



Special variation and minimum rate increase

Randwick City Council 2018-19

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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.

Randwick City Council (Randwick Council) applied for a multi-year special variation to:

- ▼ increase its general income by 7.64% in 2018-19 and 5.52% in both 2019-20 and 2020-21, a cumulative increase of 19.85%, and
- ▼ retain this increase in its rate base permanently.¹

It also applied to increase the minimum amount of its ordinary rates. It applied to increase these amounts by 5.52% in each of 2018-19, 2019-20 and 2020-21 (a cumulative increase of 17.49%) for all categories of ratepayers.²

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 Randwick City Council's application for a special variation and minimum rate variation

We decided to approve Randwick Council's requested:

- ▼ special variation, and
- ▼ increase in minimum rates.

Our decision to approve the special variation means that Randwick Council may increase its general income between 2018-19 and 2020-21 by the annual percentages shown in Table 1.1. This will allow the council to fund new community facilities and projects, maintain existing service levels, and to provide infrastructure to meet its anti-terrorism obligations.³

Table 1.1 IPART's decision on Randwick City Council's special variation application

	2018-19	2019-20	2020-21
Percentage increase approved	7.64	5.52	5.52

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

² These proposed annual increases in the minimum rate are the same as those the council proposed for its general rates, after adjusting for the additional income in 2018-19 new Port Botany Business sub category (Randwick City Council, *Special Variation Application Form Part B 2018-19*, p 26).

³ Randwick Council, *Application Part A*, Worksheet 6 and Randwick City Council, *Special Variation Application Form Part B 2018-19 (Application Part B)*, pp 4-5.

The annual increases include the rate peg of 2.3% in 2018-19, and an assumed rate peg of 2.5% in future years.⁴

The cumulative increase that we have approved of 19.85% is 12.37% more than the assumed cumulative rate peg for these years. This increase may be retained in the council's general income base permanently.

Our decision to approve the increases in minimum rates means that Randwick Council may set the minimum amount of its ordinary rates up to the amounts shown in Table 1.2.

Table 1.2 IPART's decision on Randwick City Council's minimum amount of its ordinary rates

Rating category	2018-19	2019-20	2020-21
Residential	\$805.68	\$850.15	\$897.08
Business	\$1298.32	\$1369.99	\$1445.61
Business – Port Botany	\$1298.32	\$1369.99	\$1445.61

Box 1.1 Context for IPART's decision

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

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

IPART assesses these applications against the criteria set by the Office of Local Government (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 (LTFP), must contain evidence that supports a council's application for a special variation.

Councils may also apply to increase their minimum rates above the statutory limit set in the *Local Government (General) Regulation 2005* (clause 126). IPART assesses these applications against criteria for minimum rates increases set by OLG.

The criteria for assessing applications for special variations and increases in minimum rates are listed in Appendix A.

1.2 The council's application meets the criteria

Our decision reflects our finding that the council's special variation application meets the requirements of the OLG criteria. Our assessment against the special variation criteria is summarised in Table 1.3.

⁴ The special variation percentage approved will not change to reflect the actual rate peg in future years.

We also found that the council's proposed increases in minimum rates meets the OLG criteria. This is summarised in Table 1.4, with Section 3.4 containing further detail.

Table 1.3 Assessment of Randwick City Council's special variation application









1. Financial Need	
	<p>The council demonstrated a financial need for the special variation (SV):</p> <ul style="list-style-type: none"> ▼ Operating Performance Ratio (average 2018-19 to 2027-28) is <ul style="list-style-type: none"> – 2.87% with SV, and – -2.40% without SV revenue and assuming SV expenditure. ▼ Current net cash position is 20.2% of annual income, and is forecast to fall to 7.3% by 2027-28 with the SV. Without the SV revenue, and with the SV expenditure the council moves to a net debt position of 37.7% of income by 2027-28.
2. Community awareness	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> ▼ used a range of engagement methods to make the community aware of the need for and extent of rate increase ▼ clearly explained the purpose and impact of the SV and sought feedback, and ▼ satisfactorily considered community feedback on the rate increase.
3. Impact on ratepayers	
	<p>The effective impact on most ratepayers will be moderate but reasonable:</p> <ul style="list-style-type: none"> ▼ the average residential rate is higher than OLG Group 3 and most neighbouring councils ▼ the average business rate is higher than neighbouring and Group 3 councils. ▼ the council's outstanding rates ratio (2.3% in 2015-16) is well below the OLG benchmark of less than 5.0% for metropolitan councils ▼ the high SEIFA ranking indicates less disadvantage compared to other areas in NSW, and ▼ the council has a 6% environmental levy expiring on 30 June 2019. As a result, the net increase in average residential and business rates, excluding Port Botany, from 2017-18 to 2020-21 is 10% and 15% respectively. This is only 2.4% more than the assumed rate peg to 2020-21.
4. IP&R documents exhibited	
	<p>The council publicly exhibited its IP&R documents for an eight-week period from December 2017 to February 2018. These documents were adopted when the council resolved to apply for an SV in February 2018.</p>
5. Productivity improvements and cost containment	
	<p>The council's long-term financial planning includes a 0.3% efficiency dividend each year for both labour costs and expenses. The council has identified a range of previous and continuing productivity improvements/cost saving measures, reporting savings of approximately \$200,000 to \$300,000 per year.</p>

Table 1.4 Assessment of Randwick City Council's minimum rate variation application

1. Rationale	
	<p>The council clearly demonstrated the rationale for increasing minimum rates.</p> <ul style="list-style-type: none">▼ It proposed an increase to reflect the demand for council services from multi-unit properties.
2. Impact on ratepayers	
	<p>The impact on ratepayers is reasonable:</p> <ul style="list-style-type: none">▼ For each rating category, the minimum amount will increase by the same percentage as other ratepayers in that category.
3. Community awareness	
	<p>The council's consultation was adequate:</p> <ul style="list-style-type: none">▼ While the council did not clearly show the proposed increases in minimum rates in consultation material, it did clearly show the percentage increase in rates that would be applied to all ratepayers in each rating category, including those paying minimum rates.

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 Randwick City Council's approved special variation

IPART's approval of Randwick Council's application for a special variation over the period 2018-19 to 2020-21 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to fund new community facilities and projects, maintain existing service levels, and provide infrastructure to protect crowded places from terrorism as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report for each year from 2018-19 to 2027-28 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix C
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation,
 - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

1.4 Structure of this report

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

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

2 Randwick City Council's application

Randwick Council applied for a special variation to increase its general income by a cumulative 19.85% over the 3-year period from 2018-19 to 2020-21, and to permanently retain this increase in its general income base.⁵ As required under the OLG Guidelines,⁶ 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:

- ▼ Randwick City Plan 2017 (a combined Community Strategic Plan and Delivery Program)
- ▼ Long Term Financial Plan 2018-28, and
- ▼ Asset Management Strategy 2018-28.

The council estimates its permissible general income would increase from \$76.8 million in 2017-18 to \$87.1 million in 2020-21 if the requested special variation is approved.⁷ Over the 3-year period of the special variation to 2020-21, this would generate additional revenue of \$19.7 million compared to rate increases at the assumed rate peg. This figure would increase to \$90.2 million over a 10-year period, as the additional revenue raised would remain permanently in the council's rate base.

The council indicated it intends to use the additional revenue to:

- ▼ fund new community facilities and projects, including a women's refuge centre and new public plazas
- ▼ maintain and renew existing services and infrastructure, including an upgrade of the Heffron Park sports complex, and
- ▼ provide protective infrastructure to meet its anti-terrorism obligations.⁸

Randwick Council also intends to fund the additional expenditure with a \$27 million loan.⁹ During the 3-year special variation period, the council expects to spend an additional \$38.1 million on its capital works program.¹⁰

The council's Long Term Financial Plan and its application for a special variation indicate that over this period it proposes to spend an additional:

- ▼ \$27.0 million on major projects
- ▼ \$4.5 million to maintain and renew existing council services
- ▼ \$2.6 million to implement its 'Digital Strategy'

⁵ Randwick Council, *Application Part A*, Worksheet 1.


⁶ OLG Guidelines 2017, p 6.

⁷ This is a smaller percentage increase than the 19.85% special variation the council applied for. This is because the council has a temporary special variation that will expire on 30 June 2019. This expiring special variation was originally approved for 6.0% above the rate peg for five years from 2014-15 to 2018-19 and funded environmental protection.

⁸ Randwick Council, *Application Part A*, Worksheet 6 and *Randwick City Plan 2017*, p 96.

⁹ Randwick Council, *Application Part B*, p 8.

¹⁰ Randwick City Council, *Long term Financial Plan 2018-28*, pp 16, 21 and IPART calculations.

- 
- ▼ \$4.0 million on anti-terrorism projects, and
 - ▼ \$3.6 million on interest payments.¹¹

More detail on the council's proposed program of expenditure to 2027-28 is provided in Appendices B and C.

¹¹ Randwick Council, *Application Part A Worksheet 6* and Randwick Council, *Long Term Financial Plan*, Capital Expenditure Statement.

3 IPART's assessment

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

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

Our assessment of the council's application against the criteria is summarised in Table 1.3 and discussed in more detail in the sections below.

We also assessed Randwick Council's application to increase minimum amounts. Our assessment is summarised in Table 1.4 and discussed in more detail in section 3.4.

3.1 The council demonstrated financial need for the special variation

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

- ▼ new community facilities and projects, including a women's refuge centre and new public plazas
- ▼ maintenance and renewal of existing services and infrastructure, and
- ▼ protective infrastructure to meet the council's anti-terrorism obligations.

The council has also considered the financial impact of the special variation on its operating performance and infrastructure backlog, and its intention to borrow to fund part of its proposed expenditures.

Our analysis suggests the council is currently in a strong financial position. However, its forecast financial performance would not continue to meet the operating performance benchmark without additional revenue. Hence, our decision is the council demonstrated the need for additional revenue to improve long-term financial sustainability.

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:

$$OPR^{13} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

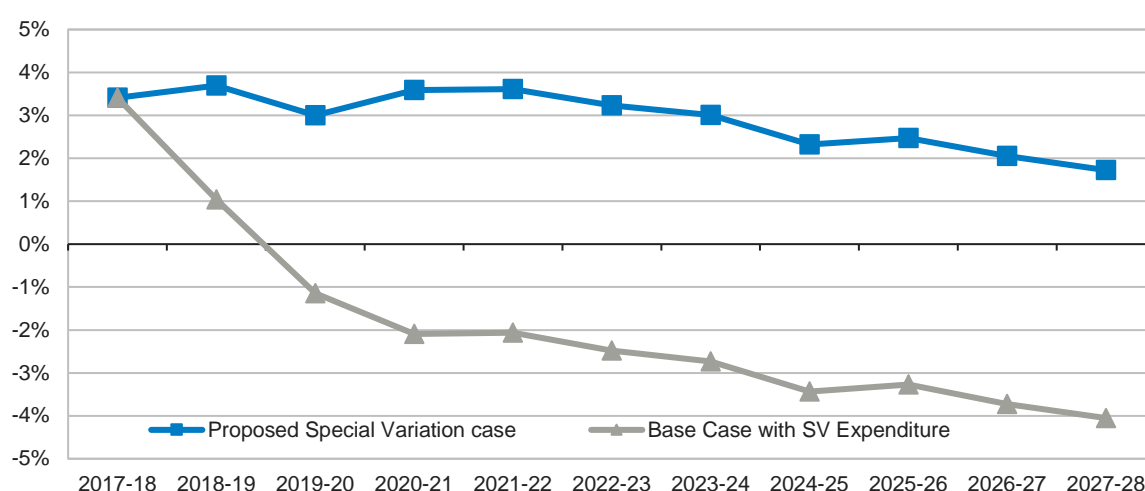
¹² See Appendix D. Randwick Council is in OLG Group 3, which is classified as Sydney urban councils with a population greater than 70,000. Other councils in this group include Ku-ring-gai, Ryde and Sutherland.

¹³ Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

Under the special variation scenario, the council forecasts consistent operating surpluses, stabilising at around 2.0% by 2027-28. The cumulative value of these forecast surpluses is \$48.6 million to 2027-28.

Without the special variation, and assuming council's expenditure is the same as under the special variation scenario, the council forecasts consistent operating deficits. This is shown by the 'Base Case with SV expenditure' scenario in Figure 3.1 and Table 3.1. The cumulative value of these forecast deficits (before capital grants and contributions) is \$40.8 million to 2027-28. Hence, the council would not generate sufficient revenues to meet its operating costs. This would be financially unsustainable over the long term.

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



Note: The base case with 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.

Source: Randwick Council, *Annual Financial Statements*, various; Randwick Council, *Application Part A, Worksheet 7* and IPART calculations.

Table 3.1 Projected operating performance ratio (%) for Randwick 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	3.7	3.0	3.6	3.6	3.2	3.0	2.3	2.5	2.1	1.7
Base case with SV expenditure	1.0	-1.1	-2.1	-2.1	-2.5	-2.7	-3.4	-3.3	-3.7	-4.1

Note: This OPR calculation includes net losses from asset disposals.

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

3.1.2 Other financial analysis

Previous Government reports

IPART did not conduct a Fit for the Future (FFTF) assessment for Randwick Council, as a standalone council, because the council proposed a merger as part of the FFTF process.

However, NSW Treasury Corporation (TCorp) conducted a financial assessment of Randwick Council in May 2014. TCorp found the council's Financial Sustainability Rating (FSR) was sound, with a positive outlook, reflecting "a stronger position for council in the medium to long term".¹⁴

The council's relatively low infrastructure backlog and TCorp analysis suggest the council is currently in a financially strong position. However, our analysis of its net debt over the next 10 years suggests its financial position could decline over the long term if it commits to its proposed expenditure without additional revenue.

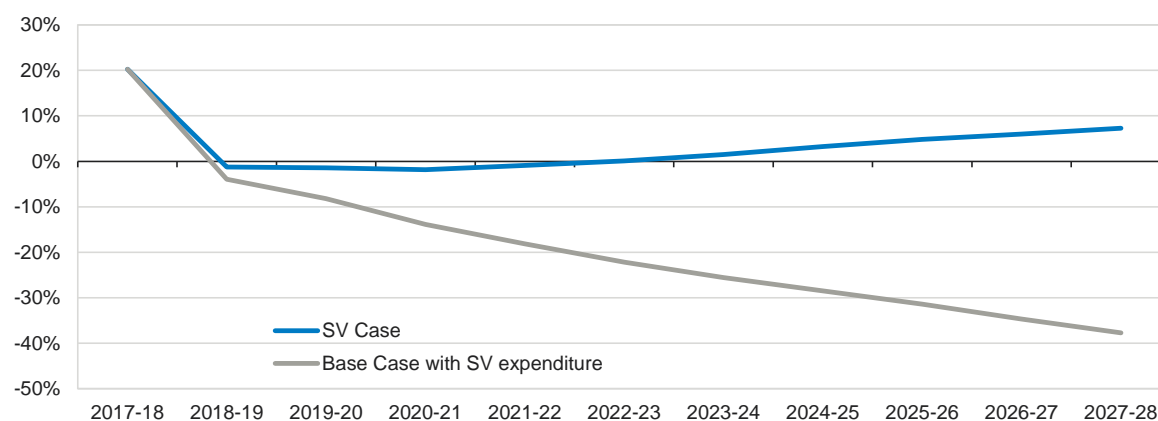
Randwick Council's cash flows and net cash (debt) position over the next 10 years

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

Figure 3.2 plots the council's net cash (debt) position, as a percentage of total income, over the next 10 years, assuming:

- ▼ special variation expenditures and revenue (SV case), and
- ▼ special variation expenditure but without the additional revenue (Base case with SV expenditure).

Figure 3.2 Randwick City Council's forecast net cash (debt) to income ratio (%) (2017-18 to 2027-28)



Note: We have also included short-dated term deposits as cash in this net debt calculation to provide a more accurate picture of Randwick Council's balance sheet. The base case with SV expenditure scenario shows the impact on the council's net cash (debt) position if the special variation projects were to go ahead without the special variation revenue. A number below 0% indicates the council has a net debt position, while a number above 0% indicates the council has a net cash position.

Source: Randwick Council, *Long Term Financial Plan*, and IPART calculations.

¹⁴ TCorp, *Randwick City Council: Financial Assessment and Sustainability Report*, May 2014, p 29.

With the special variation, Randwick Council's forecasts its net cash¹⁵ to income position to fall in 2018-19 to a small net debt position, then to rise steadily to a net cash of 7% of income by 2027-28.

Without the special variation, Randwick Council is forecast to move from a net cash to income position of 20% in 2017-18, to a net debt position of 38% of income by 2027-28. Figure 3.2 suggests that without the additional special variation revenue, Randwick Council would be able to fund the special variation expenditure by accumulating modest but increasing levels of debt.¹⁶

This analysis suggests the council's strong financial position would decline over the next ten years if it commits to its proposed expenditure without additional revenue.

3.1.3 Alternative funding strategies

The council has considered alternative funding strategies. The council:

- ▼ Intends to borrow \$27 million to fund its proposed additional expenditure.¹⁷
- ▼ Reviewed user charges, and considers that introducing new or higher user charges would not yield sufficient revenue to fully fund the listed projects and have them completed within the council's proposed timeframe.¹⁸
- ▼ Implemented a number of alternative revenue raising and cost containment strategies in recent years. The council's long-term financial planning includes a 0.3% efficiency dividend each year for both labour costs and expenses. See Section 3.6 for more details.

3.2 The council demonstrated community engagement and awareness

We found that Randwick Council demonstrated that its community is aware of the need for and extent of the proposed rate increase. In particular, the council received a large number of submissions and ratepayer comments, which demonstrates the community was made aware of the special variation application.

The council's application follows a range of consultations conducted by the council since 2013.¹⁹ In September 2017, the council reviewed its IP&R documentation following the election of the new Council. It then exhibited updated IP&R documents, which discuss the special variation application, for a two-month period between 1 December 2017 and 1 February 2018.

The council used a variety of methods to engage with the community, ensuring ratepayers were aware of the proposed special variation and had opportunities to provide feedback. This included:

¹⁵ This analysis includes current investments. Of the \$70.1 million in cash, cash equivalents and investments: \$18.3 million is externally restricted, \$49.5 million is internally restricted and \$2.3 million is unrestricted. Source: *Randwick City Council General purpose Financial Statements for the year ended 30 June 2017*.

¹⁶ We have also included short-dated term deposits as cash in the net cash (debt) calculation.

¹⁷ Randwick Council, *Application Part B*, p 8.

¹⁸ Randwick Council, *Application Part B*, p 8.

¹⁹ Randwick Council, *Application Part B*, p 15.

- ▼ a separate website ([Your Say Randwick](#)) which presented the council's consultation material on the special variation, and included a function for visitors to make submissions
- ▼ direct mail to ratepayers, including landlords whose property is managed by real estate agents, which allowed recipients to respond directly or via an online survey
- ▼ two full page advertisements in the local newspaper, with corresponding media releases
- ▼ two public information sessions, and two interactive workshops, and
- ▼ a representative telephone survey of 600 local residents.²⁰

The council's consultation material clearly communicated the extent of rate increases under three options, namely:

- ▼ Option 1 - base case (rate peg only)
- ▼ Option 2 - delayed approach (special variation of 3.52% per year for three years), and
- ▼ the full proposed special variation.

As part of this process, it clearly set out for each option the:

- ▼ the annual and cumulative increases of each option in percentage terms, and
- ▼ the corresponding increases in dollar terms for the average ratepayer by rate category.

This consultation material also explained the need for and purpose of the proposed special variation.

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.

Randwick Council considered the community feedback it received through each of the methods it used to engage with the community. In particular, the council reported that:

- ▼ the telephone survey suggested 57% of ratepayers' first preference was for the special variation, and
- ▼ around 11% of all ratepayers completed the ratepayer survey, and the results suggested that more ratepayers preferred the special variation option (49%) to the base case (22%).

3.2.2 Submissions from the community

The council also received 241 submissions and 2,626 ratepayer comments. The key themes of these submissions included feedback on the council's expenditure priorities and the affordability of rate increases.

Based on these outcomes the council decided to apply for a three-year special variation of 19.85%.

²⁰ Randwick Council, *Application Part B*, pp 15-16.

IPART received 168 submissions,²¹ with the majority opposing the application, mainly on the grounds of affordability, council inefficiency and inadequate community consultation. These concerns, in part, reflect the feedback received by the council. We note a significantly higher proportion of submissions made to IPART opposed the council's application for a special variation, compared to the council's feedback.

3.3 The impact on ratepayers is reasonable

As Chapter 2 discussed, Randwick Council requested a 3-year cumulative increase of 19.85% that will remain permanently in the rate base; 7.64% in 2018-19, and 5.52% per annum in both 2019-20 and 2020-21.

We found the impact of these increases on ratepayers will be reasonable, given the current rate levels, the relatively low proportion of outstanding rates, and the council's financial sustainability.

In addition, the expiry of a temporary 6% environmental levy in 2019-20 means the effective increase in rates from current levels will be smaller (about 10% for residential ratepayers, and about 15% for most business ratepayers).²²

In reaching our decision, we considered socio-economic indicators for Randwick Council compared to similar and neighbouring councils, and the council's consideration of affordability.

3.3.1 Council's consideration of impact on ratepayers

In forming its view that the special variation increases are affordable, the council:

- ▼ assessed its rating policy, and
- ▼ analysed the community's median household income and socio-economic index.²³

After assessing its existing rating policy, the council proposes to introduce a new Business subcategory, affecting 27 business ratepayers in the Port Botany centre of activity, in order to:

- ▼ delineate/distinguish port activities from surrounding uses
- ▼ acknowledge the impact of the Port Botany area on local amenity, and
- ▼ evaluate the contribution the area makes to the council area.²⁴

For these 27 business ratepayers, the council proposes that average rates will increase by 86.6% over the special variation period. It considered this increase was equitable on the

²¹ We also received some submissions outside our consultation period.

²² We note that Randwick Council plans to "Undertake consultation to gauge community support for a continuation of the environmental levy". Randwick City Council, *2018-19 Draft Operational Plan and Budget*, 2018.

²³ Randwick Council, *Application Part B*, pp 30-31.

²⁴ Randwick Council, *Application Part B*, p 23.

basis that the rates it proposed to charge for the Port Botany ratepayers would be at, or below, the rates charged by other council areas with ports.²⁵

The council also reported the median weekly household income for the Randwick Council area (\$1,916) was above the average for greater Sydney (\$1,750), based on 2016 census data. It also noted that the Social-Economic Indexes for Areas (SEIFA) data for 2011 suggested that the council area had a slightly higher than average level of socio-economic advantage.²⁶

In addition, the council submitted that it also has a hardship policy available to all ratepayers, and offers a rate deferral scheme for pensioners who cannot afford to pay the full amount of their rates.²⁷

3.3.2 IPART's assessment of impact on ratepayers

To assess the reasonableness of the impact of the proposed special variation on ratepayers, we:

- ▼ examined the council's special variation history and the average annual growth of residential and business rates
- ▼ compared current rates and socio-economic indicators within the Randwick Local Government Area (LGA) to other comparable councils
- ▼ considered the extent to which the expiring special variation would mitigate the impact of the proposed special variation, and
- ▼ assessed how the council intends to allocate the increase across its ratepayers, including those paying minimum amounts.

Randwick Council's rates history

We found that since 2007-08, the council has applied for and been granted five special variations.

- ▼ two applications were used to renew an environmental levy on a temporary basis, and
- ▼ the other three applications, for permanent increases, were used to fund infrastructure renewals, new buildings, facilities and services.

Over this period, the average annual growth in residential rates was 4.2% and 3.8% for business rates, which compares with the average annual growth in the rate peg of 2.7% over the same period.

Comparison of Randwick Council to other council areas

We also compared current rates and socio economic indicators in Randwick Council with similar councils and OLG Group 3 councils as shown in Table 3.2.

²⁵ Specifically, the council compared its proposed ad valorem rate for Port Botany ratepayers to the ad valorem rate charged by other councils with ports. For further information, see Randwick Council, *Application Part B*, p 25

²⁶ Randwick Council, *Application Part B*, p 30.

²⁷ Randwick Council, *Application Part B*, pp 33-34.

Table 3.2 Randwick City Council - comparison of rates and socio-economic indicators with similar councils and Group 3 averages

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$)	Median annual household income (2016) ^b	Average rate to median income ratio (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Woollahra (2)	1,284	3,459	139,724	0.9	4.0	129
North Sydney (3)	724	3,502	122,720	0.6	1.1	127
Waverley (3)	1,040	6,168	120,016	0.9	2.9	124
Randwick City (3)	1,164	6,743	99,632	1.2	2.3	117
OLG Group 3 average	1,015	5,566	99,996	1.0	2.4	-

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

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

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

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

Based on the comparative data, we found that Randwick Council's:

- ▼ average residential rate (\$1,164) was higher than Waverley and North Sydney, but lower than Woollahra, and about 15% above the average for Group 3 councils
- ▼ average rate to income ratio (1.2%) is higher than the average for Group 3 councils (1.0%)
- ▼ outstanding rates ratio (2.3%) is generally lower than neighbouring councils, and well below the OLG benchmark of 5% for metropolitan councils, and
- ▼ SEIFA ranking indicates relative less economic disadvantage when compared to other areas of NSW.

Randwick City Council proposes to introduce a new rating subcategory

It is a matter for each council to determine how it allocates the recovery of general income across different categories of ratepayers. However, in making our decision to approve the special variation, we have considered the council's proposal to introduce a new rating subcategory for 27 Port Botany business properties in the context of assessing the reasonableness of the overall rate increase. This proposed subcategory would raise the equivalent of 2.12% of the council's general income.²⁸

We note the council's analysis that the proposed rates for Port Botany ratepayers would be consistent with the rates charged on similar properties by other councils.

We also note Randwick Council could determine this subcategory and levy higher rates on the Port Botany ratepayers regardless of our decision on this special variation application.

Randwick City Council has an Expiring Special Variation

We have considered the impact of an expiring special variation, which means the increase in rates for most ratepayers will be less than the 19.85% increase the council has applied for.

²⁸ Randwick Council, *Application Part B*, p 26.

After accounting for the impact of the proposed business subcategory, and the expiry of a 6% environmental levy in 2018-19, the average net rate increases are 9.9% for residential ratepayers, and 14.9% for business ratepayers (excluding the 27 Port Botany properties). The proposed residential rate increase is 2.4% more than the assumed rate peg over the period (7.5%). Hence, the real increase in residential rates over the three years is modest.

Summary

Taking all these factors into account, we consider the effective impact of the increases is likely to be moderate for most ratepayers.

3.4 The proposed increase in minimum rates is reasonable

As Chapter 1 discussed, Randwick Council intends to increase the minimum amount of its ordinary rates by 5.52% in 2018-19, 2019-20 and 2020-21 (a cumulative increase of 17.49%), for all categories of ratepayers.

We have decided to approve the minimum rate increases based on our finding that the council meets the assessment criteria for minimum rates, discussed in the sections below.

3.4.1 The council explained its rationale for increasing minimum rates

We found that the council explained its rationale for increasing minimum rates, which was to reflect the demand for council services from multi-unit properties:

The Council has long questioned the effectiveness of the Minimum rate in adequately rating residential multi-unit properties, while land values in NSW continue to be determined on an unimproved basis. The Council is also of the view that residents of unit/apartments tend to generate a higher demand on council services than residents of stand-alone properties, particularly recreation and leisure facilities, parking management schemes, storm water system capacity and illegal dumping. On this basis, the Council's approach to minimums each year is to apply the maximum permissible increase available.²⁹

3.4.2 The impact on ratepayers is reasonable

We consider the impact of the minimum rate increases is reasonable.

The council has proposed that minimum rates for all residential and business ratepayers³⁰ will increase by 17.49% over the next three years. We have decided this is reasonable as increasing the minimum rate by the same percentage as other ratepayers will maintain the current rating structure and rating burden across ratepayers. It is also a method for recovering the costs of supplying council services to multi-unit properties.

We note that the 17.49% increase in minimum rates, over the next three years, is larger than the effective increase in average residential rates over this period (9.9%). This is because the expiring environmental levy was levied as a special rate, and therefore applied separately to ordinary rates. Ratepayers paying the minimum rate will also benefit from the expiring

²⁹ Randwick Council, *Application Part B*, page 27.

³⁰ Excluding the 27 ratepayers in the Port Botany business subcategory.

environmental levy. As such, the effective cumulative rate increase for these ratepayers will be lower than 17.49%.

3.4.3 The council adequately consulted the community

We consider the council has adequately consulted the community on its proposal to increase minimum rates.

Whilst the council did not clearly show the increases in minimum rates in consultation material, it clearly showed the percentage increase in ordinary rates that would be applied to all ratepayers in each rating category. This percentage increase is consistent with the council's proposed increase in minimum amounts.

3.5 The council's IP&R documents were exhibited

As discussed in Section 3.2, the council exhibited its Randwick City Plan (which includes the Delivery Program) and Long Term Financial Plan for a 2-month period over December 2017 to February 2018. The council then adopted these documents and resolved to apply for a special variation in February 2018.

3.6 The council explained its productivity improvements and cost containment strategies

Randwick 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.

The council has identified a range of previous and continuing productivity improvements and cost saving measures, which it reports have saved the council approximately \$200,000 to \$300,000 per year in recent years. These savings include:

- ▼ a new online DA lodgement portal
- ▼ a new fleet management system
- ▼ a new eRates system which allows ratepayers to receive their rates notices online, and
- ▼ improvements to council pools, including pool heaters and a new roof.³¹

The council also indicated its current 10-year Long Term Financial Plan includes an annual productivity factor of 0.3% for labour costs and 0.3% for material, contract and other expenses.³²

³¹ Randwick Council, *Application Part B*, pp 37-40.

³² Randwick Council, *Application Part B*, p 37.

4 Our decision's impact on the council

Our decision means Randwick Council may increase its general income over the 3-year special variation period from \$76.8 million in 2017-18 to \$87.1 million in 2020-21.³³ Table 4.1 shows the percentage increases we have approved, and estimates the annual increases in the council's general income incorporating the expiring special variations, catch-up and valuation adjustments. Our decision also means the council may increase its minimum amounts as set out in Table 1.2.

These increases will be permanently incorporated into the council's revenue base. After 2020-21 its permissible general income can increase by up to the annual rate peg unless we approve a further special variation.³⁴

Table 4.1 Permissible general income of Randwick City Council from 2018-19 to 2020-21 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
2017-18				76,842,896
2018-19 permissible general income	7.64	7.64	5,859,394 ^b	82,702,291
Adjusted notional income after expiring SV 1 July 2019 ^a				78,246,337
2019-20	5.52	13.58	-136,756	82,565,534
2020-21	5.52	19.85	4,557,618	87,123,152
Total increase approved		19.85	10,280,256	

^a Includes adjustment of -\$4,455,954 for a special variation that expires on 30 June 2019.

^b Includes an adjustment of -\$11,419, due to valuation objections claimed in the previous year, that had not been recouped by the time of the application was submitted to IPART.

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

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

The council estimates that over the three years to 2020-21 it will collect, in total, an additional \$19.7 million of rate revenue compared to rate increases at the assumed rate peg.

This extra income is the amount the council requested to enable it fund new community facilities and projects, maintain existing service levels, and to provide infrastructure to meet its anti-terrorism obligations.

³³ This increase is less than 19.85% cumulative increase the council applied for because the Council's general income will be reduced following the expiry of a 6% environmental levy in 2019-20.

³⁴ 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 OLG is responsible for monitoring and ensuring compliance.

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, Randwick Council indicated it intended to introduce a new Port Botany business subcategory to raise the equivalent of 2.12% of its general income. In addition, the increase in the average rate over the special variation period is less than the 19.85% rise in general income because of the expiring 6% environmental levy at the end of 2018-19.

We have calculated, taking into account these two factors:

- ▼ the average residential rate would increase by 9.9% or \$122 over 3-years, or by \$65 in the first year
- ▼ the average business rate (excluding Port Botany ratepayers) would increase by 14.9% or \$899 over 3-years, or by \$324 in the first year, and
- ▼ the average rate for the Port Botany subcategory would increase by 86.6% or \$86,168 over 3-years, or by \$72,149 in the first year.

Table 5.1 sets out the expected increase in the average rate for these three categories.

Table 5.1 Indicative annual increases in average rates under Randwick City Council's approved special variation 2018-19 to 2020-21

Year	2017-18	2018-19	2019-20 ^a	2020-21	Cumulative Increase 2017-21
Residential rate \$	1,233	1,298	1,284	1,355	
\$ increase		65	-14	71	122
% increase		5.3	-1.1	5.5	9.9
Business rate \$ excluding Port Botany	6,040	6,364	6,576	6,939	
\$ increase		324	212	363	899
% increase		5.4	3.3	5.5	14.9
Business rate \$ Port Botany subcategory	99,501	171,650	175,956	185,669	
\$ increase		72,149	4,301	9,713	86,168
% increase		72.5	2.5	5.5	86.6

^a Includes the impact of a special rate variation (environmental levy) that expires on 30 June 2019.

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

Source: Randwick Council, *Application Part A*, Worksheet 5a and IPART calculations.

The increases for properties on minimum rates is set out in Table 1.2. The council has calculated for minimum rates, that:

- ▼ the residential minimum rate would increase by \$42 in the first year, and by \$134 over the 3-years, and
- ▼ for the business category, and the Port Botany subcategory, the minimum rate would increase by \$68 in the first year, and by \$215 over the 3-years.³⁵

³⁵ Randwick Council, *Application Part A*, worksheet 5a.



Appendices



A Assessment criteria for special variation applications and minimum rate increases

Table A.1 Assessment criteria for special variation applications

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

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

Table A.2 Assessment criteria for minimum rate increase applications

Assessment criteria

Criterion 1 – Rationale

The rationale for increasing minimum rates above the statutory limit.

Criterion 2 – Impact on ratepayers

The impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub category.

Criterion 3 – Community awareness

The consultation the council has undertaken to obtain the community's views on the proposal.

Source: OLG, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit*, November 2017, p 8.

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

Table B.1 shows Randwick Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of \$90.2 million over 10 years to fund:

- ▼ \$20.5 million of additional operating expenditure
- ▼ \$44.3 million of additional capital expenditure, and
- ▼ \$25.4 million of loan repayments.³⁶

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.

³⁶ Randwick Council, *Application Part A*, Worksheet 6.

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

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Special variation income above assumed rate peg	4,103	6,458	9,113	9,340	9,574	9,813	10,059	10,310	10,568	10,832	90,169
Funding for increased operating expenditures	938	1,472	2,076	2,128	2,181	2,236	2,292	2,349	2,408	2,468	20,548
Funding for capital expenditure	630	2,450	4,501	4,677	4,857	5,042	5,231	5,426	5,625	5,829	44,268
Of which:											
Digital strategy	630	450	1,500	1,500	500	500	500	500	500	500	7,081
Anti-terrorism	-	2,000	2,000	-	-	-	-	-	-	-	4,000
Major projects	-	-	1,001	3,177	4,357	4,542	4,731	4,926	5,125	5,329	33,187
Loan (principal and interest repayments)	2,535	2,535	2,535	2,535	2,535	2,535	2,535	2,535	2,535	2,535	25,354
Total expenditure	4,103	6,458	9,113	9,340	9,574	9,813	10,059	10,310	10,568	10,832	90,169

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

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

C Randwick City Council's projected revenue, expenses and operating result

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

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

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

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-2024	2024-25	2025-26	2026-27	2027-28
Total revenue	148,073	155,911	158,085	164,981	169,753	174,682	180,042	185,504	191,130	196,664	202,395
Total expenses	138,114	145,199	148,298	154,039	158,547	163,881	169,398	175,862	181,020	187,149	193,341
Operating result from continuing operations	9,959	10,711	9,787	10,942	11,206	10,801	10,644	9,642	10,110	9,515	9,054
Net operating result before capital grants and contributions	4,872	5,569	4,587	5,734	5,937	5,470	5,250	4,183	4,585	3,922	3,392

Note: Numbers may not add due to rounding.

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

D Comparative indicators

Performance indicators

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

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

Overall, the tables below show that:

- ▼ the growth in Full-Time Equivalent (FTE) staff (0.8% per year on average) has been lower than population growth, which has seen the ratio of population to FTE staff increase, and
- ▼ employee costs have risen as a share of operating expenditure over the period.

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

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	506	522	530	523	0.8
Ratio of population to FTE	277	273	274	285	0.8
Average cost per FTE (\$)	99,848	104,648	108,825	118,002	4.3
Employee costs as % of operating expenditure (General Fund only)	42.7	43.7	43.8	44.2	N/A

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

Source: OLG, unpublished data.

Table D.2 Select comparative indicators for Randwick City Council, 2015-16

	Randwick Council	OLG Group 3 average	NSW average
General profile			
Area (km ²)	36	-	-
Population	149,276	-	-
General Fund operating expenditure (\$m)	139.5	139.2	70.2
General Fund operating revenue per capita (\$)	1,012	-	-
Rates revenue as % of General Fund income	68.1	49.6	43.6
Own-source revenue ratio (%)	89.4	71.5	67.3
Average rate indicators^a			
Average rate – residential (\$)	1,164	1,015	1,017
Average rate – business (\$)	6,743	5,566	5,118
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 (\$) ^b	99,632	99,996	77,272
Average residential rate to median income ratio (%)	1.2	1.0	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	117	-	-
Outstanding rates and annual charges ratio (%)	2.3	2.5	3.6
Productivity (labour input) indicators^c			
FTE staff (number)	523	747	354
Ratio of population to FTE	285.4	-	-
Average cost per FTE (\$)	118,002	81,992	83,193
Employee costs as % of operating expenditure (General Fund only)	44.2	42.6	39.7

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

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

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

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

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