[redacted]

24 March 2014

Dear Sir/Madam

Subject: Special Rate Variation – Bellingen Shire Council

Thank you for the opportunity afforded to comment on Bellingen Shire Council's Special Rate Variation (SRV) proposal.

While I can see the merit in some form of SRV, I am of the view that Council has not yet established a firm case for a SRV as large as 11.8%.

In support of this view I offer the following:

Community Consultation

In anticipation of lodging a SRV Council sought an expression of community preference for a rate variation. The results of this survey were as follows:

Table 1

SRV Proposal	% Support	Cumulative %
2.4%	48.4%	48.4%
8.3%	24.7%	73.1%
11.8%	18.3%	91.4%
17.3%	8.6%	100.0%

As set out above, the Council's four rating proposals saw the largest proportion of respondents opt for a CPI increase in rates of 2.4% (now 2.3%). Almost a quarter of all respondents favoured a SRV of 8.3%.

Overall, 73% of respondents favoured an increase of 8.3% or less. This represents a sizable majority of respondents. Despite this Council has opted for, and persisted with a rate variation of 11.8%. Council is being disingenuous in suggesting that because some 52% of the survey respondents favoured a SRV increase above CPI that this lends support to their proposal to seek a SRV of 11.8%.

While I can support an 8.3% increase I object to that being construed that I somehow support an 11.8% increase.

Productivity and Efficiency

There has been much reported in the local press expressing concern about the spending habits of Council and it's seeming inability to contain costs. Much of this concern relates to labour costs.

It is noted that between 2000/01 and 2011/12 Council's staff numbers increased from 100 people to 142 people[1]. Staffing currently stands at 146[2]. This represents an increase of over 40% over a period when the population grew by approximately 5.5%.

Council has responded to these concerns by suggesting that there has been an increase in part-time employees rather than full-time employees. Even if due allowance is made for an increase in part-time employment; employment growth of even 15% - 20% is still unsustainable given the slow rate of population growth.

It is considered that rather than seeking a SRV to pay for the entire roads backlog, Council should focus much greater effort on improving efficiency and reducing costs. Given that population growth is expected to slow to below 0.3%- 0.4% p.a. in future years[3], Council can only improve its efficiency by cutting costs. It is noted that Council has already taken steps in this regard and more are planned[4]. However, it is considered that even more will need to be done over a shorter timeframe than provided for in Council's forward estimates.

CPI and Future Wage Increases

I note that Council's forward estimates assume movements in CPI of 3% p.a. for the period to 2023/24.

This estimate is at the very top of the Reserve Bank's CPI target of 2-3% p.a. While there can be expected to be occasions when CPI will be at or above the top of the Reserve Bank's target level it is most unlikely that this will occur over a period of a decade. More likely, the Reserve Bank will intervene to reduce CPI to within the target band.

Council's modelling also assumes a growth in wages of 3.25% p.a. over the period to 2023/24.

[1] NSW Department of Local Government, *"Comparative Information on NSW Local Government Councils",* various publications
[2] The Bellingen Shire Courier Sun, Wednesday 11 December 2013
[3] NSW Treasury Corporation "*Bellingen Shire Council, Financial Assessment, Sustainability and Benchmarking Report",* 13 March 2013, p18
[4] Based on Council's operating cost projections expressed in nominal terms. If they are in real terms then much more will need to be done.

Wage increases above the movement in the CPI (i.e. increases in real wages) can only really be accommodated if productivity increases at a level at least consistent with the level of real wage increases.

It is more usual for productivity increases to be shared between the various factors of production with labour taking no more than half with the remainder going to the owners of the business. In the case of Council rates a share of any productivity increase should be reflected in reduced rates to ratepayers.

Given Council's staff increases over the past decade, Council should target reduction in labour, materials and contracting costs, and other operating costs of 1% p.a. Given the limited population growth, this should be reflected in an increase in costs of no more than CPI-1%.

Cost Shifting

Council argues that there has been cost shifting from other arms of government which has added to its costs.

In a similar vein, it would seem that Council has been involved in revenue shifting from the road capital works program to other activities. Council's funding contribution to roads is limited to the Special Roads Levy[5] which was introduced in 1996/97.

It would seem that funding that was allocated to roads prior to 1996/97 has, since the introduction of the Special Roads Levy, been allocated to other purposes rather than used to supplement the Special Roads Levy funding. This revenue shifting has, no doubt, contributed to the backlog that is of such concern to Council and which it now seeks a SRV to cover.

8.4% versus 11.8% SRV

There is very little argument presented by Council as to why an 11.8% SRV is preferred over all other options. In particular, there is very little, if any, discussion of the various options, why some were rejected and why the 11.8% SRV is preferred.

I have previously mentioned that the option receiving the most community support was that of a CPI increase only. Council has not clearly explained why this expression of the community's preferences is being ignored.

Of the SRV options initially put to the community, the 8.3% option was preferred by the majority of ratepayers who favoured a rate increase. Council has not satisfactorily explained why the 8.3%

[5] Council's 10 Year Capital Works Program with 2.3% Rate Peg

option was rejected. There is only a $1.6M difference in the investment profiles for the two options over 8 years and only an $115,000 difference first four years.[6]

Adopting a lesser increase for a shorter period of four years would allow Council to review future investment plans at the end of this shorter period rather than seek to bind future Councils to current thinking and road priorities. Council would, of course, be at liberty to seek a further SRV at the end of the four years.

Such an approach would enable Council to demonstrate its bona fides to the community by showing that it has achieved what it said it would achieve, within budget and on time. This, coupled with demonstrated containment of operating costs, should make securing community support for a further SRV an easier proposition. I comment this proposition to IPART for its consideration.

Ad Valorem Rates

It will be noted from Council's submission that it has a range of differing ad valorem rates for the different classes of property of:

- Residential (5 categories)
- Business (4 categories)
- Farmland (1 category)

The ad valorem rates vary depending on locality.

In a previous submission to Council I asserted that rates, by their very nature, are a tax and there is never be a direct nexus between the amount of money collected from an individual or class of taxpayers and the services received, and this is very much evident from the works program to be undertaken if Council's SRV application is successful. More particularly, it would seem that a significant proportion of the road work to be undertaken relates to rural areas.

I also argued that given this, it is difficult to see why Council persists with the various rate categories when there are less than 6,000 rate assessments in the Shire (other than as a means of maximising revenue). The number of rating categories gives rise to a level of complexity not warranted by the size of Council's rate base. It is this type of complexity that adds to administrative costs and points to scope for further reform.

In response to a suggestion that Council's 2014-15 Revenue Policy would benefit from a clear explanation of the reasons for the various rating categories, with differing ad valorem rate levels, and why they continue to be relevant over the period to 2023/24, Council included the following:

> *"The objective of the NSW Local Government Act 1993 with regard to rating is to provide a system of local taxation, based on the fair imposition of rates levied on property, which is*

[6] Bellingen Shire Council *"Attachment K".*

simple, fair, broadly uniform, and which promotes local accountability. Rates, as a tax has no direct requirement that Council returns an equivalent amount of direct service to an individual ratepayer. However Council does endeavour to develop a rating structure that is equitable to all ratepayers within our local government area.

Due to the diversity of Bellingen Shire Council local government area, land values vary significantly from the seaboard, valleys to plateau. In order to achieve an equitable rate base, where rates are distributed fairly over properties with similar characteristics, it is necessary to sub-categorise the various localities. If the rate structure were simplified to only have one residential rate and one business rate category applied to all properties within BSC, land owners on the seaboard would effectively be subsidising land owners on the plateau where land values remain lower.

A comparison of average lands value by locality is provided below:

Bellingen	*201,422*
Dorrigo	*101,317*
Mylestom	*230,410*
Urunga	*246,620*

Where a general re-valuation occurs, every three years, thorough analysis is undertaken on the change in land values and impact across all categories and sub-categories. Due to these changes it is not possible to ascertain the rate structure Council will adopt in 2023/2024.

Regardless of the rate structure adopted by Council, rate revenue is capped by rate pegging."

The foregoing, particularly as it relates to the potential for one group of ratepayers to subsidise another raises some very interesting implications, viz;

- Firstly, the suggestion that a simplified rating system would result in the seaboard subsidising landowners on the plateau necessarily implies that:
    - Council is not only able to measure costs incurred and revenues collected respectively in each location, but is actually doing so;
    - Under the current rating structure there are no cross subsidies between areas at the present time

- Secondly, that there are presently no cross subsidies between different property classes in different locations

- Thirdly, that Council is able to measure the beneficiaries of future roads and bridges capital expenditures and match these with future revenues.

While on the topic of Ad Valorem rates, it is noted that Council's submission to IPART includes the following table:

Table 2 From Bellingen Council's submission P58

Proposed Rates Payable - Year 2014/2015 WITHOUT Special Rate Variation					
Rating Category	**No of Properties**	**Land Value ($)**	**Base Amount ($)**	**Ad Valorem**	**Estimated Yield**
Residential	0	0	384	0.00259969	-
Residential-Rural	1865	494,781,272	384	0.00259969	2,002,438
Business	132	27,571,235	384	0.00216428	110,360
Farmland	539	348,113,126	384	0.00233052	1,018,262
Residential-Dorrigo	540	55,584,270	340	0.00333340	368,885
Business-Dorrigo	94	9,371,800	351	0.00354065	66,176
Residential-Bellingen	1298	211,839,210	384	0.00250507	1,029,104
Business-Bellingen	101	24,203,590	384	0.00311681	114,222
Residential-Urunga	1176	203,554,590	384	0.00297124	1,056,393
Business-Urunga	66	21,129,870	384	0.00333032	95,713
Residential-Mylestom	178	41,013,000	384	0.00233493	164,114
TOTAL					**6,025,667**

Proposed Rates Payable - Year 2014/2015 WITH Special Rate Variation					
Rating Category	**No of Properties**	**Land Value ($)**	**Base Amount ($)**	**Ad Valorem**	**Estimated Yield**
Residential	0	0	419	0.00259969	-
Residential-Rural	1865	494,781,272	419	0.00284359	2,188,392
Business	132	27,571,235	419	0.00236842	120,608
Farmland	539	348,113,126	419	0.00254797	1,112,822
Residential-Dorrigo	540	55,584,270	371	0.00364853	403,141
Business-Dorrigo	94	9,371,800	383	0.00387542	72,322
Residential-Bellingen	1298	211,839,210	419	0.00274175	1,124,671
Business-Bellingen	101	24,203,590	419	0.00340900	124,829
Residential-Urunga	1176	203,554,590	419	0.00325097	1,154,494
Business-Urunga	66	21,129,870	419	0.00364164	104,601
Residential-Mylestom	178	41,013,000	419	0.00255462	179,355
TOTAL					**6,585,235**

To test Council's proposition that a single residential rating structure for residential properties in the various townships would result in the seaboard cross- subsidising the plateau, Tables 3 and 4 have been developed using data obtained from Table 2. Table 3 shows the rate per average residential property to the derived from each residential property in the various townships in the Shire.

Table 4 shows the rates per property that would be derived from the various townships under a rating structure made up of a common Base Charge and a common Ad Valorem rate.

Table 3

Residential	Number Properties	Land Value	Base Charge	Ad Valorem	Rate per Property	Revenue
Dorrigo	540	$55,584,270	340	0.00333340	$683.12	$368,884.61
Bellingen	1298	$211,839,210	384	0.00250507	$792.84	$1,029,104.05
Urunga	1176	$203,554,590	384	0.00297124	$898.29	$1,056,393.54
Mylestom	178	$41,013,000	384	0.00233493	$921.99	$164,114.48
	3192	$511,991,070				$2,618,497

Table 4

Res	Number Properties	Land Value	Base Charge	Ad Valorem	Rate per	Revenue
Dorrigo	540	$55,584,270	384	0.00272030	$664.01	$358,565.82
Bellingen	1298	$211,839,210	384	0.00272030	$827.96	$1,074,697.94
Urunga	1176	$203,554,590	384	0.00272030	$854.86	$1,005,313.30
Mylestom	178	$41,013,000	384	0.00272030	$1,010.78	$179,919.61
	3192	$511,991,070				$2,618,497

As would be expected with any change in rating structure there would be winners and losers. The rates per property in Dorrigo (on the plateau) would fall somewhat, while those the township of Bellingen (in the valley) would increase. The seaboard would be a mixed bag with Urunga falling and Mylestom increasing. However, none of these changes present insurmountable obstacles to change.

From a revenue viewpoint, the amount of revenue collected from the inland towns of Dorrigo and Bellingen would increase from $1,397,989 to $1,433,264 while that on the seaboard would decrease from $1,220,508 to $1,185,232.

This analysis would tend to put paid to the proposition that a change in rating structure would disadvantage the seaboard at the expense of the plateau township of Dorrigo. Consequently, if this concern that is all that is holding Council back from simplifying its residential rating structure it can now move forward with confidence that its fears can be allayed.

I would suggest that if Council wishes to continue with its various geographic rating categories it should be prepared to report on expenditures and revenues for each of these geographic areas. I would ask that IPART make this a condition of any SRV.

Further on the issue of rating structure and rating burden, Council in its submission, when assessing the capacity of the community to pay for a SRV, makes comparisons with a number of nearby LGAs.

When considering these comparisons it is important to recognise that only the Nambucca LGA is a reasonable comparator with the Bellingen LGA. The NSW Department of Local Government in its "*Comparative Information on NSW Local Government Councils",* groups the 150+ LGAs in NSW into 11 different like groups for comparison purposes.

Bellingen LGA, along with Nambucca Shire, is in Group 11. Greater Taree, Kempsey, Port Macquarie and Coffs Harbour LGAs are in Group 4 (small/medium urban developed) and Group 5 (large/very large urban developed). In fact Port Macquarie and Coffs Harbour are large regional centres.

Rather than drawing inferences from areas not directly comparable, a more telling comparison for Bellingen Shire is considered to be the Group 11 average (rural agricultural very large).

Table 5

Rate Category	Bellingen LGA	Group 11 Average
Average Residential	$779.21	$632.67
Average Business	$899.74	$1,728.02
Average Farmland	$1,693.58	$2,370.31

Such a comparison reveals that Bellingen Council charges businesses and farmlands significantly less that the Group 11 averages.

The difference will become of more significance if the SRV is granted, particularly when it is remembered that the greater part of the road works to be constructed with the SRV lie outside the townships where the majority of residential ratepayers reside. Council's earlier expressed concern about cross-subsidies between different geographic areas would best be directed towards the rural/township split, particularly given that Council would seem to have the ability to measure costs and revenues between different rating property classifications.

Capital Expenditure Ratio and Depreciation

One of the indicators collected and published annually by the NSW Department of Local Government is the Capital Expenditure Ratio.[7] This ratio assesses annual capital expenditures compared to annual depreciation, or Council's replacement/renewal of capital assets compared with the annual consumption of assets.

[7] NSW Department of Local Government, *Comparative Information on NSW Local Government Councils, V*arious publications

A ratio of 1:1 means that asset replacement/renewals equal depreciation and asset impairment, or that replacement/renewals equal consumption of assets. A ratio of less than equality (e.g. 0.75:1) means that replacements/renewals are less than the annual consumption of assets.

While there is unlikely to be direct annual matching of capital expenditure with depreciation, a continuing difference gives cause for concern as assets are being consumed or run down.

Department of Local Government data shows that Council's Capital Expenditure Ratio over the last decade has averaged 0.74:1 compared with a NSW average of 1.12:1.[8]

This clearly shows that asset consumption in the Bellingen Shire has not been matched by asset replacement/renewal and starkly illustrates why there is a road expenditure backlog and why residents are confronted with a request for a SRV. Such an outcome is also consistent with resources being diverted away from keeping the capital stock intact towards recurrent expenditure items.

The results of Council's 2012 Community Survey highlights the importance that the community places on maintaining the hard physical service assets (roads, paths, bridges, drains, water and sewerage) in a fit and proper state.

Successive past Councils have not served the community well in diverting funding away from maintaining and renewing/replacing these services.

Accountability and Reporting

From the comments received on Council's SRV proposals it is self-evident that Council has a credibility and trust shortfall with significant elements of the community. Some past expenditure decisions have not enjoyed widespread support (and this is not limited to the works depot), and there are very firmly held views about the inefficiency of Council in the provision of services, as well as the equity in the allocation of funds to the various services Council provides, both between services and across geographic areas.

There is clearly a perception that the efficiency of Council in the provision of services can and should be improved. Given that there has been a 40%+ increase in staffing levels in a decade this perception is not without foundation. Council needs to satisfy the community that it provides services effectively and efficiently. To this end it is considered that when evaluating Council's SRV proposal IPART should impose an ongoing efficiency dividend in the form of a real reduction in direct operating costs[9] of a CPI-1% increase in these cost elements for the foreseeable future.

The fact that successive Councils have:

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[8] NSW Department of Local Government, *Comparative Information on NSW Local Government Councils, V*arious publications

[9] Exclusive of depreciation, amortisation and impairment charges, and borrowing costs

- allowed the stock of physical service assets to decline, and
- diverted resources away from asset renewal/replacement to recurrent expenditure (as evidenced by rapidly increasing staff numbers).
- to the extent that backlogs have developed and residents now face a SRV

gives rise to the need for enhanced accountability and reporting on any additional funding that might be made available under a SRV.

It is considered that should IPART grant Council a SRV of whatever magnitude it is conditional on the following:

1. the revenue from the increase above CPI should be hypothecated to road, pathways and bridges. This should include any future indexation of the SRV amount;

2. Council reporting annually to IPART and the community on progress against the Capital Road Works Program in terms of percentage completed, cost, reasons for any variations, expenditure against revenue collected etc.

3. Council reporting annually on cost outcomes against the financial projections in Council's Long Term Financial Plan used to support the SRV application for the life of that SRV or 2023/24 (whichever occurs first).

One very much appreciated ancillary benefit of the SRV process has been the requirement that Council engage with the community and disclose a large amount of information that is not usually made available to the community. IPART should do all in its power to encourage this level of disclosure.

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Thank you once again for the opportunity to comment on Council's SRV proposals.

Yours faithfully

Richard Warner.