

Independent Pricing and Regulatory Tribunal
New South Wales

Shoalhaven City Council's application for a special variation for 2017-18

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

Determination
Local Government

May 2017



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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

Inquiries regarding this document should be directed to a staff member:

Derek Francis (02) 9290 8421

Austin Harris (02) 9113 7786

Contents

1	Determination	1
1.1	Our decision	2
2	What did the council request and why?	4
2.1	Verons Estate	4
3	How did we reach our decision?	6
3.1	Need for and purpose of the special variation	8
3.2	Community engagement and awareness	10
3.3	Reasonable impact on ratepayers	12
3.4	IP&R documents must be exhibited	14
4	What does our decision mean for the council?	16
5	What does our decision mean for ratepayers?	17
	Appendices	19
A	Expenditure to be funded from the special variation	21
B	Shoalhaven City Council's projected revenue, expenses and operating balance	24
C	Comparative indicators	26

1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

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

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

Shoalhaven City Council applied for a multi-year Special Variation (SV) under section 508A. The council requested increases of 13.2% for 2017-18 and 14% in 2018-19, a cumulative increase of 29.05%. It applied for the increase to remain permanently in the rate base.²

After assessing the council's application, we decided to allow the special variation in part, on a one year temporary basis. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2017-18

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

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan (LTFP), must contain evidence that supports a council's application for a special variation.

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

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

The council sought the SV for a general rate increase to cover infrastructure maintenance and renewal, maintenance of services and to ensure the financial sustainability of the council. A secondary purpose was to levy a special rate on the Verons Estate subdivision to pay for necessary road and bushfire safety infrastructure.³

Our decision enables the council to:

- ▼ begin its planned program of infrastructure maintenance and renewal
- ▼ continue its current level of services to the community
- ▼ begin addressing the Verons Estate infrastructure requirements, and
- ▼ begin improving its financial sustainability.

The council did not update its IP&R documents to include the full SV increase sought prior to applying to IPART. Therefore, we have not approved a permanent increase in general income. However, the council did demonstrate a clear need for additional revenue to ensure its financial sustainability and to fund increased infrastructure maintenance and renewal.

Our decision is to allow, on a temporary basis, the first year of the council's SV request. This decision allows the council to continue to execute its Delivery Program in 2017-18 while updating its IP&R documentation and reapplying to IPART in future years if it wishes for a rate increase to be permanently incorporated in its general income base.

1.1 Our decision

We determined that Shoalhaven City Council may increase its general income in 2017-18 by 13.2%, including the rate peg of 1.5% that is available to all councils (see Table 1.1). The SV can be retained in the council's general income base for one year and is to be removed from the council's rate base in 2018-19.

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

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

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

Component	%
Percentage increase above the rate peg	11.7
Rate peg	1.5
Total increase	13.2

³ Shoalhaven City Council, *Application Part B*.

Box 1.2 Conditions attached to Shoalhaven City Council's approved special variation

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

- ▼ The council uses the additional income from the special variation for the purposes of improving financial sustainability, funding capital expenditure, reducing the infrastructure backlog and providing the necessary fire safety and road infrastructure for Verons Estate as outlined in the council's application and listed in Appendix A.
- ▼ The council reports in its annual report for 2017-18 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the LTFP provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current LTFP and any corrective action taken or to be taken to address any such variation
 - expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ On 1 July 2018, the council is to reduce its general income to what it would have been without the special variation.

2 What did the council request and why?

Shoalhaven City Council applied to increase its general income by a cumulative 29.05% over the 2-year period from 2017-18 to 2018-19, and to permanently incorporate this increase into its general income base.⁴ This increase is 25.0% higher than the assumed rate peg over the two years.

Over the 2-year period to 2019-20, the special variation would have generated additional revenue of \$22.3 million compared to rate increases at the assumed rate peg. This figure would have increased to \$158.5 million over a 10-year period, as the special variation would have remained permanently in the council's rate base.

This increase is larger than the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At that time, the council proposed a cumulative increase of 19.9% over the 2-year period from 2017-18 to 2018-19, including the rate peg.⁵ These funds were to be applied to increasing infrastructure maintenance and renewal, improving financial sustainability and adopting a special rate to address the infrastructure needs of the Verons Estate.⁶

The council indicated that during the 10 years of its LTFP, it proposed to spend:

- ▼ \$107.2 million on asset renewal,
- ▼ \$25.6 million on asset maintenance
- ▼ \$24.9 million on operational works, and
- ▼ \$0.8 million on Verons Estate loan repayments.⁷

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

2.1 Verons Estate


Verons Estate is a subdivision comprising 32 lots, each around 8 hectares (ha), near Sussex Inlet. The land was historically zoned rural and individual lots were sold off by the original owner after 1964. The rural zoning does not permit dwellings to be approved on these lots as they are smaller than the 40ha minimum required. Nevertheless there are a number of structures that have been built on the Estate.

⁴ Shoalhaven City Council, *Application Part A, Worksheet 4*.

⁵ IPART, *Assessment of Councils Fit For the Future Proposals*, October 2015, pp 339-340.

⁶ The council has indicated that the Verons Estate will be subject to a 20 year special rate to cover the costs of a 20 year loan funding the necessary infrastructure works on the Estate. See section 2.1 for more information.

⁷ Shoalhaven City Council, *Application Part A, Worksheet 6*.



The council has been investigating rezoning the Estate to allow dwellings to be approved on each lot since 1993.⁸ The council has now rezoned the land to allow for some development to occur on 19 of the plots. However, this rezoning is contingent on the Estate meeting current development standards, particularly standards around mitigating bushfire risk. This means a number of roads within the Estate need to be upgraded, as well as fire trails established, in order to ensure the safety of residents and that the Fire Service has ready access to all dwellings.

The estimated cost of the required works is \$2.1m. The council proposed to cover 17% of this cost in recognition of the potential benefit of the road upgrades to the broader community. The remainder of the cost will be met by a 20 year loan, which will be paid for by a special rate levied on the Verons Estate landowners. The council estimates the average rate in year 1 will be approximately \$5,350.

The council notes the proposed special rate is an application of the beneficiary pays principle. The approach is similar to a previous SV that IPART approved in 2015-16 for the Jerberra Estate subdivision.

The increase in revenue from this special rate has been included in the SV. It equates to an increase of approximately 0.2% to general income in the first year of the SV.

⁸ The state government placed a moratorium on rezoning land in this area from 1994 to 2007.

3 How did we reach our decision?

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

Shoalhaven City Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan, Delivery Program & Operational Plan 2016-2017* and *Resourcing Strategy 2015-2017 (including the Long Term Financial Plan)*.

The rate increases for which the council has applied are significant, and 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 Shoalhaven City Council's application did not meet all the criteria. In particular, we found:

1. The **need for the proposed revenue** reflects community priorities as demonstrated in the above IP&R documents and is generally supported by our FFTF assessment of the council's financial sustainability.
2. The council provided evidence **the community is aware** of the need for, and extent of, the rate rise. It used a variety of strategies to inform the community, although it provided little detail about how the additional revenue would be spent. There were sufficient opportunities for community feedback, and the council considered the community's views.
3. The **impact of the proposed rate rises on ratepayers** is significant, particularly for the Verons Estate proposed special rate. The impact is reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation and indicators of the community's capacity to pay.
4. The council provided **insufficient evidence** the relevant **IP&R documents have been exhibited and adopted**. The documents used in support of this application either were not appropriately updated, or proposed a much smaller SV application than the council applied for.
5. The council reported **productivity savings and cost containment strategies** in past years, worth \$6.4m, 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 - 3.4 discuss our findings against criteria 1 - 4 in more detail.

⁹ See Appendix C. Shoalhaven City Council is in OLG Group 5, which is classified as Urban Large/ Very Large Regional Town/City. The group comprises six councils, including Wollongong City, Tweed Shire, Lake Macquarie City and Newcastle City.

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

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents clearly explain the need for and purpose of a special variation, and show that:</p> <ul style="list-style-type: none"> ▼ it is consistent with community priorities ▼ it will address the infrastructure backlog and improve the asset maintenance ratio which is currently 84.8% (benchmark is 100%), and ▼ it ensures the council’s operating performance ratio becomes positive in a reasonable time frame. <p>NSW Treasury Corporation’s (TCorp) 2013 assessment indicated the council needs extra revenue to achieve an operating surplus, fund maintenance and asset renewal, and reduce the significant asset backlog.</p> <p>The council considered alternatives to a rate rise such as service level reductions and efficiency measures. The council concluded these alone were not sufficient to achieve financial sustainability while meeting the community’s priorities.</p> <p>However, the IP&R documents outlined a significantly lower SV application than the actual SV the council has applied for.</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>Overall, we consider on balance the community was adequately consulted, despite the IP&R documentation not discussing the full extent of the rate rise. This is due to the council’s community consultation documentation having the full impact listed as per the Guidelines.¹⁰</p> <p>The council used a range of engagement methods to make the community aware of the need for, and extent and impact of the rate rise, and to seek community feedback. It gave detailed explanations about the purpose and impact of the SV, but provided limited information about how the extra revenue would be spent.</p> <p>While the community feedback for the SV was overwhelmingly negative, the council adequately demonstrated the community was aware of the size and need for the SV, which meets the criteria.</p> <p>We received 197 submissions, all opposing the SV. Many submissions focused on the size of the increase, noted that they are on fixed incomes, and argued the proposed increase was unreasonable.</p>

¹⁰ OLG, *Guidelines for the preparation of an application for a special variation to general income for 2017/18*, December 2016.

Criterion	IPART findings
<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 ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay 	<p>The impact on ratepayers will be significant, but on balance reasonable given:</p> <ul style="list-style-type: none"> ▼ the geographical size of the council and the level of infrastructure spending required to maintain existing assets at an acceptable level, and ▼ comparable rates in other OLG Group 5 councils. <p>The impact on Verons Estate ratepayers of the special rate increases will be very significant, and the council notes that some land owners may be forced to sell as a result of the increase. However the increase is reasonable given:</p> <ul style="list-style-type: none"> ▼ the Estate's history of development ▼ the council's long standing position since the start of the rezoning process that any cost of infrastructure works to develop the Estate should be recovered from the landowners, and ▼ the value of the infrastructure works will ultimately be capitalised into the value of the land in the Estate. Hence, the special rate is consistent with the beneficiary pays principle.
<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 revenue.</p>	<p>This criterion is not satisfied.</p> <p>The council adopted the Community Strategic Plan in 2013. The council exhibited its Delivery Program between April and May 2016 and adopted it on 18 May 2016. However this document discusses an SV of a cumulative 19.9% (15% above rate peg over two years) rather than the 29.05% cumulative increase (25% above rate peg over two years) the council has applied for. These are not consistent. Hence, we have determined the council has not satisfied this criterion.</p> <p>The council adopted its current Resourcing Strategy (including the LTFP) in 2015, however this did not outline the SV scenario for which the council applied. The council provided updated spreadsheets to IPART with the SV scenario and base case modelled, but these alone do not constitute a LTFP. This means the council has also not satisfied this aspect of the criterion.</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 last four years, the council has realised annual savings in operational expenditure of \$6.4 million by a combination of reductions in salary costs, reduced growth in costs in long run contracts, reductions in fleet sizes and other measures.</p>

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

Sources: Shoalhaven City Council, *Application Part A* and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Shoalhaven City Council Financial Assessment, Sustainability and Benchmarking Report*, October 2012, Shoalhaven City Council *Delivery Program & Operational Plan 2015-2017*.

3.1 Need for and purpose of the special variation

We consider the council has met this criterion.

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

- ▼ fund asset maintenance, renewal and operational costs, and
- ▼ enhance financial sustainability.

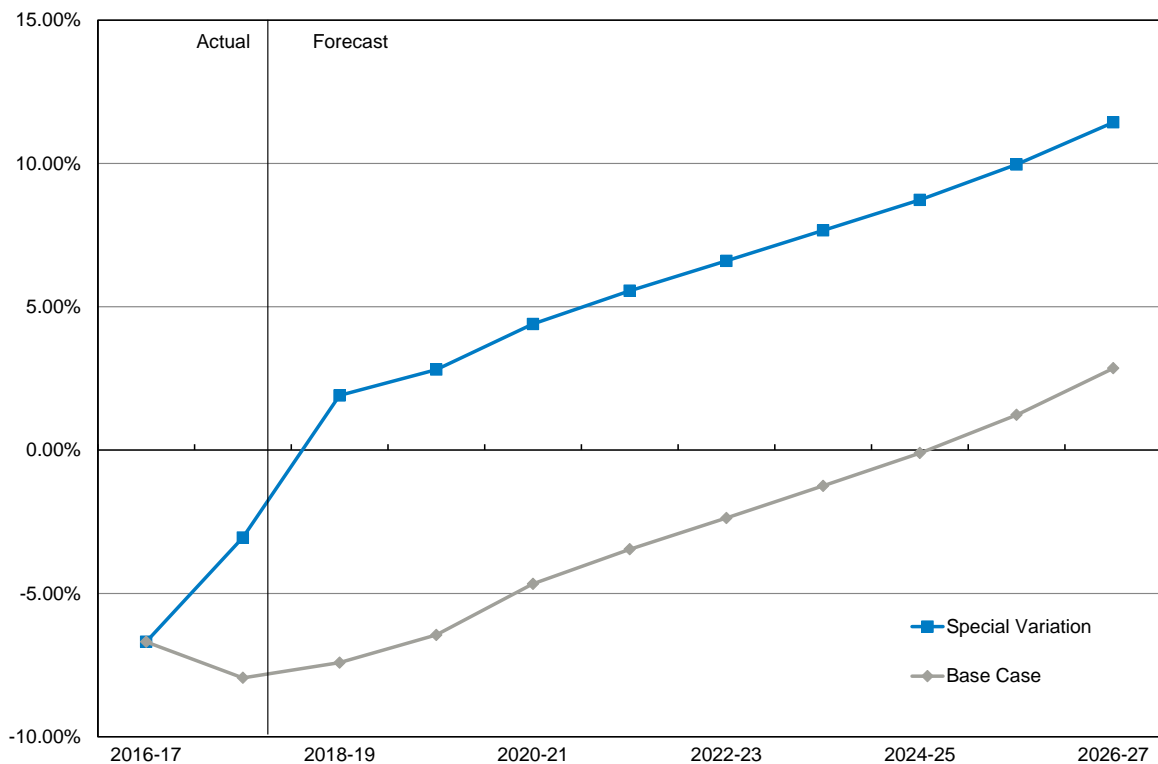
The council’s IP&R documents indicate the community’s priorities were to maintain infrastructure and assets to support the needs of the population.

However, the council’s IP&R documents set out a smaller SV than the council has applied to IPART for.

Financial sustainability, including infrastructure backlogs

The council is forecasting operating deficits of between \$1.8m and \$12m over the next six years without a special variation. The special variation would enable the council to generate operating surpluses (before capital grants and contributions) from 2018-19 based on planned spending. This means the council would have the ability to provide the necessary additional funding for roads maintenance and the renewal of road infrastructure.¹¹ These forecasts are shown in Figure 3.1 below.

Figure 3.1 Shoalhaven City Council’s Operating Performance Ratio excluding Capital Grants and Contributions (2016-17 to 2026-27)



Data source: Shoalhaven City Council, *Application Part A, Worksheet 7* and IPART calculations.

¹¹ Shoalhaven City Council, *Application Part B, Attachment 6*.

Table 3.2 shows the projected operating performance ratio using the financial data provided in support of its application with, and without, the requested special variation increase.

Table 3.2 Projected operating performance ratio (%) for Shoalhaven City Council’s special variation application

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Application including SV (29% over 2 yrs)	-3.1	1.9	2.8	4.4	5.6	6.6	7.7	8.7	10.0	11.4
Excluding SV	-7.3	-6.4	-5.3	-3.4	-2.1	-0.9	0.3	1.5	2.9	4.6

Source: Shoalhaven City, *Application Part A*, Worksheet 7, and IPART calculations.

Box 3.1 Shoalhaven City Council’s Fit for the Future Assessment

In 2015, our Fit for the Future assessment found the council:

- ▼ Met the criterion for sustainability as it was forecast to meet the **operating performance benchmark** from 2019-20 and the building and asset renewal benchmark from 2017-18.
- ▼ Met the criterion for infrastructure and service management as it was forecast to meet the **infrastructure backlog benchmark** in 2019-20 and the debt service benchmark in 2017-18. While the council was not forecast to meet the benchmark for the asset maintenance ratio, its forecast demonstrated improvement.

NSW Treasury Corporation (TCorp) observed in 2013 the council’s financial position was ‘sound’, but considered its outlook was ‘negative’.¹² This assessment was made largely because of the council’s deficit positions when excluding capital grants as well as a weak liquidity position. TCorp considered this would affect the council’s ability to meet day to day expenses.¹³

Source: IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, p339-340, and NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

3.2 Community engagement and awareness

We consider, on balance, the council has met this criterion.

In 2016 the council reviewed some of its IP&R documents in consultation with its community. However the IP&R documentation did not fully meet the requirements in detailing the size of the SV or comparing it to the base case (see section 3.4).

The council has undertaken a series of community consultations regarding the need for a rate increase since October 2014. This includes the council’s FFTF submission which outlined the requirement for a two year special variation of 19.9% in total or 7.5% per year above the assumed rate peg.¹⁴

It explained the need for, purpose of and the extent of the rate increases and provided reasonable opportunities for community feedback.

¹² New South Wales Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

¹³ New South Wales Treasury Corporation, *Shoalhaven City Council Financial Assessment and Benchmarking Report*, October 2012, p 4.

¹⁴ Shoalhaven City Council, *Application Part B*, p 39.

For the application itself the council has used a variety of methods to engage with its community, including:

- ▼ presentations to Community Consultative Bodies
- ▼ direct mail outs to all residents and ratepayers
- ▼ an online survey
- ▼ listening posts and random surveys at local shopping centres
- ▼ random telephone survey conducted by IRIS, and
- ▼ media releases, radio items, advertising and other publicity measures.

Given the length of consultation, range of measures and clear indications from stakeholder submissions that the community is aware and understands the need for and extent of a rate rise, we consider the council has met this criterion.

Outcome of consultation on rate increases

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

The community was generally not in favour of a rate increase, with 63% of ratepayers indicating some level of disagreement with the council's proposed SV application.¹⁵ The council also outlined three potential SV options:

- ▼ a two year SV of 29% in total or 11.5% per year above the assumed rate peg
- ▼ a four year SV of 39% in total or 6.27% per year above the assumed rate peg, and
- ▼ a seven year SV of 67% in total or 5% per year above the assumed rate peg.

When ratepayers were presented with these three options and asked their preferences, the most preferred response, chosen by 37% of ratepayers, was for 11.5% plus the rate peg for two years.

Based on these outcomes the council decided to apply to IPART for a two year SV rather than the other options of 6.27% (plus rate peg) for four years or 5% (plus rate peg) for seven years.

¹⁵ Shoalhaven City Council, *Application Part B*, p 46.

Submissions

The council received 62 written submissions, with 34 opposing the application outright and a further 13 suggesting alternative options or delays for further engagement. The main reasons for opposition were:

- ▼ the rate increase is too large – a smaller increase would be more acceptable
- ▼ low and fixed income ratepayers would find the increase unaffordable, and
- ▼ a belief the council should live within its means.

The council has considered its community's feedback by choosing the SV application with the shortest length and smallest cumulative increase (but with a higher percentage increase per year). This means that after four years the total amount paid by ratepayers will be lower compared with other options the council presented which had a more gradual SV increase, but a higher cumulative increase over the longer term.

IPART received 197 submissions, all opposing the application. Opposition to the rise was broadly similar to the feedback received by the council. We note the council has run additional community information sessions after its submission to IPART in order to address community concerns regarding the SV application.

3.3 Reasonable impact on ratepayers

We consider, on balance, the council has met this criterion as the impact of the special variation will be significant but reasonable. The impact is significant due to the large size of the proposed increase, with average residential rates rising \$137 in the first year and \$163 in the second for a total increase after two years of \$300.

The council's consideration of impact on ratepayers

The council considers the existing community is able to pay the increase in rates being proposed.¹⁶¹⁷ The council examined socio-economic indicators, including:

- ▼ unemployment in Shoalhaven and other OLG Group 5 councils
- ▼ the percentage of pensioners paying rates
- ▼ the percentage of total rates outstanding
- ▼ the average weekly income to average residential rate, and
- ▼ comparing its rates to other OLG Group 5 councils.

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. We found since 2006-07:

- ▼ The council has applied for and been granted three special variations that were used for infrastructure maintenance and renewals.¹⁸

¹⁶ Shoalhaven City Council, *Application Part B*, pg 61.

¹⁷ The analysis in this section addresses the main SV increase. The special rate for the Verons Estate is dealt with in section 3.3.2.

- ▼ The average annual growth in residential and business ordinary and special rates was 5.1% and 1% respectively,¹⁹ compared to the average rate peg growth of 2.9%.

Table 3.3 Shoalhaven City Council - comparison of rates and socio-economic indicators with surrounding councils and OLG Group 5 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
Eurobodalla (4)	810	36,934	2.1	5.3	53
Kiama (4)	1,304	49,453	2.6	1.77	129
Shoalhaven City (5)	902	40,194	2.2	5.58	63
Coffs Harbour (5)	977	39,207	2.4	6.5	70
Lake Macquarie (5)	1,130	49,139	2.3	0	106
OLG Group 5	1,076	45,429	2.4	4.48	

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

b The outstanding rates ratio includes water and sewer.

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

d All of the comparator councils were granted rate increases above the rate peg in between 2013-14 and 2015-16. Apart from Kiama, the data in this table does not capture the increases from these special variations.

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

We also compared current rates and socio-economic indicators with peer OLG Group 5 councils Coffs Harbour and Lake Macquarie, as well as neighbouring councils Kiama and Eurobodalla, as shown in Table 3.3 above. We found:

- ▼ The council's current residential rate levels are below those of its OLG Group 5 comparators. They would increase to be broadly in line with other councils in its group after the special variation. In 2014-15, Shoalhaven City Council's average residential rates were \$902 compared to the OLG Group 5 average of \$1,076.²⁰
- ▼ The ratio of average rates to average income in Shoalhaven City Council is below the OLG Group 5 council average.
- ▼ Rates are 40% below Kiama and 10% above Eurobodalla, two of the neighbouring councils.

Taking all these factors into account, we consider the impact of the increases would be significant but 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.

¹⁸ These were a two year SV from 2007-08 to 2008-09 of 1.4 and 2.4 above the rate peg; a one year SV in 2013-14 of 4.6 above rate peg and a temporary one year SV in 2015-16 of 1.49 above the rate peg to be removed after 10 years.

¹⁹ The low increase is due to a rebalancing between Business and Residential rates carried out by the council in 2015-16.

²⁰ 2014-15 is the most recent comparison dataset published by OLG.

3.3.2 Reasonableness of the Special Rate on Verons Estate

We note the special rate the council proposes to levy on ratepayers in the Verons Estate for necessary road and bushfire safety infrastructure will be large. The average forecast rate for one subset of ratepayers is \$5,350 per year.

The council notes this special rate is likely to cause hardship for some members of the Estate, and could lead to individuals having to sell their property. However, the council notes the special rate is a clear application of the beneficiary pays principle, and that the infrastructure works funded by the special rate are necessary before the existing dwellings can receive council planning approval.²¹

We consider that although the special rate increase is large, it is equitable, efficient and reasonable. It is equitable and efficient because the special rate is being paid by those who have caused the cost and who will most directly benefit from the infrastructure, which reduces cross subsidisation by other council ratepayers. It is reasonable as the value of the infrastructure and subsequent planning approval will be capitalised into the value of the blocks on the Estate.

3.4 IP&R documents must be exhibited

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

The Guidelines require that:

The relevant IP&R documents²² 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.

The council's most recent Delivery Program, adopted in April 2016, details the council's plan to apply for a two year SV totalling 19.9% or 7.5% above rate peg. This is substantially under the 29.05% cumulative, or 11.5% above the rate peg, for two years the council has actually applied for.²³

This 10 percentage point differential between the two cumulative increases is too large for the Delivery Program to be considered in line with the SV application. Once the council resolved to apply to IPART for a larger SV than was outlined in its Delivery Program, the Program should have been updated and placed on public exhibition for at least 28 days prior to its formal adoption. This should have occurred prior to the council's application to IPART.

Further, the council's current LTFP dates from 2015. It does not appear to have been updated to reflect the SV the council applied for. While the council provided excel spreadsheets detailing the ten year impacts on the council's general fund with and without the additional SV funds, this is not sufficient to be considered the council's LTFP under the Guidelines.²⁴ Rather, the council should have updated its Resourcing Strategy (including

²¹ Shoalhaven City Council, *Application Part B*, Attachment 3.

²² The relevant documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan. It would also be expected that the Long Term Financial Plan be posted on the council's website.

²³ Shoalhaven City Council, *Delivery Program & Operational Plan 2015-2017*, p 43.

²⁴ Office of Local Government, *Integrated Planning and Reporting Manual for local government in NSW*, p15.



the LTFP) once it resolved to apply to IPART for a larger SV increase than was outlined in its then-current Resourcing Strategy. Having the updated Resourcing Strategy available would also allow the community to better understand the SV increases in context.

For these two reasons we consider the council has not satisfied this criterion.

4 What does our decision mean for the council?

Our decision means Shoalhaven City Council may increase its general income in 2017-18 by 13.2%, an estimated \$8.0 million, as indicated in Table 4.1.²⁵ The portion of this increase that is above the 1.5% rate peg (approximately \$7.1m) is to be removed from the council's rate base after 2017-18. After 2017-18, the council's general income will increase by the annual rate peg unless we approve further special variations.²⁶

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

Notional general income 2017-18	Increase approved	Annual increase in general income	Adjustments: Catch-ups, valuations ^a	Permissible general income 2017-18 ^a
(\$)	(%)	(\$)	(\$)	(\$)
60,793,852	13.2	8,024,788	45,763	68,864,404

^a Council has a prior catch-up amount of \$51,540 added into permissible income in 2017-18 and a reduction of \$5,687 due to valuation objections claimed in 2016-17.

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

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

This extra income is the amount the council requested in year one of its SV application to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards, and to ensure its financial position does not further deteriorate. It gives the council the necessary time to update its IP&R documentation and apply to IPART for a permanent rate increase in future years if it so chooses.

If the council does not successfully apply for an SV in future years, the council may need to review its financial and asset planning and consider whether there is a need to adjust spending on assets and services. It may also need to re-engage with the community on service levels.

²⁵ Shoalhaven City Council, *Application Part A*, Worksheets 1 and 4.

²⁶ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

5 What does our decision mean for ratepayers?

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

In its application, Shoalhaven City Council indicated it intended to increase rates uniformly for each category.

The council has calculated:

- ▼ the average residential rate will increase by 13.3%, or \$136
- ▼ the average business rate will increase by 13.3%, or \$230, and
- ▼ the average farmland rate will increase by 13.3%, or \$268.²⁷

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

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

Category	Average rate 2016-17 (\$)	Increase (%)	Increase (\$)	Average rate 2017-18 (\$)
Average residential rate	1,025	13.3	136	1,161
Average business rate	1,729	13.3	230	1,959
Average farmland rate	2,009	13.3	268	2,276

Notes: 2016-17 is included for comparison.

The average rate is calculated by Shoalhaven City Council, and includes the ordinary rate and any special rates applying to the rating category.

Some numbers may not add due to rounding.

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

²⁷ The average rate increase (13.3%) is higher than the SV increase (13.2%) due to a \$45,763 prior year catchup adjustment.





Appendices



A Expenditure to be funded from the special variation

Table A.1 and Table A.2 show Shoalhaven City 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 \$158.5 million, over 10 years to fund:

- ▼ \$24.9m in additional spending to fund existing service levels
- ▼ \$25.6m in additional spending to improve service quality and maintenance levels of roads, buildings and parks (see Table A.1)
- ▼ \$107.2 million in extra road, building and streetscape renewal capital expenditure (see Table A.2), and
- ▼ \$0.8 million on Verons Estate loan repayments.²⁸

As a condition of IPART's approval, the council is to indicate in its 2017-18 Annual Report how its actual expenditure compares with this proposed program of expenditure.

²⁸ Shoalhaven City Council, *Application Part A*, Worksheet 6.

Table A.1 Shoalhaven City 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	7,113	15,210	15,590	15,980	16,380	16,789	17,209	17,639	18,080	18,532	158,522
Funding for increased operating expenditures	1,000	1,700	1,949	2,196	2,451	2,712	2,980	3,255	3,536	3,824	25,603
Funding to reduce operating deficits or (increase surpluses)	1,817	2,068	2,848	4,826	3,810	3,551	2,377	2,964	614	50	24,925
Funding for capital expenditure	4,296	11,367	10,717	8,878	10,035	10,439	11,763	11,328	13,834	14,559	107,216
Other uses ^a	-	75	78	80	83	86	89	92	96	99	779
Additional expenditure	7,113	15,210	15,590	15,980	16,380	16,789	17,209	17,639	18,080	18,532	158,522

^a Other uses of the income from a special variation can include repayment of loan principal amounts and transfers to reserves. Shoalhaven City Council will use part of the SV to repay the Verons Estate Loan.

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: Shoalhaven City Council, *Application Part A*, Worksheet 6 and IPART calculations.

Table A.2 Shoalhaven City 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
Buildings	3,796	7,774	8,467	6,657	7,283	7,674	8,683	7,983	10,225	10,934	79,476
Roads and bridges	-	3,081	1,725	1,682	2,200	2,200	2,500	2,750	3,000	3,000	22,138
City Wide Streetscapes	500	513	525	538	552	566	580	594	609	624	5,602
Total Capital Expenditure	4,296	11,367	10,717	8,878	10,035	10,439	11,763	11,328	13,834	14,559	107,216

Note: Numbers may not add due to rounding.

Source: Shoalhaven City Council, *Application Part A, Worksheet 6 – Expenditure Program*.

B Shoalhaven City Council's projected revenue, expenses and operating balance

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

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

Table B.1 Summary of projected operating statement for Shoalhaven City Council, 2017-18 to 2026-27 (\$000)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total revenue	177,337	189,982	194,694	202,630	209,348	216,211	223,326	230,695	238,383	246,561
Total expenses	176,655	181,454	185,739	190,147	194,196	198,397	202,645	206,969	211,018	214,751
Operating result from continuing operations	682	8,529	8,955	12,483	15,152	17,814	20,682	23,726	27,366	31,810
Net operating result before capital grants and contributions	-5,230	3,528	5,366	8,748	11,429	14,020	16,817	19,788	23,352	27,719

Note: Numbers may not add due to rounding.

Source: Shoalhaven City Council, *Application Part A*, Worksheet 7 and IPART calculations.

C Comparative indicators

Performance indicators

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

Table C.1 shows how selected performance indicators for Shoalhaven City Council have changed over the four years to 2014-15.

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

Performance indicator	2011-12	2012-13	2013-14	2014-15	Average annual change (%)
FTE staff (number)	771	769	759	756	-0.7
Ratio of population to FTE	125	126	128	128	1.0
Average cost per FTE (\$)	80,054	82,999	83,285	79,168	-0.4
Employee costs as % operating expenditure (General Fund only) (%)	26.0	34.7	35.1	33.3	8.6
Consultancy/contractor expenses (\$m)	31.7	31.8	32.1	33.5	1.8
Consultancy/contractor expenses as % operating expenditure (%)	17.7	17.0	16.8	17.5	-0.3

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:

- ▼ As a result of an organisational restructure, total FTE staff numbers decreased to 756 in 2014, slightly below the 771 FTE in 2012.²⁹
- ▼ At 128, the council's ratio of population to FTE is in line with the state average and below the Group 5 average of 170.
- ▼ The council's workforce reorganisation has been successful in reducing average FTE staffing costs over the four year period. The council's FTE costs are approximately \$9,000 lower than comparator councils and in line with the NSW state average.
- ▼ The council spends slightly more on consultancy/contractor expenses than other Group 5 councils (17.5% compared to 15.7%).

²⁹ OLG, unpublished data.



General comparative indicators

Table C.2 compares selected published and unpublished data about Shoalhaven City Council with the averages for NSW and Group 5 council averages

As noted in section 3, Shoalhaven City Council is in OLG Group 5. Unless specified otherwise, the data refers to the 2014-15 financial year.

Table C.2 Select comparative indicators for Shoalhaven City Council, 2014-15

	Shoalhaven City Council	OLG Group 5 average	NSW average
General profile			
Area (km ²)	4,541	-	-
Population	96,927	-	-
General Fund operating expenditure (\$m)	154.1	-	-
General Fund operating revenue per capita (\$)	1,562	1,315	2029
Rates revenue as % General Fund income (%)	43.4	49.7	45.1
Own-source revenue ratio (%)	80.2	72.7	69.0
Average rate indicators^a			
Average rate – residential (\$)	902	1,076	769
Average rate – business (\$)	2,135	5,195	2,949
Average rate – farmland (\$)	1,918	2,069	2,490
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	40,194	45,429	49,070
Growth in average annual income, 2006-2011 (% pa)	4.0	4.7	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	2.2	2.4	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	63	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	5.58	4.48	4.64
Productivity (labour input) indicators^c			
FTE staff (number)	756	692	295
Ratio of population to FTE	128	171	127
Average cost per FTE (\$)	79,168	87,160	80,173
Employee costs as % operating expenditure (General Fund only) (%)	33.3	36.2	38.6
Consultancy/contractor expenses (\$m)	33.5	26.7	8.8
Consultancy/contractor expenses as % operating expenditure (%)	17.5	15.7	10.9

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

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

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

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