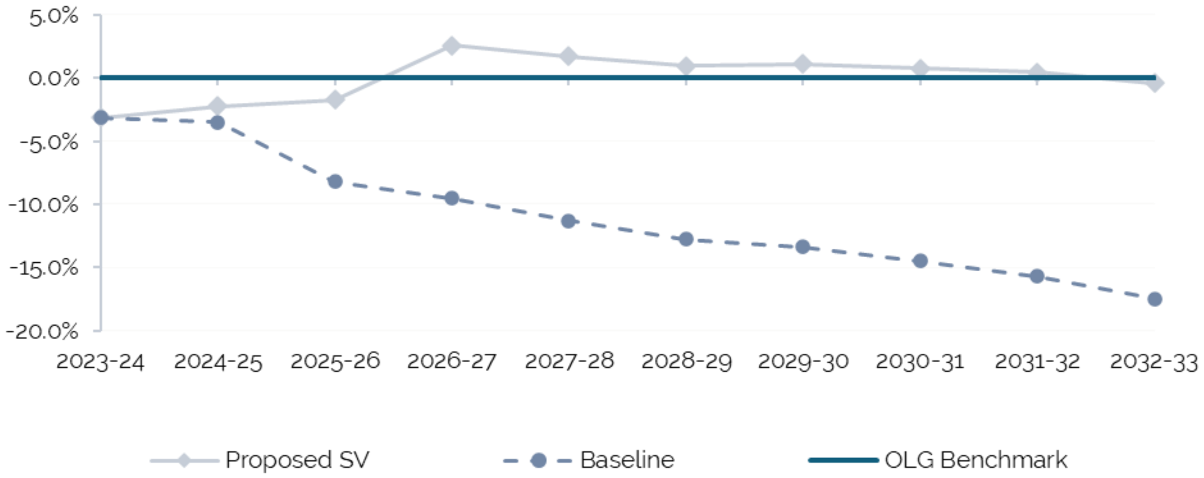
As set out in Figure 4.1 and Table 4.1, we found that, over the next 5 years:

- **Under the Proposed SV Scenario**, the council's OPR would slowly improve from the current -3.2% and meet the OLG benchmark of greater than 0% by 2026-27. Its average OPR over the five-year period would be 0.3%.
- **Under the Baseline Scenario**, the council's OPR would stay below 0% and decline. Its average OPR over 5 years would be -9.1%.

The council's operating results may face additional cost pressure from various factors. For instance, while the recent replacement of flood-damaged timber bridges with concrete structures were initially funded through capital grants, the council may incur increased ongoing maintenance and depreciation costs, further straining the council's operating performance.[30]

In 2018-19, Kempsey Shire Council received approval for a 6.5% (including the rate peg of 2.3%) 10-year temporary environmental levy special variation.[31] In its financial forecast and proposed SV application, the council has assumed that the environmental levy will be renewed in 2028-29.[32] The inclusion of the continuation of this temporary environmental levy overstates the council's OPR performance from 2028-29 by up to 4.2%. While IPART acknowledges this assumption, it does not represent an endorsement or approval and any future application will be assessed on the application's own merits.[e]

Figure 4.1 The council's projected OPR with Baseline Proposed SV, 2023-24 to 2032-33



Note: OPR shown excludes capital grants and contributions.
Source: Kempsey Shire Council, Application Part A.

Table 4.1 The council's projected OPR under 2 scenarios (%)

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-2.2	-1.7	2.6	1.7	1.0	1.1	0.8	0.5	-0.4
Baseline	-3.5	-8.2	-9.5	-11.3	-12.8	-13.4	-14.5	-15.7	-17.5

Source: Kempsey Shire Council, Application Part A.

[e] The forecasted revenue and OPR may be slightly overstated due to potential inclusion of the Environmental Levy amount in the model. For the purposes of the analysis, this has negligible impact on our decision.

4.3.2 Impact on net cash

A council's net cash (or net debt) position is an 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. In this section, we consider the council's cash and investments, and its net cash (debt) to income ratio. Box 4.2 explain these further.

Box 4.2 Cash and investments and net cash (debt) to income ratio

Cash and investments

Councils hold cash and investments for a variety of purposes, but the use of these can be restricted in one of 2 ways:

- **Externally restricted** - These funds are subject to external legislative or contractual obligations.
- **Internally restricted** - These are 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.

Unrestricted funds can be used to fund the council's day to day operations and may be able to be used for the same purpose as the SV. In some cases, this may be enough to avoid, delay or reduce the magnitude of an SV. However, this metric does not account for any borrowings or payables that need to be settled.

Net cash (debt) to income ratio

The net cash (debt) to income ratio can show whether a council has sufficient cash reserves left over that could be used to fund the purpose of the proposed SV, *after* taking out its payables and borrowing obligations.

$$Net\ cash\ (debt)\ to\ income\ ratio\ = \frac{(Cash + Investments + Receivables) - (Payables + Borrowings)}{Total\ operating\ revenue\ (excluding\ capital\ grants)}$$

The cash and investments in this formula includes *external* and *internal* restrictions.

A positive ratio shows that a council may have access to cash reserves to help address its financial need. A negative ratio shows that a council may not have reserves to rely on to address financial sustainability issues.

For instance, a ratio of 10% means that an entity has 10 cents of net cash per $1 of operating revenue. Conversely, a ratio of -10% means that an organisation has 10 cents of net debt (i.e. -10 cents net cash) per $1 of operating revenue.

Cash and investments

On 30 June 2023, the council held a total of 57.2 million in cash and short-term investments.[33] This includes:

- **$46.4 million externally restricted funds.** For Kempsey Shire Council, examples include developer contributions and sewer funds and unexpended specific purpose grants.[34]
- **$8.8 million internally restricted funds.** For Kempsey Shire Council, examples include corporate and general fleet.[35]
- **$2.1 million unrestricted funds.** These funds can be used to fund the council's day to day operations.

This suggests that the majority of the council's cash reserves are committed to other purposes, except for the $2.1 million that is unrestricted.[36]

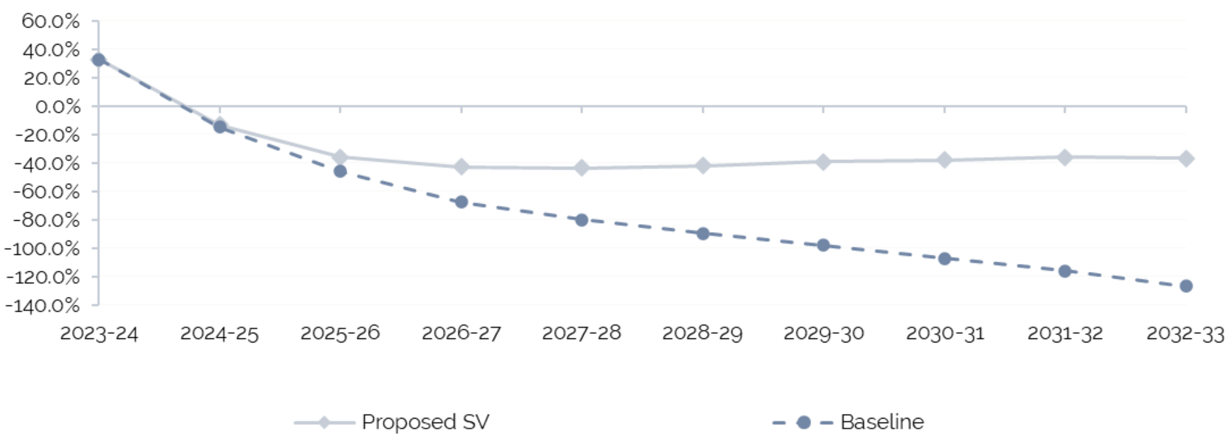
Net cash (debt) to income ratio

We calculated that as at 30 June 2024, the council will have net cash of $19.35 million, and a positive net cash (debt) to income ratio of 32.8%.

However, as Figure 4.2 shows, this ratio is forecast to decline significantly over the next 9 years:

- **under the Baseline Scenario**, the council's average net cash (debt) to income ratio would be -59.5%
- **under the Proposed SV Scenario**, the council's average net cash to income ratio would be -35.5%.

Figure 4.2 The council's net cash (debt) to income ratio (%)



Source: Kempsey Shire Council, Application Part A, Worksheet 9.

Considering the council's OPR and net cash position, we found that the council does have a financial need to raise revenue above the rate peg. Without additional income, council may not be able to provide essential services and maintain critical assets such as roads and concrete bridges.

4.3.3 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 an indicator of its financial position and its capacity to provide services to the community. 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%.
- **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 4.3 for more information on these ratios.

Box 4.3 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its the 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:

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

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

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

The council has included the same capital investments in both the Baseline and the Proposed SV scenarios. The main purpose of these investments is to maintain the current and forecast asset backlog at current service levels.[37] As the level of these investments is the same, there is no difference between our findings for the Baseline and Proposed SV scenarios in the following analysis.

As noted above, the council plans to increase its borrowings to fund this expenditure. With the proposed SV, it will need to borrow a smaller amount and thus incur less associated interest expense. To date, the council has conducted a high-level scenario analysis but has not finalised the amount it will borrow and the rate it will be borrowing at. This is discussed further in the Impact on debt serviceability ratios section below.

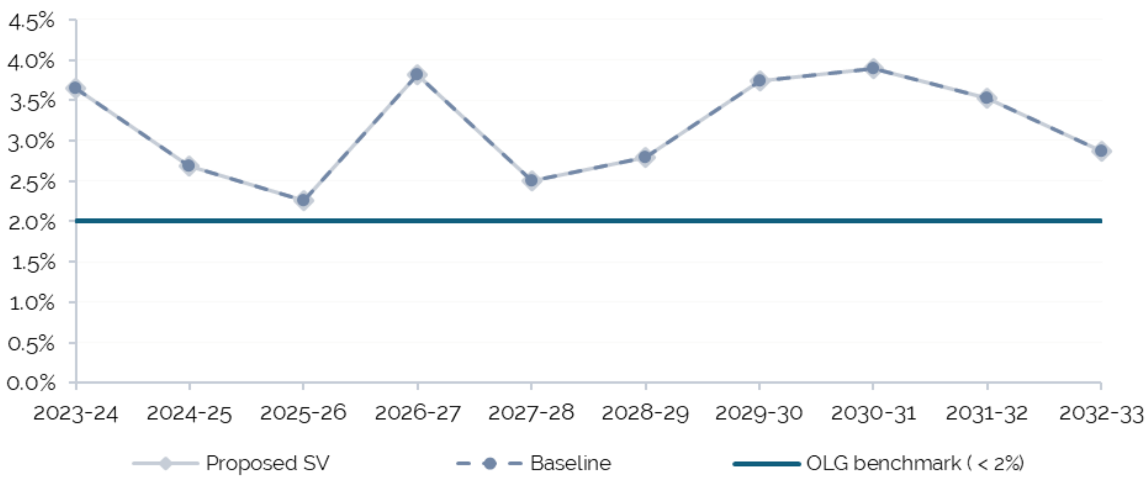
Impact on infrastructure backlog ratio

As set out in Figure 4.3, we found that over the next 5 years[f], the council's average infrastructure backlog ratio would be 2.8% under both the Baseline and the Proposed SV scenarios. This falls short of OLG's benchmark of less than 2%.

[f] We considered the 5-year average to smooth annual variability. Data beyond 5 years is subject to greater variability.

Under both scenarios, the backlog would range from $23 million and $35 million over the next 9 years (according to the LTFP).[38] It would largely be made up of maintenance of roads and commercial businesses infrastructure (holiday parks, airport, sales yard, waste management, and swimming pools).

Figure 4.3 The council's infrastructure backlog ratio

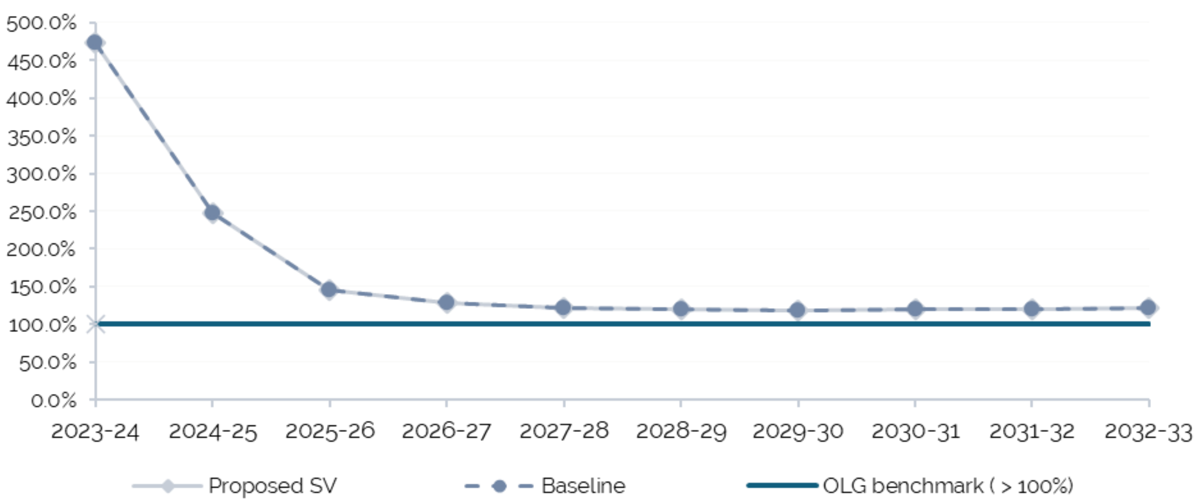


Source: Kempsey Shire Council, Application Part A.

Impact on infrastructure renewals ratio

As set out in Figure 4.4, we found that the council's infrastructure renewal ratio would rapidly decline from the current 473% to around 121% in 2027-28 under both the Baseline and Proposed SV scenarios. The average ratio over the next 5 years[g] would be 152.3%, which is above the OLG benchmark of more than 100%.

Figure 4.4 The council's infrastructure renewal ratio (%)



Source: Kempsey Shire Council, Application Part A.

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g We considered the 5-year average to smooth annual variability. Data beyond 5 years is subject to greater variability.

4.3.4 Impact on debt serviceability ratios

Debt serviceability measures help to assess a council's capacity to meet its debt obligations without straining its finances. This is a particularly important indicator for Kempsey Shire Council, as the SV directly impacts how it will fund essential services and maintenance of assets like roads and footpaths. The council plans to borrow funds to support this expenditure. Through IPART's request for information, council has provided some high-level scenario analysis around borrowings.[39]

We evaluated the council's debt serviceability using the 2 metrics:

- the Debt Service Cover Ratio (DSCR), which measures how many times the operating cash could cover the debt related payments.
- the Debt Service Ratio (DSR), which measures the portion of operating revenue dedicated to servicing debt.

Box 4.4 provides more information on these ratios.

Box 4.4 Debt serviceability ratios

Debt Service Cover Ratio

The Debt Service Cover Ratio (DSCR) measures the operating cash available to service debt including interest, principal and lease payments, and is defined as:

$$Debt\ service\ cover\ ratio = \frac{\begin{array}{c}Operating\ result\ before\ capital\ excluding \\ interest\ and\ impairment, depreciation\ and\ amortisation\end{array}}{Principal\ repayments\ and\ interest\ on\ loans}$$

The OLG has set a benchmark for this ratio of greater than 2.

Debt Service Ratio

The Debt Service Ratio (DSR) measures the proportion of a council's general income that is used to repay debt and interest charges. It is defined as:

$$Debt\ service\ ratio = \frac{Interest\ expense\ and\ principal\ repayments}{Total\ continuing\ operating\ revenue}$$

The OLG has set a benchmark for this ratio to be between 0% and 20%.

Source: Your Council, Office of Local Government

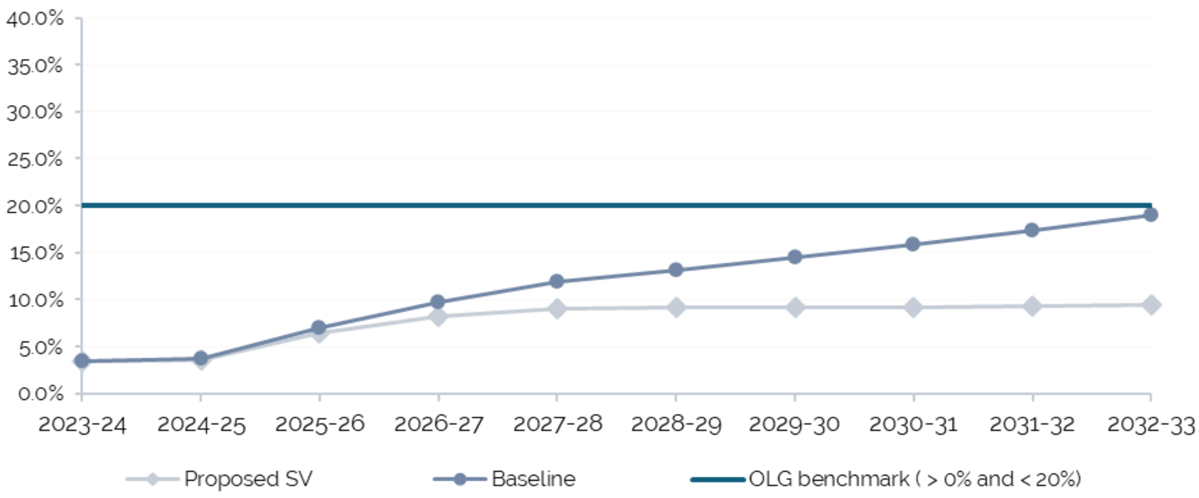
Impact on debt service ratio

Debt Service Ratio measures the portion of operating revenue dedicated to servicing debt.

Figure 4.5 shows that the council's current DSR is currently at 3.46%, well within the OLG's benchmark of between 0% and 20%. Over the next 9 years:

- **Under the Baseline Scenario**, the DSR would increase to 18.97%, approaching the top of the OLG's benchmark range over the decade. This increasing ratio means that without the SV, the council would need to dedicate a growing portion of its revenue to servicing debt, increasing the financial burden on the council's operational revenue.
- **Under the Proposed SV Scenario**, the DSR would also increase, but at a slower rate. It would reach just 9.38% over the same period, staying within the OLG's benchmark range. This means that with the SV the council would have better capacity to manage debt service costs without overextending its operational budget.

Figure 4.5 The council's debt service ratio (%)



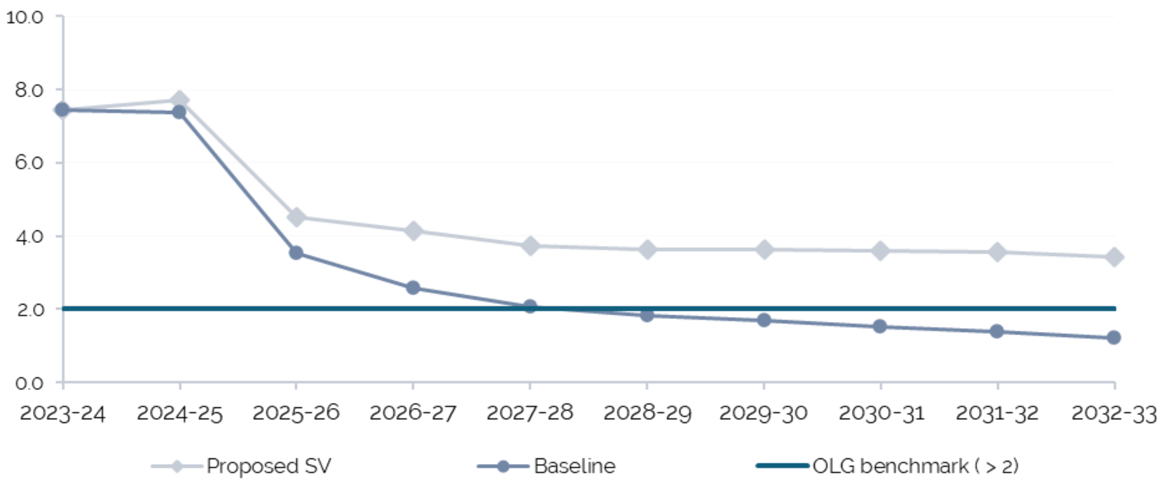
Source: Kempsey Shire Council, Response to Request for Information dated 25 Mar 2024.

Impact on debt service cover ratio

Figure 4.6 shows that the council's current DSCR is 7.45, well above the OLG benchmark of greater than 2. Over the next 9 years:

- **Under the Baseline Scenario**, the DSCR would fall to below the benchmark in 2028-29 and continue to decline over the forecast period. This suggests that without the SV, the council would have a declining ability to cover its interest expenses over time, creating further financial risk without intervention.
- **Under the Proposed SV Scenario**, the DSCR would also fall but would remain above the benchmark of greater than 2 throughout the forecast period. This suggests that the SV would significantly improve the council's capacity to service its debt and improve the council's financial health and sustainability.

Figure 4.6 The council's debt service cover ratio (%)



Source: Kempsey Shire Council, Response to Request for Information dated 25 Mar 2024.

Our findings on debt servicing ratios clearly indicate that the council has a financial need for additional income above the rate peg to maintain its financial sustainability over time.

4.4 Alternatives to the rate rise

We 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 these documents suggest the council has not fully explored alternatives to the proposed SV – including the potential to adjust service levels or sell assets (such as the Kempsey airport) to reduce its operating costs and improve its financial sustainability. For this reason, we found that while it had shown a financial need for an SV, it had not demonstrated a need for the full 42.70% increase over 3 years that it proposed.

For example, the LTFP provides information about forecast maintenance and financing costs associated with infrastructure renewals, with and without the SV. However, it does not appear that the council has fully explored the financing costs or assessed the costs and benefits of other alternatives to the proposed SV. Additionally, the LTFP does not describe difference in funding costs comparing T-Corp and other financial institutions. Similarly, it has not worked with the community to conduct a detailed review of its current assets and service levels to identify options for adjusting service levels that align with the community's needs and priorities.

Some of the specific details that we consider should have been clearly considered in the IP&R documents include:

- which key categories of assets in the Asset Management Plan are driving most of the cost and how they will be prioritised
- what are the currently maintained infrastructure service levels and their associated costs
- which services are less valued by the community and therefore could potentially be reduced
- which financing options are being considered to fund the budget deficit
- alternative strategies such as selling off assets like the Kempsey Airport.

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

5 Our assessment: OLG Criterion 2 - Community awareness

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

On balance, we found that the council did not meet this criterion. It did engage with and consult its community on the proposed SV. However, its consultation materials did not include key information that ratepayers required to be sufficiently aware of the need for and purpose of the proposed SV, including the consequences of not getting an SV. We have approved a different SV based on our assessment of this, and other criteria, as discussed in Chapter 10.

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 the full criterion.

To assess this criterion, we considered stakeholder comments about community awareness that we received through our feedback form and submissions, and we analysed the council's community engagement on the proposed SV.

The sections below discuss our assessment and why we found that the council did not meet this criterion.

5.1 Stakeholder comments on community awareness

In submissions to IPART and responses to our feedback form, a majority of stakeholders raised concerns related to the council's community consultation. These included concerns that the council:

- was not transparent in its consultation on the SV
- did not directly respond to their questions and concerns about the proposed SV
- did not make significant effort on non-internet communication methods
- was misleading and under-represented when it conducted a community survey of 300 respondents

- ignored community feedback by pursuing an SV, despite strong community opposition.

Further, in our feedback form, we asked respondents how much they agree or disagree with 4 statements about the community's awareness and understanding of the rate increase proposed by the council.

We received 637 responses. There were mixed views about whether the council had adequately communicated and provided opportunity for feedback, but the majority did not agree that the council considered the community feedback in its decision making. The full results are presented in Figure C.2 in Appendix C.

We considered these concerns, taking account of all the information available to us. Our assessment is discussed below.

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

5.2.1 Information provided to ratepayers

We found that the material the council provided to ratepayers about the proposed SV was limited. It did not clearly present key information ratepayers needed to understand that the underlying need for the proposed rate increases is to fund essential services and infrastructure maintenance, and without rate increases the council would increase its borrowings to fund this expenditure.

The council's consultation materials:

- briefly outlined the financial need for the SV[40]
- set out the full cumulative percentage increase of the proposed SV and the projected average rates in dollar terms for residential and business rating categories
- explained how to find out more information.

However, the council's IP&R documents and consultation materials had the following shortcomings:

- the Delivery Program does not set out the extent of the rate increase
- as discussed in our assessment of the council's financial need (section 4.2):
  - the LTFP does not clearly explain that most of the revenue from the proposed rate increases is required to fund additional expenditure on essential infrastructure renewal and maintenance

- the Asset Management Plan does not break down the additional expenditure on infrastructure maintenance across specific roads, community facilities, and commercial buildings, so ratepayers can understand whether the expenditure will provide services at the service levels they value
- the council did not clearly articulate that the difference between the Proposed SV and Baseline Scenarios is that, without the SV, it will need to borrow a larger amount to fund the additional infrastructure expenditure
- the council did not clearly explain the consequences of increasing its borrowings for its future operating costs and long-term sustainability.

As a result of these deficiencies, we found that the council did not provide sufficient information to ensure its community is aware of the need for and extent of the proposed rate rise.

5.2.2 Engagement methods used

Overall, we found that the council used an effective variety of online and direct engagement methods to inform ratepayers about the proposed rate change and to solicit their feedback. The council's community report stated these methods included:[41]

- direct postal distribution of "Our Financial Future" brochures to ratepayers
- a digital engagement platform and rate estimation tool, with 2 phases recording significant page visits and interactions
- publication and circulation of 16 news articles from the council's website, generating over 2,000 views, coupled with multiple TV, print, and radio engagements
- in-person engagements at local markets and through community presentations that reached around 400 residents
- information kiosks placed at strategic community locations such as the Customer Service Centre and the Kempsey Library
- an online submissions process that recorded a steady stream of feedback across 2 phases.

Some submissions to IPART questioned the council's commitment to genuine community consultation. For example, some suggested that the council's activities might have been more compliance-driven than a real effort to engage collaboratively with the community. Some of the specific views expressed included:

- The council's opt-in only digital communication strategy could have excluded a significant number of ratepayers from receiving information and being engaged in the consultation process.
- The council's representatives overlooked the community's input, creating an impression that, despite collecting submissions, substantial engagement with the content was lacking.
- The constrained timeframe allocated for reviewing submissions prior to the public forum and the final decision-making meeting suggests that feedback may not have been fully considered. This was reinforced by the observation that there were no meaningful changes from the initial draft to the final submission of the rate variation proposal, even in light of further community input.

5.2.3 Process for community consultation

The council consulted with the community from August to November 2023. We consider this consultation period provided enough opportunity for ratepayers to be informed and provide feedback on the proposal. From November 2023 until January 2024, the council exhibited a revised LTFP with the revised SV proposal, Strategic Asset Management Plan, Hardship Relief for Ratepayers and Debt Recovery Procedures.

5.2.4 Outcomes of community consultation

As noted above, 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.

We found that council did consider the results of its community consultation in applying for the SV. It considered the feedback it received at its 30 January 2024 council meeting.[42] It also produced an Engagement and Communications Report to address the results.[43]

The process involved two main phases:

- **Phase 1**:
  - Conducted from August to November 2023 to clarify the council's long-term financial plan and explore the necessity of a Special Rate Variation (SRV).
  - Enabled community feedback through a structured process of submissions and survey responses, providing insights into community perspectives on financial sustainability.
- **Phase 2**:
  - Initiated after reviewing community feedback from Phase 1, leading to the council's decision to apply for an SRV at a reduced percentage.
  - Included public exhibition of updated financial and strategic planning documents.

The key themes from Kempsey Shire Council's community engagement process were misconceptions about the council's ongoing financial responsibilities, expectations around reducing staffing costs, concerns about the Slim Dusty Centre's investment, and requests for greater financial transparency.[44]

The council reported the following Engagement Metrics[45]:

- the council's online survey received 667 responses
- the council received 271 written or emailed submissions
- its community forums attracted 380 attendees
- 15,000 copies of its "Our Financial Future" brochure were mailed out to ratepayers.
- council website received 2,231 views across 16 stories.
- the council engaged Micromex to conduct a random telephone survey, reaching 301 residents with a sample error rate of +/-5.6%
- the Your Say Macleay Website Portal recorded significant engagement, with thousands of page visits and document downloads across both phases.

The community's response to the proposed SV was largely negative, with many stakeholders opposed to the SV. Of those who opposed the SV, feedback included:

- preference for maintaining current levels of service without reductions
- concerns about the impact of rising living costs and affordability issues (particularly for pensioners and retirees)
- concerns about the council's financial management practices, including requests for greater financial transparency
- certain council projects such as the Kempsey Cinema and Slim Dusty Centre are not what the communities want
- the council could reduce its staffing levels.

The council responded to some of this feedback in its Engagement and Communications Report.[46]

For example, in relation to the Slim Dusty Centre, the council stated that:

- the ownership of the centre was transferred to the council at no cost or payment
- it pays the Slim Dusty Foundation Limited (SDFL) a fee of $50,000 per annum for the right to use the museum exhibits and artefacts, which generates more income than this fee through ticket sales
- future cost estimates for the purchase of the freehold land are included in its LTFP
- owning and operating the Slim Dusty Centre meets a need identified in its adopted Community Infrastructure Strategy and Arts and Culture Plan for additional arts, culture, and event spaces.

In relation to the Kempsey Cinema, the council stated that it had made a one-off financial contribution of $2 million in 2018 towards the construction of the Kempsey cinema, but it has no ongoing ownership, operating, or maintenance responsibility for the facility.

On its staffing levels, the council stated:

- it pays some staff wages above the Local Government (NSW) State Award to ensure it is competitive and able to attract staff to a regional location
- its staffing levels are impacted by a commitment to fill legislated roles, hire local trainees and apprentices, and employ temporary project managers over engaging expensive external consultants
- benchmarking against other councils indicates that its staffing levels are reasonable and not excessive.

In response to concerns about the affordability of the SV, the council revised its LTFP, and applied for an SV that included a lower increase in the first year and a lower cumulative increase than the options it consulted the community on.

We recognise that the council put effort into its community engagement and financial transparency. However, we consider that stakeholder feedback supports our finding that it did not provide enough clear information and detail for the community to be sufficiently aware of the need for the SV.

6 Our assessment: OLG Criterion 3 - Impact on ratepayers

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

On balance, we found that the council did not meet this criterion. While it did evaluate the relative wealth and financial capacity to pay across the Kempsey area, it did not show that the impact of its proposed SV of 42.70% over 3 years is reasonable. We found this impact would not be reasonable, given that Kempsey's socio-economic ranking is one of the lowest in the state, and several indicators suggest a significant proportion of its population may already be experiencing financial hardship or having difficulty paying their rates.

We have approved a different SV based on our assessment of this and other criteria, which is discussed in Chapter 10.

> 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 the full criterion.

To assess this criterion, we considered stakeholder comments on the SV's impact on ratepayers received through the feedback form and submissions and analysed the council's assessment of the impact of its proposed SV on ratepayers.

We then compared the current and proposed rate levels to similar councils along with the community socio-economic indicators, and balanced this with any measures the council has in place to mitigate impacts. Some impacts to consider include the level of services and/or asset maintenance requirements, which need to be balanced with the community's ability and willingness to pay.

The sections below discuss our assessment and why we found that the council did not meet this criterion.

6.1 Impact of the proposed SV on average rates

The council calculated the average impact on ratepayers. Table 6.1 sets out its expected increase in average rates in each main ratepayer category under the proposed 3-year permanent SV. It shows that from 2024-25 to 2026-27:

- the average residential rate would increase by $549 or 41.3% in total
- the average business rate would increase by $1,395 or 42.1% in total

- the average farmland rate would increase by $1,001 or 41.3% in total.

Table 6.1 Impact of the proposed special variation on average rates

	2023-24	2024-25	2025-26	2026-27	Cumulative increase
Residential average rates ($)	1,330	1,433	1,641	1,880	
$ increase		103	208	239	549
% increase		7.8	14.5	14.5	41.3
Business average rates ($)	3,316	3,576	4,104	4,711	
$ increase		260	528	607	1,395
% increase		7.8	14.8	14.8	42.1
Farmland average rates ($)	2,423	2,611	2,989	3,424	
$ increase		188	379	435	1,001
% increase		7.8	14.5	14.6	41.3

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

6.2 Stakeholder comments on impact on ratepayers

Almost all stakeholders who made submissions to us or completed our feedback form expressed concerns about the affordability of the proposed SV and associated rate increases. Some commented that the proposed rate increases would:

- lead to financial hardship
- be poor timing in the current economic climate due to increasing costs of living and mortgage stress
- have a significant impact on pensioners and farmers.

In our feedback form, we asked respondents how much they agreed or disagreed with 4 statements about the affordability of the proposed rate increases. Almost all 637 respondents said they disagreed or strongly disagreed that the rate increase was affordable. Similarly, most disagreed or strongly disagreed that the council's application considers financial constraints of ratepayers, considers different options to reduce the financial impact on ratepayers, or balances the community's need for services and its impact on ratepayers. The full results are presented in Figure C.3 in Appendix C.

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 proposed SV will add to those.

6.3 The council's assessment of the proposed SV's impact on ratepayers

The criterion requires that the Delivery Program and LTFP show the impact of any rate rises upon the community, demonstrate 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.

6.3.1 The council's IP&R documents

We found that the council's LTFP clearly shows the impact of the proposed SV on average rates in each rating category in each year of the proposed SV period. The LTFP also clearly shows the total (cumulative) dollar increase per rating category with the proposed SV.

However, the Delivery Program does not outline the impact of the proposed SV on rates.

6.3.2 The council's consideration of capacity to pay

The council's capacity to pay analysis evaluates relative wealth and financial capacity to pay the proposed rate increase within the Kempsey local government area (LGA). It also examines the financial vulnerability and exposure of different community groups within the LGA.

The report's findings include that:

- Kempsey LGA's socio-economic landscape has significant levels of disadvantage, with a SEIFA IRSAD percentile of 9%.[47] The residents include a high percentage of renters (25%) and social housing occupants (8%), who may be minimally impacted by the council's proposed SV options.
- There are areas of significant disadvantage, with the lowest quartiles of equivalised household income and the lowest average SEIFA scores. The report said this emphasised the for the council to consider the impact of the proposed rate rises on vulnerable groups but consider that an appropriate hardship policy is sufficient to manage this impact, suggesting some level of capacity to pay.
- Ratepayers in the "Coastal North" and "Rural (West)" areas, which have low socio-economic rankings and high levels of mortgage stress, are anticipated to face average rate increases by the end of the SV period. However, the report found these ratepayers have a capacity to pay with the right support mechanisms in place.
- Ratepayers in the "Coastal South" and "Aldavilla – Airport" areas have higher levels of advantage, with relatively higher income levels and homeownership rates, which indicates the capacity to pay.
- The capacity to pay varies significantly across the LGA, necessitating policies that offer support to those in disadvantaged areas while recognising the greater financial resilience in more affluent regions.

The report concludes that an outstanding rates and charges ratio below the OLG benchmark is an indicator for willingness to pay rates. However, it does not provide an argument to support this. We have assessed that a low outstanding rates and charges ratio does not meet the definition of willingness to pay as described in the OLG guidelines. We also disagree with the council's assessment that "there are significant levels of advantage within the Kempsey LGA".[48]

6.4 Our analysis of the proposed SV's impact on ratepayers

To assess the reasonableness of the impact on ratepayers, we considered:

- how the council's rates have changed over time
- how current and proposed rates compare to councils in similar circumstances
- the community's capacity to pay based on census data and hardship data from the council
- what hardship provisions the council has in place to mitigate the impact.

While the rates (after the SV) might align with those of similar councils, Kempsey's lower SEIFA ranking and average income standing requires careful consideration of their impact on the most financially vulnerable groups.

6.4.1 How the council's rates have changed over time

Over the past 5 years, the average annual growth in the council's residential rates has been slightly higher than the rate peg due to previous SVs as discussed in Chapter 9. As Table 6.2 shows, residential rates have increased at an annual average rate of 2.8%, compared to the average rate peg of 2.4% over the same period.

Table 6.2 Historical average rates in Kempsey Shire Council ($ nominal)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average annual growth (%)
Residential	1,160	1,201	1,273	1,275	1,300	1,330	2.8
Business	2,653	2,653	2,634	2,619	2,671	3,316	4.6
Farmland	2,067	2,118	2,108	2,095	2,137	2,423	3.2

Note: 2022-23 rates are an estimate based on 2021-22 rates escalated by the rate peg or the council's SV.
Source: OLG, Time Series Data 2021-22, Kempsey Shire Council, application Part A, IPART calculations

6.4.2 How the council's rates compare to other councils

We compared the council's average rates currently, and what they would be with the proposed SV, with those of neighbouring and comparable councils. We have considered this together with the socio-economic data comparisons set out below to help us assess the reasonableness of the proposed rate increase.

Box 6.1 provides more information about how we compared councils.

Box 6.1 Comparable councils

In our analysis of rate level and capacity to pay indicators, we have compared Kempsey Shire Council to other councils in several ways.

Other councils with similar Socio-Economic Indexes for Areas (SEIFA) rank

SEIFA ranks areas in Australia according to relative socio-economic factors. It is developed by the Australian Bureau of Statistics using 2021 census results. We considered the 'Index of Relative Socio-economic Advantage and Disadvantage' which includes 23 variables covering income, household make-up, housing, education levels and employment.

Kempsey Shire Council has a SEIFA rank of 3 out of 128 NSW councils.[49] A lower number means more relative disadvantage.

We have compared the council's average rates with those of other regional councils with a similar SEIFA rank to help us assess how reasonable they are. The 4 regional councils with the closest SEIFA rank are Richmond Valley, Broken Hill, Cessnock and Clarence Valley.

Office of Local Government (OLG) groups

The OLG groups similar councils together for comparison purposes. This is based on broad measures such as level of development, typical land use and population.

Councils in each group may have some similarities in service levels and costs, although there can be some broad differences within each OLG Group.

Kempsey Shire Council is in OLG Group 4, which is considered a 'regional town/city area with population of less than 70,000'.[50] Group 4 has 26 councils in total, including Kempsey Shire Council.

Neighbouring councils

Comparing to neighbouring and nearby council areas can help ratepayers assess the level of rates they pay as they may be better able to also see differing service levels across councils.

The councils we have used for this comparison are Port Macquarie-Hastings, Nambucca, Armidale Regional, and Bellingen. We consider these councils are geographically close to, but do not necessarily share a common border.

As Table 6.3 and Table 6.4 show:

- By the end of the proposed SV period in 2026-27, the council's average residential rates will rise to $1,880, placing them among the highest when compared to both local and SEIFA comparable councils.
- Currently, Kempsey Shire Council's average business rates are notably lower than the highest figures seen in neighbouring councils such as Port Macquarie and Armidale Regional, yet they are above weighted average when comparing against SEIFA comparable councils. By 2026-27, Kempsey's business rates are projected to rise to $4,711 following the SV. This surpasses the projected weighted averages and approaches the top among comparable regions.
- Current farmland rates are slightly lower compared to the weighted average of neighbouring councils and remain so at the proposed SV's conclusion in 2026-27.
- Farmland rates are higher than the average of SEIFA comparable councils and will approach the top alongside Cessnock by the 2026-27.

Note some of the differences above may be due to timing of recent rate increases (or lack thereof), and forecasts for future years may change as some comparable councils apply for SVs.

Table 6.3 Comparison of the council's average residential rates under the proposed SV

Council	Average residential rate ($)			
	Current	2024-25	2025-26	2026-27
Kempsey Shire Council (OLG Group 4)	1,330	1,433	1,641	1,880
Neighbouring councils				
Port Macquarie-Hastings	1,331	1,392	1,427	1,462
Nambucca	1,138	1,190	1,219	1,250
Armidale Regional	1,274	1,487	1,734	1,778
Bellingen	1,489	1,608	1,705	1,807
Average	**1,307**	**1,399**	**1,476**	**1,518**
Comparable councils (SEIFA)				
Richmond Valley	1,221	1,277	1,309	1,342
Broken Hill	1,170	1,227	1,258	1,289
Cessnock	1,345	1,417	1,452	1,489
Clarence Valley	1,334	1,397	1,432	1,467
Average	**1,301**	**1,366**	**1,400**	**1,435**
Group 4 average (excl. Kempsey Shire Council)	**1,324**	**1,430**	**1,507**	**1,557**

a. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. To derive the 2023-24 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23 and 2023-24 rate peg, or if applicable, its approved SV.
c. To derive the 2024-25 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2024-25 for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2021-22; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

Table 6.4 Comparison of the council's average business and farmland rates under the proposed SV

Council	Average business rate ($)				Average farming rate ($)			
	Current	2024-25	2025-26	2026-27	Current	2024-25	2025-26	2026-27
Kempsey Shire Council (OLG Group 4)	3,316	3,576	4,104	4,711	2,423	2,611	2,989	3,424
Neighbouring councils								
Port Macquarie-Hastings	4,167	4,359	4,468	4,580	2,253	2,357	2,416	2,476
Nambucca	2,006	2,097	2,149	2,203	2,203	2,302	2,359	2,418
Armidale Regional	4,637	5,410	6,311	6,469	4,050	4,725	5,512	5,650
Bellingen	1,490	1,610	1,706	1,809	3,239	3,498	3,708	3,930
Average	**3,628**	**3,905**	**4,151**	**4,261**	**3,114**	**3,475**	**3,857**	**3,968**
Comparable councils (SEIFA)								
Richmond Valley	3,284	3,435	3,521	3,609	1,994	2,085	2,137	2,191
Broken Hill	6,808	7,142	7,321	7,504	1,157	1,214	1,244	1,275
Cessnock	4,104	4,322	4,430	4,541	3,109	3,274	3,356	3,440
Clarence Valley	3,287	3,441	3,527	3,615	1,803	1,888	1,935	1,984
Average	**4,073**	**4,275**	**4,382**	**4,491**	**2,108**	**2,209**	**2,265**	**2,321**
Group 4 average (excl. Kempsey Shire Council)	**4,409**	**4,767**	**5,036**	**5,190**	**2,716**	**2,940**	**3,111**	**3,217**

a. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. To derive the 2023-24 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23 and 2023-24 rate peg, or if applicable, its approved SV.
c. To derive the 2024-25 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2024-25 for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2021-22; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

6.4.3 Socio-economic indicators, hardship, and outstanding rates data

We considered some socio-economic indicators to understand the community's capacity to pay and levels of vulnerability in the community. We considered these together with the average rate levels set out above, and the hardship assistance available to vulnerable ratepayers.

This assessment focusses on residential rates. Residential ratepayers represent the majority of ratepayers.[h]

Our approach is explained in Box 6.2 and our analysis is presented below.

h Note that our assessment looks at the community as a whole and does not distinguish between those that directly pay rates and those that may indirectly be impacted.

Box 6.2 How we assessed capacity to pay

To help us understand the impact on residential ratepayers, we have considered select socio-economic indicators and compared these to the councils outlined in Box 6.1. We also collected historical hardship and outstanding rates data from the council. These provide an indication of the ability to pay additional increases and are useful to consider together with the rate comparison.

Socio-economic indicators from 2021 census

We considered:

- the median income levels, and the ratio of average residential rates to median household income, which are indicators of capacity to absorb cost increases.
- the proportion of people on select Government payments[i], which could be an indicator of levels of vulnerability as recipients may generally be on lower and fixed incomes.
- the level of outright home ownership, where higher home ownership may indicate that a household may have more capacity to pay, as mortgage or rent payments do not need to be covered.
- the proportion of occupied private dwellings where 30% or more of the household's imputed income is put towards housing costs can be an indicator of cost-of-living pressures. However, putting 30% or more of a household's imputed income towards housing may not always be a sign of financial stress. A household may choose to make more mortgage repayments or reside in a more expensive area and have a sufficiently high income.

We also note that interest rates and cost of living have increased since this data was collected in the 2021 census.

Hardship applications and outstanding rates

We collected 5 years of historical data related to ability to pay rates to understand trends in the area. This was:

- how many hardship applications were made
- how many ratepayers were on a hardship policy
- the value of rates ($) that were outstanding as at 30 June.

We note these indicators can apply to very small proportions of the population.

[i] These are the Age Pension, Disability Support Pension and JobSeeker Payment.

Kempsey Shire Council has a challenging socio-economic environment compared to comparable councils. For example, our findings (shown on Table 6.5) include:

- The median annual household income in the Kempsey LGA is $56,420. This is lower than in most comparable LGAs.
- The ratio of average residential rates to median household income in Kempsey is currently 2.4%, which is higher than the average for neighbouring councils (2.1%), councils with a similar SEIFA rank (2.0%). This indicates that rates already place a relatively high financial burden on Kempsey households, compared to households in comparable areas (without the proposed SV).
- The outstanding rates ratio in the Kempsey area is 9.4%. While this is below the OLG benchmark of 10%, this is significantly higher than the average across neighbouring councils (4.3%) and other councils in its OLG group (6.6%), and close to the average for councils with a similar SEIFA score (9.2%). This may indicate that a significant proportion of households already have difficulty paying their rates (without the proposed SV).

In addition, the proportion of the population in the Kempsey area who receive select Centrelink pensions is higher than comparable councils, at 30.3%. This suggests a significant portion of the community may be experiencing financial hadship.

The proportion of households that pay more than 30% of their household income in mortgage or rent payments in Kempsey is 15%. This indicates that a significant proportion of households may be experiencing housing stress and necessitates careful consideration of rate increases to avoid exacerbating financial pressure on vulnerable ratepayers.

Table 6.5 Comparison of the council's socio-economic indicators

	Median annual household income ($)[a]	Current average residential rates to median household income ratio (%)[b]	Outstanding rates and annual charges ratio (%)[c]	Proportion of population in receipt of select Government payments (%)[d]	Proportion of households that pay more than 30% of income towards housing costs	Dwelling owned outright (%)[f]
Kempsey Shire Council (OLG Group 4)	56,420	2.4	9.4	30.3	14.8%	45.3
Neighbouring councils						
Port Macquarie-Hastings	65,676	2.0	5.2	26.3	15.6%	42.5
Nambucca	50,752	2.2	3.7	32.9	14.7%	48.3
Armidale Regional	73,008	1.7	5.4	18.4	15.1%	34.6
Bellingen	62,244	2.4	3.1	25.5	14.8%	48.0
Average	**62,920**	**2.1**	**4.3**	**25.6**	**15.3%**	**43.4**
Comparable councils (SEIFA)						
Richmond Valley	59,124	2.1	4.8	28.4	14.7%	40.5
Broken Hill	60,996	1.9	15.2	29.0	9.0%	42.0
Cessnock	77,636	1.7	6.9	19.7	15.7%	31.5
Clarence Valley	58,396	2.3	9.8	29.4	14.2%	45.2
Average	**64,038**	**2.0**	**9.2**	**25.3**	**14.2%**	**39.8**
Group 4 average (excl. Kempsey Shire Council)	**78,364**	**1.7**	**6.6**	**19.9**	**13.4%**	**37.5**

a. Median annual household income is based on 2021 ABS Census data.
b. The 2023-24 average rates for comparable councils are calculated based on the OLG's time series data as at 2021-22 (latest available data) escalated by a Council's 2022-23 and 2023-24 rate pe or approved SV, as relevant.
c. The Outstanding rates and annual charges ratio (%) is derived from the OLG's Rates & Annual Charges Outstanding Percentage for the General Fund as at 2021-22 (latest available data). The formula is 'rates and annual charges outstanding ($) divided by 'rates and annual charges collectible' ($).
d. Proportion of population in receipt of select Government payments (%) is based on the total number of Age Pension, Disability Support Pension and the JobSeeker Payments *divided by* the estimated regional population from the 2021 ABS Data by Region.
e. Proportion of occupied private dwellings where 30% or more of the household's imputed income is put towards housing costs payments is calculated by the following formula = [households where mortgage repayments are more than 30% of the imputed household income (no.) + households where rent repayments are more than 30% of the imputed household income (no.)] / total occupied private dwellings (no.). These measures are from the 2021 ABS Data by Region.
f. Dwelling owned outright (%) is from the 2021 ABS Data by Region.

Source: OLG, Time Series Data 221-22; ABS, Socio-economic Indexes for Areas (SEIFA) 2021, March 2023; ABS, 2021 Data by Region, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

Historical hardship and outstanding rates data

We collected historical data on outstanding rates and ratepayers accessing hardship provisions. Recent trends give an indication of ratepayers' ability to pay current rate levels and potentially the impact of other costs increases.

We found that over the last 5 years, the council's overdue rates represented 7-9% of the total dollar value of its annual rates revenue, and 15-20% of its total number of rates notices.[j][51] We consider these are sizable proportions.

Despite this, we found that over the same period, the number of ratepayers on hardship provisions has remained low (less than 10 each year).

6.5 The council's hardship policy and availability of concessions

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers, including pensioners and single-income families. However, our analysis on the council's historical hardship and outstanding rates data, above, suggests its current policy may not be effective in doing this.

In particular, the low number of applications for hardship provisions the council has received in recent years together with the relatively high percentage of rates notices that are overdue suggests that either ratepayers are unaware of the policy, see limited benefits or find the application process challenging.

We recommend the council review the criteria for assessment and whether they are too stringent or not well-aligned with the socio-economic realities of its residents.

We note that in response to the feedback received from the SV consultation, the council has updated its Hardship and Debt Recovery Procedures.[52]

[j] This is different to the outstanding rates and annual charges ratio (%) mentioned in Table 6.5, which is based on dollar values (see note c of Table 6.5). The overdue rates percentage is calculated by dividing the total number of overdue rates (count) over the total number of issued rates (count).

7 Our assessment: OLG Criterion 4 - IP&R documents

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

We found that the council met this criterion. It exhibited (where required), approved and adopted its Integrated Planning & Reporting (IP&R) documentation appropriately.

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

Note: See Appendix A for the full criterion.

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

The relevant IP&R documents are described in Box 7.1. The council's LTFP is available on its website.

The council:

- exhibited its current Community Strategic Plan from 6 December 2021 - 27 February 2022, and adopted it on 26 April 2022
- exhibited its current Delivery Program from 21 April 2023 to 21 May 2023 and adopted it on 27 June 2023
- exhibited its current LTFP from 22 November 2024 to 19 January 2024 and adopted it on 30 January 2024.The adopted LTFP is available on the council's website
- exhibited its current Asset Management Strategy November 2023 to 19 January 2024 and adopted it on 30 January 2024
- submitted its SV application on 5 February 2024.

Box 7.1 Integrated Planning & Reporting (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 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

8 Our assessment: OLG Criterion 5 - Productivity and cost containment strategies

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

We found that the council met this criterion. It explained and quantified the productivity improvements and cost containment strategies it has realised and plans to realise between 2024-25 and 2026-27.

Criterion 5 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 years of the proposed SV.

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.

Note: See Appendix A for the full criterion.

To assess this criterion, we considered stakeholders' comments on the council's productivity and cost containment strategies that we received through the feedback form and submissions, 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.

8.1 Stakeholder comments on productivity and cost containment

Stakeholders who provided feedback to IPART expressed concerns about council inefficiencies, productivity, and cost containment. Some submissions to IPART put the view that it:

- has not fully utilised strategies to reduce its operational costs, particularly in maintenance and enhancing town appeal to boost tourism
- has spent on non-essential or poorly executed projects, such as the failed cinema and Slim Dusty Centre investments, which they said indicate broader financial management issues
- needs to prioritise efficient delivery of essential services, provide greater transparency, and conduct a thorough review of its operations to identify and eliminate waste.

Further, in our feedback form, we asked respondents how much they agree or disagree with 3 statements about the council's efficiency and communication of cost-saving strategies.

Of the 637 responses, around half disagreed or strongly disagreed that the council is effective in providing infrastructure and services for the community or had explained past and future cost-saving strategies. The full results are presented in Figure C.4 in Appendix C.

8.2 The council's realised and proposed savings

Kempsey Shire Council told us its strategic initiatives and future plans aim to improve its financial sustainability through cost savings and operational efficiencies.[53] Its 2018 'Rebuilding the Shire Strategy', 2019 'Corporate Improvement Program', and 2019 – 2024 'Share the Vision Digital Transformation' strategies developed a culture of productivity and cost savings within the organisation. For example, it:

- holds quarterly leadership forums with a focus on system reviews
- provides quarterly reports to the council, and the public, that outline the outcomes of the Ongoing Financial Sustainability Strategy and Roadmap.

The council listed recent initiatives to improve its productivity and contain costs, including:

- operational restructuring and system modernisation, which have led to substantial savings, including $600,000 annually from reduced managerial positions and $5.6 million in total annual ongoing savings (which is 9.2% of the council's 2023-24 general fund operational expenditure of $60.8 million[54])
- investments in technology, such as payroll systems and solar/LED installations, alongside strategic asset management, which have improved efficiency and reduced costs
- proactive energy and property management strategies, which have locked in lower energy costs and generated additional income.

It also outlined future planned initiatives, including:

- continued focus on financial sustainability through treasury management, enhanced grant strategies, service reviews, and innovation to identify further savings
- community engagement and service reassessment, particularly the financial review of Kempsey Airport, with the aim of reducing operational costs and addressing future capital expenditure challenges.

The council said these efforts demonstrate its commitment to financial efficiency and sustainability, balancing cost containment with service delivery amidst rising operational challenges.

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

We found that the council:

- demonstrated that it has delivered significant productivity improvements and cost containment
- outlined strategies and activities for further improving its productivity and efficiency, but has not proposed an additional efficiency dividend in its application or its LTFP.

Although there were shortcomings with its planned initiatives, on balance, when assessed with the council's savings to date, we assess that it has met this criterion.

8.3.1 Productivity and cost containment strategies to date

We consider the council has made some significant productivity and cost containment gains to date. In its SV application, it estimates that, over the last 10 years, it has delivered an average of $5.6 million of annual ongoing cost savings and revenue improvements, with a further $343,000 in one-off cost savings.[55] This equates to about 9.2% of the council's total expenses.[56]

The application indicates that the savings are result of the following initiatives:

- 2018-19 Restructure (reducing 2 directors and 3 managers)
- 2018-21 Workers Compensation Insurance cost reduction
- 2019-20 Definitiv (payroll system) implementation
- 2021-22 Installation of Solar and LED lights
- 2020-21 Saleyards leased out
- 2021-22 Depreciation reduction
- 2021 Ongoing Power Purchasing Agreement
- 2021-22 Sale of Vacant Land
- 2022 Electricity tariff optimisation assessment
- 2022-23 Relocation of Visitor Information Centre (VIC)
- 2022-23 Holiday Park profitability
- 2022-23 Microsoft Enterprise
- 2022-23 LED Street light replacement program.

We note that following our request for information, Kempsey Shire Council provided the evidence to show an annual saving of $500,000 per year in its LTFP as supporting material for this criterion.[57] This document provides information on how the council's current 9.2% in specific productivity and cost containment strategies is reflected in the coming ten years.

8.3.2 Planned productivity and cost containment strategies

We found that the council outlined strategies and activities for further improving its productivity and efficiency in its application. These are:

- continuing quarterly efficiency reporting
- using the Audit Risk & Improvement committee to drive productivity and cost containment
- adopting Treasury Management policies
- adopting a Grant Funding strategy to fund Delivery Program and Operating Plan
- prioritising a service review framework for service reductions and cost containment
- developing a staff innovation portal
- reviewing its legal responsibilities in relation to Kempsey Airport.

However, the council did not quantify future productivity and cost containment savings in its application or LTFP. The council has stated that these initiatives have "not been specifically included in the LTFP as the financial benefits are not certain and have not yet been quantified. Any savings identified from the undertaking of these initiatives will be included in future iterations of the LTFP and to the extent that these savings are material, it may allow a reduction in future rate increases to ratepayers."[58]

8.4 Indicators of the council's efficiency

We examined indicators of the efficiency of the council's operations and asset management processes, including how its efficiency has changed over time and how its performance compares with that of similar councils. This data is presented in Table 8.1 and Table 8.2 below.

We found that between 2017-18 and 2021-22, the council's:

- number of full time equivalent (FTE) staff, on average, has grown by 6.3% each year
- average annual cost per FTE increased by an average of 0.1% nominal per annum
- employee costs as a percentage of operating expenditure have remained stable at approximately 3%.

We also found that the council has:

- more staff per population than the Group 4 average – it has one FTE for every 89.6 residents, whereas the Group 4 average is one FTE for every 107.7 residents
- operating expenditure per capita is lower than the Group 4 average.

The council noted that for 2017-18 employment figures are lower because it did not undertake any hiring until a new management team commenced and it completed the subsequent organisational restructure. It also explained that the increase in FTE numbers of 2021-22 was result of additional temporary FTE staff to deliver grant funded infrastructure following natural disasters.[59]

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

Table 8.1 Trends in selected indicators for Kempsey Shire Council

Performance indicator	2017-18	2018-19	2019-20	2020-21	2021-22	Average annual change (%)
FTE staff (number)	269	314	311	318	344	6.3
Ratio of population to FTE	109.8	94.5	95.6	94.1	89.6	-5.0
Average cost per FTE ($)	76,736	73,038	82,225	79,805	77,093	0.1
Employee costs as % of operating expenditure (General Fund only) (%)	32.3	33.4	35.6	37.2	36.4	3.0

Source: OLG, Time Series Data 2021-22, IPART calculations.

Table 8.2 Select comparator indicators

	Kempsey Shire Council	OLG Group 4 Average	NSW Average
General profile			
Area (km2)	3,376	4,176	5,545
Population	30,816	38,967	63,480
General Fund operating expenditure ($m)	57.8	81	95.2
General Fund operating revenue per capita ($)	2,602	2,666	na
Rates revenue as % of General Fund income (%)	34.2	35	44.5
Own-source revenue ratio (%)	47.2	54	64.4
Productivity (labour input) indicators			
FTE staff	344.0	361.7	384.6
Ratio of population to FTE	89.6	107.7	165.1
Average cost per FTE ($)	77,093	89,567	98,132
Employee costs as % of operating expenditure (General Fund only) (%)	36.4	35	37.5
General Fund operating expenditure per capita ($)	1,877	2,081	1,499

Source: OLG, Time Series Data 2021-22 and IPART calculations.

9 Our assessment: OLG Criterion 6 - Any other matter that IPART considers relevant

Criterion 6 provides that 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 in recent years, and if so, whether the council has complied with any conditions attached to that SV.

IPART has granted several SVs to the council, each tailored to address specific funding needs. Each SV had been reviewed for past compliance, with the most recent being the Additional Special Variation (ASV) of 2.00% for 2022-23.

Historical SVs include:

- In 2012-13, a permanent increase of 11.37% was approved under section 508(2), generating additional revenue of $1,366,376 for the year to enhance road works and maintenance efforts.[60]
- A permanent SV was granted in 2014-15 under section 508A, spread over four years, cumulating a 37.54% increase.[61] This SV, yielding $10 million in additional income over the four years, aimed to reduce a substantial infrastructure backlog on roads and bridges.
- The 2018-19 approval under section 508(2), temporary for 10 years, allowed for a 6.50% one-time increase, contributing $8.8 million towards continuing environmental restoration projects.[62]
- A permanent ASV of 2.00% for the 2022-23 year, aimed at compensating for the low rate peg of 0.8%.[63]

The council has consistently complied with IPART's conditions tied to these SV approvals, particularly the requirement to report in the annual report:

- detailed comparisons of actual revenues, expenses, and operating results against projections provided in SV applications
- explanations for any significant variances between actual and projected financial outcomes
- the specific additional income generated by each SV.

Our review of the council's annual reports up to and including the 2022-23 period confirms compliance with these reporting requirements. Through these SVs, the council has demonstrated a structured approach to addressing its financial challenges and funding critical infrastructure and environmental projects, enhancing the community's overall well-being and sustainability.[64]

10 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 feedback, we have not approved the council's application in full. Instead, we have approved a 2-year permanent SV of 24.09%, which aligns with the first 2 years of the council's proposed SV.

The approved increase to general income is set out in Table 10.1 below.

Table 10.1 IPART's decision on the special variation to general income (%)

	2024-25	2025-26
Annual percentage increase	7.9	15
Cumulative increase		24.09

Source: IPART calculations.

Our *Instrument Under Section 508A of the Local Government Act 1993 - Special Variation Instrument - 2024-25 - Kempsey Shire Council* gives legal effect to this decision and sets out the conditions of approval.

10.1 Reasons for our decision

Our assessment found that the council met 4 of the OLG SV criteria. However, after considering our findings against all the criteria together, we are not satisfied that it has done enough to justify its proposed SV.

In particular, we are concerned about the balance between the council's financial need for the SV on one hand, and the community's understanding of the need for the proposed rate rises and their impact on ratepayers on the other hand:

- **The council did broadly demonstrate a financial need for an SV to maintain its financial sustainability** while continuing to provide services and maintain infrastructure required by its community (criterion 1). However, it did not demonstrate that it needs the full 42.70% increase it proposed over 3 years. This is because it could continue to explore alternatives to this proposed increase over the next 2 years. This could reduce the size of the rate increase required beyond this period.
- **The council did not demonstrate the community is aware of the need for and extent of the proposed rate increases** (criterion 2). It did engage with and consult its community on the proposed SV. However, its consultation materials did not include key information that ratepayers required to properly understand why the rate rise is necessary, and the specific expenditure priorities driving the size of the increase. For example, it did not clearly explain that without the SV, it will have to increase its borrowings to fund its infrastructure priorities, and that the cost of servicing this additional debt will approach 20% of its operating revenue by 2032-33.

- **The council did not show the impact of the proposed SV on ratepayers is reasonable** (criterion 3). It did evaluate the relative wealth and financial capacity to pay across the Kempsey area. It concluded its community has both capacity and willingness to pay the proposed rate increases, provided that support is available for those with higher levels of disadvantage. However, this conclusion is not well supported by the council's analysis. Our assessment found that currently its average residential rates are slightly higher than the average for neighbouring and comparable councils. However, by the end of the proposed 3-year SV period, they would be significantly higher than the averages for those councils. We note it has more disadvantage than 122 council areas in the state (out of the total of 128).

Our decision to approve a 2-year SV of 24.09% instead of the proposed 3-year SV of 42.70% reflects the council's clear need for additional income while also taking account of the shortcomings in its application and community feedback on the proposed SV.

Our decision will allow the council to maintain a stable financial position over the next 2 years, while it undertakes the work required to establish whether it can reduce its costs and improve its financial sustainability through alternative means. For example, this work should include conducting a thorough review of the alternatives to further rate rises, transparently communicating the review's findings to the community, and consulting them to understand their preferences and willingness to pay.

We consider the impact of our decision on ratepayers is reasonable. With the approved SV, the council's average residential rates will be in line with the average for neighbouring councils and slightly higher than comparable councils. We note that the council has a hardship policy in place to assist ratepayers experiencing difficulty paying their rates.

We considered approving a temporary SV but found this is not a sustainable solution for addressing the council's systemic operational deficit and financing challenges.

10.2 We have put conditions on the special variation

The special variation is subject to the following conditions:

- The council use the additional income for the purpose of funding the proposed program.
- The council report in its annual report for each year from 2024-25 to 2030-31 (inclusive):
  - the program of expenditure that was actually funded by the additional income, and any differences between this program and the proposed program;
  - any significant differences between the council's actual revenues, expenses and operating balance and the projected revenues, expenses and operating balance as outlined in the Long-Term Financial Plan, and the reasons for those differences;
  - the outcomes achieved as a result of the additional income;
  - whether or not the council has implemented the productivity improvements, and
    - i if so, the annual savings achieved through these measures, and what these equate to as a proportion of the council's total annual expenditure; and
    - ii if not, the rationale for not implementing them; and

  – any other productivity 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.

10.3 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 told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 10.2 below.

This shows that from 2024-25 to 2025-26, 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 $311 or 23.4%
- the average business rate would increase by $788 or 23.8%
- the average farmland rate would increase by $566 or 23.4%.

Table 10.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2025-26)

	2023-24	2024-25	2025-26	Cumulative increase
Residential average rates ($)	1,330	1,433	1,641	
$ increase		103	208	311
% increase		7.8	14.5	23.4
Business average rates ($)	3,316	3,576	4,104	
$ increase		260	528	788
% increase		7.8	14.8	23.8
Farmland average rates ($)	2,423	2,611	2,989	
$ increase		188	379	566
% increase		7.8	14.5	23.4

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

10.4 Impact on the council

Our decision means that the council may increase its general income by $1.9 million in 2024-25, and $3.9 million in 2025-26 and retain this in the rate base permanently.

Table 10.3 shows the percentage increases we have approved and estimates of the annual increases in the council's permissible general income.

Table 10.3 Permissible general income of council from 2024-25 to final year from the approved SV

	2024-25	2025-26
Increase approved (%)	7.90	15.00
Cumulative increase approved (%)		24.09
Increase in PGI ($'000)	1,890	3,871
Cumulative increase in PGI ($'000)		5,761
PGI ($'000)	25,808	29,679

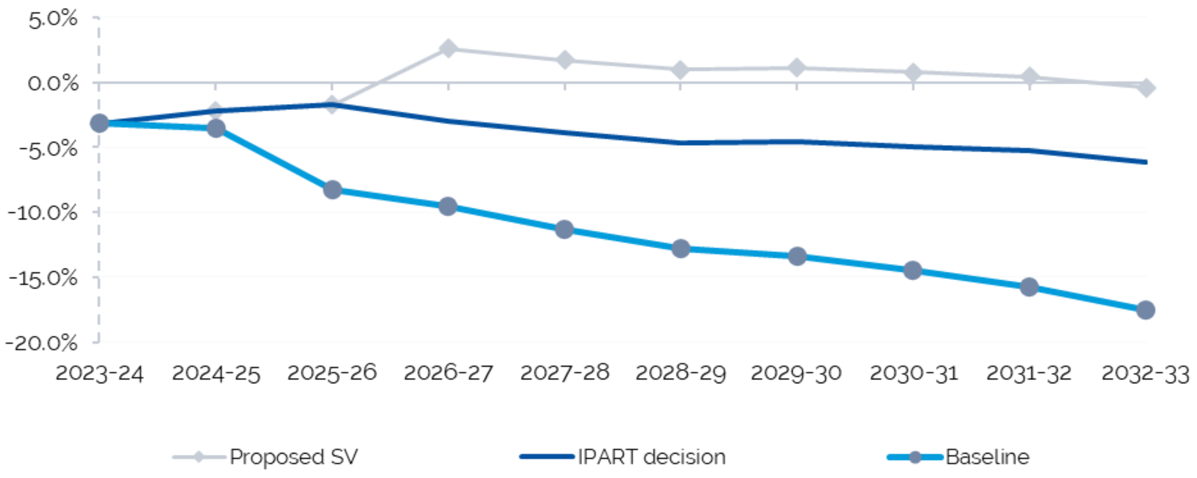
Source: IPART calculations.

This extra income will enable the council to:

- be more financial sustainable
- undertake its proposed infrastructure maintenance and renewals through borrowings.

With the SV, the council's projected OPR will improve and reach around -1.7% in 2025-26, which is below, but closer to the OLG benchmark of greater than 0%.

Figure 10.1 The council's OPR under IPART's decision 2023-24 to 2032-33



Source: Kempsey Shire Council, Application Part A and IPART calculations.

Appendices

A Assessment criteria

A.1 Special Variations assessment materials

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:

1. 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
2. there must be evidence that the community is aware of the need for and extent of a proposed rate rise
3. the impact on affected ratepayers must be reasonable
4. the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
5. the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
6. any other matter that IPART considers relevant.

We also provide comprehensive guidance on our approach to assessing special variation applications. This includes information for councils on our expectations of how to engage with their community on any proposed rate increases (see our guidance booklet).

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 canvass 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[k]:

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

[k] 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 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 guidance booklet 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[1] 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.

Criterion 6: Any other matter that IPART considers relevant

Any other matter 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.

[1] 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 Kempsey Shire Council projected revenue, expenses and operating balance

Our analysis of the council's productivity and cost containment can be found in Chapter 8 of this report.

As a condition of IPART's approval, the council is to report until 2030-31 against its proposed SV expenditure and projected revenue, expenses and operating balance as set out in its LTFP (see Table B.1 and Table B.2). It also needs to report on its progress against productivity improvements and cost containment strategies that it set out in its application and are summarised below.

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.

Productivity improvements and cost containment strategies

As set out in the council's response in section 7.3(a) of its SV Part B application to us, it included:

- Continuation of their quarterly efficiency reporting
- Using the Audit Risk & Improvement committee to drive productivity and cost containment
- Adopt Treasury Management policies
- Grant Funding strategy to fund Delivery Program and Operating Plan
- Prioritised service review framework for service reductions and cost containment.
- Staff innovation portal
- Review legal responsibilities – Kempsey Airport.

Table B.1 Long-Term Financial Plan - Summary of projected operating statement for Kempsey Shire Council under its approved SV application (2024-25 to 2032-33) ($'000)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	72,639	71,462	73,095	74,790	76,509	78,259	80,064	81,865	77,499
Total expenses	64,534	66,834	69,105	71,341	73,017	75,059	77,150	79,701	60,605
Operating result from continuing operations	8,105	4,628	3,990	3,449	3,492	3,201	2,915	2,164	16,894
Net operating result before capital grants and contributions	-1,094	-1,928	-2,605	-3,186	-3,184	-3,517	-3,846	-4,640	-1,331
Cumulative net operating result before capital grants and contributions									

Note: Numbers may not add due to rounding.

Source: Kempsey Shire Council, Application Part A, Worksheet 10 and IPART calculations.

Table B.2 Proposed Program – Summary of projected expenditure plan for Kempsey Shire Council under its proposed SV application

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Fund existing service levels	765,392	4,010,535	7,820,707	8,016,225	8,216,631	8,422,046	8,632,597	8,848,412	9,069,623	9,296,363

Note: Numbers may not add due to rounding.

Source: Kempsey Shire Council, Application Part A, Worksheet 8 and IPART calculations.

C Results of IPART's public consultation feedback form

As part of our stakeholder engagement, we published a survey that asked respondents 15 questions relating to:

- their support or opposition to the council's SV application
- their views on the affordability of the proposed SV
- their awareness of the proposed SV, and
- their views on council's past and proposed cost management strategies.

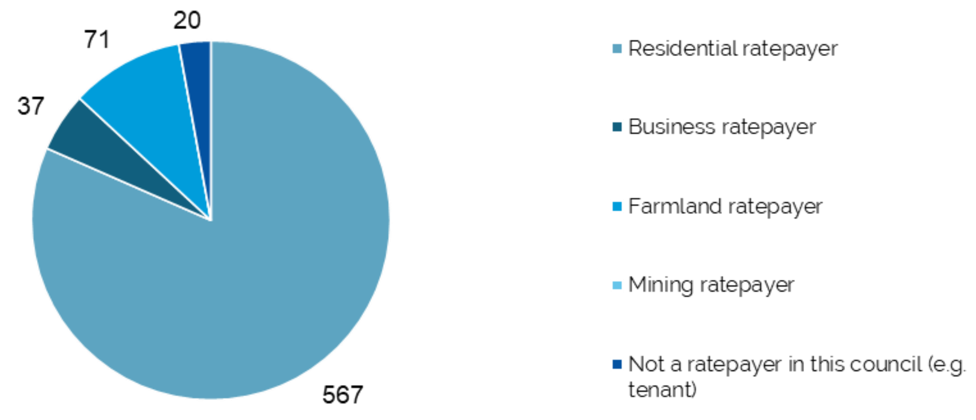
This survey was open for 3 weeks from 27 February 2024 to 18 March 2024.

We received 637 survey responses on Kempsey Shire Council's SV application.

Some results are presented in Chapter 3 of this report and throughout our assessment in chapters 3 – 8, as relevant. This appendix provides the results for questions about affordability, awareness of the SV, and council's past and proposed cost management strategies. It also provides the breakdown of ratepayer type the responded.

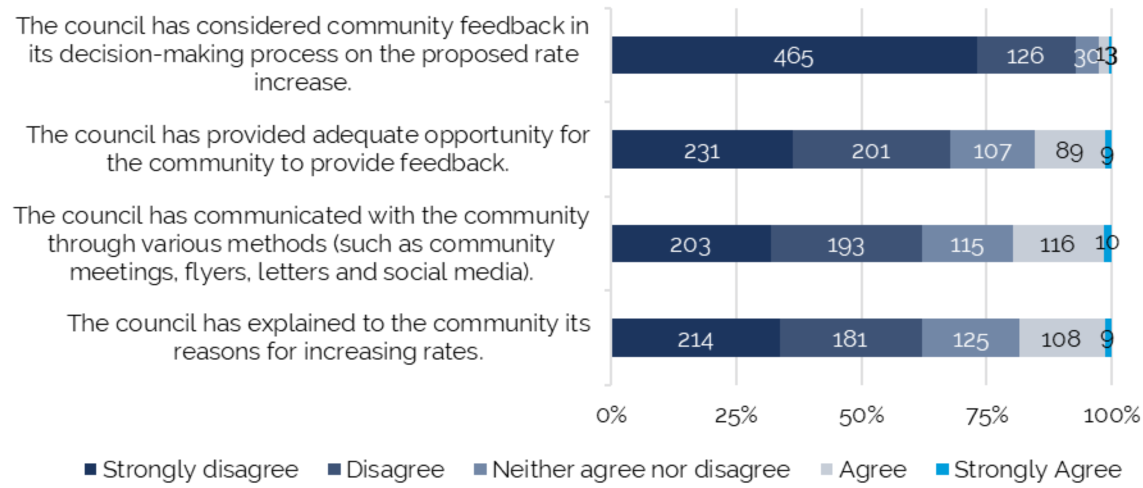
We note that respondents were able to self-select for the survey and the results may not be representative of the whole community's views.

Figure C.1 Respondent ratepayer types



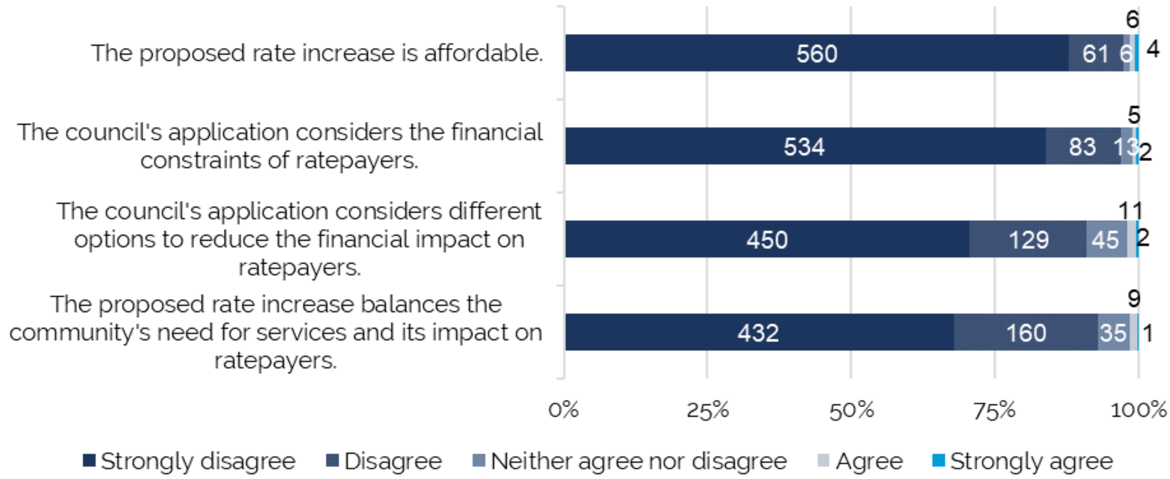
a. The total number of responses for each question was 637. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not represent the distribution of ratepayer types in the council area.
Source: IPART

Figure C.2 Responses to questions about awareness and understanding of the proposal



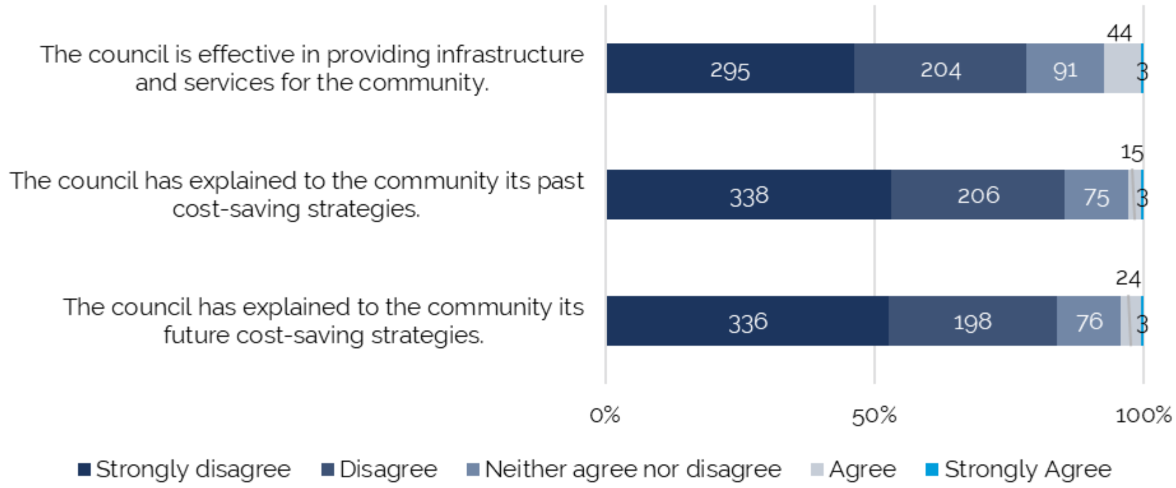
a. The total number of responses for each question was 637. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.
b. There were less than 20 responses that strongly agree for each of these questions.
Source: IPART

Figure C.3 Responses to questions about affordability



a. The total number of responses for each question was 637. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.
b. There were less than 30 responses that agree or strongly agree for each of these questions.
Source: IPART

Figure C.4 Responses to questions about the council's cost-saving strategies



a. The total number of responses for each question was 637. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.
b. There were less than 10 responses that strongly agree for each of these questions.
Source: IPART

D Glossary

Term	Meaning
ABS	Australian Bureau of Statistics
ASV	Additional Special Variation. This was a one-off round of special variations of up to 2.5% available to councils in 2022-23 in response to a peg that was lower than councils expected in a high inflation environment. Applications were assessed against a special set of criteria developed by the OLG.
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
IP&R	Integrated Planning & Reporting
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 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.

[1] Kempsey Shire Council, Application form part B, Table 2
[2] Kempsey Shire Council, Application form part B, p. 69
[3] Kempsey Shire Council, Application form part B, p. 9
[4] Kempsey Shire Council, Application form part B, pp. 34, 42-43; Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, p. 75
[5] Kempsey Shire Council, Application form part A, WS5 – Yrs 2-7 YIELD
[6] *Local Government Act 1993* (NSW), Section 511.
[7] Kempsey Shire Council, Application form part A, WS2 - Proposal
[8] Kempsey Shire Council, Application form part B, p. 4
[9] Kempsey Shire Council, Application form part A, WS5 – Yrs 2-7 YIELD
[10] Kempsey Shire Council, Capacity to Pay Report, October 2023
[11] Kempsey Shire Council, Capacity to Pay Report, October 2023, p. 2 and 34
[12] Kempsey Shire Council, Capacity to Pay Report, October 2023, p. 3 and 34
[13] Kempsey Shire Council, Capacity to Pay Report, October 2023, p. 34
[14] Kempsey Shire Council, Capacity to Pay Report, October 2023, p. 34
[15] Kempsey Shire Council, Capacity to Pay Report, October 2023, p. 3
[16] Kempsey Shire Council, Application form part A, WS4 – PGI Summary, cell row 98.
[17] Kempsey Shire Council, Responses to Request for Information, dated 15 February 2024, 18 March 2024 and 31 March 2024,
[18] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, p. 81
[19] Kempsey Shire Council, 21 November 2023 Ordinary Council Meeting Minutes
[20] Kempsey Shire Council, Application form part A, WS4 – Yr 1 YIELD.
[21] Kempsey Shire Council, Application form part B, p. 45
[22] *Local Government Act 1993* (NSW), section 556(1).
[23] *Local Government Act 1993* (NSW), section 514.
[24] Kempsey Shire Council, Long Term Financial Plan 2023-2033, p. 7.
[25] Kempsey Shire Council, Long Term Financial Plan 2023-2033, p. 30.
[26] Kempsey Shire Council, Long Term Financial Plan 2023-2033, p. 22.
[27] Kempsey Shire Council, Delivery Plan 2022-2026, p. 7, 45 and 67.
[28] Kempsey Shire Council, Asset Management Plan 2022-2032, p. 48.
[29] Office of Local Government, Performance Benchmarks, May 2020.
[30] Kempsey Shire Council, Asset Management Plan 2022-2032, pp. 15-16.
[31] The Independent Pricing and Regulatory Tribunal of NSW, Special variation increase Kempsey Shire Council 2018-19,
[32] Email to IPART, Wayne Douglass, Kempsey Shire Council, dated 2 February 2024
[33] Kempsey Shire Council, Application form part A WS9 – Financials, cells I91:I94.
[34] Kempsey Shire Council 2022-2023 Annual Report 2022-23, p. 33
[35] Kempsey Shire Council 2022-2023 Annual Report 2022-23, p. 34
[36] Kempsey Shire Council, Application form part A WS9 – Financials, cells I91:I94
[37] Kempsey Shire Council, Application form part B, pp. 26-27
[38] Kempsey Shire Council, Application form part A WS10 - LTFP
[39] Kempsey Shire Council, Responses to Request for Information, dated 25 March 2024, W24/1342
[40] Kempsey Shire Council, Our Financial Future Engagement & Communications Report
[41] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, pp. 4-6
[42] Kempsey Shire Council, 30 January 2024 – Confirmed Minutes, January 2024; Kempsey Shire Council, 6.1.5. Engagement Results Public Exhibition, January 2024.
[43] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, pp. 78-80
[44] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, pp. 78-80
[45] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, pp. 4-6, 75
[46] Kempsey Shire Council, Our Financial Future Engagement and Communications Report, February 2024, pp. 78-80
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