



Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Balranald Shire Council 2018-19

Determination
Local Government

May 2018

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Tribunal Members

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

Enquiries regarding this document should be directed to a staff member:

Lucy Garnier (02) 9290 8488

Yury Suturin (02) 9290 8400



Contents

1	Executive summary	1
1.1	We have approved Balranald Council's application for a special variation	1
1.2	The council's application meets the criteria	2
1.3	We have attached conditions on how the council can spend its extra revenue	4
1.4	Structure of this report	4
2	Balranald Council's application	5
3	IPART's assessment	7
3.1	The council demonstrated financial need for the special variation	7
3.2	The council demonstrated community engagement and awareness	10
3.3	The impact on ratepayers is substantial but reasonable	12
3.4	The council partially met the requirement for exhibiting its IP&R documents	14
3.5	The council explained its productivity improvements and cost containment strategies	14
3.6	IPART's consideration of additional factors	15
4	Our decision's impact on the council	16
5	Our decision's impact on ratepayers	17
	Appendices	19
A	Assessment criteria for special variation applications	21
B	Expenditures to be funded from special variation above the rate peg	22
C	Balranald Council's projected revenue, expenses and operating result	24
D	Comparative indicators	26

1 Executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has set the rate peg for 2018-19 at 2.3%. Councils may apply to increase their general income above the rate peg. For most councils, general income consists entirely of rates revenue.

Balranald Shire Council (Balranald Council) applied for a multi-year special variation to:

- ▼ increase its general income by 10% for each year from 2018-19 to 2024-25, a cumulative increase of 94.87% over seven years, and
- ▼ retain this increase in its rate base permanently.¹

IPART has assessed the council's application against the criteria in the Office of Local Government (OLG) Guidelines. This report sets out our decision, and explains how and why we reached that decision. Box 1.1 below outlines the context for this process.

1.1 We have approved Balranald Council's application for a special variation

We decided to allow the special variation as requested.

Our decision means that Balranald Council may increase its general income between 2018-19 and 2024-25 by the annual percentages shown in Table 1.1. This will allow the council to fund operating and capital expenditure for its key assets, buildings and roads.²

The annual increases include the rate peg of 2.3% in 2018-19, and an assumed rate peg of 2.5% in future years. The cumulative increase that we have approved of 94.87% is 76.24% more than the assumed cumulative rate peg for these years. This increase may be retained in the council's general income base permanently.

Whilst the percentage increase is significant, Balranald Council's average residential rate at \$283 per year in 2017-18 is substantially lower than the average rates charged by neighbouring councils and its OLG Group 9 peers. Even with the proposed increase, Balranald Council's forecast average rate in 2024-25 (at \$552) is lower than neighbouring councils' current rates, and significantly below the NSW average rate (\$1,017 average in 2015-16). The council's average rate to income ratio in 2024-25 is forecast to be similar to its Group 9 peers.³

¹ Balranald Council, *Special Variation Application Form Part A* 2018-19 (Balranald Council, Application Part A), Worksheet 1.

² Balranald Council, *Application Part A*, Worksheet 6 and *Application Part B*, p 4.

³ See Section 3.3.2, Table 3.2 for list of comparable councils and further details.

Table 1.1 IPART's decision on Balranald Shire Council's application for a special variation in 2018-19

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Percentage increase approved	10.00	10.00	10.00	10.00	10.00	10.00	10.00

Box 1.1 Context for IPART's decision

Each year, IPART sets the rate peg, which is the maximum amount by which councils can increase their general income in that year.

Councils may apply for a special variation that allows them to increase their general income by more than the rate peg. For a single year increase, they apply under section 508(2) of the *Local Government Act* 1993 (the Act). For successive year increases (up to a maximum of seven years), they apply under section 508A of the Act.

IPART assesses these applications against the criteria set by the Office of Local Government in its *Guidelines for the preparation of an application for a special variation to general income* (OLG Guidelines).

The OLG Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan (LTFP), must contain evidence that supports a council's application for a special variation.







The criteria for assessing applications for special variations are listed in Appendix A.

1.2 The council's application meets the criteria

Our decision reflects our finding that the council's application meets the requirements in the OLG criteria overall. In assessing the application, we have also considered the council's size, location, limited access to resources, low starting rate base and the purpose of the special variation.

Our assessment against each criterion is summarised in Table 1.2.

Table 1.2 Assessment of Balranald Shire Council's special variation application

1. Financial Need	
	<p>The council demonstrated the financial need for the special variation (SV):</p> <ul style="list-style-type: none"> ▼ Operating Performance Ratio (average 2018-19 to 2027-28) is <ul style="list-style-type: none"> – 2.71% with SV – -1.82% without SV revenue and assuming SV expenditure. ▼ Infrastructure backlog is forecast to improve to \$2.2 million in 2026-27 with the SV, but will grow to \$5.8 million by 2026-27 without the SV. ▼ Asset maintenance ratio is forecast to improve to 83% by 2026-27 with the SV, without the SV it is forecast to be 54% in 2026-27.
2. Community awareness	
	<p>The council demonstrated that the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> ▼ used a range of engagement methods to make the community aware of the need for and extent of the rate increase through direct mail, website exhibition, focus groups and community surveys ▼ provided a detailed explanation about the purpose and impact of the SV and sought feedback, and ▼ satisfactorily considered community feedback on the rate increase.
3. Impact on ratepayers	
	<p>The impact on ratepayers will be substantial but reasonable, given:</p> <ul style="list-style-type: none"> ▼ residential rates is much lower than neighbouring and Group 9 councils ▼ current business rates are higher than the average for OLG Group 9 councils, but lower than most neighbouring councils, and ▼ the rate to income ratio is significantly lower than neighbouring and Group 9 councils.
4. IP&R documents exhibited	
	<p>The council meets this criterion although its 2017 adopted Delivery Program (DP) did not explain the SV. A revised DP was exhibited from 9 February 2018. This does not meet the requirement to publicly exhibit the Delivery Program prior to applying for the SV. However, the council:</p> <ul style="list-style-type: none"> ▼ exhibited and adopted its Community Strategic Plan in July 2017 which broadly discussed community priorities, ▼ set out four funding options including the SV option and ratepayer impacts for each option in its revised Long Term Financial Plan (LTFP) which was exhibited for 28 days from 10 January 2018, and ▼ fully explained the SV scenarios using different communication methods as part of its Community Engagement Program.
5. Productivity improvements and cost containment	
	<p>The council partially explained its productivity improvements and cost containment strategies although past efficiencies were not demonstrated or quantified.</p> <p>The LTFP for the SV period includes savings of:</p> <ul style="list-style-type: none"> ▼ \$25,000 per year from reviews of service delivery and operational processes, and ▼ \$20,000 per year from improved asset management. <p>The council noted it is implementing measures from a government Performance Improvement Order (PIO), but did not discuss these measures in detail or the savings resulting from them.</p>
6. Additional matters	
	<p>IPART considered additional factors related to the council, such as - small size and limited access to resources, small rate base, significant financial need and the state government PIO.</p>

1.3 We have attached conditions on how the council can spend its extra revenue

We have attached conditions to this decision, including that the council uses the income raised from the special variation for purposes consistent with those set out in its application. Box 1.2 summarises these conditions.

Box 1.2 Conditions attached to Balranald Shire Council's approved special variation

IPART's approval of Balranald Shire Council's application for a special variation over the period 2018-19 to 2024-25 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding operating and capital expenditure for its key assets - buildings, roads, bridges and drainage networks, and improving its financial sustainability as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report for each year from 2018-19 to 2027-28 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
 - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

1.4 Structure of this report

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

- ▼ Chapter 2 outlines the council's application for the special variation
- ▼ Chapter 3 explains our assessment of the council's application against each criterion
- ▼ Chapters 4 and 5 discuss how our decision will impact the council and its ratepayers.

2 Balranald Council's application

Balranald Council applied for a special variation to increase its general income by a cumulative 94.87% over the seven-year period from 2018-19 to 2024-25, and to permanently retain this increase in its general income base.⁴ As required under the OLG Guidelines⁵, the council applied for the special variation on the basis of its most recent, adopted Integrated Planning and Reporting (IP&R) documents, in particular the:

- ▼ Community Strategic Plan
- ▼ Delivery Program 2017-2021 (Delivery Program)
- ▼ Long Term Financial Plan 2017- 2027 (LTFP), and
- ▼ Asset Management Strategy.

TCorp's 2013 review of Balranald Council assessed its financial sustainability as 'weak' with a 'negative' outlook. TCorp recommended the council address its forecast operating deficits and level of capital expenditure.⁶

In April 2017, the NSW Government issued the council with a Performance Improvement Order (PIO) because, among other matters, it had run large operating deficits and the LTFP did not provide a reliable path to a break-even result. The council prepared an Action Plan in response to the PIO, which included a special variation to ensure the future financial sustainability of its asset management program.

The council's special variation application is consistent with its PIO Action Plan. The council considers it is necessary to increase its rate revenue to meet the Operating Performance Ratio benchmark of greater than zero within five years, and assist in achieving the required Fit for the Future (FFTF) benchmarks for spending on asset renewal and asset maintenance.⁷

The council estimates if the requested special variation is approved, its permissible general income would increase from \$1.4 million in 2018-19 to \$2.7 million in 2024-25. Over the seven-year period of the special variation to 2024-25, this would generate additional revenue of \$3.7 million compared to rate increases at the assumed rate peg. This figure would increase to \$7.0 million over a 10-year period, as the additional revenue raised would remain permanently in the council's rate base.⁸

The council indicated it intends to use the additional revenue to fund operating and capital expenditure for its key assets: buildings, roads, bridges and drainage networks, and to improve its financial sustainability.⁹

⁴ Balranald Council, *Application Part A, Worksheet 4*.

⁵ OLG Guidelines, p 6.

⁶ TCorp, *Balranald Shire Council – Financial Assessment, Sustainability and Benchmarking Report*, April 2013, p 24.

⁷ Balranald Council, *Application Part B*, pp 8-9.

⁸ Balranald Council, *Application Part A, Worksheet 1* and IPART calculations

⁹ Balranald Council, *Application Part A, Worksheet 6* and *Application Part B*, p 26.

During the seven-year period of the special variation, the council proposes to spend \$4.3 million on its capital and operational expenditures program. This expenditure would rise to \$7.2 million over the 10-year-period. In addition to the \$7 million generated by the special variation, it would be funded partly by \$0.2 million of grants and reserves.¹⁰

The council's LTFP indicates that over the period from 2018-19 to 2027-28 it proposes to spend the additional special variation revenue as follows:

- ▼ \$2.4 million on operational expenditure for rural collector roads maintenance
- ▼ \$3.8 million on capital expenditure for rural collector roads maintenance, and
- ▼ \$0.9 million on capital expenditure for building maintenance.¹¹

Appendices B and C provide more details on the council's proposed program of expenditure to 2027-28.

¹⁰ Balranald Council, *Application Part A*, Worksheet 6.

¹¹ Balranald Council, *Application Part A*, Worksheet 6 and email to IPART, Balranald Shire Council, 27 February 2018.

3 IPART's assessment

To make our decision, we assessed Balranald Council's application against the criteria in the OLG Guidelines. We also considered the council's most recent IP&R documents and a range of comparative data about the council set out in Appendix D.¹²

We found that overall, Balranald Council's application met the requirements of the criteria. In making this decision we have also considered the small size and limited resources of the council, the purpose of the special variation, and current and future rate levels in Balranald Shire compared to similar and neighbouring councils.

Our assessment of the council's application against the criteria is summarised in Table 1.2 and discussed in more detail in the sections below.

3.1 The council demonstrated financial need for the special variation

We found that Balranald Council's IP&R documents reasonably set out the need for, and purpose of the requested special variation, which is to:

- ▼ fund asset maintenance, renewal and operational costs, and
- ▼ improve financial sustainability.

The council's IP&R documents indicate the community's priorities are to maintain infrastructure and assets to support the needs of the population.

The council has also analysed the financial impact of the special variation on its operating performance and infrastructure backlog, and canvassed alternative funding strategies.

3.1.1 Financial need – background and history

Balranald Council is a 'remote' (OLG Group 9) council located in southwestern NSW. It has a population of 2,300 and low average residential rates in 2017-18 of \$283 per year.¹³ The council relies on grants and contributions, which accounted for 68% of its General Fund revenue in 2016-17.¹⁴ In contrast, rate revenue comprised only 14% of total revenue. Additionally, its location and size significantly increase the cost of service delivery.

The low proportion of total revenue collected from rates suggests any special variation that materially improves the council's financial sustainability would require a significant rate increase.

¹² See Appendix D. Balranald Council is in OLG Group 9, which is classified as Rural Medium Agricultural (population 2,001–5,000) or Remote (population 1,001–3,000). The group comprises 14 councils, including Hay Shire, Murray River and Central Darling.

¹³ ABS 2016 Census data www.censusdata.abs.gov.au and OLG data.

¹⁴ Balranald Council, *Annual Report 2016-17*.

The council's application for a cumulative rate increase of 94.87% over seven-years is sizeable. However, Balranald Council's average residential rate at \$241 in 2015-16 is substantially lower than the average residential rate for its OLG Group 9 peers, which was \$372 in the same year. Even with the proposed increase, Balranald Council's average residential rate in 2024-25 at \$552 is lower than neighbouring councils' average rates, and its rate to income ratio should be similar to Group 9 peers.¹⁵

As noted in Chapter 2, in 2013, TCorp recommended the council address its forecast operating deficits and level of capital expenditure.¹⁶

Box 3.1 summarises TCorp's assessment and the Government's Performance Improvement Order for Balranald Council.

Box 3.1 TCorp Assessment and Performance Improvement Order (PIO)

TCorp's assessment of the council in 2013 found it had a negative financial outlook. TCorp concluded without an improvement in its operating result, and an increased capacity to provide funding for its asset renewal and capital expenditure, the council's future financial position and sustainability would be under increasing pressure.

The Minister for Local Government issued a Performance Improvement Order (PIO) for Balranald Council in April 2017, which included the appointment of a temporary advisor. Part of the reasoning for the PIO was:

- ▼ A failure by council to meet its legislative responsibilities in respect of its financial and governance obligations.
- ▼ That the council has budgeted for and subsequently run large operating deficits over a number of years. At the same time, the council has not had a reliable Long Term Financial Plan (LTFP) to provide a path to achieve a break-even result or an ongoing surplus in the future.

In a response to these challenges and the requirements of the state government, the council developed and reviewed its IP&R documents, including a revision of its LTFP, which included the special variation scenario. The council adopted the revised version of the LTFP in October 2017.

Source: Balranald Council, *Application Part B*, pp 8-10.

3.1.2 Impact on council's operating performance

The operating performance ratio (OPR) measures whether a council's revenues fund its costs. The definition of OPR is:

$$OPR^{17} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

¹⁵ See section 3.3.2.

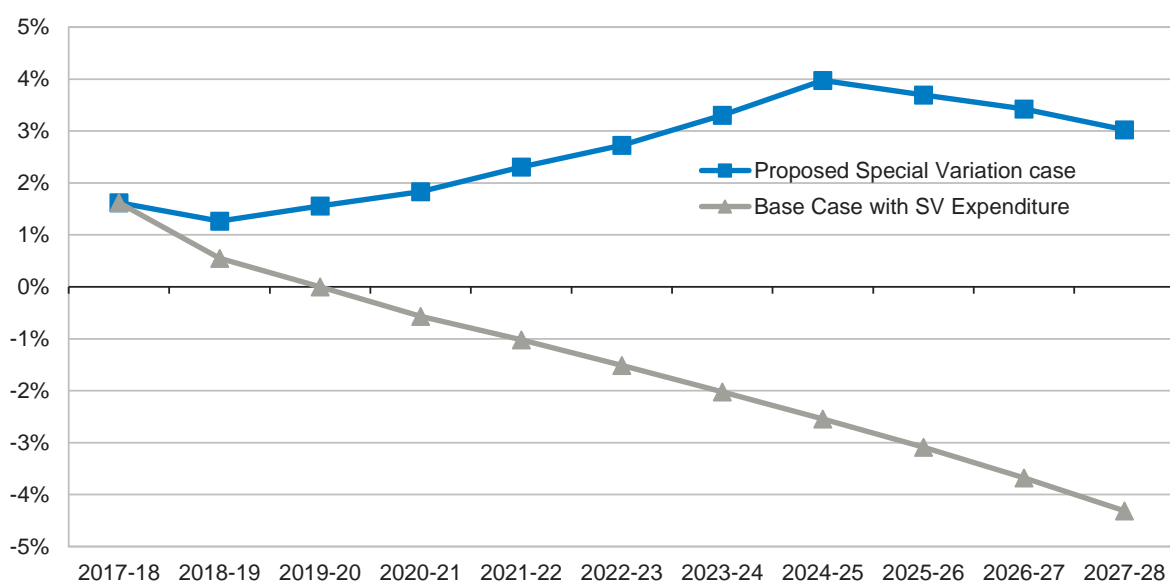
¹⁶ TCorp, *Balranald Shire Council – Financial Assessment, Sustainability and Benchmarking Report*, April 2013.

¹⁷ Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

Under the special variation scenario, the council forecasts consistent operating surpluses, growing to 3% by 2027-28. The cumulative value of these forecast surpluses is \$4.5 million to 2027-28.¹⁸

Without the special variation, and assuming its expenditure is the same as under the special variation scenario, Balranald Council forecasts consistent operating deficits, as shown by the Base Case with SV expenditure scenario in Figure 3.1 and Table 3.1. The cumulative value of these forecast deficits (before capital grants and contributions) is \$2.9 million to 2027-28.¹⁹ Hence, without the special variation, the council's sustainability would deteriorate, and it would not generate sufficient funds to address its infrastructure backlog and service the community.

Figure 3.1 Balranald Shire Council's Operating Performance Ratio (%) excluding capital grants and contributions (2017-18 to 2027-28)



Source: Balranald Council, *Annual Financial Statements*, various; Balranald Council, *Application Part A*, Worksheet 7 and IPART calculations (Base Case with SV expenditure excludes gain/loss on sale of assets)

Table 3.1 Projected operating performance ratio (%) for Balranald Council's special variation application

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Application – including SV	1.26	1.56	1.83	2.31	2.73	3.31	3.98	3.70	3.42	3.03
Base case with SV expenditure	0.55	0.00	-0.57	-1.02	-1.51	-2.02	-2.54	-3.09	-3.67	-4.31

Source: IPART calculations based on Balranald Council, *Application Part A*, Worksheet 7.

¹⁸ Balranald Council, *Application Part A*, Worksheet 7.

¹⁹ Balranald Council, *Application Part A*, Worksheet 7.

3.1.3 Impact on council's infrastructure backlog and asset maintenance

The council estimates that it would cost \$2.8 million to bring its assets to a satisfactory standard, eliminating its infrastructure backlog. This is consistent with its *Strategic Asset Management Plan*.²⁰

Measured as a percentage of the written down value of infrastructure assets,²¹ the infrastructure backlog ratio for 2016-17 is 2.6%. This is higher than the FFTF benchmark of less than 2%. With the special variation, the council forecasts the backlog will reduce to \$2.2 million by 2027-28 and the ratio will improve to 2.2%.²²

Without the special variation, the council forecasts its infrastructure backlog will increase to \$5.8 million by 2026-27 as its assets deteriorate, with the backlog ratio forecast to rise to 5.9%, considerably higher than the 2% benchmark.²³

Similarly, the council forecasts its asset maintenance ratio would improve to 83% by 2026-27 with the special variation. It forecasts the ratio would remain at 54% to 2026-27 without the special variation, considerably below the 100% benchmark.²⁴

3.1.4 Alternative funding strategies

Balranald Council is also undertaking a review of its operations and management on a continuing basis in an effort to achieve further operational efficiencies and savings in service delivery. Future initiatives include:

- ▼ reviewing its aged care facility operations to reduce the operating deficit
- ▼ reviewing its rating structure which may lead to further re-categorisation of properties, and
- ▼ exploring increases in fees and charges to collect additional revenue.²⁵

In addition, the council is undertaking a program of service reviews to identify further cost efficiencies.

3.2 The council demonstrated community engagement and awareness

We found that Balranald Council demonstrated its community is aware of the need for and extent of the proposed rate increase.

In 2017-18, the council reviewed its IP&R documents in consultation with the community and developed a detailed Community Engagement Program, which the council adopted and implemented later in the year. The council clearly explained the need for, the purpose, and the extent of the proposed special variation. In particular, it communicated the full

²⁰ Balranald Council, *Annual Report, 2016-17*, Special Schedule 7, Long Term Financial Plan, pp 26-32.

²¹ Historical cost less accumulated depreciation.

²² Balranald Council, *Additional Information requested by IPART (3)*, pp.4,5.

²³ Balranald Council, *Additional Information requested by IPART (3)*, pp.4,5

²⁴ Balranald Council, *Additional Information requested by IPART (3)*, pp.4,5. The asset maintenance ratio measures the amount spent on asset maintenance divided by the amount required to be spent on asset maintenance.

²⁵ Balranald Council, *Application Part B*, p 12.

cumulative increase of the special variation in percentage terms, and the total increase in dollar terms for the average ratepayer by rate category. This information was included in the engagement leaflet mailed to ratepayers in October 2017, along with a survey for feedback.²⁶

In addition to direct mail, the council included a section on its website dedicated to the special variation with a Frequently Asked Questions and feedback option for the community. As part of this program, the council ran five focus group sessions, with 153 individuals (6.6% of the total population) attending in major council locations – Kyalite, Balranald, Clare and Euston. The council provided information about its proposed special variation in the local newspaper and during an interview on ABC radio.²⁷

3.2.1 Outcome of consultation with community

Although this criterion does not require councils to demonstrate community support for the special variation, they are required to consider the results of their community consultation in preparing their application. Balranald Council's consultation indicated its community's preference was to keep the council sustainable but to keep rates at the same level.

The focus group sessions suggested the community was largely satisfied with the current level of services, but was dissatisfied with the quality of roads which was the most important service provided by the council.²⁸

Based on the outcome of the community consultation, the council decided to apply for the special rate variation.

3.2.2 Submissions from the community

The council received 187 written submissions (representing 8% of the total council population) on its special variation application. This included 155 opposing the application and 14 in favour.²⁹ The main reasons for opposition were:

- ▼ concerns about poor governance, inefficient management, lack of services provided
- ▼ poor communication between council and the community, and
- ▼ the affordability of paying higher rates.

There were 15 respondents to the council's website survey regarding the special variation proposal.³⁰

The council considered the community's feedback by:

- ▼ launching a comprehensive information campaign describing the weak financial position of the council and possible options for future development

²⁶ Balranald Council, *Application Part B*, p 21.

²⁷ Balranald Council, *Application Part B*, pp 21-23.

²⁸ Balranald Council, *Application Part B*, p 23.

²⁹ Balranald Council, *Application Part B*, p 23.

³⁰ Balranald Council, *Application Part B*, p 23.

- ▼ providing analysis of comparative rates to income ratios between neighbouring and similar councils, and
- ▼ communicating the impact of the rate increase to ratepayers and providing options for feedback.

IPART received five submissions opposing the special variation application, mainly on the grounds of affordability and the poor governance of the council. These concerns were broadly similar to the feedback received by the council.

3.3 The impact on ratepayers is substantial but reasonable

As Chapter 2 discussed, Balranald Council requested a seven-year cumulative increase of 94.87% that will remain permanently in the rate base, 10% in each year from 2018-19 to 2024-25.

We found that the impact of these increases on ratepayers would be substantial but reasonable, given:

- ▼ current average rate levels
- ▼ the community's capacity to pay, based on a rates to median income ratio that is comparable to or below similar and neighbouring councils
- ▼ the council's financial sustainability, and
- ▼ the forecast infrastructure backlog.

3.3.1 Council's consideration of impact on ratepayers

The council considers the existing community has the capacity and willingness to pay. As section 3.2.1 outlined, through multiple surveys of the community, the council has identified community dissatisfaction with key infrastructure assets, particularly the road network.

The council has a hardship policy dedicated to resolving financial hardship issues. The council submitted that it addresses these issues in a fair manner and according to the policy. For example, it notes it can sometimes waive rate payments or accept a later payment. It has also reduced its outstanding rates and charges ratio from 17.6% in 2013 to 9.7% in 2017.³¹

3.3.2 IPART's assessment of impact on ratepayers

To assess the reasonableness of the impact of the special variation on ratepayer, we examined the council's special variation history and the average annual growth of rates in various rating categories. We found that since 2007-08:

- ▼ the council has not applied for a special variation, and
- ▼ the average annual growth in residential rates was 4.37% and 2.78% for business rates, which compares with the average annual growth in the rate peg of 2.71% over the same period.³²

³¹ Balranald Council, *Application Part B*, pp 30-31.

³² IPART calculations based on OLG data

We also compared current rates and socio economic indicators for Balranald Council with neighbouring councils and other Group 9 councils as shown in Table 3.2.

Table 3.2 Balranald Shire Council - comparison of rates and socio-economic indicators with neighbouring councils and Group 9 averages (2015-16)

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$)	Median annual household income (2016) ^b	Average rate to median income ratio (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Central Darling Shire (9)	273	295	46,852	0.6	N/A	2
Hay Shire (9)	547	1,450	55,900	1.0	11.2	26
Wentworth Shire (10)	709	5,129	54,704	1.3	5.6	49
Murray River (11)	689	875	55,172	1.2	N/A	78
Balranald (9)	241	794	61,048	0.4	9.3	30
OLG Group 9 average	372	604	56,843	0.7	4.6	

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

b Median annual household income is based on 2016 ABS Census data.

c The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2015-2016; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Based on 2015-16 data, we found that Balranald Council's:

- ▼ average residential rate (\$241) was 35% lower than the average for Group 9 councils and over 50% lower than neighbouring councils; Hay Shire, Wentworth Shire, and Murray River Shire
- ▼ average business rate (\$794) was 32% higher than the average for OLG Group 9 councils (\$604), but lower than most neighbouring councils
- ▼ average residential rate in 2024-25 if the full rate increase in this special variation is applied, is estimated at \$552, which is lower than the current average rates in neighbouring councils' Hay Shire, Wentworth Shire and Murray River Shire
- ▼ average rate to income ratio was 40% lower than the average for Group 9 councils, and over 50% lower than neighbouring councils Hay Shire, Wentworth Shire and Murray River Shire, and
- ▼ rates to income ratio is estimated to increase from 0.4% to 0.7% in 2024-25, even after the full rate rise to 2024-25, which is lower than most neighbouring councils now and similar to the Group 9 average.³³

Taking into account Balranald Council's average residential rate is lower than similar councils, its financial need is high, and the state government Performance Improvement Order, we consider the impact of the rate increase is substantial but reasonable.

³³ The calculation assumes average income growth of 2.5% per year.

3.4 The council partially met the requirement for exhibiting its IP&R documents

The council adopted its Balranald Community Strategic Plan and Delivery Program in July 2017.³⁴ These documents broadly identified the need for a special variation and actions to prepare and submit a special variation application.³⁵

However, the Delivery Program did not fully explain the size of the special variation and its impact on ratepayers as required by the OLG guidelines. The council revised its Delivery Program to include the size and impact of the special variation and adopted it in January 2018. However, it only exhibited the document from 9 February 2018. This fails to meet the requirement to exhibit the document for 28 days before submitting an application to IPART.

The council also revised its LTFP, which it adopted in October 2017. The revised LTFP clearly sets out the special variation and other funding scenarios and discusses the size, cumulative increases and estimated impact on ratepayers from the proposed special variation. The council exhibited the revised LTFP on 10 January 2018. The LTFP was exhibited for 28 days prior to the Council's application on 12 February.

In addition, as discussed in section 3.2, the council's Community Engagement Program, implemented in October 2017, used a variety of methods to communicate the size, cumulative increases and impact of the special variation on ratepayers.

The council did not fully satisfy the requirement of publicly exhibiting its Delivery Program with the relevant special variation information prior to applying to IPART. However, the council did publicly exhibit its LTFP, which contained the relevant information, for 28 days prior to its application. Therefore, we consider that on balance, it met the requirement by providing public access to the special variation information in a clear manner and within an appropriate timeframe.

3.5 The council explained its productivity improvements and cost containment strategies

Balranald Council's application sets out the productivity improvement and cost containment initiatives it plans to implement in the future. The council suggests it has achieved some operational efficiency with a reduction of depreciation costs through revaluing its assets, reducing costs by \$2 million per year. However, it notes it still does not have sufficient funds to meet the costs of providing services at current levels or to address its infrastructure backlog.³⁶

The council submitted it has very limited capacity to deliver significant ongoing productivity improvements. Its LTFP incorporates a service review program, which will see the review of one to two services each year. In future periods it anticipates:

- ▼ a review of service delivery and operational processes and procedures will result in cost savings of \$25,000 per annum, and

³⁴ Balranald Council, Attachment 9, *Resolution to adopt revised Community Strategic Plan and or Delivery Program*.

³⁵ Balranald Council, *Application Part B*, p 5.

³⁶ Balranald Council, *Application Part B*, p 34.

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- ▼ better management of the Retirement Hostel will result in a reduction of operating expenses by \$20,000 per year.³⁷

As discussed in section 3.1, Balranald Council received a PIO in 2017 and was assigned a temporary advisor. As part of this process, the Minister for Local Government recommended 39 actions to improve its productivity. The council says it has completed eight of these recommendations and others are ongoing. It has not provided an estimate of the achieved savings.³⁸

We conclude the council has satisfied the productivity criteria by providing cost containment strategies for the future, and by progressively implementing the PIO's recommendations to improve productivity.

3.6 IPART's consideration of additional factors

In assessing Balranald Council's special variation application we have taken into account its:

- ▼ small size and limited access to resources
- ▼ small rate base with low current residential rates (\$283 per year average in 2017-18)
- ▼ the significant financial need for additional revenue, and
- ▼ the state government PIO.

We find Balranald Council's application meets the requirements of the OLG criteria.

³⁷ Balranald Council, *Page 33 – SRV amendment to application*

³⁸ Balranald Council Application, *Long Term Financial Plan*, Appendix A.

4 Our decision's impact on the council

Our decision means Balranald Council may increase its general income over the seven-year special variation period from \$1.4 million in 2017-18 to \$2.7 million in 2024-25. Table 4.1 shows the percentage increases we have approved, and estimates the annual increases in the dollar amounts to the council's general income incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2024-25, the council's permissible general income can increase up to the annual rate peg unless we approve a further special variation.

Table 4.1 Permissible general income of Balranald Shire Council from 2018-19 to 2024-25 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
2017-18				1,363,573
2018-19	10.00%	10.00%	136,357	1,499,931
2019-20	10.00%	21.00%	149,993	1,649,924
2020-21	10.00%	33.10%	164,992	1,814,916
2021-22	10.00%	46.41%	181,492	1,996,408
2022-23	10.00%	61.05%	199,641	2,196,049
2023-24	10.00%	77.16%	219,605	2,415,653
2024-25	10.00%	94.87%	241,565	2,657,219
Total increase approved			1,293,645	

Note: The above information is correct at the time of the council's application (February 2018).

Source: Balranald Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The council estimates over the seven years to 2024-25 it will collect, in total, an additional \$3.7 million of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the council requested to enable it to fund asset maintenance and capital renewal, and address its infrastructure backlog.

The effect on the council's general income is shown in Table 4.1 and the effect on its financial outlook is shown in Figure 3.1. In particular, the increase in rates would allow the council to generate operating surpluses to 2027-28.

5 Our decision's impact on ratepayers

IPART sets the allowable increase in general income, but it is a matter for each council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

In its application, Balranald Council indicated it intended to increase rates uniformly for each category by 10% per year over the seven years, or 94.87% in total.

The council has calculated that:

- ▼ the average residential rate would increase by 94.8% or \$269 over 7-years, or by \$28 in the first year
- ▼ the average business rate would increase by 96.7% or \$920 over 7-years, or by \$105 in the first year, and
- ▼ the average farmland rate would increase by 94.3% or \$1,841 over 7-years, or by \$189 in the first year.³⁹

Table 5.1 sets out Balranald Council's estimates of the expected increase in the average rate in each ratepayer category.

³⁹ Balranald Council, *Application Part B*, p 27.

Table 5.1 Indicative annual increases in average rates under Balranald Shire Council's approved special variation 2018-19 to 2024-25

Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Cumulative Increase 2018-25
Average Residential rate \$	283	312	343	377	415	456	502	552	
\$ increase		28	31	34	38	41	46	50	269
% increase		9.9	10.0	10.0	10.0	10.0	10.0	10.0	94.8
Average Business rate^a \$	951	1,056	1,162	1,278	1,406	1,546	1,701	1,871	
\$ increase		105	106	116	128	141	155	170	920
% increase		11.0	10.0	10.0	10.0	10.0	10.0	10.0	96.7
Business - Mining rate^b \$	445	517	569	626	688	757	833	916	
\$ increase		72	52	57	63	69	76	83	471
% increase		16.1	10.0	10.0	10.0	10.0	10.0	10.0	105.7
Average Farmland rate \$	1,952	2,141	2,355	2,591	2,850	3,135	3,448	3,793	
\$ increase		189	214	236	259	285	313	345	1,841
% increase		9.7	10.0	10.0	10.0	10.0	10.0	10.0	94.3

a Business rates includes mining rates as a sub-category.

b We have shown mining rates separately as most other councils have a separate mining rate category.

Note: 2017-18 is included for comparison. The average rate is calculated by Balranald Council, and includes the ordinary rate and any special rates applying to the rating category.

Source: Balranald Council, *Application Part A*, Worksheet 5a.



Appendices



A Assessment criteria for special variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
<p>Criterion 1 – Financial need</p> <p>The need for and purpose of a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate.</p> <p>In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:</p> <ul style="list-style-type: none"> ▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and ▼ Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation. <p>Evidence to establish this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.</p>
<p>Criterion 2 – Community awareness</p> <p>Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.</p>
<p>Criterion 3 – Impact on ratepayers is reasonable</p> <p>The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rate rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.
<p>Criterion 4 – IP&R documents are exhibited</p> <p>The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.</p>
<p>Criterion 5 – Productivity improvements and cost containment strategies</p> <p>The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>
<p>Criterion 6 – Additional matters</p> <p>IPART's assessment of the size and resources of the council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.</p>

Source: OLG Guidelines, November 2017, pp 7-9.

B Expenditures to be funded from special variation above the rate peg

Table B.1 and Table B.2 show Balranald Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of \$7.0 million and \$0.2 million from reserves (total \$7.2 million), over 10 years to fund:

- ▼ rural collector roads maintenance and renewal (\$6.2 million), and
- ▼ capital maintenance of the buildings (\$1.0 million).⁴⁰

As a condition of IPART's approval, the council will indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

⁴⁰ Email to IPART, Balranald Shire Council, 27 February 2018.

Table B.1 Balranald Shire Council – Income and proposed expenditure over 10-years related to the special variation (\$000)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Special variation income above assumed rate peg	105	220	349	494	656	837	1,040	1,066	1,092	1,119	6,979
Funding for increased operating expenditures	150	165	182	200	220	242	266	292	322	354	2,391
Funding for capital expenditure	300	330	363	399	439	483	531	585	643	707	4,781
Total expenditure	450	495	545	599	659	725	797	877	965	1,061	7,172

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Balranald Council, *Application Part A*, Worksheet 6, and IPART calculations.

Table B.2 Balranald Shire Council – Proposed 10-year capital expenditure program related to the special variation (\$000)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Buildings											
Renewals	60	66	73	77	88	97	103	117	128	142	950
Roads and bridges											
Renewals	240	264	290	322	351	387	428	468	515	566	3,831
Total Asset Renewal	300	330	363	399	439	483	531	585	643	707	4,781
Total Capital Expenditure	300	330	363	399	439	483	531	585	643	707	4,781

Note: Numbers may not add due to rounding.

Source: Balranald Council, *Application Part A*, Worksheet 6 and IPART calculations.

C Balranald Council's projected revenue, expenses and operating result

As a condition of IPART's approval, Balranald Council is to report annually against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (shown in Table C.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes capital grants and contributions.

Table C.1 Summary of projected operating statement for Balranald Shire Council, 2017-18 to 2027-28 (\$000)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total revenue	16,399	15,205	15,574	15,954	16,406	16,866	17,369	17,908	18,294	18,695	19,090
Total expenses	13,697	14,165	14,478	14,802	15,158	15,528	15,909	16,299	16,700	17,117	17,551
Operating result from continuing operations	2,702	1,040	1,096	1,152	1,247	1,337	1,460	1,609	1,594	1,579	1,539
Net operating result before capital grants and contributions	1,852	181	229	276	358	435	544	675	641	607	548

Note: Numbers may not add due to rounding.

Source: Balranald Council, *Application Part A*, Worksheet 7.

D Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or for a group of similar councils, or by comparing similar councils at a point in time.

Table D.1 shows how selected performance indicators for Balranald Council have changed over the four years to 2015-16. Table D.2 compares selected published and unpublished data about Balranald Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

Overall, the tables below show that:

- ▼ the number of Full-Time Equivalent (FTE) staff is below the Group 9 average (79)
- ▼ the council has a declining population and a rising number of employees, these two factors explain the decrease in the ratio of population to FTE
- ▼ average cost per FTE is declining over time and below the Group 9 average (\$72,024), refer to Table D.2, and
- ▼ employee costs as a percentage of operating expenditure has increased since 2012-13. This is due to operating expenditure falling at a faster rate than employee expenses since 2012-13.

Table D.1 Trends in selected performance indicators for Balranald Shire Council, 2012-13 to 2015-16

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	62	63	63	66	2.1
Ratio of population to FTE	38	38	38	35	-2.7
Average cost per FTE (\$)	68,645	76,975	69,508	61,955	-3.4
Employee costs as % operating expenditure (General Fund only)	24.8	27.2	30.6	32.4	N/A

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

Table D.2 Select comparative indicators for Balranald Shire Council, 2015-16

	Balranald Council	OLG Group 9 average	NSW average
General profile			
Area (km ²)	21,691	-	-
Population	2,310	-	-
General Fund operating expenditure (\$m)	12.0	12.9	70.2
General Fund operating revenue per capita (\$)	5,047	-	-
Rates revenue as % General Fund income	11.8	20.1	43.6
Own-source revenue ratio (%)	26.7	47.9	67.3
Average rate indicators^a			
Average rate – residential (\$)	241	372	1,017
Average rate – business (\$)	794	604	5,118
Average rate – farmland (\$)	1,857	2,801	2,366
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ^b	61,048	56,843	77,272
Average residential rate to median income ratio (%)	0.4	0.7	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	30		
Outstanding rates and annual charges ratio (%)	9.3	4.9	3.6
Productivity (labour input) indicators^c			
FTE staff (number)	66	79	354
Ratio of population to FTE	35	-	-
Average cost per FTE (\$)	61,955	72,024	83,193
Employee costs as % operating expenditure (General Fund only)	32.4	41.5	39.7

^a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

^b Median annual household income is based on 2016 ABS Census data.

^c Data includes General Fund, Water & Sewer and other funds, if applicable (unless noted otherwise). There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Note: Except as noted, data is based upon total council operations for General Fund only.

Source: OLG, *Time Series Data 2015-2016*, OLG, unpublished data; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.