IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Gilgandra Shire Council's application for a special variation 2012/13

Local Government — Determination
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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

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), and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).[1]

In 2012/13, Gilgandra Shire Council (Gilgandra Council) applied for a multi-year special variation under section 508A. It requested a cumulative increase of 53.2% over the 7-year period from 2012/13 to 2018/19. After assessing the council's application we decided not to approve the requested special variation. Instead, we have approved a single-year increase of 6.8% in 2012/13. We made this decision under section 508(2) of the Act.

1.1 Our decision

IPART decided that Gilgandra Council can increase its general income by 6.8% in 2012/13 and retain this increase permanently in its revenue base. This increase incorporates the rate peg increase of 3.6% that is available to all councils. We have attached conditions to our approval, which include that the council uses the additional income raised through the special variation for purposes consistent with those set out in its application.

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

1 The Guidelines were issued by Division of Local Government (DLG), Department of Premier and Cabinet, September 2011.

Table 1.1 IPART's decision on Gilgandra Council's application for special variation in 2012/13 (%)

Component	Amount
Increase to help fund infrastructure maintenance and renewal, and improve financial sustainability	3.2
Rate peg increase	3.6
Total increase	**6.8**

Box 1.1 Conditions attached to the approved special variation for Gilgandra Council

IPART's approval of a special variation for 2012/13 is subject to the following conditions:

- The council uses the additional income from the special variation for the purpose of funding some of the program of expenditure outlined in the council's application and listed in Appendix A.
- The council reports in its annual report for each rating year over 2012/13 to 2014/15 on:
  - the projects undertaken from its program of expenditure listed in Appendix A
  - the outcomes achieved as a result of the special variation
  - its asset renewal and maintenance expenditure
  - its productivity savings achieved, and
  - any significant variations from its financial results as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.

1.2 What did the council request and why?

Gilgandra Council requested a multi-year special variation that would allow it to increase its general income by 6.8% in 2012/13, and by 6.2% per annum for the next 6 years. This would amount to a cumulative increase of 53.2% by 2018/19.[2]

The council's requested special variation includes:

- annual increases of 3.2% to fund infrastructure maintenance and renewal while also maintaining its service levels and improving its financial sustainability[3]
- the annual rate peg increases it would otherwise be entitled to in each year.[4]

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2 Gilgandra Shire Council, *Section 508A Special Variation Application - Part A* (Gilgandra Application Part A), Worksheet 1.

3 Gilgandra Shire Council, *Section 508A Special Variation Application - Part B* (Gilgandra Application Part B), p 10.

4 IPART has set the rate peg for 2012/13 at 3.6%, and will set those for 2013/14 to 2018/19 in December of the preceding year. For the purpose of this application the council has assumed the rate peg increase will be 3.0% from 2013/14 to 2018/19.

Table 1.2 shows the components of the requested special variation.

Table 1.2 Components of Gilgandra Council's requested special variation for 2012/13 to 2019/19 (%)

	Annual increase to fund infrastructure renewal and maintenance and improve financial sustainability	Rate peg[a]	Total annual increase
2012/13	3.2	3.6	6.8
2013/14	3.2	3.0	6.2
2014/15	3.2	3.0	6.2
2015/16	3.2	3.0	6.2
2016/17	3.2	3.0	6.2
2017/18	3.2	3.0	6.2
2018/19	3.2	3.0	6.2

a In 2012/13, the rate peg of 3.6% reflects IPART's determination; in the following years the rate peg is assumed to be 3.0%.

Source: Gilgandra Application Part A, Worksheet 1.

The council has estimated that if approved as requested, the special variation would increase its permissible general income from $3.26m in 2011/12 to $4.99m in 2018/19. This would enable the council to generate approximately $3.3m in additional revenue over the next 7 years (compared to the amount it would raise if its permissible general income increased by the rate peg only)[5].

The council indicated that it intended to use this additional income of $3.3m to:

- fund maintenance of unsealed rural roads
- service loans for funding capital works/infrastructure renewal (including upgrades of the Terrabile Creek Bridge, the Shire Depot, Youth Club, local parks) and proposed subdivision of industrial and residential land
- maintain services and improve financial sustainability.[6]

5 Gilgandra Application Part A, Worksheets 1 and 7. 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.

6 Gilgandra Application Part B, p 10 and Part A, Worksheet 7.

1.3 How did we reach our decision?

We assessed Gilgandra Council's application against criteria included in the Guidelines. We found that this application did not satisfactorily meet all the criteria for a special variation under section 508A of the Act. Most importantly, it did not meet Criterion 6, 'Implementation of the Integrated Planning and Reporting Framework' (IPRF).

The Guidelines state that councils requesting special variations under section 508A must have fully implemented the IPRF. This is because special variations under this section involve multi-year increases to a council's general income. Therefore, it is essential they be based on demonstrated long-term strategic, financial and asset planning. The Division of Local Government's review of Gilgandra Council's IPRF documents found that the council has not yet met the legislative requirements of this framework.

In addition, we found that the application did not meet Criterion 2, 'Demonstrated Community Support'. While the council had consulted the community, it did not demonstrate that the community supports its proposed multi-year rate increases. We also found that given the capacity to pay indicators for the area, the impact of the proposed rate increases on ratepayers would be significant.

For these reasons, we did not approve the multi-year special variation the council requested. Instead, we decided to approve a 6.8% increase in 2012/13, to be retained permanently in the council's revenue base. We based this decision on our assessment that the council satisfactorily met Criterion 1, 'Demonstrated need' as it demonstrated it required additional rates income for funding infrastructure maintenance and renewal and improving its financial sustainability. We decided on an increase of 6.8% because this is a moderate level of increase and is the level the council consulted its community about for 2012/13 (the first year of its requested 7-year special variation).[7]

The approved increase will help the council to undertake some of the priority works identified in its application. We recognise it will not provide the council with the full funding to address its entire works program. The council may re-apply for further special variation increases to its general income in 2013/14 or in future years. However, for any further multi-year increases, we would expect that the council will have completed and implemented its IPRF.

Table 1.3 summarises our findings against each of the criteria for a special variation under section 508A.

7 Gilgandra Application Part B, Attachment 24 – Survey March 2012.

Table 1.3 Summary of IPART's assessment against the criteria in the Guidelines for applications under 508A

Criterion	IPART findings
1. Demonstrated need for the rate increases derived from the councils Integrated Planning and Reporting Framework	The council has demonstrated a need on the basis that: ▼ it has a funding gap for infrastructure maintenance and renewals which the special variation will partly address ▼ the proposed expenditure is broadly consistent with the community's priorities and the council's strategic planning. The council has an underlying issue with its financial sustainability. Even with the requested special variation funding, operating deficits remain large over the life of its Long Term Financial Plan.
2. Demonstrated community support for the special variation	The council consulted its community on the proposed rate increases, but its survey results indicate that 66% to 69% of ratepayers opposed the proposal.
3. Reasonable impact on ratepayers	The LGA's SEIFA ranking of 16 and its average income level ($35,241 in 2009) indicate it is relatively disadvantaged. Based on this, the proposed rate increases would have a significant impact on ratepayers, averaging over 7 years: $31 per annum or $241 in total (residential); $51 per annum or $403 in total (business); and $235 per annum or $1,643 in total (farmland).
4. Sustainable financing strategy consistent with the principles of intergenerational equity	The council's financing strategy for its roads and capital works program is consistent with intergenerational equity principles.
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 shown that it has achieved productivity savings in the past and aims to do so in the future. We encourage it to continue exploring opportunities for further productivity improvements and to seek to quantify its savings achievements where possible.
6. Implementation of Integrated Planning and Reporting Framework (IPRF)	At the time of our decision, DLG's preliminary review of the council's IPRF documentation found that the council has not yet met the legislative requirements for the IPRF, as required for a section 508A special variation application.

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 Gilgandra Council's application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that the council can increase its general income by an estimated $221,873 in 2012/13, taking its total permissible income to around $3.5m.[8] All other things being equal, this income will increase by the annual rate peg thereafter, unless we approve further special variations in the future.[9]

1.5 What does our decision mean for ratepayers?

While IPART sets the allowable increase in general income, each individual council determines how it will allocate this increase to different categories of ratepayer. Councils usually set their rates in June or July for the coming year.

If the council allocates its rates as indicated in its application, we estimate that in 2012/13:

- average residential rates will increase by $31 ($15 above the rate peg increase)
- average business rates will increase by $51 ($23 above the rate peg increase)
- average farmland rates will increase by $210 ($99 above the rate peg increase).[10]

However, these rate increases are indicative only and the actual impact on rates is a matter for the council to decide, consistent with this decision.

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, 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.

8 Gilgandra Application Part A, Worksheet 4 and IPART calculations.
9 As stated in footnote 5, the actual general income in future years will be influenced by a range of factors apart from the rate peg.
10 Gilgandra Application Part A, Worksheet 5, and IPART calculations.

2 Gilgandra Council's application

Gilgandra Council applied to increase its general income by 6.8% in 2012/13, and by 6.2% per annum over the next 6 years, from 2013/14 to 2018/19.[11] These increases represent a cumulative increase of 53.2% (or 29.5% above the assumed rate peg increases) for these 7 years.

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

Gilgandra Council serves an area in the central west of NSW, north of Dubbo and at the southern gateway to the Warrumbungle mountains. Its main towns include Armatree, Curban, Tooraweenah, and Gilgandra. Over 50% of the area is agricultural, with sheep, beef cattle, wheat and mixed farming. It has a small population of 4,669 (in 2010) in a large area of 4,836 km^2.

The council is in DLG Group 9 indicating it is classified as a "rural medium agricultural or remote council".[12] IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.

11 Gilgandra Application Part A, Worksheet 1.

12 DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09*, pp 11-17. 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 21 councils in DLG Group 9 including, for example, Coonamble, Warren and Gundagai Shire Councils.

The Gilgandra Local Government Area (LGA) has a SEIFA ranking of 16 which means its population is one of the least advantaged in NSW.[13] The council is heavily dependent on grants and contributions revenue. In 2010/11, this source of revenue made up 56.5% of its total General Fund revenue.[14] This proportion is similar to the average for councils in Group 9 (55.8%), but much higher than the average for other NSW councils as a whole (28.3%).[15]

In contrast, rates revenue comprised only 15.6% of its total revenue. This is significantly less than the averages for DGL Group 9 councils (20.2%) and NSW councils as a whole (46.7%).[16] These data indicate the council has less scope to increase its revenue from special variations compared to other councils, since even large percentage increases do not generate large amounts of revenue in dollar terms.

2.2 History of special variations

Gilgandra Council has had 2 special variations approved in the past 18 years:[17]

- In 2000/01, the Minister for Local Government approved an increase of 7.54% under section 508(2) of the Act to be retained for a fixed term of 2 years. This increase was for maintaining service levels, a swimming pool, waste facilities and cultural centre.
- In 2007/08, the Minister approved a special variation under section 508A for increases of 10.9% in 2007/08 and 11.0% in 2008/09 for infrastructure maintenance and renewal.

2.3 Requested special variation in 2012/13

Gilgandra Council applied to increase its general income by a cumulative 53.22% over the period 2012/13 to 2018/19. This application was made under section 508A of the Act.

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13 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.

14 General Fund refers to to all council activities excluding water and sewer. In some cases, a council's General Fund may also exclude its other separate business activities eg; waste services or airports, but these data do not exclude this type of service revenue. In the case of Gilgandra Council, a substantial proportion of its grants and contributions revenue also comprises funding from State and Federal Governments for its aged and disability care services. These services are funded entirely from government grants and not from rates revenue.

15 DLG, unpublished comparative data, 2010/11

16 Ibid.

17 Ibid.

If approved, the council estimates that its annual permissible general income would increase by around $1.7 million; from $3.26m in 2011/12 to $4.99m in 2018/19 (Table 2.1). This estimate has been verified by the DLG.[18]

Table 2.1 Special variation requested by Gilgandra Council, including the rate peg

Year	Annual increase in general income (%)	Cumulative increase in general income (%)	Annual increase in general income ($)	Cumulative increase in general income ($)	Permissible general income ($)[a]
2011/12					3,262,845[b]
2012/13	6.80	6.80	221,873	221,873	3,476,969
2013/14	6.20	13.42	215,572	437,446	3,692,542
2014/15	6.20	20.45	228,938	666,383	3,921,479
2015/16	6.20	27.92	243,132	909,515	4,164,611
2016/17	6.20	35.85	258,206	1,167,721	4,422,817
2017/18	6.20	44.28	274,215	1,441,935	4,697,031
2018/19	6.20	53.22	291,216	1,733,151	4,988,247

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. Gilgandra Council's proposed permissible general income in 2012/13 includes the requested special variation of 6.8% ($221,873), as well as a deduction of a prior year excess amount of $7,749.

b The 2011/12 adjusted notional general income is not part of the council's application but is included here to indicate the size of the base to which the special variation applies.

Source: Gilgandra Council Application Part A, Worksheets 1 and 4.

The council indicated that the requested special variation comprises:

- A cumulative increase of 29.5% to fund infrastructure maintenance and renewal loan servicing, maintaining service levels and improving financial sustainability.
- A cumulative rate peg increase of 23.7%. This includes the rate peg of 3.6% IPART has set for 2012/13 and an assumed rate peg of 3.0% in each of the following years.[19] Note that in setting the rate peg for 2012/13, 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.[20]

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18 DLG, *Assessment of Gilgandra Shire Council's s508A Special Variation Application, Part A*, March 2012.

19 The council has assumed a rate peg of 3.0% for 2013/14 to 2020/21, Gilgandra Application Part B, Attachment 5, Long Term Financial Plan.

20 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.

2.4 How council proposes to use the income raised

The council estimates that the requested increase above the rate peg would raise $3.3m in additional revenue over 7 years. It proposed to use this revenue as follows:

1. $1.2m for gravel re-sheeting its unsealed rural roads
2. $1.35m for loan repayments related to its program of capital works
3. $0.8m to assist in maintaining service levels and improving financial sustainability.[21]

The council's proposed program of capital works (item 2 above) would be funded from borrowings totalling $2.75m over the special variation period. These works include:

- upgrades to the Terrabile Creek Bridge ($1.2m)
- upgrades to the Shire Depot, Youth Club and local parks ($0.25m)
- industrial and residential land subdivisions ($1.0m)
- development of a Masterplan for Miller Street ($0.3m).

Appendix A sets out details of Gilgandra Council's Program of Expenditure.

2.5 How the council proposes to allocate the requested special variation among ratepayers

The council has 3 ratepayer categories: residential, farmland and business. Its residential and business categories have 2 sub-categories each. It proposes uniform percentage rate increase across the 3 categories.

Tables 2.2 and 2.3 set out the proposed rate increases for each of the ratepayer categories over the requested special variation period.

21 Gilgandra Application Part A, Worksheet 7 and IPART calculations.

Table 2.2 Impact of Gilgandra Council's proposed rate increases on average rate levels in each rate category

	2011/12[a]	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Residential ($)	**454**	**485**	**515**	**547**	**581**	**617**	**655**	**695**
$ Increase		31	30	32	34	37	38	40
% Increase		6.8	6.2	6.2	6.20	6.3	6.2	6.1
Business ($)	**757**	**808**	**859**	**911**	**968**	**1,028**	**1,092**	**1,160**
$ Increase		51	51	53	56	60	63	68
% Increase		6.8	6.3	6.1	6.2	6.2	6.2	6.2
Farmland[b] ($)	**3,087**	**3,297**	**3,502**	**3,719**	**3,949**	**4,194**	**4,454**	**4,730**
$ Increase		210	205	217	230	245	260	276
% increase		6.8	6.2	6.2	6.2	6.2	6.2	6.2

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

Note: Residential and business rate averages are weighted averages.

Source: Gilgandra Application Part A, Worksheets 1 and 2; and IPART calculations.

Table 2.3 Gilgandra Council's proposed average and cumulative rate increases ($)

Category of ratepayer	Average annual increase	Cumulative increase -7 years
Residential	34	241
Business	58	403
Farmland	235	1,643

Source: Gilgandra Application Part A, Worksheet 5 and IPART calculations.

3 IPART's assessment

We assessed Gilgandra Council's application against criteria included in the Guidelines. We found that this application did not satisfactorily meet all the criteria for a special variation under section 508A of the Act. Most importantly, it did not meet:

- Criterion 6, 'Implementation of the Integrated Planning and Reporting Framework' (IPRF). The Guidelines state that councils requesting special variations under section 508A must have fully implemented the IPRF. This is because special variations under this section involve multi-year increases to a council's general income. Therefore, it is essential they be based on demonstrated long-term strategic, financial and asset planning.
- Criterion 2, 'Demonstrated Community Support'. While the council had consulted the community, it did not demonstrate that the community supports its proposed multi-year rate increases.

We also found that the impact of proposed rate increases on ratepayers was significant, given the socio-economic indicators for the area and that the council's rates are higher than the average for its peer group (DLG Group 9).[22]

For these reasons, we did not approve the multi-year special variation the council requested. Instead, we decided to approve a 6.8% single increase in 2012/13, to be retained permanently in the council's revenue base. We based this decision on our assessment that the council had satisfactorily met Criterion 1, 'Demonstrated need'. It had clearly demonstrated a need for additional rates income to address funding gaps for its infrastructure maintenance and renewal needs. The council also has underlying financial sustainability challenges which however, cannot be addressed by rates increases alone. We decided on a 6.8% increase because this was a moderate level of increase and the level of increase the council consulted its community about for 2012/13 (the first year of its requested 7-year special variation).[23]

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

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22 Gilgandra Application Part A, Worksheet 5 and DLG unpublished comparative data 2010/11 (see also Appendix B).

23 Gilgandra Application Part B, Attachment 24 – Survey March 2012.

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.

Gilgandra Council's application indicated that the requested special variation is to mainly fund road maintenance and service loans for the purpose of renewing various assets. A component of the funds will service loans to assist funding of land subdivision. A component of the funds will also help maintain service levels and improve the council's financial position.

Overall, we found that the council's application was lacking in clarity and detail, and that supporting documentation was not well integrated with the application. Nevertheless, we assessed that the application met this criterion.

In broad terms, we are satisfied that the way in which the council proposes to use the additional revenue raised by the special variation (discussed in Chapter 2) is consistent with the community's priorities and the council's strategic planning. The majority of the funding will be directed to roads maintenance and servicing loans to upgrade the Terrabile Creek Bridge. The council submitted that it currently has 374 km of rural roads with a condition rating of 4 (out of its 992 km unsealed road network).[24] The additional funding will bring an additional 86 km of unsealed roads to a condition rating of 2.

The council's draft Asset Management Plan has projected an overall funding gap for infrastructure maintenance and renewal of $16.5m by 2018/19.[25] Its long-term average sustainability ratio of 0.37 for all assets indicates that current maintenance and renewal funding represents only 37% of the level required.[26] Over time, sustained low asset renewal will increase infrastructure backlogs. We are therefore satisfied that the spending allocated for infrastructure renewal is appropriate.

24 There are 5 categories in condition ratings, denoted by: 1- new/excellent; 2 – good; 3 – fair; 4 – poor and 5 – very poor. Email correspondence to IPART from Gilgandra Council dated 18 April 2012.

25 Projection for 2018 in Gilgandra Draft Asset Management Plan, p 38.

26 Gilgandra Application Part B, Draft Asset Management Plan, p iv. Note this includes all funds including water and sewer.

The council submitted that it has explored alternative revenue sources such as asset sales and reductions in both service levels and capital projects. It plans some capital works from existing revenue sources but indicated that without the additional special variation revenue it requested, the proposed additional projects would not proceed.[27]

While we have not undertaken a detailed evaluation of the council's proposed expenditure, it has indicated that its expenditure estimates are based on engineering and condition reports, industry benchmarking and previous work undertaken.[28]

The council submitted that the proposed special variation would have a positive effect on its recurrent financial sustainability, at least to the extent that it will accumulate cash holdings of $787,000 over the life of its Long Term Financial Plan.[29] However, even with the special variation, the council has projected relatively large ongoing operating deficits of an average of $3m per annum.[30] While its operating balance ratio would improve with the special variation, the improvement is marginal (from -29.6% to -23.4% between 2012/13 and 2020/21).[31] The industry benchmark for financial sustainability is an operating balance ratio close to zero over the long term.

IPART recognises that the council faces some fundamental structural challenges in achieving recurrent financial sustainability, including:[32]

- the large area it is required to service (4,836 km^2)
- a small population and ratepayer base (4,669 and 2,339 respectively)
- a low proportion of income from rates compared to other councils (15.6% compared to 46.7% for other councils in NSW)
- a comparatively high reliance on grants (56.2% compared to 28.3% for all other councils in NSW), and
- a history of not having applied all previous rate pegs to its rates.

These factors have caused the council's financial performance to deteriorate over time, and this is reflected by its ongoing operating deficits. Many other councils in DLG Group 9 also face similar challenges in achieving financial sustainability, as indicated by the low average operating balance ratio for this group of councils (-18% in 2010/11).[33]

27 Gilgandra Application Part B, pp 17-20.
28 Email correspondence to IPART from Gilgandra Council dated 16 April 2012.
29 Gilgandra Application, Part B, p 15 and email correspondence dated 16 April 2012.
30 The council indicated that depreciation charges contribute a significant amount to its operating deficits. Its total depreciation is estimated to be $4m, of which approximately $2m relates to a significant increase in road values as a result of road infrastructure revaluation in the last few years. Email correspondence to IPART from Gilgandra Council dated 1 June 2012.
31 Email correspondence to IPART from Gilgandra Council dated 18 April 2012. The operating balance ratio is the net operating result (excluding capital) divided by the operating revenue (excluding capital).
32 DLG unpublished comparative data, 2010/11.
33 DLG unpublished comparative data, 2010/11.

3.2 Criterion 2 - Demonstrated community support

Councils seeking special variations must demonstrate that they have undertaken extensive community consultation and obtained community support for the special variation and the associated program of expenditure. The consultation material should be clear and accurate and explain what the rate increase will be used for and the impact on ratepayers.

We found that Gilgandra Council has made considerable effort to consult its community on its proposed rates increases, but were not satisfied that it had obtained community support for these increases. The feedback it received indicates that the majority of the community is opposed to the proposed rate increases, although there may be some support for a smaller increase in rates.[34]

The council's consultation included the use of surveys, workshops, newspaper articles and media releases. Two online surveys were mailed to all ratepayers. These surveys sought feedback on the council's Long Term Financial Plan as well as the proposed rate increases and associated program of expenditure. The first survey sought community feedback on cumulative rate increases of 54% over 3 years. The second survey sought feedback on the revised proposal of cumulative rate increases of 53.2% over 7 years. Both surveys provided adequate information on the rate increases and expenditure program associated with each proposal.[35]

The outcomes of the surveys were:

- 69% of 546 respondents to the first survey did not support the proposed special variation
- 66% of 264 respondents to the second survey did not support the revised proposal, and:
  - 34% of respondents either supported or partially supported the proposal
  - 33% of respondents who did not support or partially supported the increases considered that less funding should be directed to the capital works program
  - 165 comments were made, most of which focused on financial management, efficiency, staffing structure and affordability issues (which was similar to the comments received from the first survey).

We note that the surveys and comments could be subject to self-selection bias, as the sample was not randomly selected.

As part of its special variation application, the council also submitted a petition (with over 500 signatures) initiated by 3 councillors prior to lodgement of the application. The petition requested that the council undertake a detailed review of its functions, costs, structure and service delivery rather than proceeding with its application.[36]

34 Gilgandra Application Part B, Attachment 2.

35 Gilgandra Application Part B, Attachment 2 and Attachment 24 (Survey March 2012).

36 Gilgandra Application Part B, Attachment 20.

We received 2 direct representations from ratepayers, one in favour and one opposing the rate increases.

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 evidence of community support for the requested special variation.

Based on the capacity to pay indicators for the LGA, we assessed that the cumulative impact of the council's proposal would have a significant impact on some ratepayers in the LGA.

The council's SEIFA ranking is 16, which places it among the 11% of councils considered to be most disadvantaged in NSW.[37] Gilgandra LGA's average income levels were $35,241 in 2009. This was 6% higher than the average for DLG Group 9 ($33,134), but 15% lower than the average for all other councils in NSW ($41,376).

Comparative data for 2010/11 indicate that Gilgandra Council's average residential rate of $409 is higher than the average for DLG Group 9 ($327), but lower than the average for all NSW councils ($659). Its average business rate of $719 is higher than the average for DLG Group 9 ($619) but lower than the average for all NSW councils ($2,450). Its average farmland rate of $2,879 is higher than both the average for DLG Group 9 councils ($2,272) and all NSW councils as a whole ($2,121).[38]

As Table 2.2 and Table 2.3 indicated, the council's proposed increases to average residential and business rates are $34 and $58 per annum respectively. The proposed increase to average farmland rates is $235 per annum.

We note that the council proposes to allocate the rate increases from the special variation application evenly among ratepayer categories.[39] We also note that 76.7% of the council's rates revenue is collected from farmland ratepayers that comprise 35% of all Gilgandra ratepayers (810 assessments).[40]

The council did not propose any special assistance for pensioners or low income earners other than the statutory rebate of $250 for pensioners. It has a policy to consider relief from interest charges on overdue rates and charges, on application by ratepayers.[41]

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37 See footnote 13 for a definition of SEIFA.

38 DLG, unpublished comparative data, 2010/11, also shown in Appendix B.

39 Gilgandra Application Part A, Worksheet 5.

40 Gilgandra Application Part B, p 28. Rateable assessments in Gilgandra Shire in 2011/12 were farmland (810), residential (1,319) and business (210).

41 Gilgandra Council Application, Part B, Attachment 17, Hardship Relief Policy.

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 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.

We found that Gilgandra Council's application demonstrated a balance between rate increases to fund infrastructure maintenance and borrowings to fund infrastructure renewal. Therefore, we assessed that it has put forward a financing strategy consistent with the principles of intergenerational equity.

We note that the council has not proposed a financing strategy to address its long-term financial sustainability. Our concerns in relation to this issue are discussed in section 3.1.

3.5 Criterion 5 - Productivity impacts 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.

Gilgandra Council indicated that it has achieved productivity improvements in the past 5 years including estimated savings of:

- over $200,000 from amalgamation and better utilisation of office space, ranger-sharing arrangements and joint tendering for key software with other councils
- $100,000 per annum through arrangements with the RTA for contracting work through the council; which assists in maintaining its plant and allowing projects to be undertaken internally without outsourcing, at higher costs.[42]

The council is also considering an organisational/structural review in the near future to address community concerns expressed in the 2011 community survey. Its in-

42 Email correspondence to IPART from Gilgandra Council dated 5 April 2012.

house review will focus on its functions, costs, structure and service delivery to identify areas for productivity and efficiency improvements.[43]

As part of our assessment, we examined comparative data on productivity provided by the DLG for 2010/11 (see Appendix B). These data indicate that the council has 193 full-time employees of which 115 are associated with its aged care and disability services. These services are funded through government grants, not rates.[44]

The council has 78 full-time staff associated with council activities. Its average employee cost of $61,202 is 8% lower than the average for DGL Group 9 ($66,356). As well, the council does not use consultants or external contractors, whereas average consultancy costs for DGL Group 9 were $889,667 in 2010/11.[45]

We note that the council's Long Term Financial Plan indicates a reduction of 1 staff member from 2013/14 resulting in savings of $70,000 per annum.[46] As concerns regarding current staffing levels were expressed in the community feedback, we encourage the council to continue to manage its functions with a view to containing its staffing costs.

We further encourage the council to implement initiatives which will achieve enhanced productivity and savings and seek to quantify its saving achievements where possible, and in the future to communicate its productivity savings to its community.

3.6 Criterion 6 - Implementation of Integrated Planning and Reporting Framework

To qualify for a special variation under section 508A of the Act, councils must have implemented the IPRF, including developing a 10-year community strategic plan, a 4-year delivery program, an annual operational plan and a detailed resourcing strategy.

The DLG has reviewed Gilgandra Council's IPRF documents and found that the council has not yet met the legislative requirements of the IPRF. The DLG noted that some key documents were not finalised and further engagement would benefit the development of other strategic planning documents. It also noted that the overall integration of the documents could be improved.

We note that as a Group 3 council for the purposes of the IPRF, the council is not required to have implemented its IPRF until 30 June 2012. However, Guidelines for special variation applications clearly state that to be eligible for special variations under section 508A of the Act, councils must have fully implemented the IPRF.

43 Gilgandra Application Part B, pp 11-12.
44 Ibid.
45 Email correspondence to IPATY from Gilgandra Council dated 5 April 2012 and DLG unpublished comparative data 2010/11.
46 Gilgandra Application Part B, Attachment 5 – Long Term Financial Plan.

Appendices

A Gilgandra Council's Program of Expenditure

Table A.1 sets out the council's proposed program of expenditure for the requested special variation period.

Table A.1 Gilgandra Council's program of expenditure ($m)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
Requested SV income								**Additional 7-year revenue**
Rate peg only	0.12	0.22	0.33	0.45	0.58	0.71	0.85	**3.25**
SV above rate peg	0.10	0.22	0.33	0.46	0.60	0.73	0.88	**3.32**
Total SV income	**0.22**	**0.44**	**0.67**	**0.91**	**1.17**	**1.44**	**1.73**	**6.58**
Value of loans	0	1.2	0	0	1.3	0	0.25	**2.75**
Expenditure								
Maintenance of services	0.10	0.07	0.09	0.11	0.01	0.15	0.24	**0.77**
Unsealed roads	0	0	0.10	0.20	0.30	0.30	0.30	**1.2**
Debt servicing	0	0.15	0.15	0.15	0.28	0.28	0.35	**1.35**
Total expenditure	**0.10**	**0.25**	**0.34**	**0.46**	**0.59**	**0.73**	**0.89**	**3.32**

Note: Data may not add due to rounding.

Source: Gilgandra Application Part A, Worksheet 7 and IPART calculations.

As noted in Table A.1, the council proposed loans of $2.75m to undertake its program of capital works.

Table A.2 shows the projects proposed to be funded by these loans and the timing for each capital project.

Table A.2 Funding timeline for proposed capital works - selected years ($m)

	2013/14	2016/17	2018/19	Cumulative 7-year
Loans	1.2	1.3	0.25	**2.75**
Capital works/infrastructure renewal				
Terrabile Creek Bridge	1.2	0	0	**1.2**
Miller St Masterplan	0	0.30	0	**0.30**
Shire Depot upgrade	0	0.10	0	**0.10**
Youth club upgrade	0	0.10	0	**0.10**
Parks upgrade	0	0.05	0	**0.05**
New Projects				
Industrial subdivision	0	0.45	0	**0.45**
Residential subdivision	0	0.30	0.25	**0.55**
Total cost of capital works /new projects	**1.2**	**1.3**	**0.25**	**2.75**

Note: The council did not propose to undertake any capital works in 2012/13, 2014/15, 2015/16 and 2017/18.

Source: Gilgandra Application Part A, Worksheet 7 and IPART calculations.

B Comparative indicators

Table B.1 Select comparative indicators for Gilgandra Council, 2010/11

	Gilgandra Shire Council	DLG Group 9 average	NSW average[e]
General profile indicators			
Area (km^2)	4,836	-	-
Population	4,669	-	-
General Fund operating expenditure ($m)	21.20	-	-
General Fund revenue per capita ($)	4,671	3,810	2,006
Rates revenue % total General Fund revenue	16	20	47
Average rate indicators[a]			
Average rate level – residential ($)	409	327	659
Average rate level – business ($)	719	619	2,450
Average rate level - farmland ($)	2,879	2,272	2,121
Local government area (LGA) socio-economic/capacity to pay indicators			
Average annual income, 2009 ($)	35,241	33,134	41,376
Growth in average annual income, 2006-2009 (%)	4.3	4.4	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009	0.01	0.01	0.02
SEIFA, 2006 (NSW rank)[b]	16	-	-
Outstanding rates ratio (%)[c]	4.5	11.6	7.3
Productivity indicators			
FTE staff (no)[c]	193[f]	69	294
Ratio of population to FTEs[c,d]	24	53	126
Average cost per FTE ($)[c]	61,202	66,356	71,155
Employee costs as % ordinary expenditure – General Fund only	54	34	37
Contractor expenses ($)[c]	-	889,667	6,238,288
Contractor expenses as % ordinary expenditure[c]	0	6	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 13 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.
e NSW averages exclude Snowy River Shire Council because data was not yet available.
f See Section 3.5 which discusses the respective staff allocation for aged/disability care services and council activities.
Note: General Fund refers to all council activities except Water and Sewer and, in some cases, other activities eg, airports.
Source: DLG, unpublished comparative da 0/11 and ABS, National Regional Profiles, NSW, November 2011.