

Independent Pricing and Regulatory Tribunal  
New South Wales

# Special variation increase Willoughby City Council 2018-19

Determination  
Local Government

May 2018

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# 1 Executive summary

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

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

- ▼ increase its general income by 3.06% in 2018-19, and
- ▼ retain this increase in its rate base for four years.<sup>1</sup>

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

## 1.1 We have not approved Willoughby Council's application for a special variation

We decided not to approve the special variation.

Our decision means that the council may only raise its general income by the rate peg of 2.3% in 2018-19.

The council proposed to use the special variation revenue to upgrade the Northbridge Plaza car park.

Whilst we have not approved the proposed special variation, this does not preclude Willoughby Council levying a special rate on the beneficiaries of the proposed upgrade to the Northbridge Plaza car park within the overall rate cap. If the council does levy this special rate, rates for other ratepayers would, on average, increase by about 1.5% in 2018-19 rather than 2.3%.

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

### 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 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.

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

## 1.2 The council's application does not meet all the criteria






Our decision reflects our finding that the council's application does not meet the requirements in the OLG criteria. In particular:

- ▼ the council **did not satisfy Criterion 1** as our analysis of the council's financial performance and financial position suggests that it could fund the proposed expenditure without the proposed increase in revenue, and
- ▼ the council **did not satisfy Criterion 4** as it did not update its IP&R documents to include the proposed special rate variation.

Our assessment against the criteria is summarised in Table 1.1.



**Table 1.1 Assessment of Willoughby City Council's special variation application**

<b>1. Financial Need</b>	
	<p>The council did not demonstrate the financial need for the special variation (SV):</p> <ul style="list-style-type: none"> <li>▼ Operating Performance Ratio (average 2018-19 to 2027-28) is <ul style="list-style-type: none"> <li>– 5.7% with SV</li> <li>– 5.6% without SV revenue and assuming SV expenditure</li> </ul> </li> <li>▼ Infrastructure backlog ratio of 1.42% at 30 June 2017</li> <li>▼ The council forecasts its net cash position to be 44.3% of annual income in 2017-18, increasing to 62.6% by 2026-27 without the additional SV revenue. This suggests council has the financial capacity to undertake the proposed works on the Northbridge Plaza Car Park without the SV.</li> </ul> <p>The council can levy a special rate on the beneficiaries of the upgrade to the Northbridge Plaza car park within the 2018-19 rate peg of 2.3%, regardless of our decision on the SV.</p>
<b>2. Community awareness</b>	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> <li>▼ used a range of engagement methods to make those directly affected by the proposed rate increase aware of its proposal</li> <li>▼ provided an explanation about the purpose and impact of the SV and sought feedback, and</li> <li>▼ considered feedback from those directly affected by the rate increase.</li> </ul>
<b>3. Impact on ratepayers</b>	
	<p>Impact on affected ratepayers will be significant:</p> <ul style="list-style-type: none"> <li>▼ the proposed temporary increase in rates is 309% for four years</li> <li>▼ the proposed increase only applies to the owners of Northbridge Plaza , and</li> <li>▼ current business rate levels are generally higher than neighbouring councils.</li> </ul> <p>The proposed temporary increase in rates is significant but reasonable.</p>
<b>4. IP&amp;R documents exhibited</b>	
	<p>The council did not appropriately update its IP&amp;R documentation:</p> <ul style="list-style-type: none"> <li>▼ the Long Term Financial Plan did not mention the proposed SV and assumes rate peg increases of 2% per annum, rather than 2.5%, and</li> <li>▼ the Delivery Program and Operational Plan were not updated and did not identify the requested SV.</li> </ul>
<b>5. Productivity improvements and cost containment</b>	
	<p>The council has demonstrated recent productivity improvements including:</p> <ul style="list-style-type: none"> <li>▼ its 2015-16 service review which resulted in recurrent annual savings of around \$2 million per year</li> <li>▼ implementation of a range of ongoing initiatives to improve project management and general efficiency, and</li> <li>▼ the disposal of unproductive assets for net gains (\$0.9 million since 2013-14).</li> </ul>

### 1.3 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 discusses how our decision will impact the council and its ratepayers.

## 2 Willoughby Council's application

Willoughby Council applied for a special variation to increase its general income by 3.06% or 0.76% more than the rate peg in 2018-19, and to retain this increase in its general income base temporarily for four years until 2021-22.<sup>2</sup>

The council estimates that if the requested special variation is approved, its permissible general income would increase from \$49.18 million in 2017-18 to \$54.19 million in 2021-22. Over the 4-year period of the special variation to 2021-22, this would generate additional revenue of \$1.55 million compared to rate increases at the assumed rate peg.

The council indicated it intends to use the additional revenue to upgrade the Northbridge Plaza Car Park.<sup>3</sup>

During the 4-year period of the special variation, the council expects to spend \$1.50 million on its upgrade of the Northbridge Plaza Car Park.

More detail on the council's proposed program of expenditure to 2021-22 is provided in Appendix B.

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<sup>2</sup> Willoughby Council, *Application Part A*, Worksheet 1.

<sup>3</sup> Willoughby Council, *Application Part A*, Worksheet 6 and *Application Part B*, p 4.

## 3 IPART's assessment

To make our decision, we assessed Willoughby Council's application against the criteria in the OLG Guidelines. We also considered the council's most recent IP&R documents, and a range of comparative data about the council set out in Appendix C.<sup>4</sup>

We found that Willoughby Council's application did not meet the requirements of the criteria. In particular, we were not satisfied that the council demonstrated the need for the additional income. The council has also not exhibited updated IP&R documents discussing the special variation.

Our assessment of the council's application against the criteria is summarised in Table 1.1 and discussed in more detail in the sections below.

### 3.1 The council did not demonstrate financial need for the special variation

We found that Willoughby Council's IP&R documents did not clearly set out the need for, and purpose of the requested special variation, which is to fund the capital cost of upgrading the Northbridge Plaza Car Park.

Our analysis suggests the council is in a sound financial position, and should continue to achieve strong operating surpluses over the medium term. As such, the council can fund the car park upgrade without the need for additional revenue from a special variation.

#### 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:

$$OPR^5 = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

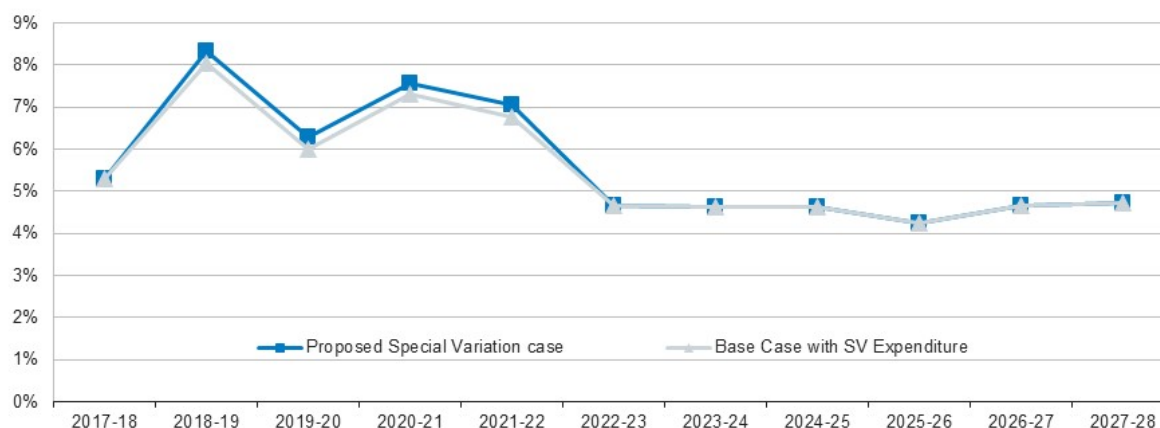
Under the special variation scenario, the council forecasts consistent operating surpluses, with the OPR falling from 8.3% in 2018-19 to 4.7% by 2027-28. The cumulative value of these forecast surpluses is \$74.9 million to 2027-28. These surpluses would allow the council to invest in new and existing assets, increase its net cash position and service a growing community.

Without the special variation and assuming the council's expenditure is the same as under the special variation scenario, it forecasts a marginally lower OPR between 2018-19 and 2021-22, as shown by the base case scenario with SV expenditure in Figure 3.1 and Table 3.1.

<sup>4</sup> See Appendix C. Willoughby 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 Ryde, Ku-ring-gai and North Sydney.

<sup>5</sup> Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

**Figure 3.1 Willoughby 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:** Willoughby Council, *Annual Financial Statements*, various; Willoughby Council, *Application Part A, Worksheet 7* and IPART calculations.

**Table 3.1 Projected operating performance ratio (%) for Willoughby 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	8.3	6.3	7.6	7.0	4.7	4.6	4.6	4.2	4.7	4.7
Base case with SV expenditure	8.1	6.0	7.3	6.8	4.7	4.6	4.6	4.2	4.7	4.7

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

Figure 3.1 and Table 3.1 above show that:

- ▼ The council's financial performance is strong, and is forecast to continue to produce strong operating surpluses of between 4.2% and 8.3% of income. Without the special variation revenue, the cumulative value of these surpluses is \$73.4 million by 2027-28.<sup>6</sup>
- ▼ There is only a small difference between the special variation scenario and the base case with special variation expenditure.

The council has an infrastructure backlog ratio of 1.42% in 2016-17 which is below the benchmark of less than 2%. The council forecasts this backlog ratio will fall to 0.3% by 2026 - 27.<sup>7</sup>

This suggests the council does not need the proposed special variation revenue to upgrade Northbridge Plaza car park. Without the special variation, the council could upgrade the car park and maintain expenditure on infrastructure maintenance and renewals, and still maintain a strong financial performance and position.

<sup>6</sup> Willoughby Council, *Application Part A, Worksheet 7* and IPART calculations.

<sup>7</sup> Willoughby City Council, *Long Term Financial Plan 2017-27*, August 2017, p 15.

### 3.1.2 Impact on council's net cash

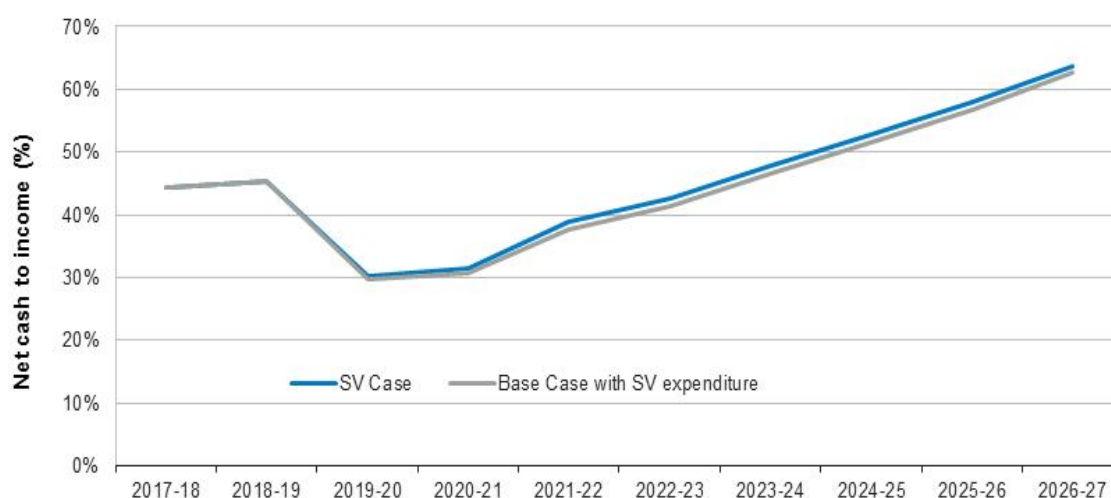
Net cash is the book value of the council's cash and cash-like assets<sup>8</sup> less gross debt on the balance sheet. Net cash shows how much cash the council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net cash is an indicator of council's financial performance and sustainability on a cash basis.

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

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

We calculate that the council has net cash<sup>9</sup> of \$49.2 million or around 44% of income in 2017 - 18. With the special variation revenue, net cash would be \$48.2 million or 39% of income by 2021-22. Over the longer term, with the special variation revenue, net cash would increase to \$88.3 million and net cash to income would increase to 64% by 2026-27 as the council repays its loans and builds cash reserves.<sup>10</sup>

**Figure 3.2 Willoughby Council's net cash<sup>a</sup> to income ratio (%) (2017-18 to 2026-27)**



a Cash includes cash, cash equivalents and current financial assets. Total cash includes externally restricted, internally restricted and unrestricted funds.

**Note:** The base case with SV expenditure scenario shows the impact on the council's net cash position if the special variation projects were to go ahead without the special variation revenue.

Without the special variation, and assuming the council's expenditure is the same as under the special variation scenario, net cash would be around \$1.5 million lower than under the

<sup>8</sup> We have also included current financial investments and receivables as cash in the net cash calculation.

<sup>9</sup> Net cash (net debt) equals cash plus cash equivalents less borrowings and payables. A positive net cash position means that the council has more cash and cash-like investments than debt.

<sup>10</sup> This analysis includes current investments. Of the \$116.06 million in cash, cash equivalents and investments: \$45.6 million is externally restricted, \$56.6 million is internally restricted and \$13.9 million is unrestricted. Source: Willoughby City Council General purpose Financial Statements for the year ended 30 June 2017.

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special variation scenario, at \$46.7 million or 38% of income by 2021-22. By 2026-27, net cash is forecast to climb to \$86.8 million or around 63% of income as shown in Figure 3.2.

This analysis suggests that council would continue to be in a strong financial position without the special variation revenue, even if it proceeds with the proposed upgrade.

In its application for the special variation, the council argues that:

While Council is in a sound financial position, the upgrade of the Northbridge Plaza car park is excluded from Council's current infrastructure levy program where, in addition to the income from the infrastructure levy, Council has been channelling additional reserve funds to improve the Infrastructure backlog gap.<sup>11</sup>

And:

The facility is predominately used by Northbridge Plaza for their explicit benefit. Regardless of Council's financial position, it is considered that it is not appropriate for the upgrade to be borne by the community as this results in the community subsidising a commercial entity.<sup>12</sup>

Our decision does not preclude Willoughby Council levying a special rate on the beneficiaries of the proposed upgrade to the Northbridge Plaza car park to fund the infrastructure works. Under our decision, if it did levy a special rate to fund the upgrade, the average rate rise for other ratepayers would be about 1.5% rather than 2.3% in 2018-19. It is a matter for each council to determine how it collects rate revenue across different categories of ratepayers, and who bears the costs for infrastructure upgrades.

### **3.2 The council demonstrated community engagement and awareness with those directly affected**

We found that Willoughby Council demonstrated that the ratepayers directly affected were made aware of the need for and extent of the proposed rate increase.

The council's consultation has been exclusively carried out with AMP Capital Shopping Centres. The council stated in its special variation application to IPART:

As the owners of the properties on which the special rate is to be levied they are the only ratepayers affected by the proposed SRV.<sup>13</sup>

The council consulted with AMP Capital Shopping Centres regarding its preference for a three, four or five year rate increase to fund the proposed upgrade.

We note that the council has not reviewed and updated its IP&R documents, including its Delivery Program and Long Term Financial Plan (LTFP) discussing the proposed special variation. So while the directly affected ratepayers were made aware of the proposed special variation and consulted, that consultation may have been too narrowly targeted. The council could have undertaken a wider and more comprehensive consultation program with other businesses and residents who may benefit from the proposed upgrade.

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<sup>11</sup> Willoughby Council, *Application Part B*, p 7.

<sup>12</sup> Willoughby Council, *Application Part B*, p 7.

<sup>13</sup> Willoughby Council, *Application Part B*, p 12.

### **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. Willoughby Council's targeted consultation indicated its affected ratepayers' preference was for alternative arrangements to undertake the required works be made within existing funding and revenue.

Based on this outcome, the council decided to apply for a temporary single-year special variation of 3.06%, and to retain this increase in its rate base for four years.

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

The council received two written submissions in relation to the application for a special variation, both from AMP Capital Shopping Centres opposing the application. The main reasons for their opposition were:

- ▼ the impact of the increase, including on retail tenants
- ▼ the proposed scope of works for the Northbridge Car Park, and
- ▼ the appropriateness of the levy being applied only to AMP Capital Shopping Centres.

IPART received two submissions opposing the application, mainly on the grounds that community consultation was inadequate, the proposed rate increases were too high and too narrowly targeted, and the council can fund the proposed works from existing sources.<sup>14</sup>

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

As Chapter 2 discussed, Willoughby Council requested a single-year increase of 3.06% that will remain temporarily in the rate base for four years.

We found that the impact of this increase on ratepayers will be significant but reasonable, given:

- ▼ the need to undertake the associated upgrade works on the Northbridge Plaza car park
- ▼ the 309% increase in rates to the affected ratepayer (AMP Capital Shopping Centres) is significant, but temporary for four years, collecting around \$1.55 million
- ▼ the owners of Northbridge Plaza will benefit from its customers having access to the upgraded council-owned car park, and
- ▼ the current average business rate is higher than most neighbouring councils and the OLG Group 3 councils, as shown in Table 3.2.

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<sup>14</sup> M. Conder, Submission to IPART, 6 March 2018.



**Table 3.2 Willoughby City Council - comparison of rates with neighbouring councils and OLG Group 3 averages (2015-16)**

<b>Council (OLG Group)</b>	<b>Average business rate (\$)<sup>a</sup></b>
Ku-ring-gai (3)	3,929
North Sydney (3)	3,502
Northern Beaches (3)	3,546
Ryde City (3)	11,159
<b>Willoughby City (3)</b>	<b>6,564</b>
OLG Group 3 average	5,566

<sup>a</sup> The average business rate includes all sub-categories.

Source: OLG, Time Series Data 2015-2016.

As the council's proposed special variation does not apply to any other ratepayers, there will be no direct impact on other residential or business ratepayers.

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

The council considers the affected ratepayer, AMP Capital Shopping Centres, is the primary beneficiary of the proposed upgrade and has the capacity to pay. In its application to IPART it stated:

The impact of the proposed special rate is limited to the owners of the Northbridge Plaza and affects 6 rate assessments. The special rate of \$375,000 per annum for four years is considerable, however as outlined...in this application the owner can afford the special rate and has benefited from the free access to a Council asset for the purpose of their commercial venture and will continue to benefit from the upgrade of the car park.

There is no impact on other business or residential ratepayers and no impact on pensioners.<sup>15</sup>

The council also states that failure to secure a special variation for the proposed upgrade would have a detrimental impact on residents as it will result in:

Council general funds being used to subsidise a commercial entity and result in other community projects being deferred.<sup>16</sup>

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

The proposed special variation applies to six assessments, representing the owners of Northbridge Plaza. While the proposed increases set out above are significant, the owners of Northbridge Plaza will benefit from its customers having access to the upgraded council-owned car park. We note that:

<sup>15</sup> Willoughby Council, *Application Part B*, pp 16-17.

<sup>16</sup> Willoughby Council, *Application Part B*, p 17.



- ▼ Willoughby Council could levy a special rate on the beneficiaries of the car park upgrade, regardless of our decision on the proposed special variation,<sup>17</sup> and
- ▼ the narrow public consultation undertaken by the council may not have fully allowed it to identify other potential users and beneficiaries of the Northbridge Plaza car park.

### 3.4 The council's updated IP&R documents were not exhibited

We consider the council has not satisfied this criterion.

Under the IP&R framework the Delivery Program is the key document which details the principal activities the council will undertake to achieve the objectives of the Community Strategic Plan. The Delivery Program is required to be on public exhibition for 28 days prior to adoption. Given the importance of the Delivery Program under the IP&R documents, Criterion 4 of the special variation guidelines requires:

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. <sup>18</sup>

Also, criteria 1 to 3 in the OLG Guidelines make specific reference to requirements of the Delivery Program. Specifically as set out in:

▼ Criterion 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.<sup>19</sup>

▼ Criterion 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.<sup>20</sup>

▼ Criterion 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:

- 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, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.<sup>21</sup>

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<sup>17</sup> Levying a special rate would mean that the council's income is within the rate peg of 2.3%, but will change the rating burden across ratepayers. In this case, the rate increase in 2018-19 for other ratepayers would be less than the 2.3% rate peg as the additional revenue raised through a new special rate would be offset with lower revenue from residential and other business ratepayers.

<sup>18</sup> OLG Guidelines p 9.

<sup>19</sup> OLG Guidelines, p 7.

<sup>20</sup> OLG Guidelines, p 8.

<sup>21</sup> OLG Guidelines, p 8.

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We note the council adopted its Delivery Program and LTFP on 27 June 2016. The LTFP was revised and adopted on 7 August 2017.

Neither the LTFP nor the Delivery Program discuss or set out the proposed special variation. The Delivery Program only refers to the council's proposed project cost of \$1.42 million for the upgrade to Northbridge Plaza car park.

Based on these documents, the council's intention to apply for the special variation is not identified. Specifically, the Delivery Program did not clearly set out:

- ▼ the need for, and purpose of the requested special variation (Criterion 1)
- ▼ the extent of the rate rise under the special variation (Criterion 2), and
- ▼ the impact on affected ratepayers of the special variation (Criterion 3).

For these reasons we consider the council has not satisfied the criteria.

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

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

In particular, it submitted that it had implemented the findings of its 2015-16 service review, which resulted in recurrent savings of around \$2 million per annum.<sup>22</sup>

The council has also created a specific unit focussed on identifying business improvement initiatives. Initiatives in 2017-18 include:

- ▼ reviewing customer service processes to become more efficient
- ▼ reviewing community venue management to increase the utilisation of venues and associated revenues
- ▼ improvements to the Development Approval process to reduce determination time and provide clearer lodgement requirements, and
- ▼ delivering strategic community programs to reduce the costs of service delivery.<sup>23</sup>

Other planned strategies include the implementation of the "PULSE" project management system, resulting in more rigorous project management and monitoring, together with the supplementation of a Project Management Office.<sup>24</sup>

In reaching our decision on this criterion, we have also had regard to the small size of proposed special variation.

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<sup>22</sup> Willoughby Council, *Application Part B*, p 26.

<sup>23</sup> Email to IPART, Willoughby City Council, 24 April 2018.

<sup>24</sup> Email to IPART, Willoughby City Council, 24 April 2018.

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## 4 Our decision's impact on the council and ratepayers

Our decision means Willoughby Council may increase its general income up to the rate peg (2.3%) in 2018-19. The council is to determine how this rate peg increase will be distributed among ratepayer categories.

Our analysis suggests the council is in a strong financial position to fund the proposed upgrade works on the Northbridge Plaza car park without the need for additional revenue.

The council could levy a special rate on the beneficiaries of the Northbridge Plaza car park upgrade to fund the cost of the works.

Under our decision, if the council does levy a special rate under the existing rate peg to fund the car park upgrade, we estimate the average rate rise for ratepayers that do not pay this special rate would be about 1.5% in 2018-19 rather than 2.3%.





## Appendices



## A Assessment criteria for special variation applications

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

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

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

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

Table B.1 and **Error! Reference source not found.** show Willoughby Council's proposed expenditure of the special variation funds over the next four years.

The council proposed to use the additional special variation revenue, above the rate peg, of \$1.55 million over four years to fund capital works to upgrade the Northbridge Plaza car park.

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

	2018-19	2019-20	2020-21	2021-22	Total
Special variation income above assumed rate peg	374	383	393	403	1,552
Funding for capital expenditure	374	383	393	403	1,552
<b>Total expenditure</b>	<b>374</b>	<b>383</b>	<b>393</b>	<b>403</b>	<b>1,552</b>

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

**Source:** Willoughby Council, *Application Part A*, Worksheet 6, and IPART analysis.

**Table B.2 Willoughby City Council – Proposed capital expenditure program related to the special variation (\$000)**

	2018-19	2019-20	Total
Car parks	750	750	1,500
<b>Total capital expenditure</b>	<b>750</b>	<b>750</b>	<b>1,500</b>

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

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



## C Comparative indicators

### Performance indicators

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

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

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

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
Full-Time Equivalent (FTE) staff (number)	416	406	395	366	-4.2
Ratio of population to FTE	173	180	188	213	7.1
Average cost per FTE (\$)	92,163	96,377	102,630	108,727	5.7
Employee costs as % operating expenditure (General Fund only)	40.2	40.6	41.3	40.0	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 C.2 Select comparative indicators for Willoughby City Council, 2015-16**

	Willoughby Council	OLG Group 3 average	NSW average
<b>General profile</b>			
Area (km <sup>2</sup> )	22	-	-
Population	78,017	-	-
General Fund operating expenditure (\$m)	99.5	139.2	70.2
General Fund operating revenue per capita (\$)	1,731	-	-
Rates revenue as % General Fund income	45.1	49.6	43.6
Own-source revenue ratio (%)	77.5	71.5	67.3
<b>Average rate indicators<sup>a</sup></b>			
Average rate – residential (\$)	951	1,015	1,017
Average rate – business (\$)	6,564	5,566	5,118
Average rate – farmland (\$)		2,306	2,366
<b>Socio-economic/capacity to pay indicators</b>			
Median annual household income, 2016 (\$) <sup>b</sup>	118,092	99,996	77,272
Average residential rate to median income ratio (%)	0.8	1.0	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	116		
Outstanding rates and annual charges ratio (%)	1.4	2.5	3.6
<b>Productivity (labour input) indicators<sup>c</sup></b>			
FTE staff (number)	366	747	354
Ratio of population to FTE	213.2		
Average cost per FTE (\$)	108,727	81,992	83,193
Employee costs as % operating expenditure (General Fund only)	40.0	42.6	39.7

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

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

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

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

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