



Independent Pricing and Regulatory Tribunal

# **Queanbeyan City Council's application for a special variation 2012/13**

**Local Government — Determination**  
June 2012





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# 1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils can increase their general income, which mainly includes rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

However, councils can apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines provided by the Division of Local Government (DLG),<sup>1</sup> and may allow special variations under either section 508A or section 508(2) of the *Local Government Act 1993* (the Act).

Queanbeyan City Council applied for a special variation of 9.4% in 2012/13. After assessing the council's application, we decided to allow this special variation. We have made this decision under section 508(2) of the Act.

## 1.1 Our decision

IPART's decision is that Queanbeyan City Council can increase its general income by 9.4% in 2012/13, with the additional income to be retained permanently in the income base. This increase includes the rate peg of 3.6% that is available to all councils.

In addition, in line with the council's request, our decision is to bring forward the expiration of Queanbeyan City Council's existing fixed-term special variation to 30 June 2012 (rather than 2013 as previously determined). In effect, this means that the permanent special variation will replace the expiring fixed-term variation in 2012/13. We have attached conditions to our decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

Table 1.1 sets out our decision on the special variation in 2012/13, and Box 1.1 lists the conditions attached to it.

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

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

<b>Component</b>	<b>Amount</b>
Permanent increase to replace expiring fixed-term increase	5.80
Rate peg increase	3.60
<b>Total increase</b>	<b>9.40</b>

**Box 1.1 Conditions attached to IPART's decision**

IPART's decision to allow Queanbeyan City Council's requested special variation in 2012/13 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding listed in the CityCARE Program of Expenditure included in the council's application (Appendix A).
- ▼ The council reports in its annual report for each rating year over the period from 2012/13 to 2021/22 on:
  - the proposed CityCARE Program of Expenditure (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.

The council reduces its general income for 2012/13 by \$1,077,760 (the value of the expiring special variation). This reduction shall take place before the council's general income is increased in rating year 2012/13 in accordance with IPART's determination.

## 1.2 What did the council request and why?

The council requested a special variation of 9.4% in 2012/13, to be permanently incorporated into the council's general income base.<sup>2</sup> This special variation includes an increase of 5.8% to continue funding its CityCARE program beyond 2013,<sup>3</sup> plus the rate peg of 3.6%.<sup>4</sup> The council estimated that a 5.8% increase above the rate peg would add \$1.1m to revenue in 2012/13, and \$12.8m over 10 years.<sup>5</sup>

Table 1.2 shows the components of the requested special variation.

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

Component	Amount
Permanent increase to replace expiring fixed-term increase	5.8 <sup>a</sup>
Rate peg	3.6
<b>Total increase</b>	<b>9.4</b>

<sup>a</sup> Queanbeyan City Council has applied for a 5.8% increase because this was the percentage increase that it had initially consulted on with its community in 2009/10. The Minister for Local Government at the time approved the special variation for 5.96% in 2010/11 because this aligned with the requested revenue in the council's application. The full value of the existing special variation now amounts to 5.76% of the council's adjusted notional general income in 2011/12. The difference is due to other minor income adjustments that are available to the council.

**Source:** Queanbeyan Application Part A, Worksheets 1 and 4.

Queanbeyan City Council indicated that the requested 5.8% increase above the rate peg represents the value of an existing fixed-term special variation that commenced in July 2011 and is due to expire in June 2013. This existing variation was approved for the purpose of funding the council's 10-year CityCARE Program which involves maintenance and renewal of the city's roads, footpaths, parks, reserves and sports fields. It has also included an annual pensioner rebate of \$40 for pensioner ratepayers.<sup>6</sup> It was approved by the Minister for Local Government at the time for 3 years only to align special variation application timeframes with the delivery program timeframes in the Integrated Reporting and Planning cycle.<sup>7</sup>

<sup>2</sup> Queanbeyan City Council, *Section 508(2) Special Variation Application 2012/13* (Queanbeyan Application) Part A, Worksheet 1.

<sup>3</sup> Queanbeyan Application Part B, p 5.

<sup>4</sup> As set by IPART. The rate peg for 2013/14 will be determined in December 2012.

<sup>5</sup> Queanbeyan Application Part A, Worksheets 1 and 6. The estimated income over 10 years assumes annual rate peg increases of 3% from 2013/14. It is not possible to determine the council's future general income with precision because its actual general income is affected by many factors, including the number of rateable properties and adjustments for previous under- or over-collection of rates. The DLG is responsible for monitoring and ensuring compliance of a council's general income with the Act.

<sup>6</sup> Queanbeyan Application Part B, p 5.

<sup>7</sup> Letter from the DLG to Queanbeyan City Council, 20 April 2011.

The council intends the CityCARE program to be a continuing program given that it is currently underfunding its asset renewal and maintenance needs. Therefore, it requested that IPART terminate the existing fixed-term variation 1-year early and replace it with an equivalent variation that is permanently incorporated into its income base. The council wants to gain certainty for its CityCARE Program from 2012/13, and to consider further special variation applications for other purposes, if required, from 2014/15.<sup>8</sup>

Appendix A sets out the council's proposed CityCARE Program for the next 10 years. As part of its application, the council plans to continue the current pensioner rebate.

### **1.3 How did we reach our decision?**

We assessed the council's application against the criteria included in the Guidelines. We found that the application satisfactorily meets all these criteria.

Table 1.3 summarises our findings against each criterion.

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<sup>8</sup> Letter from Queanbeyan City Council to IPART, 29 September 2011.

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

Criterion	IPART findings
1. Demonstrated need for the rate increase implied by the special variation	<p>The council has been underfunding its asset maintenance and renewal requirements, and the CityCARE Program helps to fill the gap in maintenance for the city’s roads, footpaths, parks and sports fields. The council does not have alternative sources of revenue for this purpose, and is forecasting a considerable rundown of cash reserves over the next 10 years, even with the special variation.</p> <p>While the special variation will help to prevent further asset backlogs and improve the council’s recurrent and capital sustainability, it will not fully address the gap in its current asset renewal and maintenance requirements, nor its longer term financial needs.</p>
2. Adequate community consultation regarding the special variation	<p>The council had already undertaken extensive community consultation on the special variation as a continuing special variation in 2009/10:</p> <ul style="list-style-type: none"> <li>▼ The consultation generated strong publicity and general awareness of the requested rate increases.</li> <li>▼ The outcomes show support for the CityCARE program and associated rate increase on a continuing basis (eg, its main survey suggested 54% support for the rate increases).</li> </ul> <p>The council also informed the community about its new application but received limited feedback - positive or negative.</p>
3. Reasonable impact on ratepayers	<p>The special variation appears to have a reasonable impact on ratepayers given that:</p> <ul style="list-style-type: none"> <li>▼ the amount of the increase is relatively low</li> <li>▼ ratepayers currently pay the existing special variation and would otherwise likely face a decline in rates in 2013/14</li> <li>▼ on average, the community has capacity to pay (as evidenced by a range of comparative indicators such as average income levels and the outstanding rates ratio)</li> <li>▼ the council will continue to offer a pensioner rebate of \$40 as part of its CityCARE Program package, in addition to its other pensioner rebates and hardship provisions.</li> </ul>
4. Sustainable financing strategy consistent with the principles of intergenerational equity	<p>The council has noted that borrowings are not suitable to fund its recurrent expenditure on asset maintenance and renewals. It currently has a debt service ratio of 0.96% and has plans to borrow more for 2 new capital projects. It will still need to find alternative funding sources if it is to address its longer term operating deficits.</p>
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	<p>The council has provided estimates of significant savings achieved in the past 2 years. It has also implemented initiatives to enable it to find further savings in the future. We encourage the exploration of opportunities for further productivity improvements and savings.</p>

**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 Queanbeyan’s application, no other matters were identified.

## 1.4 What does our decision mean for the council?

Our decision means that the council is able to increase its general income to around \$20.4m in 2012/13.<sup>9</sup> All other things being equal, after this year, this income will increase by the annual rate peg unless we approve a further special variation.<sup>10</sup>

## 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.

Queanbeyan City Council indicated that it intends to apply the requested rate increase reasonably consistently across all of its rate categories, which include residential, business and farmland rates. However, the year-on-year percentage impact on average rates will range from 1.2% to 3.9%, depending on rating category and sub-category (see Table 2.3).

On a year-on-year basis, we estimate that average rates (across rating categories) will increase by a total of 3.2% in 2012/13, and:

- ▼ average residential rates will increase by 3.1%, or \$31
- ▼ average business rates by 3.5%, or \$158
- ▼ average farmland rates by 2.0%, or \$40.<sup>11</sup>

The estimated percentage increase in the council's average rates for 2012/13 is significantly lower than the total allowed 9.4% increase in its general income for this year because the approved special variation includes (and effectively replaces) the existing special variation already approved in 2010/11.

## 1.6 What does the rest of this report cover?

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

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

The appendices provide the proposed program of expenditure and a summary of comparative data that we considered in our assessment.

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<sup>9</sup> Queanbeyan Application Part A, Worksheet 1.

<sup>10</sup> 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.

<sup>11</sup> Queanbeyan Application Part A, Worksheet 5, and IPART calculations.

## 2 Queanbeyan City Council's application

The council applied to increase its general income by 9.4% (including the rate peg of 3.6%) in 2012/13, and to retain the increase permanently in its general income.<sup>12</sup>

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 Queanbeyan LGA is 300km south-west of Sydney, and borders the ACT.<sup>13</sup> It has over 40,000 residents and is one of the fastest growing regional centres in NSW.<sup>14</sup> The council provides a range of services, including water and sewerage services.

The council is in DLG Group 4, which indicates it is classified as an "urban, small to medium-sized regional town or city".<sup>15</sup> IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.

The LGA has a SEIFA ranking of 123, which positions it among the 30 least disadvantaged council areas in NSW.<sup>16</sup> Average income levels are relatively high, as are average rates.

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<sup>12</sup> Queanbeyan Application Part A, Worksheet 1.

<sup>13</sup> Visit NSW website, <http://www.visitnsw.com/destinations/country-nsw/queanbeyan-area/queanbeyan>.

<sup>14</sup> Queanbeyan City Council website, <http://www.qcc.nsw.gov.au/>

<sup>15</sup> 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 32 councils in DLG Group 4 including, for example, Albury City Council and Tamworth Regional Council.

<sup>16</sup> 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.

For example, in 2010/11, average residential rates were \$935 per assessment, which is 16.0% higher than the \$806 average for all councils in DLG Group 4.<sup>17</sup>

In 2010/11, Queanbeyan City Council raised 48.5% of its General Fund<sup>18</sup> revenue from rates and annual charges, which is higher than the average for DLG Group 4 (39.9%) and for all NSW councils (46.7%). This suggests the council is more dependent on rates revenue than other councils, particularly those in its peer group. However, the council's General Fund revenues represented \$1,132 per person, which is considerably lower than the average for DLG Group 4 of \$1,484.<sup>19</sup>

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

## 2.2 History of special variations

The council has had just 1 special variation prior to this application. It applied for a single-year increase of 8.63% in 2010/11, to be retained permanently in the revenue base. The Minister for Local Government approved the increase, but for 3 years only, to align special variation application timeframes with the delivery program timeframes in the Integrated Reporting and Planning cycle. The components of the special variation were a 5.96% increase to fund a proposed program of infrastructure maintenance and renewal works as part of the council's proposed CityCARE Program, the rate peg of 2.6% and income adjustments of 0.07%.<sup>20</sup>

This special variation, still in effect, is due to expire in June 2013.

## 2.3 Special variation application for 2012/13

The council is seeking to terminate its existing special variation 1 year early, in June 2012, and replace it with a special variation of similar size that will be retained permanently in its general income base.

It has applied for a total special variation of 9.4% in 2012/13, including the rate peg increase available to all councils. If approved, it estimates that this special variation would increase its total permissible general income for 2012/13 by around \$1.8m (Table 2.1).<sup>21</sup> This estimate has been verified by the DLG.<sup>22</sup>

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<sup>17</sup> DLG, unpublished comparative data, 2010/11.

<sup>18</sup> General Fund refers to all council activities except Water and Sewer and, in some cases, other activities eg, airports.

<sup>19</sup> DLG, unpublished comparative data, 2010/11.

<sup>20</sup> DLG, *Special Variation Master Record*, copy provided to IPART in October 2010.

<sup>21</sup> See footnote 5.

<sup>22</sup> DLG, *Assessment of Queanbeyan City Council's 508(2) Special Variation Application – Part A*, March 2012.

**Table 2.1 Estimated impact of Queanbeyan City Council's requested special variation on its general income in 2012/13**

<b>Adjusted notional general income 2011/12 (\$)</b>	<b>Annual increase in general income (%)</b>	<b>Annual increase in general income (\$)</b>	<b>Permissible general income 2012/13 (\$) <sup>a</sup></b>
18,726,713 <sup>b</sup>	9.40	1,760,311	20,436,326

**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 requested special variation percentage. Queanbeyan's proposed permissible general income in 2012/13 includes the requested special variation of 9.4% and a deduction of a prior year excess amount of \$50,698.

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

**Source:** Queanbeyan Application Part A, Worksheet 4.

Queanbeyan City Council indicated that the requested special variation comprises:

- ▼ a 5.8% increase to continue the existing CityCARE special variation beyond 2013
- ▼ the 3.6% rate peg.

In setting the rate peg, we 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.<sup>23</sup>

Table 2.2 sets out the components of Queanbeyan City Council's requested special variation.

**Table 2.2 Components of Queanbeyan City Council's requested special variation, 2012/13 (%)**

<b>Components</b>	<b>Amount</b>
Increase to continue expiring CityCARE special variation	5.8
Rate peg increase	3.6
<b>Total increase</b>	<b>9.4</b>

**Source:** Queanbeyan Application Part A, Worksheet 1.

<sup>23</sup> 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 the council proposes to use the income raised

The council indicated that it will use the income raised by the requested special variation to complete all projects associated with its rolling 10-year CityCARE Program, which is currently scheduled to 2021/22. After 2021/22, the council intends to continue to use the additional funding for infrastructure maintenance and renewal programs.<sup>24</sup>

The CityCARE Program of infrastructure maintenance and renewal works commenced in 2010/11. The \$12.5m program over the next 10 years includes:

- ▼ \$2.3m to reseal 29.6km of roads in addition to the 67.9km planned as part of normal road maintenance
- ▼ \$3.8m to undertake pavement rehabilitation of Queanbeyan's road network
- ▼ \$2.4m to repair trip hazards on the city's footpaths
- ▼ \$3.4m to resurface sports fields, maintain parks and bring all of the city's playgrounds up to appropriate standards and
- ▼ \$0.7m to fund pensioner rebates.<sup>25</sup>

The existing special variation provided the council with an additional \$1.0m in 2010/11 and \$1.1m in 2011/12 to fund CityCARE work.<sup>26</sup> Continuing the special variation would provide the council with a further \$1.1m in 2012/13, which would increase to an estimated \$1.5m in funding by 2021/22.<sup>27</sup>

Appendix A sets out details of Queanbeyan City Council's proposed CityCARE Program of Expenditure.

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<sup>24</sup> Queanbeyan Application Part B, p 9.

<sup>25</sup> Queanbeyan Application Part B, pp 9-10 and IPART calculations.

<sup>26</sup> Queanbeyan Application Part B, p 5.

<sup>27</sup> Queanbeyan Application Part A, Worksheet 1.

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

Queanbeyan City Council levies 3 separate categories of residential rates, 4 separate categories of business rates, and 1 category of farmland rates. In its application, it indicated that it proposed to allocate the requested special variation among its ratepayers as follows:<sup>28</sup>

- ▼ residential rates would increase by an average of 3.1% (or \$31) in 2012/13
- ▼ business rates would increase by an average of 3.5% (or \$158), and
- ▼ farmland rates would increase by an average of 2.0% (or \$40).

These average impacts are lower than the 9.4% increase requested by the council because current average rate levels already incorporate the value of the existing special variation.

The council also proposed to continue to provide pensioners with an annual rebate of \$40 to reduce the impact of the special variation on this group of ratepayers. This rebate was introduced by the council when the existing special variation was first approved.<sup>29</sup>

Table 2.3 shows the impact of the council's proposed rate increase on average rates in each rates category.

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<sup>28</sup> Queanbeyan Application Part A, Worksheet 5 and IPART calculations.

<sup>29</sup> Queanbeyan Application Part B, p 5.

**Table 2.3 Impact of the requested special variation on average rate levels for each category of ratepayer**

	2011/12	2012/13
<b>Average 'residential' rate (\$)</b>	<b>985</b>	<b>1,017</b>
Increase (\$)		32
Increase (%)		3.2
<b>Average 'village' residential rate (\$)</b>	<b>881</b>	<b>914</b>
Increase (\$)		33
Increase (%)		3.7
<b>Average 'rural residential' rate (\$)</b>	<b>1,066</b>	<b>1,079</b>
Increase (\$)		13
Increase (%)		1.2
<b>Average 'general' business rates (\$)</b>	<b>5,783</b>	<b>6,010</b>
Increase (\$)		227
Increase (%)		3.9
<b>Average 'Queanbeyan CBD' business rates (\$)</b>	<b>8,753</b>	<b>9,033</b>
Increase (\$)		280
Increase (%)		3.2
<b>Average 'Industrial Estates' business rates (\$)</b>	<b>3,100</b>	<b>3,211</b>
Increase (\$)		111
Increase (%)		3.6
<b>Average 'Regional Centres' business rates (\$)</b>	<b>13,694</b>	<b>14,047</b>
Increase (\$)		353
Increase (%)		2.6
<b>Average farmland rates (\$)</b>	<b>1,986</b>	<b>2,026</b>
Increase (\$)		40
Increase (%)		2.0

**Source:** Queanbeyan Application Part A, Worksheet 5.

## 3 IPART's assessment and decision

To make our decision on Queanbeyan City Council's request for a special variation in 2012/13, we assessed this application against each of the 5 criteria set out in the Guidelines. We found that the application adequately meets all these criteria.

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

### 3.1 Criterion 1 - Demonstrated need for the rate increases implied by the special variation

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.

Queanbeyan City Council has requested the special variation to continue to fund its CityCARE Program, which includes around \$12.5m of asset maintenance and renewal work over 10 years.<sup>30</sup> The additional rates income would provide the sole source of income for the proposed expenditure program. (Appendix A summarises this proposed program to 2021/22.)

We are satisfied that the purpose of the special variation is consistent with the community's priorities which are captured by the council's strategic planning. The council developed its Community Strategic Plan in 2009/10, and the plan recognises the need for additional asset maintenance and renewal work by the council. It notes that:

- ▼ at the time the plan was developed, the council was replacing only around 25% of the annual deterioration in its infrastructure, and

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<sup>30</sup> Queanbeyan Application Part B, p 5.

- ▼ if that were to continue for the longer term, the council's infrastructure would need significant replacement all at once.<sup>31</sup>

The council submitted that its proposed special variation will still not provide enough funding to address all of its asset maintenance and renewal needs. It estimates that it would need a 17.4% special variation permanently built into its revenue base to clear its maintenance backlog (all else being equal).<sup>32</sup>

For example, the council has identified that an additional \$1.8m per year is needed to maintain its road network, but only an additional \$530,000 to \$706,000 in additional road works per annum are planned. However, the council considers that the magnitude of the current special variation is affordable for ratepayers, whereas higher increases may not be.<sup>33</sup>

We are satisfied that the council has demonstrated that it needs to generate the additional revenue it requires for this recurrent expenditure through rate increases, and that alternative revenue sources such as debt financing or user fees and charges are not suitable for this purpose.

While we have not undertaken a detailed evaluation of the council's expenditure items, we consider the proposed expenditure estimates to be based on appropriate research and feasibility work. For example, we note that:

- ▼ The council's condition assessments have shown the need for the asset maintenance work. Road priorities have been determined by a computer modelling program called "SMEC". Footpath, park and facility priorities have been determined by physical inspection as part of the asset revaluation cycle.
- ▼ The council has delivered on its first year of CityCARE Program work in 2010/11 and appears to be on track to deliver its scheduled works in 2011/12.<sup>34</sup>

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<sup>31</sup> Queanbeyan Application Part B, p 8.

<sup>32</sup> Queanbeyan Application Part B, p 10.

<sup>33</sup> Queanbeyan Application Part A, Worksheet 6 and Part B, p 8.

<sup>34</sup> Queanbeyan Application Part B, p 14 and Supporting Documents, Attachment M, Council media release, 24 November 2011.

Queanbeyan City Council has also indicated that the special variation will have a positive effect on its recurrent and capital financial sustainability,<sup>35</sup> although it has not yet addressed its longer term financial challenges. Its application noted that the council's operating deficit (including depreciation but excluding capital revenues) of \$119.7m over 10 years would fall to \$111.7m with the special variation, but that this is still a sizeable deficit over this period.<sup>36</sup> The council does have surplus cash reserves and it has forecast a rundown of these assets over time to cover its continued deficits. It estimates that its cash reserves will fall from around \$55m in 2011/12 to \$25m by 2019/20.<sup>37</sup> Further, we found that the council's capital sustainability indicators (ie, the broad liabilities ratio and asset renewals ratio) would improve with the special variation over the 10-year period, but are still forecast to remain outside benchmark levels.<sup>38</sup>

For these reasons, we have assessed that Queanbeyan City Council has demonstrated a need for the rate increases. We also encourage the council to continue to consider its long-term financial position by pursuing a range of funding options such as expenditure savings, grants, further rate increases or more user fees.

### 3.2 Criterion 2 - Adequate community consultation

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

We consider that Queanbeyan City Council had already consulted extensively with the community in 2009/10 regarding permanent rate increases to fund the CityCARE Program. The outcomes from that consultation process showed widespread awareness of the proposal and demonstrated support for the program and the requested rate increase.

<sup>35</sup> A council's financial sustainability is based on a combination of its operating (or recurrent) performance and its capital performance. Recurrent sustainability means that councils are able to fund their recurrent expenditures from recurrent revenues, and so avoid using capital revenues for this purpose or running recurring operating deficits. Capital sustainability means that councils are able to fund infrastructure (both new and renewals) and asset maintenance to a level sufficient to ensure they can provide affordable services that meet reasonable standards over a 10-year period.

<sup>36</sup> Queanbeyan Application Part B, pp 15-17 and Supporting Documents, Attachments I, J and K, 10 year financial projections and financial ratios.

<sup>37</sup> Queanbeyan Application Supporting Documents, Attachment C, Community Strategic Plan 2010-2020, p 29.

<sup>38</sup> Queanbeyan Application Supporting Documents, Attachment K, financial ratios. For example, the council has forecast that its broad liabilities ratio would fall marginally from 141% at the end of June 2012 to 139% at the end of June 2022 with the special variation, which is outside the suggested 0% to 60% range. It also estimates that its asset renewals ratio would fall from 108% at the end of June 2012 to 24% at the end of June 2022 (with the special variation), which is below the recommended 100% level (See PricewaterhouseCoopers 2006, *National Financial Sustainability Study of Local Government*, commissioned by the Local Government Association for recommended benchmarks.)

The council's 2009/10 program of community engagement on the existing special variation was extensive and included the following activities:

- ▼ media releases, Mayoral columns, City Life articles and advertisements, and annual report, community annual report and website information, to inform the community
- ▼ CityCARE booklet and survey mailed directly to 15,916 ratepayers and 3 public meetings, to consult with the community
- ▼ Q&A sheet, targeted letters (eg, to sports clubs), a telephone hotline, a website feedback form, to involve the community
- ▼ a residents' and ratepayers' forum with a cross-section of 40 residents and ratepayers, to collaborate with the community.<sup>39</sup>

The responses to the direct mail survey demonstrated community support for continuing the existing special variation permanently. Among the 638 respondents to this survey:

- ▼ 78% indicated support for the council to allocate more funds to the city's roads, footpaths, parks and sports fields to maintain them to a good standard
- ▼ 54% indicated support for the introduction of a 5.8% CityCARE levy in 2010/11 to fund the repair of the roads, footpaths, parks and sports fields.<sup>40</sup>

Although the survey was not statistically representative of the population, the council provided evidence that the responses did reflect a reasonable spread of the city's population across various areas.<sup>41</sup>

The residents and ratepayer forum also showed that 54% of participants strongly supported the proposed rate increase, 16% were 'uncertain' or relatively neutral, and 30% were strongly opposed. The council noted that of those ratepayers who opposed the special variation, some criticised the council's spending, staffing levels, waste and inefficiencies; some preferred more user pays or grant funding alternatives to rate increases; and others felt that rates were high enough, particularly rural residential ratepayers.<sup>42</sup>

In relation to its application for this special variation to continue the existing special variation permanently, we found that the council made a reasonable effort to inform the community about this proposal, and there was little community response, either positive or negative. The council issued media releases in November 2011 and February 2012, posted information about the proposal on its website, advertised the increase in the local press and included information in its community newsletter to 17,000 households.<sup>43</sup>

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<sup>39</sup> Queanbeyan Application Part B, pp 20-21.

<sup>40</sup> Queanbeyan Application Part B, pp 23-25.

<sup>41</sup> Queanbeyan Application Part B, p 27.

<sup>42</sup> Queanbeyan Application Part B, pp 25-28.

<sup>43</sup> Queanbeyan Application Part B, p 22.

We did not receive any direct representations from the public on Queanbeyan City Council's application. We did receive 1 representation but this was on behalf of a bicycle users' group about delayed cycleway works in the city which are not directly related to the council's special variation application. (The council advised that the cycleway works and other projects were delayed from 2010/11 due to time and resources being diverted to flood recovery efforts. The cycleway works were carried forward into the 2011/12 budget and will be completed by end June 2012.)<sup>44</sup>

In summary, we found that the council had undertaken adequate consultation for the requested special variation. We consider that the extensive consultation undertaken by the council on the special variation as a permanent variation in 2009/10 remains relevant for the current application, and that it has also taken reasonable steps to inform the community about its new application to continue the variation and associated CityCARE Program.

### 3.3 Criterion 3 - Reasonable impact on ratepayers

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

We found that Queanbeyan City Council's requested special variation would have a reasonable impact on ratepayers. As Table 2.3 showed, the council's proposed increases in average rates in all rates categories range from 1.2% (for rural residential rates) to 3.9% (for general business rates). For most ratepayers, these increases are less than the 3.6% rate peg in 2012/13. This is because ratepayers are already paying for the existing CityCARE special variation, and because pensioners will continue to receive the rebate of \$40.

While average rates in the Queanbeyan LGA are currently higher than the DLG Group 4 average across the residential, business and farmland categories, we consider that the requested increases are reasonable in light of capacity to pay indicators for the city 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.) For example, we note that 88% of residential ratepayers in Queanbeyan City have land values up to \$199,999, and would pay no more than \$32 additional rates in 2012/13. Further, 62% of businesses have land values up to \$299,999 and would pay an increase of no more than \$170 additional rates (and no more than \$86 if they are in the 'Industrial Estates' subcategory).<sup>45</sup>

<sup>44</sup> Queanbeyan City Council, email to IPART, 2 March 2012.

<sup>45</sup> Queanbeyan Application Part A, Worksheets 2, 3 and 5 and IPART calculations.

The council intends to continue to offer the additional \$40 rebate for pensioners to assist them in paying the higher rate levels. It offered the rebate as part of its initial CityCARE program with 1,850 eligible pensioners receiving the rebate in 2010/11. This rebate is in addition to the standard pensioner concession of up to \$250 on council rates and \$87.50 each on water and sewerage charges. This additional rebate means that the requested special variation would increase rates by an average of \$11.63 for pensioner ratepayers in 2012/13.<sup>46</sup>

The council also noted that it had not received any complaints from ratepayers about their capacity to pay for the existing CityCARE levy.<sup>47</sup>

### **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 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.

As Queanbeyan City Council is seeking a special variation for recurrent expenditure on asset maintenance works, the use of loans for this purpose is not appropriate and would run counter to the council's Borrowings and Asset Financing (Debt) Policy. This policy restricts debt use to new capital projects only.<sup>48</sup> Therefore, we focused our assessment on the council's broader financing approach to determine whether it is borrowing at a sustainable level.

We found that the council had a relatively low debt service ratio of 0.96% at the end of June 2011. It has forecast that this will increase over the next 10 years and will peak at 2.37% at the end of 2012/13 (with the special variation). It proposes raising \$2m through loans to commence capital works for the development of a new cemetery in 2015/16, plus a further \$11m in 2016/17 for a major road construction (Ellerton Drive).<sup>49</sup>

We are satisfied that this financing strategy is sustainable and consistent with intergenerational equity. However, we note that the council will still need to find further alternative sources of revenue if it is to address its longer term operating deficits.

<sup>46</sup> Queanbeyan Application Part B, pp 34-35.

<sup>47</sup> Queanbeyan Application Part B, p 33.

<sup>48</sup> Queanbeyan Application Part B, p 36.

<sup>49</sup> Queanbeyan Application Part B, p 37.

### 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, Queanbeyan City Council indicated that it has achieved significant productivity and cost containment savings in the past 2 years. The council indicated that it has achieved:

- ▼ one-off savings in recurrent expenditure of around \$1.5m in the past 2 years (including cuts to its administrative budget), which amount to 2.1% of its ordinary expenses in 2011/12
- ▼ a further \$0.76m per annum in ongoing savings from voluntary redundancies and energy cost savings, which amount to 1.1% of its ordinary expenses in 2011/12.<sup>50</sup>

The council submitted that it had found \$1.5m in budget savings in 2011/12, which included reducing the human resources advertising budget by 40%. It has saved a further \$126,000 as a result of 14 internal process evaluations. It has also reduced staffing costs by offering 15 voluntary redundancies where positions were deemed to be surplus to the council's requirements. These redundancies have generated net savings of \$422,880 in 2011/12 and a further \$717,530 in ongoing annual savings. In addition, the council has saved another \$45,000 per annum in energy costs with upgrades to the city's street lights.<sup>51</sup>

The council has also identified other initiatives which show a process of continuous improvement and the potential for more savings to be achieved. These include:

- ▼ running organisational training in the Business Excellence Framework in October 2010, involving 245 staff members and councillors
- ▼ establishing an internal sustainability committee called the Smarter Action Squad, which has examined operations and energy usage over the past 12 months and developed a number of initiatives to save money and help the environment
- ▼ conducting energy audits on 3 of the council's major buildings, which identified 33 opportunities for energy savings, 8 of which have been developed into business cases

<sup>50</sup> Queanbeyan Application Part B, pp 40-41, Queanbeyan Application Supporting Documents, Attachment I and IPART calculations. In its application, the council also noted that it has planned land sales which could generate \$1.83m in revenue. Although these sales will have a positive impact on the council's bottom line, these are not cost savings and so we have not included these in our aggregation of the council's total estimated savings.

<sup>51</sup> Queanbeyan Application Part B, p 41.

- ▼ establishing a Revolving Energy Reserve to ensure a continuation of funding for energy efficiency projects through reallocation of savings.<sup>52</sup>

As part of our assessment, we also examined comparative data on productivity from the DLG for 2010/11 (see Appendix B). These data indicate that Queanbeyan City Council has a lower number of staff for its population relative to the average for DLG Group 4 councils, and reasonably similar average FTE costs. It also shows that the council has a higher share of employee costs in its overall General Fund costs (ie, excluding water and sewerage services) but this appears to be balanced by much lower contract labour costs.

Overall, we are satisfied that Queanbeyan City Council has implemented a range of productivity savings and cost containment strategies which have resulted in material savings. We note the importance of the council continuing to make savings in its budget, and encourage the council to look at factoring in enhanced efficiencies into its longer term expenditure projections. We also note that the council's Community Strategic Plan 2010-2020 identified the need for the council to increase its staff considerably to accommodate the city's projected growth and increased demand on the city's services.<sup>53</sup> We encourage the council to manage its functions over the coming 10 years without significantly increasing its per capita staffing or other labour costs.

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<sup>52</sup> Queanbeyan Application Part B, pp 38-41.

<sup>53</sup> Queanbeyan Application Supporting Documents, Attachment C.



## **Appendices**



## A Queanbeyan City Council's proposed Program of Expenditure (CityCARE)

The following table lists the proposed Program of Expenditure (CityCARE) that Queanbeyan City Council intends to carry out over the 10-year period to 2021/22 using the funds raised by the requested special variation from 2012/13 to 2021/22.

**Table A.1 Queanbeyan City Council's proposed Program of Expenditure (CityCARE) (\$)**

<b>Expenditure Program</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>10-Year Total</b>
Local Roads Reseals	175,000	385,000	240,000	221,450	228,094	234,936	241,984	249,244	200,942	128,520	2,305,170
Local Roads Rehabilitation	355,000	172,450	345,000	355,350	366,011	376,991	388,301	399,950	471,836	577,764	3,808,653
Other Infrastructure Footpath Repairs <sup>a</sup>	189,356	194,448	200,417	213,348	226,812	240,829	255,422	270,609	286,417	292,483	2,370,141
Parks, Gardens, Sportsgrounds, Reserves and Showground Upgrades	300,000	300,000	300,000	332,095	339,330	346,711	354,236	361,910	365,626	370,540	3,370,448
Pensioner Rebate	65,389	65,389	65,389	65,389	65,389	65,389	65,389	65,389	65,389	65,389	653,890
Total annual expenditure	1,084,745	1,117,287	1,150,806	1,187,632	1,225,636	1,264,856	1,305,332	1,347,102	1,390,210	1,434,696	12,508,302

<sup>a</sup> Other Infrastructure Footpath Repairs are as identified on Footpath Map – 7031 defects.

**Source:** Queanbeyan Application Part A, Worksheet 6.

## B Comparative indicators

**Table B.1 Select comparative indicators for Queanbeyan City Council, 2010/11**

	Queanbeyan City Council	DLG Group 4 average	NSW average <sup>e</sup>
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	172.4	-	-
Population	40,661	-	-
General Fund operating expenditure (\$m)	44.3	54.4	54.8
General Fund operating revenue per capita (\$)	1,132	1,484	2,006
Rates revenue % total General Fund revenue	48.5	39.9	46.7
<b>Average rate indicators<sup>a</sup></b>			
Average rate level – residential (\$)	935	806	659
Average rate level – business (\$)	3,981	2,894	2,450
Average rate level - farmland (\$)	1,780	1,702	2,121
<b>Local government area (LGA) socio-economic/capacity to pay indicators</b>			
Average annual income, 2009 (\$)	52,697	38,502	41,376
Growth in average annual income, 2006-2009 (%)	5.6	4.6	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009 (%)	1.7	2.0	1.5
SEIFA, 2006 (NSW rank) <sup>b</sup>	123	-	-
Outstanding rates ratio (%) <sup>c</sup>	3.2	6.0	7.3
<b>Productivity indicators</b>			
FTE staff (no.) <sup>c</sup>	304	313	294
Ratio of population to FTEs <sup>c,d</sup>	134	127	126
Average cost per FTE (\$) <sup>c</sup>	72,365	72,277	71,155
Employee costs as % ordinary expenditure – General Fund only	44.8	38.3	37.3
Contractor expenses (\$) <sup>c</sup>	679,000	4,584,370	6,238,288
Contractor expenses as % ordinary expenditure <sup>c</sup>	1.0	5.9	8.0

<sup>a</sup> 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.

<sup>b</sup> See footnote 16 for SEIFA index.

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

<sup>d</sup> 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.

<sup>e</sup> 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.

