



Independent Pricing and Regulatory Tribunal

North Sydney Council's application for a special variation 2012/13

Local Government — Determination
June 2012



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Contents

1	Determination	1
1.1	Our decision	2
1.2	What did the council request and why?	3
1.3	How did we reach our decision?	6
1.4	What does our decision mean for the council?	8
1.5	What does our decision mean for ratepayers?	8
1.6	What does the rest of this report cover?	9
2	North Sydney Council's application	10
2.1	About the council	10
2.2	History of special variations	12
2.3	Requested special variation in 2012/13	12
2.4	How the council proposes to use the income raised	14
2.5	How the council proposes to allocate the requested special variation among ratepayers	16
3	IPART's assessment	18
3.1	Criterion 1 - Demonstrated need for the rate increases derived from the council's Integrated Planning and Reporting Framework	18
3.2	Criterion 2 - Demonstrated community support	20
3.3	Criterion 3 - Reasonable impact on ratepayers	22
3.4	Criterion 4 - Sustainable financing strategy consistent with the principles of intergenerational equity	24
3.5	Criterion 5 - Productivity improvements and cost containment strategies	25
3.6	Criterion 6 - Implementation of Integrated Planning and Reporting Framework	26
	Appendices	27
A	North Sydney Council's Proposed Program of Expenditure	29
B	Comparative indicators	33

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).

Last year, IPART approved an increase of 5.50% per annum for 7 years from 2011/12 under section 508A for works and services in the council's *2020 Vision Community Strategic Plan*. These works and services included asset renewal and maintenance, and upgrades to parks and sports fields, roads, community services and facilities.²

As part of last year's application, the council also sought to have the Infrastructure and Environment Levies continued upon their expiry. We did not approve continuing these levies because we did not consider that this had been clearly communicated to the North Sydney community.

In late 2011, the council consulted with the community regarding these levies as well as 2 expiring Mainstreet Levies, and has reapplied to IPART to have these continued on a permanent basis as a special variation for 2012/13.

Accordingly, the council has applied for a special variation of 12.34% in 2012/13, 14.57% in 2013/14, and 5.50% each year from 2014/15 to 2017/18. The new elements in this application are increases of 6.84% and 9.07% in 2012/13 and 2013/14 respectively for the 4 expiring levies.

This application largely replaces existing levies and special variations. The effect on rate levels in 2012/13 compared with 2011/12, is therefore small.

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.

² IPART, *North Sydney Council's application for a special variation, Local Government – Determination* June 2011.

In approving the 2012/13 special variation, the 2011/12 approval will be revoked and a new determination issued, capturing the previously approved increases of 5.50% per annum to 2017/18 and including the levies permanently in the council's general rate revenue.

We have made this decision under section 508A of the Act. By the operation of the Act and the Guidelines, any increases in income determined under section 508A are permanently incorporated into the council's general income.³

1.1 Our decision

IPART decided that North Sydney Council can increase its general income in each of the next 6 years, as shown in Table 1.1. These percentages include the rate peg available to all councils in 2012/13, the annual increases allowed under a special variation approved in 2011/12, and the increases associated with 4 existing levies that would otherwise expire at the end of either 2011/12 or 2012/13. We have attached conditions to this decision, including that the council use the income raised through the special variation for the purposes set out in its application.

As this decision replaces existing levies and the special variation approved in 2011/12, residential ratepayers will experience an average increase in rates of \$30 in 2012/13 as compared with 2011/12.

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

Table 1.1 IPART's decision on North Sydney Council's application for a special variation for 2012/13 to 2017/18 (%)

Year	Annual increase in general income	Cumulative increase in general income
Y1 2012/13	12.34	12.34
Y2 2013/14	14.57	28.71
Y3 2014/15	5.50	35.79
Y4 2015/16	5.50	43.26
Y5 2016/17	5.50	51.13
Y6 2017/18	5.50	59.45

³ Implied by the operation of sections 509(1) and (2) of the Act, and also included in the Guidelines, p 9.

Box 1.1 Conditions attached to the approved special variation for North Sydney Council

IPART's approval of North Sydney Council's application for a special variation over the period from 2012/13 to 2017/18 is subject to the following conditions:

- ▼ That the council uses the additional income from the special variation for the purposes of funding the Proposed Program of Expenditure included in the council's application, and listed in Appendix A. This includes the works and services currently covered by the 5.50% special variation approved in 2011/12.
 - ▼ That the council reports in its annual report for each rating year over the period 2012/13 to 2021/22 on:
 - the proposed 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?

Last year, IPART approved North Sydney Council's request to increase its general income by 5.50% per annum for 7 years from 2011/12 under section 508A. These increases were to fund the works and services in the council's *2020 Vision Community Strategic Plan*, including asset renewal and maintenance, and upgrades to parks and sports fields, roads, community services and facilities.⁴

We approved a special variation of 5.50% per annum for 7 years, but we did not approve the council's request to replace its existing Infrastructure and Environment Levies when these expired. Our main reason was that we were not satisfied the council had clearly communicated its proposal about the continuation of the levies to its community.⁵

During the second half of 2011, the council consulted with the North Sydney community clearly about its intention to continue the levies and reapplied to IPART to replace these levies, and another 2 levies, under section 508A. In particular, it applied to increase its general income by:

- ▼ 6.84% in 2012/13, to replace the Infrastructure Levy that is due to expire on 30 June 2012
- ▼ 9.07% in 2013/14 to replace the Environment, Crows Nest Mainstreet and Neutral Bay Mainstreet Levies, all due to expire on 30 June 2013.⁶

⁴ North Sydney Council, *Section 508A Special Variation Application* (North Sydney Application) Part B, p 3.

⁵ Ibid.

⁶ North Sydney Application Part B, p 3 and IPART calculations.

As Table 1.2 shows, the council's total requested increases for the next 6 years also include the 5.50% annual increases that we approved last year. These increases incorporate the rate peg increases the council would otherwise be entitled to in these years (3.6% in 2012/13 and an assumed 3.0% in each of the subsequent years).

Table 1.2 Components of North Sydney Council's requested special variation for 2012/13 to 2017/18 (%)

	Increase approved in 2011/12^a	Increase to continue 4 levies	Total increase
2012/13	5.50	6.84	12.34
2013/14	5.50	9.07	14.57
2014/15	5.50	-	5.50
2015/16	5.50	-	5.50
2016/17	5.50	-	5.50
2017/18	5.50	-	5.50

^a The 5.50% per annum includes the rate peg of 3.6% in 2012/13, and an assumed 3% in the following years.

Source: North Sydney Application Part A, Worksheet 1.

These increases represent a cumulative increase over 6 years of 59.45% (or 39.35% excluding the rate peg increases, compared to the situation without the special variation). Of this, 16.53% is additional to the 2011/12 special variation, however this additional amount reflects the continuation of the existing levies which are currently paid by ratepayers.

North Sydney Council estimated that this total cumulative increase would increase its general income from \$31.0m in 2011/12 to \$42.8m in 2017/18. This equates to:

- ▼ average annual additional income of \$2.0m over the 6 years
- ▼ a cumulative increase in income of \$16.2m in 2017/18
- ▼ total additional cumulative income of \$63.6m over the 6 years, or \$41.8m above the rate peg.⁷

The council indicated it proposed to use the additional income raised by the special variation to continue the environmental programs, infrastructure renewal works, and commercial precinct improvement programs currently funded by the Environment and Infrastructure Levies, and the Crows Nest and Neutral Bay Mainstreet Levies.⁸ It estimated that this expenditure would total \$24.1m over the 6 years to 2017/18.⁹

⁷ North Sydney Application Part A, Worksheets 1 and 4, and IPART calculations. 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.

⁸ North Sydney Application Part B, pp 3-5.

⁹ North Sydney Application Part A, Worksheet 7.

The works and programs that will continue include:

- ▼ Infrastructure projects such as drainage, marine structures, retaining walls, roads, seawalls, street furniture, bus shelters, timber fences, and lighting maintenance. The Infrastructure Levy currently raises \$1.6m per year. Expenditure is estimated at over \$12.2m for the 6 years 2012/13 to 2017/18.¹⁰
- ▼ Environmental projects such as bushland regeneration, street trees, water, energy and greenhouse gas reduction, and community education programs. The Environment Levy currently raises \$1.8m per year. Expenditure is estimated at over \$9.4m for the 5 years 2013/14 to 2017/18.¹¹
- ▼ Crows Nest Mainstreet projects such as a committee operating contribution, Burlington Street upgrade, upgrading the Pacific Highway so it is more pedestrian-friendly, revising the Strategic Plan, installing under-awning lighting, and ongoing upgrading of streetscapes. The Crows Nest Mainstreet Levy currently raises \$0.3m per year. Expenditure is estimated at over \$1.5m for the 5 years 2013/14 to 2017/18.¹²
- ▼ Neutral Bay Mainstreet projects such as a committee operating contribution, developing a Grosvenor Lane Plaza master plan, installing under-awning and building façade lighting, and ongoing streetscape upgrades. The Neutral Bay Mainstreet Levy currently raises \$0.2m per year. Expenditure is estimated at around \$1.0m for the 5 years from 2013/14 to 2017/18.¹³

The council proposed to use the remaining additional income for the purpose for which we approved the 5.50% annual increase to 2017/18 in 2011/12. As noted above, this was to fund the works and services in its Community Strategic Plan, including asset renewal and maintenance, and upgrades to parks and sports fields, roads, community services and facilities.¹⁴

The council's proposed program of works for the 4 levies and the community strategic plan projects funded by the 5.50% special variation approved in 2011/12 is provided in Appendix A.

¹⁰ North Sydney Application Part A, Worksheet 7, and Part B, Attachment 10, *Proposed Infrastructure Program of Works (with SRV)*, pp 1-6.

¹¹ North Sydney Application Part A, Worksheet 7, and Part B, Attachment 11, *Proposed Environment Program of Works (with SRV)*, pp 1-4.

¹² North Sydney Application Part A, Worksheet 7, and Part B, Attachment 14, *Proposed Crows Nest Mainstreet Program of Works (with SRV)*, pp 1-2.

¹³ North Sydney Application Part A, Worksheet 7 and Part B, Attachment 17, *Proposed Neutral Bay Mainstreet Program of Works (with SRV)*, p 1.

¹⁴ IPART, *North Sydney Council's application for a special variation - Determination*, June 2011.

1.3 How did we reach our decision?

We assessed North Sydney Council's application for a special variation against the criteria included in the Guidelines for s508A applications. The council's application, and our assessment, focused mainly on the 'new' component of its requested special variation – to continue the 4 expiring levies. However, we also considered the total requested increases, particularly in assessing whether the impact of the requested increases on ratepayers was reasonable.

We found that the application satisfactorily met all 6 criteria in the Guidelines. Table 1.3 summarises our findings against each criterion.

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

Criterion	IPART findings
1. Demonstrated need for the rate increases derived from the councils Integrated Planning and Reporting Framework	North Sydney Council demonstrated that the projects to be funded from the special variation are consistent with its Community Strategic Plan. The rate increase will improve the net operating position of the council (less capital grants and contributions); however, it will not, by itself, resolve the council's projected operating deficits.
2. Demonstrates community support for the special variation	The council has undertaken extensive community consultation regarding the requested special variation. The results of an independently conducted random survey indicate 80% support for continuation of the expiring Infrastructure and Environment Levies. The results of self-selected surveys suggest 62% and 59% support for continuation of the expiring Crows Nest and Neutral Bay Mainstreet Levies respectively.
3. Reasonable impact on ratepayers	The special variation will likely have a reasonable impact on ratepayers given that: <ul style="list-style-type: none"> ▼ ratepayers currently pay the Infrastructure and Environment Levies, and the Mainstreet Levies where applicable ▼ in general, available indicators suggest a higher capacity to pay than in many other LGAs, and the council's average rate levels are currently lower than those of similar councils ▼ the LGA has less than 1% of rates outstanding ▼ the council has a hardship policy in place to assist pensioners and those in financial hardship.
4. Sustainable financing strategy consistent with the principles of intergenerational equity	The council has several alternate sources of revenue, and it would not be appropriate for it to use debt to fund the programs proposed in the special variation application. The council currently has no debt but intends to borrow in the future for major capital works. These borrowing plans are consistent with the principles of intergenerational equity and appear financially sustainable.
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. We encourage it to continue exploring opportunities for further productivity improvements and cost containment strategies.
6. Implementation of Integrated Planning and Reporting Framework (IPRF)	All plans and documentation have been reviewed by the DLG and the DLG has advised IPART that the council's implementation of the IPRF has been satisfactory.

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 North Sydney Council's application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that North Sydney Council can increase its general income in each of the next 6 years, from \$31.0m in 2011/12 to be around \$42.8m in 2017/18.¹⁵ All other things being equal, after 2017/18, this income will increase by the annual rate peg unless we approve further special variations.¹⁶

Note that for the purpose of this application, the council assumed the rate peg increase will be 3.0% from 2013/14 to 2017/18. If the actual rate peg is higher or lower than it assumed, this will not affect the council's future general income over this period, because the special variation percentage has been determined and will apply regardless of the actual rate peg we determine.¹⁷

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.

As approved in 2011/12, if the council changes its rates as indicated in its application, all residential and business rates will increase by 5.50% per annum to 2017/18.

For residential ratepayers, this will mean average rates for 2012/13 (excluding levies) will be \$30 higher than in 2011/12, increasing to be \$191 higher in 2017/18.

For business ratepayers, this will mean average rates for 2012/13 (excluding the levies) will be \$189 higher than in 2011/12, increasing to be \$1,138 higher in 2017/18.¹⁸

The additional aspect of the 2012/13 special variation application is the continuation of the 4 levies:

- ▼ All residential and business ratepayers will continue to pay the Infrastructure and Environment Levies, which would otherwise expire on 30 June 2012 and 30 June 2013 respectively. These levies will also increase by 5.50% per annum from 2013/14 to 2017/18. On average:
 - the Infrastructure Levy will be \$44 in 2012/13, rising to \$58 in 2017/18
 - the Environment Levy will be \$52 in 2013/14, increasing to \$65 in 2017/18.

¹⁵ North Sydney Application Part A, Worksheet 1.

¹⁶ As stated in footnote 7, the actual general income in future years will be influenced by a range of factors in addition to the rate peg.

¹⁷ It is noted that if the rate peg is greater than the special variation in a given year, the rate peg would apply.

¹⁸ North Sydney Application Part A, Worksheet 5.

- ▼ Business ratepayers currently paying the Neutral Bay and Crows Nest Mainstreet Levies will also continue to pay these levies, which would otherwise expire on 30 June 2013. These levies will also increase by 5.50% per annum from 2013/14 to 2017/18. On average:
 - the Neutral Bay Mainstreet Levy will be \$452 in 2013/14, rising to \$560 in 2017/18
 - the Crows Nest Mainstreet Levy will be \$397 in 2013/14, rising to \$492 in 2017/18.¹⁹

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.

¹⁹ North Sydney Application Part A, Worksheet 5.

2 North Sydney Council's application

North Sydney Council applied for a special variation under section 508A of the Act to increase its general income as presented in Table 2.1.

Table 2.1 North Sydney Council's 2012/13 section 508A requested Special Variation

Year	2012/13 SV Application (%)	2011/12 SV Approved (%)	Impact of 2012/13 SV (%)
2012/13	12.34	5.50	6.84
2013/14	14.57	5.50	9.07
2014/15	5.50	5.50	0
2015/16	5.50	5.50	0
2016/17	5.50	5.50	0
2017/18	5.50	5.50	0

Source: North Sydney Application, Part A, Worksheet 1 and IPART calculations.

The increases represent a total cumulative increase of 59.45% over 6 years, (or 39.35% excluding the rate peg increases). However, as discussed in Chapter 1, only a cumulative increase of 16.53% is additional to the 2011/12 special variation approved by IPART.²⁰

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

The North Sydney Local Government Area (LGA) is located in Sydney's inner northern suburbs. It comprises 2 central business districts as well as smaller suburban centres, residential areas, parks and open spaces.²¹

²⁰ North Sydney Application Part A, Worksheet 1 and IPART calculations.

²¹ North Sydney Application Part B, Attachment 1, *2020 Vision: North Sydney Community Strategic Plan 2009-2020*, p 8.

North Sydney Council is in DLG Group 2, which indicates that it is classified as an "urban, small to medium-sized metropolitan council". IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.²²

The LGA has a SEIFA ranking of 150, which indicates it is one of the least disadvantaged LGAs in NSW.²³ Average residential rates in the LGA are relatively low. In 2010/11, they were \$460 compared with an average of \$905 for councils in DLG Group 2, and \$659 for all councils in NSW.²⁴ The LGA has a high proportion of ratepayers on minimum rates because many residents live in strata units and the threshold land value for minimum rates set by the council captures most of these strata units.²⁵

In 2010/11, rates and annual charges were the council's largest single source of revenue, and accounted for 44.3% of its General Fund revenue.²⁶ This was less than the average for DLG Group 2 (54.0%) and for all NSW councils (46.7%).²⁷

North Sydney Council has access to other non-rate sources of revenue, and thus is less reliant on rates revenue than other councils. For example, in 2010/11:

- ▼ Revenue from user charges and fees (including from charges for on-street metered and off-street parking) accounted for 23.1% of its General Fund operating revenue. This is higher than the average for DLG Group 2 (18.0%) and for all NSW councils (14.9%).²⁸
- ▼ 'Other revenue' (including rental income from investment properties and parking fines)²⁹ accounted for 17.7% of its General Fund operating revenue. This is higher than the average for DLG Group 2 (10.8%) and for all NSW councils (6.3%),³⁰ however, we note that these 'other' sources of revenue are more vulnerable to market fluctuations than rates revenue.

²² 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 15 councils in DLG Group 2 including, for example, Pittwater Council and Waverley Council.

²³ 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 1 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 least disadvantaged relative to all the other councils in NSW.

²⁴ DLG, unpublished comparative data, 2010/11.

²⁵ North Sydney Application, Part B, p 40.

²⁶ General Fund refers to all council activities except 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 General Fund data do not exclude this type of service revenue.

²⁷ DLG, unpublished comparative data, 2010/11.

²⁸ DLG, unpublished comparative data, 2010/11.

²⁹ North Sydney Council, *Financial Statements for the year ended 30 June 2011*, Note 3, p 30.

³⁰ DLG, unpublished comparative data, 2010/11.

Appendix B provides a range of comparative data on North Sydney Council including average rates, socio-economic indicators such as average annual income and productivity indicators like average FTE staff cost.

2.2 History of special variations

North Sydney Council has had 7 special variations approved under the Act since 2000/01. Four of these are still in effect:

- ▼ In 2007/08, the Minister for Local Government approved a single-year increase of 9.95% under section 508(2) for a fixed term of 5 years, to be used to fund stormwater pipe upgrades, water recycling, repairs to seawalls and road upgrades. This special variation is referred to in this report as the Infrastructure Levy, and is due to expire on 30 June 2012.
- ▼ In 2008/09, the Minister approved a single-year increase of 3.96% under section 508(2) for a fixed term of 5 years, to continue funding the Neutral Bay Mainstreet program. This special variation is referred to as the Neutral Bay Mainstreet Levy, and is due to expire on 30 June 2013.
- ▼ In 2010/11, the Minister approved a single-year increase of 10.54% under section 508(2) for a fixed term of 3 years, to continue and increase funding for environmental works, and continue funding the Crows Nest Mainstreet program.³¹ The components of this special variation are referred to as the Environmental Levy and the Crows Nest Mainstreet Levy, and both are due to expire on 30 June 2013.
- ▼ In 2011/12, IPART approved a multi-year increase of 5.50% per annum for 7 years under section 508A, to be used to fund works and services in the council's *2020 Vision* Community Strategic Plan. These works and services included asset renewal and maintenance, and upgrades to parks and sports fields, roads, community services and facilities.³² This special variation is referred to as the 2011/12 special variation and, like all increases allowed under section 508A, is incorporated into the council's general income permanently.

2.3 Requested special variation in 2012/13

In 2012/13, the council has requested a multi-year special variation under section 508A to allow it to increase its general income by 12.34% in 2012/13, 14.57% in 2013/14, and 5.50% per annum between 2014/15 and 2017/18.

³¹ DLG, Special Variation Master Record, copy provided to IPART in October 2010.

³² IPART, *North Sydney Council's application for a special variation, Local Government – Determination* June 2011.

North Sydney Council indicated that the requested special variation effectively comprised 2 components:

- ▼ A multi-year increase of 5.50% per annum over 6 years that reflects (and would replace) the 2011/12 special variation to fund works and services in the council's *2020 Vision Community Strategic Plan*.³³ This component does not change the level of rates that would be paid under the 2011/12 decision.
- ▼ A single-year increase of 6.84% in 2012/13 to replace the expiring Infrastructure Levy, and a single-year increase of 9.07% in 2013/14 to replace the expiring Environment, Neutral Bay Mainstreet and Crows Nest Mainstreet Levies. These increases would be used to continue funding the programs currently funded by the expiring levies.³⁴

Table 2.1 showed the components of the council's requested special variation.

The annual increases include the annual rate peg increases determined by IPART, which are available to all councils. For 2012/13, we have set the rate peg at 3.6%. This amount includes 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 2012.³⁵ For 2013/14 to 2017/18, we will set the rate peg in December of the preceding year.

Note that for the purpose of its application, the council has assumed the rate peg will be 3.0% from 2013/14 to 2017/18. The actual rate peg may be higher or lower than assumed, but this should not affect the council's general income if the special variation is approved.³⁶

The council estimates that this requested special variation would increase its total permissible annual general income to \$42.8m by 2017/18. This estimate has been verified by the DLG.³⁷

Table 2.2 shows the council's estimate of the impact of the requested special variation on its general income.

³³ North Sydney Application Part B, p 3.

³⁴ North Sydney Application Part B, p 3 and IPART calculations.

³⁵ 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 - Information Paper, December 2011* for more information.

³⁶ Under the Act, a council may apply to IPART to vary or revoke a special variation made under Section 508A. Any application will be assessed against any applicable Guidelines. However, IPART considers that a request to vary or revoke a special variation would be an exception or due to special circumstances eg, the carbon price adjustment in the 2012/13 rate peg decision.

³⁷ DLG, *Assessment of North Sydney Council's s508A Special Variation Application - Part A, March 2012*.

Table 2.2 Estimated impact of North Sydney Council's requested special variation on its general income, 2012/13 to 2017/18

Year	Increase in annual general income (%)	Cumulative increase in annual general income (%)	Increase in annual general income (\$)	Cumulative increase in annual general income (\$)	Decrease from expiry of prior special variation (\$)	Permissible general income ^a (\$)
Y0 2011/12						30,986,731 ^b
Y1 2012/13	12.34	12.34	3,590,960	3,590,960	-1,886,565 ^d	32,754,575 ^c
Y2 2013/14	14.57	28.71	4,395,018	7,985,978	-2,589,732 ^e	34,559,861
Y3 2014/15	5.50	35.79	1,900,792	9,886,771		36,460,653
Y4 2015/16	5.50	43.26	2,005,336	11,892,106		38,465,989
Y5 2016/17	5.50	51.13	2,115,629	14,007,736		40,581,619
Y6 2017/18	5.50	59.45	2,231,989	16,239,725		42,813,608

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.

b This income level is the 2011/12 notional general income level, not the permissible general income level, and is not part of the council's application for 2012/13.

c North Sydney Council's proposed permissible general income in 2012/13 includes the requested special variation of 12.34% (\$3,590,960), an increase of \$63,449 for a prior year catch up and a reduction of \$1,886,565 due to the expiry of the Infrastructure Levy on 30 June 2012.

d This is the effect of the expiry of the Infrastructure Levy on 30 June 2012.

e This is the effect of the expiry of the Environment Levy and the Crows Nest and Neutral Bay Mainstreet Levies on 30 June 2013.

Source: North Sydney Application Part A, Worksheets 1 and 4.

2.4 How the council proposes to use the income raised

The council indicated that income raised by the 5.50% per annum increase would be used for the same purpose as the 2011/12 special variation – that is, to fund the works and services in its Community Strategic Plan, including asset renewal and maintenance, and upgrades to parks and sports fields, roads, community services and facilities.

The income raised by the 'new' component of the requested variation – the 6.84% increase in 2012/13 and the 9.07% increase in 2013/14 – would be used to continue the infrastructure renewal works, environmental programs, and commercial precinct improvement programs currently funded by the expiring Infrastructure, Environment, Neutral Bay Mainstreet and Crows Nest Mainstreet Levies. Specific works and programs that would be funded by this income include:

- ▼ Infrastructure projects such as drainage, marine structures, retaining walls, roads, seawalls, street furniture, bus shelters, timber fences, and lighting maintenance. Expenditure is estimated at over \$12.2m for the 6 years 2012/13 to 2017/18.³⁸
- ▼ Environmental projects such as bushland regeneration, street trees, water, energy and greenhouse gas reduction, and community education programs. Expenditure is estimated at over \$9.4m for the 5 years 2013/14 to 2017/18.³⁹
- ▼ Crows Nest Mainstreet projects such as a committee operating contribution, Burlington Street upgrade, upgrading the Pacific Highway so it is more pedestrian-friendly, revising the Strategic Plan, installing under-awning lighting, and ongoing upgrading of streetscapes. Expenditure is estimated at over \$1.5m for the 5 years 2013/14 to 2017/18.⁴⁰
- ▼ Neutral Bay Mainstreet projects such as a committee operating contribution, developing a Grosvenor Lane Plaza master plan, installing under-awning and building façade lighting, and ongoing streetscape upgrades. Expenditure is estimated at around \$1.0m for the 5 years from 2013/14 to 2017/18.⁴¹

While the income associated with this component of the requested special variation would form part of the council's ordinary rates income, it proposes to restrict its use to funding the projects associated with the expiring levies.⁴² Beyond 2017/18, the council intends to allocate the additional income to similar projects and activities.⁴³

Appendix A sets out the details of North Sydney Council's proposed program of expenditure for the income raised through each component of its requested special variation.

³⁸ North Sydney Application Part A, Worksheet 7, and Part B, Attachment 10, *Proposed Infrastructure Program of Works (with SRV)*, pp 1-6.

³⁹ North Sydney Application Part A, Worksheet 7, and Part B, Attachment 11, *Proposed Environment Program of Works (with SRV)*, pp 1-4.

⁴⁰ North Sydney Application Part A, Worksheet 7, and Part B, Attachment 14, *Proposed Crows Nest Mainstreet Program of Works (with SRV)*, pp 1-2.

⁴¹ North Sydney Application Part A, Worksheet 7 and Part B, Attachment 17, *Proposed Neutral Bay Mainstreet Program of Works (with SRV)*, p 1.

⁴² North Sydney Application Part B, p 5.

⁴³ Email from North Sydney Council to IPART 21 May 2012.

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

Currently, the council allocates the 5.50% increase associated with the 2011/12 special variation uniformly across its residential and business ratepayers, and levies the Infrastructure and Environmental Levies on all residential and business ratepayers. It levies the Neutral Bay and Crows Nest Mainstreet Levies on business ratepayers whose properties are located in those precincts and thus benefit from the associated projects.⁴⁴

It proposed to allocate the increases that would result from its requested 2012/13 special variation among ratepayers in the same way. That is:

- ▼ Ordinary residential and business rates would increase by 5.50% per annum from 2012/13 to 2017/18:
 - Average residential rates will increase from \$493 in 2011/12, to \$684 in 2017/18, a cumulative increase of \$191. We note that average rates are still low relative to peer DLG Group 2 councils.
 - Average business rates will increase from \$2,903 to \$4,042 over the same period, a cumulative increase of \$1,138.
- ▼ All residential and business ratepayers would continue to pay the Infrastructure and Environment Levies. These will increase on average from \$44 and \$49 in 2011/12, to be \$58 and \$65 respectively in 2017/18.
- ▼ Business ratepayers currently paying the Neutral Bay Mainstreet and Crows Nest Mainstreet Levies would continue to pay these levies. On average, these will increase from \$428 and \$373 in 2011/12, to be \$560 and \$492 respectively in 2017/18.⁴⁵

The income raised from the Infrastructure and Environment Levies and the Neutral Bay and Crows Nest Mainstreet Levies would form part of the council's ordinary rates income. Hence, the increases in the levies reflect 5.50% per annum increases in ordinary rates.⁴⁶

Ratepayers would have a decrease in rates in 2012/13 and 2013/14 if these levies were allowed to expire.⁴⁷

Table 2.3 shows the council's estimates of increases in average ordinary rates and levies over the next 6 years, if the special variation is approved as the council requested.

⁴⁴ North Sydney Application Part B, pp 39-39.

⁴⁵ North Sydney Application Part A, Worksheet 5, and North Sydney Application Part B, p 38.

⁴⁶ North Sydney Application Part A, Worksheet 5, and North Sydney Application Part B, pp 38-39.

⁴⁷ North Sydney Application Part B, p 38.

Table 2.3 Proposed impact of the requested special variation on average rates and levies

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Residential rates (\$)	493	523	552	582	614	648	684
\$ Increase		30	29	30	32	34	36
% Increase		6.14 ^b	5.50	5.50	5.50	5.50	5.50
Business rates (\$)	2,903	3,093	3,263	3,442	3,631	3,831	4,042
\$ Increase		190	170	179	189	200	211
% Increase		6.51 ^b	5.50	5.50	5.50	5.50	5.50
Crows Nest MSR^a (\$)	373	376	397	419	442	466	492
\$ Increase		3	21	22	23	24	26
% Increase		0.87	5.50	5.50	5.50	5.50	5.50
Neutral Bay MSR (\$)	428	428	452	477	503	531	560
\$ Increase		0.56	24	25	26	28	29
% Increase		0.13	5.50	5.50	5.50	5.50	5.50
Environment levy (\$)	49	49	52	55	58	61	65
\$ Increase		0.01	3	3	3	3	4
% Increase		0.03	5.50	5.50	5.50	5.50	5.50
Infrastructure levy (\$)	44	44	47	49	52	55	58
\$ Increase		0	3	2	3	3	3
% Increase		0.01 ^b	5.50	5.50	5.50	5.50	5.50

^a MSR refers to Mainstreet special rate.

^b It is noted that the increases in ordinary residential and business rates are greater than 5.50% in 2012/13, this is balanced by the expiring Infrastructure Levy that doesn't increase in 2012/13.

Note: All residential and business ratepayers pay the Environmental and Infrastructure Levies, and applicable business ratepayers also pay the Mainstreet Levies. These levies are in addition to the ordinary residential and business rates.

Source: North Sydney Application Part A, Worksheet 5.

3 IPART's assessment

To make our decision on North Sydney Council's application for a multi-year special variation in 2012/13, we assessed this application against the 6 criteria set out in the Guidelines for s508A applications. We found that it meets these criteria. Table 1.3 (in Chapter 1) summarised our findings in relation to each criterion. The sections below discuss these findings in more detail.

3.1 Criterion 1 - Demonstrated need for the rate increases derived from the council's Integrated Planning and Reporting Framework

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.

North Sydney Council requested the special variation to incorporate 4 expiring levies permanently into its general rate base, in addition to the special variation to increase this base by 5.50% per annum over 7 years approved in 2011/12. The council stated that without continuing the levies, the proposed infrastructure and environmental and mainstreet projects associated with them would not be undertaken.⁴⁸ (Appendix A includes a summary of the council's proposed projects and expenditure estimates to 2017/18.)

The council's Long Term Financial Plan (LTFF) models 4 scenarios:

- ▼ Scenario 1: Base case, no policy change from 2010/11, rates increasing by rate peg only.
- ▼ Scenario 2A: Rates increasing by 5.50% per annum for 7 years from 2011/12, 4 existing levies allowed to expire without renewal (approved 2011/12 special variation).

⁴⁸ North Sydney Application Part B, p 4.

- ▼ Scenario 2B: Rates increasing by 5.50% per annum for 7 years from 2011/12, 4 existing levies continued on permanent basis (2012/13 special variation application).
- ▼ Scenario 3: Rates increasing by 6% per annum for 7 years from 2011/12, 4 existing levies continued on permanent basis.⁴⁹

Under all these scenarios, the council forecasts net operating deficits (exclusive of capital grants and contributions) over the 10 years of the LTFFP, with expenses for continuing operations increasing at a faster rate than revenue from continuing operations. However, under Scenario 2B – which reflects the council's 2012/13 special variation application – the size of the forecast net operating deficit is smaller over the next 10 years than in Scenarios 1 and 2A (where the levies are allowed to expire).⁵⁰

Over the same period, council expects its operating revenue, excluding rates and annual charges, to grow by between 2.2% and 2.8% per annum, and its investment portfolio to grow by 5% per annum. However, it expects its operating expenses to grow at a faster rate per annum – for example, employee costs by 4%, electricity costs by 11%, street lighting costs by 10%, and property insurance by 14% – resulting in net operating deficits.⁵¹ The deficits will reduce existing cash and investment reserves. Therefore, the requested 2012/13 special variation would not resolve the council's trend towards net operating deficits.

The council's *Asset Management Plan 2010/11-2019/20* models the costs of maintaining its assets to the level desired by the North Sydney community, both with and without the requested 2012/13 special variation (ie, under Scenarios 2A and 2B above). This shows that if the 4 existing levies were allowed to expire (Scenario 2A), the sustainability index would drop to 0.64 over the next 10 years. This indicates there would not be sufficient funds to replace assets in poor condition when required. If these levies were continued, as requested in the 2012/13 application, there would still be a shortfall to maintain assets to ideal standards, but sustainability ratio would be a healthier 0.73 over 10 years.⁵²

We are satisfied that the purpose of the special variation is consistent with the community's objectives identified in the council's *2020 Vision – Community Strategic Plan 2009-2020*. The proposed programs of works and activities are all linked with specific goals in the *2020 Vision* document and the council's *Delivery Program 2010/2011-2013/2014* and *Operational Plan 2012/13*.⁵³ The community's satisfaction with council services and its priorities are captured in the council's biannual customer satisfaction surveys which assist the council in its expenditure planning.⁵⁴

⁴⁹ North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFFP3)*, pp 43-53.

⁵⁰ North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFFP3)*, pp 45-51.

⁵¹ North Sydney Application Part B, pp 12-13.

⁵² North Sydney Application Part B, Attachment 3, *Asset Management Plan 2010/11-2019/20* pp 6-8.

⁵³ North Sydney Application Part B, p 8.

⁵⁴ North Sydney Application Part B, Attachment 5, *Draft Amended North Sydney Council Delivery Program 2010/2011 – 2013/2014*, (February 2012) Appendix 4.

We are also satisfied that the council has demonstrated that it needs to generate the additional revenue it requires for these projects through rate increases, and that it has considered alternative revenue sources as part of its funding proposal.

While we have not undertaken a detailed evaluation of the council's expenditure items, we consider the proposed expenditure estimates are based on appropriate research and feasibility work as detailed in the council's *Asset Management Plan 2010/11 – 2019/20*.

For these reasons, we have assessed that North Sydney Council has demonstrated a need for the rate increases implied by the special variation.

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 North Sydney Council engaged extensively with the community to determine whether there is support for the proposed rate increases and levy continuation associated with its 2012/13 special variation application. This consultation required the council to explain to the community why it was seeking another special variation after IPART had approved a 5.50% per annum increase over 7 years in 2011/12.

The council sent letters and information to all ratepayers, issued fact sheets and detailed information on the continuation of the expiring levies and the proposed program of works associated with them. It also held public meetings, issued media releases and provided further information on its website.⁵⁵

Community support for the continuation of the levies as part of the rate base was captured in a random ratepayer survey, public meetings, self-select surveys mailed to all Mainstreet Levy ratepayers, stakeholder discussions, and written submissions.⁵⁶

⁵⁵ North Sydney Application Part B, pp 33-35.

⁵⁶ North Sydney Application Part B, pp 34-37.

Woolcott Research Pty Ltd, on the council's behalf, conducted a 2-stage telephone survey with a random sample of 658 potential participants recruited (500 residential and 158 business ratepayers) and sent information about the proposed Environment and Infrastructure levy programs, prior to the survey being undertaken.⁵⁷

Subsequently 324 residential ratepayers and 11 business ratepayers participated in the survey.⁵⁸ The survey found:

- ▼ 80% (268) of participants indicated support for the continuation of both the Environment and Infrastructure levies
- ▼ of the 20% (67) who did not support the continuation of both levies, 20% supported the continuation of the Infrastructure Levy only, 8% supported the continuation of the Environment Levy only, and 72% did not support continuation of either levy.⁵⁹

Attendance at the public meetings was low, with a total of 21 people attending the 2 meetings. Of these, 17 people (81%) indicated they supported, or could live with, continuing the Infrastructure and Environment levies.⁶⁰

Two separate self-select surveys were sent to 557 Crows Nest and 343 Neutral Bay Mainstreet Levy ratepayers:⁶¹

- ▼ 86 surveys (15%) were returned regarding the Crows Nest Mainstreet Levy, with 53 (62%) supporting the permanent continuation of the levy, and 33 (38%) not.
- ▼ 85 surveys (24%) were returned regarding the Neutral Bay Mainstreet Levy, with 50 (59%) supporting the permanent continuation of the levy, and 35 (41%) not.⁶²

Although these results indicate some support for continuing the Mainstreet Levies, it is difficult to draw conclusions from such a small sample which is subject to unknown self-selection bias.

⁵⁷ North Sydney Application Part B, Attachment 4, *North Sydney Council Proposed Special Rate Variation: Community Consultation Summary*, pp 14-15.

⁵⁸ This sample size, out of the total 32,155 North Sydney Council ratepayers, is statistically significant, and has a margin of error of 4.26% at the 95% confidence level, based on a response distribution of 80% endorsement. IPART calculation using sample size calculator, <http://www.raosoft.com/samplesize.html> (accessed 7 March 2012).

⁵⁹ North Sydney Application Part B, Attachment 4, pp 14-15.

⁶⁰ North Sydney Application Part B, Attachment 4, p 17.

⁶¹ There are approximately 800 rateable properties in the Crows Nest commercial area however because of multiple property ownership, there are approximately 557 ratepayers. Similarly for Neutral Bay there are approximately 470 rateable properties and approximately 343 ratepayers. North Sydney Application Part B, pp 36-37.

⁶² North Sydney Application Part B, Attachment 4, pp 20-21.

Attendance at 2 stakeholder discussion sessions was also low, with a total of 9 attendees, all of whom were in favour of continuing the Mainstreet Levies.⁶³ Such low attendance could be interpreted as a lack of strong opposition to continuing the levies.

The council also received 104 written submissions from the public about the requested special variation and continuation of the levies, of which 65 of these submissions were in favour, 28 against.⁶⁴

We received 3 direct representations from the public in response to North Sydney Council's requested special variation and considered these concerns as part of our assessment. One of the concerns raised was that the full impact of the 5.50% annual increases already approved was not shown (in the information sent to ratepayers) for the full period of the application, and only the 2 years in which the levies are continued, thus downplaying the cumulative impact of the special variation.

Overall, given the results of the surveys and the lack of apparent opposition to the proposal, we assessed that the council has demonstrated that there is community support for continuing the 4 expiring levies.

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 (as discussed above).

Table 2.3 in Chapter 2 shows the increases for residential and business ratepayers.

⁶³ North Sydney Application Part B, Attachment 4, pp 22-23.

⁶⁴ North Sydney Application Part B, Attachment 4, p 24.

We found that North Sydney Council's requested special variation and rate increases were likely to have a reasonable impact on ratepayers given that:

- ▼ All ratepayers are already paying the existing Infrastructure and Environment Levies, and applicable businesses are already paying the Mainstreet Levies. However, we note that not continuing the levies would result in an average decrease of \$44 in 2012/13 and \$49 in 2013/14 following the expiry of the Infrastructure and Environment Levies respectively.⁶⁵
- ▼ The 5.50% per annum increase in rates through to 2017/18 was approved by IPART in 2011/12. This current application seeks to maintain this increase.⁶⁶
- ▼ The council submitted that average income and socio-economic indicators show that, on average, North Sydney residents have the capacity to pay increased rates. Residential ratepayers currently have the lowest average rates, and the highest gross weekly household income amongst DLG Group 2 councils. The LGA also has less than 1% of rates outstanding.⁶⁷
- ▼ The council has a hardship policy in place to accommodate pensioners and others in financial hardship.⁶⁸

In reaching this finding, we noted that Domestic Waste Management Services annual charges (which were not subject to this determination) are forecast to increase by around 3.5% per annum (cumulative 18.75%) to 2017/18.⁶⁹

We note that 83% of residential ratepayers (27,330) currently pay the minimum rate, due to the large number of strata units in the LGA, and the fact that the threshold land value for minimum rates set by the council captures most of these strata units. The council is investigating options to reduce the dependence on residential minimum rates. It intends to review its rating structure in 2012/13.⁷⁰

Overall, we consider the proposed rate increases are reasonable in light of capacity to pay indicators such as the SEIFA index and average income levels. (Appendix B provides a range of comparative data on the council, including average income levels and the council's SEIFA index ranking.)

⁶⁵ North Sydney Application Part A, Worksheet 5.

⁶⁶ North Sydney Application Part A, Worksheet 5.

⁶⁷ North Sydney Application Part B, p 41.

⁶⁸ North Sydney Application Part B, p 42.

⁶⁹ North Sydney Application Part A, Worksheet 5.

⁷⁰ North Sydney Application Part B, p 40.

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 (such as infrastructure) are shared between current and future users, based on their share of the use of these assets. For example, council borrowings spread the financing costs of infrastructure over a longer period, rather than meeting these costs through large rate increases in the short to medium term.

As the council is seeking a special variation for a range of small projects and activities, the use of debt funding is not appropriate. To undertake a borrowing program for these programs could be contrary to principles of intergenerational equity. The council's Financial Management Policy restricts the use of debt to the upgrade or creation of new capital assets with a life expectancy of greater than 10 year.⁷¹ Therefore, we have reviewed the council's broader financing approach.

Over the past 10 years, the council has funded new capital works in line with this policy. Currently the council does not have any long-term borrowing; however it intends to undertake a borrowing program to fund the following major capital projects:

- ▼ upgrading the car park in Alexander Street, Crows Nest in 2012/13 (\$5m)
- ▼ upgrading parking meters throughout the LGA in 2012/13 (\$4m)
- ▼ major renewal works at North Sydney Olympic Pool, Stage 1 in 2018/19 (\$2.7m)
- ▼ major renewal works at North Sydney Olympic Pool, Stage 2 in 2019/20 (\$2.9m).⁷²

When the above borrowings are undertaken, the debt service ratio is estimated to reach a high of 1.5% in 2019/20.⁷³ This is well below the DLG's accepted benchmark for the debt service ratio (less than 10% is satisfactory).⁷⁴ The parking meter and car park charges will generate revenue to service and repay the debt over 10 and 20 years respectively. The servicing costs for the pool loans will be met from rates receipts.⁷⁵

As noted in section 3.1, an operating deficit before capital items is forecast for 2011/12 and the forward years, which means that current ratepayers are consuming services which will have to be paid for by future ratepayers.⁷⁶

⁷¹ North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFP3)*, Appendix 2, pp 61-62.

⁷² North Sydney Application Part B, p 45.

⁷³ North Sydney Application Part B, p 47.

⁷⁴ DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2009/10*, p 93.

⁷⁵ North Sydney Application Part B, p.45.

⁷⁶ North Sydney Application Part B, p 30.

However, in relation to this special variation, the council has a financing strategy that is consistent with intergenerational equity.

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, North Sydney Council indicated that it has a performance review and improvement strategy in place whereby reviews of various areas of the organisation are undertaken on a regular, planned, and ad hoc basis. The aim is that every part of the council is reviewed at least once every 5 years.⁷⁷

The council claims that, as a result of the strategy, permanent productivity improvements were made and resources reallocated to other priorities, or expenditure reduced. In addition, the council's services have been subject to external tendering where appropriate.⁷⁸

Customer satisfaction surveys are undertaken every 2 years and feedback from the community has informed reviews of service delivery standards and levels.⁷⁹

North Sydney Council has submitted a summary of past efficiency gains and productivity savings achieved since 2001. Quantifiable improvements over the last 3 years total approximately \$1.6m per annum.⁸⁰ This represents around 2% of the council's total ordinary expenses of \$78.5m in 2010/11.⁸¹

The council intends to continue service reviews as part of its performance review and improvement strategy, and has quantified a further \$0.5m per annum in potential future productivity savings.⁸²

⁷⁷ North Sydney Application Part B, p 49.

⁷⁸ Ibid.

⁷⁹ North Sydney Application Part B, pp 49-50.

⁸⁰ North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFP3)*, Appendix 7, pp 97-106.

⁸¹ North Sydney Council, *Financial Statements for the year ended 30 June 2011*, p 4 and IPART calculations.

⁸² North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFP3)*, Appendix 8, pp 107-110.

As part of our assessment, we examined comparative data on employees and employee costs from the DLG for 2010/11 as presented in Appendix B. These data indicated that North Sydney Council has a slightly higher number of staff for its population relative to the average for DLG Group 2.⁸³ Its employee costs per full time equivalent (FTE) are also above the average for this. However, its consultancy costs are below the average for DLG Group 2 and all NSW councils.

In 2009/10 as a result of planned reductions in services and staffing levels, the council reduced its FTE by 24 positions (8%).⁸⁴

Overall, we are satisfied that the council has achieved productivity savings in the past and is endeavouring to do so in the future. We encourage the council to continue exploring opportunities for further productivity improvements and cost containment strategies.

3.6 Criterion 6 - Implementation of Integrated Planning and Reporting Framework

To apply for a special variation under section 508A of the Act, councils must have implemented the Integrated Planning and Reporting Framework (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 the council's IPRF documents and verified that the council has met this criterion.⁸⁵

North Sydney is a Group 1 Council for IPRF purposes and so first commenced implementing the framework in 2009/10.

⁸³ This ratio indicates the number of residents in the population per total 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.

⁸⁴ North Sydney Application Part B, Attachment 2, *Long Term Financial Plan (LTFP3)*, p 32.

⁸⁵ DLG, *Summary of the further review of council's Integrated Planning and Reporting documentation*, May 2011, North Sydney Council, p 20.



Appendices

A North Sydney Council's Proposed Program of Expenditure

The 2 tables below set out North Sydney Council's proposed program of expenditure to be funded with income raised by the special variation. Table A.1 sets out the expenditure which is to be funded through the continuation of the 4 levies. Table A.2 sets out the community strategic plan projects expenditure associated with the 5.50% per annum special variation approved in 2011/12. Both are to be funded by the increases approved in the 2012/13 special variation.

Table A.1 North Sydney Council's Proposed Program of expenditure for 4 Levies (\$)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Sum of 6 years
Infrastructure Levy							
Maintenance of current services							
Drainage	300,000	250,000	253,000	260,590	268,408	276,460	1,608,458
Marine	0	66,837	68,842	70,907	73,034	75,225	354,845
Retaining walls	159,650	164,440	169,373	174,454	179,687	185,078	1,032,682
Roads	695,771	901,819	929,067	957,630	986,895	1,016,320	5,487,502
Seawalls	213,940	337,000	347,110	357,523	368,249	379,296	2,003,118
Street Furniture	38,749	0	0	0	0	0	38,749
Bus Shelters	77,514	80,305	82,997	86,055	89,193	92,310	508,374
Timber Fences	240,815	98,782	102,008	105,645	109,356	112,967	769,573
Street Lighting	62,743	64,736	66,769	69,034	71,325	73,477	408,084
Environment Levy							
Maintenance of current services							
Bushland regeneration	0	449,000	456,000	463,000	471,000	478,000	2,317,000
Bushland support	0	339,184	338,964	362,000	368,000	375,000	1,783,148
Street Trees	0	60,000	60,000	60,000	60,000	60,000	300,000
Water	0	271,184	326,000	330,000	358,698	387,092	1,672,974
Energy	0	290,000	290,000	290,000	314,699	339,092	1,523,791
Community Education	0	330,182	334,963	375,273	385,000	395,043	1,820,461

A North Sydney Council's Proposed Program of Expenditure

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Sum of 6 years
Crows Nest Mainstreet Levy							
Maintenance of current services							
Committee Operating Contribution	0	138,915	143,082	147,661	152,239	156,349	738,246
Revise Strategic Plan	0	0	10,000	0	0	0	10,000
Enhanced Services							
Pacific Highway Upgrade	0	160,000	140,000	120,000	0	0	420,000
Upgrade Program	0	0	0	30,000	160,000	160,000	350,000
Neutral Bay Mainstreet Levy							
Maintenance of current services							
Committee Operating Contribution	0	16,839	17,344	17,899	18,454	18,952	89,488
Enhanced Services							
Grosvenor Lane Plaza Masterplanning	0	40,000	40,000	40,000	30,000	30,000	180,000
Under-awning lighting	0	40,000	40,000	40,000	50,000	50,000	220,000
New projects/services							
Street tree & building façade lighting		100,000	100,000	100,000	100,000	100,000	500,000
Sum of total spending							
Total	1,789,182	4,199,223	4,315,519	4,457,671	4,614,237	4,760,661	24,136,493

Source: North Sydney Application Part A, Worksheet 7.

Table A.2 North Sydney Council's Proposed Program of expenditure associated with the special variation approved in 2011/12 (\$)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Sum of 6 years
Maintenance of current services							
Aboriginal Heritage Program	0	0	0	45,916	49,145	52,903	147,964
Asset Management	0	0	0	100,000	100,000	100,000	300,000
Audit Services	0	0	0	5,000	5,000	5,000	15,000
Building Infrastructure Maintenance	0	0	18,537	25,457	26,221	27,007	97,222
Community Events	8,500	48,500	88,500	92,000	244,363	248,196	730,059
Community Support	0	0	0	0	0	100,000	100,000
Customer Services	25,000	0	5,000	5,000	5,000	5,000	45,000
Development Assessment	0	0	60,000	60,000	296,012	396,012	812,024
Economic Development	100,000	100,000	0	0	0	0	200,000
Garden Maintenance	0	0	0	0	0	165,339	165,339
Governance	0	0	0	0	143,942	170,604	314,546
Information Technology	18,000	0	130,000	205,000	205,000	205,000	781,000
Mowing	0	0	380,000	380,000	380,000	380,000	1,520,000
Occupational Health & Safety	20,000	15,000	15,000	15,000	15,000	15,000	95,000
Parking Management	0	0	0	19,200	19,200	19,200	57,600
Parks Maintenance	75,000	100,000	100,000	328,412	363,691	374,432	1,341,535
Precinct Support	18,666	20,000	20,000	20,000	20,000	20,000	136,824
Recreation Management	100,000	100,000	100,000	319,560	484,623	504,291	1,608,474
Risk Management	0	0	0	5,000	15,000	5,000	25,000
Roads Maintenance	81,600	85,000	185,000	185,000	185,000	185,000	986,600
Social Planning	5,000	5,000	5,500	5,500	55,500	209,193	291,193
Sportfield Maintenance	10,000	20,000	0	0	97,685	100,954	228,639
Street Cleansing	0	0	515,143	515,143	515,143	515,143	2,060,572
Street Tree Maintenance	0	0	90,000	172,835	173,413	174,017	610,265
Streetscape Maintenance	0	0	20,000	0	0	0	20,000

A North Sydney Council's Proposed Program of Expenditure

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Sum of 6 years
Subsidies & Donations to	0	0	0	0	0	664,267	664,267
Community Groups							
Traffic Facilities Maintenance	0	0	9,000	9,000	9,000	9,000	36,000
Tree Maintenance	0	0	0	271,395	271,395	271,395	814,185
Youth Services	0	0	0	0	226,389	235,099	461,488
Renewal of Existing Assets							
Building Infrastructure	0	350,000	273,744	253,608	260,766	268,139	1,406,257
Community Centres	10,000	160,000	10,000	10,000	10,000	10,000	220,000
Cultural Assets	5,000	5,000	5,000	5,000	5,000	5,000	35,000
Drainage Infrastructure	0	0	123,300	169,332	174,412	179,645	646,689
Library Books	56,233	60,536	60,536	60,536	60,536	60,536	402,413
Parking Infrastructure	0	0	16,000	16,000	16,000	16,000	64,000
Parks	480,000	370,000	63,000	84,000	158,275	160,730	1,596,005
Playgrounds	50,000	0	0	0	0	0	50,000
Pool Infrastructure	0	0	190,282	22,510	23,186	350,074	586,052
Roads Infrastructure	0	40,000	425,097	573,599	580,608	587,825	2,207,129
Sportsfield Facilities	150,000	600,000	0	0	0	0	800,000
Streetscape Infrastructure	328,000	250,000	720,420	760,420	773,844	630,859	3,528,543
Traffic Facilities Infrastructure	75,000	100,000	128,000	128,000	128,000	128,000	687,000
Youth Centre Equipment	0	0	10,000	10,000	10,000	10,000	40,000
Upgrade of existing Assets							
Parks	30,000	100,000	0	0	0	0	200,000
Sportsfield Facilities	0	160,000	13,803	14,424	15,073	15,751	369,051
Total Expenditure	1,645,999	2,689,036	3,780,862	4,891,847	6,121,422	7,579,611	27,503,935

Source: North Sydney Council, Proposed program of expenditure 2011 SRV 5.50%, emailed to IPART, 8 May 2012.

B Comparative indicators

Table B.1 Selected comparative indicators for North Sydney Council, 2010/11

	North Sydney Council	DLG Group 2 average	NSW average ^e
General profile indicators			
Area (km ²)	10.5	-	-
Population	63,914	-	-
General Fund operating expenditure (\$m)	78.5	54.2	54.8
General Fund revenue per capita (\$)	1,132	1,143	2,006
Rates revenue % total General Fund revenue	44	54	47
Average rate indicators^a			
Average rate level – residential (\$)	460	905	659
Average rate level – business (\$)	2,584	3,735	2,450
Average rate level - farmland (\$)	n/a	2,000	2,121
Local government area (LGA) socio-economic/capacity to pay indicators			
Average annual income, 2009 (\$)	84,408	72,011	41,376
Growth in average annual income, 2006-2009 (%)	4.3	4.0	4.4
Average residential rates (2010/11) to average annual income, 2009	0.6	1.4	1.5
SEIFA, 2006 (NSW rank) ^b	150	-	-
Outstanding rates ratio (%) ^c	0.8	4.1	7.3
Productivity indicators			
FTE staff (no) ^{cd}	388	295	294
Ratio of population to FTEs ^c	165	174	126
Average cost per FTE (\$) ^c	84,660	77,085	71,155
Employee costs as % ordinary expenditure – General Fund only	41.8	39.6	37.3
Contractor expenses (\$) ^c	4,498,000	6,933,396	6,238,288
Contractor expenses as % ordinary expenditure ^c	5.7	12.0	8.0

^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 23 (for SEIFA index).

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

^d Based upon the total number of FTEs as at 30 June 2010, which was reported in the council's consolidated financial reports.

^e NSW averages exclude Snowy River Shire Council because data was not yet available.

Note: General Fund refers to all council activities except Water and Sewer.

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

