



Independent Pricing and Regulatory Tribunal

Wingecarribee Shire Council's application for a special variation for 2016-17

under section 508A of *Local Government Act 1993*

Local Government — Determination
May 2016



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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 income from rates. 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.

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (section 508(2)) or for successive years up to seven years (section 508A).

IPART assesses these applications against criteria in Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2016-17.

Wingecarribee Shire Council (Wingecarribee Council) applied for a multi-year special variation under section 508A. The council requested increases of 8.55% for 2016-17 and 9.25% in each of 2017-18 and 2018-19 with an increase of 12.15% in 2019-20, a cumulative increase of 45.30%. It applied for the increase 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 508A of the Act.

Box 1.1 The Guidelines for 2016-17

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and 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. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, January 2016 (the Guidelines).

² Wingecarribee Shire Council, *Special Variation Application Form Part A 2016-17* (Wingecarribee, Application Part A), Worksheet 1.

Our decision enables the council to use the additional revenue from the special variation to fund operating and capital expenditures for:

- ▼ the continuation of the Wingecarribee Our Future Environment program³
- ▼ increased infrastructure maintenance for roads, buildings, drainage and parks
- ▼ infrastructure renewals for roads, buildings, drainage and parks, and
- ▼ asset upgrades for roads and drainage.

The additional revenue will also be used to improve the council's financial sustainability.

The council consulted its community on the special variation in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its application to IPART.

1.1 Our decision

We determined that Wingecarribee Council may increase its general income between 2016-17 and 2019-20 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (1.8% in 2016-17).⁴ The cumulative increase of 45.3% is 35.7% more than the assumed rate peg increase over these years (9.6%).

This increase includes additional revenue to replace the 3.5% environmental levy that will expire at 30 June 2019.⁵ The special variation can be retained in the council's general income base permanently.

The increase in rate revenue in 2019-20 will be less than the rise in general income of 12.15% for that year because this special variation includes the continuation of the environmental levy which is already being paid by ratepayers. The total rise in 2019-20 will be 8.6% on 2018-19 rate revenue. The net cumulative increase in rate revenue between 2016-17 and 2019-20 will be 40.7%.

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

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

³ This program is currently funded by the environmental levy that is to expire on 30 June 2019.

⁴ The council has assumed a rate peg of 2.5% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

⁵ Wingecarribee Shire Council, *Special Variation Application Form – Part B for 2016-17* (Wingecarribee, *Application Part B*), p 11.

Table 1.1 IPART’s decision on Wingecarribee Shire Council’s application for a special variation in 2016-17

	2016-17	2017-18	2018-19	2019-20
Percentage increase approved	8.55%	9.25%	9.25%	12.15%

Note: The rate peg in 2016-17 is 1.8%. In later years the council has assumed a rate peg of 2.5%.

Source: Wingecarribee, *Application Part A*, Worksheet 1.

Box 1.2 Conditions attached to Wingecarribee Shire Council’s approved special variation

IPART’s approval of Wingecarribee Shire Council’s application for a special variation over the period from 2016-17 to 2019-20 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving financial sustainability and reducing infrastructure backlogs as outlined in the council’s application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2016-17 to 2025-26 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan 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 listed in Appendix A, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

On 1 July 2019, the council is to reduce its general income to what it would have been without the expiring special variation. This reduction must take place before the council’s general income is increased in 2019-20 in accordance with IPART’s determination.

2 What did the council request and why?

Wingecarribee Council applied to increase its general income by a cumulative 45.3% over the 4-year period from 2016-17 to 2019-20, and to permanently incorporate this increase into its general income base.⁶

⁶ Wingecarribee, *Application Part A*, Worksheet 4.

This is similar to the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At that time, the council proposed a cumulative increase of 41.2% (including the rate peg) over the 4-year period from 2016-17 to 2019-20. At that time, Wingecarribee Council proposed the funds be applied to addressing funding gaps in asset maintenance, asset renewal and new capital spending. The proposed special variation in the FFTF proposal did not incorporate the continuation of the environmental levy, so it is lower than the 45.3% currently requested.

The increase in 2019-20 includes replacement of an existing special variation that is due to end on 30 June 2019. The expiring levy was previously approved for 3.5% above the rate peg for the period 2012-13 to 2018-19 (six years) to fund environmental sustainability measures included in the Our Future Environment program.

The council estimated that if the requested special variation is approved, its permissible general income would increase from \$34.5 million in 2015-16 to \$48.5 million in 2019-20. This would generate additional revenue of \$27.2 million above the assumed rate peg increases between 2016-17 and 2019-20.

The council intends to use the additional revenue from the special variation to fund:

- ▼ continuation of the Wingecarribee Our Future Environment program from 2019-20⁷
- ▼ increased infrastructure maintenance on roads, buildings, drainage and parks
- ▼ infrastructure renewals for roads, buildings, drainage and parks, and
- ▼ asset upgrades for roads and drainage infrastructure.

The additional revenue will also be used to improve the council's financial sustainability.⁸

Over the 10 years from 2016-17 to 2025-26, the council estimates the special variation would generate revenue of \$106.7 million above the assumed rate peg.

Of this amount, the council proposes to spend, over the same period an additional \$31.2 million on operational expenses:

- ▼ \$21.8 million on infrastructure maintenance
 - \$11.1 million on roads
 - \$7.6 million on buildings
 - \$1.8 million on drainage
 - \$1.2 million on parks, and
- ▼ \$9.4 million on the Wingecarribee Our Future Environment program.

⁷ This program is currently funded by the environmental levy, set to expire by 2018-19.

⁸ Wingecarribee, *Application Part A*, Worksheet 6.

A further \$76.3 million would be used to fund higher capital expenditures:

- ▼ \$52.7 million on infrastructure renewals
 - \$34.1 million on roads
 - \$8.3 million on buildings
 - \$7.4 million on drainage infrastructure
 - \$2.9 million on parks, and
- ▼ \$23.6 million on infrastructure upgrades
 - \$17.5 million on drainage infrastructure, and
 - \$6.1 million on roads.⁹

These spending plans exceed the additional revenue to be raised by the special variation by \$0.9 million. Wingecarribee Council plans to fund this short fall from other sources.¹⁰

More detail on the council's proposed program of expenditure to 2025-26 is provided in Appendix A and Appendix B.

3 How did we reach our decision?

We assessed Wingecarribee Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix C.¹¹

Wingecarribee Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan – Wingecarribee 2031, Delivery Program – Investing in our future, Long Term Financial Plan 2016-2026 (LTFP)* and *Strategic Asset Management Plan*.

The rate increases for which the council has applied are substantial, and we considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

⁹ Wingecarribee, *Application Part A*, Worksheet 6.

¹⁰ Wingecarribee Council's LTFP includes expected growth in rate income due to additional assessments of 0.5% pa. The additional \$2.6 million generated has been allocated to the expenditure program. See: Email from Wingecarribee Shire Council, 8 March 2016.

¹¹ See Appendix C. Wingecarribee Council is in OLG Group 4, which is classified as Urban small/medium regional town/city (pop Up to 70,000). The group comprises 30 councils, including councils such as Clarence Valley, Cessnock City, Dubbo City, Great Lakes, Greater Taree City, Lismore City, Singleton Shire and Wagga Wagga City.

We found that Wingecarribee Council's application met the criteria. In particular, we found that:

1. The **need for the proposed revenue** is demonstrated in the council's IP&R documents, and reflects community priorities, and is supported by IPART's FFTF 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 increases.
3. The **impact of the proposed rate rises on ratepayers** is substantial but reasonable, given the socioeconomic indicators for Wingecarribee Shire and the purpose of the application.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
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. Sections 3.1 and 3.2 discuss our findings against criteria 1 and 3 in more detail.

Table 3.1 Summary of IPART’s assessment of Wingecarribee Shire Council’s application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents explain the need for the special variation and show that it:</p> <ul style="list-style-type: none"> ▼ is consistent with community priorities ▼ will enable the council to maintain and improve its assets, and ▼ will support the council to become financially sustainable. <p>In 2013, TCorp indicated that Wingecarribee Council’s financial position was moderate, however it noted forecasts for continued operating deficits.</p> <p>Our 2015 FFTF assessment observed that the council’s operating performance ratio was -8.7% (deficit) in 2014-15 and that the special variation would improve this to 0.6% (surplus) by 2019-20.</p> <p>The council considered alternatives to a rate rise such as new or higher user charges, increased loan borrowing and grant funding, joint ventures and disposal of assets. However, the council concluded these options would not raise sufficient revenue or be suitable to fund recurrent expenses.</p>
<p>2. 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. The council’s community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.</p>	<p>The council provided evidence that the community was aware of the purpose of the proposed rate increase and its size in both dollar and percentage terms.</p> <p>Wingecarribee Council raised community awareness through: a mail out to all ratepayers, online engagement via the council’s website, hosting 14 information kiosks, sending email alerts to registered interested parties, publicity via council newsletters, local media advertising and editorials and social media engagement.</p> <p>Wingecarribee Council received 21 submissions and a petition with 615 signatures. Common themes from the submissions and petition were opposition on the grounds of: affordability, lack of an alternative funding strategy, current high rate levels, organisational inefficiencies and insufficient information provision from the council.</p> <p>IPART received 54 submissions on the proposed special variation. The majority opposed the proposed rate rise on grounds of affordability, lack of community awareness and past poor performance by the council.</p>

Criterion	IPART findings
<p>3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any 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. 	<p>We consider that the impact of the special variation will be substantial due to the large size of the proposed increase and the existing high rate levels (\$108 increase in average residential rates in 2016-17, growing to a \$141 annual increase by 2019-20). Between 2005-06 and 2015-16, Wingecarribee Council increased residential rates by 114%, or 79% above the rate peg.</p> <p>Average residential rates (including special rates) in 2013-14 were \$1,149, or 24% above the OLG Group 4 average (\$927) and 51% higher than the NSW average (\$760). However, Wingecarribee Shire has a SIEFA ranking of 120 (out of 153) and average incomes of \$49,475 or 12% above the OLG group 4 average (\$44,351) and slightly above the NSW average (\$49,070).^a</p> <p>The council examined the following socio-economic indicators:</p> <ul style="list-style-type: none"> ▼ median weekly household income (\$1,094) is above that of regional NSW (\$961) ▼ unemployment rate (4.2%) is lower than regional NSW's (6.1%) ▼ rental stress level (8.8%) is lower than the NSW average (11.6%), and ▼ outstanding rates in 2014-15 (2.1%) are below the benchmark of 5% for regional councils.
<p>4. The relevant IP&R documents 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.</p>	<p>The council exhibited its Community Strategic Plan between October and November 2015 and adopted it in December 2015. The council exhibited its Delivery Program and Long Term Financial Plan from December 2015 to February 2016 and adopted these documents in February 2016.</p>
<p>5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>The council has recently implemented on-going cost savings of \$2.0 million annually through improved: work safety practices, waste collection, fleet administration and water and energy management.</p> <p>The council proposes to realise additional future savings from its internal audit program, business unit reviews and improvements in asset management.</p>

^a Figures are as at 2013-14.

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2.

Sources: Wingecarribee, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Wingecarribee Shire Council Financial Assessment, Sustainability and Benchmarking Report*, October 2012; Wingecarribee Shire Council, *Delivery Program 2013-17*; Wingecarribee Shire Council, *Long Term Financial Plan 2015/16*.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

Wingecarribee Council's IP&R documents set out the need for, and purpose of the requested special variation, which is to:

- ▼ continue (in perpetuity) the Wingecarribee Our Future Environment program
- ▼ improve the asset maintenance ratio from 76% in 2015-16 to 104% by 2025-26 (above the benchmark of 100%)
- ▼ increase the asset renewal ratio from a low of 53% in 2017-18 to 95% in 2025-26¹²
- ▼ improve existing roads and drainage infrastructure
- ▼ enhance financial sustainability, and
- ▼ eliminate infrastructure backlogs by 2025-26
 - this compares with an increase in the infrastructure backlog ratio from 1% in 2015-16 to 5% in 2025-26 without the special variation (exceeding the benchmark of 2%).

The council's IP&R documents, and community feedback to the council indicate that the community's priorities were to improve infrastructure, particularly the road and drainage systems and to continue the future environment program.

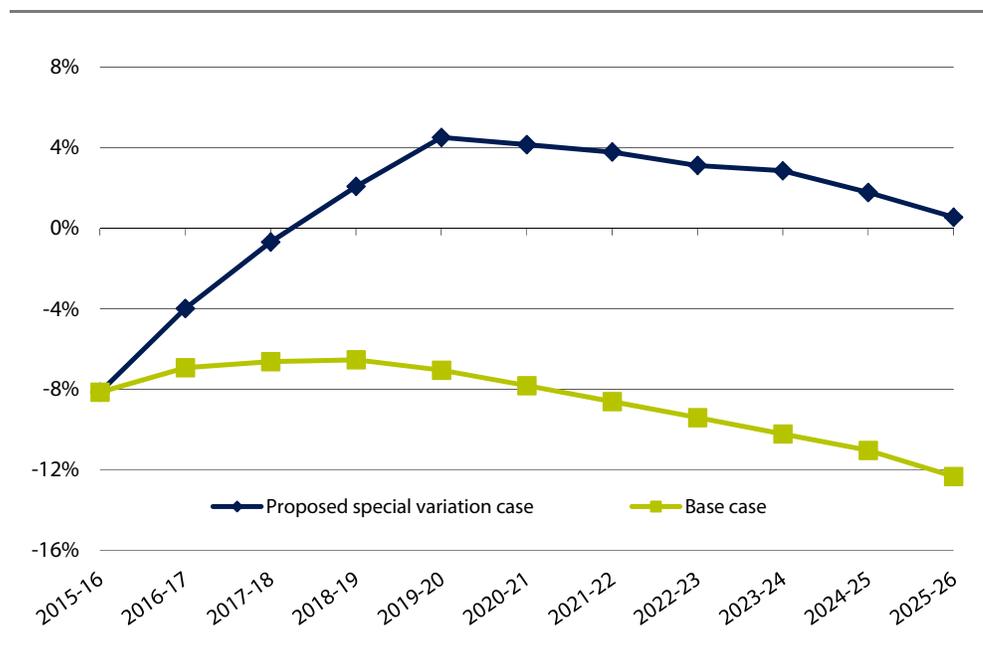
Financial sustainability, including infrastructure backlogs

The impact of the proposed special variation on the council's financial sustainability is shown in Figure 3.1 and Table 3.2.

The council is forecasting operating deficits of between 12.3% and 6.5% of revenue, excluding capital grants and contributions, over the next 10 years without a special variation. In contrast, the council's application will enable it to record operating surpluses from 2018-19. This will provide the council with the capacity to increase asset renewals and fund new capital works.

¹² The asset renewal ratio spikes to 141% in 2016-17 due to grant funding tied to the Bowral distributor road works project.

Figure 3.1 Wingecarribee Shire Council's Operating Performance Ratio excluding Capital Grants and Contributions (2014-15 to 2025-26)



Data source: Wingecarribee, *Application Part A, Worksheet 7* and IPART calculations.

Table 3.2 Projected operating performance ratio (%) for Wingecarribee Shire Council's special variation application compared with its FFTF proposal

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Application - including SV	-8.1	-4.0	-0.7	2.1	4.5	4.2	3.8	3.1	2.9	1.8	0.6
Excluding SV	-8.1	-6.9	-6.6	-6.5	-7.0	-7.8	-8.6	-9.4	-10.2	-11.0	-12.3
FFTF – including SV	-9.9	-7.8	-5.2	-2.1	0.6	-	-	-	-	-	-

Note: FFTF figures are calculated as 3-year moving averages.

Source: Wingecarribee, *Application Part A, Worksheet 7*.

The council reports that there are differences between the projections for the operating performance ratio presented as part of the FFTF review and those in the council's special variation application, resulting from more accurate modelling and the inclusion of the environmental levy.

In 2015, IPART's FFTF assessment was based on Wingecarribee Council forecasts that assumed a special variation application would be successful. IPART's assessment found that the council met the criteria for:

- ▼ Financial sustainability, as it was forecast to meet the benchmarks for the operating performance ratio and own source revenue by 2019-20, and was close to meeting the building and asset renewals benchmark from 2019-20, based on a proposed special variation increasing rates by 41% over four years.
- ▼ Infrastructure and service management, as it was forecast to meet the infrastructure backlog benchmark and debt service benchmark from 2014-15, and was close to meeting the asset maintenance benchmark by 2019-20.
- ▼ Efficiency, based on declining opex per capita.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was moderate, and considered its outlook to be neutral. This assessment noted forecasts for continued operating deficits. TCorp recommended the council improve financial sustainability through on-going cost controls or seeking additional revenue in future years.¹³

3.2 Reasonable impact on ratepayers

We consider the impact of the special variation will be substantial due to the large size of the proposed increase and the existing high rate levels (\$108 increase in average residential rates in 2016-17, growing to a \$141 annual increase by 2019-20).

Between 2005-06 and 2015-16, Wingecarribee Council has increased residential rates by 114%, or 79% above the rate peg. Average residential rates (including special rates) in Wingecarribee Shire were \$1,149, or 24% above the OLG Group 4 average (\$927) and 51% higher than the NSW average (\$760).

However, Wingecarribee Shire has a SIEFA ranking of 120 (out of 153) and average personal income of \$49,475 or 12% above the OLG group 4 average (\$44,351) and slightly above the NSW average (\$49,070).¹⁴

Table 3.3 shows how Wingecarribee Council compares to comparable councils.

¹³ NSW Treasury Corporation (TCorp), *Wingecarribee Shire Council - Financial Assessment and Benchmarking Report*, October 2012, pp 4-5 & 33; TCorp, *Financial Sustainability of the NSW Local Government Sector*, April 2013, p 18.

¹⁴ See Table C.2. Comparative data uses 2013-14 figures.

Table 3.3 Wingecarribee Shire Council - comparison of rates and socio-economic indicators with comparable councils and Group 4 averages (2013-14)

Council (OLG Group)	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Comparable Councils					
Wollondilly (6)	1,183	50,960	2.3	7.1	124
Wingecarribee (4)	1,105	49,475	2.2	1.7	120
Hawkesbury (6)	1,018	48,482	2.1	5.9	118
Cessnock (4)	1,014	48,333	2.1	4.0	28
Dubbo (4)	941	46,001	2.0	2.2	83
Goulburn Mulwaree (4)	881	44,817	2.0	2.7	61
Group 4	922	44,351	2.1	4.9	-

^a The average residential rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

^b The outstanding rates ratio includes water and sewer.

^c The highest ranking is 153 which denotes a council that is least disadvantaged in NSW.

Note: Upper Lachlan, Wollongong, Shellharbour, Kiama and Shoalhaven are neighbouring councils that are not comparable to Wingecarribee and are therefore excluded from Table 3.3.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

Table 3.3 does not include all surrounding councils. Not included in this analysis are Wollongong, Shellharbour, Kiama, Shoalhaven and Upper Lachlan councils. These councils do not have similar population levels and geography, and therefore may not be meaningful to compare with Wingecarribee Council.

Wollondilly and Goulburn Mulwaree both neighbour, and have a similar population and geography to Wingecarribee Council. Hawkesbury, Cessnock and Dubbo councils all have similar population levels and geography and are in the same OLG Group (4) as Wingecarribee Council.

The top three councils show strong similarities with average residential rate levels, average personal income, income to rates ratio and SEIFA ranking. However, Wingecarribee Council has a much lower outstanding rates ratio. It has the second highest average residential rates which is consistent with it having the second highest average personal income. This indicates residential rates are not unreasonably high in Wingecarribee Council.

Taking all these factors into account, we consider the impacts of the increases are substantial, but reasonable, given the socio-economic indicators in Wingecarribee Shire and the purpose of the application.

4 What does our decision mean for the council?

Our decision means that Wingecarribee Council may increase its general income over the 4-year special variation period from \$34.5 million in 2015-16 to \$48.5 million in 2019-20.

Table 4.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and, in 2016-17, adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases are to be permanently incorporated into the council's revenue base. After 2019-20 the council's permissible general income can increase by the annual rate peg unless we approve a further special variation.¹⁵

Table 4.1 Permissible general income of Wingecarribee Shire Council from 2016-17 to 2019-20 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2016				34,472,044
2016-17	8.55	8.6	2,959,205	37,431,248
2017-18	9.25	18.6	3,462,390	40,893,639
2018-19	9.25	29.6	3,782,662	44,676,300
2019-20	12.15	45.3	3,829,197	48,505,498 ^a
Total increase approved			14,033,454	

^a Includes adjustment of -\$1,425,745 for a special variation that expires on 30 June 2019.

Source: Wingecarribee, *Application Part A*, Worksheets 1 and 4.

The council estimates that over these four years it will collect additional rates revenue of \$27.2 million above the assumed rate peg increases.

This additional revenue is the amount the council requested to enable it to undertake additional operating and capital expenditure to continue its environmental programs and maintain and improve its assets.

¹⁵ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to 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?

IPART sets 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.

In its application, Wingecarribee Council indicated that it intends to increase rates over the four years similarly for each category. The council has calculated that:

- ▼ the average residential rate will increase by a cumulative 40.5%, or by \$108 in the first year and by \$518 after four years (from 1,280 to \$1,798)
- ▼ the average business rate will increase by a cumulative 43.5%, or by \$373 in the first year and by \$1,567 after four years (from \$3,603 to \$5,170)
- ▼ the average farmland rate will increase by a cumulative 39.1%, or by \$222 in the first year and by \$1,169 after four years (from \$2,989 to \$4,158)
- ▼ the average mining rate will increase by a cumulative 40.7%, or by \$457 in the first year and by \$2,298 after four years (from \$5,641 to \$7,939)

The increase in average rates in 2019-20 will be less than the rise in general income of 12.15% for that year because this special variation includes the continuation of an existing variation of 3.5% (the environmental levy) which is already being paid by ratepayers. The total rise in 2019-20 will be 8.6% on 2018-19 rates.

Table 5.1 sets out Wingecarribee Council's estimates of the expected increase in average rates in each ratepayer category.

Table 5.1 Indicative annual increases in average rates under Wingecarribee Shire Council's approved special variation 2016-17 to 2019-20

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Cumulative Increase 2019-20
Residential rate \$	1,280	1,388	1,516	1,657	1,798	
\$ increase		108	128	140	141	518
% increase		8.4	9.3	9.3	8.5	40.4
Business rate \$	3,603	3,976	4,344	4,745	5,170	
\$ increase		373	368	402	425	1,567
% increase		10.4	9.3	9.3	8.9	43.5
Farmland rate \$	2,989	3,211	3,508	3,833	4,158	
\$ increase		222	297	325	325	1,169
% increase		7.4	9.3	9.3	8.5	39.1
Mining rate \$	5,641	6,098	6,663	7,279	7,939	
\$ increase		457	565	616	660	2,298
% increase		8.1	9.3	9.3	9.1	40.7

Note: The average rate is calculated by the total income in a category divided by the number of assessments in that category, and includes the ordinary rate and any special rates applying to the rating category.

Source: Wingecarribee, *Application Part A*, Worksheet 5a.



Appendices

A Expenditures to be funded from the special variation above the rate peg

Table A.1 and Table A.2 show Wingecarribee Council's proposed expenditure of the special variation funds over the next 10 years. Over this period the special variation will generate additional revenue of \$106.6 million above the assumed rate peg. The council plans to spend an additional \$31.2 million on the following **operational expenses**:

- ▼ \$21.8 million on infrastructure maintenance
 - \$11.1 million on roads
 - \$7.6 million on buildings
 - \$1.8 million on drainage
 - \$1.2 million on parks, and
- ▼ \$9.4 million on the Wingecarribee Our Future Environment program.

A further \$76.3 million will be used to fund the following **capital expenditure** programs:

- ▼ \$52.7 million on infrastructure renewals
 - \$34.1 million on roads
 - \$8.3 million on buildings
 - \$7.4 million on drainage
 - \$2.9 million on parks, and
- ▼ \$23.6 million on infrastructure upgrades
 - \$17.5 million on drainage, and
 - \$6.1 million on roads.

These spending plans exceed the additional revenue to be raised by the special variation by \$0.9 million. Wingecarribee Council plans to fund this shortfall from growth in the number of rate assessments.¹⁶

As a condition of IPART's approval, the council will indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

¹⁶ Wingecarribee Council's LTFP includes a provision for annual growth in rate income of 0.5%. The additional \$2.6 million generated has been allocated to these expenditure programs.

Table A.1 Wingecarribee Shire Council – Income and proposed expenditure over 10 years related to the special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Special variation income above assumed rate peg	2,327	4,912	7,795	12,128	12,431	12,742	13,060	13,387	13,721	14,064	106,566
Funding for increased operating expenditures	596	1,188	2,079	3,915	3,819	3,706	3,842	3,612	4,096	4,370	31,223
Funding to reduce operating deficits (or increase surpluses)	1,731	3,724	5,716	8,213	8,612	9,036	9,218	9,775	9,625	9,694	75,343
Funding for capital expenditure	1,726	3,737	5,774	8,142	8,601	9,085	9,333	9,956	9,882	10,030	76,266
Total additional expenditure	2,322	4,925	7,853	12,057	12,420	12,791	13,175	13,568	13,978	14,400	107,489

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Wingecarribee, *Application Part A*, Worksheet 6.

Table A.2 Wingecarribee Shire Council – Proposed 10-year capital expenditure program related to the special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Roads infrastructure											
Renewals	210	1,282	2,074	3,514	3,800	3,926	4,050	4,434	5,378	5,388	34,056
Upgrades	205	280	433	754	402	834	507	1,082	784	807	6,088
Drainage infrastructure											
Renewals	504	523	708	613	585	734	734	894	1,053	1,086	7,434
Upgrades	311	841	1,399	1,874	2,306	1,954	2,365	1,876	2,263	2,332	17,521
Buildings infrastructure											
Renewals	344	582	900	1,130	1,221	1,348	1,382	1,356	0	0	8,263
Upgrades	0	0	0	0	0	0	0	0	0	0	0
Parks infrastructure											
Renewals	152	229	260	257	287	289	295	314	404	417	2,904
Upgrades	0	0	0	0	0	0	0	0	0	0	0
Total Asset Renewal	1,210	2,616	3,942	5,514	5,893	6,297	6,461	6,998	6,835	6,891	52,657
Total Asset Upgrades	516	1,121	1,832	2,628	2,708	2,788	2,872	2,958	3,047	3,139	23,609
Total Capital Expenditure	1,726	3,737	5,774	8,142	8,601	9,085	9,333	9,956	9,882	10,030	76,266

Note: Numbers may not add due to rounding.

Source: Wingecarribee, *Application Part A*, Worksheet 6.

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

As a condition of IPART's approval, Wingecarribee Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table B.1).

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

Table B.1 Summary of projected operating statement for Wingecarribee Shire Council, 2016-17 to 2025-26 (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total revenue	74,168	71,083	75,720	80,469	82,620	84,830	87,113	89,460	91,871	94,350
Total expenses	66,715	68,884	71,535	74,290	76,628	79,049	81,812	84,315	87,618	91,178
Operating result from continuing operations	7,453	2,199	4,185	6,179	5,992	5,781	5,301	5,145	4,253	3,172
Net operating result before capital grants and contributions	-2,555	-467	1,519	3,513	3,326	3,115	2,635	2,479	1,587	506

Note: Numbers may not add due to rounding.

Source: Wingecarribee, *Application Part A*, Worksheet 7.

C Comparative indicators

Performance 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.

Table C.1 shows how selected performance indicators for Wingecarribee Council have changed over the four years to 2013-14.

Table C.1 Trends in selected performance indicators for Wingecarribee Shire Council, 2010-11 to 2013-14

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	340	352	357	359	1.8
Ratio of population to FTE	136	131	130	129	-1.8
Average cost per FTE (\$)	70,382	77,429	75,546	82,618	5.5
Employee costs as % operating expenditure (General Fund only) (%)	35.2	34.6	35.9	34.5	-0.6
Consultancy/contractor expenses (\$m)	9.1	8.6	11.7	22.1	34.3
Consultancy/contractor expenses as % operating expenditure (%)	12.0	10.1	14.2	25.1	27.8

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In addition to the above table the following comparisons can be made:

- ▼ The number of FTE staff has increased from 340 to 359 which is above the Group 4 average of 320 and exceeds that of comparable councils: Dubbo (330), Hawkesbury (274), Cessnock (268), Goulburn Mulwaree (252) and Wollondilly (219). This is consistent with the change in the ratio of population to FTE.
- ▼ The ratio of population to FTE has declined from 136 to 129 but remains above the Group 4 average of 127 and above comparable councils: Goulburn Mulwaree (114) and Dubbo (123). Wingecarribee Council compares less favourably with Cessnock (199), Wollondilly (207) and Hawkesbury (236).
- ▼ The proportion of operating expenditure attributable to employee expenses has decreased slightly from 35.2% to 34.5% which is below the Group 4 average of 38.1% and also compares favourably with Wollondilly (35.6%), Goulburn Mulwaree (38.2%), Hawkesbury (36.2%) and Cessnock (36.2%). However, Wingecarribee Council's ratio is higher than Dubbo (30.2%).

- ▼ The percentage of operational expenditure attributable to consultancy/contractors (25.1%)¹⁷ is higher than the Group 4 average of 10.5% and of Dubbo (6.6%), Goulburn Mulwaree (7.4%), Cessnock (9.4%) and Hawkesbury (14.9%). Wingecarribee compares favourably with Wollondilly (34.2%).
- ▼ The ratio of governance and administration to expenditure on services (23%) exceeds the Group 4 average of 11% and comparable councils: Dubbo (1%), Wollondilly (9%), Hawkesbury (10%), Cessnock (15%) and Goulburn Mulwaree (15%).¹⁸

Our 2015 FFTF review found:

- ▼ Wingecarribee Council satisfied the scale and capacity criterion. The Independent Local Government Review Panel report identified options for a Joint Organisation with Central Tablelands councils.¹⁹
- ▼ The council met the criterion for sustainability as it was forecast to meet the operating performance and own source revenue benchmarks by 2019-20 and be close to meeting the building and infrastructure asset renewal benchmark by the same time.
- ▼ Wingecarribee Council satisfied the criterion for infrastructure and service management as it was forecast to meet the infrastructure backlog and debt service benchmarks by 2019-20 and be close to meeting the asset maintenance benchmark by the same time.
- ▼ Wingecarribee Council met the criterion for efficiency based on the real opex per capita benchmark. Real opex per capita was \$1,370 in 2013-14 and is forecast to reduce to \$1,116 by 2019-20 based on existing cost improvement measures that are quantifiable. The council also outlined a number of additional strategies to be implemented in order to improve its performance that did not have quantifiable benefits provided.

General comparative indicators

Table C.2 compares selected published and unpublished data about Wingecarribee Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

¹⁷ Wingecarribee Council has indicated that contractor/consultancy expense can be variable due to the variability of grant funding which can fund contractor/consultant expense. Further, a change in accounting treatment during 2013-14 has caused this expense to increase by approximately \$10 million in that year.

¹⁸ Data provided by OLG stated that the ratio of governance and administration to expenditure on services was 35%. However, the council stated that this figure was incorrect due to public infrastructure depreciation expenses being categorised as governance and administration in this period. Updated information was provided in response to an IPART query that revised this figure to 23%.

¹⁹ Independent Local Government Review Panel, *Revitalising Local Government – Final Report*, October 2013, p 116.

As indicated in section 3, Wingecarribee Council is in OLG Group 4. Unless specified otherwise, the data refers to the 2013-14 financial year.

Table C.2 Select comparative indicators for Wingecarribee Shire Council, 2013-14

	Wingecarribee Shire Council	OLG Group 4 average	NSW average
General profile			
Area (km ²)	2,696		
Population	46,416		
General Fund operating expenditure (\$m)	75.5		
General Fund operating revenue per capita (\$)	1,466	1,380	1,857
Rates revenue as % General Fund income (%)	52.7	43.9	48.9
Own-source revenue ratio (%)	86.3	69.2	73.8
Average rate indicators^a			
Average rate – residential (\$)	1,105	922	743
Average rate – business (\$)	3,135	3,326	2,781
Average rate – farmland (\$)	2,622	1,927	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	49,475	44,351	49,070
Growth in average annual income, 2006-2011 (% pa)	3.3	4.5	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	2.2	2.1	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	120		
Outstanding rates and annual charges ratio (General Fund only) (%)	1.7	4.9	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	359	320	294
Ratio of population to FTE	129	125	127
Average cost per FTE (\$)	82,618	77,772	78,374
Employee costs as % operating expenditure (General Fund only) (%)	34.5	37.8	38.1
Consultancy/contractor expenses (\$m)	22.1	6.2	8.3
Consultancy/contractor expenses as % operating expenditure (%)	25.1	7.9	10.5

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

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

^c Except as noted, data is 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, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.