

Independent Pricing and Regulatory Tribunal
New South Wales

Bellingen Shire Council's application for a special variation for 2017-18

under section 508(2) of *Local Government Act 1993*

Determination
Local Government

May 2017



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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises 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.

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (s508(2)) or for successive years up to seven years (s508A).

IPART assesses these applications against criteria in the Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2017-18.

Bellingen Shire Council (Bellingen Council) applied for a single year special variation under section 508(2). The council requested an increase of 6.0% for 2017-18, to remain permanently in the rate base.²

After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2017-18

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. 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.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, December 2016 (the Guidelines).

² Bellingen Shire Council, *Special Variation Application Form Part A 2017-18* (Bellingen Council, *Application Part A*), Worksheet 1.

Our decision enables the council to undertake a targeted sealed roads resurfacing program, reduce its infrastructure backlog and enhance financial sustainability.

The council has consulted its community on the special variation, by exhibiting and updating its Integrated Planning and Reporting (IP&R) documents and in preparing its application to IPART.

1.1 Our decision

We determined that Bellingen Council may increase its general income in 2017-18 by 6.0%, including the rate peg of 1.5% that is available to all councils (see Table 1.1). The special variation can be retained in the council's general income base permanently.

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.

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

Table 1.1 IPART's decision on Bellingen Shire Council's application for a special variation in 2017-18

| Component | % |
|---|------------|
| Increase to fund sealed roads renewal program | 4.5 |
| Rate peg | 1.5 |
| Total increase | 6.0 |

Source: Bellingen Council, *Application Part A*, Worksheet 1 and Worksheet 6, and *Application Part B*, p 11.

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

IPART's approval of Bellingen Shire Council's application for a special variation in 2017-18 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of implementing a sealed roads renewal program, reduce the infrastructure backlog and enhance financial sustainability as outlined in the council's application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2017-18 to 2026-27 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the LTFP provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current LTFP and any corrective action taken or to be taken to address any such variation
 - expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

2 What did the council request and why?

Bellingen Council applied to increase its general income by 6.0% in 2017-18, consisting of:

- ▼ a 4.5% increase to fund a sealed roads renewal program, and
- ▼ the rate peg of 1.5%.³

In the council's initial Fit For The Future (FFTF) assessment, IPART identified the council had limited options to improve its financial position and relied on the successful application of a special variation from 2016-17 of 69% cumulative over nine years.⁴ In a resubmission to the OLG in 2016, the council proposed a special variation with a 6% increase per year (including the rate peg) for seven years from 2017-18, a cumulative increase of 50.36%.⁵

The council has applied for a single year special variation in 2017-18 instead of the proposed nine and seven year special variation application in the FFTF assessment and OLG reassessment respectively. This will enable the council to assess the merit of future applications based on potential growth, assessing the impact of operational efficiencies and the impact of legislative changes. The council is taking the approach that if a rate rise is not needed, it will not apply over consecutive years.

The 6% special variation application in 2017-18 for a single year only is to be permanently incorporated in the rate base. The council's permissible general income would increase from \$6.9 million in 2016-17 to \$7.3 million in 2017-18.⁶

The special variation would generate additional revenue of \$310,000 in 2017-18 compared to a rate increase at the assumed rate peg. This would generate \$3.5 million over a 10-year period, as the special variation remains permanently in the council's rate base.⁷

The increase is intended to fund a sealed roads renewal program, reduce the infrastructure backlog and improve the council's financial sustainability.⁸ The council indicated it proposed to spend all of the \$310,000 income in 2017-18 on a targeted sealed roads renewal program.

More detail on the council's proposed program of expenditure to 2026-27 is provided in Appendices A and B.

³ Bellingen Council, *Application Part A*, Worksheet 4 and *Application Part B*, p 7.

⁴ Bellingen Council, *Application Part B*, p 10.

⁵ Bellingen Council, *Application Part B*, pp 10-11 and IPART calculations.

⁶ Bellingen Council, *Application Part A*, Worksheet 1.

⁷ Bellingen Council, *Application Part A*, Worksheet 6.

⁸ Bellingen Council, *Application Part B*, pp 10-11.

3 How did we reach our decision?

We assessed the council's application against the criteria in the Guidelines. In making our assessment the information we considered included:

- ▼ the council's most recent IP&R documents
- ▼ its 2015 FFTF proposal to IPART
- ▼ its 2016 resubmitted FFTF proposal to OLG on the council's financial future,⁹ and
- ▼ a range of comparative data about the council set out in Appendix C.¹⁰

Bellingen Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan – Shire of Bellingen 2030 (CSP), Delivery Program September 2012 – September 2016 (Delivery Program)*,¹¹ *Long Term Financial Plan 2016/17 to 2025/2026* and *Asset Management Plan*.

We considered the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

We found the council's application met the criteria:

1. The **need for the proposed revenue** reflects community priorities as demonstrated in its IP&R documents and is supported by its FFTF proposal and OLG's 2016 assessment of the council's financial sustainability.
2. The council provided evidence that **the community is aware** of the need for and extent of the rate rise. It used a variety of strategies to inform the community. There were sufficient opportunities for community feedback, and there is evidence the council considered the community's views.
3. The **impact of the proposed rate rises on ratepayers** is modest given the council's existing rate levels, its history of special variations, the purpose of the special variation, indicators of the community's capacity to pay and the socio-economic position of ratepayers.
4. The council demonstrated evidence the relevant **IP&R documents have been exhibited and adopted**.
5. The council demonstrated **productivity savings and cost containment strategies** in past years, and has indicated its intention to realise further savings during the period of the special variation.

⁹ Office of Local Government, *Fit For The Future Reassessment Report; Annexure B – Assessment Summaries by Council*, December 2016, p 10.

¹⁰ See Appendix C. Bellingen Council is in OLG Group 11 which is classified as Rural Very Large Agricultural (with population between 10,001 and 20,000). The group comprises 21 councils, including Nambucca Shire and Inverell Shire councils.

¹¹ The Delivery Program was updated and placed on exhibition after 15 December 2016. The Delivery Program was then adopted with minor amendments on 8 February 2017.

Table 3.1 summarises our assessment against the criteria. The sections following the table discuss some of our findings in more detail.

Table 3.1 Summary of IPART’s assessment of Bellingen Shire Council’s application for a special variation against the criteria in the Guidelines

| Criterion | IPART findings |
|---|--|
| <p>1. 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. 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 by including scenarios both with and without the special variation.</p> | <p>The council’s IP&R documents explain the need for and purpose of the special variation and show:</p> <ul style="list-style-type: none"> ▼ It is consistent with community priorities. Community feedback and surveys suggest resourcing should be prioritised for transport infrastructure. ▼ It will assist in addressing the council’s infrastructure backlog and financial sustainability. <p>NSW Treasury Corporation’s (TCorp) 2013 assessment forecast the council would consistently record operating deficits, with capital expenditure also insufficient to meet the forecast cost of asset renewal.</p> <p>Our FFTF assessment found the council did not meet the criterion for financial sustainability, and was assessed as ‘Not Fit’. No alternatives to a rate rise were considered by the council. The FFTF assessment identified the council had limited options to improve its financial position, and relied on a successful special variation application with an increase of 69% cumulative over nine years from 2016-17.</p> <p>The council was provided an opportunity to make a resubmission to OLG in order to meet the benchmarks set under FFTF. The OLG reassessment found the council was fit. The resubmission included a 6% per year permanent special variation application for seven years from 2017-18, productivity improvements and cost savings through human resourcing and administrative efficiencies.</p> |
| <p>2. 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.</p> | <p>The council demonstrated it has made the community aware of the need for and extent of the rate increase through community engagement, involving:</p> <ol style="list-style-type: none"> 1. engagement through drop in forums, letterbox drops and media releases, articles and advertisements 2. a Special Rate Variation Information Centre website and online self-completion surveys, and 3. internal and external engagement focused on acknowledging previous feedback, publishing community newsletters and a letter from the Mayor. <ul style="list-style-type: none"> ▼ Resourcing for sealed roads was identified as the highest priority in a survey of 400 local residents, consistent with the council’s proposed use of the special variation revenue. ▼ The council received 98 responses to the exhibition process, and 43 responses to the online survey. The main concerns in the feedback were affordability and the need for the council to improve efficiencies and cut costs. <p>We received 11 submissions expressing similar concerns.</p> |
| <p>3. The impact on affected ratepayers must be reasonable, having regard to both the</p> | <p>The impact on ratepayers will be modest and reasonable, given the purpose of the special variation:</p> |

current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should:

clearly show the impact of any 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 clearly show the impact of any rises upon the community

- ▼ The average business and farmland rates of \$915 and \$2,244 respectively were significantly lower than the Group 11 average rates of \$1,962 and \$2,712.
- ▼ Bellingin Council has had two special variations since 2005-2006, increases of 6.68% in 2005-06 and 11.8% in 2014-15.
- ▼ The average residential rate in 2014-15 of \$968 was comparatively higher than the average Group 11 council rate of \$719.

The council considers the community has the capacity and willingness to pay based on:

- ▼ A SEIFA ranking of 55/153. Compared with neighbouring councils, such as Nambucca and Kempsey, residents are likely to have a higher capacity to pay.
- ▼ The outstanding rates ratio of 3.30% is low compared with the Group 11 average of 4.97%.
- ▼ A combination of relatively low housing costs (median mortgage repayment of \$1,387 per month), individual weekly income of \$441 and unemployment level of 8%.
- ▼ The council has a hardship policy for eligible pensioners and ratepayers experiencing genuine difficulties with the payment of rates.

4. 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 revenue.

The council adopted its CSP in June 2013. The Delivery Program and LTFP were exhibited between 15 December 2016 and 31 January 2017. The LTFP set out the special variation scenario for a 6% increase in each year for the period 2017/18 – 2023/24.

Although the LTFP modelled a 6% special variation across all categories for the period 2017-18 to 2023-24, the community was made aware the current application was for 2017-18 only throughout the consultation process. The council adopted the revised Delivery Program and LTFP setting out the special variation scenario on 8 February 2017, outlining a single year 6% increase for 2017-18.

5. 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.

The council stated its overall result has improved from a deficit of \$9m in 2014 to a deficit of \$0.9m in 2016. The council has implemented a number of cost saving initiatives in the past, and forecasts future savings measures. This includes:

- ▼ The Financial Sustainability Program Board to develop a culture of efficiency, productivity and better management of projects to increase revenue, which identified ongoing savings in total of \$400,000 since November 2014.
- ▼ Savings of \$125,000 through workers compensation insurance in the past 2 years.
- ▼ Savings of \$247,000 through leave liability reduction and \$127,000 through electricity and heating efficiencies in the past 12 months.
- ▼ The council forecasts savings of \$103,000 per year through the installation of solar panels, and \$21,000 per year through renegotiations of a new banking contract.

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2.

Source: Bellingin Council, *Application Part A and Application Part B*; OLG, Unpublished data; NSW Treasury Corporation, *Bellingin Shire Council Financial Assessment, Sustainability and Benchmarking Report*, 12 March 2013; Updated Worksheet 7 provided to IPART, 2 March 2017; Office of Local Government, *Fit For The Future Reassessment Report; Annexure B – Assessment Summaries by Council*, December 2016; IPART, *Assessment of Councils Fit For the Future Council Improvement Proposals*, October 2015.

3.1 Need for and purpose of the special variation

We consider the council has met this criterion. Bellingin Council has articulated the community's priorities in its IP&R documents, and identified the need for and purpose of the requested special variation to:

- ▼ fund a sealed roads resurfacing program
- ▼ enhance financial sustainability, and
- ▼ reduce the infrastructure backlog.

Supporting evidence came from a community satisfaction survey in which 400 local residents responded to a random telephone survey, with 41% nominating resourcing for sealed roads as their highest priority. Data from the survey highlighted residents placed a high importance on sealed roads and remain unsatisfied with the current service level provided.¹²

Financial sustainability, and the infrastructure backlog

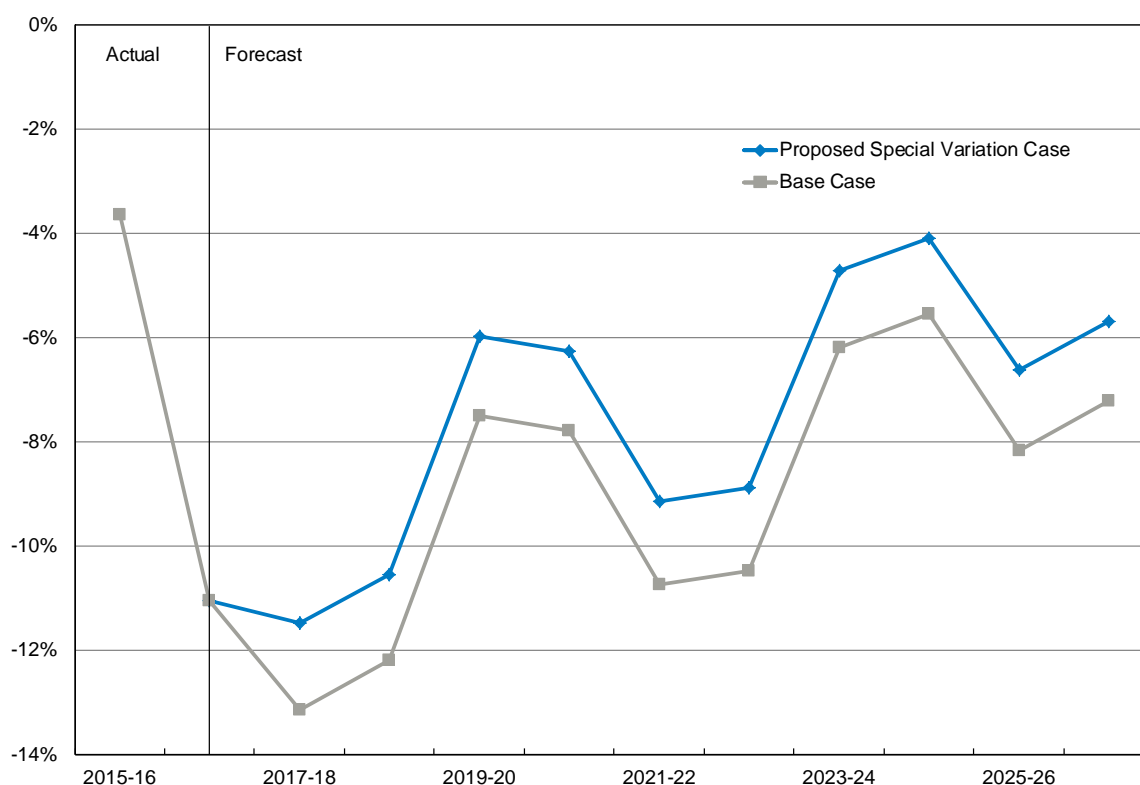
The council forecasts an operating performance ratio of -11.5% under the special variation scenario, and -13.1% under the base case scenario in 2017-18. The special variation would enable the council to improve its operating performance ratio by about 1.6% per year as shown in Figure 3.1, with a forecast of -4.7% in 2023-24.

The 6% special variation increase is intended to fund a sealed roads renewal program. The council has outlined its objective for operating revenue to cover operating expenditure, including the cost of maintenance and the renewal of assets.¹³ The special variation would improve the council's financial sustainability and reduce its infrastructure backlog.

¹² Bellingin Council, *Application Part B*, pp 17-18.

¹³ Bellingin Council, *Application Part B*, p 25.

Figure 3.1 Bellingen Shire Council's Operating Performance Ratio excluding Capital Grants and Contributions (2015-16 to 2026-27)



Source: Bellingen Council *Annual Financial Statements*, various, 2017-18, Bellingen Council, Updated Worksheet 7 provided to IPART, 2 March 2017 and IPART calculations.

Table 3.2 Projected Operating Performance Ratio (%) for Bellingen Shire Council's special variation application

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Application - including 6% SV | -11.5% | -10.5% | -6.0% | -6.3% | -9.1% | -8.9% | -4.7% | -4.1% | -6.6% | -5.7% |
| - excluding SV | -13.1% | -12.2% | -7.5% | -7.8% | -10.7% | -10.5% | -6.2% | -5.6% | -8.2% | -7.2% |

Note: The special variation scenario above reflects the single-year 6% special variation (4.5% above rate peg) outlined in this determination.

Source: Bellingen Council, Updated Worksheet 7 provided to IPART, 2 March 2017 and IPART, *Assessment of Councils Fit For the Future Council Improvement Proposals*, October 2015, pp 133-134.

Box 3.1 Bellingen Shire Council's Fit for the Future Assessment

In our 2015 FFTF assessment, we found the council:

- ▼ Did not meet the criterion for sustainability. The council was forecast to not meet the **operating performance benchmark** by 2024-25, meet the own source revenue benchmark in all forecast years, and meet the asset renewal benchmark in the outer forecast years.
- ▼ Met the criterion for infrastructure and service management as it was forecast to meet the **infrastructure backlog benchmark** by 2015-16. Improvement was forecast for the asset maintenance ratio. The council met the debt service benchmark in all forecast years.
- ▼ Met the efficiency criterion based on implementing organisational service reviews to deliver increased efficiencies, which would contribute to the improvement in this ratio from 2014-15 to 2019-20.

The council made a resubmission to OLG in 2016 to meet the benchmarks set out in the 2015 FFTF assessment. The 2016 OLG reassessment found the council was fit, and:

- ▼ Would satisfy the financial sustainability benchmarks by 2025-26, based on a number of strategies to address its sustainability following the initial IPART review.
- ▼ Strategies to be implemented included a proposed special variation with a 6% increase per year (including the rate peg) for seven years from 2017-18, delivery of initiatives through the Financial Sustainability Program Board, and a review of council fees and charges in addition to other efficiencies.

TCorp observed in 2013 the council's financial position was moderate, and its outlook was negative. This assessment was made largely because of operating deficits of 30% per annum, reliance on grants, and flood events which had negatively affected the council's capacity to invest in capital expenditure.

We note the forecasts in the council's FFTF proposal (Table 3.3) largely differ in the short term, before achieving a similar ratio from year 2022-23 onwards. The difference in the 2017-18 OPRs is driven by the council achieving higher productivity and cost savings than it forecast during FFTF, and the council now treating government grants as operating revenue rather than capital.

Further, the council now forecasts a significant improvement in its OPR to 2024-25 without the need for a 69% increase in rates because of higher projected cost savings and productivity improvements.

Table 3.3 Projected operating performance ratio for Bellingen Council's FFTF proposal

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| FFTF – including 69% SV | -20.4% | -17.6% | -16.0% | -14.2% | -11.7% | -9.5% | -7.6% | -5.1% |
| Current SV – including 6.0% SV | -11.5% | -10.5% | -6.0% | -6.3% | -9.1% | -8.9% | -4.7% | -4.1% |

Note: FFTF figures assume that the council applies for a special variation of 69% cumulative from 2016-17 over nine years.

Source: IPART, *Assessment of Councils Fit For the Future Council Improvement Proposals*, October 2015, pp 133-134, Office of Local Government, *Fit For The Future Reassessment Report; Annexure B – Assessment Summaries by Council*, December 2016, p 10 and NSW Treasury Corporation, *Bellingen Shire Council Financial Assessment, Sustainability and Benchmarking Report*, March 2013, p 5.

By contrast to the special variation proposals for multiple-year increases outlined in the council's 2015 FFTF assessment and the OLG reassessment in 2016, this 6% special variation application in 2017-18 is for a single year only, to be permanently incorporated in the rate base. The single year special variation application reflects the council's incremental approach to achieving the objectives outlined under the council's resubmission to OLG.

3.2 Community engagement and awareness

We consider the council has met this criterion.

From December 2016 to February 2017 the council exhibited and updated its IP&R documents in consultation with its community. It explained the need for, purpose of and the extent of the rate increase and provided reasonable opportunities for community feedback. The council used a variety of methods to engage with its community, including:

- ▼ community drop in forums, focus groups, and stakeholder forums
- ▼ letter box drops, newspaper advertisements, media releases, facts sheets, and water rates inserts
- ▼ a Council Special Variation Information Centre website
- ▼ an online self-completion survey, and
- ▼ public exhibitions.¹⁴

Outcome of consultation on rate increases

A majority of ratepayers indicated support for the need and purpose of a sealed roads renewal program. Community awareness has been demonstrated, with a community satisfaction survey of 400 local residents, 98 responses to the exhibition and engagement process, 43 responses to the online survey, 14 media articles published, 13 advertisements and a letter from the mayor to the residents discussing the special variation proposal.¹⁵

Opposition to the application was evident in the self-completion survey, and to a lesser extent throughout the consultation process:

- ▼ 79% of respondents to the self-completion survey were opposed to the proposed special variation. The financial cost burden to ratepayers was cited as the main reason for opposition.
- ▼ Additional reasons for opposition included council inefficiencies from high administrative costs, a high number of council staff and high wage costs.
- ▼ The council consider some of the reasons for opposition to be outside of the council's control.

The council considered its community's feedback, and as a result resolved to adopt the revised IP&R documents.

We received 11 submissions. The opposition from the submissions mirrored the concerns outlined above.

¹⁴ See generally Bellingden Council, *Application Part B*, pp 30-41.

¹⁵ Bellingden Council, *Application Part B*, p 41.

3.3 Reasonable impact on ratepayers

We consider the impact of the special variation will be reasonable, considering socio-economic factors and the size of the proposed increase. The socio-economic factors and potential adverse effects of the special variation have been considered with reference to other comparable councils, as shown in Table 3.4.

Magnitude of increase

The council requested a single year increase of 6% to remain permanently in the rate base. The council has had increases of 6.68% in 2005-06 and 11.8% in 2014-15. The proposed increase is modest given the councils rating history since 2005-06.

Consideration of impact on ratepayers

In its application the council demonstrated it had considered a range of socio-economic indicators and its hardship policies to determine the community's capacity to pay the rate increase.¹⁶

In our assessment, we found:

- ▼ Average residential rates have increased by 4.6% per year between 2006-2007 and 2016-2017.¹⁷
- ▼ The hardship policy available to ratepayers is reasonable and accessible.

We also compared current rates and relevant socio-economic indicators within the Local Government Area (LGA) as shown in Table 3.4.

¹⁶ Bellinghen Council, *Application Part B*, pp 45-47.

¹⁷ OLG, Unpublished data.

Table 3.4 Bellingen Shire Council - comparison of rates and socio-economic indicators with surrounding councils and Group 11 averages (2014-15)

| Council (OLG Group) | Average residential rate (\$) ^a | Average taxable income (2011) | Ratio of average rates to average income (%) | Outstanding rates ratio (%) ^b | SEIFA Index NSW Rank ^c |
|------------------------------------|--|-------------------------------|--|--|-----------------------------------|
| Neighbouring councils ^d | | | | | |
| Bellingen Shire (11) | 968 | 34,585 | 2.6 | 3.30 | 55 |
| Clarence Valley (4) | 858 | 34,988 | 2.5 | 6.40 | 13 |
| Coffs Harbour City (5) | 977 | 39,207 | 2.4 | 6.50 | 70 |
| Kempsey Shire (4) | 856 | 35,177 | 2.4 | 3.43 | 4 |
| Nambucca Shire (11) | 855 | 34,014 | 2.4 | 3.93 | 9 |
| Group 11 | 719 | 44,416 | 1.6 | 4.97 | - |

^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 The outstanding rates ratio includes water and sewer rates.

^c The highest possible ranking is 153 which denotes the council in NSW that is least disadvantaged.

^d Councils Nambucca Shire, Kempsey Shire and Coffs Harbour City have previously had multiple special variations granted in the past 10 years. The data in this table captures the increases from these special variations.

Source: OLG, Unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

- ▼ The council's SEIFA ranking of 55 indicates lower levels of disadvantage compared to most neighbouring councils and a higher capacity to pay.
- ▼ An unemployment rate of 8%, average annual taxable income of \$34,585 and lower median mortgage repayments of \$1,387, were favourable for the council when compared to neighbouring councils such as Nambucca Shire and Coffs Harbour City, where the respective unemployment rates were 13.3% and 9.1% in 2011.¹⁸
- ▼ The council has an outstanding rates and annual charges ratio of 3.30%. This is significantly lower than the Group 11 average of 4.97%, and the NSW average of 4.64%, which suggests the community is experiencing less financial difficulty in paying rates compared with other councils.
- ▼ The council's average rates to average income ratio is 2.6%, which is higher than the Group 11 average of 1.6%, suggesting ratepayers might be affected to a greater extent. The rates to income ratio is similar to neighbouring councils.

Taking all these factors into account, we consider the impact of the increase is modest and reasonable.

3.4 Productivity and cost savings

The council's application sets out the cost containment and productivity improvement initiatives it has undertaken in recent years and plans to implement in the future.¹⁹

¹⁸ Bellingen Council, *Application Part B*, p 41.

¹⁹ Bellingen Council, *Application Part B*, p 53-58.



The council highlighted:

- ▼ It established a Financial Sustainability Program Board to develop a culture of efficiency, productivity, and better management of revenue generating projects such as land releases. The Financial Sustainability Program Board has identified ongoing savings in total of \$400,000 since November 2014.
- ▼ Human resources initiatives such as workers compensation insurance and leave liability reduction have resulted in a \$125,000 reduction over the past two years, and \$247,000 reduction over the past 12 months respectively.
- ▼ Administrative efficiencies have been achieved through a review of electricity and heating costs, and printing services. Savings of \$127,000 have been realised over the last two years, with ongoing annual savings of \$65,000.
- ▼ Shared ranger services and learning management systems between neighbouring councils have realised savings of \$50,000 over the past year and \$45,000 over the last four years respectively.

The council has also forecast savings of \$103,000 per year in electricity and heating costs through the installation of solar panels, and \$21,000 per year through the renegotiation of a new banking contract.

4 What does our decision mean for the council?

Our decision means Bellingen Council may increase its general income in 2017-18 by \$414,336 as indicated in Table 4.1.²⁰ This increase will be permanently incorporated into the council's revenue base. After 2017-18, the council's general income can increase up to the annual rate peg unless we approve further special variations.²¹

Table 4.1 Permissible general income of Bellingen Shire Council in 2017-18 arising from the special variation approved by IPART

| Notional general income 2017-18 (\$) | Increase approved (%) | Annual increase in general income (\$) | Adjustments: Catch-ups, valuations ^a (\$) | Permissible general income 2017-18 (\$) |
|--------------------------------------|-----------------------|--|--|---|
| 6,905,595 | 6.0 | 414,336 | 459 | 7,320,390 |

^a A prior catch-up of \$459 that had not been recouped by the time of the application was submitted to IPART to be recouped in 2017-18.

Note: The above information is correct at the time of the council's application (February 2017).

Source: Bellingen Council, *Application Part A*, Worksheets 1.

Of the estimated \$414,336 increase in revenue in 2017-18, \$310,000 is intended to be allocated towards funding the council's sealed roads resurfacing program.²²

²⁰ Bellingen Council, *Application Part A*, Worksheets 1 and 4.

²¹ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

²² Bellingen Council, *Application Part A*, Worksheet 6.

5 What does our decision mean for ratepayers?

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

The council considers that all road users will benefit from the sealed roads renewal program. As such, the council proposes to distribute the rate increase evenly across all categories of ratepayers.

The council has calculated, taking into account the 6% rate increase and land revaluations, that in 2017-18:

- ▼ the average residential rate will increase by 6.01%, or \$63.33
- ▼ the average business rate will increase by 5.97%, or \$64.77, and
- ▼ the average farmland rate will increase by 6.03%, or \$144.16.²³

Table 5.1 sets out the impact of the proposed rate increases on all affected ratepayer categories.

Table 5.1 Indicative increases in average rates under Bellinghen Shire Council's approved special variation for 2017-18

| Category | Average rate 2016-17 (\$) | Increase (%) | Increase (\$) | Average rate 2017-18 (\$) |
|--------------------------|---------------------------------|-----------------|------------------|---------------------------------|
| Average residential rate | 1,054 | 6.01 | 63 | 1,118 |
| Average business rate | 1,084 | 5.97 | 65 | 1,149 |
| Average farmland rate | 2,391 | 6.03 | 144 | 2,535 |

Note: 2016-17 is included for comparison. The average rate is calculated by Bellinghen Shire Council, and includes the ordinary rate and any special rates applying to the rating category. Some numbers may not add due to rounding.

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

²³ Bellinghen Council, *Application Part A*, Worksheet 6.



Appendices



A Expenditure to be funded from the special variation

Table A.1 shows the 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 \$310,000, or \$3.5 million over 10 years, to fund its sealed roads resurfacing program, reduce the infrastructure backlog and enhance financial sustainability.²⁴

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

²⁴ Bellingin Council, *Application Part A*, Worksheet 6.

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

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | Total |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------------|
| Special variation income above assumed rate peg | 310 | 319 | 326 | 335 | 343 | 352 | 360 | 369 | 379 | 388 | 3,481 |
| Funding for increased operating expenditures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Funding to reduce operating deficits or (increase surpluses) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Funding for capital expenditure | 310 | 319 | 326 | 335 | 343 | 352 | 360 | 369 | 379 | 388 | 3,481 |
| Additional expenditure | 310 | 318 | 326 | 335 | 343 | 352 | 360 | 369 | 379 | 388 | 3,481 |

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: Bellingen Council, *Application Part A*, Worksheet 6.

B Bellingen Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, Bellingen Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table B.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capitals and contributions. In order 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 B.1 Summary of projected operating statement for Bellingen Shire Council, 2017-18 to 2026-27 (\$000)

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total revenue | 21,213 | 21,780 | 23,333 | 23,867 | 23,689 | 24,319 | 25,928 | 26,661 | 26,637 | 27,302 |
| Total expenses | 23,647 | 24,075 | 24,729 | 25,362 | 25,851 | 26,476 | 27,150 | 27,751 | 28,401 | 28,856 |
| Operating result from continuing operations | -55 | -247 | -45 | -127 | -776 | -753 | 201 | 351 | -301 | -54 |
| Net operating result before capital grants and contributions | -2,433 | -2,294 | -1,395 | -1,495 | -2,162 | -2,157 | -1,221 | -1,091 | -1,764 | -1,553 |

Note: Numbers may not add due to rounding.

Source: Bellingen Council, Updated Worksheet 7 provided to IPART, 2 March 2017.

C Comparative indicators

Performance indicators

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

Table C.1 shows how selected performance indicators for Bellingen Council have changed over the four years from 2011-12 to 2014-15.

Table C.1 Trends in selected performance indicators for Bellingen Shire Council, 2011-12 to 2014-15

| Performance indicator | 2011-12 | 2012-13 | 2013-14 | 2014-15 | Average annual change (%) |
|---|---------|---------|---------|---------|---------------------------|
| FTE staff (number) | 142 | 142 | 124 | 135 | -1.7 |
| Ratio of population to FTE | 91 | 90 | 103 | 95 | 1.5 |
| Average cost per FTE (\$) | 68,739 | 69,380 | 78,726 | 72,400 | 1.7 |
| Employee costs as % operating expenditure (General Fund only) (%) | 27.1 | 28.6 | 28.0 | 29.0 | 2.3 |
| Consultancy/contractor expenses (\$m) | 8 | 0 | 0 | 0.07 | - |
| Consultancy/contractor expenses as % operating expenditure (%) | 24.1 | 0.0 | 0.0 | 0.2 | - |

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.

The above table shows:

- ▼ Total employee numbers, the average population served by and cost of each Full Time Equivalent (FTE) has remained relatively consistent with a respective change of -1.7%, 1.5% and 1.7% over four years.
- ▼ Employee expenses as a percentage of operating expenditure have increased from 27.1% in 2011-12 to 29.0% in 2014-15, which compares favourably with the Group 11 average of 36.2% and NSW average of 38.6% in 2014-15.

Details of the council's 2015 FFTF assessment and 2016 OLG resubmission are outlined above on page 9, and provide further information with respect to historical and forecast performance.

General comparative indicators

Table C.2 compares selected published and unpublished data about Bellingen Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As noted in section 3, Bellingen Council is in OLG Group 11. Unless specified otherwise, the data refers to the 2014-15 financial year.

Table C.2 Select comparative indicators for Bellingen Shire Council, 2014-15

| | Bellingen Shire Council | OLG Group 11 average | NSW average |
|--|----------------------------|----------------------------|-------------|
| General profile | | | |
| Area (km ²) | 1,611 | - | - |
| Population | 12,819 | - | - |
| General Fund operating expenditure (\$m) | 26.1 | - | - |
| General Fund operating revenue per capita (\$) | 1,573 | 1,931 | 2,029 |
| Rates revenue as % General Fund income (%) | 35.9 | 35.3 | 45.1 |
| Own-source revenue ratio (%) | 59.4 | 60.2 | 69.0 |
| Average rate indicators^a | | | |
| Average rate – residential (\$) | 968 | 719 | 790 |
| Average rate – business (\$) | 915 | 1,962 | 2,949 |
| Average rate – farmland (\$) | 2,244 | 2,712 | 2,490 |
| Socio-economic/capacity to pay indicators^b | | | |
| Average annual income for individuals, 2011 (\$) | 34,585 | 44,416 | 49,070 |
| Growth in average annual income, 2006-2011 (% pa) | 4.2 | 5.3 | 5.2 |
| Ratio of average residential rates 2013-14, to average annual income, 2011 (%) | 2.6 | 1.6 | 1.6 |
| SEIFA, 2011 (NSW rank: 153 is least disadvantaged) | 55 | - | - |
| Outstanding rates and annual charges ratio (General Fund only) (%) | 3.30 | 4.97 | 4.64 |
| Productivity (labour input) indicators^c | | | |
| FTE staff (number) | 135 | 152 | 295 |
| Ratio of population to FTE | 95 | 93 | 127 |
| Average cost per FTE (\$) | 72,400 | 76,967 | 80,173 |
| Employee costs as % operating expenditure (General Fund only) (%) | 29.0 | 36.2 | 38.6 |
| Consultancy/contractor expenses (\$m) | 0.1 | 2.2 | 8.8 |
| Consultancy/contractor expenses as % operating expenditure (%) | 0.2 | 6.4 | 10.9 |

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

b Average annual income includes income from all sources excluding government pensions and allowances.

c Except as noted, data is based upon total council operations including General Fund, Water & Sewer and other funds, if applicable. 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.

Source: OLG, Unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.