

Gilgandra Shire 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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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).

Gilgandra Shire Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested an increase of 9.3% in 2014/15, 10% in 2015/16 and 10% in 2016/17, or a cumulative increase of 32.25% by 2016/17. After assessing its application, we decided to approve the variation as requested. We made this decision under section 508A 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.

Our decision enables the council to progressively increase funding for its rural roads program and to improve its long term financial sustainability. The council consulted its community extensively to address these issues, both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

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 February 2014 the Division of Local Government became the Office of Local Government.

1.1 Our decision

We determined that Gilgandra Shire Council may increase its general income by the annual percentages shown in Table 1.1. 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 32.25% is 23.72% more than the rate peg over these years.

After the last year of the special variation (2016/17), the increase will remain permanently in the council's rate base.

Table 1.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and any adjustments that occur as a result of various catch-up and valuation adjustments.

Table 1.1 IPART's determination on Gilgandra Shire Council's special variation for 2014/15 to 2016/17

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				3,602,224
2014/15	9.30	9.30	329,910 ^a	3,932,134
2015/16	10.00	20.23	393,214	4,325,348
2016/17	10.00	32.25	432,534	4,757,882

a The annual increase of \$329,910 in 2014/15 is net of an adjustment of \$5,097 for a prior year excess.

Source: Gilgandra Shire Council, *Section 508A Special Variation Application 2014/15 – Part A* (Gilgandra Application Part A), Worksheet 1 and IPART calculations.

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

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Gilgandra Shire Council's application for a special variation over the period from 2014/15 to 2016/17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to improve its financial sustainability and fund the program of expenditure outlined in its 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?

Gilgandra Shire Council applied to increase its general income by a cumulative 32.25% over the 3-year period from 2014/15 to 2016/17, and to permanently incorporate this increase into its general income base.²

In 2012, the council had applied to increase its general income by a cumulative 53.2% over a 7-year period from 2012/13 to 2018/19. We allowed the council an increase of 6.8% for 2012/13 only and not for the requested 7 years because the council did not satisfy 2 of the 6 criteria applicable for a multi-year special variation application at that time. While the council demonstrated a need for the additional revenue, it had not fully implemented its Integrated Planning & Reporting (IP&R) framework. In addition, while it had consulted its community it did not demonstrate the required support for the rate increases.³

Over the last 2 years, the council has undertaken extensive strategic and financial planning in consultation with its community and has re-applied for a special variation for 2014/15. We note that its current application is for a smaller cumulative increase over a fewer number of years than its application in 2012.

² Gilgandra Application Part A, Worksheet 1.

³ IPART, *Gilgandra Shire Council's application for a special variation 2012/13*, June 2012, p 4. Note, the current Guidelines do not require councils to demonstrate community support.

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$3.6m in 2013/14 to \$4.8m in 2016/17. This will generate additional revenue of \$1.6m above the rate peg increase.⁴

The council intends to use the income from the requested special variation to address funding shortfalls in roads maintenance and to improve its financial sustainability. Over the medium to longer term, the additional revenue will start to address shortfalls in renewal funding, particularly for its road assets.

During the 10 years of its Long Term Financial Plan (LTFP), the council will undertake \$39.7m of capital spending across a range of its functions.⁵ Of this, \$36.8m will be spent on asset renewal and \$2.9m on essential upgrades. The council will fund the program by grants, borrowings including under the Government's Local Infrastructure Renewal Scheme (LIRS), reserves and general revenue.⁶

More detail on the council's proposed program of expenditure to 2016/17 is provided in Appendices A and B.

3 How did we reach our decision?

We assessed Gilgandra Shire Council's application against the criteria in the Guidelines for 2014/15. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as a range of comparative data about the council, set out in Appendices C and D.

Gilgandra Shire Council has applied on the basis of its adopted IP&R documents, in particular its Delivery Program 2013/14 – 2016/17, Long Term Financial Plan 2013/14 – 2022/23 and Asset Management Plan, Transport, December 2013.

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

⁴ Gilgandra Application Part A, Worksheet 1 and IPART calculations.

⁵ This includes the council's Aged Care, Water and Sewer functions. The council advised these functions are entirely funded by other tiers of government and/or user fees and charges.

⁶ Gilgandra Shire Council, *Section 508A Special Variation Application 2014/15 – Part B* (Gilgandra Application Part B), Attachment B, *Delivery Program 2013/14 – 2016/17*, p 5 and Attachment C, *Long Term Financial Plan 2013/14–2022–23*, pp 18–24 and correspondence with Gilgandra Shire Council dated 17 March 2014.

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

1. The need to increase funding for road maintenance and renewal and improve financial sustainability is clearly demonstrated in the council's IP&R documents, and reflects community priorities. The council has a small rates base and limited resources. It has explored resourcing alternatives but found these insufficient to address its revenue needs.
2. The council undertook an extensive consultation strategy and engaged the community using a variety of methods to ensure awareness of the need for and extent of the rate increases. It provided opportunity for feedback and has considered the community's capacity and willingness to pay the proposed increases.
3. The impact of the proposed rate increases on ratepayers is significant, but reasonable given the purpose of the special variation. A comparison with peer councils in its region indicates that its rate levels are broadly similar to those prevailing in the area. We accept that the council has consulted extensively with its community and has applied for the rates increases in light of its understanding of its community's priorities and capacity to pay.
4. The council made realistic assumptions concerning its projected service delivery and budgets.
5. The council reported productivity savings in past years, and has committed to a cumulative saving of 3% of operating expenditure by 2016/17 and maintaining these savings through the period of its long term financial plan.

Table 3.1 summarises our assessment against the criteria.

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.	<p>The council's IP&R documents clearly explain the need for and purpose of the special variation and show that:</p> <ul style="list-style-type: none"> ▼ maintaining road infrastructure and achieving financial sustainability are high community priorities ▼ the council requires an additional \$0.6m pa for maintenance and \$1.3m pa for renewal to maintain an acceptable standard of rural roads ▼ the council is financially constrained by its low rates income and heavy reliance on grants, and ▼ while it explored resourcing alternatives, and has committed to operational savings of a cumulative 3% by 2016/17, these will not yield the revenue required to address the funding shortfalls. <p>TCorp observed that the council's financial position was 'weak' and it is at risk of being unsustainable. It recommended that the council reapply for special variation funding to meet its revenue shortfalls.</p> <p>The special variation revenue will enable the council to progressively address its road maintenance and renewal gap and marginally improve its financial sustainability; its LTFP forecasts large operating deficits even with the special variation funding.</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>Since 2012, the council has maintained community awareness of the proposed rate increases through a survey, website information, media advertising, Mayoral columns, a bulk ratepayer mail out and public meetings. It canvassed alternatives to rate increases and provided sufficient opportunity for community feedback. It received 19 submissions:</p> <ul style="list-style-type: none"> ▼ 8 on its IP&R review, the majority of which focused on the need for rural road funding ▼ 11 on the special variation, the majority from farmland ratepayers. 10 opposed and one supported the rate increases. <p>Ratepayers' concerns included affordability, inequitable rate burden for rural ratepayers and council efficiency. IPART received 7 submissions including a petition with 650 signatures expressing similar concerns.</p> <p>The council has considered its ratepayers' concerns and has applied for the special variation in light of its understanding of the community's priorities, and capacity and willingness to pay.</p>

Criterion	IPART findings
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.	<p>On balance, we are satisfied the impact of the rate increases will be reasonable given the need and purpose for the special variation.</p> <p>We note the council's current rates are higher than average OLG Group 9 rates in all rating categories, and its Socio-Economic Index for Areas (SEIFA) ranking of 16 is low. Since 2003/04, its average annual growth in rates was 5.7%. However, a comparison with neighbouring councils shows its:</p> <ul style="list-style-type: none"> ▼ SEIFA ranking is 6th of 13 ORANA councils, which is mid-range for the region ▼ farmland rates are lower than the 2 most comparable councils - Coonamble Shire and Warren Shire councils - and will remain lower at the end of the special variation period ▼ residential rates are currently higher than Coonamble Shire and lower than Warren Shire councils but are expected to be higher than both councils at the end of the special variation period. <p>The comparison with surrounding councils (see detail in Appendix D) suggests that Gilgandra's rate levels are more broadly in line with these councils than with the average Group 9 council.</p> <p>The council's outstanding rates ratio of 4.4% is lower than the Group 9 average of 11.2% and NSW average of 7.0%. It has a hardship and late payment policy.</p>
4. Delivery Program and LTFP must show evidence of realistic assumptions.	<p>Assumptions about the council's proposed level of service and rate of work to address asset renewal appear realistic. Assumptions related to the rate peg, the growth in labour and non-labour costs are realistic in the context of the council's projected budget.</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>The council has undertaken a range of initiatives to achieve \$0.2m in productivity improvements in the past 2 years. It proposes to continue its review of all council functions and services to achieve further savings of a cumulative 3% of operating expenditure (or \$0.7m) by 2016/17.</p>
6. IPART's assessment of the size and resources of the council, the size of the increase, current rate levels and previous increases, the purpose of the special variation and other relevant matters.	<p>We consider that given the small size and limited resources of the council, it has made considerable effort in planning for its financial needs and engaging its community in the process. The requested increase of 32.25% appears large but will generate a relatively small cumulative amount above the rate peg of \$1.6m over 3 years. On balance, we consider the application should be approved as the need is demonstrated and the purpose aligns with community priorities.</p>

Source: Gilgandra Application Part B and Supporting Documents, NSW Treasury Corporation reports. For explicit referencing please see the sections below which discuss our findings in more detail.

The sections below discuss our findings for some criteria in more detail.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

As noted in Section 2, the council did not meet all the criteria for a section 508A special variation application in 2012. We therefore granted a one-year increase of 6.8% in 2012/13 only. We recognised that the partial approval would not provide the council with the full funding it needed to undertake its proposed works or address its financial sustainability, and we anticipated that the council would need to apply for a further special variation in the next or future years.⁷

The council has since made considerable effort to undertake long term strategic, financial and asset planning in consultation with its community.⁸ Its current IP&R documents clearly set out the need for, and purpose of the requested special variation, which is to fund:

- ▼ rural road maintenance
- ▼ infrastructure renewal (particularly for its transport assets), and
- ▼ to improve long term financial sustainability.⁹

Gilgandra Shire is a small rural council (population of 4,534) facing challenges in maintaining infrastructure and financial sustainability, due to its:

- ▼ Low rates income (comprising 24% of overall revenue). This indicates the scope to increase revenue from special variations is limited, as even large percentage increases do not generate large amounts of revenue in dollar terms.
- ▼ Dependence on grants funding to meet operational expenses. Grants comprise more than 40% of its total revenue. Any decrease in grants and contributions revenue negatively impacts the council's financial position.

The council has explored alternative funding options through:

- ▼ regular reviews of user fees and charges, and services, to identify opportunities for cost efficiencies
- ▼ the use of borrowings where appropriate, particularly for projects with intergenerational benefits and/or significant returns to the community
- ▼ a reduction in operating expenditure – it has targeted savings of a cumulative 3% of operating expenditure over the special variation period.

⁷ IPART, *Gilgandra Shire Council's application for a special variation 2012/13*, June 2012, p 4.

⁸ Gilgandra Application Part B, pp 4-5 and 7-8.

⁹ Gilgandra Application Part B, Attachment A, *Community Strategic Plan 2013/14 – 2022/23*, p 14, Attachment B, *Delivery Program 2013/14 – 2016/17*, p 6, Attachment C, *Long Term Financial Plan 2013/14 – 2022/23*, pp 11-13.

However, these sources are limited in their scope to yield the additional income required to address the council's revenue needs.¹⁰

TCorp Assessment

TCorp assessed the council in relation to 2 applications for funding under the Government's LIRS initiative.¹¹ TCorp observed that the council:

- ▼ is currently in a 'weak' financial position and risks becoming unsustainable due to its heavy reliance on grants and contributions and low own source income
- ▼ requires additional revenue to maintain existing infrastructure and fund its works program and recommended that the council complete its IP&R and reapply to IPART for a multi-year special variation
- ▼ had sufficient financial capacity to service the LIRS borrowings but would not be able to incorporate any additional loan funding.¹²

Road Maintenance and Renewal

As part of its 10 year asset management strategy across the range of its functions, the council will undertake capital spending of \$39.7m.¹³ Of this, \$36.8m (93%) will be spent on asset renewal and \$2.9m (or 7%) on essential upgrades. The program will be funded by grants, borrowings (including under LIRS), reserves and general revenue.¹⁴

¹⁰ Gilgandra Application Part B, pp 12-13.

¹¹ The council applied for LIRS funding for a bridge replacement project for \$1.2m to be repaid over 10 years and a residential and industrial land infrastructure project for \$0.4m to be repaid over 5 years. NSW Treasury Corporation (TCorp), *Gilgandra Shire Council, Financial Assessment and Benchmarking Report*, March 2013, p 4.

¹² NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, pp 7 and 17 and NSW Treasury Corporation (TCorp), *Gilgandra Shire Council, Financial Assessment and Benchmarking Report*, March 2013, pp 25 and 32.

¹³ The functions include its Aged Care, Water and Sewer services. The council advised these services are funded entirely by other tiers of government and/or user fees and charges.

¹⁴ Gilgandra Application Part B, Attachment B, *Delivery Program 2013/14 - 2016/17*, p 5 and Attachment C, *Long Term Financial Plan 2013/14 - 2022-23*, pp 18-24 and correspondence with Gilgandra Shire Council dated 17 March 2014.

The council identified that if it is to achieve the road condition standards acceptable to the community,¹⁵ it will face funding shortfalls of:

- ▼ \$0.6m per annum for rural road maintenance (equal to an additional 40% of current spending)
- ▼ \$1.3m per annum for road renewal (gravel re-sheeting and bitumen resealing).¹⁶

The special variation will address these shortfalls in part, by generating around:

- ▼ \$0.2m in 2014/15, increasing to \$0.7m per annum from 2016/17 for road maintenance
- ▼ \$0.5m in 2016/17 and in each subsequent year over the 10-year period of the LTFP for road renewal.

The council indicated the additional revenue will improve its renewals ratio for transport assets from 47% in 2014/15 to 65% in 2016/17 and 94% by 2022/23.¹⁷

Financial Sustainability

The council recognises that given its current level of resourcing it is not financially sustainable. Its LTFP forecasts large ongoing operating deficits.¹⁸

The special variation will improve the council's operating balance by about:

- ▼ \$0.05m in 2014/15 and
- ▼ a cumulative \$0.9m over the 10 years of its LTFP.

In response to community feedback and to lessen the rate increases, the council proposes to save about \$0.3m per annum from 2016/17, or around 3% of 2012/13 operating expenditure, to be maintained over its 10-year LTFP.¹⁹

¹⁵ Condition ratings range from 1- Excellent, no work required (normal maintenance) to 5- Very poor – Urgent renewal/upgrading required. The acceptable standard for a road will vary depending on factors such as usage frequency and linkages to other significant roads. See Gilgandra Application Part B, Attachment E, *Local Roads Hierarchy Plan*, pp 6-17.

¹⁶ Gilgandra Application Part B, pp 6, 8, Attachment D, *Asset Management Plan Transport*, December 2013, p 30 and Attachment F, *Local Roads Hierarchy Plan, Community Information Package*, p 1.

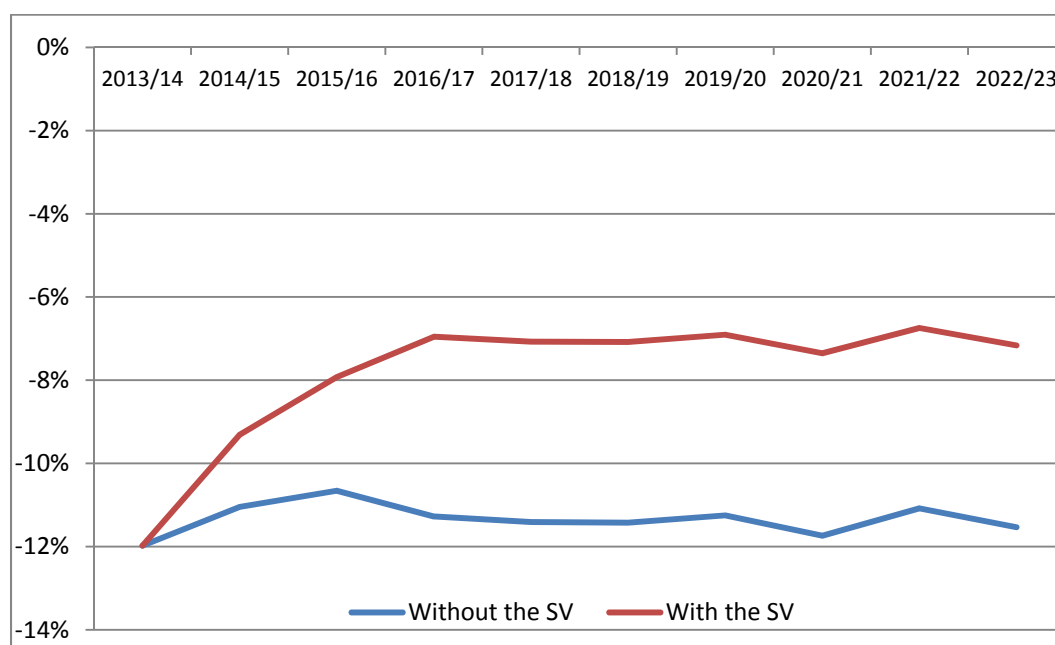
¹⁷ Correspondence with Gilgandra Shire Council dated 17 March 2014. The industry benchmark for a renewal ratio is 100%.

¹⁸ Gilgandra Application Part B, Attachment C, *Long Term Financial Plan 2013/14 2022/23*, pp 11 and 40.

¹⁹ Gilgandra Application Part B, p 12 and Application Part A, Worksheet 6.

With the additional special variation revenue, the proposed savings would improve the council's operating deficit from 12% to 7% of operating revenue (excluding capital grants and contributions) at 2016/17. It is then forecast to remain at this level until 2022/23 (Figure 3.1).²⁰

Figure 3.1 Gilgandra Shire Council – operating result 2013/14 to 2022/23



Data source: Gilgandra Shire Council, *Long Term Financial Plan 2013/14 - 2022/23*, pp 40, 73 and IPART calculations.

3.2 Community engagement and awareness

We consider that the council has met this criterion. In particular it has shown that it took considerable steps to ensure community awareness of the need for and extent of the special variation. It engaged with the community using a variety of methods and provided many opportunities for feedback.

The council received a number of submissions from ratepayers, many of which opposed the application. However, we are satisfied that it has considered the community's concerns and addressed them to the extent possible.

²⁰ Gilgandra Application Part B, Attachment C, *Long Term Financial Plan 2013/14 - 2022/23*, pp 40, 73 and IPART calculations.

Community consultation and engagement

Gilgandra Shire Council has undertaken a significant strategy of community consultation over a 3-year period including the consultation for its 2012 application. It has maintained community awareness of the need for additional resourcing and the extent of proposed rate increases.

It engaged with its community using a variety of methods including:

- ▼ a survey in 2011 to gauge community satisfaction with service levels
- ▼ information sessions in June 2013 during the review of its Community Strategic Plan, Delivery Program and Operational Plan
- ▼ detailed information on its website
- ▼ advertising through local and regional media
- ▼ Mayoral columns
- ▼ information packages distributed to all ratepayers in November 2013
- ▼ public meetings in December 2013 at various locations in the shire including Armatree, Gilgandra, Cobocco, Bearbung, Tooraweenah and Curban.²¹

In early 2013, the council modelled 4 scenarios in its LTFP to enable delivery of asset and service levels acceptable to the community and to improve financial sustainability:²²

- ▼ Option 1: Rate peg increases only
- ▼ Option 2: Increases of 4.9% above the rate peg for 6 years from 2014/15
- ▼ Option 3: Increases of 7% above the rate peg for 6 years from 2014/15
- ▼ Option 4: Increases of 7% above the rate peg for 3 years from 2014/15.

The council adopted Option 4 as its preferred option as it considered this was both reasonable and deliverable within its remaining 3 year term of office.²³

²¹ Gilgandra Application Part B, p 19, Attachment I, *2011 Community Survey Summary*, p 8 and Attachment O, *Public Meeting Attendees and Notes*, December 2013.

²² Gilgandra Application Part B, p 8.

²³ Gilgandra Application Part B, pp 6, 8.

Alternatives to the special variation

The council also canvassed alternatives to a rate rise including:

- ▼ reduced service levels
- ▼ reduced capital works projects
- ▼ reduced rural road maintenance
- ▼ savings in operating expenditure of a cumulative 3% by 2016/17, as a response to community concerns about efficiency.

Its survey results and consultation feedback indicated the community was not in favour of the first three alternatives. The council stated that its proposed savings alone would not fund the required improvements in assets and achieve financial sustainability in the longer term.²⁴

Outcome of consultation on rate increase

The 2014 Guidelines do not require councils to specifically demonstrate community support, but require demonstrated community awareness of the need and extent of a rate rise. Gilgandra Shire council did not undertake a survey specifically for this special variation. However, it made considerable effort to ensure community awareness and opportunity for feedback which was evidenced by the:²⁵

- ▼ number of public meetings (6) and attendees (113), given the small size and limited resources of the council
- ▼ range of issues that were raised and discussed with the community at these meetings.²⁶

Submissions

The council received 19 written submissions which included:

- ▼ 8 submissions during its IP&R review – most of which contained comments on the need for increased rural road funding. Some submissions outlined various other works that needed the council's attention.
- ▼ 11 submissions on the special variation rate increases. The majority of these were from rural (farmland) ratepayers. 10 submissions including one petition (with 34 signatures) opposed the special variation while one supported it.²⁷

²⁴ Gilgandra Application Part B, p 19.

²⁵ Gilgandra Application Part B, Attachment G, *Special Rate Variation Ratepayer Information*, November 2013.

²⁶ Gilgandra Application Part B, pp 19-20 and Attachment O, *Public Meeting Attendees and Notes*, December 2013.

²⁷ Gilgandra Application Part B, Attachment P, *Community Submissions to Special Variation* and Attachment Q, *Community Responses to CSP, DP and OP Review*.

The main reasons cited for opposing the special variation were about:

- ▼ affordability – rate increases will further burden farmers already experiencing difficulties in the current economic climate and from the effects of the drought
- ▼ inequity of rate distribution for rural ratepayers as they contributed the bulk of rates income (around 76%) and subsidised services they did not use
- ▼ council's efficiency and that it should live within its budget.

The council has considered its community's concerns and noted that:

- ▼ it canvassed alternatives to a special variation, but most of these were not acceptable to the community (see above)
- ▼ there is no optimal time for rate increases particularly for farmers given that the agricultural sector is highly sensitive to economic and climatic variations²⁸
- ▼ rural ratepayers will obtain some relief from recently announced Government assistance for drought affected farmers including in the Gilgandra Local Government Area (LGA)²⁹
- ▼ it considered a special variation application for 2013/14 but postponed its application until it had developed a clear strategic direction regarding its financing needs.³⁰

IPART also received 8 submissions, including one petition with 650 signatures which expressed similar concerns to those outlined above. We note the council has considered these concerns and has applied for a special variation in light of its understanding of the community's priorities, and capacity and willingness to pay. On balance, the council has decided to proceed with an application for 2014/15 to address the increases in revenue that it requires.³¹

3.3 Reasonable impact on ratepayers

We consider that the impact of the special variation will be significant as all rates in the LGA will rise on average by 32.25% over the 3 years of the requested special variation. However, when balanced against the need for and purpose of the special variation we consider that the application should be approved.

²⁸ Conversation with Gilgandra Shire Council dated 18 March 2014.

²⁹ Conversation with Gilgandra Shire Council dated 18 March 2014. See also <http://www.nsw.gov.au/news/emergency-drought-assistance-package-expanded> accessed on 20 March 2014.

³⁰ Gilgandra Application Part B, p 7.

³¹ Gilgandra Application Part B, p 13.

The council's consideration of impact on ratepayers

The council's average residential, farmland and business rates are 20%, 26% and 12% higher respectively than the average for councils in OLG Group 9.³²

Some socio-economic indicators also suggest there may be capacity to pay issues associated with the proposed rate increases. The council has a relatively low SEIFA ranking of 16 (where 153 is the least disadvantaged council). The average income in the LGA of \$36,249 (2010) is slightly higher than the OLG Group 9 average of \$35,717 but below the state average of \$44,140.³³

The council specifically considered the prevailing rate levels and socio-economic characteristics of its LGA in comparison to its region. It noted that its SEIFA ranking for the Orana Group of councils places it 6th of the 13 councils in the region, indicating that it is mid-range in terms of socio-economic advantage or disadvantage for its region.³⁴

The council also compared its rating levels with adjoining Narromine Shire, Warrumbungle Shire, Coonamble Shire and Warren Shire councils. It noted that Coonamble Shire and Warren Shire councils are the most comparable councils in terms of population, number of ratepayers, community infrastructure and core service provision.³⁵

In comparison with Coonamble Shire and Warren Shire councils (both in OLG Group 9), Gilgandra Shire Council's:

- ▼ average farmland rates are 22% and 34% lower than Coonamble and Warren shire councils respectively
- ▼ average residential rates are 29% higher than Coonamble Shire Council and 4% lower than Warren Shire Council
- ▼ average business rates are 19% higher than Coonamble Shire Council and 45% lower than Warren Shire Council.³⁶

³² See Appendix C, Table C.2 based on 2011/12 data. The data does not capture special variations approved after 2011/12. We note that four Group 9 councils have applied for rate increases in 2014/15 which if approved, may change future relativities in the Group 9 averages.

³³ See Appendix C, Table C.2.

³⁴ Gilgandra Application Part B, p 22. The Orana Region, located in central northern NSW has a population of 123,000 in an area of more than 199,000km², about 25% of NSW. It is predominantly agricultural with major localities at Dubbo, Cobar and Mudgee. <http://myregion.gov.au/profile/orana> accessed on 24 March 2014.

³⁵ Gilgandra Application Part B, p 22. The council noted that Warrumbungle Shire Council is significantly larger following a previous amalgamation, while Narromine Shire Council has a larger residential population. These councils are in OLG Groups 11 and 10 respectively.

³⁶ Gilgandra Application Part B, p 23, Appendix D, Table D.1 and IPART calculations. The average rate for each category is calculated by dividing the total rates yield by the total number of assessments in that category.

The council has a hardship policy and a late payment policy for waiving interest in exceptional circumstances.³⁷

Our assessment of impact on ratepayers

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth in various rating categories.

We note that since 2003/04:

- ▼ the council has had 2 special variations:
 - section 508A increases from 2007/08 over 2 years of 10.9% and 11.0%
 - a section 508(2) increase of 6.8% in 2012/13 retained permanently.
- ▼ the average annual growth in rates was 5.7%.

The council indicated it will apply the rate increases uniformly across its rating categories over the special variation period.³⁸ We compared the council's rates at the *end* of the special variation period with Coonamble and Warren shire councils, assuming the requested special variation was approved. We have assumed that rates would increase by the rate peg only for the 2 other councils.

We note that by 2016/17, Gilgandra Shire Council's projected:

- ▼ average farmland rates will still be lower than Coonamble and Warren shire councils by 4% and 20% respectively
- ▼ average residential rates will be 57% and 17% higher than Coonamble Shire and Warren Shire councils respectively
- ▼ average business rates will be 45% higher than Coonamble Shire Council and 32% lower than Warren Shire Council.³⁹

We note that the council's outstanding rates ratio of 4.4% is lower than the OLG Group 9 average of 11.2% and the NSW average of 7.0% (2011/12).⁴⁰

We have taken into account all of the above factors. We consider that the impact of the increases on some rating categories will be significant, but reasonable given the purpose of the special variation.

³⁷ Gilgandra Application Part B, Attachment S, *Rates Hardship Relief*.

³⁸ Gilgandra Application Part B, p 21.

³⁹ Gilgandra Application Part B, p 23 and IPART calculations. See also Appendix D, Table D.1. Average rates across all categories are calculated by dividing the council's total rates yield by the total number of assessments in all rating categories.

⁴⁰ Appendix C, Table C.2.

3.4 Productivity and cost savings

The council's application sets out the cost containment and productivity improvement initiatives it has undertaken in recent years and plans to implement in the future.

The council submitted that it has achieved annual productivity improvements and cost reductions of \$185k in the past 2 years from:

- ▼ reductions in administrative staff costs (\$50k)
- ▼ introduction of Councillor iPads (\$5k)
- ▼ consolidation of revenue functions (\$10k)
- ▼ outsourcing of information technology (\$20k)
- ▼ withdrawal from CENTROC weight of loads group (\$40k)
- ▼ bulk electricity purchase with surrounding councils (\$60k).

Over the period 2014/15 to 2016/17, the council has committed to achieving cumulative savings of \$650k. It proposes to review its functions and services to achieve these savings. To date, it has reviewed its Information Technology and Human Resources functions and commenced reviews of the following services:

- ▼ Government Access Centre
- ▼ Tourism
- ▼ Cultural
- ▼ Parks and Gardens
- ▼ Sporting Facilities
- ▼ Urban Services.

4 What does our decision mean for the council?

Our decision means that Gilgandra Shire Council may increase its general income over the 3-year period from \$3.6m in 2013/14 to \$4.8m in 2016/17 (see Table 1.1). After 2016/17, all other things being equal, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.⁴¹

⁴¹ 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.

The council estimates that over these 3 years, the additional rates revenue will accumulate to \$2.2m, or \$1.6m above the rate peg.⁴² This extra income is the amount the council requested to allow it to increase funding for road maintenance and renewal and to improve its financial sustainability.

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.

In its application, Gilgandra Shire Council indicated that it intended to increase rates over the 3 years uniformly across rating categories.⁴³

The council has calculated that across its various rate categories/sub-categories:

- ▼ average residential rates will increase by a cumulative 32.0% to 34.9%, or between \$44 and \$63 in the first year, and between \$157 and \$193 over 3 years
- ▼ average business rates will increase by a cumulative 23.4% to 31.5%,⁴⁴ or between \$18 and \$64 in the first year, and between \$207 and \$233 over 3 years
- ▼ average farmland rates will increase by a cumulative 32.3%, or \$317 in the first year, and \$1,097 over 3 years
- ▼ the minimum rates across all categories will increase by a cumulative 32.3%, or between \$128 and \$148 over 3 years.⁴⁵

Table 5.1 shows how average rates are expected to increase in each main ratepayer category. The actual impact of our determination on rates is a matter for the council to decide, however, but the overall impact across the ratepayer base will be consistent with our determination.

⁴² Gilgandra Application Part A, Worksheet 1 and IPART calculations.

⁴³ Gilgandra Application Part B, p 21.

⁴⁴ The council expects a growth in business assessments from a proposed industrial development in 2014/15. The relatively lower range increase for business rates is due to the spread of the rate increase over a greater number of assessments in 2014/15.

⁴⁵ Gilgandra Shire Council Application Part A, Worksheet 5a.

Table 5.1 Indicative annual increases in weighted average rates as a result of the determination

Year	Residential		Business		Farmland	
	%	\$	%	\$	%	.25
2014/15	9.6	48	3.7 ^a	31	9.3	317
2015/16	10.0	55	10.0	88	10.0	371
2016/17	10.0	61	10.0	96	10.0	409

^a The lower percentage increase is due to the spreading of business rate increases over a greater number of business assessments forecast for 2014/15 as a result of a proposed industrial land development.

Note: Dollar and percentage increases have been calculated using weighted averages based on the number of assessments in each rating category.

Source: Gilgandra Shire Council, Worksheets 2, 3, 5a and IPART calculations.



Appendices

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

Tables A.1 and A.2 show Gilgandra Shire Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the special variation revenue above the rate peg of \$7.6m over 10 years and its proposed \$2.7m of operational savings to:

- ▼ fund \$5.9m of extra operating expenditure (Table A.1)
- ▼ improve operating balance by \$0.9m (Table A.1), and
- ▼ fund \$3.6m of capital expenditure (Table A.2).

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	2023/24	Total
Special variation income above rate peg	252	535	854	858	858	858	858	858	858	858	7,644
Proposed operational savings	-	-	341	341	341	341	341	341	341	341	2,726
Funding for increased operating expenditures (road maintenance)	206	424	656	656	656	656	656	656	656	656	5,875
Funding to improve operating balance	46	111	84	88	88	88	88	88	88	88	855
Funding for capital expenditure	-	-	455	455	455	455	455	455	455	455	3,640

Note: This program does not include indexation after 2016/17. Figures may not add due to rounding.

Source: Gilgandra Application Part A, 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
Rural road renewal (gravel re-sheeting and bitumen resealing)	-	-	455	455	455	455	455	455	455	455	3,640
Total asset renewal	-	-	455	455	455	455	455	455	455	455	3,640

Note: This program does not include indexation after 2016/17. Figures may not add due to rounding.

Source: Gilgandra Shire Council Application Part A, Worksheet 6.

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

The council will report annually against its projected revenue, expenses and operating result 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. We have adopted the same approach in Table B.1. 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 Gilgandra Shire 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	13,005	13,603	14,301	14,732	15,167	15,615	16,075	16,549	17,036
Total expenses	14,216	14,681	15,296	15,775	16,241	16,694	17,257	17,665	18,257
Operating result from continuing operations	-1,211	-1,078	-995	-1,042	-1,074	-1,079	-1,182	-1,116	-1,220

Note: Revenue and operating result exclude capital grants and contributions. Numbers may not add due to rounding.

Source: Gilgandra Shire Council, *Long Term Financial Plan 2013/14 – 2022/23*, adopted September 2013, p 73.

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

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

Productivity (labour input) indicators ^a	2009/10	2010/11	2011/12	Average Change (%)
FTE staff (number) ^b	193	199	197	1.0
Ratio of population to FTE	24	23	23	-2.5
Average cost per FTE (\$)	61,228	59,357	61,888	0.5
Employee costs as % operating expenditure (General Fund only) (%)	55.5	54.3	34.8	
Consultancy/contractor expenses (\$m)	-	-	-	
Consultancy/contractor expenses as % operating expenditure (%)	-	-	-	

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

^b The council indicated that around 60% of its FTEs are associated with its Aged and Disability Care services which are fully funded by other tiers of government.

Source: OLG, unpublished data.

In Table C.2 we compare selected published data on Gilgandra Shire Council with the average of the councils in OLG Group 9 and with NSW councils as a whole.

Table C.2 Select comparative indicators for Gilgandra Shire Council 2011/12

	Council	OLG Group 9 average ^a	NSW average
General profile			
Area (km ²)	4,669		
Population	4,534		
General Fund operating expenditure (\$m)	17.7		
General Fund operating revenue per capita (\$)	3,101	3,800	2,011
Rates revenue as % General Fund income (%)	24.1	18.9	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	418	347	685
Average rate – business (\$)	764	683	2,552
Average rate – farmland (\$)	3,000	2,390	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	36,249	35,717	44,140
Growth in average annual income, 2006-2010 (% pa)	4.5	3.4	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.2	1.0	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	16		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	4.4	11.2	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	197	70	293
Ratio of population to FTE	23	51	126
Average cost per FTE (\$)	61,888	69,438	74,438
Employee costs as % operating expenditure (General Fund only) (%)	34.8	33.0	36.8
Consultancy/contractor expenses (\$m)	-	1.4	6.9
Consultancy/contractor expenses as % operating expenditure (%)	-	9.8	9.3

a OLG Group 9 is classified Rural Medium Agricultural (population 2,000-5,000) or Remote (population 1,000-3,000). The group comprises 21 councils of which the most comparable to Gilgandra Shire Council are Coonamble Shire and Warren Shire councils.

b Average rate equals 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.

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.

D Gilgandra Shire Council - comparison of rates with neighbouring councils

Table D.1 Comparison of rates and annual charges with neighbouring councils 2013/14

Rating category/ council	Number of assessments	Average rates (\$)	Total yield (\$'000)	Proportion of total rates collected (%)
Farmland				
-Gilgandra	811	3,402	2,759	76.7
-Coonamble	798	4,335	3,460	82.8
-Narromine	873	3,133	2,735	57.7
-Warren	678	5,183	3,514	81.9
-Warrumbungle	1,741	2,642	4,600	64.1
Residential				
-Gilgandra	1,021	489	499	13.9
-Coonamble	1,356	380	515	12.3
-Narromine	1,856	603	1,124	23.7
-Warren	882	510	450	10.5
-Warrumbungle	2,964	477	1,415	19.7
Rural residential				
-Gilgandra	297	553	164	4.6
-Coonamble	120	477	57	1.4
-Narromine	321	585	188	4.0
-Warren	206	646	133	3.1
-Warrumbungle	867	689	597	8.3
Business				
- Gilgandra	208	848	176	4.9
-Coonamble	207	713	148	3.5
-Narromine	290	1,611	467	9.9
-Warren	127	1,528	194	4.5
-Warrumbungle	384	1,443	554	7.7
Total General Rates				
-Gilgandra	2,337	1,540	3,599	100.0
-Coonamble	2,573	1,624	4,179	100.0
-Narromine	3,349	1,416	4,742	100.0
-Warren	1,893	2,267	4,291	100.0
-Warrumbungle	5,956	1,205	7,176	100.0

Note: Totals may not add as ratepayer categories not applicable to Gilgandra have been excluded (e.g. 'small rural holdings' and 'mining').

Source: Gilgandra Application Part B, p 23 and Attachment G, *Special Rate Variation Ratepayer Information*, p 4. The council stated it sourced these figures from the 2013/14 published revenue policy for each council.

