



Independent Pricing and Regulatory Tribunal

Coffs Harbour City Council's application for a special variation 2012/13

Local Government — Determination
June 2012



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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils can increase their general income, which mainly includes 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.

However, councils can 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 provided by the Division of Local Government (DLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Coffs Harbour City Council applied for a special variation of 5.64% in 2012/13, with the income to be retained in the council's revenue base for 10 years. After assessing the council's application, we made a decision to partially allow the requested special variation. We have made this decision under section 508(2) of the Act.

1.1 Our decision

IPART decided that Coffs Harbour City Council can increase its general income by 5.64% in 2012/13. This increase includes the rate peg of 3.6% that is available to all councils. The increase above the rate peg can be retained in the council's general income base for 2012/13 only. We have attached conditions to this decision, including that the council use the income from the increase above the rate peg to fund development of a City Centre Masterplan and some improvements to traffic flows.

Table 1.1 sets out our decision and Box 1.1 lists the conditions attached to it.

¹ *Guidelines for the preparation of an application for a special variation to general income in 2012/2013* were issued by Division of Local Government, Department of Premier and Cabinet, September 2011.

Table 1.1 IPART's decision on Coffs Harbour City Council's application for a special variation in 2012/13 (%)

Component	Amount
Increase to fund Masterplan development /traffic flow upgrade (retained for 1-year)	2.04
Rate peg increase	3.60
Total increase	5.64

Box 1.1 Conditions attached to IPART's decision on Coffs Harbour City Council's application for a special variation in 2012/13

IPART's decision on Coffs Harbour City Council's application for a special variation in 2012/13 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to develop a City Centre Masterplan in consultation with CBD business ratepayers, and to upgrade the Harbour Drive Gordon Street Intersection as outlined in the City Centre Works Program listed in Appendix A.
- ▼ The council reports in its annual report for 2012/13 on:
 - the City Centre works listed in Appendix A
 - the outcomes achieved as a result of the special variation.
- ▼ On 1 July 2013, the council reduces its general income by \$668,900 (the value of the approved City Centre Masterplan special variation) before applying the rate peg determined for 2013/14.

1.2 What did the council request and why?

Coffs Harbour City Council requested a special variation of 5.64% in 2012/13 and to retain the increase in its general revenue for 10 years. The requested special variation included a 2.04% increase to replace its expiring CBD business special rate variation, plus the rate peg available to all councils.²

Table 1.2 shows the components of the requested special variation.

² The rate peg set by IPART for 2012/13 is 3.6%. The rate peg for 2013/14 will be determined by IPART in December 2012.

Table 1.2 Components of Coffs Harbour City Council's requested special variation in 2012/13 (%)

Component	Amount
Increase in place of existing CBD business special rate to be retained for 10 years	2.04
Rate peg increase	3.60
Total increase	5.64

Source: Coffs Harbour City Council, *Section 508(2) Special Variation Application Form – Part A* (Coffs Harbour Application Part A), Worksheets 1 and 4.

The council estimates that the requested 2.04% increase above the rate peg would generate revenue of \$668,900 in 2012/13, and \$7.67m over the requested 10-year term.³

The council indicated that this 2.04% increase would replace its existing CBD business special rate variation, which will expire in June 2012. It intends to use the income raised by this increase to fund further revitalisation works in the Coffs Harbour City Centre.⁴ It submitted that its first step would be to establish a City Centre Masterplan. Then it would determine a program of works and expenditure allocations for specific City Centre projects in line with this plan. Some key priorities would include improvements to car parking facilities, streetscapes, and pedestrian and traffic flows.⁵

The council estimates that the cost of developing the initial Masterplan is approximately \$200,000. It expects the cost of the total works program will be around \$7.7m over 10 years.⁶

1.3 How did we reach our decision?

We assessed the council's application against the criteria in the Guidelines. We found that it did not meet Criterion 1 (demonstrated need), as the council has not yet developed a program of works for the 10-year period of its requested special variation. In addition, it has not yet developed the City Centre Masterplan from which this program of works will be derived. This also limited the extent to which the application met Criterion 2 (adequate community consultation).

³ Coffs Harbour Application Part A, Worksheets 1 and *Section 508(2) Special Variation Application Form – Part B* (Coffs Harbour Application Part B), p 4. Note that 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 future rate peg determination, the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils. The DLG is responsible for monitoring and ensuring compliance.

⁴ Coffs Harbour Application Part B, p 2.

⁵ Coffs Harbour Application Part B, p 10.

⁶ Coffs Harbour Application Part A, Worksheet 1 and Part B, pp 4, 10.

For this reason, we decided to allow the requested increase of 5.64% in the council's general income in 2012/13 only, not for the requested 10-year fixed term. This will enable the council to fund the development of the Masterplan, as well as some improvements to traffic flows by upgrading the Harbour Drive Gordon Street Intersection. The council has proposed that this intersection should be upgraded as a priority.

We anticipate that the council will apply for a further special variation in 2013/14 to increase its general income to implement the Masterplan. We expect the council to develop a detailed program of expenditure, in consultation with, and endorsed by, its CBD ratepayers, before submitting another special variation application.

Table 1.3 summarises our findings against each of the criteria.

Table 1.3 Summary of IPART's assessment against the criteria in the Guidelines

Criterion	IPART findings
1. Demonstrated need for the rate increase implied by the special variation	The council did not demonstrate the need for the requested rate increase as it has not identified the specific projects to be included in its works program or explored the feasibility of undertaking them. It has not yet developed a program of expenditure for the 10-year period requested.
2. Adequate community consultation regarding the special variation	The council has made considerable effort to inform and consult with the affected ratepayers. However, its consultation was based on indicative projects and not a well-defined and costed program of works. It received 62% support from an initial scoping survey. Written submissions representing 34 businesses offered support conditional on the development of a Masterplan and committee to oversee the projects.
3. Reasonable impact on ratepayers	The special variation would not have an unreasonable impact on the CBD business ratepayers given that: <ul style="list-style-type: none"> ▼ they have been paying the special rate since 2000/01 ▼ the net increase in rates would be 1.3% or \$91 on average in 2012/13 ▼ the community has capacity to pay, based on the socio-economic indicators for the area. <p>However, if the special variation was not approved, CBD business rates would decrease by 28.2% on average.</p>
4. Sustainable financing strategy consistent with the principles of intergenerational equity	The council has considered alternative revenue sources but found that most options are currently unavailable. It indicated it would use borrowings if the Masterplan process requires it and would repay the debt from the special variation funds.
5. An explanation of the productivity improvements and cost containment strategies the council has implemented in past years, and is planning over the requested special variation period	The council has achieved productivity savings in the past and aims to do so in the future. It has also undertaken a number of cost containment strategies over the past 2 or so years that have generated further savings for the council.

Note: In accordance with the Guidelines, IPART may also consider any other matters it considers relevant in assessing a council's application for a special variation. In the case of Coffs Harbour's application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that Coffs Harbour City Council can increase its general income to around \$34.6m in 2012/13.⁷ On 1 July 2013, the council will reduce its income by the value of the approved City Centre Masterplan special variation, but increase it by the rate peg determined for 2013/14. After this year, this income will increase by the annual rate peg unless a further special variation is approved by IPART.⁸

1.5 What does our decision mean for ratepayers?

Coffs Harbour City Council indicated that it intends to apply the rate peg component of the requested special variation (3.6%) uniformly across all rate categories. However, it intends to apply the additional 2.04% increase it requested to CBD business ratepayers only, in place of the expiring special rate these ratepayers have paid for the past 12 years.

We estimated that if CBD business ratepayers did not already pay the special rate, our decision would result in a 28% increase in their average rates in 2012/13. However, as they do, the decision will lead to an estimated average increase in CBD business rates of 1.3% in 2012/13.

The council's residential, farmland and general business rates will rise, on average, by 3.6%, 9.6% and 2.9% respectively. These increases will be the same with or without the special variation and reflect the combined impact of the rate peg of 3.6% and adjustments due to new land valuations applicable in 2012/13.

1.6 What does the rest of this report cover?

The rest of this report discusses the council's application and our assessment and findings in making our decision in more detail:

- ▼ Chapter 2 focuses on the council's application
- ▼ Chapter 3 discusses our assessment against the criteria.

The appendices provide the council's proposed program of expenditure in 2012/13, and a summary of the comparative data we considered in our assessment – such as average local government area (LGA) income levels and council labour costs.

⁷ Coffs Harbour Application Part A, Worksheet 1.

⁸ As stated in footnote 3, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

2 Coffs Harbour City Council's application

Coffs Harbour City Council applied to increase its general income by 5.64% (including the rate peg of 3.6%) in 2012/13 for a fixed term of 10 years.⁹

The sections below provide some brief background information on the council and its history of special variations. The subsequent sections outline its application for a special variation in 2012/13, how the council proposes to use the additional income it would raise, and how the necessary rate increases would affect different ratepayers.

2.1 About the council

Coffs Harbour City Council serves a local government area (LGA) situated on the north coast of NSW about 550 km from Sydney. This area covers 1,175 km² of beachside and inland localities, including the towns of Sawtell, Woolgoolga, Corindi and Coffs Harbour. It is a relatively high growth area, with a population of around 73,000. The economy is based mainly on agriculture (bananas), tourism and manufacturing.¹⁰

The council is in DLG Group 5, which indicates it is classified as an “urban, large to very large regional town or city”. IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.¹¹ However, as there are only 6 councils in the group, Coffs Harbour being the smallest, comparisons with the DLG Group average need to be interpreted with caution.

⁹ Coffs Harbour Application Part A, Worksheet 1.

¹⁰ Coffs Harbour Economic Profile 2010.

¹¹ DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09*, p 11. The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. The DLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. There are 6 councils in DLG Group 5; the other 5 are Lake Macquarie City, Newcastle City, Shoalhaven City, Tweed Shire, and Wollongong City Councils. However, Coffs Harbour is the smallest council in this grouping with a population of just over 70,000 compared with Wollongong and Lake Macquarie with populations around 200,000.

The LGA has a SEIFA ranking of 84, which places it about midway between the most and least disadvantaged councils in NSW.¹² The council's average residential and business rates are relatively low compared with the average for DGL Group 5, but higher than the average for all councils across NSW. In 2010/11, its average residential rates were \$786 (compared with \$889 for DGL Group 5 and \$659 for NSW). Its average business rates were \$3,567 (compared with \$4,421 for DLG Group 5 and \$2,450 for NSW).¹³

In 2010/11, the council raised 42.1% of its total revenue through rates and annual charges, which was lower than the average for DLG Group 5 (48.0%) and for all councils in NSW (46.7%). However, it raised 39.5% of its total revenue from grants and contributions (operating and capital), which was higher than the average for its peer grouping (28.8%) and for all NSW councils (28.3%).¹⁴ This indicates that it is more reliant on grants and contributions than its peer councils and many other NSW councils.

Appendix B provides a range of other comparative data on Coffs Harbour City Council.

2.2 History of special variations

Coffs Harbour City Council has applied for 6 special variations since 2000/01, of which 5 have been approved (see Table 2.1).

The first of these special variations was a 5% increase (2.3% above the rate peg), approved by the Minister for Local Government for a fixed term of 12 years (under section 508(2) of the Act). The 2.3% increase above the rate peg was approved to fund a main street capital works program, and was applied to CBD business ratepayers in the form of a CBD business special rate. It now represents approximately 2.04% of the council's rates base, as the rates base has increased since 2001 due to rate peg increases.¹⁵ This special rate variation is due to expire on 30 June 2012.

¹² SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics. It can be used to determine the level of social and economic well-being in regions relative to one another. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes a ranking for "unincorporated NSW"). A ranking of 1 means the council is least advantaged relative to all the other councils in NSW. A ranking of 153 means it is most advantaged relative to all the other councils in NSW.

¹³ DLG, unpublished comparative data, 2010/11.

¹⁴ DLG, unpublished comparative data, 2010/11.

¹⁵ Coffs Harbour Application, Part B, p 3.

Table 2.1 Coffs Harbour City Council's approved special variations to date

Year	Approved special variation (%)	Rate peg (%)	Term	Purpose
2000/01	5.00	2.7	12 years	Main street capital works
2004/05	5.70	3.5	Permanent	Boundary changes
2006/07	9.56	3.6	Permanent	Community facilities
2008/09	5.95	3.2	Permanent	Infrastructure works
2010/11	7.00	2.6	10 years	Flood mitigation drainage

Source: DLG, unpublished comparative data, 2010/11.

2.3 Requested special variation in 2012/13

Coffs Harbour City Council requested a special variation of 5.64% in 2012/13 and to retain this income in its general income base for 10 years. If approved, the council estimates¹⁶ that this variation would increase its total permissible income by around \$1.8m in 2012/13 (Table 2.2). This estimate has been verified by the DLG.

Table 2.2 Estimated impact of Coffs Harbour City Council's requested special variation in 2012/13

Adjusted notional general income 2011/12 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2012/13 (\$) ^a
32,789,217	5.64	1,849,312	34,648,293

^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 adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. Coffs Harbour Council's proposed permissible general income in 2012/13 includes the requested special variation of 5.64% (\$1,849,312), as well as a prior year catch up amount of \$9,764.

Source: Coffs Harbour Application, Part A, Worksheet 1.

The council indicated that the requested special variation comprises:

- ▼ a 2.04% increase to replace the expiring CBD business special rate variation
- ▼ the 3.6% rate peg increase determined by IPART, which is available to all councils.

¹⁶ 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. The DLG is responsible for monitoring and ensuring compliance.

Note that in setting the rate peg amount, IPART included a carbon price advance of 0.4% to assist councils to meet higher prices arising from the introduction of the carbon price from 1 July 2012.¹⁷

Table 2.3 sets out the components of the council's requested special variation.

Table 2.3 Components of Coffs Harbour Council's requested special variation in 2012/13 (%)

Component	Amount
Increase in place of expiring CBD business special rate to be retained for 10 years	2.04
Rate peg increase	3.60
Total increase	5.64

Source: Coffs Harbour Application Part A, Worksheets 1 and 4.

2.4 How the council proposes to use the income raised

Coffs Harbour City Council has indicated it would use the special variation income above the rate peg to fund a 10-year works program to further revitalise Coffs Harbour's city centre. The scope of works would be based on the following key priorities:

- ▼ the establishment of a city centre Masterplan
- ▼ improvement of car parking facilities in the city centre
- ▼ improvement of pedestrian and traffic flow in the city centre
- ▼ streetscape improvements within the city centre.

The council submitted that its first step would be to develop the Masterplan. It would then derive the other broad priorities from outcomes of its consultation process for this plan. It also noted that a 2006 review it undertook with the NSW Department of Planning identified that car parking facilities are a critical element for the future growth and prosperity of the Coffs Harbour CBD.¹⁸

¹⁷ Given that the effects of the carbon price will eventually be captured in the Local Government Cost Index (LGCI), we will reverse the upfront adjustment we have made in the 2012/13 rate peg over 2 years. We will deduct 0.1% in 2013/14 and 0.3% in 2014/15 from the rate pegs in these years. See *IPART, Effects of the carbon price on local councils*, Local Government - Information paper, December 2011 for more information.

¹⁸ Coffs Harbour Application Part B, p 7.

The council estimated that the cost of developing the Masterplan would be around \$200,000, and that it would expect to complete this plan by early 2013. From then, the income raised from the special variation above the rate peg would be used to fund the projects identified in the Masterplan. The council expects the cost of the total works program to match the requested special variation component above the rate peg of around \$7.7m over 10 years.¹⁹

2.5 How does the council propose to allocate the special variation among ratepayers?

Coffs Harbour City Council levies 3 separate ordinary rates – residential, farmland and business rates. The CBD business rate is a sub-category of its business rates. It indicated that it proposes to apply the rate peg increase uniformly across all these rating categories, and in addition, to apply the increase above the rate peg only to the 323 CBD business ratepayers. However, the overall impact of this on CBD business ratepayers will be minimal, because their rates would also decrease by a similar percentage (due to the expiring special rate variation).

The council also indicated that average rate levels in all categories will change in 2012/13 due to new land valuations. Table 2.4 shows its estimate of the total change in average rates due to the special variation, the rate peg and these new land valuations.

Table 2.4 Change in average rate levels in each rate category due to the impact of the requested special variation and new land valuations

	2011/12 ^a	2012/13
Average residential rate (\$)	871	903
Increase (\$)		32
Increase (%)		3.6
Average farmland rates (\$)	1,521	1,667
Increase (\$)		146
Increase (%)		9.6
Average business rates (\$)	3,226	3,320
Increase (\$)		94
Increase (%)		2.9
Average CBD business rates (\$)	7,005	7,096
Increase (\$)		92
Increase (%)		1.3

^a 2011/12 does not apply to the variation but is included for comparative purposes.

Note: The actual percentage increases for each ratepayer category are also affected by valuation adjustments for 2012/13.

Source: Coffs Harbour Application Part A, Worksheet 5.

¹⁹ Coffs Harbour Application Part B, pp 10-11.

As the table shows, the net change in the average CBD business rate level in 2012/13 will be 1.3% (or \$92), due to the combined impact of the:

- ▼ rate peg increase
- ▼ decrease from the CBD business special rate that expires in June 2012
- ▼ increase from the new CBD business special rate in 2012/13
- ▼ adjustments related to new land valuation.

If the requested special variation were not approved, the average CBD business rate would decrease in 2012/13 by approximately 28.2% (or \$1,976) due to decreases in rates from the existing special rate expiring on 30 June 2012.²⁰ However, the change in average residential, farmland and business rates would be the same as shown in Table 2.4, as the rate peg and land valuation adjustments would still apply.²¹

²⁰ Coffs Harbour Application, Part B, pp 28-29.

²¹ Coffs Harbour Application, Part B, pp 29-30 notes that average, farmland valuations increased by 10.95% and residential land valuations by 3.6% in 2012/13. In comparison, general business and City Centre business land valuations increased only by 2.16% and 1.9% respectively.

3 IPART's assessment

To make our decision on Coffs Harbour City Council's application for a special variation in 2012/13, we assessed the application against each of the 5 criteria in the Guidelines for section 508(2) applications. We found that the application met some of the criteria, but did not satisfy Criterion 1 (demonstrated need) or fully satisfy Criterion 2 (adequate community consultation).

The application does not satisfy the requirements for Criteria 1 because it did not include the proposed program of works to be funded over the 10-year period of the special variation. Indeed, it indicated that the Masterplan, from which this program will be derived, is not yet developed and will not be completed until early 2013. Therefore, the council's application could not demonstrate the feasibility or efficiency of its proposed works, as required by the Guidelines.

The application does demonstrate that the council has undertaken a significant amount of community consultation about its requested special variation, and the results of this consultation suggest that more than half of the affected ratepayers support it. However, it did not adequately explain what the income raised would be used for, because it does not yet have a proposed program of works. In addition, we note that some of the support from CBD business ratepayers was conditional on the establishment of a Masterplan and a representative committee to oversee the planning and expenditure of the additional funding.

For these reasons, we decided to allow the requested 5.64% special variation for 2012/13 only, for the purpose of developing a Masterplan and associated program of expenditure. We expect the council to consult and seek endorsement from the CBD business ratepayers on its program of expenditure before it makes another application for a special variation to implement the Masterplan.

Table 1.3 (in Chapter 1) summarised our findings in relation to each of the criteria in the Guidelines. The sections below discuss these findings in more detail.

3.1 Criterion 1 - Demonstrated need for the rate increases

Councils seeking special variations must demonstrate that their requested increase in general income is necessary. This includes:

- ▼ supporting their application with relevant strategic, asset management and long-term financial planning information
- ▼ providing evidence that the income raised by the special variation will be used to fund an efficient and feasible program of expenditure, and
- ▼ if possible, providing evidence that the special variation will improve their financial sustainability.

Coffs Harbour City Council requested the special variation to fund a program of works to further revitalise the Coffs Harbour CBD at a cost of \$7.7m over 10 years.²² If approved, the special variation would continue its expiring CBD business special rate that has funded a CBD works program since 2000/01 at a cost of over \$7m to date.²³

In its application, the council indicated that the special variation's purpose aligns with many objectives in its Community Strategic Plan and links with the 'vision' of its business stakeholders ("to promote future development opportunities and economic sustainability of the City Centre").²⁴ We note that the rate increases implied by the special variation will affect only the ratepayers who will benefit from the works it funds.

However, as section 2.4 discussed, the application set out the proposed scope of works at a high level only. It indicated that the council proposed to first develop a City Centre Masterplan and establish a committee to oversee the planning and expenditure associated with the special variation funds.²⁵ Then it would derive the scope and funding for specific projects from the Masterplan.

The application did not indicate whether the special variation would be supplemented by borrowings, but did not preclude the use of loans if the Masterplan indicates this is necessary for certain works.²⁶

The application demonstrated that the council would not be able to undertake the proposed CBD works without additional funding, as its Long Term Financial Plan for the General Fund is projecting operating deficits (before capital) in each year to 2019/20.²⁷

²² Coffs Harbour Application Part B, p 11.

²³ Coffs Harbour Application Part B, p 6.

²⁴ Coffs Harbour Application Part B, pp 2-3.

²⁵ Coffs Harbour Application Part B, p 22.

²⁶ Coffs Harbour Application Part B, p 9.

²⁷ Coffs Harbour City Council Long Term Financial Plan 2010 accessed on council website at: <http://www.coffsharbour.nsw.gov.au/Coffs-And-Council/running-council/Documents/Corporate%20Planning%20and%20Reporting/CHCC-Long-Term-Financial-Plan-2010.pdf>.

From the council's application we note that the impact of the requested special variation on the council's projected operating deficits will be minimal, at least in the short term. The information provided indicates that the council expects its operating deficit (before capital) in 2014/15 will be about:

- ▼ \$8.4m without the special variation, or
- ▼ \$7.7m with the special variation.²⁸

While the council did not request this special variation to fund its infrastructure backlogs, we note that ongoing operating deficits, as projected, will affect the council's capacity to reduce its backlogs from present levels and to provide new infrastructure as required by its community.

Overall, we are not satisfied that the council's application meets the requirements or the intent of this criterion, primarily because it does not adequately demonstrate the need for the special variation through supporting information, such as a sufficiently detailed program of expenditure. Without this information, the council could not demonstrate that the special variation will be used to fund an efficient and feasible program of expenditure.

We support the council's proposal to develop a Masterplan with its business community. We consider that this plan and an associated program of expenditure should be developed and endorsed by the business community. We expect that the council will reapply to continue the CBD business special rate after developing its Masterplan and refining its proposed CBD works program.

3.2 Criterion 2 - Adequate community consultation

Councils seeking special variations must demonstrate that they have undertaken adequate community consultation regarding the special variation and the associated program of expenditure. The consultation material should be clear and accurate, and should explain what the rate increase will be used for and how it will affect ratepayers.

We found that Coffs Harbour City Council has made significant effort to consult its business community to determine if there is support for the requested special variation. However, as it has not yet developed a specific program of expenditure, it could only gauge the level of in-principle support.

²⁸ Coffs Harbour Application, Part B, Attachments 1A and 3A.

The council's consultations included:

- ▼ Conducting a telephone survey in January 2012 to gauge support for 2 initial proposals: continuing the expiring CBD business special rate and introducing a new special rate for the wider City Centre ratepayers. The survey was undertaken by Jetty Research, with a random sample of 172 business owners (of a total 558 unique City Centre and wider City Centre business owners).²⁹
- ▼ Holding 3 business forums in January 2012 to seek feedback from CBD property owners on projects they considered appropriate to be funded from the special variation.
- ▼ Seeking written submissions from the business community on continuing the special rate. The 17 submissions received represented the views of the owners of 34 CBD business properties who together contribute 22% of the income raised by the expiring special rate.³⁰

The results of the council's consultations indicate that its CBD business community does support the continuation of the existing CBD special rate in principle. But some ratepayers' support is conditional on the development of a Masterplan and the establishment of a committee to oversee the planning and expenditure of the additional funding.

The telephone survey clearly explained the dollar impact of the proposed increases, but only outlined some indicative projects that could be undertaken, such as a multi-deck carpark in Moonee Street, beautification works at Brelsford Park, enhancements to Harbour Drive, improvements to car parks, traffic flow, footpaths and street lighting for the City Centre. The results of the survey indicate that:

- ▼ 62% of respondents affected by the expiring CBD business special rate supported the proposal to continue this rate
- ▼ 72% of respondents who would be affected by introducing a new special rate for wider City Centre ratepayers did not support the proposal to introduce such a rate.³¹

²⁹ Jetty Research, *Special Business Rate Variation Survey for Coffs Harbour City Council*, January 2012, pp 4-5, 22. Jetty Research noted that attempts were made to contact the majority of owners.

³⁰ Coffs Harbour Application Part B, p 26.

³¹ Jetty Research, *A survey to measure support for a special business rate of commercial property owners in the Coffs Harbour CBD*, January 2012, p 21.

The outcomes from the business forums and the written submissions were similar, in that the affected business community supported the continuation of the CBD special rate as they considered the previous city revitalisation works had been successful. However, the CBD business community also indicated they considered that:³²

- ▼ a Masterplan should be developed to determine a works program for the CBD with the assistance of appropriate professional consultants
- ▼ a section 355 committee should be formed to oversee the development of the Masterplan and its associated works program³³
- ▼ priority should be given to works that enhance the CBD as the central location for Coffs Harbour's business and community, including improvements to car parking, pedestrian and traffic flows and city streetscapes
- ▼ ratepayers paying the special rate should have responsibility and input into the planning and expenditure process.³⁴

Our overall assessment is that the council has in-principle support for the proposed continuation of the expiring CBD business special rate. However, its consultation did not sufficiently explain the program of expenditure associated with the requested special variation. This is because a CBD Masterplan to determine a feasible program of expenditure has not yet been developed.

3.3 Criterion 3 - Reasonable impact on ratepayers

This criterion is important, given that the primary purpose of regulating council revenues is to protect ratepayers from unreasonable increases in rates. To assess whether a council's application meets the criterion, we considered the magnitude of the impact of rate rises resulting from the requested special variation, the ratepayers' capacity to pay the increased rates, and outcomes from the council's community consultation (as discussed above).

We assessed that the impact of the council's requested special variation above the rate peg is reasonable for CBD business ratepayers, given it will be applied as a continuation of a special rate they are already paying. However, the proposed variation would increase the average rates for these ratepayers by approximately 28.2% in 2012/13, if there was not already a special rate in place. As the requested special variation will be applied as a continuing special rate, the net change in rates for these business ratepayers will be 1.3% in 2012/13. This increase combines the impact of the rate peg, continuing the special rate which is due to expire in June 2012 and adjustments related to new land valuations in 2012/13.

³² Coffs Harbour Application Part B, p. 25 and Attachment 13.

³³ Section 355 of the *Local Government Act, 1993* states "A function of a council may be exercised...by a committee of the council..."

³⁴ Coffs Harbour Application Part B, p 23.

We also considered the capacity to pay indicators in the Coffs Harbour LGA, such as its SEIFA ranking of 84.³⁵ This suggests that ratepayers in the LGA have the capacity to continue paying this special rate. (Appendix B provides a range of comparative data on the council.)

We note that the requested special variation above the rate peg will not affect ratepayers in other categories, as the council indicated this component will be applied to CBD business ratepayers only (see section 2.5).

3.4 Criterion 4 - Sustainable financing strategy consistent with the principles of intergenerational equity

Councils seeking special variations must demonstrate that they have considered the use of all available financing options to address their capital expenditure requirements. Their financing strategy must be both sustainable and ensure intergenerational equity. The concept of intergenerational equity means that the costs of long-lived assets (like infrastructure) are shared between current and future users, based on their share of the use of these assets over their life. For example, this may be achieved by council borrowings, which spread the financing costs of infrastructure over a long period, rather than meeting these costs through large rate increases in the short to medium term.

Coffs Harbour City Council has not yet finalised its financing strategy for its CBD works. It has considered alternative revenue sources, such as Section 94 contributions and user pay options, and found that these options are not applicable. The council indicated that it generally undertakes new capital works only if they align with its Community Strategic Plan objectives and have significant additional funding from sources such as user charges, government grants and community contributions. The CBD works are being considered as they are to be funded entirely from an additional revenue source, that is, the continuation of the existing CBD business special rate.

While the council's application did not indicate there is a need to supplement the proposed CBD projects with loan funding, it indicated that it would use borrowings if the Masterplan process requires, and repay the debt from the special variation funds.³⁶ The council's debt service ratio of 7.16% (at June 2011), suggests it has some capacity for further borrowings. It projects that with the special variation and no additional debt, its debt service ratio would fall slightly to 6.51% at the end of 2015.³⁷

³⁵ This SEIFA ranking indicates the LGA is midway between the most and least disadvantaged areas in NSW. That is, it is an average area from a socio economic perspective.

³⁶ Coffs Harbour Application Part B, p 9.

³⁷ Coffs Harbour Application Part B, Attachment 5A.

However, as section 3.1 discussed, the council is projecting operating deficits (before capital) and has infrastructure backlogs. The council has indicated its strategy is to reduce unfunded borrowing liabilities in its General Fund which will have a positive impact on its long-term financial sustainability and place it in a better position to use borrowings for major infrastructure renewal projects.³⁸

3.5 Criterion 5 - Productivity improvements and cost containment strategies

Councils seeking special variations must demonstrate that they have implemented a program of productivity or efficiency improvements and cost containment strategies to ease expenditure pressures before considering an increase in rates. In particular, they need to provide details of the productivity improvements, efficiencies and cost containment strategies that they have implemented over the past 2 or more years, and details of those that they propose to realise over the period of the special variation.

In its application, Coffs Harbour City Council indicated that it has achieved productivity savings in the past and has plans in place to do so in the future. It has also undertaken a number of cost containment strategies over the past 2 or so years that have generated further savings. The council indicated that:

- ▼ It has achieved productivity improvements in recurrent expenditure of around \$2.7m in the past 4 years. These improvements have been generated through: the introduction of a VOIP phone system; capping annual program budgets in the General Fund; and setting up deductible gift recipient status for environmental and cultural donations and bequests.
- ▼ It has identified the potential for further productivity improvements of more than \$105,000 per annum through improvements to mailing systems and electronic scanning of timesheets and invoices. In addition, it has introduced revenue-raising initiatives such as the Local Government IT Conference.
- ▼ It has undertaken a full service review in the last 12 months which identified over 100 opportunities for improvement across 43 services. These initiatives have potential to improve customer satisfaction, meet objectives in the council's Community Strategic Plan, provide savings, increase revenues and create efficiencies. It has established a framework for an ongoing continuous improvement program across the council.³⁹

³⁸ Coffs Harbour Application Part B, p 33.

³⁹ Coffs Harbour Application Part B, pp 36-38.

As part of our assessment, we examined comparative data on productivity from the DLG for 2010/11 as presented in Appendix B. These data indicate that the council's staffing numbers and costs are within the average range of its peers. For example, its:

- ▼ ratio of staff per head of population is lower than the average for all NSW councils (but higher than the average for DLG Group 5)
- ▼ employee costs are lower than the average for DLG Group 5 and all NSW councils
- ▼ consultancy costs are lower than the average for DLG Group 5 (but higher than the average for all NSW councils).



Appendices

A Coffs Harbour City Council – City Centre Works Program

Coffs Harbour City Council submitted that the special variation funding in 2012/13 will fund the items in Table A.1.

Table A.1 Coffs Harbour City Council – City Centre Works Program (\$)

City Centre works	Cost in 2012/13
Masterplan development	200,000
Harbour Drive Gordon Street Intersection Upgrade	468,900
Total cost	668,900

Source: Coffs Harbour Application, Part B, p 10, and email correspondence to IPART dated 5 April 2012.

B Comparative indicators

Table B.1 Select comparative indicators for Coffs Harbour City Council, 2010/11

	Coffs Harbour City	DLG Group 5 average	NSW average
General profile indicators			
Area (km ²)	1,175	-	-
Population	71,677	-	-
General Fund operating expenditure (\$m)	88.7	155.5	54.8
General Fund revenue per capita (\$)	1,344	1,282	2,006
Rates revenue % total General Fund income	42	48	47
Average rate indicators^a			
Average rate level – residential (\$)	786	889	659
Average rate level – business (\$)	3,567	4,421	2,450
Average rate level - farmland (\$)	1,436	1,694	2,121
Local government area (LGA) socio-economic/capacity to pay indicators			
Average annual income, 2009 (\$)	34,095	39,048	41,376
Growth in average annual income, 2006-2009 (%)	4.3	4.6	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009	0.02	0.02	0.02
SEIFA, 2006 (NSW rank) ^b	84	-	-
Outstanding rates ratio (%) ^c	5.6	5.7	7.3
Productivity indicators			
FTE staff (no) ^c	524	795	294
Ratio of population to FTEs ^{c,d}	137	165	126
Average cost per FTE (\$) ^c	64,485	78,982	71,155
Employee costs as % ordinary expenditure – General Fund only	31	37	37
Contractor expenses (\$) ^c	23,021,000	24,125,833	6,238,288
Contractor expenses as % ordinary expenditure ^c	17	13	8

^a Average rate levels equal the total rates revenue collected from a given rate category (eg, ordinary residential) divided by the number of assessments in that category.

^b See footnote 12 for SEIFA index.

^c Based upon total council finances ie, General Fund and if applicable, Water and Sewer and other funds (eg, Airport).

^d This ratio indicates the number of residents in the population per council FTE. A higher ratio indicates that there are fewer council staff for each person in the community whereas a lower ratio indicates that there are more council staff.

Note: General Fund refers to all council activities except Water and Sewer and, in some cases, other activities eg, airports.

Source: DLG, unpublished comparative data, 2010/11 and ABS, National Regional Profiles, NSW councils, November 2011.