



Independent Pricing and Regulatory Tribunal

Liverpool Plains Shire Council's application for a special variation for 2014/15

under section 508(2) of *Local Government Act 1993*

Local Government — Determination
June 2014

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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

Councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines set by the Office of Local Government (OLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Liverpool Plains Shire Council (LPSC) applied for a special variation in 2014/15 of 12.5%, to remain permanently in the rate base.²

After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2014/15

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Office of Local Government.

The Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

¹ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective 24 February 2014, the Division of Local Government became the Office of Local Government.

² Liverpool Plains Shire Council, *Special Variation Application - Part A, 2014/15* (Liverpool Plains, Application - Part A, 2014/15), Worksheet 4.

1.1 Our decision

We have determined that Liverpool Plains Shire Council may increase its general income by 12.5% in 2014/15, including the rate peg of 2.3% that is available to all councils (see Table 1.1). This increase includes the continuation of the 6.5% levy for capital works on roads and associated infrastructure that would otherwise expire.³ The special variation can be retained in the council's general income base permanently.

We have attached conditions to this decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

Table 1.1 sets out our decision and Box 1.1 summarises these conditions.

Table 1.1 IPART's decision on Liverpool Plains Shire Council's application for a special variation in 2014/15

Component	%
Increase to continue the expiring special variation for capital works on roads and associated infrastructure.	6.5
Increase to improve financial sustainability, upgrade infrastructure and reduce backlogs	3.7
Rate peg	2.3
Total increase	12.5

³ Liverpool Plains Shire Council, *Special Variation Application - Part B, 2014/15* (Liverpool Plains, Application - Part B, 2014/15), p 6.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Liverpool Plains Shire Council's application for a special variation in 2014/15 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of reducing infrastructure backlogs as outlined in the council's application and listed in Appendix A and improving financial sustainability.
- ▼ The council reports in its annual report for each year from 2014/15 to 2023/24 on:
 - The actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan (LTFP) provided in the council's application, and summarised in Appendix B.
 - Any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation.
 - Expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure.
 - The outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Office of Local Government by 30 November each year on its compliance with these conditions.

We note the council will be reducing its general income for 2014/15 by \$367,617 (the value of the expiring special variation).^a This reduction must take place before the council's general income is increased in 2014/15 in accordance with IPART's determination.

a Liverpool Plains, *Application - Part A, 2014/15, Worksheet 4.*

2 What did the council request and why?

Liverpool Plains Shire Council requested a special variation of 12.5% in 2014/15, comprising 3 components:⁴

- ▼ a 6.5% increase to continue the expiring special variation for purpose of capital works on roads and associated infrastructure
- ▼ a 3.7% increase to improve financial sustainability, upgrade infrastructure and reduce backlogs
- ▼ the rate peg of 2.3%.

⁴ Liverpool Plains, *Application - Part A, 2014/15-, Worksheet 4 and Liverpool Plains, Application - Part B, 2014/15, p 6.*

The council estimates that a 10.2% increase above the rate peg would generate \$0.602m in additional revenue in 2014/15 and \$6.905m over 10 years. The increase is to improve the council's financial sustainability, road drainage maintenance and fund road renewals. This will include rehabilitation of roads, footpaths, roads resealing, gravel resheeting, as well as kerb and guttering.⁵

This increase will include replacement of a smaller existing levy that is due to end on 30 June 2014. The expiring levy was originally approved for 6.5% above the rate peg for the period 2009/10 to 2013/14 (5 years) to fund road infrastructure.

The primary purpose of the additional revenue is to help the council reduce its operating deficit (before capital revenue) over the 10 years to 2023/24. At the same time, this additional revenue will assist to reduce its road asset renewals backlogs.⁶ The council's full program of expenditure and its funding are set out in Appendices A and B.

3 How did we reach our decision?

We assessed Liverpool Plains Shire Council's application against the criteria in the Guidelines. In making our assessment we also considered a range of comparative data about the council.

Liverpool Plains Shire Council has applied on the basis of its adopted Integrated and Reporting (IP&R) documents, in particular its Community Strategic Plan, Delivery Program and Long Term Financial Plan (LTFFP).

We found that the application met the criteria. In particular, we found:

1. The need for the proposed revenue reflects community priorities as is demonstrated in the above IP&R documents and is supported by TCorp's assessment of the council's financial sustainability.
2. The council provided evidence that the community is aware of the need for, and extent of, the rate rise and that it has considered the community's capacity and willingness to pay the proposed rate rises.
3. The impact of the proposed rate rises on ratepayers is moderate and reasonable given the purpose of the special variation and as ratepayers are already paying the 6.5% levy that would otherwise expire. The council has taken into account of ratepayers' willingness and capacity to pay.
4. The council made realistic assumptions concerning its projected service delivery and long term financial plan.

⁵ Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 4 and Worksheet 6.

⁶ Liverpool Plains, *Application - Part B, 2014/15*, p 6.

5. The council reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

Table 3.2 IPART’s assessment against the criteria in the Guidelines

Criterion	IPART findings
1. Need for and purpose of the special variation must be clearly articulated in the council’s IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include scenarios both with and without the special variation.	<p>The application identified the need for extra revenue to improve financial sustainability. The additional funds will also assist to reduce road renewal backlogs.^a</p> <p>TCorp’s analysis found that the council’s financial position is weak and deteriorating and that funding to maintain and renew roads has been inadequate. The council’s future performance is highly dependent on it increasing rates revenue.^b</p>
2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, the impact of any rises on the community, and the council’s consideration of community capacity and willingness to pay higher rates. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.	<p>The council accurately communicated the proposed rates increase. The council communicated alternatives to a rate rise and introduced costs savings to limit the rise to 12.5%. A variety of tools including mail outs to ratepayers, media releases, public meetings, surveys and social media used to inform and obtain the community’s feedback.^c</p> <p>A statistically valid survey indicated 74% of respondents were supportive of continuing the expiring 6.5% levy for roads. However, as only 39% were ‘somewhat supportive’ of the originally proposed 19% increase, this was revised to 12.5%, including the 6.5% levy. No community submissions were subsequently received by the council although IPART did receive 3 submissions.^d</p>
3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and proposed purpose of the variation. The council’s IP&R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.	<p>The impact is considered reasonable as:</p> <ul style="list-style-type: none"> ▼ Average residential rates will rise by only an estimated 5.3% in 2014/15, as ratepayers are already paying the 6.5% levy that would otherwise expire. ▼ In dollar terms, residential rates are to rise by around \$33 in 2014/15, business rates by \$38 and farm rates by \$210. ▼ While the LGA has a very low SEIFA ranking of 19/153 and high outstanding rates ratio (8.7%), average residential rates are below that of neighbouring LGAs and outstanding rates are below that for similar (Group 10) councils. ▼ Rates are equivalent to 1.4% of household incomes ie, the same as the average for similar councils.

Criterion	IPART findings
4. Delivery Program and LTFP must show evidence of realistic assumptions.	<ul style="list-style-type: none"> ▼ Few community submissions were received following the council's decision to contain the rates increase to 12.5% and introduce larger budget cost savings. ▼ The council has reasonable financial hardship policy to assist ratepayers having difficulties paying their rates.^e <p>The assumptions within the Delivery Program for the proposed levels of service and for revenue and expense growth, including cost savings, in the LTFP are realistic.^f</p>
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	<p>Cost savings of \$0.3m pa or equivalent to 5% of rates income were implemented in 2013/14. These will rise by a further \$0.5m pa, equivalent to 8% of rates, in 2014/15. LPSC is also looking to sharing resources with other Namoi LGAs.^g</p>

Sources:

- a** Liverpool Plains, *Application - Part B, 2014/15*, pp 6-11.
- b** Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 3, OLG, Unpublished data; NSW Treasury Corporation, *Liverpool Plains Shire Council Financial Assessment, Sustainability and Benchmarking Report*, 22 March 2013, pp 4-5. LPSC has a very small rates base (4,265 ratepayers) and is highly dependent upon grants and contributions (46% of revenue).
- c** Liverpool Plains, *Application - Part B, 2014/15*, p 14.
- d** Liverpool Plains, *Application - Part B, 2014/15*, pp 15-16 and Attachment 6.
- e** IPART calculations; Liverpool Plains Shire Council, Application Part A, Worksheet 5, Application Part B, pp 16-18, Attachment 7. SEIFA is the Socio-Economic Indexes for Areas. Refer to Appendix C.2. The council's outstanding ratio is below the Group 10 (similar councils') average of 9.2%. The council's hardship policy includes waiving of rates and charges and interest accrued and extended rate repayment plans
- f** Liverpool Plains, *Application - Part B, 2014/15*, Attachment 2, *Delivery Program 2014/15 pp 8-9*, and Attachment 3, *Long Term Financial Plan 2014/15*, pp 4-5.
- g** Liverpool Plains, *Application - Part B, 2014/15*, pp 21-22.

The section below discusses some key findings against the criteria in more detail.

3.1 Need for and purpose of the special variation

The council has clearly articulated to the community and identified the need for and purpose of the requested special variation in its IP&R documents. This included supporting evidence by means of a community survey in which 45% of respondents nominated the improvement of roads as the LGA's highest priority over the next 10 years.⁷

The council has a very small rates base and in recent years has recorded several large operating losses (excluding capital grants and contributions). In response, several cost saving measures, including some redundancies have been implemented even though staff numbers are relatively small. The council also

⁷ Liverpool Plains, *Application - Part B, 2014/15*, Attachment 1, *Community Strategic Plan 2014/15*, p 33. Micromex Research P/L conducted a random telephone survey in March 2013.

reports that it has not replaced council vehicles and reduced costs throughout departments by \$325,000 which was equivalent to a 5 % rate increase.⁸

We concur with TCorp that the council’s financial position is weak and its long term performance is highly dependent on being able to achieve its desired outcomes in respect of its proposed special variation.⁹

The special variation will enable the council to record modest, though increasing, operating surpluses (before capital grants and contributions) from 2018/19. This will place the council in a position where it will have the capacity to provide required additional funding for roads maintenance and the renewal of road infrastructure.¹⁰

4 What does our decision mean for the council?

Our decision means that Liverpool Plains Shire Council may increase its general income by an estimated \$0.7m in 2014/15 as indicated by Table 4.1.¹¹ This will be permanently incorporated into the council’s revenue base. After 2014/15, general income will increase by the annual rate peg unless we approve further special variations.¹²

Table 4.1 Impact of approved special variation on Liverpool Plains Shire Council income in 2014/15

Notional general income 2013/14 (\$)	Adjustment: expiring special variation	Increase approved (%)	Adjustments: Catch-ups, valuations ^a	Annual increase in general income (\$)	Permissible general income 2014/15 (\$)
6,273,030	-367,617	12.5	2,698	738,196	6,646,287

^a A prior catch-up of \$2,698 to be recouped in 2014/15 that had not been recouped by the time of the application was submitted to IPART.

Source: Liverpool Plains, *Application - Part A, 2014/15*, Worksheets 1 and 4 and IPART calculations.

⁸ Liverpool Plains, *Application - Part B, 2014/15*, p 9.

⁹ NSW Treasury Corporation (TCorp), *Liverpool Plains Shire Council Financial Assessment, Sustainability and Benchmarking Report*, 22 March 2013, pp 4-5.

¹⁰ Liverpool Plains, *Application - Part B, 2014/15, Long Term Financial Plan 2014/15 – 2023/24*, Attachment 12b.

¹¹ Liverpool Plains, *Application - Part A, 2014/15*, Worksheets 1 and 4.

¹² General income in future years cannot be determined with precision, as it will be influenced by several factors apart from the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

5 What does our decision mean for ratepayers?

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

Table 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

Table 5.1 Indicative rate increases under the approved special variation

Category ^a	Average rate 2013/14 (\$)	Approved increase (\$)	Approved increase (%)	Average rate 2014/15 (\$)
Average residential rates	625	33	5.3	658
Average business rates	1,554	38	2.4	1,592
Average farmland rates	3,708	210	5.7	3,918
Average mining rates	51,769	2,856	5.5	54,625

^a Average rates include all applicable ordinary and special rates rounded to the nearest dollar.

Source: Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 5 and IPART calculations.

The increases in average rates are less than the rise in general income of 12.5% because the 2014/15 special variation includes continuing an existing variation of 6.5%, which is already being paid by ratepayers.



Appendices

A Expenditure to be funded from the special variation

Tables A.1 and A.2 show how Liverpool Plains Shire Council intends to spend the extra special variation income that it receives above the rate peg.

The Liverpool Plains Shire Council will use the additional special variation revenue, above the rate peg, of \$6.9m over 10 years to 2023/24 to fund:¹³

- ▼ an improvement in the operating balance (excluding capital grants and contributions), of \$6.2m and fund higher roads related drainage maintenance of \$0.7m over this period (Table A.1).

At the same time, the above improvement in the operating balance of \$6.2m will fund:

- ▼ \$6.2m in extra road renewal capital expenditure over the period from 2014/15 to 2023/24 (Table A.2).¹⁴

The council will indicate in its Annual Reports how its actual expenditure evolves relative to its proposed program of expenditure.

¹³ Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 6.

¹⁴ Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 6.

Table A.1 Special variation income above rate peg and proposed expenditure related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Operating Statement										
Funding for increased operating expenditures (roads drainage maintenance)	70	58	60	61	63	73	100	75	80	82
Funding to reduce operating deficits and achieve operating surpluses	532	562	579	597	615	626	619	666	683	704
Cash Flow Statement										
Funding for capital expenditure	532	562	579	597	615	626	619	666	683	704

Source: Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 6.

Table A.2 Proposed capital program related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Local roads rehabilitation	105	248	278	21	0	0	0	0	67	70	788
Local roads resealing	190	175	183	430	516	462	350	473	200	205	3,184
Local roads gravel resheeting	237	139	119	146	99	163	243	193	223	227	1,790
Footpath rehabilitation	0	0	0	0	0	0	26	0	24	25	75
Kerb & Guttering	0	0	0	0	0	0	0	0	170	177	347
Total Asset Renewal	532	562	579	597	615	626	619	666	683	704	6,184

Source: Liverpool Plains, *Application - Part A, 2014/15*, Worksheet 6. Any variances between annual amounts and combined 10 year totals are due to the rounding of annual figures to the nearest dollar.

B Liverpool Plains Shire Council's projected revenue, expenses and operating balance

Liverpool Plains Shire Council will report annually against its projected revenue, expenses and operating result as classified in its Annual Financial Statements and as currently set out in its LTFP (shown in Table B.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capitals and contributions.

In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes all items of a capital nature. When they are included in the council's public reports, total revenue will be higher and the operating deficit lower (or the operating surplus higher).

Table B.1 Summary of projected operating statement for Liverpool Plains Shire Council, 2014/15 to 2023/24 (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue	19,597	19,753	20,222	20,835	21,499	22,299	22,861	23,161	24,141	24,828
Total expenses	18,075	18,466	18,929	19,256	19,644	20,121	20,612	21,155	21,612	22,182
Operating result from continuing operations (including capital grants and contributions)	1,522	1,287	1,293	1,579	1,855	2,178	2,249	2,006	2,529	2,646

Source: Liverpool Plains Shire Council, *Long Term Financial Plan 2014-15 to 2023-24*, adopted 5 February 2014, Attachment 12(b).

C Comparative indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

In Table C.1 we show how selected indicators for Liverpool Plains Shire Council have changed over the 3 years to 2011/12.

Table C.1 Trends in selected indicators for Liverpool Plains Shire Council, 2009/10 to 2011/12

	2009/10	2010/11	2011/12
Productivity (labour input) indicators^a			
FTE staff (number)	131	131	124
Ratio of population to FTE	61	61	63
Average cost per FTE (\$)	\$56,389	\$58,885	\$64,581
Employee costs as % operating expenditure (General Fund only) (%)	36.0%	27.6%	32.6%
Consultancy/contractor expenses (\$m)	\$0.6	\$0.4	\$0.4
Consultancy/contractor expenses as % operating expenditure (%)	3.0%	1.4%	1.7%

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In Table C.2 we compare the latest selected published data on Liverpool Plains Shire Council with the average of the councils in the OLG Group and with NSW councils as a whole.

Table C.2 Select comparative indicators for Liverpool Plains Shire Council, 2011/12

	Council	OLG Group 10 average ^a	NSW average
General profile indicators			
Area (km ²)	4,963	NA	NA
Population	7,769	NA	NA
General Fund operating expenditure (\$m)	21.4	NA	NA
General Fund operating revenue per capita (\$)	2,093	2,580	2,011
Rates revenue as % total General Fund income (%)	33.1	24.6	45.7
Average rate indicators^b			
Average rate – residential (\$)	504	492	685
Average rate – business (\$)	1,415	1,077	2,552
Average rate – farmland (\$)	3,549	2,192	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	35,387	35,157	44,140
Growth in average annual income, 2006-2010 (% pa)	3.0	2.6	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.4	1.4	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	19	NA	NA
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	8.7	9.2	7.0
Productivity indicators^d			
FTE staff (number)	124	105	293
Ratio of population to FTE	63	70	126
Average cost per FTE (\$)	64,581	65,736	74,438
Employee costs as % operating expenditure (General Fund only) (%)	32.6	35.5	36.8
Consultancy/contractor expenses (\$m)	0.4	1.6	6.9
Consultancy/contractor expenses as % operating expenditure (%)	1.7	7.4	9.3

^a OLG Group 10 is classified 'being rural large agricultural (population from 5,001-10,000) and remote LGAs (population from 3,001-20,000). The group comprises 25 councils of which examples include Berrigan, Bland, Cobar and Bellingen LGAs.

^b Average rates equal total rates revenue divided by the number of assessments in each category.

^c Average annual income includes income from all sources excluding government pensions and allowances.

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

Source: OLG, Unpublished data; ABS, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013, ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.