



Independent Pricing and Regulatory Tribunal

Richmond Valley Council's application for a special variation

Under Embargo until 10:30am 10 June 2011

Local Government - Determination - Executive Summary
June 2011

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The Tribunal members for this assessment are:

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Mr James Cox, PSM, Chief Executive Officer and Full Time Member

Ms Sibylle Krieger, Part Time Member

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1 Determination and executive summary

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for setting the amount by which councils can increase their general income each year. General income mainly includes rates income. We set a rate peg amount each year that applies to all councils. In addition, councils can apply to us for a special variation, which allows councils to increase their general income, by more than the rate peg amount.

We have assessed and made a determination on Richmond Valley's application for a special variation to its general income in 2011/12.

We have decided not to approve the special variation proposed by the council.

We assessed the application against criteria included in the *Guidelines for the preparation of an application for a special variation to general income in 2011/2012*¹ (the Guidelines) issued by the Division of Local Government, Department of Premier and Cabinet. The determination has been made under section 508(2) of the *Local Government Act 1993* (the Act).

This report sets out our decision and explains the council's application and our assessment of it.

1.1 Summary of Richmond Valley Council's application

Richmond Valley Council applied to increase its general income by 5.96% in 2011/12, with the special variation to remain in the council's general income on a permanent basis.

The proposed special variation incorporates the rate peg that would otherwise be available to the council. IPART has set the rate peg for 2011/12 at 2.8%. Table 1.1 summarises the council's application.

¹ Division of Local Government (DLG), Department of Premier and Cabinet, December 2010.

Table 1.1 Richmond Valley Council's proposed special variation

| Description | 2011/12 |
|-----------------------|--------------|
| Rate peg | 2.80% |
| Additional increase | 3.16% |
| Total increase | 5.96% |

Source: Richmond Valley Council, *Application for Special Variation to General Income - Part A*, Worksheet 1, 25 March 2011.

The council's application indicates that the special variation is required to fund:²

- ▼ rural road maintenance
- ▼ community land plans of management
- ▼ gas/intermodal lands projects
- ▼ introduction of volunteerism, and
- ▼ entrances to towns and villages.

These areas have been identified as priorities as part of the Community Strategic Planning process with the exception of the gas/intermodal lands projects. They were not specifically identified in the Community Strategic Planning process, but are part of a long term focus on the local economy.

Table 1.2 includes the council's estimate of the proposed total allowable increase in the council's permissible general income in 2011/12.³

Table 1.2 Special variation sought by Richmond Valley Council, including rate peg

| Year | Increase in general income (%) | Increase in general income (\$) | Permissible general income (\$) ^a |
|---------|--------------------------------|---------------------------------|--|
| 2011/12 | 5.96 | 474,978 | 8,446,860 |

a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year's notional general income level (2010/11) plus the annual dollar increase permitted by the special variation percentage.

Source: Richmond Valley Council, *Application for a Special Variation to General Income - Part A*, Worksheet 4, 25 March 2011.

1.2 IPART's determination

Based on our assessment of Richmond Valley Council's application in line with the requirements of the *Local Government Act 1993* and the Guidelines, we have decided

² Richmond Valley Council, *Section 508(2) Special Variation Application Form – Part B*, 25 March 2011, pp 4-5.

³ It is not possible to determine the council's future general income with precision. A council's actual general income is affected by many factors, including the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils. Permissible income of councils is monitored and regulated by the DLG.

not to approve Richmond Valley Council's application for a 5.96% special variation increase in 2011/12.

1.3 Summary of IPART's assessment

In assessing Richmond Valley Council's application, we find that the main purpose of the proposed special variation is to enable the council to respond to core issues identified by the community in the Community Strategic Plan. These issues included improved communication between the council and the community. In particular the council would like to engage the community on financial sustainability matters.

However, we have decided to decline the council's application due to the following.

- ▼ Community consultation revealed no support from ratepayers for the proposed special rate variation. The proposed special variation is opposed by community members who participated in the consultation.
- ▼ The proposal is only the first step in a reform process. We believe that it would be more beneficial to the council and the community that an application for a special variation be considered once the Integrated Planning and Reporting Framework has been fully implemented.
- ▼ There are concerns over the capacity of ratepayers in Richmond Valley LGA to pay for a special variation rate rise. The local government area has been identified as one of the most disadvantaged in NSW.

Table 1.3 summarises our findings in relation to each of the criteria.

Table 1.3 Summary assessment of Richmond Valley Council's special variation application against section 508(2) criteria

| Criterion | IPART findings |
|---|--|
| 1. Demonstrated need for the rate increase implied by the special variation | Four of the 5 intended areas of expenditure are derived from the council's Community Strategic Plan. The remaining item (Rural Roads Maintenance) has been included to ensure that service levels in that area of council operations can be maintained and to ensure that the Rural Sector of the community has a direct outcome from the special variation. |
| 2. Adequate community consultation regarding the special variation | The council's application indicates that its community consultation has not revealed any support from ratepayers for the proposed special rate variation. The proposal was opposed by rate payers who participated in the consultation. |
| 3. Reasonable impact on ratepayers | The proposed increase is modest in real (inflation adjusted) terms. However the council's residential population are some of the poorest and most disadvantaged in NSW. |
| 4. Sustainable financing strategy consistent with the principles of intergenerational equity. | The proposed permanent increase in rates revenue would have a positive impact on council's financial position but, pending the completion of the council's integrated financial planning and reporting processes, it is not clear that the proposal in itself would constitute a sustainable financing |

- strategy.
5. An explanation of the productivity improvements the council has realised in past years, and plans to realise over the proposed special variation period.
- The council has presented details of its recent productivity improvement program and planned future initiatives. The council has not quantified the cost savings to be generated by these initiatives in its submission. It is difficult to judge the materiality of its productivity improvement program.
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