

Independent Pricing and Regulatory Tribunal  
New South Wales

# Special variation increase Lismore City Council 2018-19

Determination  
Local Government

May 2018

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# 1 Executive summary

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

Lismore City Council (Lismore Council) applied for a single-year special variation to:

- ▼ increase its general income by 2.71% in 2018-19, and
- ▼ retain this increase in its rate base for 5-years.<sup>1</sup>

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

## 1.1 We have approved Lismore City Council's application for a special variation

We decided to allow the special variation as requested.

Our decision means that Lismore Council may increase its general income in 2018-19 by 2.71%, including the rate peg of 2.3%, as shown in Table 1.1. This increase may be retained in the council's general income base for five years and is to be removed from the council's rate base after 2022-23.

The purpose of the special variation is to renew Lismore Council's 5-year Special Business Rate Variation Levy (business levy) which is due to expire on 30 June 2018.<sup>2</sup> This will allow the council to continue funding the city centre revitalisation program and marketing activities of the Lismore Business Promotion Program which is now in its ninth year.<sup>3</sup> Rates will, on average, increase by up to 2.34% in 2018-19 for those businesses that continue to pay the levy (see Section 5).

**Table 1.1 IPART's decision on Lismore City Council's application for a special variation in 2018-19**

	2018-19 (%)
Increase to continue business levy	0.41
Rate peg	2.30
<b>Total increase approved</b>	<b>2.71</b>

<sup>1</sup> Lismore Council, *Special Variation Application Form Part A 2018-19* (Lismore Council, *Application Part A*), Worksheet 1.

<sup>2</sup> Lismore Council, *Application Part A*, Worksheet 1 and Lismore Council, *Special Variation Application Form Part B 2018-19* (Lismore Council, *Application Part B*), p 4.

<sup>3</sup> Lismore Council, *Application Part A*, Worksheet 6, Lismore Council, *Application Part B*, p 4 and Lismore Council, Long Term Financial Plan 2017-2027, p 5.

### **Box 1.1      Context for IPART's decision**

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

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

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

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

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






## **1.2      The council's application meets the criteria**

Our decision reflects our finding that the council's application meets the requirements in the OLG criteria.

Our assessment against the criteria is summarised in Table 1.2.



**Table 1.2 Assessment of Lismore City Council's special variation application**

1. Financial Need	
	<p>The council demonstrated the financial need for the special variation (SV):</p> <ul style="list-style-type: none"> <li>▼ The SV will have no material impact on the council's Operating Performance Ratio as the total SV amount is small in comparison to total operating expenditure.</li> <li>▼ As an aftermath of the 31 March 2017 flood, there is an immediate need to revive and promote the Lismore Central Business District (CBD) to avoid further economic losses.</li> <li>▼ The SV ensures existing funding to reduce the council's infrastructure backlog ratio (12.0%) will not be diverted to deliver the promotion of the Lismore CBD.</li> <li>▼ Spending on the city centre revitalisation program and marketing activities of the Lismore Business Promotion Program is consistent with community priorities.</li> </ul>
2. Community awareness	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> <li>▼ used a range of engagement methods to make the community aware of the need for and extent of the rate increase</li> <li>▼ provided detailed explanation about the purpose and impact of the SV and sought feedback, and</li> <li>▼ satisfactorily considered community feedback on the rate increase.</li> </ul>
3. Impact on ratepayers	
	<p>Impact on ratepayers will be small and reasonable:</p> <ul style="list-style-type: none"> <li>▼ The SV replaces an existing expiring SV so rates will rise only slightly above the rate peg (2.3%) for a small proportion of Inner CBD (2.34%) and Urban (2.33%) business ratepayers.</li> <li>▼ Rates for other ratepayer categories will increase approximately in line with the rate peg.</li> <li>▼ There is a small percentage increase (0.41%) and total dollar impact (\$120,000) in 2018-19.</li> <li>▼ The business community and an independent report have recognised the need for post-disaster marketing and advertising activities to support growth and sustainability.</li> </ul>
4. IP&R documents exhibited	
	<p>The council adopted its Community Strategic Plan in June 2017. It:</p> <ul style="list-style-type: none"> <li>▼ exhibited its Delivery Program during May and June and adopted it on 20 June 2017, and</li> <li>▼ adopted the Long Term Financial Plan setting out the SV scenarios in 2017.</li> </ul>
5. Productivity improvements and cost containment	
	<p>Over the past four years, the council has realised \$1.2 million in revenue and cost saving initiatives including:</p> <ul style="list-style-type: none"> <li>▼ introducing paid parking fees and increasing dividends from waste and quarry operations (\$201,500)</li> <li>▼ reducing cycleway, kerb and gutter, and stormwater construction costs (\$231,400), and</li> <li>▼ revising library and CBD council office opening hours (\$134,800).</li> </ul> <p>The council forecasts further savings from implementing an organisation wide 5% cost saving initiative which would result in a net positive impact of \$2.4 million over four years from 2017-18.</p>

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

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

#### **Box 1.2 Conditions attached to Lismore City Council's approved special variation**

IPART's approval of Lismore City Council's application for a special variation over the period 2018-19 to 2022-23 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the city centre revitalisation program and marketing activities of the Lismore Business Promotion Program as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report for each year from 2018-19 to 2022-23 on:
  - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any substantial differences from the proposed expenditure, and
  - the outcomes achieved as a result of the actual program of expenditure.
- ▼ On 1 July 2023, the council is to reduce its general income to what it would have been without the special variation.

The council is to reduce its general income for 2018-19 by \$115,277 (the value of the expiring special variation) before its general income is increased in 2018-19 in accordance with IPART's determination.

### 1.4 Structure of this report

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

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

## 2 Lismore City Council's application

Lismore Council applied for a special variation to increase its general income by 2.71% in 2018-19, and to retain this increase in its general income base for five years.<sup>4</sup> As required under the OLG Guidelines,<sup>5</sup> the council applied for the special variation on the basis of its most recent, adopted Integrated Planning and Reporting (IP&R) documents, in particular the:

- ▼ Imagine Lismore Community Strategic Plan 2017-27 (Community Strategic Plan)
- ▼ Imagine Lismore Combined Delivery Program 2017-21 and Operational Plan 2017-18 (Delivery Program), and
- ▼ Long Term Financial Plan 2017 to 2027 (Long Term Financial Plan).

Lismore Council's 5-year business levy funds the current city centre revitalisation scheme and marketing activities of the Lismore Business Promotion Program, in addition to the normal business rates. The business levy has been in existence in two versions for a total of eight years. The existing business levy of 0.42% above the rate peg for five years from 2013-14 to 2017-18 is due to expire on 30 June 2018.<sup>6</sup>

As this application is for the continuation of an existing special variation, rate payers on average will only experience an increase in rates close to the rate peg in 2018-19. The expiring special variation reduces the council's general income by 0.39% at the end of 2017-18. Applying the proposed special variation of 2.71% to this reduced base provides a total increase to general income of 2.31% in 2018-19, which is only slightly above the rate peg of 2.3%.<sup>7</sup>

The council estimates its permissible general income would increase from \$29.4 million in 2017-18 to \$30.1 million in 2018-19 if the requested special variation is approved. Over the 5-year period of the special variation to 2022-23, this would generate additional revenue of \$631,679 compared to rate increases at the assumed rate peg.<sup>8</sup>

The council indicated it intends to use the additional revenue to continue the established core marketing, events and business support activities currently delivered by the Lismore Business Promotion Program.<sup>9</sup>

More detail on the council's proposed program of expenditure is provided in Appendix B.

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<sup>4</sup> Lismore Council, *Application Part A*, Worksheet 1. The council has a special variation for 0.42% above the rate peg which will expire 30 June 2018, reducing the council's general income by \$115,277. As a result, the actual increase in the council's general income is estimated to be 2.3% in 2018-19.

<sup>5</sup> *OLG Guidelines*, November 2017, p 6.

<sup>6</sup> Lismore Council, *Application Part A*, Worksheet 1 and Lismore Council, *Application Part B*, p 4.

<sup>7</sup> Lismore Council, *Application Part A*, Worksheet 1.

<sup>8</sup> Lismore Council, *Application Part A*, Worksheet 1 and Worksheet 6.

<sup>9</sup> Lismore Council, *Application Part A*, Worksheet 6 and Lismore Council, *Application Part B*, p 4.

## 3 IPART's assessment

To make our decision, we assessed Lismore Council's application against the criteria in the OLG Guidelines. We also considered the council's most recent IP&R documents, and a range of comparative data about the council set out in Appendix C.<sup>10</sup>

We found that Lismore Council's application met the requirements of the criteria.

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

### 3.1 The council demonstrated financial need for the special variation

We found that Lismore Council's IP&R documents adequately set out the need for, and purpose of the requested special variation, which is to continue the established core marketing, events and business support activities currently delivered by the Lismore Business Promotion Program.

The council's Community Strategic Plan clearly indicates that one of the community's priorities was to maintain a prosperous and vibrant city with diverse businesses and industry, as well as opportunities for investment and growth.<sup>11</sup>

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

#### 3.1.1 Impact on council's operating performance

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

$$OPR^{12} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

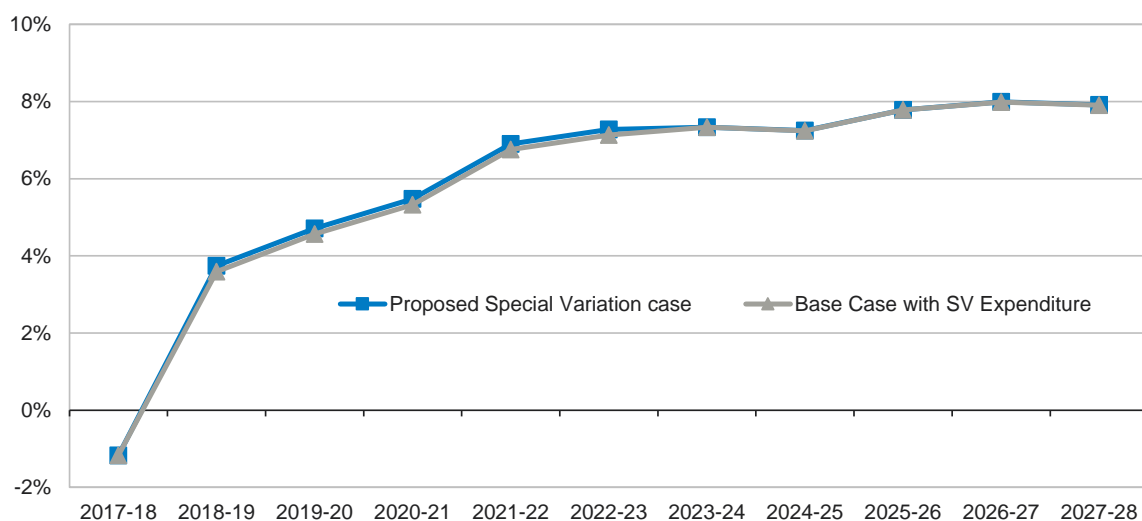
Based on Figure 3.1 and Table 3.1, there is no material impact on the council's operating performance ratio whether the council receives the special variation revenue or not as the amount applied for is not material relative to the council's total operating expenditure.

<sup>10</sup> See Appendix C. Lismore Council is in OLG Group 4, which is classified as 'urban small/medium regional town or city with a population of up to 70,000'. The group comprises 28 councils, including Ballina Shire, Richmond Valley, Clarence Valley (which all surround Lismore City), Kempsey Shire and Kiama Municipal council.

<sup>11</sup> Lismore Council, *Application Part B*, pp 23-24 and Lismore Council, *Community Strategic Plan*, p 26.

<sup>12</sup> Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

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



**Note:** The base case with special variation (SV) expenditure scenario shows the impact on the council's operating position if the special variation projects were to go ahead without the special variation revenue. The graph above uses the revised Worksheet 7 in Lismore Council's application to IPART which removes the impact of a future SV that Lismore Council may apply for in 2019-20. This OPR calculation includes net losses from infrastructure disposals arising primarily from road resealing works.

**Source:** Lismore Council, *Application Part A*, Revised Worksheet 7 received by IPART on 15 March 2017 and IPART calculations.

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

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Application - including SV	3.74	4.71	5.47	6.90	7.28	7.34	7.25	7.79	7.99	7.91
Base case with SV expenditure	3.59	4.56	5.33	6.76	7.13	7.34	7.25	7.79	7.99	7.91

**Note:** The table above uses the revised Worksheet 7 in Lismore Council's application to IPART that removes the impact of a future SV that Lismore Council may apply for in 2019-20. This OPR calculation includes net losses from infrastructure disposals arising primarily from road resealing works.

**Source:** IPART calculations based on Lismore Council, *Application Part A*, Revised Worksheet 7 received by IPART on 15 March 2017.

Analysis of the council's OPR with and without the special variation does not establish a clear financial need for the additional revenue. The council generates a positive OPR throughout the period to 2027-28.

The result of the council's Fit for the Future (FFTF) assessment was 'Fit' and overall satisfied the scale and capacity and financial criteria. Appendix D summarises our assessment of Lismore Council's 2015 FFTF proposal.

### 3.1.2 Financial need to promote Lismore CBD after the flood

A financial need for continued promotion and marketing activities has been identified as a result of the 31 March 2017 flood which severely affected the Lismore CBD.<sup>13</sup>

A Business Flood Recovery Taskforce (Taskforce) was formed in May 2017 to assist with the post-flood recovery process and help secure economic future of the council. The Executive Director for Sustainable Development (EDSD) of Lismore Council was assigned as the executive officer of the Taskforce to coordinate a working group comprised of the Lismore Chamber of Commerce and Industry (Lismore Chamber).<sup>14</sup>

An independent report to the Taskforce stated that:

According to the NSW Government's 'Whole of Government Impact Assessment Report' June 2017, at least 68% of businesses in Lismore CBD suffered damage from the flooding, with total losses in Lismore estimated at just under \$40 million. The impact on the business community in flood-affected areas is multi-faceted and will affect the city's economic growth in the immediate and short-term future.<sup>15</sup>

As an aftermath of this natural disaster, the Lismore CBD experienced the highest number of vacancies ever recorded. The CBD vacancy rates were recorded at 8.5% on 27 March 2017 just prior to the floods, and had risen to 15.8% or 76 premises by June 2017. The overall impact on CBD and business annual turnover was estimated at between 15% and 20% for 2016-17.<sup>16</sup>

The Lismore business community recognised an important need for post-disaster marketing to support business and community growth, and to improve sustainability, based on the post-flood business survey conducted by the council and the Lismore Chamber.<sup>17</sup>

The council's view is if the business promotion and marketing program was discontinued, it could take longer for the Lismore CBD to revive causing further economic losses.<sup>18</sup>

The council could levy a special rate on the business community without applying for a special variation to fund the Lismore Business Promotion Program. However, the council has an infrastructure backlog ratio of 12% in 2017-18. The Long Term Financial Plan forecasts this ratio will remain above 8% to 2027-28,<sup>19</sup> which is substantially above the benchmark of less than 2%. If the program was funded from existing revenues, rather than a special variation, this would decrease the funding available to reduce the council's infrastructure backlog and service its current net debt.<sup>20</sup>

<sup>13</sup> Lismore Council, *Application Part B*, p 7.

<sup>14</sup> Nelson Consultancy Pty Ltd, *Report on the 31 March 2017 natural disaster for the Lismore Business Flood Recovery Taskforce (Report on the March 2017 flood)*, June 2017, p 3.

<sup>15</sup> Nelson Consultancy Pty Ltd, *Report on the 31 March 2017 natural disaster for the Lismore Business Flood Recovery Taskforce (Report on the March 2017 flood)*, June 2017, p 4.

<sup>16</sup> Nelson Consultancy Pty Ltd, *Report on the March 2017 flood*, June 2017, pp 8 and 12.

<sup>17</sup> Nelson Consultancy Pty Ltd, *Report on the March 2017 flood*, June 2017, pp 12-13.

<sup>18</sup> Nelson Consultancy Pty Ltd, *Report on the March 2017 flood*, June 2017, p 4.

<sup>19</sup> Lismore Council, *Long Term Financial Plan 2017-2027 (Model 1: Business SRV Included)*, p 4.

<sup>20</sup> Net debt of \$17.6 million or 23.3% of income in 2017-18. Our net debt calculation equals cash plus cash equivalents less borrowings. A net debt position means that the council has more borrowings than cash and cash-like investments.

### 3.1.3 Alternative funding strategies

Due to the nature and purpose of the special variation, the council considered a business levy to be the most appropriate funding option. The council concluded that higher user charges, additional loan borrowings, public/private partnerships or other funding mechanisms are not appropriate for the specific need of funding the Lismore Business Promotion Program.<sup>21</sup> The council concluded it is more appropriate that the costs for this program should be borne by the business rate payers who would most benefit from the expenditure, rather than by all ratepayers.

## 3.2 The council demonstrated community engagement and awareness

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

In 2017-18, the council reviewed its IP&R documents in consultation with the community. It clearly explained the need for, purpose, and extent of the proposed special variation. In particular, it communicated the special variation increase in percentage terms, and the total increase in dollar terms for the affected businesses.

The council also provided reasonable opportunities for community feedback, and used a variety of methods to engage with the business community including:

- ▼ a letter mailed out to business rate payers featuring a 6-page Lismore Business Bulletin that discussed the special variation application
- ▼ an online survey for the business community to provide feedback
- ▼ an article in the council's fortnightly newsletter distributed to 23,000 mail boxes throughout the local government area (LGA)
- ▼ an update on the council's website of all relevant documents on the special variation with an invitation for readers to comment and provide feedback
- ▼ a briefing provided to the Lismore Chamber, and
- ▼ a workshop attended by randomly-selected business rate payers and members of the business community.<sup>22</sup>

The council mainly consulted with the business community because its members will pay the levy.

### 3.2.1 Outcome of consultation with community

Although this criterion does not require councils to demonstrate community support for the special variation, they are required to consider the results of their community consultation in preparing their application.

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<sup>21</sup> Lismore Council, *Application Part B*, p 7.

<sup>22</sup> Lismore Council, *Application Part B*, pp 13-14.



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Lismore Council's consultation with businesses indicated mixed support for the special variation: 9 of 13 responses to the online survey or 69% opposed the special variation; however, 67% of the responses at the workshop supported the special variation.<sup>23</sup>

The briefing with the Lismore Chamber indicated it is opposed to the special variation. The Lismore Chamber has consistently opposed the council's previous applications to charge this business levy. The Lismore Chamber's survey showed 61% of businesses are opposed to the special variation.<sup>24</sup>

### **3.2.2 Submissions from the community**

The council received three written submissions opposing the special variation, including two from individuals and one from the Lismore Chamber (with 46 petitions from members).<sup>25</sup> The main reason for opposition was businesses said they could not afford to pay the levy, especially as they are still recovering from the March 2017 flood.

The council considered the community's feedback and consultation. In response to the feedback and recommendation from the Lismore Business Panel, the council decided to scale back the size of the year one increase from \$220,000 to \$120,000 per year, and it decided to make the special variation temporary for five years rather than permanent.<sup>26</sup>

The council decided to continue with the levy because it thought the impact on businesses was reasonable and the revenue from the special variation is essential to fund the recovery of the Lismore CBD after the effects of the March 2017 flood.<sup>27</sup>

IPART received 62 submissions (including 37 petitions) opposing the special variation. The reasons for opposing the special variation included the unaffordability of the rate increases as businesses are still recovering from the March 2017 flood, a history of mismanagement of funds by the council, and a belief there is no need for further spending to promote the CBD.

## **3.3 The impact on ratepayers is reasonable**

We found that the impact of this increase on business property ratepayers will be small and reasonable, given:

- ▼ this special variation replaces an expiring special variation which means rates will on average only increase slightly above the rate peg of 2.3%
- ▼ the business community is already paying the levy that this special variation seeks to renew, and
- ▼ the business community has recognised an important need for marketing and advertising activities to promote the Lismore CBD to address the effects of the March 2017 flood.

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<sup>23</sup> Lismore Council, *Application Part B*, pp 15 and 18.

<sup>24</sup> Lismore Council, *Application Part B*, p 17 and 19.

<sup>25</sup> Lismore Council, *Application Part B*, p 17.

<sup>26</sup> Lismore Council, *Application Part B*, p 7.

<sup>27</sup> Lismore Council, *Application Part B*, p 19.



### 3.3.1 Council's consideration of impact on ratepayers

The council considers the business community has the capacity and willingness to pay the levy. As part of the post-flood business survey conducted by Lismore Council and the Lismore Chamber, the business community agreed with the need for post-disaster advertising and marketing. Survey responses said the marketing campaign should build on the council's established strengths and reinforce its status as a regional city. The responses indicated there was an immediate need to 'resell' Lismore and fill vacant shops and attract more business to enable the population and employment to grow.<sup>28</sup>

The special variation replaces an expiring business levy of a similar amount; hence the council considers there is negligible net impact on the business community's capacity to pay.<sup>29</sup>

The rates and annual charges outstanding ratio is an indication of ratepayers' ability to pay. In 2016-17, Lismore Council had an outstanding rates ratio of 8.07% overall, and 4.75% specifically for business rates.<sup>30</sup> The council considers the lower ratio for businesses suggests they have a better capacity than residents to pay the levy.

### 3.3.2 IPART's assessment of impact on ratepayers

To assess 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 the business category. We found that since 2007-08:

- ▼ The council has applied for and been granted the following special variations:
  - 2010-11: a 3.05%, including the rate peg of 2.60%, a temporary special variation for three years as a business levy to fund city centre management and promotion of business within Lismore LGA (expired on 30 June 2013)
  - 2013-14: a 3.82%, including the rate peg of 3.4%, a temporary special variation for five years to renew the council's expiring 2010-11 business levy (expiring on 30 June 2018), and
  - 2016-17: a 3.6%, including the rate peg of 1.8%, a single-year permanent increase to fund its Biodiversity Management Strategy to protect its biodiversity while preserving agricultural land.
- ▼ the average annual growth in business rates was 4.21%, which compares with the average annual growth in the rate peg of 2.71% over the same period.

We also compared current business rates of Lismore Council with neighbouring councils and the OLG Group 4 average as shown in Table 3.2.

<sup>28</sup> Nelson Consultancy Pty Ltd, *Report on the March 2017 flood*, June 2017, pp 12-13.

<sup>29</sup> Lismore Council, *Application Part B*, p 22.

<sup>30</sup> Lismore Council, *Outstanding Rates Ratio*, provided to IPART on 19 February 2018.

**Table 3.2 Lismore City Council - comparison of rates with neighbouring councils and OLG Group 4 average (2015-16)**

Council (OLG Group)	Average business rate (\$)
Tweed Shire (5)	2,739
Ballina Shire (4)	2,819
Kyogle (10)	1,079
Richmond Valley (4)	2,027
<b>Lismore City (4)</b>	<b>4,389</b>
Group 4 average	3,619

Source: OLG, Time Series Data 2015-2016.

Based on 2015-16 data, we found that Lismore Council's average business rate was higher than its neighbouring councils and higher than the OLG Group 4 average by 21%.

### Report to the Lismore Business Flood Recovery Taskforce

We have also considered some key findings from the Report to the Business Flood Recovery Taskforce, which noted that:

- A concerted effort is required to attract targeted retail operations to fill empty spaces and strengthen the mix in the Lismore CBD.
- There is no 'silver bullet' for the Lismore CBD, it is going to have to trade its way out of the situation. This makes the post-flood marketing campaign a critical tool.
- ...sustained and consistent messages over a considerable period of time are required to generate significant visitation and expenditure. Lismore has the distinct advantage of having the established Lismore Business Promotion Program [to assist with this marketing].<sup>31</sup>

In addition, the Lismore Business Panel, the entity appointed by the council to oversee the operation of the Lismore Business Promotion Program, has recommended that the council apply for the proposed special variation to continue the funding for the program at existing or increased levels.<sup>32</sup> The business panel consists of eight members, with a senior council staff member as the non-voting Chair. The seven voting independent members represent a wide cross-section of the Lismore business community.

Given the above factors, we consider the impact of the increase is reasonable given:

- ▼ the business community and an independent report have recognised the need for spending to market and promote the Lismore CBD, especially after the 2017 flood
- ▼ the overall increase is small; the business levy affects a small proportion of Inner CBD and Urban business rates only (see Section 5), and
- ▼ the average net increase in rates in 2018-19 will only be slightly above the rate peg on 2017-18 levels.

<sup>31</sup> Nelson Consultancy Pty Ltd, *Report on the March 2017 flood*, June 2017, pp 4, 8 and 15.

<sup>32</sup> Lismore Council, *Application Part B*, p 7.

### 3.4 The council's IP&R documents were exhibited

The council adopted its Community Strategic Plan on 20 June 2017. It exhibited its Delivery Program and Long Term Financial Plan between 10 May 2017 and 7 June 2017. The documents were adopted on 20 June 2017.<sup>33</sup>

The adopted Delivery Program and Long Term Financial Plan clearly set out the special variation option, the cumulative increase in rates in percentage and dollar terms, and the average impact on ratepayers. The IP&R documents also include the impact of the expiring special variation.

Initially, the council intended to apply for a single-year increase of 2.71% (including the rate peg) to be retained permanently in the rate base. Hence, its IP&R documents reflect this permanent special variation. However, after community consultation and feedback, the council decided to apply for a temporary single-year increase that will remain in the rate base for five years.

### 3.5 The council explained its productivity improvements and cost containment strategies

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

In particular, it submitted it has undertaken \$1.2 million in revenue generating and cost saving initiatives over a 4-year period since implementation of the IP&R framework in 2013-14.<sup>34</sup>

The council increased revenue by \$201,500 through introducing paid parking fees and increasing dividends from waste and quarry operations.<sup>35</sup>

The council also implemented initiatives to reduce the costs of service delivery whilst minimising the negative impacts on the community.<sup>36</sup> Key cost savings included:

- ▼ reducing cycleway, kerb and gutter, and stormwater construction costs through an efficiency review (\$231,400)
- ▼ revising the opening hours of the library and CBD council office (\$134,800)
- ▼ reducing the frequency of mowing off-field areas in parks (\$70,000), and
- ▼ reducing advertising costs by using the Corporate Newsletter (\$103,000).<sup>37</sup>

In 2017-18, the council is undertaking an organisation wide 5% cost saving initiative with a forecast net positive impact of \$2.4 million over four years.<sup>38</sup> This includes productivity efficiencies in:

- ▼ asset management and support services (\$650,700)

<sup>33</sup> Lismore Council, *Minutes of Council meeting on 20 June 2017*, provided to IPART on 11 March 2017.

<sup>34</sup> Lismore Council, *Application Part B*, p 25.

<sup>35</sup> Lismore Council, *2013-14 Imagine Lismore Operational Plan*, provided to IPART on 5 April 2018, p 50.

<sup>36</sup> Lismore Council, *Application Part B*, p 25.

<sup>37</sup> Lismore Council, *2013-14 Imagine Lismore Operational Plan*, provided to IPART on 5 April 2018, p 50.

<sup>38</sup> Lismore Council, *Application Part B*, p 25 and *2013-14 Imagine Lismore Operational Plan*, provided to IPART on 5 April 2018, p 50.

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- ▼ waste disposal and maintenance (\$416,700)
  - ▼ quarry and asphalt plant usage (\$281,000), and
  - ▼ fleet servicing arrangements (\$232,000).<sup>39</sup>

The council will again undertake a further service level review in 2021-22 with targeted savings of \$1 million to improve financial sustainability.<sup>40</sup>

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<sup>39</sup> Lismore Council, *2016-17 Budget by Program Area*, provided to IPART on 15 February 2018.

<sup>40</sup> Lismore Council, *Application Part B*, p 25.

## 4 Our decision's impact on the council

Our decision means Lismore Council may increase its general income in 2018-19 by 2.71% (including the rate peg of 2.3%), an estimated \$794,327 as indicated in Table 4.1. After 2018-19, the council's permissible general income can increase up to the annual rate peg unless we approve a further special variation.<sup>41</sup>

**Table 4.1 Permissible general income of Lismore City Council from 2018-19 to 2022-23 arising from the special variation approved by IPART**

Notional general income 2017-18 (\$)	Expiring special variation <sup>a</sup> (\$)	Increase approved (%)	Annual increase in general income (\$)	Catch-ups, valuations <sup>b</sup> (\$)	Permissible general income 2018-19 (\$)
29,426,234	115,277	2.71	794,327	1,258	30,106,542

<sup>a</sup> Expiring special variation on 30 June 2018.

<sup>b</sup> A prior catch-up that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2018-19.

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

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

The council estimates that over the five years to 2022-23 it will collect, in total, an additional \$631,679 of rate revenue compared to rate increases that are limited to the assumed rate peg. This extra income is the amount the council requested to continue funding the city centre revitalisation program and marketing activities of the Lismore Business Promotion Program.<sup>42</sup>

The approved special variation is temporary for 5-years. Hence, on 1 July 2023, the council is to reduce its general income to what it would have been without the special variation.

<sup>41</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.

<sup>42</sup> Lismore Council, *Application Part A*, Worksheet 6 and Lismore Council, *Application Part B*, p 4.

## 5 Our decision's impact on ratepayers

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

In its application, Lismore Council indicated the special variation will only be applied to the small proportion of Inner CBD and Urban business ratepayers that are currently paying the business levy. Rates for other ratepayer categories will increase approximately in line with the rate peg of 2.3%.

The council has calculated the increase in average rate in the Inner CBD and Urban business categories in 2018-19 would be 2.34% and 2.33% respectively. The increase is very close to the rate peg because the special variation continues an existing levy which is already being paid by these ratepayers. If the special variation had not been approved, these average rates would have increased by only 0.24%, including the rate peg.<sup>43</sup>

Table 5.1 sets out Lismore Council's estimates of the expected increase in average rates in each ratepayer categories.

**Table 5.1 Indicative annual increase in average rates under Lismore City Council's approved special variation for 2018-19**

Category	Average rate 2017-18 (\$)	Increase (\$)	Increase (%)	Average rate 2018-19 (\$)
<b>Residential rate</b>				
Urban/Village	1,169.83	26.88	2.30	1,196.72
Rural	1,465.41	33.59	2.29	1,499.01
<b>Business rate</b>				
Inner CBD	8,238.99	192.54	2.34	8,431.53
Urban	4,412.13	102.99	2.33	4,515.12
Other	1,694.67	39.00	2.30	1,733.67
Nimbin	2,323.49	53.40	2.30	2,376.89
<b>Farmland rate</b>				
Farmland	2,345.98	53.84	2.29	2,399.82

**Note:** 2017-18 is included for comparison. Numbers may not add due to rounding. The average rates equal total ordinary rates revenue divided by the number of assessments in each category

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

<sup>43</sup> Lismore Council, *Application Part A*, Worksheet 5a.



## Appendices





## A Assessment criteria for special variation applications

**Table A.1 Assessment criteria for special variation applications**

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

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

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

Table B.1 shows Lismore Council's proposed expenditure of the special variation funds over the next five years.

The council will use the additional special variation revenue, above the rate peg, of \$631,679 over five years to fund the following activities of the Lismore Business Promotion Program:

- ▼ marketing (eg, branding, advertising, digital marketing, social media, promotions, etc) (\$267,500)
- ▼ events and placemaking to enhance the amenity of the CBD and create an attractive sense of 'place' (eg, installation of free wi-fi facilities, improvement of signage to key CBD destinations, instituting historical and social walking tours, activation of key spaces in the CBD for 'pop up' activities and events, etc) (\$305,203)
- ▼ business support (\$3,062), and
- ▼ contingency fund for various ad hoc program activities (\$55,914).<sup>44</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.

**Table B.1 Lismore City Council – Income and proposed expenditure over five years related to the special variation (\$000)**

	2018-19	2019-20	2020-21	2021-22	2022-23	Total
<b>Special variation income above assumed rate peg</b>	<b>120</b>	<b>123</b>	<b>126</b>	<b>129</b>	<b>133</b>	<b>632</b>
Funding for increased operating expenditures	120	123	126	129	133	632
Funding for capital expenditure	-	-	-	-	-	-
<b>Total expenditure</b>	<b>120</b>	<b>123</b>	<b>126</b>	<b>129</b>	<b>133</b>	<b>632</b>

**Note:** Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure.

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

<sup>44</sup> Lismore Council, *Application Part A*, Worksheet 6, Lismore Council, *Application Part B*, p 4 and Lismore Council, *Lismore Business Promotion Program Business Plan 2016-2018*, pp 5-10.

## C Comparative indicators

### Performance indicators

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

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

Overall, the tables below show that:

- ▼ Total employee numbers have increased by 2.5% per year, and the ratio of population to each Full-Time Equivalent (FTE) staff has correspondingly declined by 2.7% per year. Average cost per FTE has remained stable over four years to 2015-16.
- ▼ Employee costs as a percentage of operating expenditure has increased from 29.8% in 2012-13 to 36.8% in 2015-16, but still compares favourably with the Group 4 average of 38.4% and NSW average of 39.7% in 2015-16.

**Table C.1 Trends in selected performance indicators for Lismore City Council, 2012-13 to 2015-16**

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	401	400	417	432	2.5
Ratio of population to FTE	111	111	106	102	-2.7
Average cost per FTE (\$)	75,282	71,650	71,883	74,255	-0.5
Employee costs as % of operating expenditure (General Fund only)	29.8	32.8	32.5	36.8	N/A

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

**Source:** OLG, unpublished data and IPART calculations

**Table C.2 Select comparative indicators for Lismore City Council, 2015-16**

	Lismore Council	OLG Group 4 average	NSW average
<b>General profile</b>			
Area (km <sup>2</sup> )	1,288	-	-
Population	44,054	-	-
General Fund operating expenditure (\$m)	75.5	63.1	70.2
General Fund operating revenue per capita (\$)	1,943	-	-
Rates revenue as % of General Fund income	37.5	39.5	43.6
Own-source revenue ratio (%)	73.2	65.8	67.3
<b>Average rate indicators<sup>a</sup></b>			
Average rate – residential (\$)	1,106	1,013	1,017
Average rate – business (\$)	4,389	3,619	5,118
Average rate – farmland (\$)	2,209	2,029	2,366
<b>Socio-economic/capacity to pay indicators</b>			
Median annual household income, 2016 (\$) <sup>b</sup>	55,484	62,656	77,272
Average residential rate to median income ratio (%)	2.0	1.6	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	45	-	-
Outstanding rates and annual charges ratio (%)	8.0	4.4	3.6
<b>Productivity (labour input) indicators<sup>c</sup></b>			
FTE staff (number)	432	343	354
Ratio of population to FTE	102	-	-
Average cost per FTE (\$)	74,255	79,862	83,193
Employee costs as % of operating expenditure (General Fund only)	36.8	38.4	39.7

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

<sup>b</sup> Median annual household income is based on 2016 ABS Census data.

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

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

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

## D Fit for the Future

Box D.1 summarises IPART's FFTF assessment of Lismore Council.

### Box D.1 FFTF Assessment

IPART's FFTF assessment in 2015 found that Lismore Council:

- ▼ Met the criterion for financial sustainability. The council's submission proposed applying for a special variation of 3% above the rate peg in 2018-19 to fund road renewals. The council was forecast to meet the **operating performance benchmark** by 2019-20, meet the own source revenue benchmark in all forecast years, and to trend close to the asset renewal benchmark to 2019-20.
- ▼ Did not meet the criterion for infrastructure and service management, as it would not reach the **infrastructure backlog benchmark** by 2019-20, however, the forecast demonstrated improvement by 2019-20. The council met the debt service benchmark in all forecast years.
- ▼ Met the efficiency criterion based on its reducing real operating expenditure per capita over the period to 2019-20.

TCorp observed in 2013 the council's financial position was 'moderate' but considered its outlook was 'negative'. This assessment was made largely because of forecast operating deficits consistently below the benchmark.

**Source:** IPART, *Assessment of Council FFTF Proposals*, October 2015, pp 269-270, NSW Treasury Corporation (TCorp), *Financial Assessment, Sustainability and Benchmarking Report: Lismore City Council*, March 2013 and Lismore Council, *Application Part B*, p 8.