

Local Government Team
Independent Pricing and Regulatory Tribunal of NSW
PO Box K35
Haymarket Post Shop NSW 1240

16 March 2015

To Whom It May Concern:

Re: Eurobodalla Shire Council Application to IPART for Special Rate Variation - Objection

IPART's Fact Sheet entitled "Council notifications received by IPART for 2015/16 special variations" advises that applications from councils may be either permanent or temporary (ie between two and seven years). Eurobodalla Council has requested a permanent rate rise, the cumulative effect of which is a rate increase over the three years to 20.78%.

It is recommended that if IPART approves the request from Council for the special rate variation, that the increase be limited to a temporary rise, taking into account factors including:

1. Council's plan to reign in debt and better manage its resources;
2. the high level of disadvantaged households in the Shire; and
3. the significant increase in the level of unemployment in 2014 (11.41% in the September 2014 quarter compared with the NSW rate of 5.85% and the Australian rate of 6.18% in that quarter) with a rising unemployment trajectory.¹

Council's submission supported by attachments, advances an argument for a high rate increase (rising to 20.78% over three years) based on:

- a declining revenue base and high cost of providing services,
- the need for infrastructure replenishment,
- rate comparisons with other Group 4 councils and

¹ Australian Bureau of Statistics, Labour force survey catalogue number 6202.0 and DEEWR, Small Area Labour Markets, compiled and presented in Economy.id by .id The population experts.

- debt servicing (borrowings of \$60.4m with the total debt at 5.5% of net assets (Treasury Corporation New South Wales Report 'Financial Sustainability of the NSW Local Government Sector', April 2014 (Attachment 4 of Eurobodalla Shire Council's IPART submission, p8)).

The case presented by Council attenuates a number of relevant factors and this submission objects to both: (a) the rate level and (b) the ongoing duration of the rate rise sought by Eurobodalla Council, on the grounds outlined below.

CRITERION 1: NEED FOR VARIATION

2014/15 Budget and issues to address operational deficits

Significant operational deficits and deficit accumulation over 4 year delivery program

Eurobodalla Council appears to have significant difficulties in reigning in expenditure in specific areas of its operations. The 2014/15 Budget and Four year delivery program budgets highlight particularly high levels of operational deficits in areas including, but are not restricted to:

- Transport (-\$10,694,335 in 2014/15 and amounting to a massive loss of \$43,245,822 over the 4 year delivery program),
- Executive services and communication (-\$2,025,954 in 2014/15 and amounting to a significant loss of \$8,585,741 over the 4 year delivery program),
- Business development, events and tourism (-\$2,101,891 in 2014/15 and amounting to a loss of \$8,401,451 over the 4 year delivery program),
- Development Services (-\$1,665,089 in 2014/15 and amounting to a loss of \$6,885,800 over the 4 year delivery program)².

It should be noted that Eurobodalla Shire has a small population (37,234 estimated in 2013) with a population density of 0.11 persons per hectare which takes in a coastal strip of some 110 kilometres.³ Deficits of the magnitude accumulating by the Shire seem to be disproportionate in relation to the population size.

² Eurobodalla Shire Council Budget 2014-15, Four year delivery program budgets

³ Treasury Corporation New South Wales Report 'Financial Sustainability of the NSW Local Government Sector', April 2014 (Attachment 4 of Eurobodalla Shire Council's IPART submission, p8)

Transport costs exceed budget at critical levels

The revenue in 2014/15 is just below \$94 million and the annual transport deficit is in the order of one-ninth the annual budget. The transport debt alone appears to need special investigation as to its approval processes and justification for incurring this magnitude of debt.

Executive services and communication is another area with a significant operational loss and needs detailed explanation as to the justification for continuing the magnitude of operational deficit over the four year delivery program.

CRITERION 2: COMMUNITY AWARENESS AND ENGAGEMENT

The Council meeting on 10 February 2015 at which the special rate variation was considered for approval by Council was presented with a petition of 7326 signatures rejecting the proposed special rate variation.⁴

The “Funding our future” brochure sent to rate payers in 2014 emphasises expenditure of the proposed rates increases on a range of building and infrastructure projects.

Based on the several areas in the 2014/15 budget document highlighting major operational deficits over the four year delivery program, it appears that the rates increase will serve primarily to reduce these deficits while providing a relatively small number of infrastructure enhancements and additions.

The magnitude of these deficits and how they will be addressed by Council was not included in the “Funding our future” brochure. Concern is expressed regarding this information gap and deflection of attention from serious deficits in areas outside the delivery of building and infrastructure projects.

CRITERION 3: IMPACT ON RATEPAYERS

Special rate variation impacting on demographic conditions

The demographic data of Eurobodalla Shire demonstrates that the workforce can be considered low income and that the proposed rates increase will impact significantly on rate payers, either directly through property ownership or indirectly through likely rental increases.

⁴ The special rate variation amount was reduced from 8.0% to 6.5% over three years at the Council meeting on 10 February 2015.

As noted above, there was a significant increase in the level of unemployment in 2014 (11.41% in the September 2014 quarter compared with the NSW rate of 5.85% and the Australian rate of 6.18% in that quarter) with a rising unemployment trajectory.⁵

Employment

12,529 people living in Eurobodalla Shire in 2011 were employed, of which 51% worked full-time and 46% part-time. Attention is drawn to the high unemployment rate of 7.5% or 1014 people in 2011. Of a population of approximately 37,234, it is estimated that 14,058 residents are employed and the largest industry is in retail trade.

Weekly gross income

It should be noted that low income households are those on less than \$600.00 per week.

In Eurobodalla Shire, 5% of the population earned an income of \$1,500 or more per week in 2011. In terms of weekly gross income in 2011, the highest category of individual incomes was in the income bracket of \$400-\$599, amounting to 6.9% of the workforce or 4,890 persons. The annual salary of a person earning \$500.00 per week is \$26,000.

The next highest group was in the income bracket of \$200-\$299, amounting to 16.0% of the workforce or 4,764 persons⁶.

Housing tenure

In Eurobodalla Shire, 67% of households were purchasing or fully owned their home, 20.6% were renting privately, and 3.5% were in social housing in 2011.

CRITERION 4: RELEVANT IP&R DOCUMENTS TO BE PUBLICLY EXHIBITED, APPROVED AND ADOPTED BY COUNCIL

No comment on this criterion.

⁵ Australian Bureau of Statistics, Labour force survey catalogue number 6202.0 and DEEWR, Small Area Labour Markets, compiled and presented in Economy.id by .id The population experts.

⁶ id community profile 2011, Eurobodalla Shire, website reference <http://profile.id.com.au/eurobodalla/individual-income>

CRITERION 5: PRODUCTIVITY IMPROVEMENTS AND COST CONTAINMENT STRATEGIES

High employee numbers and liquidity issues

Although Council refers to having implemented a range of cost containment measures it appears that Council's performance in managing its resources is suboptimal in relation to its benchmark DLG Group 4 cohort. The NSW Treasury Corporation report 'Financial Sustainability of the NSW Local Government Sector', April 2014 comments that:

"Council's liquidity position was sufficient but generally underperformed the group's average" (Eurobodalla Council section, p5).

Massive operational deficits are evident in the Four year delivery program in transport while significant deficits occur in Executive services and communication and Development services. It is difficult to imagine that expenditure in these areas cannot be contained with the application of appropriate strategic planning and goal setting.

Contributing to financial stresses are Eurobodalla Council's staffing numbers which are considered high in relation to comparable DLG councils. The NSW Treasury Corporation report 'Financial Sustainability of the NSW Local Government Sector', April 2014 advises that: 'Employee costs have risenwith an increase of six in the number of employees to 434 between 2010 and 2011, (Eurobodalla Council section, p11).

In relation to staffing productivity, Eurobodalla Council does not refer to a staff performance and appraisal framework supported by KPIs designed to improve efficiency and productivity. It is recommended that such a framework be introduced, if not currently implemented, to contribute to productivity and help relieve the need for staffing increases.

Cost of administration and infrastructure

Council has a very low population density spread over an extensive coastal area and resources needed to provide services are comparatively high owing to low populations densities and areas covered. Eurobodalla Shire interfaces with Bega Valley Shire to the south and opportunities are available for consolidating a number of administrative and operational services to avoid administrative duplication and to take advantage of economies of scale. Alternatively consideration should be given to amalgamating these two councils.

Conclusion

It is considered that Council's high level of rate increase is not justified in relation to:

- (a) impact on ratepayers;
- (b) inadequate attempts to reduce deficits including exploring collaboration with neighbouring councils; and
- (c) the information provided in the "Funding our Future" brochure did not clarify that a large amount of the rates increase will go to paying debt and deficit.