



Independent Pricing and Regulatory Tribunal

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

Local Government — Determination
June 2012



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1 Determination

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

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

Wingecarribee Shire Council applied for a special variation of 7.09% in 2012/13 to be permanently retained within its general income. After assessing the council's application against the Guidelines, we decided to partially allow the requested special variation. We made this decision under section 508(2) of the Act.

1.1 Our decision

IPART's decision is that Wingecarribee Shire Council can increase its general income by 7.09% in 2012/13 which is to be retained in the council's income base for a fixed-term of 7 years. This increase comprises the rate peg of 3.6% that is available to all councils, plus a further increase of 3.49%.

In addition, our decision is that the expiration of Wingecarribee Shire Council's existing fixed-term environmental levy special variation will be brought forward by 1-year (as requested by the council), so it expires on 30 June 2012. In effect, this means that the 3.49% increase (above the rate peg) will replace the expiring environmental levy variation for a fixed term of 7 years, starting on 1 July 2012 and ending on 30 June 2019.

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 and Box 1.1 lists the conditions attached to it.

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

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

Component	Amount
Increase to replace expiring environmental levy special variation	3.49
Rate peg increase	3.60
Total increase	7.09

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

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

- ▼ The council uses the additional income from the special variation for the purposes of funding part of the expenditures for the Environmental Levy program of works outlined in the council's application and listed in Appendix A.
- ▼ The council publishes in its annual report for each rating year over the period from 2012/13 to 2018/19 (inclusive) on:
 - the expenditure on the Environmental Levy program works listed in Appendix A that was funded from the additional income in that year
 - the outcomes achieved as a result of the special variation
 - its asset renewal and maintenance expenditure
 - productivity savings achieved, and
 - any significant variations from its financial results as forecast in its Long Term Financial Plan for its General Fund and any corrective action taken or to be taken.
- ▼ On 1 July 2012, the council reduces its general income by \$971,176 (the value of the expiring levy). This reduction in the council's general income shall take place before the council's general income is increased (by \$1,014,372) in rating year 2012/13 in accordance with IPART's determination and allowable adjustments (\$7,632 in prior year catch-ups).
- ▼ On 1 July 2019, the council is to reduce general income to what it would have been without the special variation.

In making this decision, we recognise that the council will not be able to undertake the full program of works included in its application (see Appendix A) and will need to prioritise expenditures.

1.2 What did the council request and why?

Wingecarribee Shire Council requested a special variation of 7.09% in 2012/13, to be permanently incorporated into its general income.² This special variation includes an increase of 3.49% to continue its existing environmental levy (and the program of environmental work the levy funds) beyond 2013, as well as the rate peg of 3.6%.³ The council indicated that the requested 3.49% increase above the rate peg broadly represents the value of its existing environmental levy special variation that is due to expire in June 2013. The council sought to terminate this fixed-term variation 1 year ahead of schedule in June 2012, and replace it with a permanent special variation of similar size.

Table 1.2 shows the components of the requested special variation.

Table 1.2 Components of Wingecarribee Shire Council's requested special variation in 2012/13 (%)

Component	Amount
Permanent increase to replace existing fixed-term environmental levy	3.49
Rate peg increase	3.60
Total increase	7.09

Source: Wingecarribee Shire Application Part A, Worksheets 1 and 4.

The council estimated that the 3.49% increase above the rate peg would generate around \$1m in additional revenue in 2012/13. It indicated it would use approximately \$750,000 of the additional revenue in 2012/13 to fund ongoing rehabilitation activities, including revegetation, weed removal and related staff expenses.⁴ The remaining \$250,000 would be used to fund new and enhanced services and projects aimed at conserving biodiversity, restoring natural streams and wetlands, improving the council's performance in the areas of waste, water and carbon emissions, community education, environmental planning and monitoring systems.⁵

The council's proposed Environmental Levy program of expenditure is provided in Appendix A.

² Wingecarribee Shire Council, *Section 508(2) Special Variation Application 2012/13 Part B*, (Wingecarribee Shire Application Part B), p 1. 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.

³ The rate peg set by IPART for 2011/12 is 3.6%. The rate peg for 2013/14 will be determined by IPART in December 2012.

⁴ Wingecarribee Shire Council, *Section 508(2) Special Variation Application 2012/13 Part A* (Wingecarribee Shire Application Part A), Worksheet 6.

⁵ Wingecarribee Shire Application Part B, pp 26-29.

1.3 How did we reach our decision?

We assessed Wingecarribee Shire Council's application against the criteria included in the Guidelines, and considered other relevant matters. We found that the application generally met the criteria. However, while we were satisfied that the council had undertaken adequate community consultation, we found that its application did not address "issues of common concern to the community that arose from the consultation process", as required by the Guidelines.⁶ In particular, it did not address the community's preference for a time limited levy rather than a permanent levy, as indicated by the results of the telephone survey.

In addition, we found that the application did not address the underlying issues related to the council's operating deficits. We note that the council is projecting operating deficits (excluding capital) for the General Fund for each of the next 10 years.

In considering other matters relevant to the council's application, we noted that the environmental levy has already been in place for more than 10 years. In our view, making this levy permanent would reduce the council's flexibility to apply the funds raised to other purposes in the future, when the council's priorities could change. For example, it could reduce the council's scope to vary its environment-related expenditure, at some time in the future, to address its operating deficits.

For the above reasons, we decided to allow the special variation for the environment levy for a fixed term of 7 years, rather than make it permanent as requested by the council.

Table 1.3 summarises our findings against each of the assessment criteria.

⁶ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income in 2012/2013*, September 2011, p 24.

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

Criterion	IPART findings
1. Demonstrated need for the rate increase implied by the special variation	The council demonstrated the need for the proposed continuation of the levy. It will use the revenue raised to fund expenditure that is consistent with council's Environmental Strategy and is unable to be funded from other revenue sources. However, we note that the council is projecting operating deficits (excluding capital) for the General Fund for each of the next 10 years.
2. Adequate community consultation regarding the special variation	The council undertook extensive community consultation. However, its telephone survey indicated that 82% of the community prefer the 3.49% levy to be for 10 years or less, rather than permanent. This was not reflected in the council's application, which sought a 3.49% levy on a permanent basis.
3. Reasonable impact on ratepayers	The special variation will not have an unreasonable impact on rate levels and ratepayers given that: <ul style="list-style-type: none"> ▼ ratepayers currently pay an equivalent amount for the expiring environmental levy ▼ on average, the community has capacity to pay and the current level of outstanding rates is quite low ▼ 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's financing strategy for the environmental program of works is soundly based and consistent with intergenerational equity. The council has also included other methods of financing its environmental activities.
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 material productivity savings in the past and plans to continue to improve productivity and cost containment into the future. We encourage it to continue exploring opportunities for further productivity improvements. We suggest that the council clearly communicates to its residents the nature and value of productivity improvements made.
6. Any other matters that IPART considers relevant. ^a	A relevant matter we considered in reaching our determination was that the levy has been in place for a considerable period (ie, since 2000/01). As expenditure priorities change over time, a permanent levy might reduce the council's financial flexibility, eg to apply levy funds to new priorities.

^a The Guidelines enable IPART to consider any other matters it considers relevant in assessing a council's application for a special variation.

1.4 What does our decision mean for the council?

Our decision means that Wingecarribee Shire Council can increase its general income by around \$2.1m (or by \$1.0m above the rate peg amount) in 2012/13.⁷ All other things being equal, this income will increase by the annual rate peg for 7 years unless we approve a further special variation.⁸

On 30 June 2019, the 3.49% environmental levy will end, and the council's permissible general income will decrease to what it would have been without the special variation.

1.5 What does our decision mean for ratepayers?

Across all rate categories, rates in Wingecarribee LGA will increase by an average of around 3.1% in 2012/13. We estimate that:

- ▼ average residential rates will increase by \$34 (equivalent to the rate peg increase as the environmental levy is replacing an expiring levy of a similar amount)
- ▼ average business rates will increase by \$105 (equivalent to the rate peg increase)
- ▼ average farmland rates will increase by \$75 (equivalent to the rate peg increase)
- ▼ average mining rates will increase by \$101 (equivalent to the rate peg increase).

The percentage increase will be lower than the total allowed increase in general income of 7.09% for 2 reasons. First, the 3.49% increase to continue the environmental levy for a further 7 years will have a minimal impact on rate levels, as current rates already include an equivalent levy. Second, although the council indicated that it would aim to apply a rating increase in line with the 3.6% rate peg uniformly across all rating categories, restrictions in the rating structure itself mean that it cannot increase some categories by the full 3.6%.⁹

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

⁷ Wingecarribee Shire Application Part A, Worksheet 1.

⁸ As stated in footnote 2, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

⁹ Wingecarribee Shire Application Part B, p 56.

2 Wingecarribee Shire Council's application

Wingecarribee Shire Council applied to increase its general income by 7.09% (including the rate peg of 3.6%) in 2012/13, and to retain this increase permanently in its general income.¹⁰

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 this would raise, and how the necessary rate increases would affect different ratepayers.

2.1 About the council

Wingecarribee Shire is situated in the Southern Highlands and covers an area of 2,700 square kilometres. It includes the small towns of Bowral, Mittagong and Moss Vale, and semi-rural areas.¹¹

The council is in DLG Group 4, which indicates that it is classified as an “urban, small to medium-sized regional council”. IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.¹²

¹⁰ Wingecarribee Shire Application Part A, Worksheet 1.

¹¹ <http://www.wsc.nsw.gov.au/council/about-the-wingecarribee-shire>.

¹² DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09*, pp 11-17. The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. The DLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. There are 32 councils in DLG Group 4 including, for example, Kiama Council and Greater Taree Council.

The Wingecarribee Shire has a SEIFA ranking of 119, which means that it is among the 25% most advantaged LGAs in NSW.¹³ In 2010/11, the council raised 64.3% of its General Fund revenue through rates, annual charges and user fees. This is significantly higher than the average for DLG Group 4 (56.9%) and slightly higher than the average for NSW (61.6%). This indicates that the council is less reliant on external sources of funding, such as grants from other levels of government.¹⁴

Appendix B provides a range of comparative data on Wingecarribee Shire Council.

2.2 History of special variations

Wingecarribee Shire Council has applied for 8 special variations since 2000/01, of which 7 were approved. Of the special variations approved, 3 were for the existing environmental levy and its continuation.¹⁵ The first of these, in 2000/01, was a 4.5% special variation for a period of 3 years. The second, in 2003/04 was a 4.3% special variation for 5 years. The third, in 2008/09, was a 3.7% special variation for 5 years. This special variation is still in effect, and is due to expire on 30 June 2013 (although the council's current application would bring forward its expiry to 30 June 2012).

In 2011/12, this environmental special variation represented 3.2% of Wingecarribee Shire Council's notional general income. The size of the variation as a percentage of the council's general income has declined over time because the council's rates base has increased due to the rate peg and other special variations.¹⁶

The other 4 special variations approved were to fund infrastructure work and reduce the council's infrastructure backlogs. Some of these were retained permanently in the income base, and others were for fixed terms. The council has a higher level of infrastructure backlogs (approximately 140% of expenditure in 2010/11) than the average for DLG Group 4 (129%) and NSW (96%).¹⁷

¹³ SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics. It can be used to determine the level of social and economic well-being in regions relative to one another. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes a ranking for "unincorporated NSW"). A ranking of 1 means the council is least advantaged relative to all the other councils in NSW. A ranking of 153 means it is most advantaged relative to all the other councils in NSW.

¹⁴ DLG, unpublished comparative data, 2010/11. 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.

¹⁵ Note that in 2003/04 the 15.8% special variation approved included a 4.3% variation for the environmental levy and 11.5% for infrastructure works: email to IPART from Wingecarribee Shire Council, dated 7 March 2012 and DLG, unpublished comparative data, 2010/11.

¹⁶ DLG, unpublished comparative data, 2010/11, Wingecarribee Shire Application Part A, Worksheet 4 and IPART calculation.

¹⁷ DLG, unpublished comparative data, 2010/11.

2.3 Requested special variation in 2012/13

Wingecarribee Shire Council wishes to terminate the existing fixed-term environmental special variation 1-year early, in June 2012, and replace it with a permanent special variation of similar size. It applied for a total special variation of 7.09% in 2012/13, including the rate peg. If approved, the council estimates that this special variation would increase its total permissible general income for 2012/13 by around \$2m (Table 2.1).¹⁸ This estimate has been verified by the DLG.¹⁹

Table 2.1 Estimated impact of Wingecarribee Shire Council's requested special variation on its general income in 2012/13

Adjusted notional general income 2011/12 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2012/13 (\$) ^a
29,065,086 ^b	7.09	2,060,715	31,133,433

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. Wingecarribee Shire Council's proposed permissible general income in 2012/13 includes the requested special variation of 7.09% (\$2,060,715), plus \$7,632 in prior year catch-ups.

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. It includes a deduction of \$971,176 for the termination of the current environmental levy.

Source: Wingecarribee Shire Council, *s508(2) Special Variation Application – Part A, Worksheet 4*.

Wingecarribee Shire Council indicated that the requested special variation comprises:

- ▼ a 3.49% increase to be permanently incorporated into its general income base, in place of the expiring special variation for its environmental levy
- ▼ the 3.6% rate peg increase determined by IPART, which is available to all councils in 2012/13.

Note that in setting the rate peg amount, IPART included a carbon price advance of 0.4% to assist councils to meet higher prices arising from the introduction of the carbon price from 1 July 2012.²⁰

Table 1.2 in Chapter 1 sets out the components of the council's application.

¹⁸ This is equal to about \$1m above the rate peg.

¹⁹ DLG, *Assessment of Wingecarribee Shire Council's s508(2) Special Variation Application – Part A*, March 2012. As stated in footnote 2, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

²⁰ Given that the effects of the carbon price will eventually be captured in the Local Government Cost Index (LGCI), we will reverse the upfront adjustment we have made in the 2012/13 rate peg over 2 years. We will deduct 0.1% in 2013/14 and 0.3% in 2014/15 from the rate pegs in these years. See *IPART, Effects of the carbon price on local councils*, Local Government – Information paper, December 2011 for more information.

2.4 How the council proposes to use the income raised

The council intends to use the revenue raised through its requested 3.49% permanent increase above the rate peg to complete projects associated with its Environmental Strategy, including:

- ▼ continuing environmental services such as weed management, revegetation, community education and associated staff costs
- ▼ enhancing environment services such as mapping threatened species
- ▼ new projects and services such as developing and implementing vertebrate pest and riparian management plans, purchase of water quality equipment and a carbon farming initiative.²¹

The council submitted that this program of expenditure will benefit the community by:

- ▼ resourcing its Environment Strategy by supporting community projects, volunteer groups and rural landholders
- ▼ funding projects and services to the community that improve and apply knowledge associated with personal environmental impact and increase general awareness of environmental and sustainability issues
- ▼ developing and applying improved monitoring systems to assess and manage the condition of natural assets and measure progress towards community goals
- ▼ adopting systems that allow better costing of environmental works within the asset management plan, and
- ▼ funding proposals for additional grant funds.²²

Wingecarribee Shire Council's program of expenditure under the Environmental Levy is provided in Appendix A.

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

Wingecarribee Shire Council indicated it would allocate the requested special variation uniformly across its 4 rating categories – residential, business, farmland and mining - to the extent that this is possible given inherent restrictions in the structure of its rates.

²¹ Wingecarribee Shire Application Part A, Worksheet 6.

²² Wingecarribee Shire Application Part B, p 3 and Attachment 7, *Environmental Strategy 2010-2015*, Chapter 3, p 19.

As shown on Table 2.3, based on the council's application, we estimate that the average increase in rates due to the council's requested special variation will range from 2.4% (for mining rates) to 3.5% (for business rates). These average impacts are lower than the 7.09% increase sought by the council because the current average rate levels already incorporate the value of the existing special variation for the environmental levy (as discussed in section 2.3 above).

Table 2.3 Impact of the requested special variation on average rate levels in each rate category

	2011/12	2012/13
Average residential rate (\$)	1,100	1,134
Increase (\$)		34
Increase (%)		3.1
Average business rate (\$)	2,995	3,100
Increase (\$)		105
Increase (%)		3.5
Average farmland rate (\$)	2,473	2,547
Increase (\$)		75
Increase (%)		3.0
Average mining rate (\$)	4,231	4,331
Increase (\$)		101
Increase (%)		2.4

Note: A rating increase in line with the rate peg was applied across all rating categories. Due to restrictions inherent in the structure of rates, all rating categories were increased slightly less than 3.6%. Wingecarribee Shire Application Part B, p 57.

Source: IPART calculation of weighted average rates for each rates category based on Wingecarribee Shire Application Part A, Worksheet 5. Average residential rates includes ordinary rates and those for Renwick. Mining rates includes ordinary rates and those that apply to coal rights.

3 | IPART's assessment

To make our decision on Wingecarribee Shire Council's application for a special variation in 2012/13, we assessed this application against each of the 5 criteria set out in the Guidelines, and considered other relevant matters. We found that the application generally met the criteria. However, while we were satisfied that the council had undertaken adequate community consultation, we found that its application did not address "issues of common concern to the community that arose from the consultation process", as required by the Guidelines.

We found that the telephone survey undertaken as part of the council's consultation process suggests that while most of the community support the environmental levy continuing, only 35% support it being permanent. In addition, when asked how long they would like the levy to continue, more than 80% preferred 10 years or less. In our view, these results are evidence that the permanence of the levy is an "issue of common concern to the community". The council's application did not explain how it intended to address this issue.

We also found that the council's application did not address the underlying issues related to its operating deficits. The council is projecting recurring operating deficits (before capital), for the General Fund over each of the next 10 years.

In considering other matters relevant to the council's application, we noted that the environmental levy has already been in place for more than 10 years (since 2000/01). Expenditure priorities are likely to change over time, and a permanent levy would reduce the council's flexibility to apply the funds to new priorities at some time in the future

For all these reasons, we decided allow the 3.49% environmental levy for a fixed term of 7 years only, rather than make it permanent as the council requested.

Table 1.3 (in Chapter 1) summarised our findings in relation to each of the criteria and the other matters we considered. The sections below discuss our assessment and findings 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.

Wingecarribee Shire Council requested a 3.49% increase above the rate peg to continue funding its ongoing environmental program, established in 2001. It provided a proposed environmental works program worth \$11.6m over the next 10 years (see Appendix A).²³ Most of the proposed expenditure is on projects, including community awareness programs and maintenance activities, such as weed management and revegetation.²⁴ The council indicated that the special variation would provide the sole source of funding for this program (although it intends to apply for grant funding for additional environmental activities).²⁵

We are satisfied that the purpose of the special variation is consistent with the community's objectives, which flow from the council's strategic planning and reflect the community's priorities in its Environmental Strategy 2012-2017. We are also satisfied that increased rates is an appropriate source of revenue for funding the proposed environmental works, and that alternative revenue sources such as debt financing or user fees and charges are not suitable.

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 including:

- ▼ the use of recent (2011) quotes from potential contractors for specific items of works
- ▼ the use of specialised consultants to develop costs estimates
- ▼ the extrapolation of staff costs and other operational costs from council's experience with similar activities in the past
- ▼ the use of flexible planning for scope of works to improve council's operations in the areas of waste, water and carbon emissions, so that the scope can be adjusted to fit available levels of funding, and

²³ Wingecarribee Shire Application Part A, Worksheet 6.

²⁴ Wingecarribee Shire Application Part B, p 23.

²⁵ Wingecarribee Shire Application Part B, p 23.

- ▼ the use of partnering arrangements and volunteers to minimise costs.²⁶

The council's application supports the long-term planning and funding of the environmental levy activities. However, it does not address the underlying issues related to the council's operating deficits. In particular, we note that the council's Long Term Financial Plan for the General Fund is projecting operating deficits (excluding capital) for each of the next 10 years.²⁷ The impact of the special variation on these deficits is minimal:

- ▼ without the special variation, the projected operating deficit of \$3.6m in 2011/12 will reduce to \$1.6m by 2021/22, and net assets will decline by 2.6%
- ▼ with the special variation, it will reduce to \$1.5m by 2021/22, and net assets will decline by 1.5%.²⁸

We note that recurring operating deficits, particularly over a lengthy period, may result in the rating burden not being shared equitably between current and future ratepayers. In our view, councils facing recurring operating deficits are better placed to address these deficits if they do not permanently earmark revenues for a particular purpose (such as through permanent levies), as this reduces their financial flexibility. For instance, this may prevent them from reallocating their expenditures in line with changes to priorities in the future.

3.2 Criterion 2 - Adequate community consultation

Councils seeking special variations must demonstrate that they have undertaken adequate community consultation on the requested 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 Wingecarribee Shire Council had engaged extensively with the community to determine their expenditure priorities and obtain feedback about the proposed rate increase. Its community consultation strategy included 3 elements that provided evidence to gauge the community's preferences about the environmental levy special variation – a telephone survey, postal and on-line surveys, and the submissions received from the public.

²⁶ The council advises it has adhered to its procurement guidelines developed in accordance with the *Tendering Guidelines for Local NSW Local Government* as prepared by the Division of Local Government. Wingecarribee Shire Application Part B, pp 25-29.

²⁷ Of course, a council may record a deficit in its operating balance in a particular year, depending on its strategic or economic circumstances. Councils should aim for an average net operating result of close to zero over the medium term, say 5 years. Recurring operating deficits indicate that the rating burden is not being shared equitably between current and future ratepayers. The likely consequences of this are infrastructure backlogs and higher future than is equitable. *IPART Local Government Review*, p 168.

²⁸ Wingecarribee Shire Application Part B, p 32 and email to IPART dated 27 February 2012.

The results of the telephone survey indicated that:²⁹

- ▼ 7% of respondents did not support the 3.49% environmental levy continuing in any form
- ▼ 35% supported it continuing permanently
- ▼ 44% supported it continuing, but only for a **fixed period**, and
- ▼ 13% preferred it continuing **at a reduced level of 1.9%**, rather than 3.5%.³⁰

When asked how long they would like the levy to continue, 82% of those respondents in support of some form of environmental levy preferred 10 years or less (66% preferred 3 to 5 years, and 16% preferred 6 to 10 years). Only 18% preferred the levy to be continued for longer than 10 years (which we infer means, in effect, permanently).³¹

The council received 26 letters of support for continuing the environmental levy. These supporters included the local State MP, external agencies, and interested Landcare/Bushcare groups, schools and residents. It also received 4 negative/mixed submissions. Of these, 2 were telephone conversations, 1 of which opposed the environment levy and 1 concerned about the cost impact of the levy (although supportive of the work that it has achieved).³²

IPART received 3 direct representations from the public, 2 of which supported the council's requested special variation. The representation that did not support the council's request expressed concern that the levy provided few perceived benefits and opposed it being made permanent.

We also found that while the council had undertaken adequate community consultation, its application did not address "issues of common concern to the community that arose from the consultation process", as required by the Guidelines. In particular, it did not address the community's preference for a time-limited levy rather than a permanent levy, as indicated by the results of the telephone survey.

Apart from the above exception, we found the council's application generally met this criterion.

²⁹ The telephone survey used a sample of 305 drawn from a population of 43,000 and gives an accuracy of +/-5.2% on a 95% confidence level: Wingecarribee Shire Application Attachment 19, p 3.

³⁰ Note the council did not specify a period for a reduced levy. The purpose of this question within the survey seems to have been to identify the period for which a lower levy would be supported by the community. Wingecarribee Shire Application Attachment 19, pp 1 and 11.

³¹ Wingecarribee Shire Application Attachment 19, p 14.

³² Wingecarribee Shire Application Part B, p 53.

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 consider 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).

As discussed in Chapter 1, the impact of the 3.49% environmental levy varies among ratepayer categories. However, across all rate categories, rates in Wingecarribee LGA will increase by an amount similar to the rate peg increase. This follows from the environmental levy replacing an expiring levy of similar amount. We estimate that in 2012/13, the component of average rates that is attributable to this levy will be:

- ▼ \$40 for residential ratepayers (or 3.6% of average residential rates)
- ▼ \$53 for business ratepayers (or 1.7% of average business rates)
- ▼ \$105 for farmland ratepayers (or 4.1% of average farmland rates)
- ▼ \$112 for mining ratepayers (or 2.6% of average mining rates).³³

The council intends to increase the minimum rates for each category by around 3.6% (in line with the rate peg increase) in 2012/13.

Wingecarribee Shire Council has a Hardship Policy in place. The council has indicated that it:

...has recently endorsed a revised Hardship Policy that provides for interest rate relief and extended terms to pay outstanding rates and charges in cases of genuine financial hardship. Council also proactively refers individuals in financial hardship to appropriate financial counselling and community service organisations... Council receives on average only 4 hardship applications per year and only 0.75% of the council's ratepayers are on arrangements to pay outside of the quarterly instalment regime.

Any debt recovery letters that are ...sent to ratepayers state that Council has a hardship policy in place and to contact Council if they wish to make an application under this policy.³⁴

³³ Wingecarribee Shire Application Part B, p 56. IPART calculation of percentage based on comparing the annual dollar increase per ratepayer category due to the levy with the average level of rates for that category in 2012/13.

³⁴ Wingecarribee Shire Application Part B, p 59.

This advice is consistent with data supplied to IPART. As discussed in Chapter 2, Wingecarribee Shire has a SEIFA ranking of 119, which means that it is among the 25% most advantaged LGAs in NSW. In addition, average incomes for the LGA were \$43,958 in 2009, significantly above the average for Group 4 councils (\$38,502) and NSW (\$41,376). The council also has relatively low levels of outstanding rates and charges. In 2010/11 (latest figures available), only 2% of rates/charges (including water and sewer) were outstanding. This is well below the average for DLG Group 4 (6%) and NSW (7%).³⁵

Overall, we are satisfied that the continuation of Wingecarribee Shire Council's environmental levy would have a reasonable impact on rates and ratepayers. It will replace an equivalent environmental levy that will now expire in 2011/12.

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 larger than necessary rate increases in the short to medium term.

Overall, we are satisfied that Wingecarribee Shire Council has a reasonable financing strategy for the environmental levy program of works that is consistent with intergenerational equity. The council has considered other methods of financing its proposed expenditure program as part of its long-term financial plan. It has considered the use of debt and the use of existing reserves and considers that these are not appropriate funding sources for operating expenses and small projects funded by the environmental levy. Finally, the council plans to make active use of volunteer resources to assist with its environmental levy activities.

We also note that the council proposes to use alternative revenue sources such as grants to fund additional environmental activities.

³⁵ DLG, unpublished comparative data, 2010/11.

3.5 Criterion 5 - Productivity impacts and cost containment strategies

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

Wingecarribee Shire Council submitted that it has implemented a number of productivity and cost containment initiatives. These include:

- ▼ in-sourcing of jetting and vacuum unit services, and legal services
- ▼ improvements in:
 - energy, fuel and water efficiency
 - the financial performance of waste management operations
 - the average processing period for the development assessment process
- ▼ the introduction of:
 - integrated management system software and other information and communications technology
 - self-directed work teams and the business excellence framework
- ▼ rationalisation of underperforming assets (such as non-productive land).

As part of our assessment, we examined comparative data on productivity from the DLG for 2010/11 (see Appendix B). Wingecarribee Shire Council has a higher number of staff than other DLG Group 4 councils, but its full time equivalent (FTE) staff numbers relative to its population are lower than the average for DLG Group 4 and NSW. It also has lower employee expenses as a percentage of ordinary expenditure than the average for DLG Group 4 and NSW. However, the council does have significantly higher contractor expenses that appear to largely offset its lower employee expenses. The council advises that its higher contractor costs are mostly due to large capital works, particularly in the areas of sewer treatment augmentations and the use of contractors to provide domestic waste collection and related transport.

The council's Long Term Financial Plan assumes that employee-related costs increase by 3.25% per annum. This suggests that the council may assume that there will be no net increases in its staff numbers over the coming 10 years.³⁶

³⁶ Wingecarribee Shire Application Part B, Attachment 5 *Resourcing Strategy*, p 51.

Overall, we are satisfied that the council has met this criterion. It has achieved productivity savings in recent years, and a significant portion of its productivity initiatives have the potential to produce further resource savings in the future. It has also undertaken a number of cost containment strategies over the past 2 years that have generated savings.

3.6 Other matters we considered in reaching our decision

In addition to considering the criteria in the Guidelines, IPART can consider any other relevant matters in reaching a determination on an application for a special variation. In the case of Wingecarribee Shire Council's application, we considered the lengthy period over which the environmental levy has already been in place (ie, since 2000/01). Given that the council's expenditure priorities may change over time, we consider that a permanent levy may reduce its flexibility to reallocate the levy funds to new priorities at some time in the future.

We also consider that continuing the environmental levy for a shorter period – for example, 3 to 5 years in line with the preference of many respondents to the council's telephone survey – may not provide the council with an adequate time to reduce its projected operating deficits (before capital). Preferably, further consideration of the future of the environmental levy would occur at a time when the council has reduced these operating deficits.



Appendices

A Wingecarribee Shire Council's Proposed Program of Expenditure – to be funded from the Environmental Levy

IPART accepts that this program of works is indicative and the council may need to re-schedule and re-prioritise planned expenditure on individual projects over the 7 years of the approved special variation. The council will report actual expenditure on the program in its annual report.

Scheduled Environment Levy Projects and Services List

Environment Levy Expenditure																
Focus Area	Obj. ID	Objective	Project Name	Maintenance/Enhanced/ New	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		
Biodiversity Conservation	1.1	Reduced impact of invasive weeds	Weed Management	Maintenance	226,500	233,069	239,361	246,542	253,938	261,557	269,403	277,485	285,810	294,384		
			Invaders	New					10,090	10,393						
	1.2	Net increase in native vegetation extent	Revegetation	Maintenance	120,000	123,480	126,814	130,618	134,537	138,573	142,730	147,012	151,423	155,965		
			Support Community Nursery	Maintenance	20,000	20,580	21,136	21,770	22,423	23,096	23,788	24,502	25,237	25,994		
	1.3	Increase area of significant native vegetation conserved to reduce threats to biodiversity resilience	Vegetation Conservation	Maintenance	47,000	48,363	49,669	51,159	52,694	54,274	55,903	57,580	59,307	61,086		
			Green Web Strategy	New	37,000											
			Green Web Action	Enhanced			24,042	24,763	25,506	26,271	27,059	27,871	28,707	29,568		
	1.4	Enhanced capacity of Council and community to protect and restore natural ecosystems	EEC Maintenance	Enhanced	Past Levy Funds											
			Map new EECs & Threatened Species	Enhanced			31,703									
			Mt Gibraltar Plan of Management	Enhanced	Past Levy Funds											
Vertebrate Pest Management Plans			New			40,696	54,424									
Indian Myna			Maintenance	1,350	1,389	1,427	1,469	1,514	1,559	1,606	1,654	1,704	1,755			
		Understanding Places	New					27,468								
River Health and Wetlands	2.1	Improved water quality management for our major creeks and streams	Whites Creek Riparian Management Plan	New	Past Levy Funds											
			Upper Nattai Creek Riparian Management Plan	New		8,500										
			Gibbergunyah/Iron Mines/Chinamans Creek Riparian Management Plan	New		25,500										
			Wingecarribee River Riparian Management Plan	New										48,581		
			WSUD Expertise	New		3,080										
			Riparian Management Policy	New	Past Levy Funds											
	2.2	Improvement in the health and function of our riparian areas	Mittagong Creek - Actions from Riparian Management Plan	New	50,000	51,000	52,839	49,000	55,057	56,459						
			Whites Creek - Actions from Riparian Management Plan	New				25,572	40,251	70,000	45,804	71,680				
Wingecarribee River - Actions from Riparian Management Plan			New										37,225	154,028		
Sustainable Living	3.2	Reduced usage of fossil fuels and carbon emissions within Wingecarribee Shire	Sustainability Action Plan	New	42,260											
			Baseline Carbon Emmissions	New		21,830										
			Facility SAP	New	17,000	17,450										
			Carbon Farming Initiative	New							95,153	73,506	63,736			
	3.3	Majority of community actively chooses sustainable products	Community Sustainability	New	27,000	27,783	28,533	29,389	30,271	31,179	32,114	33,078	34,070	35,092		

Community Capacity and Commitment	4.1	Improved access to information to enable our community to act on local environmental issues	Community Education	Maintenance										
					27,000	27,782	28,533	29,389	30,271	31,179	32,114	33,078	34,070	35,092
	4.2	Increased support and skills development for environmentally active members of our community	Awareness Campaigns	Maintenance	10,500	10,804	11,096	11,429	11,772	12,125	12,489	12,864	13,249	13,647
			Landcare and Bushcare	Maintenance	40,000	41,160	42,271	43,539	44,846	46,191	47,577	49,004	50,474	51,988
	4.3	More effective communication of planning and results of environmental activities within our community	Community Support	Maintenance	14,500	14,920	15,323	15,783	16,257	16,744	17,247	17,764	18,297	18,846
			Environment Levy Awareness	Maintenance	4,400	4,528	4,650	4,789	4,933	5,081	5,233	5,390	5,552	5,719
	4.4	Significant increase in leveraging environmental education/incentive projects available from NGOs, NSW and Australian Govt.	Environment & Sustainability Committee Support	Maintenance	17,000	17,493	17,965	18,504	19,059	19,631	20,220	20,827	21,452	22,095
			Urban Sustainability Partner Program	New	42,000	43,218	44,385	45,716	47,088	48,501	49,956	51,454	52,998	54,588
			Rural Partner Program	New		25,725	26,420	27,212	28,029	28,869	29,735	30,628	31,546	32,493
	Environmental Systems	5.1	Monitoring, evaluation and reporting system in place to support best practice Natural Resource Management and environmental program performance	Data Collection - Biodiversity	New	8,000	8,230	8,454	8,708	8,969	9,238	9,515	9,801	10,095
Water Quality Equipment				New	20,000									
5.2		Foundations for NRM Asset Management are in place	Natural Asset Management	New		18,000								
Management	A	Management	Env Levy Program Coordination	Maintenance	95,000	97,755	100,394	103,406	106,508	109,704	112,995	116,385	119,876	123,472
			Grant Applications	New	17,000	17,493	17,965	18,504	19,059	19,631	20,220	20,827	21,452	22,095
			Cars for field staff	Maintenance	70,000	72,030	73,975	76,194	78,480	80,834	83,259	85,757	88,330	90,980
			Env Levy Corporate Support	Maintenance	60,862	62,627	64,318	66,248	68,235	70,282	72,391	74,562	76,799	79,103
			Total Expenditure		1,014,372	1,043,789	1,071,971	1,104,130	1,137,254	1,171,372	1,206,513	1,242,708	1,279,990	1,318,389
			Environment Levy Income		1,014,372	1,043,789	1,071,971	1,104,130	1,137,254	1,171,372	1,206,513	1,242,708	1,279,990	1,318,389

B Comparative indicators

Table B.1 Wingecarribee Shire, selected indicators, 2010/11

	Council	DLG Group 4 average	NSW average average
General profile indicators			
Area (km ²)	2,696		
Population (no.)	46,364		
Annual operating expenditure (\$)	53,586,000	54,365,457	54,838,594
Council revenue per capita (\$)	1,281	1,484	2,006
Rates revenue % total General Fund	49.4	39.9	46.7
Average rate indicators^a			
Average rate level – residential (\$)	925	806	659
Average rate level – business (\$)	2,613	2,894	2,450
Average rate level – farmland (\$)	2,270	1,702	\$2,121
LGA socio-economic indicators			
Average annual income, 2009 (\$)	43,958	38,502	41,376
Growth in average annual income, 2006-09 (%)	3.6	4.6	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009	2.1	2.0	1.5
SEIFA, 2006 (NSW rank) ^b	119		
Outstanding rates ratio (%) ^c	2	6	7
Productivity indicators			
FTE staff (no) ^{cd}	336	313	294
Ratio of population to FTEs ^{ce}	138	127	126
Average cost per FTE (\$) ^c	71,220	72,277	71,155
Employee costs as % ordinary expenditure – General Fund only	35.2	38.3	37.3
Contractor expenses (\$) ^c	9,127,000	4,584,370	6,238,288
Contractor expenses as % ordinary expenditure ^c	12.0	5.9	8.0

^a Average rates are total rates revenue per rate category divided by the number of assessments in that category.

^b See footnote 13 for SEIFA index.

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

^d FTE is full time equivalents. Their number is at 30 June 2010.

^e The ratio of the number of residents to council FTEs.

^f NSW averages exclude Snowy River Shire Council (data not yet available).

Source: DLG, database, 2010/11 and ABS *National Regional Profiles, NSW*, November 2011.