ANNEXURE K:
PAST INSTRUMENTS OF APPROVAL

Independent Pricing and Regulatory Tribunal

Burwood Council's application for a special variation for 2014/15

under section 508A of *Local Government Act 1993*

Local Government — Determination
June 2014

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ISBN 978-1-925032-86-4

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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).

Burwood Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases of 5.5%, 6.5% and 7.0% for the first 3 years and 7.5% in each of the 4 years thereafter. The cumulative increase over the 7 years would be 60.6%.

After assessing its application, we decided to approve the variation in part. This was mainly because the impact of the proposed cumulative increase over 7 years would not be reasonable on ratepayers whose capacity to pay is similar to, but whose average rates are higher than, adjoining council areas. We made this decision under section 508A of the Act (see Box 1.1).

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.

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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.

Our decision enables the council to pursue the first 4 years of its asset renewals program for roads and roads-related infrastructure, which it adopted after consultation on its Integrated Planning and Reporting (IP&R) documents and the proposed special variation.

1.1 Our decision

We determined that Burwood Council may increase its general income by the annual percentages shown in Table 1.1, in effect truncating the proposed special variation at 4 years instead of 7 years.

The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.3% in 2014/15 and an assumed 3.0% in each of the following years). The cumulative increase of 29.2% is 17.4% more than the rate peg increase of 11.8% over the 4 years.

After the last year of the special variation, 2017/18, the increase will remain permanently in the council's rate base.

The annual increases in the dollar amounts reflect the percentage increases we have approved and an adjustment to the council's general income that occurs as a result of a catch-up adjustment at the start of 2014/15.

Table 1.1 IPART's determination on Burwood Council's special variation

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income ($)	Permissible general income ($)
Adjusted notional income 30 June 2014				16,201,161
2014/15	5.5	5.5	897,646	17,098,807
2015/16	6.5	12.4	1,111,422	18,210,229
2016/17	7.0	20.2	1,274,716	19,484,945
2017/18	7.5	29.2	1,461,371	20,946,316

Note: The increase in general income in 2014/15 reflects both the 5.5% increase allowed by the special variation plus a prior year catch-up of $6,582. All percentages have been rounded to 1 decimal place.

Source: Burwood Council, *Section 508A Application Form Part A*, Worksheets 1 and 4.

We have attached conditions to this decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.2 summarises these conditions.

Because we have given only partial approval to the proposed special variation, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application and may need to re-prioritise planned expenditures.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Burwood Council's application for a special variation over the period from 2014/15 to 2017/18 is subject to the following conditions:

- The council uses the additional income from the special variation for the purposes of improving its financial sustainability and funding part of its infrastructure renewals program as outlined in the council's application and listed in Appendix A.
- 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 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
  - 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.

2 What did the council request and why?

Burwood Council applied to increase its general income by a cumulative 60.6% over the 7-year period from 2014/15 to 2020/21, and to permanently incorporate this increase into its general income base (Table 2.1). The 60.6% increase would be 38.4% above the cumulative increase in the rate peg expected over the period.[2]

The council estimates that the special variation, if approved in full, would increase its permissible general income from $16.2m in 2013/14 to $26.0m in 2020/21. Over 9 years, the cumulative extra revenue would be $31.4m.[3]

The council intends to use the extra revenue to enhance its financial sustainability, fund higher maintenance on roads, footpaths, kerb and gutters and parks and increase its capital spending on renewal of these assets. It plans to spend 36% of the extra $31.4m on maintenance and 64% on asset renewals.[4] More detail on the proposed expenditure is set out in Appendix A.

2 Burwood Council, *Section 508A Application Form Part A* (Burwood Application Part A), Worksheet 1.

3 Burwood Council, *Special Variation Application Form Part B* (Burwood Application Part B), p 9 and Annexure 3 (LTFP) and Burwood Application Part A, Worksheet 1.

4 Burwood Application Part B, p 9 and Annexure 3 and IPART calculations.

Table 2.1 Burwood Council's proposed special variation

Year	Increase requested (%)	Cumulative increase requested (%)	Annual increase in general income ($)	Permissible general income ($)
Adjusted notional income 30 June 2014				16,201,161
2014/15	5.5	5.5	897,646	17,098,807
2015/16	6.5	12.4	1,111,422	18,210,229
2016/17	7.0	20.2	1,274,716	19,484,945
2017/18	7.5	29.2	1,461,371	20,946,316
2018/19	7.5	38.9	1,570,974	22,517,290
2019/20	7.5	49.4	1,688,797	24,206,086
2020/21	7.5	60.6	1,815,456	26,021,543

Source: Burwood Application Part A, Worksheet 1 and IPART calculations.

3 How did we reach our decision?

We assessed Burwood Council's application against the criteria in the Guidelines. We considered its most recent IP&R documents, which support its application, and a range of comparative data set out in Appendix C.

Burwood Council applied on the basis of its IP&R documents, in particular its Delivery Program and its Long Term Financial Plan (LTFP, adopted 10 December 2013). The proposed cumulative rate increase is significant so we carefully considered the council's need, its consideration of the community's priorities and capacity and willingness to pay, and the impact on ratepayers.

We assess that the application does not sufficiently meet one of the criteria. In particular, the impact of the proposed rate rises on ratepayers is large and, on our assessment of the community's capacity and willingness to pay, unlikely to be reasonable.

The council met the other criteria in that:

1. the need for the proposed revenue is demonstrated in the council's IP&R documents, and reflects community priorities
2. the community is aware of the need for, and extent of, the rate rise, and the council has considered its capacity and willingness to pay
3. assumptions used in projecting the council's financial outlook are realistic
4. productivity savings have been made in past years, and the intention is to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. The sections following the table discuss our findings for some of the criteria in more detail.

Table 3.1 Summary of IPART's assessment against 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.	▾ The need has been demonstrated in the IP&R documents and in particular in the ongoing operating deficits in the council's base case in its LTFP. ▾ TCorp's assessment of the council's financial position and outlook also demonstrated the need for additional revenues.
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.	▾ The council has consulted using a wide variety of methods in which it set out 3 service and funding options and the reasons for each. A representative random survey of 400 residents indicated that the majority of residents supported the idea of a special variation rather than reduced services. ▾ The council considered a range of data in concluding that its community had both the capacity and willingness to pay.
3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the 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.	▾ The proposed increase is significant. ▾ Recent rises in average rates mean that Burwood rates are now well above those in most nearby council areas yet Burwood residents have similar capacity to pay. ▾ Despite majority support, a significant proportion of residents indicated some unwillingness to pay - half surveyed were at least 'somewhat supportive' of, and one-third selected, the rate-peg-only option despite the label 'decline in services'.
4. Delivery Program and LTFP must show evidence of realistic assumptions.	▾ The evidence is that the assumptions are realistic.
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.	▾ The council took major spending reduction measures when new managers were appointed in 2010 and the low growth forecast for future operating costs indicates that cost containment is ongoing.

3.1 Need for and purpose of the special variation

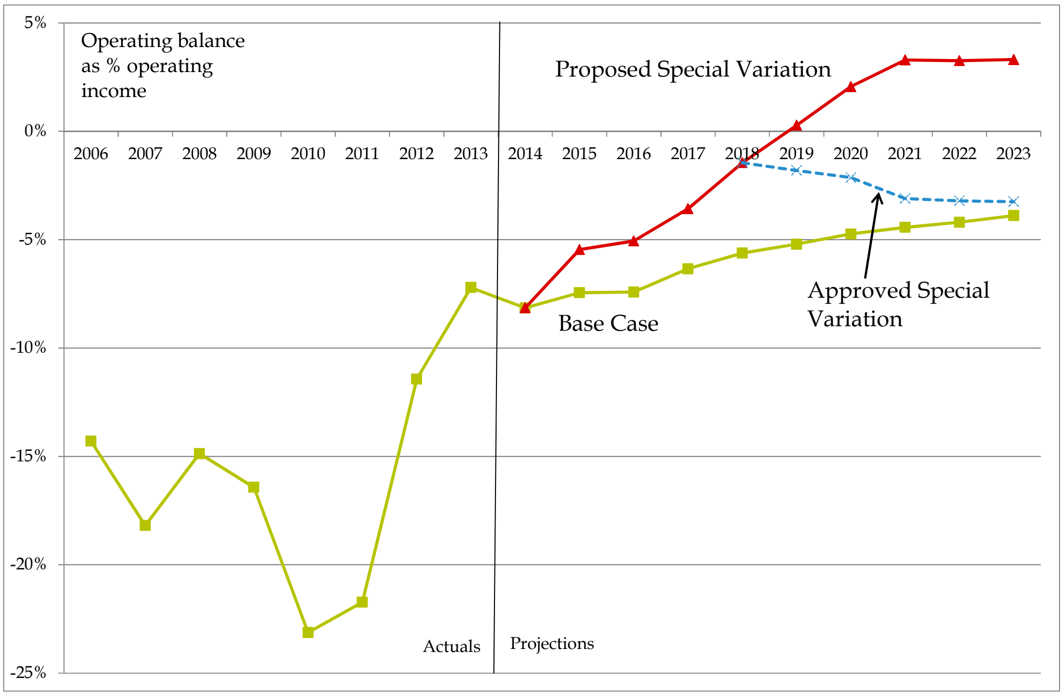
The need for, and purpose of, the requested special variation is set out in the council's IP&R documents and specifically identified in its Delivery Program and LTFP.

The need is specifically targeted on asset maintenance and renewals in the context of the council's improving financial position and outlook.

3.1.1 Operating financial sustainability

Figure 3.1 shows the council's annual operating balance (excluding all capital items) since the mid-2000s. In the 5 years to 2010/11, the council ran very large operating deficits that were funded by asset sales (equivalent to 24% of annual operating income). From 2010/11, new managers have restrained operating cost growth such that the deficits, although still sizeable, are now closer to 7% of operating income.

Figure 3.1 Burwood Council operating balance



Note: To see if operating revenue covers operating expenses, we exclude from the operating balance all capital items such as developer contributions and other capital grants and the net proceeds of asset sales.
Source: Burwood Application Part B, Annexure 3, pp 19 & 25.

The council's base case is for almost no revenue from asset sales after 2012/13 and the slow reduction in the deficit shown in Figure 3.1 is driven primarily by keeping the growth in operating expenses below that of income. Operating costs are projected to rise a cumulative 15.8% in the 6 years to 2019/20 compared to 19.5% for operating income.[5]

5 Burwood Application Part B, Annexure 3 (LTFP) and IPART calculations.

If the proposed special variation were approved in full, the boost to income would enable the council to spend an extra $1.5m on materials and contracts and still move the operating balance close to zero by 2017/18.[6] By 2020/21, the council would have funded an extra $6.2m in materials and contracts and had an operating surplus of 3.3% of operating income.

Under the approved special variation, the council will have to realise further savings (possibly in materials and contracts) if it is to return to operating surplus after 2017/18. If it were to spend as in its proposed special variation scenario, the operating account would remain in deficit (as shown by the 'Approved Special Variation' line in Figure 3.1).[7]

3.1.2 Capital financial sustainability

If approved in full, the proposed special variation would have raised an extra $31.4m over 9 years, of which the council would have spent $11.2m on asset maintenance and $20.2m on asset renewals.

Renewals spending would improve the financial sustainability of the capital account by increasing capital spending relative to depreciation. Depreciation is a rough guide to the rate of deterioration in a council's existing stock of capital assets. An indication that the stock is being maintained is a ratio of capital spending (capex) to depreciation of 1.0, or above.[8]

In recent years, the council's capital spending has been far larger than depreciation (capex-to-depreciation ratio well above 1.0 - Figure 3.2), but only because the capex was funded by asset sales. With no planned asset sales over the next decade, the capex-to-depreciation is expected to be much lower.

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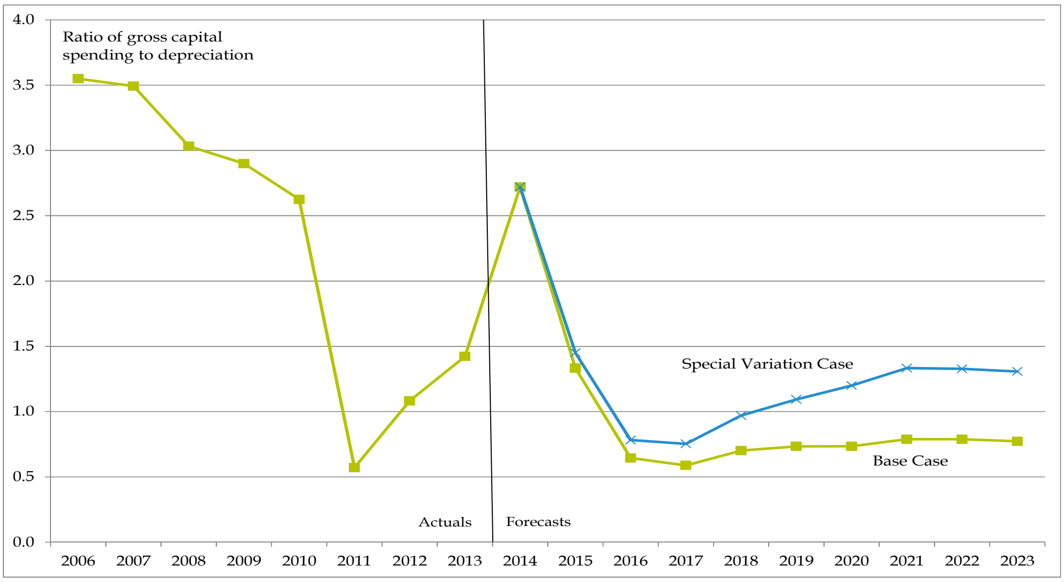
6 The extra operating costs under the proposed special variation are captured in Line 2 of Table A.1 in Appendix A. They are almost exclusively extra materials and contracts expenses. Source: Burwood Application Part B, Annexure 3 *Adopted LTFP*.

7 By 2020/21 the extra spending on materials and contracts would be around $2m per annum, or close to 5% of operating income. Not spending the $2m would turn the operating deficit under the approved special variation into a surplus of 1.5% of operating income. Source: Burwood Application Part B, Annexure 3 *Adopted LTFP,* IPART calculations.

8 This is because capital assets are wearing out faster they are being renewed. If a council has a growing population (as Burwood does – up 3.8% in the past 5 years) it will want to expand its assets so as to maintain the same levels of service to all ratepayers. In that case, the required capex-to-depreciation ratio will exceed 1.0. If council considers that depreciation understates replacement cost, this will be another reason for a capital-to-depreciation ratio greater than 1.0. The appropriate ratio will depend on these factors and the degree to which the community wants (and is willing to pay for) higher assets per head and their associated higher levels of service.

Figure 3.2 Capital spending relative to annual depreciation



Note: Gross capex is the purchase of infrastructure, property and plant & equipment assets.
Source: Burwood Application Part B, Annexure 3, p22 and 27 and IPART calculations.

Without the proposed special variation, the capex-to-depreciation ratio would average 0.8 to 2022/23. With the special variation, the average would become a healthier 1.1. (We have not calculated what it would be under the approved special variation.)

Our assessment that the council's financial position and outlook is broadly in line with the assessment made by the NSW Treasury Corporation (TCorp) in 2013.[9] TCorp noted that, "over the longer term, council could face financial sustainability issues".[10]

We conclude, on the basis of this evidence, that the council has demonstrated the need for the proposed special variation.

9 New South Wales Treasury Corporation, *Burwood Council, Financial Assessment and Benchmarking Report*, 25 September 2012, updated 12 March 2013 (TCorp Report 1 and 2).

10 TCorp Report 1, pp 5 and 20.

3.2 Community engagement and awareness

The council has taken reasonable steps to make the community aware of the need for, and extent of, the special variation.

These reasonable steps have included using a variety of engagement methods and providing opportunities for community feedback from mid-November 2013 to mid-January 2014. The engagement methods included:

- webpages on *Funding Our Future* – 10 topics listed, averaged 198 'hits' per topic – and an online self-selection survey
- mayoral letter accompanying a 6-page brochure to 12,411 ratepayers
- displays of the 6-page brochure at various localities in the LGA
- media releases and emails to e-news subscribers, focus groups and community groups, and letters to Chambers of Commerce
- public information sessions, online advertising and social media outlets
- a representative random telephone survey of 400 ratepayers.[11]

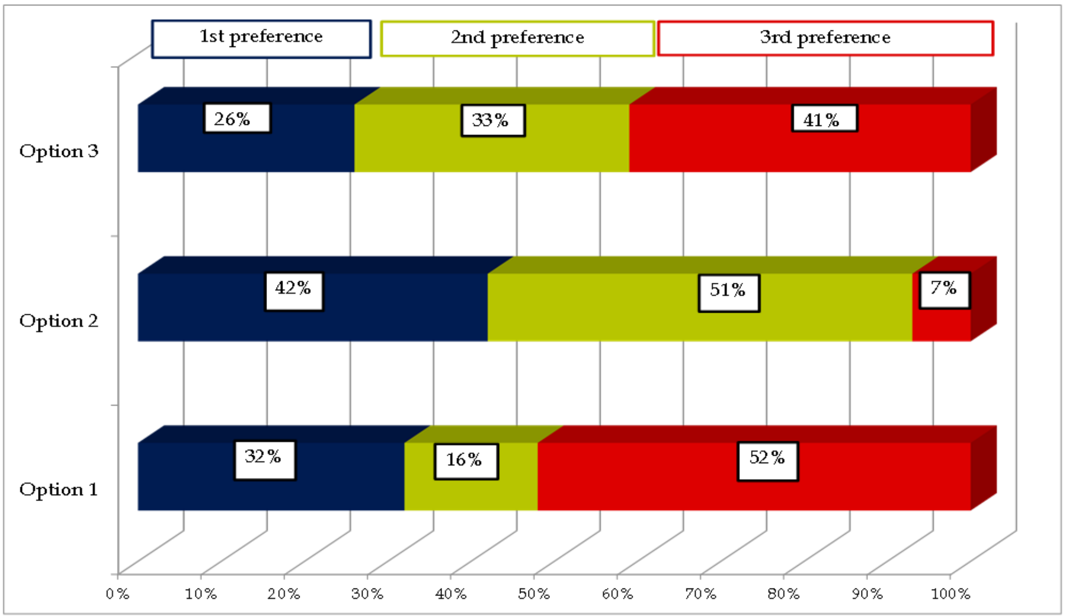
As with other council information, respondents to the phone survey were asked to choose between 3 options regarding a special variation:

- Option 1 'Reduce Services' (rate-peg-only); cumulative 23.0% rate increase.
- Option 2 'Maintain Services' (special variation); cumulative 60.6% rate increase.
- Option 3 'Improve Services' (higher special variation); cumulative 65.9% rate increase.

The results of the telephone survey are shown in Figure 3.3. For 32% of the 400 residents surveyed, the preferred choice was Option 1. For 42% the preferred option was Option 2 and for 26%, Option 3.

11 Detailed evidence on these methods is in Burwood Application Part B, Annexures 6 and 7.

Figure 3.3 Burwood residents' phone survey: ranking the options



Source: Burwood Application Part B, p 26 and Annexure 7, p 20 - Micromex survey results.

Feedback from other engagement methods was limited, except for a self-selecting online survey in which 59 of 96 respondents favoured the rate-peg-only Option 1, 25 favoured Option 2 and 12 favoured Option 3.[12]

An indication that the council listened to the feedback it received is that it applied to us for the lower (60.6% rather than 65.9%) of the 2 special variation options.

During its consultation period, the council explained various alternatives to a rate increase, usually in terms of which services would be curtailed without higher council income[13] and other ways that non-rates income might be raised.

In assessing its community's capacity to pay, the council examined the socio-economic indexes for areas known as SEIFA, land values in the LGA, average rates and household incomes and employment data published by the Valuer General and the Australian Bureau of Statistics.

To assess its willingness to pay, it relied principally on the responses it received to its various engagement methods, observing that 54% of respondents (315 of 584) were "in favour of some form of special variation".[14]

12 Burwood Application Part B, p 37 and IPART calculations.

13 This was frequently set out when explaining the impact of the rate-peg-only option on services in various council publications and the phone survey.

14 Burwood Application Part B, p 37 and IPART calculations.

Submissions

We received 5 direct submissions from ratepayers, expressing concerns about affordability and council efficiency and how well the council had followed the Guidelines or explored other revenue-raising options. We considered these concerns in analysing the council's application against the Guidelines.

3.3 Reasonable impact on ratepayers

We consider that the impact of the proposed special variation will be significant, especially since it would be imposed on average rates that are already high.

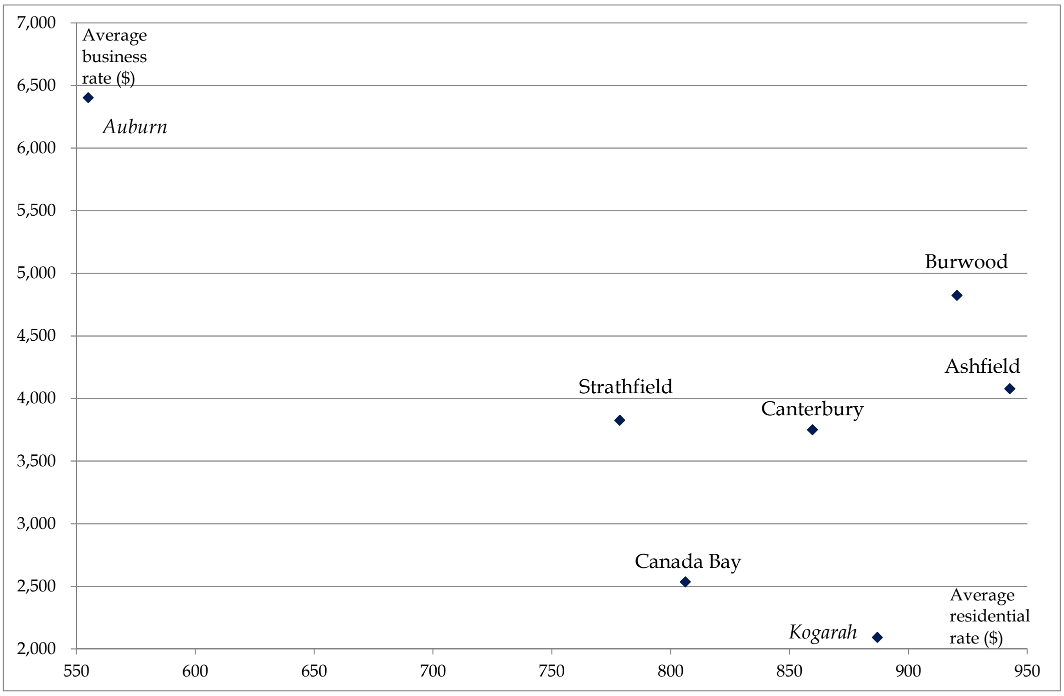
In assessing the impact of the special variation, we examined the council's special variation history, the growth and levels of average rates by rating category and the community's capacity and willingness to pay.

3.3.1 History of special variations and rate increases

In terms of its history of special variations, over the last 10 years Burwood has had 3 special variations, all of which have been permanently incorporated into the rates base.

Burwood's 4 adjoining councils are Ashfield, Canada Bay, Canterbury and Strathfield. Large increases in Burwood Council's average rates since 2003/04 mean that they are now higher than those in the 4 adjoining councils, except for Ashfield's residential rate (Figure 3.4 - it includes Auburn and Kogarah as they are sometimes mentioned as comparators to Burwood).

Figure 3.4 Average rate levels in Burwood and selected councils, 2011/12



Source: OLG, *Comparative Information on NSW Local Government, 2011/12*, October 2013.

The Burwood average business rate may be inflated by some large business ratepayers in the LGA, but this would seem to apply somewhat similarly to the Strathfield and Ashfield LGAs.

More importantly, Burwood's average rates would rise by another 60.6% under the proposed special variation. Among phone survey respondents, affordability was the major reason given by the 49% who were at least 'somewhat supportive' of the rate-peg-only option. Affordability may also be the reason why one-third of the ratepayers chose the rate-peg-only option (Figure 3.3).[15]

3.3.2 Capacity to pay

On several indicators of capacity to pay (Table C.2 in Appendix C) Burwood residents exhibit a limited capacity to pay. For example, average annual income of $45,117 per person is well below the OLG Group 2 average and rates are high relative to income (2.0% compared to the group average of 1.3%). By contrast, a higher proportion of ratepayers pay their rates on time compared to the OLG group average.

15 Burwood Application Part B, Annexure 7. The 49% and the 2 main reasons for being 'somewhat supportive' of the option are in Annexure 7 p 15 and in the Micromex survey report p 16 within Annexure 7.

However, it is more meaningful to focus on comparisons with adjoining councils.[16] We do this in Table 3.2 for 2 indicators of capacity to pay – incomes and SEIFA rankings. The councils line up broadly consistently, with Canada Bay high and Canterbury low.

Table 3.2 Average incomes and SEIFA rankings - selected councils

Council	Average annual incomes ($)	SEIFA Ranking
Ashfield	48,859	122
Burwood	45,117	121
Canada Bay	60,161	138
Canterbury	38,145	51
Strathfield	46,166	128
Memo item: Auburn	36,178	62
Kogarah	47,745	131

Note: SEIFA rankings range from 1 to 153 where 153 is the least disadvantaged LGA.

Source: OLG, *Comparative Information on NSW Local Government*, *2011/12*, October 2013.

If the 2 capacity-to-pay indicators translated directly into rates, we would expect average rates to be highest in Canada Bay and lowest in Canterbury, with Ashfield, Burwood and Strathfield around similar levels. However, rates in Burwood are relatively high (Figure 3.4).

3.3.3 Willingness to pay

We accept the council's conclusion that 54% of all respondents and 68% of phone survey respondents were in favour of some form of special variation.[17] However, there appears to be some unwillingness to pay among a significant proportion of the community. In particular, we note that one-third of respondents chose the rate-peg-only option as its first preference. This choice was made despite the fact that the option was labelled 'Decline in Service'.

16 OLG Group 2 is Sydney metropolitan councils with less than 70,000 residents. The group contains 14 councils of which only 2 are adjacent to the Burwood LGA (Strathfield and Ashfield). The other 11 councils in OLG Group 2 are Botany Bay, Hunter's Hill, Kogarah, Lane Cove, Leichhardt, Manly, Mosman North Sydney, Pittwater, Waverley and Woollahra.

17 Burwood Application Part B, pp 37 and 40.

3.3.4 Conclusion

Despite the difficulties in assessing the impact of a large rate increase on ratepayers, we conclude that a cumulative increase of 60.6% is unlikely to have a reasonable impact on the ratepayers in Burwood. We base this conclusion on the following considerations:

- average rates have risen rapidly in recent years and are now higher in most ratepayer categories than in adjoining council areas, to which, under the proposed special variation, another 38.4% above the rate peg would be added over the next 7 years
- various socioeconomic indicators suggest a capacity to pay in the Burwood LGA that is, at best, no greater than in adjoining council areas
- a sizeable segment of the community has indicated some unwillingness to pay for the proposed special variation.

4 What does our decision mean for the council?

Our decision means that Burwood Council may increase its general income over the 4-year period from $16.2m in 2013/14 to $20.9m in 2017/18 (see Table 1.1). After 2017/18, the council's permissible general income will increase by the annual rate peg - unless we approve a further special variation.[18]

The council estimates that over the 4 years, additional rates revenue will accumulate to $10.9m, or $6.4m above the rate peg.[19] Although the extra income is lower than the council requested over 7 years, it should still be able to reduce its operating deficits by 2017/18 while maintaining the level of services and assets its community expects during the 4 years.

Without further application for a special variation, the council will not be able to undertake the full program of expenditure planned from 2018/19, and may have to consider re-prioritising planned expenditures in those years.

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.

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

19 Burwood Application Part A, Worksheet 1 and IPART calculations.

In its application, the Council indicated that it intended to increase rates equally across all rating categories. If it does this for the 4 years to 2017/18:

- Average ordinary residential rates will rise by a cumulative 29.2%, or between $52 and $57 in the first year, between $278 and $305 over 4 years.
- Average business rates will rise by a cumulative 29.2%. For Business D rate the rise will be $5,574 in the first year and $29,633 over 4 years. For all other business rates the rises will be between $139 and $585 in the first year, and between $741 and $3,112 over 4 years.
- Minimum rates will rise by around 29%, or $204 to $286 over 4 years.[20]

The effects on specific ratepayer categories are shown in Table 5.1.

The effect on ratepayers will vary in dollar terms, depending on whether they pay ad valorem rates or minimum rates. A significant proportion of ratepayers pay minimum rates in the categories of Residential Town Centre (98% pay the minimum), Town Centre Minor Business (51%), Residential (34%) and Business A (25%).[21]

Table 5.1 Indicative increases in average rates in 2014/15 and cumulative

	2013/14	2014/15 increase		2017/18	
	$	%	$	$	Cumulative %
Ordinary rates					
Residential	1,045	5.45	57	1,350	29.19
Residential Town Centre	952	5.46	52	1,230	29.20
Business A	2,536	5.48	139	3,277	29.22
Business B	10,643	5.50	585	13,755	29.24
Business C	9,898	5.50	544	12,791	29.23
Business D	101,346	5.50	5,574	130,979	29.24
Town Centre Minor Business	3,127	5.50	172	4,041	29.23
Minimum rates					
Residential	705	5.39	38	909	28.94
Residential Town Centre	899	5.45	49	1,159	28.92
Business A	771	5.45	42	994	28.92
Business B	771	5.45	42	994	28.92
Business C	771	5.45	42	994	28.92
Business D	986	5.48	54	1,272	29.01
Town Centre Minor Business	986	5.48	54	1,272	29.01

Source: Burwood Application Part B, Worksheet 5a and IPART calculations.

20 Burwood Application Part A, Worksheet 5a.

21 Burwood Application Part A, Worksheet 2 and IPART calculations.

Appendices

A Expenditures to be funded from the special variation

Tables A.1 and A.2 show Burwood Council's planned expenditure of the proposed special variation funds above the rate peg over the next 9 years.

The council would have used the additional special variation revenue of $31.4m over 9 years to fund:

- $11.2m of extra operating expenditure (Table A.1), and
- $20.2m of capital expenditure (Table A.2).

Because the approved special variation is less than the proposed special variation, the council may decide to re-assess its spending priorities and may not proceed to spend as outlined in its current long term financial plan. In any case, the council will indicate in its Annual Reports how its actual expenditure has evolved relative to its proposed program of expenditure.

Table A.1 Income 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	Total
1. Special variation income above rate peg	397	995	1,739	2,550	3,490	4,537	5,730	5,902	6,079	**31,420**
2. Funding for increased operating expenditures	-325	138	705	889	1,194	1,528	2,153	2,346	2,543	**11,172**
3. Funding to reduce operating deficits	722	857	1,033	1,661	2,296	3,009	3,577	3,556	3,536	**20,248**
4. Funding for capital expenditure	720	850	1,030	1,695	2,295	2,995	3,545	3,545	3,545	**20,220**
5. Balance of funding	2	7	3	-34	1	14	32	11	-9	**28**

Note: We have deducted the base case from the special variation case in the LTFP to derive the first 3 lines above. Line 4 'Funding for capex' is the difference in the council's LTFP cash flow statements between the special variation case and the base case. We presume that Line 5 simply reflects timing differences in the spending on asset renewals.

Source: Burwood Application Part B, Annexure 3, Adopted LTFP and IPART calculations.

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
Roads	140	308	519	777	1,062	1,375	1,718	1,763	1,801	1,848	11,311
Footpaths	185	401	671	1,001	1,366	1,769	2,210	2,268	2,317	2,378	14,567
Kerb and gutter	40	88	148	222	303	392	490	503	514	528	3,227
Parks	40	88	148	222	303	392	490	503	514	528	3,227
Total Asset Renewals	405	885	1,486	2,221	3,034	3,928	4,909	5,037	5,147	5,282	**32,333**

Note: The first 9 years add to $27,051 which is greater than the capital expenditure shown in Table A.1. We have not attempted to reconcile the figures provided in the LTFP with those shown on Worksheet 6.

Source: Burwood Application Part A, Worksheet 6.

B Burwood Council’s projected revenue, expenses and operating balance

The council will report annually against its projected revenue, expenses and operating results as classified in its Annual Financial Statements and shown in Table B.1.

Revenues and the operating result in the annual accounts are reported inclusive of capital grants and contributions and asset sales.

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 excluded 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 Burwood Council, 2014/15 to 2022/23 ($000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	41,064	42,031	43,125	45,227	47,293	49,525	51,731	53,155	54,497
Total expenses	39,841	41,442	42,716	43,953	45,066	46,431	47,972	49,365	50,636
Operating result from continuing operations	1,222	589	410	1,274	2,227	3,095	3,759	3,789	3,861

Source: Burwood Application Part B, Annexure 3, *Long Term Financial Plan 2013 - 2023*, Income Statement for Option 2, p 25.

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 Burwood Council have changed over the 3 years to 2011/12.

Table C.1 Trends in selected indicators, Burwood Council

	2009/10	2010/11	2011/12
Productivity (labour input) indicators			
FTE staff (number)	230	200	200
Ratio of population to FTE	146	168	172
Average cost per FTE ($)	66,765	80,300	77,295
Employee costs as % operating expenditure (General Fund only) (%)	43.7	41.5	40.0
Consultancy/contractor expenses ($m)	4.5	4.9	5.8
Consultancy/contractor expenses as % operating expenditure (%)	12.9	12.7	14.9

Source: OLG, unpublished data.

Since 2009/10, the council has reduced its FTE staff numbers and increased the population being serviced per FTE. It also reduced the unit cost of each FTE in 2011/12 while holding FTE staff numbers steady. Gains have also been made by reducing the proportion of operating costs that have been spent on staff and labour on-costs. However, this is partly offset by higher consultancy/contractor costs.

In Table C.2 we compare the latest selected published data on Burwood Council with the average of OLG Group 2 councils and with NSW councils as a whole. Compared to Group 2 councils, Burwood Council has a labour cost structure, measured in terms of unit labour cost and consultant/contractor services that is broadly in line with, if not better than, the OLG Group 2 averages in 2011/12.

The council staff, as measured by FTEs, also services the same population per FTE as the average of the group. However, this ratio is difficult to interpret. It may mean that council staff that service a greater number of residents are more efficient than councils which service fewer residents or, if superior staff efficiency cannot be determined (on the basis of other evidence), it may mean that such councils are understaffed relative to the size of the population.

Table C.2 Select comparative indicators for Burwood Council, 2011/12

	Council	OLG Group 2 average[a]	NSW average
General profile			
Area (km^2)	7.1		
Population	34,305		
General Fund operating expenditure ($m)	38.7		
General Fund operating revenue per capita ($)	1,143	1,117	2,011
Rates revenue as % General Fund income (%)	29.4[e]	51.4	45.7
Average ordinary rate indicators[b]			
Average rate – residential ($)	920	958	685
Average rate – business ($)	4,823	3,698	2,552
Socio-economic/capacity to pay indicators[c]			
Average annual income for individuals, 2010 ($)	45,117	74,020	44,140
Growth in average annual income, 2006-2010 (% pa)	3.1	3.0	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	2.0	1.3	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	121		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	2.2	4.0	7.0
Productivity (labour input) indicators[d]			
FTE staff (number)	200	291	293
Ratio of population to FTE	172	179	126
Average cost per FTE ($)	77,295	81,931	74,438
Employee costs as % operating expenditure (General Fund only) (%)	40.0	41.9	36.8
Consultancy/contractor expenses ($m)	5.8	7.6	6.9
Consultancy/contractor expenses as % operating expenditure (%)	14.9	13.2	9.3

a OLG Group 2 is classified ‘Urban, Metropolitan Developed, Small and Medium’ with a population of 70,000 or less. The group comprises 14 councils. The most comparable to Burwood are Ashfield and Strathfield.

b Average rates equal total ordinary 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. 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.

e The low rates revenue relative to General Fund revenue for Burwood is distorted by $23m net proceeds from asset sales that are recorded in General Fund revenue in 2011/12.

Source: OLG, *Comparative Information on NSW Local Government 2011/12*, October 2013 and 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.