

Independent Pricing and Regulatory Tribunal
New South Wales

Lockhart 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).¹ Box 1.1 explains the Guidelines for 2017-18.

Lockhart Shire Council applied for a multi-year special variation under section 508A. The council requested increases of 4.6% for each year of the seven years between 2017-18 and 2023-24, a cumulative increase of 37.0%. It applied for the increase to remain permanently in the rate base.²

After assessing the council's application, we decided not to approve the special variation. 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.

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

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

We have made our determination on the basis that the council did not satisfy the criteria in relation to financial need and making the community sufficiently aware of the rate rise.

- ▼ Our analysis of the council's performance against key financial indicators suggests that it could fund the special variation projects without the proposed rate increases. It is forecast to have a positive operating performance ratio over the 10 years to 2026-27. Further, the council has informed us that it has a zero infrastructure backlog and a forecast net cash balance of \$4.2 million at the start of the special variation period.
- ▼ The council's community consultation did not make clear the full impact of the increase being sought. The council's consultation extensively quoted the annual percentage increase (4.6%), but did not adequately present the cumulative percentage increase in rates (37.0%).

Our decision means the council may only raise its general income by the rate peg (1.5%) in 2017-18.

1.1 Our decision

We determined Lockhart Shire Council may increase its general income in 2017-18 by no more than the rate peg to which the council would otherwise be entitled (1.5% in 2017-18).³

The council proposed to use the special variation revenue to partly fund three projects. The council currently estimates that it has a zero infrastructure backlog and a \$4.2 million net cash balance. Further, it is forecast to have a positive operating performance ratio over the 10 years to 2026-27 without the special variation. This suggests Lockhart Shire Council has the financial capacity to fund these projects without the proposed rate increase. Nevertheless, the council could apply to IPART in future years for a special variation if it has a need for additional revenues.

³ The council has not identified any factors in its application which would alter its general income such as Crown Land adjustments, prior year catch ups or valuation objections.

2 What did the council request and why?

Lockhart Shire Council applied to increase its general income by a cumulative 37.0% over the 7-year period from 2017-18 to 2023-24, and to permanently incorporate this increase into its general income base.⁴ This increase is 19.3% more than the assumed rate peg over the period.

The council estimated that if the requested special variation were approved, its permissible general income would have increased from \$2.32 million in 2016-17 to \$3.18 million in 2023-24. Over the 7-year period of the special variation to 2023-24, this would have generated additional revenue of \$1.75 million compared to rate increases at the assumed rate peg. This figure would have increased to \$3.16 million over a 10-year period, as the special variation was proposed to remain permanently in the council's rate base.

The council intended to use the additional revenue from the special variation to partly fund three projects with an estimated cost of \$8.03 million:

- ▼ swimming pool refurbishments (\$4.20 million)
- ▼ flood mitigation measures (\$2.83 million)
- ▼ road restoration works (\$1.00 million).⁵

As well as using revenue from the special variation, Table 2.1 indicates that these projects were to be funded by a mix of additional State and Federal grants, new borrowings and the council's cash reserves.

Table 2.1 Funding sources for special variation projects

Funding source	Amount
Additional State and Federal grants	\$3.00 million
Special variation revenue	\$1.75 million
New borrowings	\$1.66 million
Cash reserves	\$1.63 million
Total	\$8.03 million

Note: The council's application for grant funding is still pending approval.

Source: Lockhart Shire Council, Application Part B, pp 6-7 and Long Term Financial Plan 2017/18- 2026/27, p 7.

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

This proposed increase was consistent with the council's proposal submitted for the Fit for the Future (FFTF) assessment in 2015. At that time, the council proposed a 4.6% per annum increase including the rate peg over the 10-year period from 2016-17 to 2025-26, a

⁴ Lockhart Shire Council, *Application Part A*, Worksheet 1.

⁵ Lockhart Shire Council, *Application Part B*, pp 4-7 and *Long Term Financial Plan 2017/18- 2026/27*, p 7.

cumulative increase of 56.8%.⁶ These funds were to be applied to improve its own source revenue ratio.⁷ This ratio is the proportion of total revenue the council derives from 'internal' funding sources (eg, rates, user charges) rather than grant funding.⁸

⁶ IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, p 277. Under section 508A, councils may only apply for a multi-year special variation for a period of up to seven years. Lockhart Shire Council has indicated that, if its application is successful, it may make another application at the end of the 7-year period, seeking a special variation for a further 3-year period (ie, so taken together these special variations would be consistent with its 10-year special variation proposal in FFTF). Lockhart Shire Council, *Application Part B, Attachment 6 Resolution to apply for a special variation*, 6 February 2017.

⁷ Lockhart Shire Council, *Rural Council Proposal*, June 2015, p 3.

⁸ In FFTF, rural councils (such as Lockhart Shire Council) were required to demonstrate they could improve their own source revenue within five years. Our analysis indicates the council would meet this requirement in the absence of the special variation (see section 3.1).

3 How did we reach our decision?

We assessed Lockhart Shire 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 B.⁹

Lockhart Shire Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2017-2027* (Community Strategic Plan), *Delivery Program 2017-2021* (Delivery Program), *Long Term Financial Plan 2017/18- 2026/27* (LTFP) and its community facilities and transport asset management plans (Asset Management Plans).

The rate increases for which the council has applied are substantial. 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.

We found Lockhart Shire Council's application met some, but not all, of the criteria. In particular, we found:

1. The council **did not** demonstrate there is a **need for the proposed revenue**. It is forecast to have a positive operating performance ratio over the 10 years to 2026-27 without the special variation, indicating it can fund its new projects without the proposed rate increase.
2. The council **did not** demonstrate **the community is aware** of the full extent of the rate increases. Its community consultation focused on the annual increase, and did not make clear the cumulative impact of the rate increase requested.
3. The **impact of the proposed rate rises on ratepayers** is substantial, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation, indicators of the community's capacity to pay, and the council's consideration of ratepayers' willingness and capacity to pay.
4. The council provided evidence that 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.

⁹ See Appendix B. Lockhart Shire Council is in OLG Group 9, which is classified as Rural Medium Agricultural (pop. 2,001-5,000) or Remote (pop. 1,001-3,000). The group comprises 21 councils, including councils such as Bourke Shire Council, Coonamble Shire Council, Hay Shire Council and Tumbarumba Shire Council.

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

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>This criterion is not satisfied.</p> <p>The council’s IP&R documents explain the purpose of the special variation (SV) and show that the SV projects are consistent with community priorities.</p> <p>However, the council did not demonstrate there is a financial need for the SV. Our assessment shows that, without the SV, the council will have an average operating performance ratio of 5.7% over the 10-year period to 2026-27. This suggests the council has the financial capacity to fund its SV projects without the SV rate increases.</p> <p>We also examined the council’s financial sustainability, without an SV, on a cash basis. Based on the council’s forecast cash flows over the next 10 years:</p> <ul style="list-style-type: none"> ▼ It starts with a net cash balance of \$4.2 million in 2016-17. ▼ This balance initially decreases, before stabilising at around \$1.2 million of net debt by 2026-27 (against an asset base of \$233 million at that date). <p>This indicates the council would be able to fund its SV projects by taking on a small and stable level 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>This criterion is not satisfied.</p> <p>The council used a variety of methods to engage with its community on the proposed special variation. Further, its IP&R documents clearly explained the extent of the rate increase.</p> <p>However, in its community consultations, the council did not effectively communicate the cumulative size of the rate increase. The consultation materials focused almost entirely on the annual percentage increase of 4.6%. They did not provide adequate information on the cumulative percentage increase of 37.0%.</p> <p>Neither the council nor IPART received any submissions on its SV.</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"> ▼ clearly show the impact of any rises upon the community ▼ include the council’s consideration of the community’s capacity and willingness to pay rates and 	<p>The impact on ratepayers is substantial, but reasonable given the council’s:</p> <ul style="list-style-type: none"> ▼ average 2014-15 residential rates were low (\$267), compared with the OLG Group 9 average (\$392) ▼ 2014-15 rates and annual charges outstanding ratio was low (3.26%), compared with neighbouring councils and the OLG Group 9 average (6.12%) ▼ 2011 SEIFA rank (102 out of 153 councils)

Criterion	IPART findings
<ul style="list-style-type: none"> ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay. 	<p>indicates that residents are not unduly disadvantaged, and</p> <ul style="list-style-type: none"> ▼ historical rate changes, which have only been in line with the rate peg. <p>The council has a hardship policy in place for eligible pensioners and ratepayers experiencing genuine financial hardship.</p> <p>The council considers the community has the capacity and willingness to pay the higher rates based on:</p> <ul style="list-style-type: none"> ▼ average residential, business and farmland rates being relatively low compared to the OLG Group 9 councils, and ▼ a majority of attendees (72%) at its community consultation forums voting in favour of the special variation.
<p>4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.</p>	<p>The council exhibited its CSP, Delivery Program and LTFFP between 25 November 2016 and 20 January 2017. These plans, along with its Asset Management Plans were adopted on 6 February 2017.</p>
<p>5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>Over the past two years, the council has realised annual savings and additional revenue sources of \$1.36 million, including through:</p> <ul style="list-style-type: none"> ▼ sharing resources (eg, staffing) with neighbouring councils (\$776,200) ▼ reducing director numbers (\$30,000) ▼ undertaking external contracting on behalf of neighbouring councils (eg, road works) (\$350,000) ▼ purchasing more efficient road surfacing equipment, producing net operating savings of about \$162,500 per annum.¹⁰ <p>Over the next seven years, the council proposes to realise further annual savings of \$137,000, including through:</p> <ul style="list-style-type: none"> ▼ sharing staffing and administration with neighbouring councils (\$72,000) ▼ reducing councillor numbers (\$30,000), and ▼ undertaking reviews of waste management, asset management and solar power use (expected savings of \$35,000 annually and \$57,500 one-off).

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

Source: Lockhart Shire Council, *Application Part A* and *Application Part B*; OLG, unpublished data.

¹⁰ IPART calculation, based on information provided by Lockhart Shire Council. It includes the depreciation cost of the new equipment, which had a purchase price of \$130,000 and estimated useful life of 15 to 20 years.

3.1 Need for and purpose of the special variation

We consider that the council has **not met** this criterion.

Lockhart Shire Council's IP&R documents clearly set out the purpose of the requested special variation, which is to:

- ▼ fund swimming pool refurbishments, flood mitigation measures and road restoration works, and
- ▼ improve its own source revenue.

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

Financial sustainability, including infrastructure backlogs

The impact of the proposed special variation on the council's operating performance ratio – which is a key indicator of financial sustainability – is shown in Figure 3.1 and Table 3.2.

Our analysis suggests the council may not have a financial need for the special variation. Over the next 10 years, the council is forecasting average operating surpluses¹¹ of:

- ▼ 5.7% without a special variation, or \$5.9 million in total to 2026-27.
- ▼ 8.5% with a special variation, or \$9.1 million in total to 2016-27.

Hence, the council's operating performance suggests it could more than adequately fund the \$8.0 million of new projects using its forecast \$5.9 million surplus and \$3.0 million of State and Federal grants.

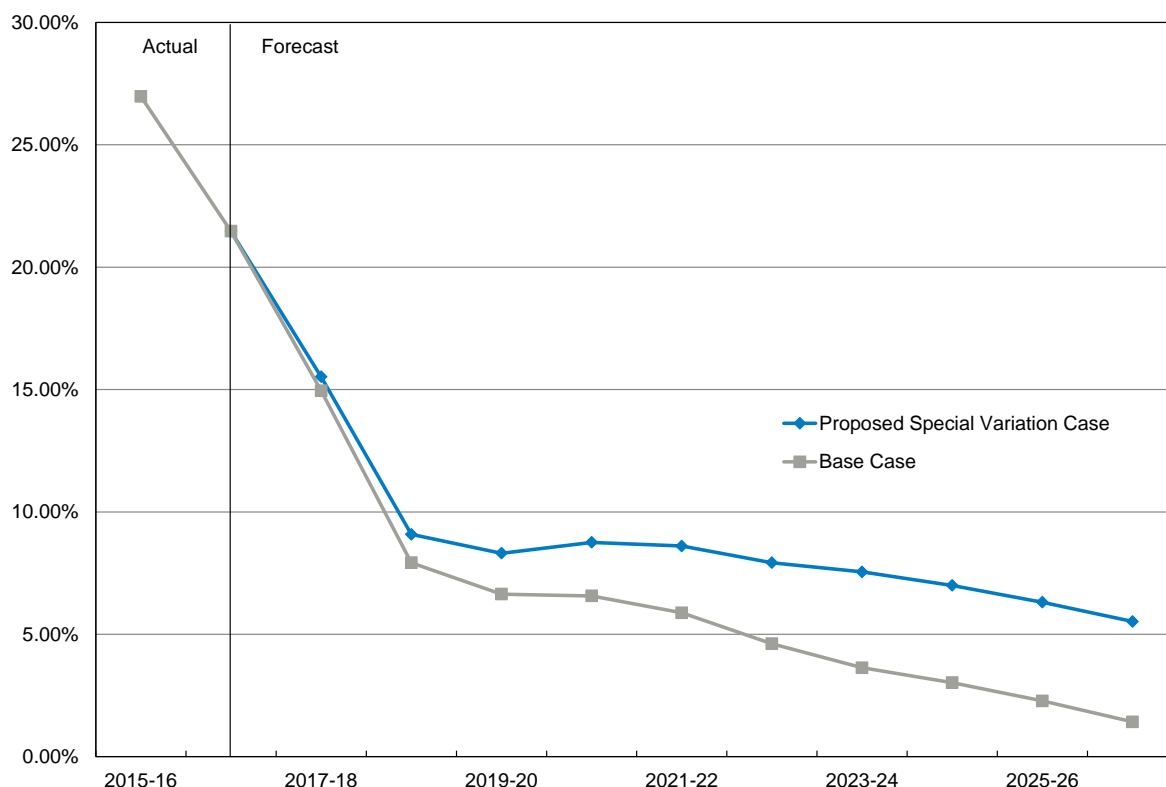
In addition, the council's forecast performance against other key benchmarks used in FFTF indicates that it does not have a financial need. For example, in FFTF:

- ▼ The infrastructure backlog was zero in 2014-15 and forecast to remain so in 2019-20 (compared to a benchmark of less than 2%). The council recently confirmed it still has a zero backlog, and anticipates this will continue to be the case until at least the start of the special variation period (1 July 2017).¹²
- ▼ Both the asset maintenance ratio and building and asset renewal ratio were forecast to be above their respective benchmarks for the period 2014-15 to 2019-20.

¹¹ Excluding capital grants and contributions.

¹² Email from Lockhart Shire Council to IPART, 15 March 2017. However, the council has indicated it may report a significant infrastructure backlog on its swimming pools within the next few years, if it does not undertake refurbishments on these assets. As noted above, our analysis indicates the council has the financial capacity to fund this project without the proposed rate increase.

Figure 3.1 Lockhart Shire Council's Operating Performance Ratio (including and excluding the special variation), 2015-16 to 2026-27



Data source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 16 February 2017 and IPART calculations.

Table 3.2 Projected operating performance ratio (%) for Lockhart Shire Council

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Including SV	21.5	15.5	9.1	8.3	8.8	8.6	7.9	7.5	7.0	6.3	5.5
Excluding SV	21.5	15.0	7.9	6.6	6.6	5.9	4.6	3.6	3.0	2.3	1.4

Source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 16 February 2017 and IPART calculations.

Lockhart Shire Council's cash flows and net debt position over the next 10 years

The operating performance ratio is an indicator of council financial sustainability on an **accrual accounting basis**. We also examined the council's cash flow statement and changes in net debt,¹³ which is an indicator of its financial sustainability on a **cash basis**.

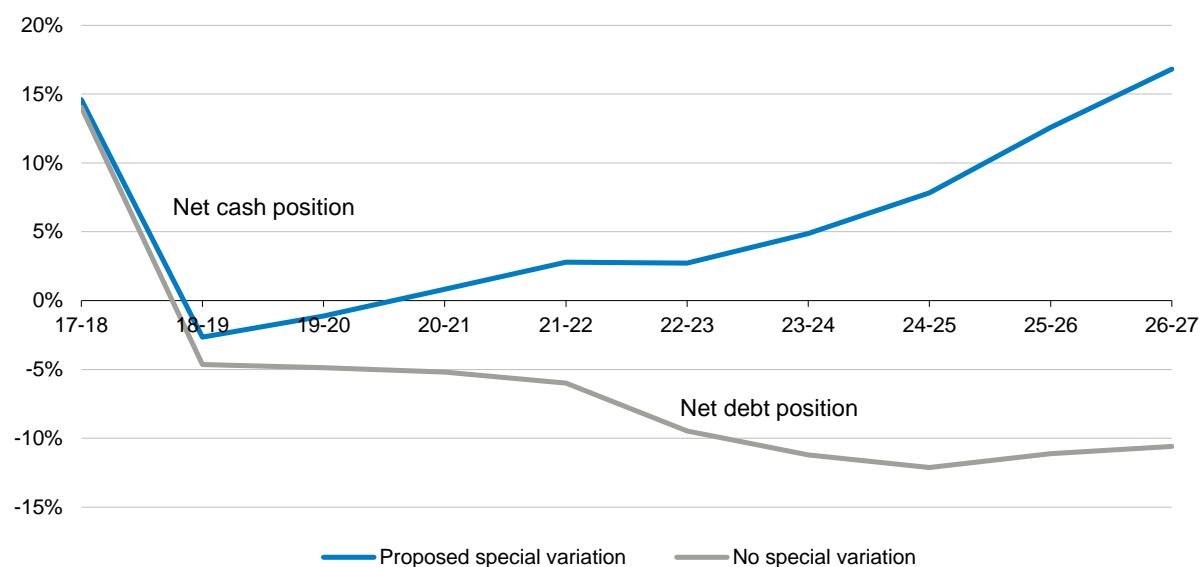
Figure 3.2 and Table 3.3 below shows the council's net debt position as a percentage of total income¹⁴ over the 10 years of the *LTFP* (including and excluding the special variation). The change in net debt is derived from Lockhart Shire Council's forecast cash flows over the next 10 years.

¹³ Net debt is the book value of the council's gross debt less any cash and cash-like assets on the balance sheet. It shows how much debt the council has on its balance sheet if it pays all its debt obligations within its existing cash balances.

¹⁴ Total income is defined as total revenue excluding capital grants and contributions.

Lockhart Shire Council is forecast to have a net cash balance of \$4.2 million at the end of 2016-17. Without the special variation, this balance initially decreases, as a percentage of income, from 14% in 2017-18 (\$1.5 million) before stabilising at around -11% in 2023-24 (-\$1.2 million). By 2026-27, its net debt is forecast to be stable, at \$1.2 million (against an asset base of \$233 million). This indicates the council would be able to fund its special variation projects by taking on a small and stable level of debt.

Figure 3.2 Lockhart Shire Council’s Net Debt to Total Income (including and excluding the special variation), 2017-18 to 2026-27



Data source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 16 February 2017 and IPART calculations

Table 3.3 Projected net debt to total income (%) for Lockhart Shire Council

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Including SV	14.6	-2.6	-1.1	0.8	2.8	2.7	4.9	7.8	12.6	16.8
Excluding SV	14.0	-4.6	-4.9	-5.2	-6.0	-9.5	-11.2	-12.1	-11.1	-10.6

Source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 16 February 2017 and IPART calculations.

Lockhart Shire Council’s own source revenue

In addition to funding the various projects, Lockhart Shire Council stated it would also use the proposed special variation to improve its own source revenue. In FFTF, rural councils (such as Lockhart Shire Council) were required to demonstrate they could improve their own source revenue within five years.¹⁵

Table 3.4 indicates that Lockhart Shire Council is still forecast to meet this benchmark, even without the special variation rate increase. Further, the difference between the council’s own source revenue, with and without the special variation, is marginal (43.5% and 41.0% respectively by 2026-27).

¹⁵ IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, p 97.

Table 3.4 Projected own source revenue ratio (%) for Lockhart Shire Council

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Including SV	30.6	32.5	35.4	37.6	40.9	41.5	42.1	42.6	42.9	43.2	43.5
Excluding SV	30.6	32.1	34.7	36.6	39.5	39.7	40.0	40.2	40.5	40.7	41.0

Source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 16 February 2017 and IPART calculations.

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

Box 3.1 Lockhart Shire Council's special variation application and FFTF assessment

IPART's FFTF assessment found the council:

- ▼ Met the criterion for sustainability as it was forecast to meet the **operating performance benchmark** from 2013-14. Even without a special variation, its operating performance ratio would be 13% in 2024-25.
- ▼ Met the **building and asset renewal benchmark** from 2013-14.
- ▼ 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 2013-24.
- ▼ 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 'sound'. It reported the council had operating surpluses for each year of the review period, and forecast this would continue over the next 10 years. In addition, the council's building and infrastructure renewal ratio and asset management ratio both indicated the council was spending the required amounts on asset renewal and maintenance. However, TCorp also noted the council's long term sustainability was dependent on it continuing to receive grants and contributions to support its operations. The special variation application responds to TCorp's assessment by attempting to improve the council's own source revenue ratio.

Table 3.5 compares Lockhart Shire 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 advised this is due to it now forecasting higher operating expenses, particularly for depreciation and employee costs.

Table 3.5 Projected operating performance ratio (%) for Lockhart Shire Council's special variation application compared with its FFTF proposal

	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27
FFTF – including SV (56.8% over 10 years)	20.7	21.4	21.1	20.8	20.7	20.6	21.1	21.0	21.3	NA	NA
Current SV (37.0% over 7 years)	21.5	15.5	9.1	8.3	8.8	8.6	7.9	7.5	7.0	6.3	5.5

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

Source: Lockhart Shire Council, *LTFP*, email from Lockhart Shire Council to IPART, 22 March 2017, and IPART's fit for the future assessment for Lockhart Shire Council.

Source: IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, TCorp, *Lockhart Shire Council Financial Assessment and Benchmarking Report*, March 2013, pp 4-5.

Alternative funding options

In recent years the council has implemented a number of alternative revenue raising and cost containment strategies to improve financial sustainability. Key strategies include:

- ▼ sharing administration and staffing resources with neighbouring councils, resulting in savings of \$776,200 per annum
- ▼ purchasing more efficient road surfacing equipment, producing net operating savings of about \$162,500 per annum, and
- ▼ implementing an organisational restructure, reducing employee costs by \$30,000 per annum.¹⁶

3.2 Community engagement and awareness

We consider that the council has **not met** this criterion.

Lockhart Shire Council used a variety of methods to engage with its community on the proposed special variation. Further, in 2016 it reviewed its IP&R documents in consultation with the community as part of this special variation application. It clearly explained the extent of the rate increases and provided reasonable opportunities for community feedback.¹⁷

However, in its detailed consultation materials, the council did not describe the size of the special variation in a transparent manner. It focussed almost entirely on the annual percentage increase of 4.6%, and did not provide adequate information on the cumulative percentage increase of 37.0%.

Communicating the cumulative size of the special variation

In IPART's fact sheet on the community engagement and awareness criterion, we indicate that councils should clearly communicate the **full impact** of the proposed rate increases to ratepayers. In particular, they need to show the cumulative percentage impact of the special variation on rates.¹⁸

The council's newsletters, media release and website factsheet repeatedly referred to the council's proposal as a "4.6% Special Rate Variation",¹⁹ without reference to its cumulative impact being 37.0%.

- ▼ Its April 2015 newsletter to ratepayers indicated the council would apply for a "modest rate rise of 4.6% over 10 years."^{20,21}

¹⁶ Lockhart Shire Council, *Application Part B, Attachment 14*.

¹⁷ For example, see Lockhart Shire Council's Delivery Program.

¹⁸ IPART Fact Sheet, *Community awareness and engagement for special variations for 2017-18*, December 2016, pp 2, 4. The content in this document is the same as the fact sheet for the 2016-17 special variations, which was available as a guidance material on our website during Lockhart Shire Council's period of consultation with its ratepayers. Further, in discussing the community engagement and awareness criterion, the Guidelines specifically direct councils to the IPART fact sheet (see p 16 of the Guidelines).

¹⁹ For example, see Lockhart Shire Council, *Application Part B Attachment 5e: Lockhart Shire Council website factsheet and Attachment 5d: Lockhart Shire Council newsletter December 2016*.

²⁰ Lockhart Shire Council, *Application Part B Attachment 5d: Lockhart Shire Council newsletter April 2015*.

- ▼ Similarly, its October 2016 newsletter characterised the proposal as a “special rate variation of 4.6%...for a period of 10 years.”²²
- ▼ In addition, the council issued a media release in January 2017 which noted the special variation would increase rates “by 4.6% cumulative for the next 10 years.”²³

This method of stating the size of the special variation does not disclose the full extent of the rate rise. Based on these consultation materials, ratepayers could have inferred that Lockhart Shire Council was applying for a special variation of 4.6% cumulative over a 10-year period, rather than 10 years of rates increasing by 4.6% annually (or 37.0% cumulative).

While Lockhart Shire Council noted in its November 2016 newsletter that the special variation was for 4.6% **per annum** over the next 10 years, and this was picked up in a local media report,²⁴ it again did not provide any information on the cumulative percentage increase.²⁵

The only reference in its consultation materials to the cumulative size of the rate increase was in a rates table. Lockhart Shire Council included this table in its website fact sheet, December 2016 newsletter and in its presentation at community forums.

- ▼ This rates table outlined the **cumulative dollar** increase in rates between the first and last year of the special variation, as well as the annual average dollar increase in rates over this period. However, it did not disclose the **cumulative percentage** increase in rates.
- ▼ Further, two of the documents containing the rates table were titled “4.6% Special Rate Variation”.²⁶ This again gave prominence to the annual percentage figure, without any additional reference to the cumulative percentage increase.

Therefore, despite the inclusion of the rates table, the **full impact** of the proposed rate increases was not adequately explained to ratepayers.

Engagement methods used

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

- ▼ media releases
- ▼ a website fact sheet
- ▼ monthly newsletters sent to ratepayers

²¹ Lockhart Shire Council initially consulted with the community on a special variation of 4.6% per annum over 10 years, but ultimately resolved to apply for a 4.6% per annum increase over 7 years (since this is the maximum period for s508A applications). Email from Lockhart Shire Council to IPART, 9 March 2017.

²² Lockhart Shire Council, *Application Part B Attachment 5d: Lockhart Shire Council newsletter October 2016*.

²³ Lockhart Shire Council, *Application Part B Attachment 5e: Lockhart Shire Council media release 27 January 2017*.

²⁴ Lockhart Shire Council, *Application Part B Attachment 5c: Eastern Riverina Chronicle, Lockhart Mayor, Rodger Schirmer's Council Report, November 2016*.

²⁵ Lockhart Shire Council, *Application Part B Attachment 5d: Lockhart Shire Council newsletter November 2016*.

²⁶ Lockhart Shire Council, *Application Part B Attachment 5e: Lockhart Shire Council website factsheet and Attachment 5d: Lockhart Shire Council newsletter December 2016*.

- ▼ an online survey, and
- ▼ community forums.²⁷

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.

At the April 2015 community forums 79% of attendees (or 93 people) voted in support of the proposed special variation. In addition, at the October 2016 community forums, 72% of attendees (or 26 people) supported the rate increases.²⁸ However, as noted in the section above, there were issues with how the cumulative size of the special variation was presented to ratepayers.

The council has also provided evidence of support for the projects to be funded by the proposed special variation.

- ▼ It indicated there was strong support for upgrading its swimming pools from the ratepayers who attended the community forums on this issue.²⁹ Most of those attendees indicated they would be willing to pay higher rates to have the swimming pools upgraded to a higher standard.³⁰
- ▼ The council's online survey received 96 responses. In relation to infrastructure priorities, the respondents nominated roads as the top priority for the next ten years, followed by flood management and drainage.³¹

Submissions

While the council did not receive any written submissions, some ratepayers did indicate they opposed the proposed rate increase at the community consultation forums. The main reasons for opposition were:

- ▼ farming ratepayers already pay high enough rates, with this category bearing around 80% of the rating burden, and
- ▼ the swimming pool upgrades should be paid for by residents in the town areas, and not those in rural areas who are unlikely to use them.

The council has considered its community's feedback by responding to these concerns during the community forums where they were raised.³²

IPART received no submissions on the application.

²⁷ Lockhart Shire Council, *Application Part B*, p 39.

²⁸ Lockhart Shire Council, *Application Part B Attachment 5b: Lockhart Shire Council Community Engagement Report*, p 5.

²⁹ Lockhart Shire Council, *Application Part B*, p 43.

³⁰ Lockhart Shire Council, *Application Part B, Attachment 5f: Swimming Pool Consultation*, p 12.

³¹ Lockhart Shire Council, *Application Part B Attachment 5b: Lockhart Shire Council Community Engagement Report*, p 21.

³² Lockhart Shire Council, *Application Part B*, p 42.

3.3 Reasonable impact on ratepayers

We consider the impact of the special variation on average rate levels to be reasonable given the absence of previous special rate variations, current average rate levels and the community's capacity to pay. Our conclusion is supported by socio-economic indicators for Lockhart Shire Council when compared to similar and neighbouring councils, and the council's consideration of affordability.

Magnitude of increase

The council requested an increase of 4.6% including the rate peg for each of the next 7 years to remain permanently in the rate base. This is a cumulative increase of 37.0% over 7 years. This is the first time Lockhart Shire Council has applied for a special rate variation.

The council's consideration of impact on ratepayers

The council considered the affordability of the proposed rate rise, and found the community had the capacity and willingness to pay the higher rates.

The council noted that its current rates were very low compared to other similar council areas.³³

- ▼ When compared to other OLG Group 9 councils, Lockhart Shire Council's residential rate for 2014-15 was the third lowest, and considerably below the group average.
- ▼ The average farmland rate was also the third lowest of the group, and approximately \$1,000 per year less than the group average.

The council has stated that, in order to bring rates up to the group average, it would need to increase residential rates by 55%, farmland rates by 66% and business rates by 83%. Rates would be below the group average even with the proposed rate increase.

The council also considered the SEIFA Index, which measures the relative level of socio-economic disadvantage.³⁴ Lockhart Shire Council's 2011 SEIFA ranking is 102 out of 153 councils, indicating that residents are the least disadvantaged of the 21 councils in OLG Group 9. In addition, Lockhart Shire Council indicated that its current outstanding rates ratio is significantly lower than other councils in OLG Group 9. The council believes this suggests its rate payers have the capacity to pay the proposed rate increase.

In assessing the reasonableness of the impact of the special variation on ratepayers, we note that the council has not applied for any special variations over the past 10 years.

Table 3.6 compares rates and socio economic indicators for Lockhart Shire Council to neighbouring councils and peer OLG Group 9 councils.

³³ Application Part B, p 49.

³⁴ Application Part B, p 53.

Table 3.6 Lockhart Shire Council - comparison of rates and socio-economic indicators with neighbouring councils and OLG Group 9 averages (2014-15)

Council (OLG Group)	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Neighbouring councils					
Corowa Shire (11)	511	41,558	1.2	7.10	57
Greater Hume Shire (11)	525	43,097	1.2	9.48	96
Narrandera Shire(10)	546	42,102	1.3	2.03	17
Urana Shire (8)	134	47,007	0.3	4.54	30
Wagga Wagga City (4)	943	47,678	2.0	5.99	108
Lockhart Shire(9)	267	44,953	0.6	3.26	102
OLG Group 9	392	42,271	0.9	6.12	

a The average residential rate is calculated by dividing the sum of ordinary and special 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 Corowa Shire Council, Greater Hume Shire Council and Wagga Wagga City Council were granted rate increases above the rate peg in 2013/14, 2015/16 – 16/17 and 2016/17 respectively. The data in this table does not capture the increases from these special variations for Greater Hume Shire Council and Wagga Wagga City Council.

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.

We found that:

- ▼ The council's current average residential rates (\$267) are substantially below those of neighbouring councils, such as Narrandera Shire (\$546) and Greater Hume Shire (\$525). The average residential rate is also substantially below the OLG Group 9 average (\$392).
- ▼ The council has a higher average income of \$44,953, compared with the OLG Group 9 average of \$42,271.
- ▼ The council's ratio of average rates to average income (0.6%) is below both the OLG Group 9 average (0.9%) and most of its neighbouring councils. Similarly, its outstanding rates ratio (3.26%) is below the OLG Group 9 average (6.12%).

Taking all these factors into account, we consider the impact of the increases is reasonable given the council's existing rate levels, history of previous special variations, the socio-economic indicators in the Local Government Area and the purpose of the application.

4 What does our decision mean for the council?

Our decision means that Lockhart Shire Council may increase its general income by no more than the rate peg (1.5%) in 2017-18. The council is to determine how the increase will be distributed amongst ratepayers.



Appendices



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

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

The council proposed to use the additional special variation revenue, above the rate peg, of \$3.2 million over 10 years to fund:

- ▼ swimming pool refurbishments
- ▼ flood mitigation measures, and
- ▼ road restoration works.³⁵

³⁵ Lockhart Shire Council, *Application Part A*, Worksheet 6, and Lockhart Shire Council, *Application Part B*, pp 4-5.

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Special variation income above assumed rate peg	72	125	181	242	306	375	448	460	471	483	3,164
Funding for increased operating expenditures	-	23	49	47	45	43	41	39	37	35	358
Funding to reduce operating deficits (or increase surpluses)	-	-	-	-	-	-	-	-	-	-	-
Funding for capital expenditure	72	75	70	130	195	264	337	348	360	371	2,222
Additional expenditure	-	28	63	64	66	68	70	73	75	77	584
Total expenditure	72	125	181	242	306	375	448	460	471	483	3,164

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: Lockhart Shire Council, *Application Part A*, Worksheet 6 and IPART calculations.

Table A.2 Lockhart Shire Council – Proposed 10-year 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
Swimming Pool capital works	72	75	70	130	195	264	337	348	360	371	2,222
Total Capital Expenditure	72	75	70	130	195	264	337	348	360	371	2,222

Note: Numbers may not add due to rounding.

Source: Lockhart Shire Council, *Application Part A*, Worksheet 6.

B 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 B.1 shows how selected performance indicators for Lockhart Shire Council have changed over the four years to 2014-15.

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

Performance indicator	2011-12	2012-13	2013-114	2014-15	Average annual change (%)
FTE staff (number)	44	48	48	48	2.9
Ratio of population to FTE	70	64	64	64	-2.9
Average cost per FTE (\$)	49,227	45,979	64,229	53,063	2.5
Employee costs as % operating expenditure (General Fund only) (%)	22.8	31.1	42.1	29.9	9.4
Consultancy/contractor expenses (\$m)	0.0	0.1	0.2	0.1	-
Consultancy/contractor expenses as % operating expenditure (%)	0.3	1.0	2.1	1.5	-

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

Source: OLG, unpublished data.

The above table shows that:

- ▼ There is a declining trend in the ratio of the council's population to FTE of -2.9% from 2011-12 to 2014-15. However, the council's average cost per FTE (\$53,063) is substantially lower than the OLG Group 9 average (\$69,752).
- ▼ Employee expenses as a percentage of operating expenditure has increased from 22.8% in 2011-12 to 29.9% in 2014-15, an average rise of 9.4%. This compares with the average OLG Group 9 figure of 38.2% in 2014-15.
- ▼ Consultancy and contractor expenses as a percentage of operating expenditure was 1.5% in 2014-15, substantially less than the OLG Group 9 average of 10.3%.

General comparative indicators

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

Lockhart Shire Council is in OLG Group 9. Unless specified otherwise, the data refers to the 2014-15 financial year.

Table B.2 Select comparative indicators for Lockhart Shire Council, 2014-15

	Lockhart Shire Council	OLG Group 9 average	NSW average
General profile			
Area (km ²)	2999	-	-
Population	3,082	-	-
General Fund operating expenditure (\$m)	8.2	-	-
General Fund operating revenue per capita (\$)	2,998	3,676	2,029
Rates revenue as % General Fund income (%)	27.0	22.5	45.1
Own-source revenue ratio (%)	35.7	50.6	69.0
Average rate indicators^a			
Average rate – residential (\$)	267	392	790
Average rate – business (\$)	430	760	2,949
Average rate – farmland (\$)	1,551	2,573	2,490
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	44,953	42,271	49,070
Growth in average annual income, 2006-2011 (% pa)	7.8	7.2	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	0.6	0.9	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	102		
Outstanding rates and annual charges ratio (General Fund only) (%)	3.26	6.12	4.64
Productivity (labour input) indicators^c			
FTE staff (number)	48	70	295
Ratio of population to FTE	64	50	127
Average cost per FTE (\$)	53,063	69,752	80,173
Employee costs as % operating expenditure (General Fund only) (%)	29.9	38.2	38.6
Consultancy/contractor expenses (\$m)	0.1	1.3	8.8
Consultancy/contractor expenses as % operating expenditure (%)	1.5	10.3	10.9

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

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

^c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

^d **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.