

Independent Pricing and Regulatory Tribunal  
New South Wales

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

Under section 508A 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 income from rates. 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 Guidelines set by the Office of Local Government (OLG).<sup>1</sup> Box 1.1 explains the Guidelines for 2017-18.

Inverell Shire Council (Inverell Council) applied for a multi-year special variation under section 508A. The council requested increases of 6.25% in 2017-18, 7.25% in 2018-19 and 7.25% in 2019-20, or a cumulative increase of 22.21% over three years. It applied for the increase to remain permanently in the rate base.<sup>2</sup>

After assessing the council's application, we have decided to allow the special variation as requested. We have made this decision under section 508A 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, must contain evidence that supports a council's application for a special variation.

<sup>1</sup> 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).

<sup>2</sup> Inverell Shire Council, *Special Variation Application Form Part A 2017-18* (Inverell Council, *Application Part A*), Worksheet 1.

Our decision enables the council to fund operating expenditure and capital expenditure to maintain its key assets, primarily its regional and shire road network. The additional revenue will also improve the council's financial sustainability.

The council consulted its community extensively to address these issues, both in updating and exhibiting its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

## 1.1 Our decision

We determined that Inverell Council may increase its general income between 2017-18 and 2019-20 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (1.5% in 2017-18).<sup>3</sup> The cumulative increase of 22.21% is 15.58% more than the assumed rate peg increase over these years.

The special variation can be retained in the council's general income base permanently.

We have attached conditions to this decision, including 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 Inverell Shire Council's application for a special variation in 2017-18**

	2017-18	2018-19	2019-20
Percentage increase approved	6.25	7.25	7.25

**Note:** The rate peg in 2017-18 is 1.5%. In later years the council has assumed a rate peg of 2.5%.

**Source:** Inverell Council, *Application Part A*, Worksheet 1 and IPART calculations.

<sup>3</sup> The council has assumed a rate peg of 2.5% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

## **Box 1.2 Conditions attached to Inverell Shire Council's approved special variation**

IPART's approval of Inverell Shire Council's application for a special variation over the period from 2017-18 to 2019-20 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding its operating and capital expenditure to maintain its key assets, primarily its road network, and improve its 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 Long Term Financial Plan provided in the council's application, and summarised in Appendix B
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
  - expenditure consistent with the council's application and listed in Appendix A, 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?

Inverell Council applied to increase its general income by a cumulative 22.21% over the 3-year period from 2017-18 to 2019-20, and to permanently incorporate this increase in its general income base.<sup>4</sup>

This request is consistent with the council's Fit for the Future (FFTF) proposal and assessment completed in 2015. At that time, the council proposed a cumulative increase of 23.36% over the 3-year period from 2017-18 to 2019-20, including the rate peg.<sup>5</sup> These funds would be applied to asset renewal, asset maintenance and to reduce the infrastructure backlog.

The council's Action Plan included applying for a special variation to ensure the future financial sustainability of the council's asset management program. The increased rate revenue was considered necessary to meet the Operating Performance Ratio, Own Source Revenue Ratio and assist in achieving the required renewal and maintenance of infrastructure to satisfy the FFTF benchmarks.<sup>6</sup> It also responded to the findings made by NSW Treasury Corporation (TCorp) when assessing the council's financial sustainability in 2012 and 2013.

TCorp noted the council's heavy reliance on grants and contributions and its increasing infrastructure backlog. It also reported a deterioration in the council's operating result over the three years to 2011, which was due to expenditure growing faster than revenue.<sup>7</sup>

The council estimates if the requested special variation (SV) is approved, its permissible general income would increase from \$10.8 million in 2016-17 to \$13.2 million in 2019-20. Over the 3-year period of the special variation to 2019-20, this would generate additional revenue of \$3.3 million compared to rate increases at the assumed rate peg. This figure would increase to \$16.2 million over a 10-year period, as the special variation remains permanently in the council's rate base.

The council intends to use the additional revenue from the special variation to fund operating and capital expenditure for its key assets, primarily its regional and shire road network. The additional revenue will also improve the council's financial sustainability.<sup>8</sup>

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

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<sup>4</sup> Inverell Council, *Application Part A*, Worksheet 1.

<sup>5</sup> Inverell Council, *Fit for the Future Council Improvement Proposal*, June 2015, p 49.

<sup>6</sup> Inverell Council, *Fit for the Future Council Improvement Proposal*, June 2015, pp 49-60.

<sup>7</sup> TCorp, *Inverell Shire Council Financial Assessment and Benchmarking Report*, March 2013, pp 4, 10 and 12.

<sup>8</sup> Inverell Council, *Application Part B*, pp 9-11.

### 3 How did we reach our decision?

We assessed Inverell Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix C.<sup>9</sup>

Inverell Council has applied on the basis of its adopted IP&R documents, in particular the *Inverell Shire's Road Map for the Future 2009-2029 Strategic Plan* (Community Strategic Plan), *Four Year Delivery Plan 2016-2020* (Delivery Program), *2017-2027 Long Term Financial Plan* (LTFP) and its roads, drainage and footpaths asset management plans (Asset Management Plans).

The rate increases for which the council has applied are significant. We considered, among other things, 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. The application is consistent with the council's Fit for the Future proposal submitted in June 2015.

We found Inverell Council's application met the criteria. In particular, we found:

1. The **need for the proposed revenue** is demonstrated in the council's IP&R documents, responds to TCorp's recommendations for improving financial sustainability, implements the council's FFTF proposal for meeting the financial sustainability criteria, and reflects community priorities.
2. On balance, the council demonstrated **the community is aware** of the need for and extent of the rate increase. The council provided evidence the community is aware of the **need** for the rate increase; however, the **extent** of the rate increase (cumulative increase including the rate peg) was not always clearly communicated.
3. The **impact of the proposed rate rises on ratepayers** is significant, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation, and the council's consideration of ratepayers' willingness and capacity to pay.
4. The council provided 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 indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. Sections 3.1, 3.2 and 3.3 discuss our findings against criteria 1, 2 and 3 in more detail.

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<sup>9</sup> See Appendix C. Inverell Shire Council is in OLG Group 11, which is classified as Rural Very Large Agricultural (population between 10,001 – 20,000). The group comprises 19 councils, including councils such as Bellingen Shire Council, Muswellbrook Shire Council, Narrabri Shire Council and Moree Plains Shire Council.

**Table 3.1 Summary of IPART’s assessment of Inverell 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&amp;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&amp;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&amp;R documents clearly explain the need for and purpose of the special variation (SV) and show:</p> <ul style="list-style-type: none"> <li>▼ it is consistent with community priorities</li> <li>▼ it will allow the council to maintain its road assets and reduce its infrastructure backlog, and</li> <li>▼ it will improve the council’s financial sustainability.</li> </ul> <p>Our assessment shows that without the SV, the council would have had an average operating performance ratio of 3.7% to 2026-27. This suggests the council may have the financial capacity to fund its special variation program of works without the SV.</p> <p>However, Inverell Council reported an infrastructure backlog of \$5 million in 2015-16. Its LTFP without the SV shows Inverell will not be able to maintain its assets at existing service levels and its infrastructure backlog would deteriorate from 2022-23. The LTFP suggests a need to generate operating surpluses to maintain service levels and reduce the infrastructure backlog.</p> <p>We examined the council’s net debt position over time (as percentage of total income) based on the council’s forecast cash flow statements over the next 10 years. This shows the council’s net debt to income deteriorating from -2% in 2017-18 to -40% in 2026-27, without the SV. The cash outflow averages \$1.35 million per year. With the SV, the council will have a net debt position of about 4% on average over the next 10 years. On this basis, we consider the council has demonstrated a financial need for the additional revenue to maintain and enhance existing assets, whilst not accumulating increasing levels of debt.</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>On balance, the council has demonstrated that it has made the community aware of the need for and extent of the rate increase. The council provided evidence the community is aware of the <b>need</b> for the rate increase by a variety of methods that focused on the need to maintain and renew its road assets.</p> <p>However, the <b>extent</b> of the rate increase (cumulative increase including the rate peg) was not always clearly communicated. For example, in the media release the council states the cumulative increase of 14.25% over the three years (excluding the rate peg), while the fact sheet shows the cumulative increase of 22.21% over three years inclusive of the rate peg.</p> <p>The council issued a media release, newsletter to all residents, provided a dedicated website on the special variation application, and conducted phone surveys and focus groups.</p>

Criterion	IPART findings
	<p>The council reported the feedback shows:</p> <ul style="list-style-type: none"> <li>▼ 53% are not prepared to accept decreases in service levels (phone survey of 400 people)</li> <li>▼ A willingness to accept rate increases to maintain services (deliberative panel)</li> <li>▼ 61% think there is a need to increase rates (post panel survey of 300 people).</li> </ul> <p>IPART received 3 submissions (including a petition signed by 313 people) opposing the SV. Key issues raised in submissions include: the inaccuracy of the infrastructure backlog calculation; that community consultation has been inadequate and the findings manipulated; the rate increases are unaffordable; and the council should become more efficient.</p>
<p>3. 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"> <li>▼ clearly show the impact of any rises upon the community</li> <li>▼ include the council's consideration of the community's capacity and willingness to pay rates and</li> <li>▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.</li> </ul>	<p>The impact on ratepayers will be significant, but reasonable given:</p> <ul style="list-style-type: none"> <li>▼ the need for and purpose of the special variation</li> <li>▼ a willingness to pay for preferred service levels</li> <li>▼ the existing differential ratings structure which takes account of the lower socio-economic status of Inverell's villages that are outside the Inverell township, and</li> <li>▼ the council has had no prior special variations.</li> </ul> <p>However, a SEIFA rating of 18/153 indicates significant socio-economic disadvantage. The council concluded the rise was affordable based on:</p> <ul style="list-style-type: none"> <li>▼ its notional revenue being around the middle of the range relative to neighbouring councils who have had significant SV's approved in recent years (eg, Gwydir and Glen Innes Severn)</li> <li>▼ an outstanding rates ratio of 5.3% in 2015-16 is lower than the group 11 average (5.9%), and</li> <li>▼ the current differential ratings structure means the impact on the lower socio-economic villages is less than the impact on the Inverell-residential township rating category.</li> </ul>
<p>4. The relevant IP&amp;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>The council adopted the Community Strategic Plan (CSP) in 2009. The council exhibited its Delivery Program and LTFP between December 2016 and February 2017. These plans were adopted on 8 February 2017. The council adopted its roads, drainage and footpaths asset management plans in June 2016.</p>
<p>5. The IP&amp;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>Since 2009 the council has undertaken an operational efficiency and effectiveness program which has resulted in significant efficiency savings. Over the period 2010 to 2016, the council has reduced its real operating expenditure per capita by 25%. Over the next 10 years its real operating expenditure per capita is forecast to decline by 8%.</p>

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

**Source:** Inverell Shire, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Inverell Shire Council Financial Assessment and Benchmarking Report*, 7 March 2013; Inverell Shire, *Four Year Delivery Plan 2016-2020*; Inverell Shire, *2017-2027 Long Term Financial Plan*.

### 3.1 Need for and purpose of the special variation

We consider the council has met this criterion.

Inverell Council's IP&R documents clearly set out the need for, and purpose of the requested special variation, which is to:

- ▼ fund operating and capital expenditure to maintain its key assets, primarily its regional and shire road network
- ▼ improve its financial sustainability.

The council's IP&R documents, and community feedback to the council indicate that the community's priorities are to maintain infrastructure and services at current service levels.

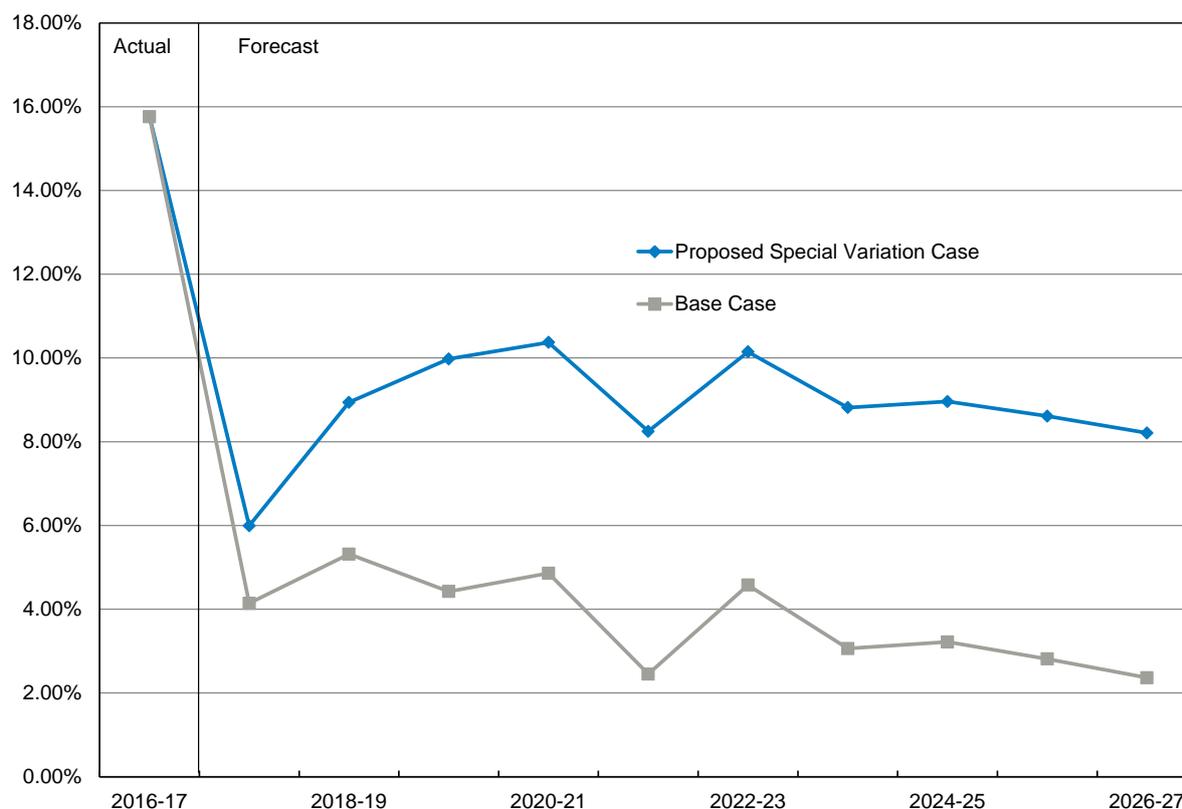
#### **Financial sustainability, including infrastructure backlogs**

The impact of the proposed special variation on the council's financial sustainability is shown in Figure 3.1 and Table 3.2.

The council is forecasting average operating surpluses (before capital grants and contributions) of about 3.7% over the next 10 years without a special variation, or \$10.6 million in total to 2026-27. With the special variation, the council is forecasting average operating surpluses (before capital grants and contributions) of about 8.8% over the next 10 years. This suggests the council may not have a financial need for the special variation.

However, the council's forecast performance against the other FFTF benchmarks eg, asset maintenance and infrastructure backlog ratios suggested a financial need. This issue is investigated further in the following sections. This includes an examination of Inverell Council's cash flows over the next 10 years.

**Figure 3.1 Inverell Council’s Operating Performance Ratio (OPR) excluding Capital Grants and Contributions (20016-17 to 2026-27)**



Source: Inverell Council, *Application Part A, Worksheet 7, Inverell Council Annual Financial Statements, 2016-17.*

**Table 3.2 Projected operating performance ratio (%) for Inverell Shire Council’s special variation application**

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Application including SV	15.8	6.0	8.9	10.0	10.4	8.2	10.1	8.8	9.0	8.6	8.2
Excluding SV	15.8	4.1	5.3	4.4	4.9	2.5	4.6	3.1	3.2	2.8	2.4

Source: Inverell Shire, *Application Part A, Worksheet 7.*

### Council’s need for a positive OPR to maintain service standards

The council states that without the special variation the council will fail to meet the:

- ▼ asset maintenance ratio from 2017-18 (benchmark greater than 100% average over 3 years)
- ▼ infrastructure backlog ratio from 2022-23 (less than 2%).

In 2015-16, the council reported an infrastructure backlog of \$5.1 million.<sup>10</sup> Without the special variation, the council forecasts its infrastructure backlog will begin to rapidly increase from 2018-19 when its assets deteriorate. In order to maintain its assets and address

<sup>10</sup> Inverell Council, *2015-16 General Purpose Financial Statements, Special Schedule 7.*

the infrastructure backlog, the council may need to generate operating surpluses. To explore this issue further, we consider the council's cash flows over the next 10 years and changes in net debt.

### Inverell Council's cash flows and net debt position over the next 10 years

Net debt is the book value of the council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a council's change in net debt is an indicator showing the council's financial performance and sustainability on a cash basis.

Figure 3.2 and Table 3.3 below shows the council's net debt position as a percentage of total income<sup>11</sup> over the 10 years of the LTFP (including and excluding the special variation). The change in net debt is derived from Inverell Council's cash flows over the next 10 years.

Without the special variation, Inverell Council's net debt to total income is forecast to fall from -2% in 2017-18 (-\$421,000) to -40% in 2026-27 (-\$12.5 million). The cash out flow averages \$1.35 million per year to 2026-27. This suggests Inverell Council is unable to maintain service levels without accumulating ever increasing levels of debt. Over the long term this may become unsustainable.

By contrast, with the special variation, Inverell Council's net debt position is about 4% on average over the 10-year period to 2026-27 (as shown by the blue line in Figure 3.2).

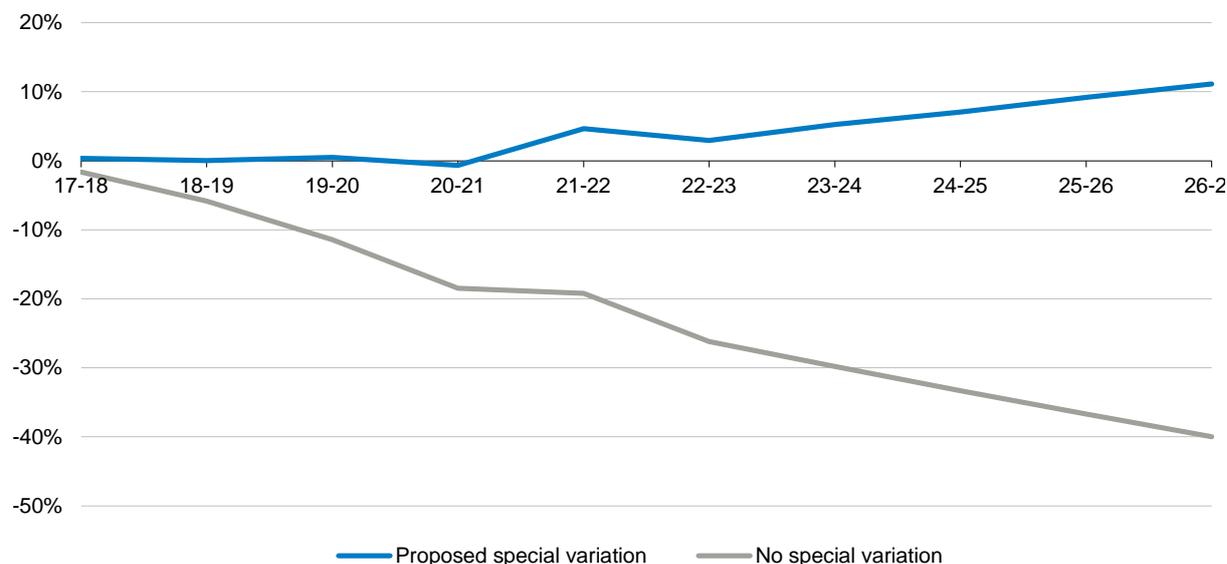
This analysis suggests the council has a financial need for the special variation. The additional revenue will provide the council with the financial capacity to:

- ▼ fund operating and capital expenditure to maintain its key assets without incurring increasing levels of debt
- ▼ ensure the infrastructure backlog does not deteriorate, and
- ▼ improve the council's financial sustainability over the long term.

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<sup>11</sup> Total income is defined as total revenue excluding capital grants and contributions.

**Figure 3.2 Inverell Council – Net debt to total income over the LTFP (including and excluding the special variation)**



Source: Inverell Council, *Application Part A*, Worksheet 7 and LTFP, IPART calculations.

**Table 3.3 Inverell Council – Net debt to total income over the LTFP (%)**

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Including SV	0	0	0	-1	5	3	5	7	9	11
Excluding SV	-2	-6	-11	-18	-19	-26	-30	-33	-37	-40

Source: Inverell Council, *Application Part A*, Worksheet 7 and LTFP, IPART calculations.

### Reconciling Inverell Council's forecast positive OPR and negative cash flows

Inverell Council's positive operating performance ratio, averaging 3.7% over the period to 2026-27 without the special variation, suggests the council will generate a surplus of \$10.6 million to 2026-27. However, the council's forecast cash flows to 2026-27 show a deficit of \$12.5 million. There could be several reasons for this \$23 million difference between the council's forecast income and cash flow statement including:

- ▼ The council may have underestimated its infrastructure backlog with its FFTF estimate at \$5 million, and it is spending significant amounts over the next 10 years to reduce the backlog and maintain assets to a higher standard as demanded by the community.<sup>12</sup>
- ▼ The council may be underestimating its long run depreciation expense in the income statement.

<sup>12</sup> We note that some submissions raised concerns about Inverell's estimate of its infrastructure backlog. The council's infrastructure backlog estimate was reduced from \$80 million to \$5 million as part of Inverell Council's FFTF proposal and review of its asset management policies. Significant revaluations of the infrastructure backlog were common across many council's FFTF proposals as councils undertook more detailed analysis to get a better understanding of the size of their infrastructure backlogs.

- 
- ▼ The council may be undertaking significant new capital investments. The council says about 50% of the extra revenue from the special variation or \$8.2 million will be spent on new capital investments.<sup>13</sup>

These factors, and the forecast \$12.5 million net cash outflow to 2026-27 without the special variation, suggests Inverell has a need and purpose for the special variation – to maintain and expand its assets and infrastructure to the standards preferred by the community whilst maintaining financial sustainability.

Box 3.1 compares Inverell Council's FFTF assessment with the council's special variation application.

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<sup>13</sup> Inverell Council, *Application Part A*, worksheet 6 and *Application Part B*, pp 9-11.

### Box 3.1 Inverell Shire Council's special variation application and Fit for the Future (FFTF) Assessment

IPART's Fit for the Future (FFTF) assessment found the council:

- ▼ Met the criterion for sustainability as it was forecast to meet the **operating performance benchmark** from 2019-20 based on successfully applying for a 23% special variation from 2017-18 to 2019-20.
- ▼ Met the **building and asset renewal benchmark** from 2014-15.
- ▼ Met the criterion for infrastructure and service management as it was forecast to meet the **infrastructure backlog**, the **asset maintenance** and **debt service benchmarks** by 2019-20.
- ▼ Met the criterion for efficiency based on a forecast decline in **real operating expenditure per capita** over the period to 2019-20.

NSW Treasury Corporation (TCorp) observed in 2013 the council's financial position was 'moderate', but considered its outlook to be 'neutral'. At the time, TCorp noted the council's heavy reliance on grants and contributions and its increasing infrastructure backlog. TCorp also reported a deterioration in the council's operating result over the three years to 2011 which was due to expenditure growing faster than revenue. The special variation application responds to TCorp's assessment by addressing the infrastructure backlog and increasing maintenance spending on its road assets.

Table 3.4 compares Inverell Council's projected operating performance ratio under its special variation application with its FFTF proposal in 2015.

The council reports there are differences between the projections for the operating performance ratio presented as part of the FFTF review and those in the council's special variation application. The council advises that from 2015-16 it was required to categorise the RMS Regional Road Block Grant, Regional Road Supplementary Grants and Roads to Recovery grants as operating grants. As a result, its operating performance has improved compared to its forecast performance in its FFTF proposal.<sup>a</sup>

**Table 3.4 Projected operating performance ratio (%) for Inverell Shire Council's special variation application compared with its FFTF proposal**

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
FFTF – including SV	-5.0	-2.8	0.2	2.7	NA						
Current SV	15.8	6.0	8.9	10.0	10.4	8.2	10.1	8.8	9.0	8.6	8.2

**Note:** The FFTF Operating Performance Ratio is reported on annual basis, not the 3 year rolling average.

**Source:** Inverell Shire, *Application Part A*, Worksheet 7, and IPART's fit for the future assessment for Inverell Council.

<sup>a</sup> advice from Inverell Council, received 3 March 2017.

**Source:** IPART, *Assessment of Council Fit for the Future* proposals, October 2015, TCorp, *Inverell Shire Council Financial Assessment and Benchmarking Report*, March 2013, pp 4, 10 and 12.

## Alternative funding options

In 2009 Inverell Council identified in its long term financial planning that the council's costs were growing faster than its revenues. In response the council:

- ▼ implemented an Operational Efficiency and Effectiveness program to identify operational efficiencies
- ▼ sought to increase non-rate revenue sources such as user fees and charges and non-recurrent grant funding
- ▼ reviewed its investment performance and internally restricted assets, and
- ▼ redirected funds to asset renewal activities.<sup>14</sup>

The Council has stated, having realised extensive efficiency savings and raising user fees and charges, it has reached the point where its revenues no longer cover the level of expenditure needed to meet existing service levels and infrastructure needs, and a special variation is required.<sup>15</sup>

Also, the Council notes the funding required is for recurrent purposes such as operations, asset maintenance and renewal purposes, and therefore loan funding is not a suitable source of funding.<sup>16</sup>

### 3.2 Community engagement and awareness

On balance, we consider the council has met this criterion.

In 2015 the council reviewed its IP&R documents in consultation with the community in developing its Fit for the Future Roadmap and as part of this special variation application. It clearly explained the **need** for a rate increase and provided reasonable opportunities for community feedback.

However, with regard to the **extent** of the rate increase, the council did not always clearly consult on the cumulative increase of 22.21% over the three years inclusive of the rate peg. In the media release and in other descriptions of the special variation, the council states a cumulative increase of 14.25% over the three years (excluding the rate peg).<sup>17</sup>

In the detailed consultation material (eg, newsletter and fact sheets) the council provided ratepayer impacts showing the cumulative percentage and dollar increase of the special variation including the rate peg, ie, the full 22.21%.<sup>18</sup> This material also noted the cumulative percentage increase of the special variation over three years was 22.2%. Overall, we consider the council has made the community aware of the need for and extent of the rate increase.

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<sup>14</sup> Inverell Council, *Application Part B*, pp 4, 5, 22.

<sup>15</sup> Inverell Council, *Application Part B*, p 15.

<sup>16</sup> Inverell Council, *Application Part B*, p 28.

<sup>17</sup> Inverell Council, *Application Part B*, Attachments: *Newsletter Special Rate Variation*, December 2016, p 1, *Media Release, Council asks for community feedback*, 21 December 2016.

<sup>18</sup> Inverell Council, *Application Part B*, Attachments, *Frequently Asked Questions – Special Rate Variation; Newsletter Special Rate Variation*, December 2016, p 4; *Fit for the Future Fact Sheet – Special Rate Variation*, December 2016, p 7.

## Community consultation

As part of this special variation application, Inverell Council used a variety of methods to engage with its community including:

- ▼ Media releases
- ▼ A newsletter sent to every resident
- ▼ A Website and Have Your Say portal, including the council's Facebook page and Twitter feed
- ▼ A Kiosk at Inverell Shire Library
- ▼ A Focus group/resident workshop
- ▼ Phone surveys in December 2016 and February 2017.<sup>19</sup>

## Outcome of consultation on rate increases

Although this criterion does not require councils to demonstrate community support for the special variation, we note there is evidence of support for the rate increases requested.

Inverell Council engaged the Centre for Local Government to undertake phone surveys and a deliberative panel focus group. The outcomes of this consultation include:

- ▼ The phone survey of 400 residents in December 2016 indicated:
  - 53% of residents are not prepared to accept a decrease in services, even if this makes rates cheaper
  - 73% indicated more should be spent on essential services and infrastructure provided by council
- ▼ The deliberative panel/focus group (20 randomly selected residents) found the Council's services and infrastructure should be maintained at current levels or increased, and there was a willingness to accept a special variation of 14.25% (above rate peg) to fund this.
- ▼ The phone survey of 300 residents in February 2017 indicated:
  - 61% think there is a need to increase rates
  - 59% accept a rate increase to maintain current services and infrastructure.

Based on these outcomes the council decided to apply for the special variation.<sup>20</sup>

## Submissions

We received three submissions (including one petition) opposing the application.<sup>21</sup> Key concerns raised in submissions include:

- ▼ inaccuracy of the council's infrastructure backlog calculation

<sup>19</sup> Inverell Council, *Application Part B*, pp 64-67.

<sup>20</sup> Some submissions raised concerns about the validity of the council's approach to consultation. The UTS: CLG report states its approach to the surveys included identifying statistically representative samples. We also note UTS: CLG has a track record of running community engagement processes for other council's special variation applications.

<sup>21</sup> One submission included a Change.org petition which was signed by 313 people – as at 6 April 2017.

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- ▼ the community consultation has been inadequate and the findings have been manipulated
  - ▼ rate increases are not affordable, and
  - ▼ the council should become more efficient.<sup>22</sup>

### 3.3 Reasonable impact on ratepayers

We consider the impact of the special variation will be significant but reasonable given:

- ▼ the need for and purpose of the special variation
- ▼ a willingness to pay for preferred service levels
- ▼ the existing differential ratings structure which takes account of the lower socio-economic status of Inverell's villages, and
- ▼ the council has not previously applied for a special variation.

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. Over the last 10 years the average growth in rates has been in line with the rate peg growth, as the council has not previously sought a special variation.

Table 3.5 shows how Inverell Council compares to surrounding councils and the group 11 averages on rates and socio-economic indicators in 2014-15. Table 3.6 shows Inverell's rates are on average 10% higher than comparable Group 11 councils. However, the rates are between 10% and 20% lower than some Group 11 and surrounding councils such as Armidale-Dumaresq<sup>23</sup>, Tamworth, Moree Plains and Narrabri.

Table 3.5 also shows that on a number of indicators there is relative disadvantage in Inverell Shire. For example, the SEIFA ranking shows a high level of disadvantage and the council is surrounded by similarly disadvantaged areas, for example, Gwydir Shire<sup>24</sup> and Glen Innes Severn Council.

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<sup>22</sup> For example, Robert Mephan, *Submission*, 13 March 2017; Martin Bower, *Submission*, 13 March 2017; Mrs BJ Turner, *Submission*, 24 January 2017.

<sup>23</sup> Is now known as Armidale Regional Council, which was formed by a merger between Armidale Dumaresq and Guyra Shire councils.

<sup>24</sup> Gwydir Shire Council was granted a permanent 30% increase in rates in 2016-17, see, IPART, *Gwydir Shire Council's application for a special variation for 2016-17*, May 2016, p 2.

**Table 3.5 Inverell Council - comparison of rates and socio-economic indicators with surrounding councils and Group 11 averages (2014-15)**

Council (OLG Group)	Average residential rate (\$) <sup>a</sup>	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) <sup>b</sup>	SEIFA Index NSW Rank <sup>c</sup>
Armidale-Dumaresq (4) <sup>d</sup>	986	42,594	2.3	8.6	103
Glen Innes Severn (10) <sup>d</sup>	658	33,263	2.0	1.1	20
Guyra (9)	432	34,225	1.3	10.0	27
Gwydir (10) <sup>d</sup>	413	33,581	1.2	1.5	38
<b>Inverell (11)</b>	<b>766<sup>e</sup></b>	<b>35,598</b>	<b>2.2</b>	<b>6.0</b>	<b>18</b>
Moree Plains (11)	972	48,990	2.0	4.6	23
Narrabri (11)	848	43,389	1.9	5.6	54
Tamworth (4)	890	42,628	2.1	4.5	69
Uralla (10)	617	36,711	1.7	4.4	94
<b>Group 11</b>	<b>719</b>	<b>44,416</b>	<b>1.6</b>	<b>5.0</b>	

**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.

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

**d** Gwydir Shire was granted a 30% increase in 2016-17, which is not captured in the data. Armidale-Dumaresq was granted 12.3% in 2014-15 for 7 years which is reflected in the data. Glen Innes Severn was granted increases of 29.19% over three years from 2014-15 that is not fully reflected in the data.

**e** The average for Inverell is the average across its 7 different residential ratings categories.

**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 is aware of the relative disadvantage in its local government area. The council has a differential residential ratings structure which reduces the ratings burden on its more socio-economically disadvantaged communities. The council's differential rating structure in 2016-17 resulted in the distribution of the residential ratings burden shown in Table 3.6.

**Table 3.6 Average residential rates in 2016-17**

Rating category	Average rate (\$)
Residential - Inverell	936
Residential - Rural	872
Residential – Villages <sup>a</sup>	500

**b** This is the average of the General, Ashford, Delungra, Gilgai, Yetmen ratings categories.

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

Table 3.6 shows the average rate paid by Inverell's villages in 2016-17 is 53% of the amount paid by the Residential – Inverell ratings category.

By maintaining this ratings structure, the impact of the special variation on the low socio-economic villages will be less than the impact on the Inverell Township and rural residential areas.

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Inverell Council also notes that its community consultation (discussed in section 3.2 above) indicates there is a willingness to pay for the preferred service levels the special variation is funding.

Taking all these factors into account, we consider the impact of the increases is significant, but reasonable, given the council's existing rate levels and ratings structure, history of raising rates by the rate peg with no previous special variation applications, a willingness to pay for preferred service levels, and the purpose of the application.

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

Our decision means Inverell Council may increase its general income over the 3-year special variation period from \$10.8 million in 2016-17 to \$13.2 million in 2019-20. Table 4.1 shows the annual increases to the council's general income. These amounts reflect the percentage increases we have approved and, in 2017-18, adjustments that occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2019-20, the council's permissible general income can increase by up to the annual rate peg unless we approve a further special variation.<sup>25</sup>

**Table 4.1 Permissible general income of Inverell Shire Council from 2017-18 to 2019-20 arising from the special variation approved by IPART**

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2017				10,776,788
2017-18	6.25	6.25	674,117	11,450,905 <sup>a</sup>
2018-19	7.25	13.95	830,191	12,281,096
2019-20	7.25	22.21	890,379	13,171,475
<b>Total increase approved</b>			<b>2,394,687</b>	<b>2,394,687</b>

<sup>a</sup> A prior catch-up of \$568,000 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2017-18.

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

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

The council estimates that over the three years to 2019-20 it will collect an additional \$3.3 million of 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 undertake additional operating and capital expenditure to maintain service levels at acceptable standards, primarily for its regional and shire road network, and to improve its financial sustainability.

<sup>25</sup> 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.

## 5 What does our decision mean for ratepayers?

IPART sets 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.

In its application, Inverell Council indicated it intended to increase rates over the three years uniformly for each category.

Table 5.1 sets out Inverell Council's estimate of the expected increase in average rates for the main ratepayer categories, also including the effect of land revaluations in 2017-18. The table shows the cumulative dollar impact over three years is around:

- ▼ \$200 for the *residential – Inverell* and *residential – rural* categories. For the other residential ratings categories (ie, the villages), the cumulative dollar impact over three years is about \$100.
- ▼ \$1,000 for the *business-industrial/commercial* category and around \$300 for the *business – other* category.
- ▼ \$600 for the *farmland* rates category.

**Table 5.1 Indicative annual increases in average rates under Inverell Shire Council's approved special variation 2017-18 to 2019-20**

Year	Average rate 2016-17	2017-18	2018-19	2019-20	Cumulative Increase 2018-20
<b>Residential</b>					
<b>Residential – Inverell - rate</b>	936	994	1,066	1,144	
\$ increase		58	72	77	208
% increase		6	7	7	22
<b>Residential – General - rate</b>	586	623	668	716	
\$ increase		37	45	48	130
% increase		6	7	7	22
<b>Residential – Ashford - rate</b>	451	477	511	548	
\$ increase		26	35	37	98
% increase		6	7	7	22
<b>Residential – Delungra - rate</b>	473	502	539	578	
\$ increase		29	36	39	105
% increase		6	7	7	22
<b>Residential – Gilgai - rate</b>	535	568	609	653	
\$ increase		33	41	44	119
% increase		6	7	7	22
<b>Residential – Yetman - rate</b>	455	491	526	564	
\$ increase		37	36	38	109
% increase		8	7	7	24
<b>Residential – Rural - rate</b>	872	926	993	1,065	
\$ increase		54	67	72	193
% increase		6	7	7	22
<b>Business</b>					
<b>Business – Inverell. Industrial/commercial - rate</b>	4,714	5,007	5,370	5,758	
\$ increase		293	363	389	1,045
% increase		6	7	7	22
<b>Business - Other - rate</b>	1,368	1,433	1,537	1,648	
\$ increase		65	104	111	280
% increase		5	7	7	21
<b>Farmland</b>					
<b>Farmland - rate</b>	2,573	2,742	2,941	3,154	
\$ increase		170	199	213	581
% increase		7	7	7	23

**Note:** Numbers are rounded to the nearest dollar. Totals may not add due to rounding.

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





## Appendices



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## A Expenditures to be funded from the special variation above the rate peg

Table A.1 and Table A.2 show Inverell 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 \$16.2 million, over 10 years to fund:

- ▼ operating and capital expenditure to maintain its key assets, primarily its regional and shire road network
- ▼ improve its financial sustainability.<sup>26</sup>

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.

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<sup>26</sup> Inverell Council, *Application Part A*, Worksheet 6, and Inverell Council, *Application Part B*, p 41.

**Table A.1 Inverell 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
<b>Special variation income above assumed rate peg</b>	<b>512</b>	<b>1,069</b>	<b>1,679</b>	<b>1,721</b>	<b>1,764</b>	<b>1,808</b>	<b>1,853</b>	<b>1,899</b>	<b>1,947</b>	<b>1,995</b>	<b>16,246</b>
Funding for increased operating expenditures	186	239	291	358	391	422	457	526	543	566	3,977
Funding to reduce operating deficits (or increase surplus)	97	158	222	288	352	420	490	562	636	858	4,082
Funding for capital expenditure	228	672	1,166	1,074	1,020	963	903	809	768	569	8,172
<b>Proposed increased expenditure</b>	<b>512</b>	<b>1,069</b>	<b>1,679</b>	<b>1,721</b>	<b>1,764</b>	<b>1,808</b>	<b>1,853</b>	<b>1,899</b>	<b>1,947</b>	<b>1,995</b>	<b>16,246</b>

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

**Table A.2 Inverell Shire Council – Proposed 10-year operating and capital expenditure program 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
<b>Operating expenditure</b>											
Reduce budget deficits	97	158	222	288	352	420	490	562	636	858	4,082
Asset maintenance	86	136	186	250	280	308	340	406	430	450	2,872
Road grading	100	103	105	108	111	114	117	120	113	116	1,105
<b>Total operating expenditure</b>	<b>283</b>	<b>397</b>	<b>513</b>	<b>646</b>	<b>743</b>	<b>842</b>	<b>946</b>	<b>1,087</b>	<b>1,179</b>	<b>1,424</b>	<b>8,060</b>
<b>Capital expenditure</b>											
Road infrastructure backlog	228	599	1,097	876	816	595	535	352			5,097
Urban construction						50	50	100	100	100	400
Asset renewal-backlog prevention	2	76	75	207	214	331	333	335	487	289	2,348
Culverts and causeways	,							40	200	200	440
Less reallocation of funds	-2	-4	-6	-8	-10	-12	-15	-17	-19	-20	-113
<b>Total Capital Expenditure</b>	<b>228</b>	<b>672</b>	<b>1,166</b>	<b>1,074</b>	<b>1,020</b>	<b>963</b>	<b>903</b>	<b>809</b>	<b>768</b>	<b>569</b>	<b>8,172</b>

**Note:** Numbers may not add due to rounding.

**Source:** Inverell Council, *Application Part A*, Worksheet 6.

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

As a condition of IPART's approval, Inverell Shire 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 capital grants 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 Inverell Shire Council under the special variation, 2017-18 to 2026-27 (\$000)**

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-2024	2024-25	2025-26	2026-27
Total revenue	27,247	28,681	29,684	30,492	30,492	31,790	32,047	32,861	33,488	34,168
Total expenses	24,901	25,417	26,021	26,621	27,241	27,834	28,470	29,155	29,829	30,593
Operating result from continuing operations	2,348	3,265	3,664	3,871	3,250	3,965	3,578	3,706	3,659	3,574
Net operating result before capital grants and contributions	1,588	2,495	2,884	3,080	2,448	3,143	2,752	2,869	2,810	2,736

**Note:** Numbers may not add due to rounding.

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

## C Comparative indicators

### Performance indicators

Indicators of council 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 Inverell Shire Council have changed over the four years to 2014-15.

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

Performance indicator	2011-12	2012-13	2013-114	2014-15	Average annual change (%)
FTE staff (number)	200	204	212	210	1.6
Ratio of population to FTE	83	82	79	79	-1.5
Average cost per FTE (\$)	60,270	58,196	57,283	61,338	0.6
Employee costs as % operating expenditure (General Fund only) (%)	41.4	41.4	41.2	41.7	0.3
Consultancy/contractor expenses (\$m)	1.2	1.6	1.3	1.3	3.2
Consultancy/contractor expenses as % operating expenditure (%)	3.9	5.0	4.1	4.0	0.9

**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 C.1 shows that Inverell Council's performance over the period has been relatively stable. While total employees have increased on average by 1.6% per year, the ratio of total employees to population has declined 1.5% per year.



## General comparative indicators

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

As indicated in section 3, Inverell Shire 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 Inverell Shire Council, 2014-15**

	Inverell Shire Council	OLG Group 11 average	NSW average
<b>General profile</b>			
Area (km <sup>2</sup> )	8,791		
Population	16,660		
General Fund operating expenditure (\$m)	27.4		
General Fund operating revenue per capita (\$)	1,769	1,931	2,029
Rates revenue as % General Fund income (%)	36.6	35.3	45.1
Own-source revenue ratio (%)	56.5	60.2	69.0
<b>Average rate indicators<sup>a</sup></b>			
Average rate – residential (\$) <sup>b</sup>	766	719	790
Average rate – business (\$)	3,220	1,962	2,949
Average rate – farmland (\$)	2,455	2,712	2,490
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2011 (\$)	35,598	44,416	49,070
Growth in average annual income, 2006-2011 (% pa)	4.0	5.3	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	2.2	1.6	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	18		
Outstanding rates and annual charges ratio (General Fund only) (%)	6.0	5.0	4.6
<b>Productivity (labour input) indicators<sup>d</sup></b>			
FTE staff (number)	210	152	295
Ratio of population to FTE	79	93	127
Average cost per FTE (\$)	61,338	76,967	80,173
Employee costs as % operating expenditure (General Fund only) (%)	41.7	36.2	38.6
Consultancy/contractor expenses (\$m)	1.3	2.2	8.8
Consultancy/contractor expenses as % operating expenditure (%)	4.0	6.4	10.9

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

<sup>b</sup> The average residential rate reflects the average of the council's seven residential ratings categories.

<sup>c</sup> Average annual income includes income from all sources excluding government pensions and allowances.

<sup>d</sup> 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.