IPART Independent Pricing and Regulatory Tribunal | NSW

North Sydney Council

Special Variation and Minimum Rate Application 2025-26

Final Report

May 2025

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
- Dr Darryl Biggar
- Jonathan Coppel
- Sharon Henrick

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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

North Sydney Council applied to IPART to permanently increase its general income by 87.05% over 2 years from 2025-26 to 2026-27.

We did not approve the application for a special variation.

The council also applied to increase its minimum rates, by 67.8% for residential and 95.7% for business ratepayers in 2025-26 and by a further 29% for both residential and business ratepayers in 2026-27.

We did not approve the application to increase minimum rates.

North Sydney Council (the council) applied to IPART[a] to increase its general income through a permanent special variation (SV) of 87.05% over 2 years from 2025-26 to 2026-27.[1] This included increases of 45.0% in 2025-26 and 29.0% in 2026-27 (Table 1.1).

The council told us that it intends to apply this increase across all rating categories.

Table 1.1 Increase in general income under North Sydney Council's SV application

	2025-26	2026-27
Annual increase (%)	45.0	29.0
Cumulative increase (%)		87.05
Additional annual income ($'000)	27,877	26,049

The council advised us it sought the SV to:

- undertake immediate repair to its liquidity position
- fund infrastructure renewals
- reduce infrastructure backlogs
- fund actions within its 10-year strategic plans
- replace the council's corporate systems
- build unrestricted reserves to ensure financial strength.[2]

[a] On 6 September 2010, the (then) Minister for Local Government delegated to IPART 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), including the power to grant SVs.

The council also applied to increase its minimum rates (MR) by different percentages to the SV in 2025-26. The council proposed to increase the residential minimum rate by 67.8% and the business minimum rate by 95.8%. In 2026-27 both the residential and business minimum rate would increase by 29.0%.[3] This would mean that the residential minimum rates would increase from $715 to $1,548 by the end of the 2-year period. The business minimum rates would increase from $715 to $1,806 over that same period (Table 1.2).

Table 1.2 Annual minimum rates under North Sydney Council's application ($)

Rates category	2025-26	2026-27
Residential	1,200	1,548
Business	1,400	1,806

1.1 IPART's decision

We did not approve the council's SV application. Our decision means the council can only increase its general income by the rate peg of 4.0% in 2025-26. This does not prevent the council from making a new application for an SV in future years.

Table 1.3 Maximum increase in general income under our decision

	2025-26
Annual increase (%)	4.0

We also did not approve the council's application to increase its minimum rates.

1.2 IPART's assessment of the council's applications

The council's SV application

To make our decision on the special variation application, we assessed the council's 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 a special variation to general income* (OLG Guidelines). We found the council met two of these 6 criteria.

The council did not clearly identify the need for, and purpose of, the proposed SV in its Integrated Planning and Reporting (IP&R) documents or its community consultation materials (Criterion 1). While the documents describe the need to improve financial sustainability, it was not apparent that this meant the council would accumulate significant surpluses over the next 10 years. The council was also not clear about how it would spend the funds in the proposed accumulated reserves. Many submissions told us that there was confusion in the community about the purpose of the SV being primarily for the North Sydney Olympic Pool (NSOP) redevelopment, rather than the accumulation of financial reserves. The council also did not fully explore alternatives to this proposed increase. The baseline (rate peg only) scenario was not clearly labelled and identified in its Long Term Financial Plan (LTFP), and the council's consultation excluded the baseline scenario.

Comparison against some of the Office of Local Government (OLG) financial performance benchmarks indicate the council has a level of financial need. The council's Operating Performance Ratio (OPR) is slightly negative and will remain negative without the proposed SV. However, the council's proposal to improve its OPR with large operating surpluses over the next 2 years, with an ongoing OPR of around 17% is not reasonable because the council has not clearly communicated the large surpluses and ongoing 17% OPR to its community.

The council does not meet the benchmark for the OLG unrestricted current ratio, which is a measure of the council's short-term liquidity. However, the Audit Office considers a council's financial sustainability to be a serious concern if it fails to meet any of the three financial sustainability benchmarks (OPR, unrestricted current ratio and infrastructure renewals) for at least 3 years.[4] While the council has not adequately demonstrated the need for and purpose of the SV in its current application, the council will need to consider a range of options including engaging with its community to develop a robust financial strategy that meets the needs of its community including cost saving measures or other productivity improvements to address its long-term financial sustainability.

The council did not provide sufficient evidence that its community is aware of the need for and purpose of the proposed SV (Criterion 2). The IP&R documents and associated consultation materials did not clearly explain that a significant portion of the SV was to generate large surpluses to allow the council to grow its financial reserves. The documents do not clearly outline what the council intends to do with the funds proposed to be held in financial reserves. Some stakeholders that made submissions raised concerns that allowing the council to accumulate excess reserves would reduce the transparency and accountability of the council to the community on how these funds will be used and increase the potential for the misuse of the funds.[b]

We found that the council did not demonstrate that the impact of the proposed SV on ratepayers is reasonable (Criterion 3). While the council's capacity to pay report shows the community has a high level of advantage relative to other areas in NSW, the report refers to 2021 Census data which does not necessarily capture the current economic climate and cost-of-living pressures. Additionally, the report did not adequately consider the impacts on business ratepayers.

b For example, a submission from S. Kok, 17 March 2025, p 14 states excessive reserves can diminish transparency and accountability by functioning as a safety net for project cost blowouts or poor financial decisions. Excessive reserves can also enable discretionary spending on politically motivated projects, or electoral cycle-driven expenditure that may not truly benefit the community.

Many stakeholders that provided feedback to us raised concerns about the size of the rate increases. Several submissions noted that they were not opposed to a more moderate rate increase to improve the council's current financial situation. Some submissions suggested a staged increase to rates over a longer period, to allow ratepayers time to adjust to the increases. We found that the council's hardship policy could be improved. We also found that the council did not adequately consider the impact of its proposed rate rise on business ratepayers.

The council did not adequately explain its recent and proposed productivity improvements and cost containment strategies (Criterion 5). The council outlined improvements of $4.85 million per year in financial benefits, however we consider that some of the proposed improvements included within the council's estimate are not genuine cost savings. For example, some of the examples the council provides are cost savings in one area of the business, with the cost transferred to another area of the business. This includes a saving of $2.3 million through an organisational restructure, with the funds allocated to another function in council, rather than a cost saving to the council as a whole.

We estimate the council's cost savings to represent only 0.4% of the council's total expenses. We do not consider this level of cost savings to be proportionately adequate for a metropolitan council such as North Sydney. In addition, the council has not identified any clear strategies for achieving productivity or cost containment strategies going forward nor has it committed to any significant savings targets.

We found that the council largely complied with the reporting conditions attached to its past SVs. The council identified in its 2023-24 Annual Report that it failed to adequately disclose the income from a previous SV in its 2017-18 and 2018-19 Annual Reports. The council's disclosure of this information in its most recent annual report rectifies this oversight.

While we acknowledge that the council has demonstrated some financial need to improve its financial position and the community has some capacity to pay, we found that there were significant shortcomings in its application given that it did not meet four of the six SV criteria. This included:

- the failure to consider alternatives to a rate rise
- not clearly explaining the need to grow its reserves and achieve a high OPR of over 17%
- the size of the proposed increases within a 2-year period not being reasonable
- a lack of productivity improvements and cost savings.

Given this, we have decided not to approve the council's SV application.

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.

Figure 1.1 Summary of our assessment against the OLG criteria

Criteria | Grading | Assessment

01

Not Demonstrated

Financial need

The council did not clearly identify the need for, and purpose of the proposed SV in its IP&R documents or its community consultation materials. While the documents describe the need to improve financial sustainability, it was not clear to the community that the council proposed to accumulate significant surpluses over the next 10 years, and it was not clear how the council intends to spend these accumulated reserves.

Under the council's proposal, its average OPR is forecast to be 17.6% in the second year (2026-27) and remain around this level, on average, over the next 8 years. This does not indicate that the council has a financial need for the proposed SV. We consider a forecast average OPR of 17.2% does not meet this criterion in circumstances where the council has not provided sufficient evidence of the community's willingness to pay for accumulating substantial reserves.

Under the baseline scenario the council's unrestricted current ratio is below the OLG benchmark of greater than 1.5 and would continue to deteriorate over the next 10 years. However, the council's cash expense cover ratio, which indicates the number of months a council can continue paying its expenses without additional cashflows, meets the OLG benchmark of greater than 3 months. The council has an average cash expense ratio of 9.0 over the next 10 years. This indicates the council has sufficient liquidity to meet its expenses without additional cash inflows in the short-term.

The council did not fully explore alternatives to this proposed increase. The council's LTFP did not sufficiently consider alternatives to the rate rise. The LTFP included the baseline scenario, but this was not clearly labelled and identified. The baseline scenario was excluded from the council's community consultation.

02

Not Demonstrated

Community awareness

We found on balance the council did not meet this criterion. The council's community engagement materials did not provide sufficient information to enable its community to be fully aware of the need for and extent of the proposed SV.

The IP&R documents and associated consultation materials did not clearly explain that a large proportion of the SV was to generate surpluses to allow the council to grow its financial reserves to a level more than double what they have been over the last few years. The documents also do not clearly outline what the council proposes to do with the funds held in financial reserves.

The council's IP&R documents and community consultation materials did not clearly show the extent of the rate rise under the proposed SV. While the percentages were shown in separate tables to the projected average rates in dollar terms, the total cumulative dollar increases each year under the SV were not shown.

The council included some information on its organisational reviews and plans to improve efficiencies, but it did not detail significant past cost savings identified or specific future commitments to cost savings or productivity improvements.

Criteria	Grading	Assessment
03	Not Demonstrated	**Reasonable impact on ratepayers** We found the council did not meet this criterion. The council's assessment of this impact concluded the community has sufficient capacity to pay the proposed rate increases due to the high level of advantage found in the community based on the SEIFA and IRSAD indexes. While there may be significant advantage in the community on average, and therefore potential capacity to pay, we consider that the proposed increases in rates within a 2-year period are not reasonable and do not provide the community sufficient time to adjust their household budgets. We also note that while there is an average high level of advantage in the community, there are members of the community on fixed incomes (e.g. pensioners) who would be significantly impacted by large rate increases. We do not consider the council's hardship policy is adequate to provide meaningful assistance to vulnerable ratepayers. The council concluded that business ratepayers have the capacity to pay the proposed rate increases. However, the council's capacity to pay report, prepared by Morrison Low, acknowledges that current business rates are already at the higher end relative to comparable councils (based on 2023 OLG data). The report considers a few broad economic indicators averaged over the last 10 years which does not adequately consider the impact on business ratepayers.
04	Demonstrated	**Integrated Planning and Reporting documentation** We found that the council met this criterion. The council exhibited and adopted all necessary Integrated and Planning and Reporting (IP&R) documents before submitting its SV application. However, we note the concerns raised in submissions that the consultation on the council's Informing Strategies document may not be fully compliant with the requirements of the IP&R framework. In particular, that the council did not adequately consider the resourcing requirements or impact on the council's rates when seeking community's views for service improvements.
05	Not Demonstrated	**Productivity improvement and cost containment** We found that the council did not meet this criterion. The council outlined its past and current improvements which total $4.85 million per year in financial benefits. However, some of the items included within this estimate are not genuine cost savings. For example, this includes a saving of $2.3 million through an organisational restructure, with the funds allocated to another function in the council, rather than a cost saving to the council as a whole. We estimate the council's cost savings represent only 0.4% of the council's total expenses. We consider this is not sufficient for a metropolitan council such as North Sydney. The council has not identified clear strategies for achieving productivity or cost containment strategies going forward nor has it committed to any concrete savings targets. No cost savings are included within the council's LTFP.
06	Demonstrated	**Other matters IPART considers relevant** The council complied with the conditions attached to its 2022-23 Additional Special Variation (ASV) and 2019-20 special variation and minimum rate increase. The council identified in its 2023-24 Annual Report that it failed to comply with the attached conditions for its 2010-11 special variation application in its 2017-18 and 2018-19 annual reports. We consider the council's disclosure of this information in its most recent annual report adequately rectifies this previous oversight.

The council's minimum rate application

To make our decision on the minimum rates increase application, we assessed the council's proposed increase against the 3 criteria set in the *Guidelines for the preparation of an application to increase Minimum Rates above the statutory limit* (OLG Minimum Rates Guidelines). We found that the proposed MR increase met 2 of these 3 criteria.

The council did not meet criterion 2 on the impact on ratepayers.

While we acknowledge that there is a case for the council to increase its minimum rates to address the inequity in its rating structure between the ad valorem and minimum rate ratepayers, we do not consider the council's proposal to double the minimum rate over the 2-years of the SV is reasonable. We consider the proposed large increases over a short period of time do not provide the community with sufficient time to adjust their household or business budgets.

In particular, the council's capacity to pay analysis shows that 43% of the population are vulnerable to rate rises due to being on a reduced income or single income households. This vulnerable population is more likely to be in apartments and subject to the minimum rate. We consider such large increases to the minimum rate over 2 years on populations considered more vulnerable to rates increases are not reasonable. While we have focussed on residential minimum rates because residential ratepayers represent the majority of minimum ratepayers, we note that the increase on business ratepayers will similarly have a large impact on the small businesses in the North Sydney LGA. A slower, phased in approach to rate increases would allow ratepayers more time to adjust their household budgets.

In addition, the council applied for both an SV and an increase to its minimum rates for 2025-26 to 2026-27. While the applications for the SV and increase to the minimum rates are separate, we consider that our decision to not approve the council's SV application is relevant in considering the council's application to increase its minimum rates.

An SV permits a council to increase its general income by the specified amount. As we have not approved the council's SV application, the council will only be permitted to increase its general income by the rate peg for 2025-26.

This decision has implications for the minimum rates decision because the SV percentage sets the maximum permissible general income the council can collect. If minimum rates are increased without increasing the total permissible general income the council can collect, the council would need to reduce the ad valorem rate so that the total general income the council collects from the ad valorem and minimum rates is within the permitted rate peg increase.

Therefore, if we were to approve the council's proposed minimum rates increase, this would mean that the council would not be able to implement the rate increases it has consulted with its community on. If it chose to apply the full increase to minimum rates it would have to amend its rating structure (i.e. reduce the ad valorem rate) to ensure it did not exceed its maximum general permissible income.

Our assessment against each OLG criterion is summarised below.

Figure 1.2 Summary of our assessment against the OLG minimum rates criteria

Criteria	Grading	Assessment
01	Demonstrated	**Rationale for increasing minimum rates** The council explained the key purpose of the increase to minimum rates is to improve the council's financial sustainability and improve the equity between those on the minimum rate and those on ad valorem rates. The council notes that 77.26% of its ratepayers are currently paying the minimum rate and this is due to the high housing density within the area and future housing growth is expected to be primarily new apartments that would also be on the minimum rate. The council indicated this does not reflect the additional cost to the council of the increased infrastructure and services required for new apartment developments. The proposed increase to minimum rates would avoid ad valorem ratepayers paying for a larger share of these costs.
02	Not Demonstrated	**Impact on ratepayers** The council's proposed increase in minimum rates is higher than the proposed SV percentage increase. The cumulative increase in minimum rates for residential ratepayers is 116.4% and for business ratepayers 152.5% over the 2 years. While the Capacity to Pay Report concluded that there is significant advantage and potential capacity to pay, we do not consider that the size of the proposed increase in rates within a two-year period is reasonable as it does not provide the community with sufficient time to adjust their household or business budgets. The council's capacity to pay analysis shows that 43% of the population is vulnerable to the impacts of rate increases due to being on a single or reduced income, particularly the single household grouping. The council does not have an adequate hardship policy for residential ratepayers. We consider a slower, phased in approach to rate increases would be more affordable and allow ratepayers more time to adjust their household budgets.
03	Demonstrated	**Community awareness** We found the council met this criterion. The council undertook community consultation as part of its broader SV application. We consider that the council has made the community aware of the proposed increase in minimum rates, provided the reasoning for the minimum rate increase and considered community feedback.

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the Integrated Planning and Reporting (IP&R) framework. The OLG criteria that we assess SV applications against requires us to look at this consultation as part of our assessment.

North Sydney Council consulted on its proposed SV and minimum rate increase with its community using a variety of engagement methods. The council received 792 responses to its online survey and 227 submissions. 426 people attended face-to-face or online information sessions, precinct committee meetings or workshops. The council sent an e-newsletter to 6,115 subscribers and directly mailed all residents a factsheet on its proposed SV and minimum rate increase.[5]

The council has 40,425 rateable properties.

As a further input to our assessment, we published the council's application on our website for a 4-week consultation period and invited stakeholders to provide feedback directly to IPART.

Through this process, we received 1,648 responses to our feedback form and a total of 322 submissions on North Sydney Council's proposed SV. These submissions and responses raised concerns about the:

- affordability of the proposed rate increases
- council's management of the North Sydney Olympic Pool project, and the council's activities in general
- council's consultation with the community
- sufficiency of existing financial resources
- council's consideration of alternatives to the rate rise
- council's consideration of cost savings and efficiencies
- the community's willingness to pay for the eight Informing Strategies the council developed to address future growth in the LGA
- the current rating burden between minimum rates and the ad valorem ratepayers
- the equity of the current rating system.

We also received some submissions that supported the increase in rates to address infrastructure backlogs, reduce debt and support financial sustainability.

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 decision means that the council may not increase its general income by more than the rate peg (4.0%) in 2025-26.[6] The council determines whether to apply the full percentage increase permitted by the rate peg and how the rate peg increase will be distributed among ratepayer categories.

Going forward the council will need to consider a range of options including engaging with its community to develop a robust financial strategy that meets the needs of its community including cost saving measures or other productivity improvements to address its long-term financial sustainability.

If the council requires additional rates revenue to address financial sustainability concerns, it could apply to IPART for an SV in the future. Before applying for an SV in future, the council should:

- complete a service level review in consultation with the community
- consider various alternatives to an SV including a reduction in services, or using debt to appropriately fund long-term assets such as the North Sydney Olympic Pool project
- develop an on-going framework to identify and implement productivity and efficiency savings.

We acknowledge there is a case for the council to increase its minimum rates to address the inequity in its rating structure between ad valorem and minimum rate ratepayers. The council should consult with its ratepayers and develop a proposal that addresses this issue while providing a more reasonable outcome for ratepayers. This may include an alternative SV proposal that allows the council's general income to increase in line with the expected increased revenue from minimum rates.

The rest of this report explains how and why we reached our decision on North Sydney Council's special variation application and minimum rate increase application in more detail.

2 The council's special variation and minimum rate increase applications

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 87.05% over the 2 years from 2025-26 to 2026-27. 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

	2025-26	2026-27
Annual increase (%)	45	29
Cumulative increase (%)		87.05
Additional annual income ($,000)	27,876.8	26,049.3

Source: North Sydney Application Part A, WS 2 and WS 6.

Council proposed a permanent SV. This means, if approved the increases would remain in the rates base permanently. The council's general income would not be reduced at the end of 2026-27.

The council advised us it sought the special variation to:[7]

- undertake immediate repair to liquidity position
- fund infrastructure renewal
- reduce infrastructure backlogs
- fund expansion and improvements to services based on the 10-year strategic plans
- replace the council's corporate systems
- build unrestricted reserves to ensure financial strength.

2.1 Impact of the proposed special variation on ratepayers

The council proposed that rates would increase for all categories over the 2-years the SV is in place. It proposed that, on average[c]:

- **residential rates** by 2026-27 would increase by $843 or 80.9%
- **business rates** by 2026-27 would increase by $6,607 or 99.9%

The council also proposed that minimum rates would increase over the same 2-year period, as follows:

- **residential rates** by 2026-27 would increase by $833

[c] Source: North Sydney Council, Application Part A – WS7, corrected by IPART.

- **business rates** by 2026-27 would increase by $1,091.

The council provided the number of rates notices that it expects to issue for 2025-26. See Table 2.2.

Table 2.2 Number of rates notices per category in 2025-26

Ratepayer category	Number of rate notices
Residential	36,918
Business	3,507
Total	**40,425**

Source: North Sydney Council, Part A application Worksheet 4.

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

The council assessed the affordability of its proposed rates increases, including the community's capacity to pay.

The council engaged Morrison Low to conduct an independent capacity to pay analysis.[8] The analysis found that there is significant advantage across the North Sydney LGA, with some slightly increased disadvantage within the suburb of Kirribilli, although this is still much lower than Greater Sydney averages and the level of advantage within this suburb is in the top 2% of suburbs across Australia. Due to the high levels of advantage and relatively low potential for mortgage and rental stress, in addition to comparably low levels of pensioners and individuals requiring core assistance[d], the report concluded that there is capacity to pay across all groupings in North Sydney.[9]

The council indicated that it would review and implement its financial Hardship Policy, which sets out how the council can assist ratepayers who are experiencing difficulty in paying rates on time. The policy allows the council to write-off interest charges accrued under certain circumstances. The council also noted it offers a $250 pensioner concession on rates if a ratepayer holds a pensioner concession or Seniors Health Care Card, and the property is a sole principal place of residence. This is the standard concession the council is required to provide under the *Local Government Act*. The council also stated that it would advertise this hardship policy as part of communicating with the community on the SV.[10]

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

The council estimated its proposed SV, reflecting a total cumulative increase of 87.05%, would increase its permissible general income from $61.9 million to $115.9 million after the 2 years, which would remain permanently.[11]

[d] This includes people who need assistance in their day-to-day lives with self-care, body movements or communication – because of disability, long-term health condition or old age.

2.4 Further information provided

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

- the council's eight Informing Strategies to address opportunities and challenges for the LGA
- the council's hardship policy including the number of hardship applications, ratepayers on hardship policy and historical data for the past 5 years
- the council's forecast unrestricted current ratio for the 10-year period of the LTFP
- the differences between the draft LTFP and the adopted version of the LTFP
- the amount of funding of the SV allocated to the North Sydney Olympic Pool project
- updated Part A, worksheet 8, in response to RFI.[12]

The council provided correspondence to clarify the items above. 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 4-week consultation period from 25 February 2025 to 17 March 2025, inclusive. Stakeholders could complete a survey-style feedback form and make submissions directly to us.

We have taken all stakeholder feedback into account in making our decision in accordance with our Submissions Policy, including responses to our feedback form and submissions. The key issues raised in the feedback form and all published (non-confidential) submissions are outlined below.

3.1 Summary of feedback we received

We received 1,648 responses to our feedback form and 322 total submissions of which 221 were not confidential.

There are approximately 40,375 rateable properties in the council's local government area. There are 36,890 residential assessments and 3,485 business assessments.

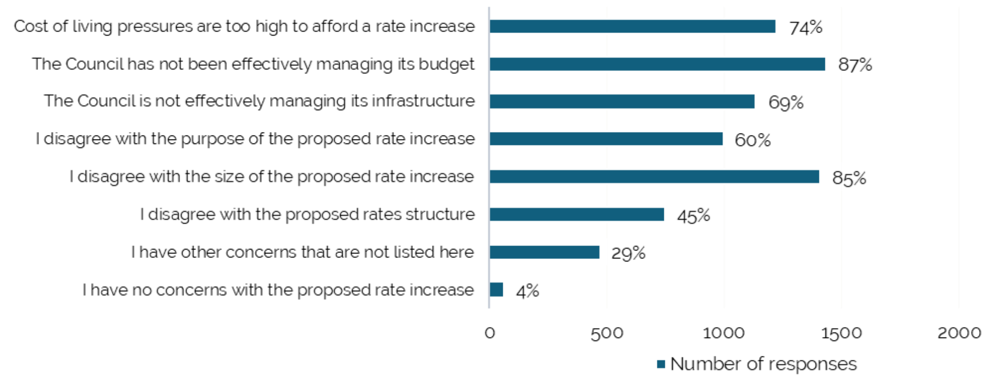
3.2 Responses to the feedback form

We published a feedback form to assist stakeholders to provide their views to IPART on the proposed SV generally, and on a range of specific topics. These included the affordability of the proposed rates increases, the council's consultation on the proposed SV, and the council's 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 1,648 responses relating to North Sydney Council's application. Of these, 90.8% were opposed to the proposed SV, 4.6% partly supported it, 3.9% supported it and 0.6% were undecided.

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

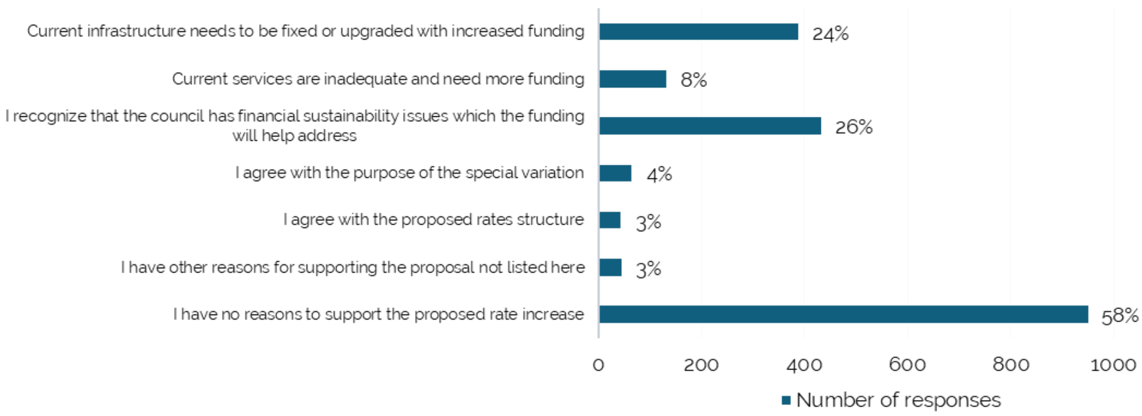
Figure 3.1 Reasons that respondents said they might oppose the proposed SV



Note: We received 1,648 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 that respondents said they might support the proposed SV



Note: We received 1,648 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 form are considered in Chapters 5, 6 and 8. The full results are available in Appendix B.

3.3 Summary of issues raised

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

3.3.1 Affordability of proposed rates increases

Most submissions we received raised concerns about the impact of the council's proposed SV on the affordability of rates. They suggested this would negatively impact residents, businesses and the retail sector given the current cost of living pressures. The majority objected to the extent of the proposed rate increases.

Some submissions identified that the council's hardship policy is not fit-for-purpose and noted the severe hardship the rate increases would have for pensioners and others on fixed incomes. Many submissions requested a more reasonable phased-in approach to rate increases, to minimise the financial burdens on ratepayers.

Many submissions highlighted the significant impact that the proposed rates increase will have on small businesses in the LGA, referring to the number of business failures in Australia in recent times. Many local businesses, particularly small retailers, cafes, and service providers have expressed concerns that increased rates will make it even harder to operate, potentially leading to closures and job losses.

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

3.3.2 The council's management of the North Sydney Olympic Pool project and in general

Most submissions raised concerns over the mismanagement of the North Sydney Olympic Pool project and anger around the community being asked to pay for the budget blowout. Respondents also raised the need for better transparency and accountability for the project. Concerns were also raised that a permanent SV was not the right instrument to address the shorter-term financial issues caused by the North Sydney Olympic Pool project.

Some submissions stated that the council should sell the pool to the State Government. Other submissions identified that the North Sydney Olympic Pool project should be funded by debt as an alternative to the SV. Others expressed that there was no need to reduce the current debt burden with the North Sydney Olympic Pool project as quickly as indicated in the LTFP.

Many submissions called for greater accountability and transparency in how funds are managed.

Many submissions raised concerns over the council's financial management in general, using the North Sydney Olympic Pool project as an example. Respondents suggested the council should cut costs rather than increase rates.

[e] Where a submission was marked as confidential we have not raised it here to protect confidentiality. Matters raised in the feedback form free-text section have generally been treated as confidential submissions.

The elected councillors are responsible for managing the council's finances. IPART does not have the authority to examine the council's financial decisions or financial management more broadly, beyond our assessment of the SV application against the OLG Guidelines.

3.3.3 The council's consultation with the community

Many submissions raised concerns that the council's community consultation was not genuine, and that community feedback was ignored by the council. Most respondents expressed concerns that the council did not present other options, such as a 'no SV' option, or a lower increase SV, or spreading costs over longer period, given the current cost of living pressures. Many submissions noted that all SV options presented by the council were for very large increases, so there was no real differentiation between the options.

The council's survey was raised as a concern by respondents, who noted that it was flawed because participants couldn't complete the survey without selecting one of the council's SV options. Respondents suggested that this led to many residents not completing the survey. Some submissions noted that the council subsequently addressed this issue. The submissions state that despite this flaw, 56% of participants selected option 1 – financial repair. 25% of participants did not provide a response. 9% supported option 3 – future growth, 6% preferred option 2b, and 5% opted for option 2a – strength and sustainability (the proposed SV). The council pursued the proposed SV although this option received the least support from those who completed the survey.

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

3.3.4 Sufficiency of existing financial resources

Several submissions noted the large financial reserves the council would accumulate as part of the SV over the next 10 years. These submissions stated that the council did not clearly communicate this as part of their consultation materials. The submissions also stated that the council has not explained how it would use the funds in financial reserves. Some submissions raised concerns that the large financial reserves could allow the council access to ratepayer funds with limited oversight, transparency or accountability.

A few submissions noted that the North Sydney Olympic Pool redevelopment has caused short-term funding shortfall for the council and questioned why the council has applied for a permanent SV to address this short-term funding issue.

Our assessment of the council's net cash reserves is discussed in Chapter 4.

3.3.5 Council should consider alternatives to an SV

Several submissions raised concerns that the council did not present alternatives to a rate rise, as required by criterion 1 on financial need. Many submissions noted that the council did not consult on a 'no SV' scenario and the council did not consult on any other alternatives to the rate rise.

Several submissions suggested that alternatives to rate rises that could be considered by the council include more responsible cost saving measures, seeking funding of the pool from other sources such as state and federal government, public-private partnerships, debt financing with long-term repayment plans, prioritisation of projects, sales of non-core assets, finding other sources of revenue and staff productivity improvements.

We have considered these concerns and outlined our conclusion in Chapter 4.

3.3.6 Council's consideration of cost savings and efficiencies

Several submissions raised that the council did not adequately explain and quantify its past and future productivity and cost containment strategies. Respondents suggested that the council's productivity commitments were insignificant, and the council has not committed to any specific cost savings or efficiencies going forward. Some submissions identified significant increases in operating costs without sufficient justification.

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

3.3.7 The community's willingness to pay for the Informing Strategies

A number of respondents raised concerns about the council's consultation on its Informing Strategies[f]. Several submissions stated that the council consulted on the Informing Strategies in terms of gauging support for projects without presenting the cost implications. A number of submissions claimed that this is inconsistent with the requirements of the IP&R framework which requires Informing Strategies to be supported by financial information and a resourcing strategy. Without understanding the cost and resource implications, the community provided a 'wish list' of services and improvements they would like to see. Respondents have indicated that it wasn't clear that the council would use the consultation on its Informing Strategies to make a case for rate increases through an SV. During the SV consultation, when asked about the willingness to pay for the Informing Strategies, 80% of respondents disagreed. In addition, many submissions noted that if short term liquidity is a concern, the council should prioritise and focus on existing services, rather than looking to expand its services.

[f] The council has developed eight Informing Strategies to address the opportunities and challenges for the LGA. The strategies are aimed at ensuring the LTFP and resourcing strategy would provide for future challenges and needs of the growing LGA (North Sydney Council, Application Part B, p 17).

We have considered these concerns and outlined our conclusion in Chapter 7.

3.3.8 The current rating burden between minimum rates and ad valorem ratepayers

A few submissions raised that the rate burden is not being fairly shared between the ad valorem ratepayers and minimum rate ratepayers and that the minimum rate needs to be increased. For example, it was noted that the area has many multi-million-dollar apartments, and it is apparent they are paying the minimum rate, while small non-apartment properties are paying almost ten times the minimum rate. One submission suggested that even with the proposed changes to the rating structure, the inequity would remain and should be addressed by IPART.

One submission noted that ad valorem ratepayers only own 21% of residential properties in 2025-26 but generate around 40% of total rates revenue. Submissions suggested that even with the proposed changes to the rating structure, the inequity would remain and should be addressed by IPART.

We have considered these concerns and outlined our conclusion in Chapter 10.

3.3.9 Equity of the current rating system

Some submissions raise the issue of non-rateable property such as schools, which are exempt from paying rates. Respondents suggested that exempt properties in the area not paying their fair share of rates.

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 with the current regulatory framework. For example, the council cannot levy ordinary rates on exempt land[13], and must categorise land[14] according to the Local Government Act and regulations.[g] These requirements, which are outside the scope of IPART's role assessing SVs, may contribute to some stakeholders' concerns about inequity in how rates are distributed.

[g] 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.

4 Our assessment of OLG Criterion 1 – Financial need

OLG 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 OLG Criterion 1, we reviewed the council's IP&R documents and the information in its application. We also considered stakeholders' comments on financial need received via our feedback form and submissions and undertook our own analysis of the council's financial performance and position. We do not audit council finances, as this is not part of our delegated authority.

We found that the council has not clearly demonstrated a financial need for the SV. The council did not clearly identify the need for, and purpose of the proposed SV in its IP&R documents or its community consultation materials. While the documents describe the need to improve its financial sustainability, it was not clear that under the proposed SV the council would accumulate significant surpluses over the next 10 years, and it was not clear how the council intends to spend the accumulated reserves.

Many submissions suggested that some people in the community were confused about the purpose of the SV. They originally believed it was to fund shortfalls in the North Sydney Olympic Pool Project, but the council's application to IPART showed that some of the SV funding would be used to increase the council's financial reserves. The submissions suggested that there were different versions of the LTFP, and key line items may not have been included within the draft for consultation. The LTFP submitted to IPART shows the increases in the council's financial reserves. Other submissions asked why the council needed a permanent SV to address the North Sydney Olympic Pool redevelopment which is a short-term project.

The council did not adequately explore alternatives to this proposed increase, which could reduce the total size of the rate increase required. The LTFP did not identify or explain any potential alternatives to the rate rise. The Delivery Program considered deferring some projects and asset renewals, but did not further explore alternatives to the rate rise beyond this. This was despite the council's own consultation, which showed many in the community providing feedback and suggestions on alternatives to a rate rise.

The council included some information on its organisational reviews and advised it aims to improve efficiencies, but there were no significant past cost savings identified or specific future commitments to cost savings or productivity improvements included within its LTFP.

While the council included some information in its LTFP on the baseline (no SV) scenario, it was not clearly labelled and identified. The council's consultation materials excluded the baseline scenario and did not consider alternatives to the rate rise.

Under the proposed SV we note the council's Operating Performance Ratio (OPR) would average 17.2% over the next 10 years, which is significantly above the OLG benchmark of greater than 0% and the council's historical average OPR. In 2019-20 we partially approved the council's special variation for 3 years at 7.0% per year. The OPR was projected to reach 5.4% under the previously approved SV.[15] The council's average OPR of around 17.2% under the proposed SV is more than three times this amount, which suggests its target OPR under the proposed SV is a significant change to its most recent past.

We consider that an OPR of 17.2% does not meet the OLG criterion in circumstances where the council has not provided sufficient evidence of the community's willingness to pay for accumulating substantial reserves. The council did not clearly communicate the key purpose of the SV was to accumulate substantial reserves and the council has not provided evidence that the community has a willingness to pay for building up financial reserves significantly above the OLG Benchmark. We also consider generating significant surpluses for the purpose of financial reserves is not appropriate in the context of cost-of-living pressures and affordability concerns for residents and ratepayers of the LGA.

Without the proposed SV, the council's unrestricted current ratio is forecast to be below the OLG benchmark of greater than 1.5 and would continue to deteriorate over the next 10 years. However, the council's cash expense cover ratio, which indicates the number of months a council can continue paying its expenses without additional cash inflows, meets the OLG benchmark.[16] The OLG benchmark for the ratio is greater than 3 months, and the council has an average cash expense ratio of 9.0 over the next 10 years.[17] This indicates the council has sufficient liquidity to meet its expenses without additional cash inflows in the short term.

The Audit Office considers a council's financial sustainability to be a serious concern when a council does not meet any of the financial sustainability benchmarks (e.g. OPR, unrestricted current ratio, infrastructure renewals) for at least 3 years. Due to regular inflow of cash from rates and annual charges, the Audit Office found, for the councils that had more serious concerns regarding their continued financial sustainability, these councils were still considered 'going concerns' for financial reporting purposes.[18]

The sections below discuss our assessment of Criterion 1 in more detail.

4.1 Stakeholder comments on financial need

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

- There is a lack of transparency and justification for the accumulation of significant financial reserves. The amount proposed is excessive, inconsistent with industry standards and lacks justification. Excessive reserves can reduce transparency and weaken financial discipline.
- It is not clear what the SV will fund, with many in the community assuming most of the SV is to fund shortfalls in the North Sydney Olympic Pool project.
- The North Sydney Olympic Pool project is a one-off capital project and should not be funded by a permanent increase in rates.

- The financial performance ratios exceed the benchmarks significantly over the 10 years, so increases should be moderated to be closer to the benchmarks.
- The council should hold debt constant over the next 10 years rather than an aggressive paydown of debt strategy. The council is failing to consider intergenerational equity in its major capital works, insisting on funding major projects with long asset lives through the current rate base.
- The council did not seriously consider alternatives to the rate rise, such as sale of assets, sponsorship opportunities, operational savings or other cost saving measures, reduced or staged rate increases or loan funding to spread out the costs.
- The council should focus on current services, rather than expanding services based on Informing Strategies, when the council is facing short term liquidity concerns.

We considered these concerns, taking into account all of 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, did not clearly identify and articulate the need for and purpose of the SV.

The LTFP broadly describes the council's poor financial position being a result of the North Sydney Olympic Pool project along with other factors, such as declining revenue from sources other than rates and cost shifting from other levels of government. The LTFP outlines financial strategies including to deliver operating surpluses, build financial strength and deliver existing and improved service levels. The LTFP states the specific purpose of the SV includes:

- improving the council's financial position
- funding for planning and delivery of new and upgraded infrastructure
- achieve initiatives under the 10-year Informing Strategies.[19]

The document did not make it clear that the council was aiming to achieve ongoing surpluses, proposing around 17% per year average OPR, although this is shown under the financial indicators of the recommended SV option.

The LTFP did not sufficiently canvass alternatives to the rate increases.

The baseline scenario was not clearly labelled and identified in its LTFP. The 'no SV' scenario was not discussed in the context of the SV options it was considering, but rather as the starting point to demonstrate that the only option was an SV. So, in effect, the only options considered by the council were rate rise options under various SV scenarios and therefore, the council did not sufficiently canvas alternatives to the rate rise.

The LTFP provided a description of strategies to improve the overall governance of the council, primarily in responding to the North Sydney Olympic Pool project and mentioned ongoing strategies and process improvements to achieve cost savings and efficiencies, but it did not quantify significant past or future savings.[20]

We note the council temporarily deferred some projects and asset renewals, however, these measures were only temporary, and we would expect the council to consider other more permanent alternatives to the rate rise, as suggested by the community as part of its consultation on the proposed SV. So aside from these temporary deferrals, the council did not sufficiently canvas alternatives to the SV within its IP&R documents.[21]

The council has provided its asset management plans to support its proposal to address its infrastructure backlogs using funds from the proposed SV. The council has eight asset management plans for different infrastructure categories including footpaths, open space and recreation facilities, other structures, property, roads, stormwater drainage and swimming pools. The condition of current assets has been assessed using guidelines and practice notes by the Institute of Public Works Engineering Australasia.

The estimate of the cost to renew and maintain each asset class is based on a revised definition of what the council considers to be an infrastructure backlog. The council previously reported the cost to bring to satisfactory condition based on assets in category 5 (very poor).[h] In 2022-23, it changed its calculation to also include category 4 (poor) assets. Submissions have told us that the council revised its definition without consultation with the community, and the definition change resulted in an increased backlog, by $100 million to $143 million. This raises questions about whether the community has a willingness to pay for an improvement in the condition of the council's assets.

Some submissions also note that the council's asset management strategy does not appropriately consider long term debt funding alternatives. A submission also noted that 262 responses to the council's community consultation mentioned the revised asset management strategy, with only 17 respondents indicating support for the revisions.[22]

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. **Proposed SV Scenario** – which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with 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 the council's financial performance and position – namely its operating performance ratio, net cash (or net debt), unrestricted current ratio and infrastructure ratios.

[h] Key for asset condition: (1) excellent/very good – no work required, (2) Good – only minor maintenance required, (3) Satisfactory – maintenance work required (4) Poor – renewal required, (5) Very poor – urgent renewal/upgrade required (OLG Code of Accounting Practice, p 5).

We have generally used averages of the forecasts over the next 5 years for these indicators to smooth annual variability. In this chapter we also present data over a longer timeframe in some tables and charts, however we note that data beyond 5 years is subject to greater variability.

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.[23] 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. 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% may 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*.

We found that, over the next 5 years:

- **Under the Proposed SV Scenario**, the council's OPR would meet the OLG benchmark of above 0%. Its average OPR over this period would be 15.9%.
- **Under the Baseline Scenario**, the council's OPR would remain below 0% in 2025-26 and remain relatively steady. Its average OPR over the period would be -3.2%.
- **Under the Baseline with SV expenditure Scenario**, the council's OPR would fall slightly further below 0% and remain relatively steady. Its average OPR over the period would be -8.7%.

This suggests that without the SV, the council would continue to have small operating deficits which would not be financially sustainable over the long term if the council is to deliver the services and infrastructure in its adopted plans. However, consistent with the findings of the Audit Office, a council's financial sustainability would be a serious concern if it fails to meet any of the three financial sustainability benchmarks (e.g. OPR, unrestricted current ratio and infrastructure renewals) for at least three years. Therefore, while the council has not adequately demonstrated the need for and purpose of the SV in its current application, the council should seek to address its financial sustainability within the next three years.

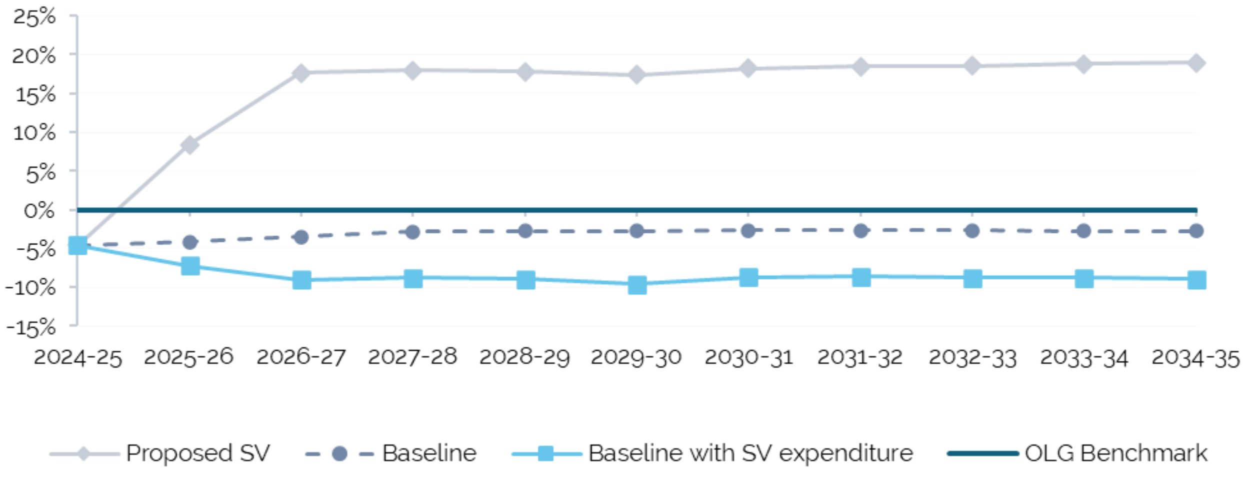
The council's proposed permanent SV shows the OPR reaching 19% by 2034-35. This is significantly above the both the OLG benchmark of greater than 0% and the council's historical average OPR. The council's historical OPR from 2021-22 to 2023-24 averaged -1%.[24] Under the council's previously approved SV in 2019-20 the projected OPR was expected to achieve around 5%.[25] The council's proposed SV would result in an OPR that is around three times this amount. This suggests the council's target OPR under the proposed SV is a significant change to its most recent past.

While the council's SV proposes to increase its financial sustainability by accumulating large financial reserves, it did not communicate this clearly with its community. The submissions state that this was because there were different versions of the LTFP, and key line items were not included within the draft for consultation. The missing line items were later shown to be the increases in the council's financial reserves. The IP&R documents did not explain what the council would do with the funds in financial reserves, or the reasons for substantially increasing financial reserves over the next 10 years. For some respondents, this raises concerns about the council managing and spending these funds with little accountability to the ratepayer.

We consider the projected OPRs under the council's proposal are too high, particularly in the context of cost-of-living pressures and affordability concerns for residents and ratepayers of the LGA and the lack of evidence of ratepayers' willingness to pay for building up financial reserves significantly above the OLG benchmark.

Our analysis of the impact of the proposed SV on the council's OPR over the next 10 years is summarised in Figure 4.1 and Table 4.1.

Figure 4.1 The council's projected OPR



Notes: OPR shown excludes capital grants and contributions
Source: North Sydney Council, Application Part A.

Table 4.1 The council's projected OPR under 3 scenarios (%)

	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35
Proposed SV	8.4	17.6	17.9	17.8	17.4	18.2	18.5	18.6	18.8	19.0
Baseline	-4.1	-3.5	-2.8	-2.8	-2.7	-2.7	-2.7	-2.7	-2.7	-2.8
Baseline with SV expenditure	-7.2	-9.0	-8.8	-9.0	-9.6	-8.7	-8.6	-8.8	-8.8	-8.9

Source: North Sydney Council, Application Part A.

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. We examined the council's cash and investments, and its net cash (debt) to income ratio. Box 4.2 explains 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 allocated.** 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 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 proposed SV. In some cases, this may be enough to avoid or delay the SV, or reduce its size. 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 balances subject to *external restrictions* and *internal allocations*.

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

The council advised us that on 30 June 2024, it held a total of $126.8 million in cash and investments. This comprised:[26]

- **$65.1 million externally restricted funds.** For North Sydney Council, examples include for developer contributions, domestic waste management, special rates and unspent borrowings for the North Sydney Olympic Pool project.[27]
- **$51.3 million internally allocated funds.** For North Sydney Council, examples include for capital works, employee leave entitlements, deposits, retentions and bonds and the North Sydney Olympic Pool project.[28]
- **$10.3 million unrestricted funds.** These funds can be used to fund the council's day to day operations.

This suggests that most of the council's cash reserves are committed to other purposes, except for the $10.3 million that is unrestricted. In addition, the council's LTFP indicates, that without an SV, its unrestricted cash reserves would be in a deficit $50.7 million by 30 June 2035.[29]

The council notes in its LTFP it has borrowed $49.07 million internally to fund the North Sydney Olympic Pool redevelopment – comprising $14.88 million from asset renewals and capital works funding and $34.19 million from internal reserves[i]. The council has also obtained external loans of $51 million.[30]

The council's SV proposal is to achieve significant operating surpluses to allow it to pay down the external loans and return its reserves to a financially sustainable basis to meet the benchmarks within 2 years. It states a large increase in Year 1 is required, to generate $25 million in additional revenue, to ensure the council has sufficient funds to honour its employee leave liabilities and repay bond deposits and other short-term payables when they fall due.[31] While this indicates a short-term financial need, we note the council has agreed to take on an additional $10 million loan in 2024-25 so that it can address the shortfalls in its reserves and partially restore the employee leave liabilities and bond deposit reserves.[32]

In addition, the council has completed analysis to show that historically (from 2010-11 to 2023-24) it held, on average, $28 million in unrestricted cash and investments each year.[33] We consider the council has not demonstrated a need to return the reserves balance to its historic average in the first year of the SV.

Net cash (debt) to income ratio

We calculated that as at 30 June 2025, the council would have net cash of $7.8 million. The council would have a net cash (debt) to income ratio of 5.7%.

Over the next 5 years:

- **under the Baseline Scenario**, the council's net cash (debt) to income ratio would decrease from 5.7% in 2024-25 to -78.4% in 2029-30.

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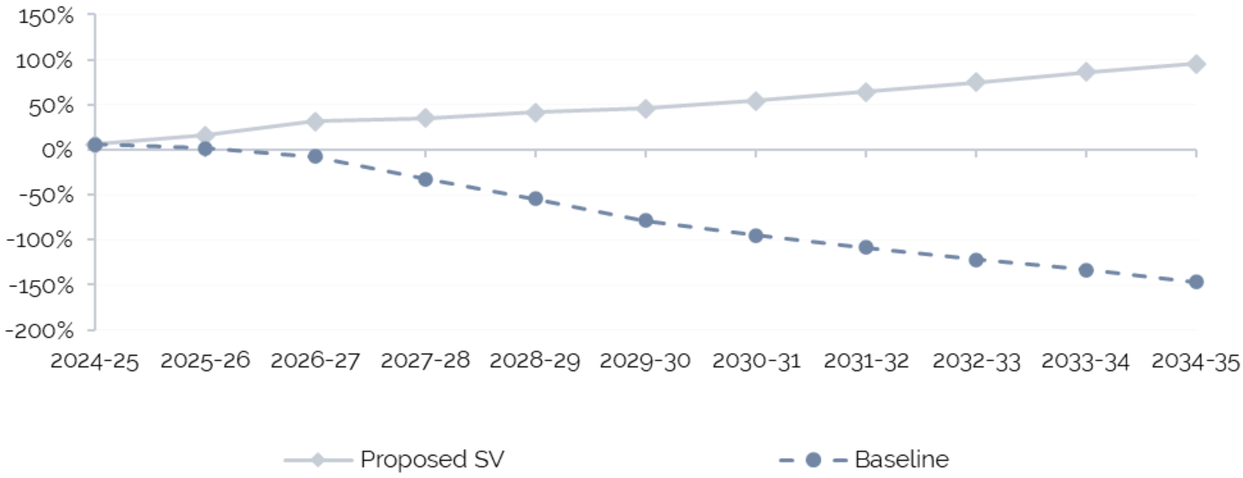
[i] This includes borrowing from reserves held for employee leave liability (North Sydney Council, Quarterly Budget September 2024, pp 6-7.

- **under the Proposed SV Scenario**, the council's net cash to income ratio would increase from 5.7% in 2024-25 to 45.4% in 2029-30.

The impact of the proposed SV on the council's net cash (debt) to income ratio over the next 10 years is presented in Figure 4.2.

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



Source: North Sydney Council, Application Part A, Worksheet 9.

Unrestricted Current Ratio

A council's unrestricted current ratio is an indicator of its financial position. For example, it indicates whether a council has adequate levels of working capital to satisfy its obligations in the short term. We examined the council's unrestricted current ratio. Box 4.3 explains this further.

Box 4.3 Unrestricted current ratio

The unrestricted current ratio (UCR) measures the adequacy of working capital and the ability of a council to satisfy its obligations in the short term. It does not include externally restricted activities such as water, sewer or specific grants and contributions.

$$Unrestricted\ current\ ratio = \frac{(Current\ assets) - (External\ restrictions)}{(Current\ liabilities) - \ (specific\ purpose\ liabilities)}$$

The unrestricted current ratio represents a council's ability to meet its short-term obligations as they fall due.

Box 4.3 Unrestricted current ratio

The OLG has set a benchmark for the ratio of greater than 1.5 times.

An unrestricted ratio of 4.45 means that a council has $4.45 in unrestricted current assets to meet $1.00 of unrestricted current liabilities. A ratio of 1.5 or less is considered unsatisfactory.

Source: Office of Local Government, *Performance Benchmarks*

We calculated the council's unrestricted current ratio over the next 5 years and found:

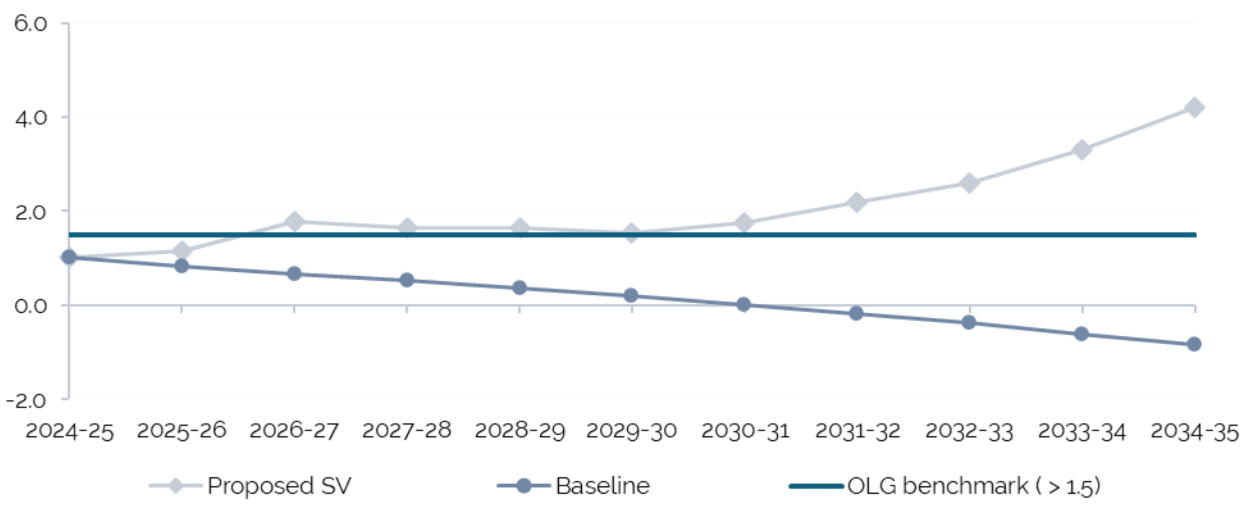
- **Under Baseline Scenario**, the ratio remains below the OLG benchmark of >1.5, averaging 0.5 times over the period.
- **Under the Proposed SV Scenario**, the ratio meets the OLG benchmark by 2026-27 and averages 1.5 times over the period.

This suggests that without the SV, the council would continue to have short-term liquidity issues. However, with the proposed SV we note from 2030-31 the ratio starts to improve and is projected to reach 4.2 times by 2034-35, which is more than double the OLG benchmark. We consider that holding large cash reserves at a level more than double the benchmark is not reasonable without demonstrated community support and willingness to pay.

Submissions have told us that they have concerns about the council exceeding the OLG benchmarks by a significant margin, and that having excess reserves could allow the council to be less transparent and accountable with how it uses the reserves.

Our analysis of the impact of the proposed SV on the council's unrestricted current ratio over the next 10 years is summarised in Figure 4.3 and Table 4.2

Figure 4.3 The council's unrestricted current ratio



Source: North Sydney Council, Unrestricted Current Ratio and Reserves Working Paper and IPART analysis.

Table 4.2 The council's unrestricted current ratio under 2 scenarios

	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35
Proposed SV	1.1	1.8	1.6	1.7	1.5	1.8	2.2	2.6	3.3	4.2
Baseline	0.8	0.7	0.5	0.4	0.2	0.0	-0.2	-0.4	-0.6	-0.8

Source: North Sydney Council, Unrestricted Current Ratio and Reserves Working Paper and IPART Analysis

Taking into account the council's OPR, net cash position and unrestricted current ratio, we found that the council does not demonstrate a financial need for the proposed 2-year permanent SV.

The OLG benchmark for OPR is greater than zero, but the proposed SV is forecast to produce an OPR of 17.6% by year 2, resulting in an average $40 million surplus each year.[34] The council has proposed an SV that results in these high OPRs to generate surplus funds, primarily for capital works and for other unspecified purposes. The council did not clearly communicate the need for and purpose of the SV in its IP&R documents, and submissions have raised concerns about the lack of transparency and accountability of allowing the council to accumulate significant financial reserves in the current economic climate and cost of living pressures.

We note that in the Baseline Scenario:

- its average OPR over the next 5 years would be -3.2%, which shows its operating expenditure exceeds revenue
- its average net cash ratio over the next 5 years would be -34.3%, which shows that the council does not hold sufficient reserves to meet its planned spending
- its average unrestricted current ratio over the next 5 years would be 0.5 times, which is below the OLG benchmark of 1.5.

This indicates the council demonstrates some financial need for the SV, as negative OPRs are not financially sustainable and net cash would continue to decline over the next decade. However, consistent with the findings of the Audit Office, a council's financial sustainability would be a serious concern if it fails to meet any of the three financial sustainability benchmarks (e.g. OPR, unrestricted current ratio and infrastructure renewals) for at least three years. Therefore, while the council has not adequately demonstrated the need for and purpose of the proposed SV in its current application, there is need for the council to address its financial sustainability within the next three years.

Going forward the council will need to consider a range of options including engaging with its community to develop a robust financial strategy that meets the needs of its community including cost saving measures or other productivity improvements to address its long-term financial sustainability. In submissions we received, community members made several suggestions for alternatives to the SV, such as sale of assets, sponsorship opportunities, operational savings or other cost saving measures, reduced or staged rate increases or loan funding to spread out the costs.

If the council decides to make a further application for a special variation, it should balance the council's financial need with its community's expectations and carefully consider the requirements of the OLG Guidelines. For example, we would expect the council to clearly explain the purpose of the SV. If that is to accumulate large financial reserves, then the council would need to confirm community willingness to pay and support, given that the accumulation of financial reserves cannot be directly linked to the provision of services to the community. We would also expect the council to consider the impact of any proposal on all its ratepayers, including the phasing in of large increases in rates over a longer period of time, to allow the community time to adjust their household budgets.

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, infrastructure renewals and asset maintenance 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 the council is renewing its infrastructure assets against the rate at which they are depreciating. OLG's benchmark for the infrastructure renewals ratio is greater than 100%.
- **The asset maintenance ratio** compares actual versus required asset maintenance. OLG's benchmark for the asset maintenance ratio is greater than 100%.

See Box 4.4 for more information on these ratios.

Box 4.4 Infrastructure ratios for councils

Infrastructure backlog ratio

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

The infrastructure renewals ratio 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%.

Asset maintenance ratio

Where relevant, we may also consider the council's asset maintenance ratio. This compares the actual versus required asset maintenance.

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

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

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

Impact on infrastructure backlog ratio

We found that over the next 5 years[j], the council's infrastructure backlog ratio would be:

- 9.0% under the Baseline Scenario
- 7.6% under the Proposed SV Scenario.

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

As Figure 4.4 shows, we found that with the proposed SV, the council's infrastructure backlog ratio would meet the OLG benchmark within 10 years. Without the SV, the council's infrastructure backlog would fail to meet the OLG benchmark remaining around 9% over the next 10 years.

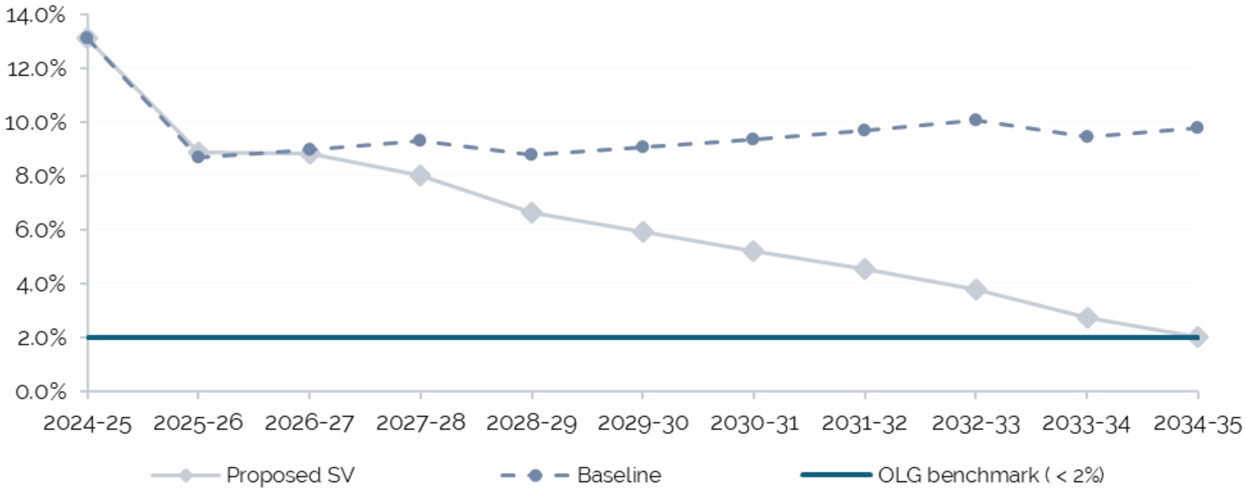
Several submissions have raised concerns about the council's calculation of the infrastructure backlog. The submissions stated that in 2022-23 the council changed its calculation of the infrastructure backlog by changing the definition of what is considered a backlog. The council previously reported the cost to bring to satisfactory condition based on assets in category 5 (very poor). In 2022-23, it changed its calculation to also include category 4 (poor) assets.[k] The effect of this change was to increase the reported infrastructure backlog from 3.7% in 2021-22 to 13.2% in 2022-23.[35] Some submissions have told us that this increased the reported backlog by $100 million, to $143 million.[36] One submission completed analysis to show that North Sydney Council's approach to calculating the backlog inflates the size of the backlog relative to other NSW councils.[37]

The council did not undertake consultation with its community to determine the 'agreed level of service'. The changes it made to the calculation of the backlog were self-initiated and are in accordance with the Local Government Code of Accounting Practice.[38] The requirements under the code are broad and allow councils to make changes to the classification of assets as backlogs, noting that if the council has not undertaken consultation with its community on the agreed condition level of assets, then backlogs should be measured against condition 2 rating of 'Good' stated in the Integrated Planning and Reporting Manual for local government in NSW. North Sydney Council notes under the code this would mean including category 3, 4 and 5 into their backlog figures, increasing the overall backlog to $560 million. The council opted to use the standard of satisfactory/fair (category 3) as the condition to aspire to, rather than 'good'.[39]

However, stakeholders have raised concerns about the transparency of the council changing its definition of what constitutes a backlog without community engagement or input and using this change in service standards to justify the SV. Some submissions have noted that they do not have concerns with the current condition of assets. The change in its approach to the infrastructure backlog was not communicated during the SV consultation.

[k] Key for asset condition: (1) excellent/very good – no work required, (2) Good – only minor maintenance required, (3) Satisfactory – maintenance work required (4) Poor – renewal required, (5) Very poor – urgent renewal/upgrade required (OLG Code of Accounting Practice, p 5).

Figure 4.4 The council's infrastructure backlog ratio



Source: North Sydney Council, Application Part A.

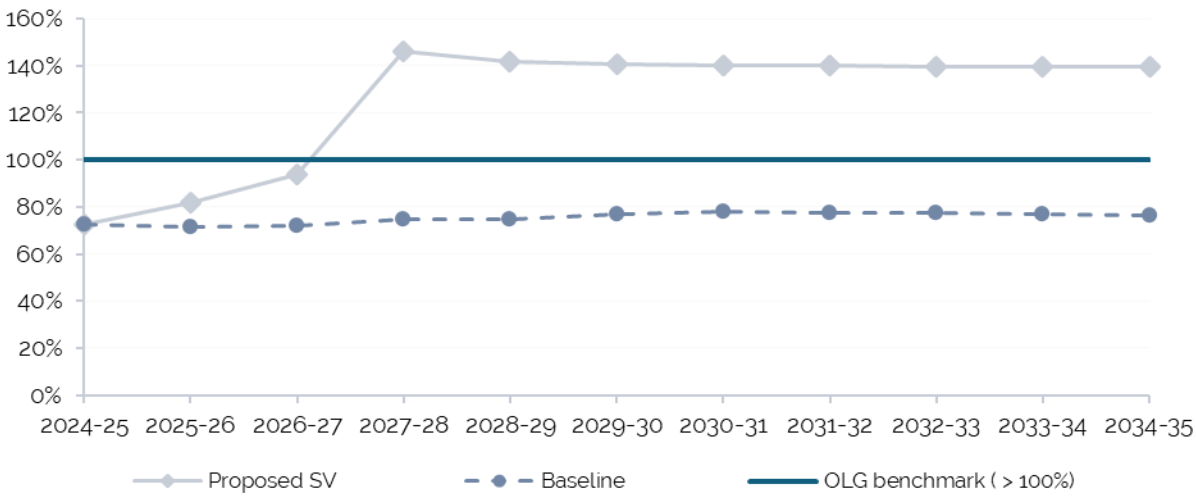
Impact on infrastructure renewals ratio

We found that over the next 5 years[l], the council's infrastructure renewal ratio would be:

- 120.9% under the Proposed SV Scenario
- 73.9% under the Baseline Scenario.

As Figure 4.5 shows, with the proposed SV, the council's infrastructure renewal ratio would reach 94.0% by year 2 of the SV and remain around 140% for the rest of the 10-year period. Without the proposed SV, the council's infrastructure renewal ratio would remain below the OLG benchmark, averaging around 75.6% over the 10 years.

Figure 4.5 The council's infrastructure renewal ratio (%)



Source: North Sydney Council, Application Part A.

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

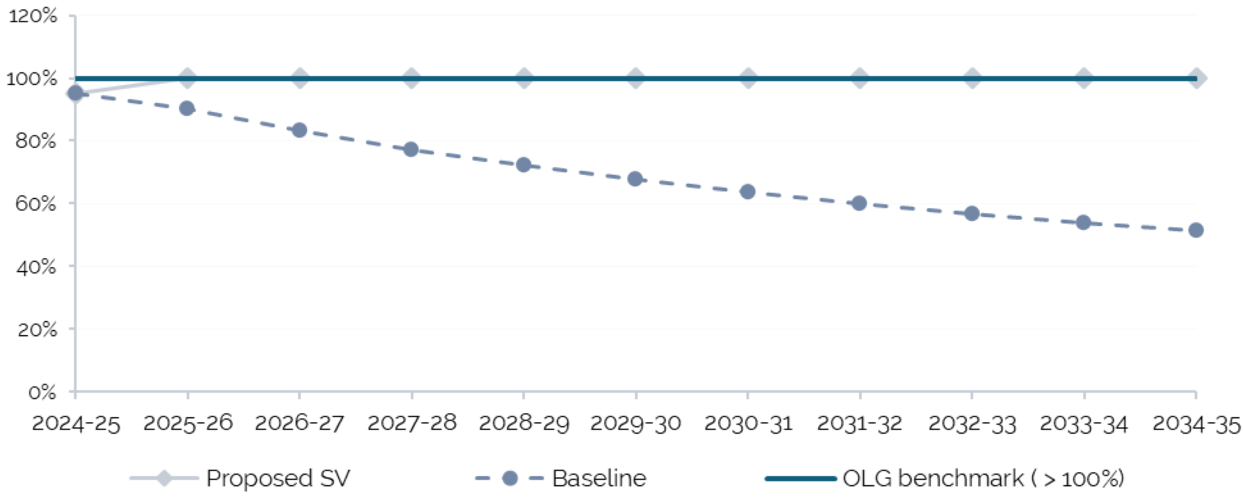
Impact on asset maintenance ratio

We found that over the next 5 years[m], the council's asset maintenance ratio would be:

- 100.0% under the Proposed SV Scenario
- 78.1% under the Baseline Scenario.

As Figure 4.6 shows, with the proposed SV the council's asset maintenance ratio would meet the OLG benchmark over the next 10 years. Without the proposed SV, the council's asset maintenance ratio will remain below the OLG benchmark and continue to deteriorate over the next 10 years.

Figure 4.6 The council's asset maintenance ratio (%)



Source: North Sydney Council, Application Part A.

Our analysis of the infrastructure backlog ratio, infrastructure renewal ratio and asset maintenance ratio shows that each of the ratios are improved with the proposed SV compared to the baseline scenario without an SV. This supports the financial need for the SV.

But as noted above, many stakeholders raised concerns about the council's estimated infrastructure backlog being artificially expanded to make a case for an SV. While the changes the council made are self-initiated and in accordance with the Local Government Code of Accounting Practice, many submissions note that the council did not communicate the change to the community at the time the change was made, or as part of the SV consultation for which the infrastructure backlog and infrastructure renewal is a key component.

Given the higher backlog was created by a self-initiated definition change of what's included in the backlog (affecting the infrastructure backlog ratio and asset maintenance ratio), it raises questions about whether the community agrees with the change in service standards for its assets and therefore whether an SV is required to improve the standard of its assets. We consider that the infrastructure backlogs, renewals and asset maintenance are issues that can be addressed over the longer term and in consultation with the community.

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

The council's current small negative OPR, unrestricted current ratio and net cash ratio declining over the next 5 years indicates some financial need for the SV. In addition, the council states it needs to improve its financial sustainability by significantly increasing its financial reserves to allow it to respond to unforeseen circumstances. However, the council's high OPR of 17.6% by the end of the proposed 2-year SV is not reasonable in circumstances where the council did not clearly identify and explain the need and purpose of the proposed SV. This proposed SV would allow the council to generate an average surplus of $40 million each year.[40]

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 these documents do not clearly show that the council adequately canvassed the alternatives. For example, the council's LTFP included the baseline scenario, but this was not clearly labelled and identified in the document. The council then introduced the 4 options for consultation, which excluded the baseline scenario.[n]

The Delivery Program notes the council has been implementing operational improvement initiatives to increase efficiencies and reduce costs, but states this is limited by outdated and ineffective systems and is not sufficient to address the growing financial deficit alone. It also states cutting services, renewals and capital projects is not a sustainable solution and has resulted in a significant backlog of projects and asset renewals.[41]

The council did not include any other alternatives to a rate rise in its IP&R documents or its community consultation materials. The other options it considered were explained in Application Part B, submitted to us, but not included within its LTFP or Delivery Program.

The council told us that after considering the need for the SV, the 'no SV' option was not provided following consideration of the following alternatives to repair and strengthen the council's financial position:

- other sources of income
- loan funding
- sale of council owned property
- delayed asset renewals
- delaying actions on the councils Informing Strategies
- removing funding for new corporate systems
- organisation improvements.[42]

We note that some of these options appeared to be a result of the PwC Report into the North Sydney Olympic Pool project and appear to have been considered by the elected council in 2023, well before the SV was put forward.[43]

[n] As part of showing the impact of the SV under the 4 options, the ratepayer impact tables included the average rates for the baseline scenario.

5 Our assessment of OLG Criterion 2 - Community awareness

OLG 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 whether the council met OLG Criterion 2, 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.

We found that on balance the council did not meet this criterion. The council's community engagement materials did not provide sufficient information to enable its community to be fully aware of the need for and extent of the proposed SV.

The IP&R documents and associated consultation material did not clearly explain that a large proportion of the SV was to generate large surpluses to allow the council to grow its financial reserves to a level more than double its most recent past.[44] The documents also do not clearly outline what the council intends to do with the funds held in financial reserves. Some submissions raised that only around 10% of the funds of the SV is related to the North Sydney Olympic Pool project, but this was not made clear as part of the council's consultation materials.

The IP&R documents and community consultation material also did not clearly show the extent of the rate rise under the proposed SV. While the percentages were shown in separate tables to the projected average rates in dollar terms, the total cumulative dollar increases each year under the SV were not shown.

The council included some information on its organisational reviews and objectives to improve efficiencies, but there were no significant past cost savings identified or specific future commitments to cost savings or productivity improvements.

The sections below discuss our assessment of Criterion 2 in more detail.

5.1 Stakeholder comments on community awareness

In submissions to IPART, many stakeholders raised concerns related to the council's community consultation, including that the council:

- Did not undertake genuine consultation, with feedback ignored.
- Conducted consultation over Christmas and New Year, limiting the community's ability to provide meaningful feedback.
- Consulted on a wish list with its Informing Strategies, with no mention of how much things cost, then claimed it had a mandate for new and extra services.
- Mislead the community on the purpose of the SV, with only about 10% of the SV over next 10 years to fund the North Sydney Olympic Pool project.
- Did not sufficiently inform business ratepayers about the impact of the SV on average rates - the factsheet compared average residential rates with other councils, but did not compare average business rates.
- Did not disclose how much of the SV funding would be allocated to unrestricted reserves.
- Was not transparent about how the council was suddenly in a weak financial position, requiring an SV, when financial concerns had not been raised previously.
- Survey was flawed, forcing respondents to choose between several large rate increase SV options, and without a 'no SV' baseline option – this meant survey participants could not complete the survey if they refused to select one of the council's SV options. While the council corrected its survey part way through, several stakeholders suggested this has skewed the results of the survey.
- Did not provide any evidence on past cost savings or make any commitment to future cost savings or productivity improvements.

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 council.

We received 1,648 responses. While there were mixed views, most respondents did not agree that the council considered community feedback in its decision making. The full results are presented in Figure B.2 in Appendix B.

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

5.2 Our assessment of the 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 with the community provided timely opportunities for ratepayers to be informed and provide 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 on balance the information the council provided to ratepayers about the proposed SV was not sufficient to create awareness of the need for and extent of the rate rise.

The consultation materials the council prepared for ratepayers on its proposed SV included some of the content needed to ensure ratepayers were well informed and able to engage with the council during the consultation period. However, the materials could have presented the required information more clearly to its ratepayers.

The council's materials generally set out:

- The need for the SV, although it did not clearly show how much of the SV would fund the costs of the North Sydney Olympic Pool project, compared to the accumulation of financial reserves (surpluses) to improve financial sustainability and how these funds would be used.
- The cumulative percentage increase of the proposed SV, with the percentage increases shown in separate tables to the projected average rates in dollar terms for the residential and business ratings categories. The cumulative dollar increases each year under the SV were not shown, although ratepayers could have calculated what the cumulative dollar increases of the proposals were.
- What the additional income from the proposed SV would fund, including:
  - strengthening and stabilising finances and reduce the structural deficit
  - delivery of current services
  - address growing backlog of infrastructure maintenance and renewal
  - reducing internal and external debt associated with the North Sydney Olympic Pool project
  - securing financial sustainability to meet the needs of a growing and changing population.

  However, the strengthening of finances to achieve significant surpluses (achieving an OPR of 17%) was not clearly identified or explained to the community as the primary purpose of the SV.
- How to find out more information.

The council also provided a short description of activities it has undertaken to achieve cost savings in the past and in the future. The council provided some quantification of past cost savings and future savings, however the amounts identified were not substantial as a proportion of the council's expenditure. The engagement materials included short descriptions of reviews the council will complete to identify cost savings but no future quantifiable commitments to efficiency savings have been made.

The council also set out its ongoing efficiency measures in its publicly available *Organisational Improvement Plan*, where it has outlined some past and future initiatives. However, most of the discussions were vague and the quantified savings were not significant for a council of its size and available resources.

Having regard to the shortcomings in the information provided to ratepayers, we consider that the council did not adequately create awareness of the need for the proposed SV.

5.2.2 Engagement methods used

We found the council used an appropriate variety of engagement methods to promote awareness of its proposed rates increase and provided opportunities for ratepayers to provide feedback.

The council consulted between 27 November 2024 and 10 January 2025. It used a wide variety of engagement methods including:

- online survey with 792 responses, an additional 227 submissions provided (represents 1.4% of the council's population)
- held an in-person workshop with 42 demographically selected people
- 426 people attended face-to-face or online information sessions, precinct committee meetings or workshops
- social media channels and e-newsletter, with 6,115 subscribers for general council, events and precinct news
- factsheet directly mailed to all residents
- the council updated FAQs on its website as questions came through the consultation.[45]

Given the size of the proposed increases and the controversy over the North Sydney Olympic Pool redevelopment, the council's proposal received wide media coverage across national media.

5.2.3 Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was on balance, not adequate.

The council consulted with the community on the SV from 27 November 2024 to 10 January 2025. Stakeholders have told us that this timing was inappropriate, with many from the community unaware of the council's SV consultation. Several stakeholders raised concerns about the timing of the consultation period over the holiday period and suggested that this may have impacted the community's ability to provide feedback on the proposed SV.

In addition, the council consulted its community in May and June 2024 on its draft Informing Strategies. Stakeholders have told us that this consultation asked residents about their wish list of projects and services but did not disclose the financial costs, the poor financial position of the council and that rate increases would be required in order to implement the Informing Strategies. Submissions indicated that it was only later, when the SV consultation started in November 2024, that it became clear that the consultation on the Informing Strategies would be used to justify the SV. We consider that the council should have informed its community that it intended to use consultation on the Informing Strategies for the purposes of its SV application. These omissions would have had a material impact on feedback received during the council's consultation process.

Submissions also raised concerns about the council meeting held on 10 February 2025 to approve submitting its SV application to IPART. Submissions noted at this meeting, there were 44 registered speakers and due to the available time only 25 people were able to speak at the meeting. The submissions raised concerns that while 25 people spoke in opposition of the SV, the speeches were not included in the meeting minutes that were submitted to IPART within an hour of the council meeting finishing. Submissions suggested that there was inadequate time for the council to consider the feedback from the meeting before submitting its application.

5.2.4 Council consideration of outcomes of community consultation

As noted above, OLG 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 on balance the council did not appropriately consider the results of community consultation.

During the council's consultation period on the SV, it regularly updated its FAQs on its website as community concerns were raised. This included providing responses to suggestions that the council should consider alternatives to the rate rise such as pursuing cost savings and productivity improvements. However, its community consultation materials did not actively consider or ask the community about the alternatives to a rate rise.

We found that while the council considered the issues raised in the community engagement process, the responses in the Community Engagement Outcomes Report were vague and did not address community concerns. The report only stated the feedback it received and did not provide a satisfactory response to each of the issues raised.[46]

The key themes raised in the consultation include the mismanagement of the North Sydney Olympic Pool project, concerns over the council's financial management generally, not being presented with smaller or 'no SV' option, alternatives to an SV, cost of living concerns, timing of consultation and greater accountability and transparency in how funds are managed.

The report found that of the 792 responses to the council's online survey:

- 56% preferred option 1 – financial repair, 25% of responses did not indicate a preference or stated they did not support the SV. 9% supported option 3 – future growth and 6% supported option 2a -strength and sustainability (recommended SV option).
- 78% said 'no' to the question on willingness to pay for the Informing Strategies.

The most common reason for opposing the SV was that residents shouldn't have to pay for increased costs of the North Sydney Olympic Pool project. Approximately 38% of respondents suggested a range of alternatives to the SV including selling assets, cutting costs either through operational efficiencies or service reductions, seeking government assistance or using debt appropriately.

Affordability and ongoing cost of living was nominated as a concern by approximately 16% of respondents. Most noted that the SV options were unaffordable and objected to the size of the increases. A small number of responses supported the SV as necessary but noted the increases were too significant.[47]

The Council considered the Community Engagement Outcomes Report at its meeting on 10 February 2025. In response to feedback, the council changed its SV option to 45% in Year 1 and 29% in Year 2 (from 50% in Year 1 and 25% in Year 2) and reduced the minimum rate increase in Year 1 from $1,300 to $1,200 for residential ratepayers in response to cost-of-living concerns. The council also agreed to take a $10 million loan in 2024-25 to support the revised option. We note that the overall impact of the changes it made in response to stakeholder feedback is only marginal. The cumulative percentage increase over 2 years reduced from 87.50% to 87.05%.

The council meeting on 10 February 2025, where the Council decided to make its application to IPART was well attended with further feedback provided. Over 200 people attended, and there were 25 verbal submissions from the community who expressed opposition to the SV. The meeting closed at around 11pm, and the council submitted its application to IPART around midnight, with some submissions to IPART suggesting the feedback from the meeting was not considered.

6 Our assessment of OLG Criterion 3 - Impact on ratepayers

OLG 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 proposed SV's impact on ratepayers received through our feedback form and submissions and analysed the council's assessment of the impact of the SV on ratepayers. We also undertook our own analysis to assess whether this impact is reasonable.

We found that the council did not meet Criterion 3.

We consider the impact of the proposed SV on ratepayers is not reasonable.

The council commissioned Morrison Low to assess and report on the community's capacity to pay the proposed rate increases. Having regard to that report, the council concluded the community has sufficient capacity to pay the proposed rate increases based on the high level of advantage found in the community which is measured against SEIFA and IRSAD indexes. This report is based on 2021 Census Data, which is the latest available data. We note that this data may not accurately reflect the current cost-of-living pressures faced by many in the community, including renters and those on fixed incomes.

While the report concluded that there is significant advantage and potential capacity to pay, we do not consider that the size of the proposed increase in rates within a two-year period is reasonable given the council has not adequately demonstrated the need for and purpose of the SV. We also consider that the size of the proposed increase in rates within a two-year period does not provide the community with sufficient time to adjust their household budgets. We do not consider the council's hardship policy is adequate to provide meaningful assistance to vulnerable ratepayers.

The council also concluded that business ratepayers have capacity to pay the proposed rate increases. However, the Morrison Low report acknowledges that current business rates are at the higher end relative to comparable councils (based on 2023 OLG data). The report also does not adequately assess the impact on business ratepayers. The report considers broad economic indicators averaged over the last 10 years which does not adequately consider the impact on business ratepayers given the size of the proposed rate increases.

The sections below discuss our assessment of OLG Criterion 3 in more detail.

6.1 Impact of the proposed SV on rates

6.1.1 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 ratepayer category under the proposed 2-year permanent SV. It shows that from 2025-26 to 2026-27:

- the average residential rate would increase by $843 or 80.9% in total
- the average business rate would increase by $6,465 or 95.7% in total.

Table 6.1 Impact of the proposed special variation on average rates

	2024-25 (Current)	2025-26	2026-27	Cumulative increase
Residential average rates ($)	1,041	1,461	1,884	
$ increase		419	423	843
% increase		40.3	29.0	80.9
Business average rates ($)	6,754	10,248	13,219	
$ increase		3,493	2,971	6,495
% increase		51.7	29.0	95.7

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

6.1.2 Impact of proposed SV on minimum rates

The council calculated the impact on ratepayers on the minimum rate. Table 6.2 sets out its proposed increases in minimum rates in each ratepayer category under the proposed 2-year permanent SV. It shows that from 2025-26 to 2026-27:

- the minimum residential rate would increase by $833 or 116.4% in total
- the minimum business rate would increase by $1,091 or 152.5% in total.

Table 6.2 Impact of proposed special variation on minimum rates

	2024-25 (Current)	2025-26	2026-27	Cumulative increase
Minimum rate - Residential	715	1,200	1,548	
% increase		67.8	29.0	116.4
$ increase		485	348	832.76
Minimum rate – Business	715	1,400	1,806	
% increase		95.7	29.0	152.5
$ increase		685	406	1,091

Source: North Sydney, Part A application Worksheet 7.

6.2 Stakeholder comments on the impact on ratepayers

Most submissions we received raised concerns about the impact of the proposed SV on the affordability of rates. There are 36,890 residential and 3,485 business ratepayers in the council area.

There was widespread concern from residential and business ratepayers about the proposed 87.05% increase over 2-years in the current economic climate and rising cost of living.

Major concerns raised include:

- The proposed increase is unreasonable and would negatively impact residents (including renters), businesses and the retail sector.
- The rate increase will cause significant hardship for pensioners and others on fixed incomes, noting many residents are asset rich but cash poor.
- Lack of consideration of lower SV options or consideration for a phased in approach for such large increases.
- The council has not revised its hardship policy for those affected by the rate increase or those facing financial hardship because of the proposed rate increases. The hardship policy is inaccessible to the community due its requirements, being out of touch with reality. The hardship policy doesn't cover non-resident ratepayers, provides relief in the first year only, and business owners and investors receive no support. The hardship policy is not fit for purpose and is not sound practice.
- Criticisms of the Morrison Low's capacity to pay report, noting the report uses highly aggregated measures with no critical evaluation on how the affected ratepayer has capacity to pay. The submissions also raised that the data is also outdated (latest census data from 2021) and does not reflect the recent economic climate including high inflation, high rents, high interest rates.
- The Morrison Low capacity to pay report does not adequately consider or substantiate the impact on business ratepayers and their capacity to absorb the proposed increases. The significant impact on the small businesses in the LGA need to be considered. The well-reported data on number of business failures in Australia, needs to take careful step in increasing rates for Small to Medium Enterprise (SMEs). The submissions state the Capacity to Pay Report by Morrison Low omits this consideration.
- Businesses, particularly small retailers, cafes and service providers have expressed concerns that increased rates will make it even harder to operate, potentially leading to closures and job losses. Rather than supporting economic recovery the rate increases would have the opposite effect, weaking the local economy and reducing investment in the area.

In our feedback form, we asked respondents how much they agree or disagree with 4 statements about the affordability of the rate increase proposed by the council.

We received 1,648 responses. Around 95% of these responses did not agree that the rate increase was affordable (disagreed or strongly disagreed). A similar proportion did not agree 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 B.3 in Appendix B.

We have considered these concerns as part of our assessment of this criterion, alongside other available information. We acknowledge that ratepayers are experiencing cost-of-living pressures, and the rate increases associated with the SV will add to those.

As outlined above, on balance we do not consider the impact of the increases on ratepayers is reasonable, given the size of the increases proposed for both residential and business ratepayers. For residential ratepayers the council does not have an adequate hardship policy to support such large increases in rates. For business ratepayers, adequate consideration of the impact has not been undertaken to justify such large increases in rates.

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 on the community, demonstrate the council's consideration of the community's capacity 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 did not clearly communicate the average rates per rating category if the 2-year SV of 87.05% (45% in year 1 then 29% in year 2) was implemented. For example:

- the percentage increases and estimated average rates were shown in separate tables
- the cumulative total percentage increase and cumulative total dollar increase is not shown.

Similarly, the Delivery Program includes a table showing the percentage increases under the options but does not show the cumulative increase or the dollar impact on rates.

6.3.2 The council's consideration of capacity to pay

The council's capacity to pay analysis, undertaken by its consultant Morrison Low, provides an analysis and evaluation of relative wealth and financial capacity to pay the proposed rate increases within the North Sydney LGA. It also examines financial vulnerability and exposure of different community groups within the LGA.

The Capacity to Pay Report concluded that the ratepayers had capacity to pay. Using data including the 2024-25 average rates for some OLG Group 3 councils and 2021 census, it noted:

- All residential groupings have significant levels of advantage, demonstrated by high levels of household income, high socio-economic scores and high levels of home ownership. Each grouping is ranked within the top 1% or 2% of all areas within Australia for advantage according to the Socio-Economic Indexes for Areas (SEIFA) and Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD). Based on the data demonstrating high levels of advantage and relative low potential for mortgage and rental stress, in addition to comparably low numbers of pensioners and other individuals requiring core assistance, the council considered that there is capacity to pay across all groupings.
- According to 2023 OLG data, the council's average business rates sit at the higher end when compared to comparable councils (e.g. Parramatta, Randwick, Willoughby). If the SV was implemented, business rates would move to the top of this grouping for comparable councils. The substantial increase in jobs (19,061 FTE) and value added by industry ($6.14 billion) within the LGA over the past 10 years, in addition to high business rents per square meter in North Sydney and St Leonards, indicate a very healthy, competitive and vibrant economy within the North Sydney LGA. The report concludes there is capacity within the business community to absorb the rate rises.

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 socio-economic indicators, historical hardship applications and outstanding rates data
- what hardship provisions the council has in place to mitigate the impact.

We found that the impact on ratepayers is not reasonable.

For residential ratepayers, while the socio-economic indicators of SEIFA and IRSAD indexes shows the community has a significant level of advantage (rank 126 out of 128), we do not consider the proposed large increases in rates within a two-year period is reasonable given the council has not adequately demonstrated the need for and purpose of the SV. We also consider that the large increase in rates within a two-year period does not provide the community with sufficient time to adjust their household budgets. Also, the council does not have an adequate hardship policy in place to mitigate the impact on ratepayers who may not have the capacity to pay.

For business ratepayers, the council has not adequately assessed the capacity of business ratepayers to pay the proposed SV increases. Given the size of the proposed increases, we would expect the council to undertake a comprehensive assessment of the capacity to pay of business ratepayers. Apart from considering average business rates and a few high-level economic indicators of business activity over the past 10 years, it is not clear the council has adequately considered the impact on business ratepayers. Given the size and purpose of the SV, we consider the impact on business ratepayers is not reasonable.

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 higher than the rate peg. As Table 6.3 shows, residential rates have increased at an annual average rate of 4.7%, compared to the average rate peg of 2.94% over the same period. This is due to its 2019-20 special variation.

Table 6.3 Historical average rates in North Sydney Council ($nominal)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Average annual growth (%)
Residential	825	878	968	982	986	1,041	4.8
Business	4,886	5,158	5,518	5,679	6,318	6,754	6.7

Note: 2024-25 rates are an estimate based on 2023-24 rates escalated by the rate peg or the council's SV.
Source: OLG, Time Series Data 2023-24, North Sydney Council, Application Part A, IPART calculations

6.4.2 How the council's rates compare to other councils

We compared the council's current average rates, and what they would be with the SV, with those of comparable councils. We then considered these findings together with the socio-economic comparisons discussed in section 6.4.3 and the available hardship provisions discussed in section 6.4.4 to help us assess the reasonableness of the proposed rate increase. Box 6.1 outlines how we selected the comparable councils for this analysis.

Box 6.1 Comparable councils

In our analysis of rate level and capacity to pay indicators, we have compared North Sydney Council to other councils that are comparable to it based on their locality, SEIFA rank, OLG group. We also compared North Sydney Council to other council areas with a Central Business District.

Comparable councils based on locality

Comparable councils based on locality includes neighbouring and nearby local government areas (LGAs). These council areas are not necessarily similar, but as ratepayers are more likely to be familiar with them and the differing service levels they provide, this comparison may help them assess their own rates level.

The councils we used for this comparison are Lane Cove, Mosman, Northern Beaches, Waverly and Willoughby councils. These councils are geographically close to North Sydney Council, but do not necessarily share a common border.

Comparable council based on SEIFA rank

Comparable councils based on SEIFA rank means councils whose LGAs have similar levels of socio-economic advantage and disadvantage, as measured by Socio-Economic Indexes for Areas (SEIFA). SEIFA is a series of indexes that rank Australian LGAs according to relative socio-economic factors. It is developed by the Australian Bureau of Statistics using the latest census results (currently 2021). We used the 'Index of Relative Socio-economic Advantage and Disadvantage' which includes 23 variables covering income, household make-up, housing, education levels and employment.

North Sydney Council has a SEIFA rank of 126 out of 128 NSW councils. In general, a lower SEIFA rank indicates a higher level of relative disadvantage.

We compared the council's average rates with those of other metropolitan councils with a similar SEIFA rank. The 4 metropolitan councils with the closest SEIFA rank (excluding Mosman, Waverly and Lane Cove councils since these have been already selected as comparators based on locality) are Ku-ring-gai Council, The Hills Shire, Canada Bay and Hornsby councils.

Comparable councils with central business district (CBD)

Comparable councils with CBD means other councils that have a significant central business district within the LGA. Submissions have raised that North Sydney Council compared its average rates with non-comparable councils, and that the council should have selected councils with large central business districts such as City of Sydney, Strathfield, Burwood and Parramatta councils. We have included these councils in our analysis.

Comparable councils based on OLG group

Comparable councils based on OLG group means the other councils in the same OLG group as North Sydney Council.

The OLG sorts councils into groups for comparison purposes. These groups are based on broad measures such as their LGAs having similar levels of development (metropolitan, regional, rural), and populations. Councils in each group may have some similarities in terms of their service levels and costs, but there may also be some broad differences between them.

North Sydney Council is in OLG Group 3, which comprises medium sized metropolitan council areas with a population between 30,001 and 70,000.

Group 3 includes 18 councils in total, including Parramatta, Waverly, Willoughby and Northern Beaches councils.[48]

Our comparison of the council's average residential rates is set out in Table 6.4. It shows that:

- In 2024-25, its average residential rates are lower than the averages for comparable councils based on locality, SEIFA and OLG Group 3 councils. In the final year of the proposed SV period (2026-27), these rates would be higher than the averages for comparable councils based on locality, SEIFA and OLG Group 3 councils.
- Compared to councils with a CBD, like Parramatta and City of Sydney, the average rate is similar in 2024-25, but with the proposed SV the average residential rate will be higher than the average by 2026-27.

Our comparison of the council's average business rates is set out in Table 6.5. It shows that:

- Its current average business rates are lower than the average for comparable councils based on locality. In 2026-27 these rates would be higher than the average for comparable councils based on locality.
- North Sydney's average business rate in 2024-25 is similar to the average of councils with a CBD. But with the proposed SV, the average business rate in 2026-27 would be higher than the average for councils with a CBD.

Table 6.4 Comparison of the council's average residential rates under the proposed SV (Average residential rate ($))

Council	2024-25 (Current)	2025-26	2026-27
North Sydney Council (OLG Group 3)	**1,041**	**1,461**	**1,884**
Comparable based on locality			
Lane Cove	1,459	1,516	1,554
Mosman	1,796	1,866	1,913
Northern Beaches	1,802	1,870	1,917
Waverly	1,347	1,399	1,434
Willoughby	1,350	1,401	1,436
Average	**1,624**	**1,686**	**1,728**
Comparable based on SEIFA rank			
Ku-ring-gai	1,721	1,826	1,871
The Hills Shire	1,300	1,381	1,415
Canada Bay	1,454	1,522	1,592
Hornsby	1,651	1,758	1,855
Average	**1,509**	**1,599**	**1,658**
Comparable based on councils with CBD			
Burwood	1,821	1,959	2,008
Parramatta	1,171	1,244	1,275
Strathfield	1,695	1,992	2,141
Sydney	909	946	970
Average	**1,124**	**1,199**	**1,236**
Comparable based on OLG group	**1,341**	**1,404**	**1,456**

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

c. To derive the 2025-26 average rates for comparable councils, we used OLG's time series data as at 2023-24 (latest available) and escalated this by its 2024-25, 2025-26 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2025-26 for comparable councils, we used OLG's time series data as at 2023-24 (latest available) and escalated this by its 2024-25, 2025-26 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2023-24; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

Table 6.5 Comparison of the council's average business rates under the proposed SV

Council	2024-25 (Current)	2025-26	2026-27
North Sydney council (OLG Group 3)	**6,754**	**10,248**	**13,219**
Comparable based on locality			
Lane Cove	5,429	5,640	5,781
Mosman	4,024	4,181	4,286
Northern Beaches	4,508	4,679	4,796
Waverly	8,040	8,346	8,554
Willoughby	8,811	9,146	9,375
Average	**5,917**	**6,142**	**6,296**
Comparable based on SEIFA rank			
Ku-ring-gai	4,981	5,284	5,416
The Hills Shire	2,574	2,734	2,802
Canada Bay	4,618	4,835	5,056
Hornsby	4,136	4,405	4,647
Average	**3,657**	**3,874**	**4,025**
Comparable based on CBD councils			
Burwood	8,567	9,218	9,449
Parramatta	14,258	15,142	15,520
Strathfield	8,609	10,116	10,875
Sydney	14,438	15,030	15,405
Average	**13,859**	**14,562**	**14,955**
Comparable based on OLG group (average)	**7,589**	**7,897**	**8,171**

a. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. To derive the 2024-25 average rates for comparable councils, we used OLG's time series data as at 2023-24 (latest available) and escalated this by its rate peg, or if applicable, its approved SV.
c. To derive the 2025-26 average rates for comparable councils, we used OLG's time series data as at 2023-24 (latest available) and escalated this by its 2024-25, 2025-26 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2025-26 for comparable councils, we used OLG's time series data as at 2023-24 (latest available) and escalated this by its 2024-25, 2025-26 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2023-24; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

6.4.3 How the council's minimum rates compare to other councils

While we have considered the impact of the council's proposed SV on average residential and business rates, under the council's rating structure around 77% of residential ratepayers are on the minimum rate. This means that for most residential ratepayers the impact on average rates is not an accurate reflection of the impact of the proposed SV. This contrasts to the council's business rates structure where only 40% of business ratepayers are on the minimum rate.

Table 6.6 compares the proposed minimum rate to other councils in the Sydney metropolitan area. This found that the proposed minimum rate is lower than the average of other councils in the Sydney metropolitan area.

Table 6.6 Minimum rates for councils in Sydney metropolitan area ($2024-25)

Council	Residential	Business
North Sydney	**715**	**715**
Bayside	873	873
Blacktown	1,070	1,297
Burwood	1,360	1,560
Campbelltown	841	841
Canada Bay	954	954
Canterbury Bankstown	1,015	1,015
Central Coast	619	619
Cumberland	860	1,316
Georges River	1,057	1,440
Hornsby		729
Hunters Hill	792	
Inner West	943	910
Ku-ring-gai	631	631
Lane Cove	1,033	1,055
Liverpool		775
Northern Beaches	1,100	1,339
Parramatta	790	664
Penrith	1,287	1,569
Randwick	1,086	1,750
Ryde	652	652
Strathfield	1,200	1,200
Sutherland	1,049	1,049
Sydney	669	856
Waverley	747	
Willoughby	1,013	1,446
Woollahra		837
Average	**932**	**1,044**

Note: For councils that have multiple minimum rate subcategories, the weighted average minimum rates have been used.
Source: OLG, 2024-25 minimum rates data.

6.4.4 The community's capacity to pay based on socio-economic indicators

To assess the community's capacity to pay the council's proposed rates, we considered a range of indicators of socio-economic status and levels of vulnerability in the community, which is outlined in Box 6.2. We considered these indicators together with the average rate levels discussed in section 6.4.2 above, and the hardship assistance available discussed in section 6.4.4 below.

This assessment focussed on residential rates, as residential ratepayers represent the majority of ratepayers.[o]

Box 6.2 How we assessed capacity to pay

To help us understand the impact of the proposed SV on residential ratepayers, we compared selected socio-economic indicators for the council's community and the comparable councils' communities, using data from the 2021 census. We also considered the council's historical hardship and outstanding rates data. These measures provide an indication of the community's ability to pay additional rates and are useful to consider together with the average rates comparisons.

Socio-economic indicators

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 selected Government payments[p], 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 a higher level may indicate that a community has more capacity to pay (as more households do not need to pay mortgage or rent payments).
- The proportion of occupied private dwellings where 30% or more of the household's imputed income is put towards housing costs, which can be an indicator of households experiencing 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 the cost of living has increased since this data was collected in the 2021 census.

o 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.

p These are the Age Pension, Disability Support Pension and JobSeeker Payment.

Box 6.2 How we assessed capacity to pay

Hardship applications and outstanding rates

We collected 5 years of historical data related to a community's ability to pay rates to understand trends in the area. This included:

- how many applications for hardship assistance were made to the council
- how many ratepayers were on hardship arrangements
- the value of rates ($) that were outstanding as at 30 June.

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

Table 6.7 shows that, socio-economically, the residents of North Sydney are in a similar position to the comparable councils.

- Median income in North Sydney Council ($131,248) is lower than neighbouring councils ($142,428) and SEIFA comparable councils ($138,541), but higher than comparable councils with CBD ($107,055) and OLG Group average ($113,155).
- Currently, the average household within the LGA would spend 0.8% of income on residential rates. This is less than neighbouring councils (1.0%), SEIFA comparable councils (1.1%) and the Group 3 average (1.2%).
- Only 3.7% of North Sydney's rates were outstanding, which is below the 5% OLG benchmark and lower than the Group 3 average of 5.4%.
- 17.8% of council households pay more than 30% of income towards housing costs. This is similar to the neighbouring councils (17.2%), SEIFA councils (15.5%) and Group 3 average (19.2%).
- 25.5% of dwellings in North Sydney are owned outright which is similar for neighbouring councils, but less than the Group 3 average (34.8%).

Table 6.7 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[e]	Dwelling owned outright (%)[f]
North Sydney Council (OLG Group 3)	131,248	0.8	3.7	6.2	17.8	25.5
Comparable councils based on locality						

	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[e]	Dwelling owned outright (%)[f]
Lane Cove	145,652	1.0	4.8	5.5	15.7	27.8
Mosman	150,384	1.1	3.2	5.6	17.4	38.3
Northern beaches	134,784	1.3	3.8	9.0	16.0	34.8
Waverly	148,408	0.9	6.3	6.8	20.5	24.2
Willoughby	132,912	0.9	2.7	6.8	18.8	31.7
Average	**142,428**	**1.0**	**4.2**	**7.8**	**17.2**	**31.4**
Comparable councils based on SEIFA rank						
Ku-ring-gai	157,976	1.0	5.2	6.0	15.4	40.2
The Hills Shire	147,212	0.8	6.4	7.5	14.8	31.0
Canada Bay	123,292	1.1	4.0	9.6	18.5	31.1
Hornsby	125,684	1.2	2.4	9.6	14.5	33.9
Average	**138,541**	**1.1**	**4.5**	**8.0**	**15.5%**	**34.1**
Comparable councils with CBD						
Burwood	97,084	1.8	7.3	11.5	24.0	26.5
Parramatta	106,652	1.0	9.7	10.1	21.4	21.2
Sydney	115,024	0.8	2.2	8.9	25.1	14.1
Strathfield	109,460	1.4	6.3	8.7	21.7	21.5
Average	**107,055**	**1.2**	**6.4**	**9.6**	**23.3**	**20.8**
Comparable councils based on OLG group (average)	**113,155**	**1.2**	**5.4**	**12.4**	**19.2**	**34.8**

a. Median annual household income is based on 2021 ABS Census data.
b. The 2024-25 average rates for comparable councils are calculated based on the OLG's time series data as at 2023-24 (latest available data) escalated by a Council's 2024-25 rate peg or approved SV, as relevant.
c. The Outstanding rates ratio (%) is derived from the OLG's Rates & Annual Charges Outstanding Percentage for the General Fund as at 2023-24 (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 resident 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 2023-24; 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.

In addition to these socio-economic indicators, we considered historical data on the council's number of overdue rates notices and the number of ratepayers applying for hardship provisions. Recent trends can give an indication of ratepayers' ability to pay current rates levels and the potential impact of other recent cost increases. We note that these remain at a very small proportion of all ratepayers.

The council's overdue rates notices fell from 8.2% in 2019-20 for 3 years to 7.1% in 2022-23 before increasing again to be 7.9% in 2023-24.[q] Despite having outstanding rates averaging 7.8% over the last 5 years the council has not had any applications for hardship. This could indicate that ratepayers are not aware of the council's financial hardship policy, or that the requirements under the policy make it difficult to access.

Box 6.3 Rates and annual charges outstanding ratio

The rates and annual charges outstanding ratio measures the impact of uncollected rates and annual charges on a council's liquidity and the adequacy of its debt recovery effort. This is defined as:

$$Rates\ and\ annual\ charges\ oustanding\ ratio = \frac{Rates\ and\ annual\ charges\ outstanding}{Rates\ and\ annual\ charges\ collectible}$$

The OLG has set a benchmark for the ratio of less than 5% for metropolitan councils and less than 10% for regional and rural councils.

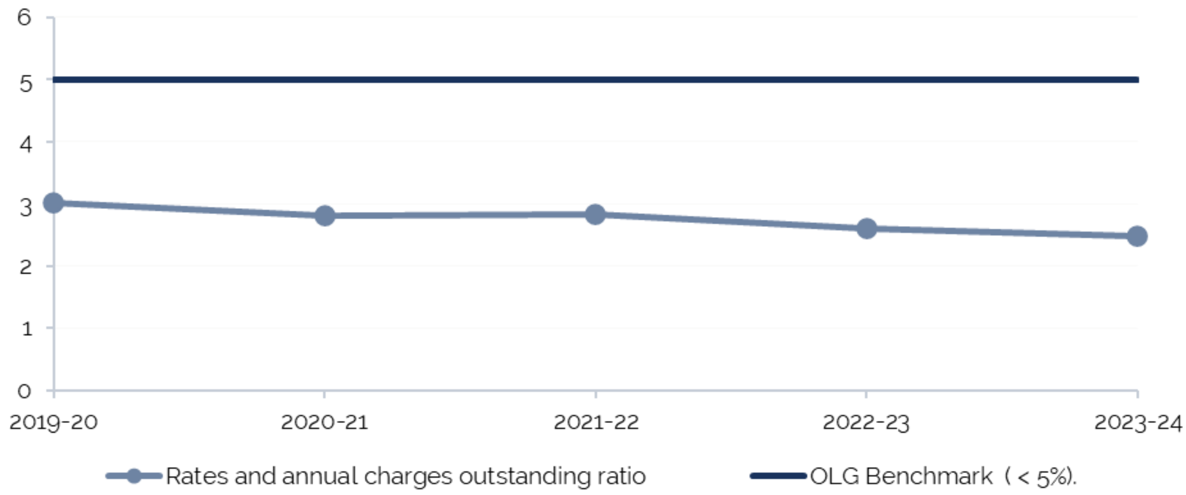
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

We also considered the council's rates and annual charges outstanding ratio. While a rates and annual charges outstanding ratio above the OLG benchmark can be a reflection of how effectively the council has managed its debt recovery efforts, it can also be an indication that a greater number of ratepayers have been unable to pay their rates on time.

As Figure 6.1 shows, the average rates and annual charges outstanding ratio across 2019-20 to 2023-24 is 2.8%. This meets the OLG benchmark of less than 5% for metropolitan. The ratio has been trending down slightly from 3.0% in 2019-20 to 2.5% in 2023-24.

[q] 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).

Figure 6.1 The council's rates and annual charges outstanding ratio (%)



Source: North Sydney Council, Application Part A.

6.4.5 Impact on business rates under the proposed SV

We also considered the capacity of businesses in the North Sydney LGA to meet the costs of the proposed SV. Submissions have raised significant concerns around the impact of the proposed SV on business ratepayers. This includes from major commercial property owners who state that the proposal will undermine investment confidence and harm businesses already struggling with high vacancy rates and post-pandemic economic pressures.

In addition, submissions have raised concerns for small business owners who have struggled in recent times in extremely tough trading conditions. Concerns have also been raised around the development around the metro concourse retail precinct. Stakeholder feedback indicated some of the retailers have only recently commenced trading and raising costs during the critical early trading period will put unnecessary strain on viability of their businesses. There are also concerns for retail businesses in the area with vacancy rates in Greenwood Plaza surging to 24% at the end of 2024.

Table 6.8 compares the share of business rates revenue of the council's total revenue. The table shows that for North Sydney Council 3,485 business ratepayers are contributing around 40% of the council's total revenue. This shows that under the council's rating structure, businesses in North Sydney are carrying a heavy burden of the rates revenue. This is similar for comparable councils with large business districts.

Table 6.8 Comparison of business rates as proportion of total revenue

Council	No. of residential ratepayers	No. of business ratepayers	Total revenue from business rates ($ '000)	% business rates of total revenue
North Sydney	36,890	3,485	22,017	38%
Comparable councils				
Burwood	14,148	964	7,272	24%
Parramatta	100,954	5,144	65,652	38%
Strathfield	17,189	1,479	8,250	30%
Sydney	114,381	18,710	241,805	72%
Average	**56,720**	**5,956**	**68,999**	**47%**

Source: OLG, Time Series Data 2023-24.

Impacts on small businesses within the LGA

Many submissions have raised concerns about business viability under the council's proposed SV, particularly for small businesses such as small retailers, cafes, and service providers. Many local businesses have expressed the rates increase will make it even harder to operate potentially leading to closures and job losses. The submissions suggests that rather than supporting the economic recovery, these rate increases would have the opposite effect – weakening the local economy and reducing investment in the area.

Table 6.9 shows that in North Sydney LGA, 7,757 businesses (51%) have annual turnover below $200,000. This suggests that there are many businesses that have a small turnover and are therefore likely to have a lower capacity to pay.

Table 6.9 Number of businesses, by size, within LGA

Council	No. of active businesses in LGA (2023)[a]	No. of businesses with income < $200k p.a.	No. of businesses with income between $200k-$2m p.a.	% of businesses with turnover < $200k	No of businesses with revenue < $200k p.a. as % of Total Business Income
North Sydney	15,314	7,757	6,328	51%	3%
Comparable councils					
Burwood	5,359	3,341	2,039	61%	7%
Sydney	79,163	39,423	35,220	48%	2%
Strathfield	6,934	4,043	2,682	57%	4%
Parramatta	31,050	20,245	11,454	62%	5%
Average	**27,564**	**16,763**	**12,849**	**57%**	**4%**

a. OLG, Time Series Data 2023-24
Source: ABS Data, 8165.0 Counts of Australian Businesses, including entries and exits, June 2020 to June 2024

6.4.6 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. We are not satisfied that the council's hardship policy is effective in assisting vulnerable ratepayers.

While the council has a Financial Hardship Policy in place, the criteria appear to be difficult to meet, making it almost impossible for ratepayers to be eligible. The council's historical records show no one met the criteria over the last 5 years, despite having more than 7.8% of rates outstanding. The policy is also difficult to read and understand. It is not clear how ratepayers are made aware of the policy, how they can access the policy, and what options are available under the policy.

The council states it offers a $250 pensioner concession on rates if a ratepayer holds a pensioner concession card or Seniors Health Care Card, and the property is a sole or principal place of residence.[49] This is the minimum required under the *Local Government Act 1993* (Local Government Act).

The council notes it is committed to reviewing its Financial Hardship Policy as part of the special variation process. However, the policy as it currently stands appears to be ineffective and inaccessible to its ratepayers.

Over 2019-20 to 2023-24 the council had on average 7.8% of rates notes overdue, which amounts to around 3,000 rate notices each year. However, there are no ratepayers being dealt with under the hardship policy. The council noted it had not received any formal requests under its Financial Hardship Policy in the last 5 years. It also stated that it had received some requests for extension to payment deadlines or for payment plans, but these have not fallen under the eligibility of the Hardship Policy.[50] The policy includes the following criteria:

- The property owner must be the ratepayer's principal place of residence, the ratepayer must only be the owner of one property and the ratepayer must have owned the property (for which the application is being made) for a period of not less than 5 years.
- The application has to pass the 'rates payable calculation[r]' and 'gross household income[s]' test, as well as other provisions.
- The rates payable for the year must have increased and must exceed 5% of the gross household income.[51]

We note that Table 6.7 shows that within the North Sydney LGA, rates to median household income ratio is on average 0.8%, while the OLG group 3 average is 1.0%. This suggests that it would be difficult to meet the criteria for hardship.

[r] The calculation of the difference between the previous financial year rate amount and the current financial year amount, in accordance with the policy as adopted by council.

[s] The calculation of gross household income includes but is not limited to: (a) gross household income from pensioners/salaries (b) investment income (c) deemed income from assets (d) deemed rental from non-owner residents.

In addition, the council's hardship policy is a technical document referring to the various clauses of the Local Government Act and explains the requirements of the policy in a difficult to read format. There are 3 eligibility requirements, but the reader must then go through 10 separate clauses of definitions to work out whether they could apply. There are also 4 separate provisions that impose additional requirements to be eligible.

The policy doesn't explain what the hardship policy does, other than a reference to the legislation that allows a council to write off accrued interest on rates or charges if in its opinion the person is unable to pay the accrued interest. It is not clear whether the council advertises and makes clear to its community the availability of a hardship policy, and what this means for ratepayers. The council states that it advises residents of the hardship policy when they request assistance or an extension on their rates.[52]

In submissions we received about the SV, we heard from some stakeholders that the community would like the council to offer payment extensions, payment plans and plain English guides on their website on how to receive support, especially given the size of the proposed SV and significant impact on rates. Feedback suggested that ratepayers in hardship are likely to struggle to interpret the current policies. Concerns were also raised about the 'percentage of income' hardship test in a high inflation environment and noting the council hasn't reviewed its hardship policy considering its substantial proposed increases in rates. For example, a submission states the percentage of income test is outdated and an inadequate measure of affordability in a high inflation environment. It is suggested that other variables should be considered in determining a ratepayer's eligibility for hardship.

This suggests that the council's Financial Hardship Policy is unlikely to be adequate to support ratepayers under hardship because of the proposed SV.

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

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

Note: See Appendix A for the full criterion.

To assess whether the council met Criterion 4, we checked the information provided by the council.

We found that it met the criterion. It exhibited (where required), approved and adopted its IP&R documentation appropriately.

The council:

- exhibited its current Community Strategic Plan from 27 April to 8 June 2022, with resolution to publicly exhibit outlined in the council minutes link, and adopted it on 27 June 2022
- exhibited its current Delivery Program from 27 November 2024 to 10 January 2025 with resolution to publicly exhibit outlined in the council minutes link, and adopted it on 10 February 2025
- exhibited its Long Term Financial Plan from 27 November 2024 to 10 January 2025 with resolution to publicly exhibit outlined in the council minutes link, and adopted it on 10 February 2025
- exhibited its current Asset Management Plan from 27 November 2024 to 10 January 2025 with resolution to publicly exhibit outlined in the council minutes link, and adopted it on 10 February 2025
- submitted its SV application on 11 February 2025.

The relevant IP&R documents are described in Box 7.1.

Box 7.1 Integrated Planning &Reporting documents

The 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 further amended). Councils are also expected to post its LTFP on its website.

Source: Office of Local Government Integrated Planning and Reporting Guidelines

We acknowledge the concerns raised in some submissions that suggest some of the council's processes may not be fully complaint with the requirements of the IP&R framework. In particular, the consultation on the council's Informing Strategies did not adequately articulate the resourcing requirements or impact on council rates when asking the community about its views on service improvements. The council used this consultation as justification of the need for the SV, but the consultation on the Informing Strategies did not make this outcome clear.

The council's Long Term Financial Plan is on its website. However, some submission raised concerns about the different versions of the document, and key line items not being included within the draft for consultation. This made it difficult for the community to identify that a large part of the SV was being directed to the accumulation of financial reserves.

The key issues raised in submissions on the IP&R documents include:

- The engagement process on the Informing Strategies did not follow the IP&R framework. The submissions state that consultation on the Informing Strategies (for the strategic plan) did not contain information on the costs involved, a resourcing strategy or its impact on the LTFP, but rather asked the community their preferences for service improvements without this context. This process does not follow good governance and lacks transparency and should be rejected as a basis for a strategic plan.
- The council is in the process of updating its Community Strategic Plan (CSP), but this should have happened prior to submitting the SV application. The submission suggests that making amendments to the IP&R documents just prior to the SV application and undertaking consultation after the SV process fails the IP&R requirements. We note the council's CSP was exhibited and adopted in 2022. Following the ordinary election of councillors (October 2024), the council must review the CSP before 30 June the following year (2025).

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

OLG 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 has 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 performance that we received through our feedback form and submissions. We also analysed information provided by the council on its productivity and cost containment performance and examined some key indicators of the council's efficiency.

We found that the council did not meet this criterion. The council outlined that its past (last 2 years) and current improvements (2024-25) total $4.85 million per year in financial benefits.[53] However, we consider that some of the items included within this estimate are not genuine cost savings. We estimate the council's cost savings represents only $500,000 or 0.4% of the council's total expenses. We consider this is not sufficient for a large metropolitan council such as North Sydney.

In addition, the council has not identified any clear strategies for achieving productivity or cost containment strategies going forward nor has it committed to any concrete savings targets. Most of the council's statements on productivity improvement and cost containment discuss process reviews and identifying savings without any quantified and substantive cost savings or productivity improvements. No cost savings are included within the council's LTFP.

The sections below discuss our assessment of Criterion 5 in more detail.

8.1 Stakeholder comments on productivity and cost containment

Most submissions to IPART expressed concerns about the council's past and proposed productivity and cost containment strategies including:

- The council does not adequately explain and quantify its past and future productivity improvement and cost containment strategies, including its patchy commitment to a continuous improvement framework that does not produce significant gains.

- The organisational review and proposed optimisation are ineffective in their presented form. The initiatives do not guarantee financial savings or service improvements. The measures should be clearly defined and quantified. If savings exist, they should be detailed and measured.
- The council has not provided any real evidence of cost reduction, or any attempt at reducing costs and small amounts identified as savings and improvements are offset by other costs.
- The council's saving programs should be increasing with more ambitious targets as the council's operating and capital expenditure increases.
- The council has not actively consulted with the community on making specific savings, or other alternatives to rate increases, such as the sale of underperforming assets.
- No additional concrete savings targets were explicitly promised or included in the LTFP.
- The council is claiming $2.4 million in savings annually but forecast operating expenditure is increasing significantly through to 2035 with no apparent reason.

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.

We received 1,648 responses. Of these, slightly more than half (57%) disagreed that the council is effective in providing infrastructure and services for the community while about 20% agreed, and the remainder neither agreed nor disagreed. Around 88% disagreed that the council had explained past cost savings and 90% disagreed that the council explained its future cost-saving strategies. The full results are presented in Figure B.4 in Appendix B.

We have considered these concerns as part of our assessment of this criterion.

8.2 The council's information on realised and proposed productivity savings

The council told us that it has conducted several reviews to prioritise its improvement efforts to achieve improved productivity. This included:

- a review of its existing strategies to improve overall organisational performance
- completing an organisational restructure in 2023, identifying $2.3 million in cost savings that have been reallocated to new functions
- process mapping its functions to streamline activities and improve efficiencies
- identifying the need for upgrades to its corporate systems to allow improved efficiencies
- developing a new service review framework
- developing an Organisational Improvement Plan.[54]

The council states that its past and current improvements total $4.5 million per year. Its future initiatives are estimated at $2.4 million per year.

8.3 Our analysis of the council's information on productivity savings

We analysed the information the council provided on its realised and proposed productivity improvements and cost containment strategies.

8.3.1 Realised productivity improvements and cost containment to date

We found that the council has not made significant productivity and cost containment gains to date. In its SV application, it estimates that its past and current improvements total $4.85 million per year in financial benefits.[55] This equates to about 3.4% of the council's total expenses in 2024-25. However, we have concerns that some of the measures included within its estimates of past and current improvements are not actually cost savings.

For example, the application indicates that the savings are a result of the following:

- $0.84 million by using internal borrowings to reduce ongoing borrowing costs
- $2.3 million related to organisational restructure, with the funds reallocated to new functions
- $1.1 million in future revenue gains following the opening of the North Sydney Olympic Pool.[56]

While internal borrowing may reduce external borrowing costs, the funds that are available for internal borrowings must come from somewhere. Generally, this would mean the council would have to increase rates revenue to create a fund available for internal borrowings. So, it is basically transferring the cost from one category to another, rather than eliminating the cost or reducing the cost to the council as a whole. In the case of costs for a long-lived asset such as the North Sydney Olympic Pool redevelopment, using debt appropriately spreads the cost of the asset over its useful life and is consistent with intergenerational equity principles.

Similarly, the organisational restructure in 2023 generated cost savings that have been reallocated to other functions. So, in effect, the cost savings in one area of the council is now a cost in another area of the council. So, it's simply a transfer of cost within the council, rather than an actual cost saving to the council as a whole.

Excluding these items from the cost savings estimate and the estimated savings is around $500,000 and represents only 0.35% of the council's total expenses in 2024-25.

8.3.2 Proposed productivity improvement and cost containment strategies in coming years

We found that the council's application outlines some strategies and activities for further improving its productivity and efficiency in the coming years. These are:

- continued process mapping and improvement
- leadership development program
- property review
- systems review and implementation
- advertising review

- review of community transport
- events review
- consider land sales.

It estimates ongoing costs savings of $2.4 million per year. The council states in its application that the expected savings have not been directly listed as line-item reductions in spending within it LTFP. These initiatives are only reviews to identify potential savings rather than commitments to achieve the identified cost savings. It is possible that these reviews may not actually generate the identified savings. We expect councils such as North Sydney to have identified and committed to cost savings or productivity improvements and to have these estimates reflected within its LTFP.

In addition, other examples of cost savings and productivity improvements that have been provided by the council are either transfers of costs between different business areas of council or are not directly verifiable. For example, it states that savings made through improvement reviews will result in productivity improvements through improved outputs such as customer response times or financial savings. It estimates around $1.5 million in cost savings, which have also been excluded from the LTFP. It states any additional cost savings will be directed towards a capital sinking fund to support emerging priorities[57]

The council also states that organisational efficiencies of between $2 and $3 million are embedded in the LTFP through the reduction in overheads associated with the operationalisation of the North Sydney Olympic Pool and increased capital works program.

The council's Delivery Program contains general discussions about what the council has done to contain costs but does not provide any quantifiable cost savings, while stating that any efficiencies and cost reductions are not sufficient to address the growing deficits.[58] Also some of the initiatives are reviews, so it is unclear what savings, if any, these reviews would achieve.

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 2019-20 and 2023-24, the council's:

- number of full time equivalent (FTE) staff, on average, decreased by 1.7% each year
- average annual cost per FTE increased by an average of 4.0% nominal per year
- employee costs as a percentage of operating expenditure, on average decreased by 2.5%.

We also found that the council has:

- more staff per population than the Group 3 average – it has one FTE for every 193 residents, whereas the Group 3 average is one FTE for every 245 residents
- higher operating expenditure per capita than the Group 3 average.

These performance indicators only provide a high-level overview of the council's efficiency 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 efficiency indicators for North Sydney Council

Performance indicator	2019-20	2020-21	2021-22	2022-23	2023-24	Average annual change (%)
FTE staff (number)	399	392	379	365	373	-1.7
Ratio of population to FTE	185.9	191.4	198.1	190.3	193.1	1.0
Average cost per FTE ($)	112,762	117,842	113,193	116,085	131,684	4.0
Employee costs as % of operating expenditure (General Fund only) (%)	39.2	36.5	35.8	35.8	35.4	-2.5

Source: OLG, Time Series Data 2023-24, IPART calculations.

Table 8.2 Select comparator indicators

	North Sydney Council	OLG Group 3 Average	NSW Average
General profile			
Area (km2)	11	108	5,571
Population	72,014	203,261	65,112
General Fund operating expenditure ($m)	138.6	254	114.3
General Fund operating revenue per capita ($)	2,106	1,495	N/A
Rates revenue as % of General Fund income (%)	49.8	52	41.3
Own-source revenue ratio (%)	78.9	78	64.6
Productivity (labour input) indicators			
FTE staff	373.0	829.5	399.2
Ratio of population to FTE	193.1	245.0	163.1
Average cost per FTE ($)	131,684	120,774	109,825
Employee costs as % of operating expenditure (General Fund only) (%)	35.4	39.5	36.2
General Fund operating expenditure per capita ($)	1,925	1,249	1,756

Source: OLG, Time Series Data 2023-24, and IPART calculations.

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

OLG 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.

Since IPART was delegated the function of granting SVs in 2010, IPART has granted the council three SVs.

IPART also approved a permanent Additional Special Variation (ASV) for the council of 2%, for 2022-23.

A condition of the approval is that the council in its 2022-23 Annual Report must outline:

- its actual revenues, expenses, and operating results against projections provided in its ASV application
- any significant differences between its actual and projected revenues, expenses and operating results
- the additional income raised by the ASV.

The council indicated in its current SV application that it has complied with this condition. We have reviewed the council's 2023-24 Annual Report and have assessed that the council has complied with this condition.[59]

IPART approved a permanent Special Variation and Minimum Rate increase for the council in 2019-20. This was comprised of an increase of 7% to the council's general income in each of 2019-20, 2020-21 and 2021-22, and an increase to its minimum rates from $563 to $644 over the same period. We have reviewed the council's annual report extracts from 2019-20 to 2021-22 and have assessed that the council has complied with the attached conditions.

We also approved an additional permanent Special Variation for North Sydney in 2011-12. This was a 7-year SV which allowed 5.5% increases each year, except for 2012-13 and 2013-14 which provided for 12.3% and 14.6% respectively. The council also sought to replace its existing Environment and Infrastructure levies when these expired. We found that the council did not clearly consult with the community on the continuation of its levies and therefore IPART did not approve this element of the application. The council re-applied for these levies in 2012-13 after consulting with the community and they were subsequently approved by IPART.

We reviewed the council's annual reports for the relevant periods of this SV. The council acknowledged in its 2023-24 Annual Report that it failed to adequately disclose the income from the SV in its 2017-18 and 2018-19 Annual Reports. The council's disclosure of this information in its most recent annual report adequately rectifies this past oversight.

10 Minimum rates increase

A council can impose a minimum rate for each of its rating categories. There is a statutory maximum for these rates, set annually. This is $639 for 2025-26.[t]

If a council wishes to impose minimum rates that are higher than the statutory maximum for the first time, or, if they want to increase minimum rates by more than the rate peg or applicable SV, it must first obtain IPART's approval.

We assess a council's application for a minimum rate increase (MR increase) against 3 criteria set out in the Office of Local Government's Minimum Rate Guidelines (MR Guidelines). See Appendix A.2 for more details.

North Sydney Council currently imposes a minimum rate for its residential and business categories and has applied to increase minimum rates above the statutory limit by more than the relevant special variation increase. The proposed increases are set out in Table 10.1

Table 10.1 North Sydney Council's proposed increases to minimum rates

	2024-25 (Current)	2025-26	2026-27	Cumulative increase
Minimum rate - Residential	715	1,200	1,548	
% increase		67.8	29.0	116.4
$ increase		485	348	832.76
Minimum rate – Business	715	1,400	1,806	
% increase		95.7	29.0	152.5
$ increase		685	406	1,091

Source: North Sydney, Part A application Worksheet 7.

10.1 Stakeholder comments on minimum rates increases

Some submissions to IPART have expressed concerns about the current inequity of rates between ad valorem ratepayers and those ratepayers on the minimum rate. Concerns include:

- The division of rates between the minimum rate and ad valorem is unreasonable. Ad valorem ratepayers have had significant increases in rates, while minimum ratepayers have only had modest increases. Some stakeholders that made submissions said that ad valorem ratepayers are typically paying 10 times the amount of the minimum rate and that the proposed variation to the minimum rate does not go far enough to address the distorted relativity.
- There are many multimillion-dollar apartments in the LGA paying the minimum rate. This inequity will worsen as most of the growth in the LGA will be new apartments, with owners paying the minimum rate.

t The statutory maximum for the minimum rate is specified in section. 126 of the *Local Government (General) Regulation 2021*.

- The division of rates is unfairly applied. Apartments are paying significantly lower rates than homes in the area. The rate burden should be appropriately shared by the community and not unfairly on a small number of residential ratepayers.

Other stakeholders raised a range of different views about the proposed minimum rate increase including that:

- The scale of the proposed increase in minimum rate is unreasonably high and unjustified.
- The minimum rate is too low and should be increased.
- An increase to the minimum rate is justifiable but not to the extent proposed. Many of those in apartments are renters (around 50%) and low-income households and proposed increase would create affordability challenges for those households.
- The higher rates could make commercial properties less attractive to potential investors, leading to declines in property values and overall economic activity in the area. Higher rates also pose a risk of businesses abandoning the North Sydney CBD and jeopardise the revival of North Sydney's office precinct.
- Renters will face indirect increases as landlords pass on rate increases, worsening Sydney's housing affordability concerns.

10.2 OLG Criterion 1: The council has demonstrated a rationale for increasing minimum rates

OLG Criterion 1 requires IPART to assess the council's rationale for increasing minimum rates above the statutory amount.

We consider the council did meet this criterion. The council explained the rationale for increasing minimum rates to the community as part of its community consultation, and to IPART in Part B of the minimum rate application. The rationale for the minimum rate increases was explained in its LTFP, but not in its Delivery Program.

10.2.1 Our assessment against criterion 1 for minimum rates increase

The council has explained the key purpose of the increase to minimum rates is to improve the equity between those on the minimum rate and those on the ad valorem, while the proposed concurrent SV improves the council's financial sustainability.

The council notes that 77.26% of ratepayers are currently paying the minimum rate, and this is due to the high density within the area and the requirement to levy rates on unimproved land values.[60] With the council's population expected to grow by approximately 20% by 2036, future housing growth is primarily expected to come from new apartment developments. If owners of these new apartments pay the minimum rate of $715, this does not reflect the additional cost to the council of the increased infrastructure and services required for the new residents.

To avoid the ad valorem ratepayers taking a large burden of these costs, increasing the minimum would allow the council to recover sufficient costs to pay for the increased infrastructure and services and return to financial sustainability.[61]

The council also included this rationale for increasing minimum rates in its community consultation materials. It was also explained in the council's LTFP.

10.3 OLG Criterion 2: The impact on ratepayers

OLG Criterion 2 requires IPART to assess the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category.

This OLG criterion requires consideration of two elements:

- the level of minimum rates for ratepayers whose rates will be increased
- the number and proportion of ratepayers that will be on the minimum rates, by rating or sub-category.

We found that the council did not meet this criterion.

We consider the extent of the proposed increases to the minimum rate over the 2 years is too high and does not provide the community sufficient time to adjust their household budgets.

In addition, the residents paying the minimum rate are likely to have a lower capacity to pay the proposed rate increases. The council's capacity to pay analysis shows that 43% of the population are vulnerable to rate rises due to being on a reduced or singular income households. The at-risk or vulnerable population is likely to be in apartments and paying the minimum rate. The council's proposed percentage increase in minimum rates (116.4%) is higher than the SV percentage of 87.05% over 2 years, that we have found to be unreasonable in the context of the council's SV proposal. We consider the impact of such large increases to the minimum rate, over a short period of time, on the population considered most vulnerable to rates increases is not reasonable.

10.3.1 Our assessment against criterion 2 for minimum rates increase

The council has identified the current level of minimum rates and the proposed increase in its application documents. These are set out in Table 10.1 above.

The council has also provided the number and proportion of ratepayers that are on the minimum rates. These are set out in Table 10.2 below.

Table 10.2 Number and proportion of ratepayers on minimum rates, 2025-26

Rating category	Number on the minimum	Percentage on the minimum
Residential	28,595	77.5%
Business	1,172	33.4%

Source: North Sydney Council, Application Part A, Worksheet 4.

The council also explains that the proposed minimum rates include the value of current special levies which would be consolidated into the ordinary rates. Taking this into account, the actual 2025-26 increase is less than the percentages shown in Table 10.1. The council explains that minimum ratepayers pay an average $97 in levies per year, which would be included in the proposed minimum rates for 2025-26. So, ratepayers will no longer be charged extra on their rates notices for the special levies.[62]

The council commissioned Morrison Low to conduct a capacity to pay analysis as part of the SV application. The report included a high-level analysis of capacity to pay across the different suburbs of the LGA. The ratepayer impact only considered the changes in average residential rate under the proposed SV options. A similar analysis was not provided for minimum rates.

The Morrison Low report found that 43% of the population are vulnerable to the impacts of rate increases due to reduced/singular income stream, particularly in the lone household grouping representing 37% of the population. It is likely that many of the residents paying the minimum rate are within this vulnerable part of the population. This suggests that residents paying the minimum rate may have a lower capacity to pay the proposed rate rises. Due to the council's restructuring of the rates burden across ratepayers, the percentage increase in the minimum rates (116.4%) is higher than the percentage of the proposed SV (87.05%) over the 2 years. We consider such large increases over a two-year period on the ratepayers considered most vulnerable to rates increases is not reasonable.

We compared the council's minimum residential rate with its average residential rate and found that its current minimum rate of $715 is 31% lower than the average residential rate of those ratepayers who are paying above the minimum rate (Table 10.3). We also found in section 6.4.3, that the current minimum rates are low relative to other Sydney metropolitan councils. So, while there is cause for the council to increase the minimum rates to more fairly spread the rates burden across ad valorem and minimum ratepayers, we consider the extent of the proposed increases to the minimum rate over the 2-years is too high given the current cost-of-living pressures and economic conditions and that the residents paying the minimum rate likely have a lower capacity to pay the proposed rate increases.

Table 10.3 Comparison of average rates to minimum rate (2024-25)

	Minimum rate	Average of ratepayers not on the minimum	Difference ($)	Difference to average rates not on minimum (%)
Residential	715	1,041	326	31
Business	715	6,754	6,039	89

10.4 OLG Criterion 3: Community awareness

OLG Criterion 3 requires IPART to assess the consultation the council has undertaken to obtain the community's views on the proposal.

We found that the council met this criterion. The council undertook community consultation as part of its broader SV application. We consider that the council has made the community aware of the proposed increase in the minimum rate, provided the reasoning for the minimum rate increase, obtained the community's views on the proposal and considered community feedback.

10.4.1 Our assessment against criterion 3 for minimum rates increase

The council included information about the minimum rate increase alongside information about the SV proposal, including:

- on its bespoke website for consultation and information on the proposed SV
- in the presentation made to the community at online and in-person forums
- in a factsheet sent to all ratepayers.
- key consultation materials including the council's website, community presentation and FAQ sheet presented information about the minimum rate increase:
- why the increase is needed
- what the increase would be for minimum ratepayers in annual dollar terms - the increase was not presented in annual percentage terms or as a cumulative percentage increase over the SV period
- explains its proposal to merge its existing special levies into the ad valorem component, and that special levies will no longer be separately charged on the minimum rate
- notes that North Sydney has the lowest minimum rates in metropolitan Sydney.

Consultation with the community on the proposed minimum rate increase was undertaken as part of the broader consultation process for the SV. Please see Chapter 5 for more details on the council's consultation initiatives.

The council's Community Engagement Outcomes Report[63] summarises the feedback received through the council's engagement activities, including feedback from its online survey and other submissions from the community about the minimum rate increase. Some key points from its consultation included:

- 66% of survey respondents didn't express a preference for or against the minimum rates proposal, 32% disagreed and 7% supported the proposal

- of the responses that disagreed with the proposal, many didn't distinguish between the SV and the minimum rates proposal – with similar themes coming through (e.g. the council should cut costs, expressed concerns about management of North Sydney Olympic Pool and finances generally and affordability)
- of the responses that agreed with the minimum rates proposal, most indicated that it would improve the equity in the rate burden across residential ratepayers, particularly between those in units and houses
- most respondents did not express a view on the proposal to consolidate current special levies into ordinary rates - 14% indicated they did not understand the proposal, 14% agreed with the proposal and 10% disagreed, with the key being ensuring transparency and accountability
- the council made changes during the consultation period to elevate the information around the minimum rates proposal and consolidation of special levies, and to allow free text responses on the minimum rates proposal.[64]

10.5 Any other matter IPART considers relevant

The OLG Guidelines provides that in addition to the three criteria outlined above, IPART may take into account any other matter that it considers relevant.

The council applied for both an SV and an increase to its minimum rates for 2025-26 to 2026-27. While the applications for the SV and increase to the minimum rates are separate, our decision in respect of one application can affect the other. We consider that our decision to not approve the council's SV application is relevant in considering the council's application to increase its minimum rates.

An SV permits a council to increase its general income by the specified amount. As we have not approved the council's SV application, the council will only be permitted to increase its general income by the rate peg for 2025-26. If we were to approve the council's proposed minimum rates increase, this would mean that the council would not be able to fully implement the minimum rate increases it has consulted with its community on. It would have to amend its rating structure to ensure it did not exceed its maximum general permissible income.

10.6 Overall assessment

We have found that the council has met 2 of the 3 criteria on minimum rates. The council did not meet criterion 2 on the impact on ratepayers. The proposal to increase minimum rates by more than the SV increase of 87.05% over the 2 years is too high given the current cost-of-living pressures and economic conditions. In particular, the council's capacity to pay analysis shows that 43% of the population are vulnerable to rate rises due to being on a reduced income or single income households. This vulnerable population are likely to be in apartments and subject to the minimum rate. We consider such large increases to the minimum rate, on the population considered most vulnerable to rates increases is not reasonable. While we have focussed on residential minimum rates because residential ratepayers represent the majority of minimum ratepayers, we note that the increase on business ratepayers will similarly have an unreasonable impact on the small businesses in the North Sydney LGA.

We acknowledge there is a case for the council to address the inequity in its rating structure between ad valorem and minimum rate ratepayers. The council should consult with its ratepayers and develop a proposal that addresses this issue while providing a more acceptable outcome for ratepayers.

11 IPART's decision on the special variation and minimum rate increase

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 proposed permanent SV to general income from 2025-26 to 2026-27.

Our decision means that the council may not increase its general income by more than the rate peg applicable to the council in 2025-26 (4.0%). The council is to determine how the rate peg increase will be distributed among ratepayer categories.

If the council needs additional rates revenue in the future, it should carefully consider the shortcomings identified in this report and may apply again to IPART for an SV in future years.

11.1 Reasons for our decision

To make our decision on the special variation application, we assessed the council's 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 the council met two of these 6 criteria.

The council did not clearly identify the need for, and purpose of the proposed SV in its Integrated Planning and Reporting (IP&R) documents or its community consultation materials (Criterion 1). While the documents describe the need to improve financial sustainability, it was not apparent that this meant the council would accumulate significant surpluses over the next 10 years. The council was also not clear about how it would spend the funds in the proposed accumulated reserves. Many submissions told us that there was confusion in the community about the purpose of the SV being primarily for the North Sydney Olympic Pool (NSOP) redevelopment, rather than the accumulation of financial reserves. The council also did not fully explore alternatives to this proposed increase. The baseline (rate peg only) scenario was not clearly labelled and identified in its Long Term Financial Plan (LTFP), and the council's consultation excluded the baseline scenario.

Comparison against some of the Office of Local Government (OLG) financial performance benchmarks indicate the council has a level of financial need. The council's OPR is slightly negative and will remain negative without the proposed SV. However, the council's proposal to improve its OPR with large operating surpluses over the next 2 years, with an ongoing OPR of around 17% is not reasonable. The council has not clearly communicated the large surpluses and ongoing 17% OPR to its community.

The council does not meet the benchmark for the OLG unrestricted current ratio, which is a measure of the council's short-term liquidity. However, the Audit Office considers a council's financial sustainability to be a serious concern if it fails to meet any of the three financial sustainability benchmarks (OPR, unrestricted current ratio and infrastructure renewals) for at least 3 years.[65] While the council has not adequately demonstrated the need for and purpose of the SV in its current application, the council will need to consider a range of options including engaging with its community to develop a robust financial strategy that meets the needs of its community including cost saving measures or other productivity improvements to address its long-term financial sustainability.

The council did not provide sufficient evidence that its community is aware of the need for and purpose of the proposed SV (Criterion 2). The IP&R documents and associated consultation materials did not clearly explain that a significant portion of the SV was to generate large surpluses to allow the council to grow its financial reserves. The documents do not clearly outline what the council intends to do with the funds proposed to be held in financial reserves. Some stakeholders that made submissions raised concerns that allowing the council to accumulate excess reserves would reduce the transparency and accountability of the council to the community on how these funds will be used and increase the potential for the misuse of the funds.[u]

We found that the council did not demonstrate that the impact of the proposed SV on ratepayers is reasonable (Criterion 3). While the council's capacity to pay report shows the community has a high level of advantage, relative to other areas in NSW, the report refers to 2021 Census data which does not necessarily capture the current economic climate and cost-of-living pressures. The report also did not adequately consider the impacts on business ratepayers.

Many stakeholders that provided feedback to us raised concerns about the size of the rate increases. Several submissions noted that they were not opposed to a more moderate rate increase to improve the council's current financial situation. Some submissions suggested a staged increase to rates over a longer period, to allow ratepayers time to adjust to the increases. We found that the council's hardship policy could be improved. We also found that the council did not adequately consider the impact of its proposed rate rise on business ratepayers.

The council did not adequately explain its recent and proposed productivity improvements and cost containment strategies (Criterion 5). The council outlined improvements of $4.85 million per year in financial benefits, however we consider that some of the proposed improvements included within the council's estimate are not genuine cost savings. For example, some of the examples the council provides are cost savings in one area of the business, with the cost transferred to another area of the business. This includes a saving of $2.3 million through an organisational restructure, with the funds allocated to another function in council, rather than a cost saving to the council as a whole.

u For example, a submission from S. Kok, 17 March 2025, p 14 states excessive reserves can diminish transparency and accountability by functioning as a safety net for project cost blowouts or poor financial decisions. Excessive reserves can also enable discretionary spending on politically motivated projects, or electoral cycle-driven expenditure that may not truly benefit the community.

We estimate the council's cost savings to represent only 0.4% of the council's total expenses. We do not consider this level of cost savings to be proportionately adequate for a metropolitan council such as North Sydney. In addition, the council has not identified any clear strategies for achieving productivity or cost containment strategies going forward nor has it committed to any significant savings targets.

We found that the council largely complied with the reporting conditions attached to its past SVs. The council identified in its 2023-24 Annual Report that it failed to adequately disclose the income from a previous SV in its 2017-18 and 2018-19 Annual Reports. The council's disclosure of this information in its most recent annual report rectifies this oversight.

While we acknowledge that the council has demonstrated some financial need to improve its financial position and the community has a capacity to pay, we found that there were significant shortcomings in its application given that it did not meet four of the six SV criteria. This included:

- the failure to consider alternatives to rate rise
- not clearly explaining the need to grow its reserves and achieve a high OPR around 17%
- the size of the proposed increases within a 2-year period is not reasonable
- a lack of productivity improvements and cost savings.

Given this, we have decided not to approve the council's SV application.

11.2 Decision on the minimum rate

Based on our assessment of the council's application against the 3 OLG criteria, any other matters and consideration of stakeholder submissions, we have not approved the council's proposed increase to its minimum rates for 2025-26. We have found that the council has met 2 of the 3 criteria on minimum rates. The council did not meet criterion 2 on the impact on ratepayers.

While we acknowledge that there is a case for the council to increase its minimum rates to address the inequity in its rating structure between the ad valorem and minimum rate ratepayers, we do not consider the council's proposal to double the minimum rate over the 2-years of the SV is reasonable. We consider the proposed large increases over a short period of time do not provide the community with sufficient time to adjust their household or business budgets.

In particular, the council's capacity to pay analysis shows that 43% of the population are vulnerable to rate rises due to being on a reduced income or single income households. This vulnerable population is more likely to be in apartments and subject to the minimum rate. We consider such large increases to the minimum rate over 2 years on populations considered more vulnerable to rates increases are not reasonable. While we have focussed on residential minimum rates because residential ratepayers represent the majority of minimum ratepayers, we note that the increase on business ratepayers will similarly have a large impact on the small businesses in the North Sydney LGA. A slower, phased in approach to rate increases would allow ratepayers more time to adjust their household budgets.

In addition, the council applied for both an SV and an increase to its minimum rates for 2025-26 to 2026-27. While the applications for the SV and increase to the minimum rates are separate, we consider that our decision to not approve the council's SV application is relevant in considering the council's application to increase its minimum rates.

An SV permits a council to increase its general income by the specified amount. As we have not approved the council's SV application, the council will only be permitted to increase its general income by the rate peg for 2025-26.

This decision has implications for the minimum rates decision because the SV percentage sets the maximum permissible general income the council can collect. If minimum rates are increased without increasing the total permissible general income the council can collect, the council would need to reduce the ad valorem rate so that the total general income the council collects from the ad valorem and minimum rates is within the permitted rate peg increase.

Therefore, if we were to approve the council's proposed minimum rates increase, this would mean that the council would not be able to implement the rate increases it has consulted with its community on. If it chose to apply the full increase to minimum rates it would have to amend its rating structure (i.e. reduce the ad valorem rate) to ensure it did not exceed its maximum general permissible income.

11.3 Next steps for the council

Our decision means that the council may not increase its general income by more than the rate peg (4.0%) in 2025-26. The council determines whether to apply the full percentage increase permitted by the rate peg and how the rate peg increase will be distributed among ratepayer categories.

Going forward the council will need to consider a range of options including engaging with its community to develop a robust financial strategy that meets the needs of its community including cost saving measures or other productivity improvements to address its long-term financial sustainability.

If the council requires additional rates revenue to address financial sustainability concerns, it could apply to IPART for an SV in the future. Before applying for an SV in future, the council should:

- complete a service level review with the community
- consider various alternatives to an SV including a reduction in services, or using debt to appropriately fund long-term assets such as the North Sydney Olympic Pool project
- develop an on-going framework to identify and implement productivity and efficiency savings.

We acknowledge there is a case for the council to increase its minimum rates to address the inequity in its rating structure between ad valorem and minimum rate ratepayers. The council should consult with its ratepayers and develop a proposal that addresses this issue while providing a more acceptable outcome for ratepayers. This includes reconsidering its SV and minimum rates proposal.

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:[v]

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

[v] OLG, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013, p 71

The IP&R documents and the council's application should provide evidence to establish the community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

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

Criterion 2: Community awareness

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long-Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the **full cumulative increase** of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

Criterion 3: Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's Delivery Program and Long-Term Financial Plan should:

- clearly show the impact of any rate rises upon the community,
- include the council's consideration of the community's capacity and willingness to pay rates, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

In assessing the impact, IPART may also consider:

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

Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[w] 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.

A.2 Minimum Rates assessment criteria

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

Section 548 of the *Local Government Act 1993* (the Act) allows a council to specify a minimum amount of a rate to be levied on each parcel of land. If a council makes an ordinary rate for different categories or sub-categories of land, it may specify a different minimum amount for each category or sub-category.

If a council resolves to adopt a minimum amount of a rate, the minimum amount must not exceed the relevant permissible limits provided for in section 548(3) of the Act and clause 126 of the Local Government (General) Regulation 2005 (Regulation), unless the Independent Pricing and Regulatory Tribunal (IPART) or the Minister has approved a higher amount by issuing an instrument under section 548(3), or the council is entitled to increase its minimum ordinary rate under section 548(4) and (5) of the Act

IPART will assess applications for minimum rates above the statutory limit against the following set of criteria (in addition to any other matters which IPART considers relevant):

1. the rationale for increasing minimum rates above the statutory amount,

[w] 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.

2. the impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category, and
3. the consultation the council has undertaken to obtain the community's views on the proposal.

It is the council's responsibility to provide sufficient evidence in its application to justify the minimum rates increase. Where applicable, councils should make reference to the relevant parts of their Integrated Planning and Reporting (IP&R) documentation to demonstrate how the criteria have been met.

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

B Results of IPART's public consultation feedback form

As part of our stakeholder engagement, we published a survey-style feedback form 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 the council's past and proposed cost management strategies.

We accepted responses for 4 weeks from 25 February 2025 to 17 March 2025.

We received 1,648 responses on North Sydney Council's SV application.

Some results are presented in Chapter 3 of this report and throughout our assessment in chapters 3 – 6, 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 the categories of ratepayers that responded.

We note that while this was a survey-style feedback form, it was not a statistically representative survey. Respondents were able to self-select to provide feedback and the results may not be representative of the whole community's views.

Table B.1 shows reasons for opposing the rate increase, and Table B.2 shows reasons for supporting the SV.

Table B.1 Responses to reasons that oppose the proposed rate increase

Reasons for opposing the proposed rate increase	Number of responses	Percentage of responses
Cost of living pressures are too high to afford a rate increase	1,223	74%
The Council has not been effectively managing its budget	1,434	87%
The Council is not effectively managing its infrastructure	1,135	69%
I disagree with the purpose of the proposed rate increase	996	60%
I disagree with the size of the proposed rate increase	1,409	85%
I disagree with the proposed rates structure	748	45%
I have other concerns that are not listed here	471	29%
I have no concerns with the proposed rate increase	60	4%

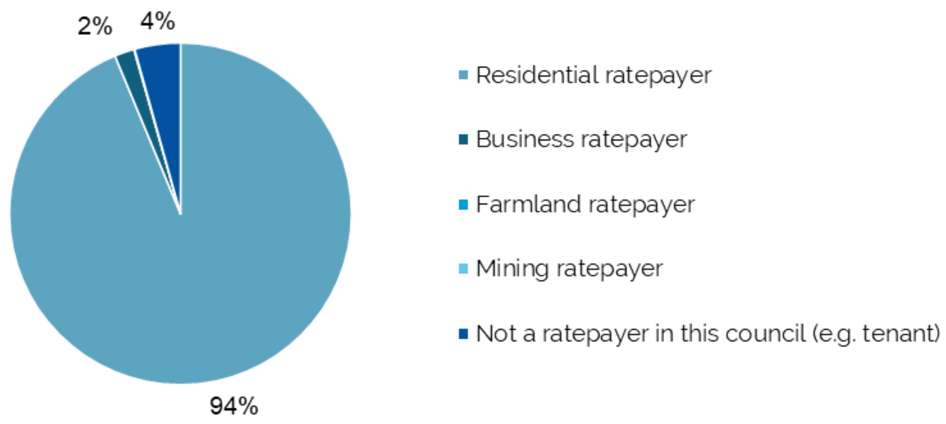
a. The total number of responses for each question was 1,648. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not represent the distribution of ratepayer types in the council area.
b. The reasons were provided by IPART. The respondents were able to select multiple answers.
Source: IPART

Table B.2 Responses to reasons that support the proposed rate increase

Reasons for opposing the proposed rate increase	Number of responses	Percentage of responses
Current infrastructure needs to be fixed or upgraded with increased funding	390	24%
Current services are inadequate and need more funding	134	8%
I recognise that the council has financial sustainability issues which the funding will help address	435	26%
I agree with the purpose of the special variation	67	4%
I agree with the proposed rates structure	46	3%
I have other reasons for supporting the proposal not listed here	47	3%
I have no reasons to support the proposed rate increase	952	58%

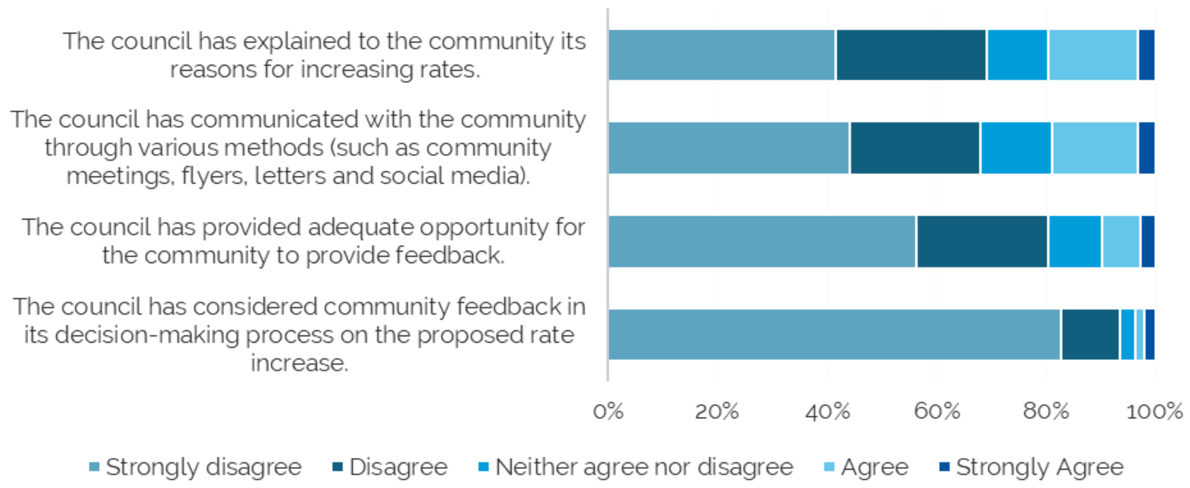
a. The total number of responses for each question was 1,648. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not represent the distribution of ratepayer types in the council area.
b. The reasons were provided by IPART. The respondents were able to select multiple answers.
Source: IPART

Figure B.1 Respondent ratepayer types



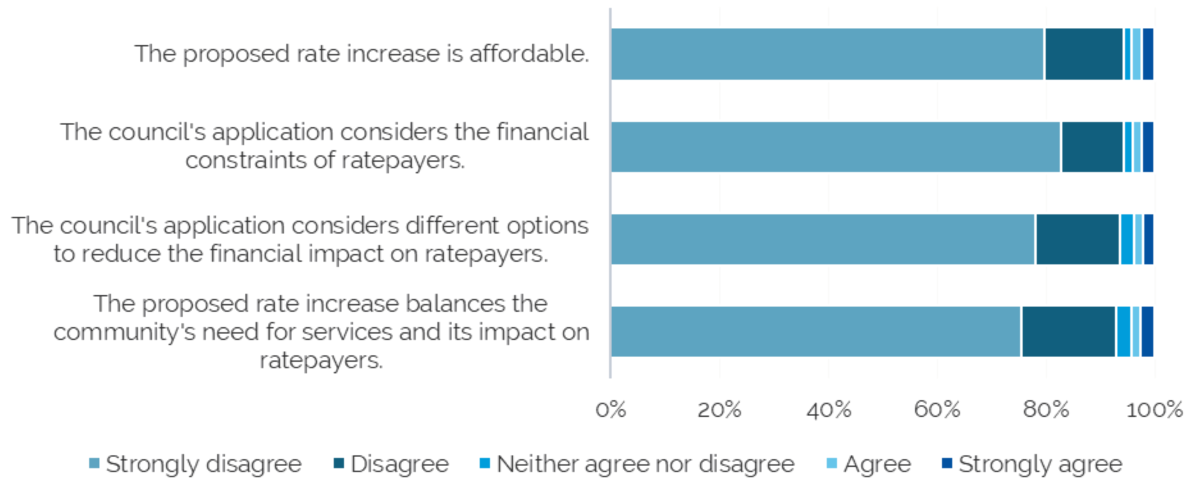
a. The total number of responses for each question was 1,648. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not represent the distribution of ratepayer types in the council area.
Source: IPART

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



a. The total number of responses for each question was 1,648. 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.
Source: IPART

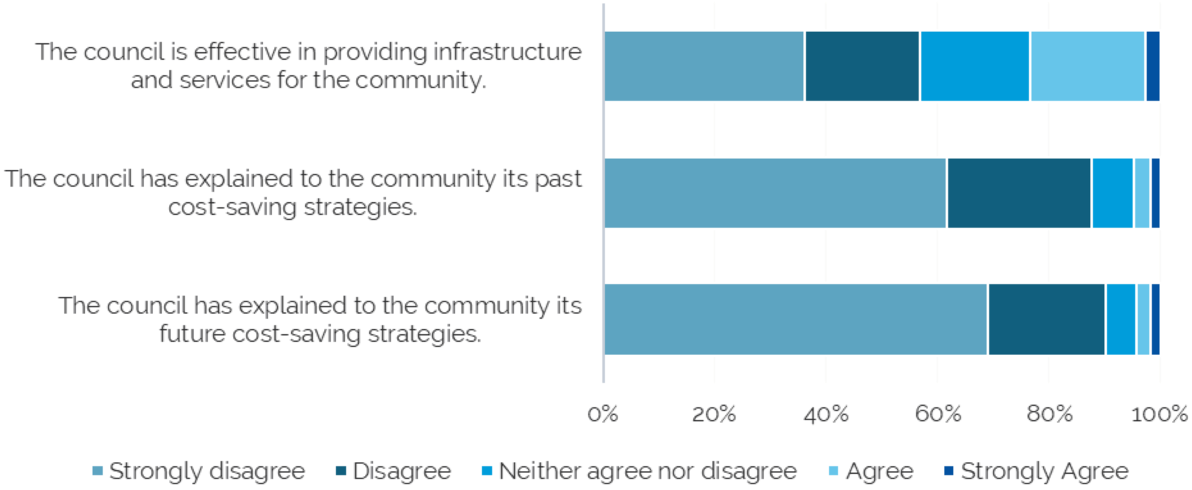
Figure B.3 Responses to questions about affordability



a. The total number of responses for each question was 1,648. 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.

Source: IPART

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



a. The total number of responses for each question was 1,648. 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.
Source: IPART

C 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 rate 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)
MR [delete if no MR application]	Minimum rates are the minimum amount of an ordinary rate that a council may levy. This must not exceed the statutory maximum set out in section 548(3)(a) of the Local Government Act, unless IPART (under delegation from the Minister) has approved a higher amount.
OLG	The Office of Local Government
OLG MR Guidelines	Guidelines for the preparation of an application to increase minimum rates above the statutory limit.
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.

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