



Independent Pricing and Regulatory Tribunal

Ballina Shire Council's application for a special variation for 2015-16

under section 508A of *Local Government Act 1993*

Local Government — Determination
May 2015



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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises 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 for either an increase in a single year (section 508(2)) or successive increases for up to seven years (section 508A).

IPART assesses these applications against criteria in Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 outlines the Guidelines for 2015-16.

Ballina Shire Council (Ballina Council) applied for a multi-year special variation under section 508A. The council requested increases of 5.41% in 2015-16 and 5.34% in 2016-17, or a cumulative increase of 11.04% over the next two years, and for the increase to remain in the rate base permanently.²

We have decided to approve the special variation as requested. We made this decision under section 508A of the Act.

Box 1.1 The Special Variation Guidelines for 2015-16

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 2015/2016*, issued by the Office of Local Government.

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 (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

Our decision enables the council to fund the redevelopment of the Ballina and Alstonville swimming pool complexes, while maintaining its financial sustainability. The council consulted its community extensively to address the condition of its swimming pool complexes, both in reviewing its Integrated

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2015/2016*, October 2014 (the Guidelines).

² Ballina Shire Council, *Application for a special variation to general income 2015-16 – Part A* (Ballina Council, *Application Part A*), Worksheet 4.

Planning and Reporting (IP&R) documents and in preparing its special variation application.

1.1 Our decision

We determined that Ballina Council may increase its general income in 2015-16 and 2016-17 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.4% in 2015-16).³ The cumulative increase of 11.04% is 5.57% more than the council assumed rate peg increase over these years.

After the last year of the special variation 2016-17, the increase will remain permanently in the council's rate base. Table 1.1 sets out our decision.

Table 1.1 IPART's decision on Ballina Shire Council's application for a special variation in 2015-16

	2015-16	2016-17
Percentage increase approved	5.41%	5.34%

Note: The rate peg in 2015-16 is 2.4%. In later years the council has assumed a rate peg of 3%.

Source: Ballina Council, *Application Part A*, Worksheet 1 and IPART calculations.

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 Ballina Shire Council's approved special variation

IPART's approval of Ballina Shire Council's application for a special variation over the period from 2015-16 to 2016-17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to fund loan repayments associated with the redevelopment of the Ballina and Alstonville swimming pool complexes outlined in its application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2015-16 to 2024-25 on:
 - expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports each year from 2015-16 to 2024-25 in its financial statements (currently in Special Schedule 9) on its compliance with the special variation and these conditions.

³ The council has assumed a rate peg of 3% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

2 What did the council request and why?

Ballina Council applied to increase its general income by a cumulative 11.04% over the 2-year period from 2015-16 to 2016-17, and to permanently incorporate this increase into its general income base.⁴

The council estimated that if the requested special variation is approved, its permissible general income would increase from \$18.3 million in 2014-15 to \$20.2 million in 2016-17. This would generate additional revenue of \$1.6 million above the rate peg increases over two years.

The council intends to use the additional revenue from the special variation to fund debt servicing costs associated with the capital works program to redevelop Ballina and Alstonville swimming pool complexes.

Over 10 years, the special variation would generate revenue of \$10.9 million above the rate peg. The council's Long Term Financial Plan (LTFP) 2015-16 to 2024-25 indicates that over the period 2015-16 to 2024-25 the council is proposing to spend:

- ▼ \$4.3 million on interest repayments
- ▼ \$4.2 million on principal repayments
- ▼ \$1.4 million on capital expenditure, and
- ▼ \$1.0 million on operating expenditure.⁵

More detail on the council's proposed program of expenditure to 2024-25 is provided in Appendix A.

3 How did we reach our decision?

It is our view that Ballina Council's application met the criteria. We assessed Ballina Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as a range of comparative data about the council (set out in Appendix B).⁶

Ballina Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2013-2023 (CSP)*, *2014/15-2017/18 Delivery Program and Operational Plan* and LTFP.

⁴ Ballina Council, *Application Part A*, Worksheet 4.

⁵ Ballina Council, *Application Part A*, Worksheet 7.

⁶ See Appendix B. Ballina Council is in OLG Group 4, which is classified as urban small/medium regional (pop. up to 70,000). The group comprises 30 councils, including councils such as Byron Shire, Eurobodalla Shire, Lismore City and Richmond Valley.

The rate increases for which the council has applied are moderate, and we carefully 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 note that the council's current application requests slightly lower percentage increases than those it consulted its community about.⁷

In particular, we found that:

1. The need for the proposed revenue is demonstrated in the council's IP&R documents, and reflects community priorities, and is supported by TCorp's assessment of the council's financial sustainability.
2. The council provided evidence that the community is aware of the need for and extent of the rate increases, and that it used a variety of engagement strategies.
3. The impact of the proposed rate increases on ratepayers is moderate, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation and the council's consideration of ratepayers' willingness and capacity to pay.
4. The council provided evidence that the relevant IP&R documents have been exhibited and adopted.
5. The council reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

⁷ This was due to affordability concerns, and the fact that the latest forecasts for interest rates allowed council to adopt a slightly lower percentage increase for the special variation (Ballina Council, *Notice of Ordinary Meeting – 27 November 2014*, pp 179-180). See Ballina Council, *Application Part B*, p 43.

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

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, including 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 identified the need for and purpose of the special variation. The special variation will fund interest and principal loan repayments to redevelop the Ballina and Alstonville swimming pools consistent with the Community Strategic Plan.</p> <p>TCorp observed in 2012 that the Council’s financial position was ‘moderate’ and outlook ‘neutral’. TCorp indicated that its operating deficit position is the weakest forecast ratio and that council could face financial sustainability issues in the long term. The Council has sought to address this concern by funding the redevelopment of the swimming pools with the special variation.</p> <p>The LTFP modelling (Application Part A – worksheet 7 and Attachment 3 of Ballina Council’s application) indicates that the special variation allows council to reduce its operating deficit relative to the no special variation scenario.^a</p> <p>The council considered alternatives to a rate rise such as asset sales, increases to user fees and charges, expense reductions and loan funds. Given the magnitude and scale of works needed a special variation was considered the preferred option to finance the works.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The IP&R documentation 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 an opportunity for community awareness and input to occur.</p>	<p>The council has comprehensively consulted with its community on the need for and extent of the rate increase.</p> <p>Council has clearly communicated the cumulative increase in the average rates (including and excluding the special variation).</p> <p>Council engaged with the community using fact sheets, media release, council website, two letters to all residents, Community Connect advertising, community survey, Ward Committees, public meetings at Ballina, Lennox Head and Alstonville, and direct consultation with key interest groups such as local swimming clubs. Feedback from community consultations include:</p> <ul style="list-style-type: none"> ▼ 367 written submissions – 16% provided support or conditional support ▼ 1,750 online survey responses – 19% supported the proposal, and ▼ Community satisfaction survey of 500 residents – 60% were ‘supportive or somewhat supportive’ of the special variation. <p>Community concerns included: affordability, ‘should be funded by council’s existing funds’, unfair to charge ratepayers who don’t use swimming pools, and user fees should be increased.</p>

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 IP&R processes 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 local community's capacity to pay. 	<p>Due to concerns with affordability and latest forecasts for loan repayments, the council reduced the proposed increases slightly from 5.5% in 2015-16 and 2016-17 to 5.41% and 5.34% respectively.</p> <p>IPART has received 58 submissions. The views expressed are consistent with the feedback to Ballina Council.</p> <p>Ballina Council concluded that the rise was affordable based on:</p> <ul style="list-style-type: none"> ▼ The average rates payable per property for residential and farmland properties (including the special variation) will still remain lower than the 2014-15 rates of neighbouring councils (ie, Byron, Lismore and Tweed). ▼ A stronger economy through higher income levels and a lower unemployment rate compared to Northern River councils eg, Byron, Lismore and Richmond Valley. However, we note that Ballina has lower income levels compared to the OLG group 4 average. ▼ Its SIEFA ranking (99 out of 153) is highest relative to other councils in the Northern Rivers.
<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>The council adopted the Community Strategic Plan in 2013. The 2014/15 – 2017/18 Delivery Program and Operational Plan was exhibited during May and June 2014 and adopted on 26 June 2014. The LTFP initially adopted on 26 June 2014 but was later revised and adopted on 27 November 2014.</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>The council's savings projects include improvements to procurement processes and the use of electronic forms for recruitment to improve efficiency in data collection and processing. In 2014-15, the council suspended replacement of five positions. This represents an estimated annual saving of \$169,000 in 2015-16. The Council's containment of salaries was shown in the LG Professionals NSW and PwC benchmarking report. Ballina Shire Council's ratio of population to FTE staff is higher than the OLG Group 4 average and NSW average (see Appendix B).</p>

a We note that Ballina Council's published version of its long term financial plan does not show the "no special variation" scenario.

Note: SEIFA is the Socio-Economic Indexes for Areas; refer to Appendix B, Table B.2. Rank 153 is least disadvantaged.

Sources: Ballina Council, *Application Part A and Application Part B*, Ballina Council; *Community Strategic Plan 2013-2023*, p 22; NSW Treasury Corporation (TCorp), *Ballina Shire Council Financial Assessment and Benchmarking Report*, 22 August 2012, pp 4-5; TCorp, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 17.

4 What does our decision mean for the council?

Our decision means that Ballina Council may increase its general income over the 2-year special variation period from \$18.3 million in 2014-15 to \$20.2 million in 2016-17.

Table 4.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and, in 2015-16, adjustments that occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2016-17, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.⁸

Table 4.1 Permissible general income of Ballina Shire Council from 2015-16 to 2016-17 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2015				18,280,973
2015-16	5.41	5.41	868,671	19,149,644 ^a
2016-17	5.34	11.04	1,022,591	20,172,235

^a Permissible General Income has been reduced by \$120,330. This includes an adjustment for excess income in prior years of -\$53,118 and valuation objections of -\$67,212.

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

The council estimates that over 2015-16 and 2016-17, the additional rates revenue will accumulate to \$1.6 million above the rate peg.

This extra income is the amount the council requested to enable it to undertake additional capital expenditure to redevelop Ballina and Alstonville swimming pool complexes.

5 What does our decision mean for ratepayers?

IPART sets 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 ratepayer, consistent with our determination.

⁸ General income in future years cannot be determined with precision, as it will be influenced by several factors apart from 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.

In its application, Ballina Council indicated that it intends to keep the rates increases broadly similar across each category.

The council has calculated that:

- ▼ the average residential rate will increase by a cumulative 10.57%, or by \$42.66 in the first year and by \$90.84 over two years
- ▼ the average business rate will increase by a cumulative 10.48%, or by \$141.22 in the first year and by \$303.43 over two years, and
- ▼ the average farmland rate will increase by a cumulative 10.78%, or by \$68.22 in the first year and by \$142.38 over two years.⁹

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

Table 5.1 Indicative annual increases in average rates under Ballina Shire Council's approved special variation 2015-16 to 2016-17

Year	2014-15	2015-16	2016-17	Cumulative increase
Residential rate				
\$ increase		42.66	48.18	90.84
% increase		4.96	5.34	10.57
average rate	859.67	902.32	950.51	
Farmland rate				
\$ increase		68.22	74.16	142.38
% increase		5.17	5.34	10.78
average rate	1,320.52	1,388.74	1,462.90	
Business rate				
\$ increase		141.22	162.21	303.43
% increase		4.88	5.34	10.48
average rate	2,896.43	3,037.65	3,199.86	

Note: The average rate is calculated such that total revenue collected in each rate category is divided by the number of assessments in that category. This means that rates may be lower or higher in some of the sub-categories. We also note that Ballina Council has had a land revaluation with land values declining on average by 4.50%. This means the council's ad valorem rate will need to be increased to maintain its current revenue even without the special variation. However, on average rate payers will have rates increase by the special variation percentage ie, 5.41% in 2015-16.

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

⁹ Ballina Council, *Application Part A, Worksheet 5a*.



Appendices

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

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

The council will use the special variation revenue above the rate peg of \$10.9 million, over 10 years to fund loan repayments associated with the redevelopment of the Ballina and Alstonville swimming pool complexes.¹⁰

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.

¹⁰ Ballina Council, *Application Part A*, Worksheet 6, and Ballina Council, *Application Part B*, p 4.

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

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Special variation income above rate peg	550	1,015	1,045	1,077	1,109	1,142	1,177	1,212	1,248	1,286	10,860
Funding for increased operating expenditures	391	656	638	612	585	554	518	483	446	403	5,285
Funding to reduce operating deficits (or increase surpluses)	159	359	407	465	524	588	659	729	802	883	5,575
Funding for capital expenditure		26	51	83	116	151	191	229	267	311	1,425
Loan principal repayments	159	333	356	382	408	437	468	500	535	572	4,150
Total expenditure	550	1,015	1,045	1,077	1,109	1,142	1,177	1,212	1,248	1,286	10,860

Note: Numbers may not add due to rounding.

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

Table A.2 Ballina Shire Council – Proposed 10-year capital expenditure program and debt repayments related to the special variation (\$000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Ballina Swimming Pool	4,000										
Alstonville Swimming Pool		4,100									
Recurrent capital funding		26	51	83	116	151	191	229	267	311	1,425
Debt repayments – principal	159	333	356	382	408	437	468	500	535	572	4,150
Debt repayments – interest	280	556	533	507	481	452	421	389	354	317	4,290
Total	4,439	5,015	940	972	1,005	1,040	1,080	1,118	1,156	1,200	17,965

Note: Numbers may not add due to rounding.

Source: Ballina Council, *Application Part B*, p 38 and *Application Part A*, Worksheet 6.

B Comparative indicators

Performance indicators

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

Table B.1 shows how selected performance indicators for Ballina Shire Council have changed over the four years to 2012-13.¹¹

Table B.1 Trends in selected performance indicators for Ballina Shire Council, 2009-10 to 2012-13

Performance indicator	2009-10	2010-11	2011-12	2012-13	Average annual change (%)
FTE staff (number)	255	268	269	265	1.3
Ratio of population to FTE	166	158	151	154	-2.6
Average cost per FTE (\$)	78,522	68,929	70,721	70,981	-3.3
Employee costs as % operating expenditure (General Fund only) (%)	32.0	30.3	29.2	24.1	-
Consultancy/contractor expenses (\$m)	-	0.1	0.2	0.2	-
Consultancy/contractor expenses as % operating expenditure (%)	-	0.2	0.3	0.2	-

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

Source: OLG, unpublished data.

General comparative indicators

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

As indicated in section 3, Ballina Council is in OLG Group 4.

¹¹ This is the latest year for which data is available.

Table B.2 Select comparative indicators for Ballina Shire Council, 2012-13

	Ballina Shire Council	OLG Group 4 average	NSW average
General profile			
Area (km ²)	485		
Population (2012)	41,006		
General Fund operating expenditure (\$ million)	53.8		
General Fund operating revenue per capita (\$)	1,212	1,427	2,026
Rates revenue as % General Fund income (%)	25.9	41.3	46.8
Own-source revenue ratio (%)	41.7	66.1	71.1
Average rate indicators^a			
Average rate – residential (\$)	757	881	712
Average rate – business (\$)	2,437	3,168	2,688
Average rate – farmland (\$)	1,217	1,830	2,194
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	40,734	44,351	49,070
Growth in average annual income, 2006-2011 (% pa)	3.9	4.5	5.2
Average residential rates 2012-13 to average annual income, 2011 (%)	1.9	2.0	1.5
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	99		
Outstanding rates and annual charges ratio (General Fund only) (%)	6.2	5.3	6.0
Productivity (labour input) indicators^c			
FTE staff (number)	265	317	294
Ratio of population to FTE's	154	126	127
Average cost per FTE (\$)	70,981	76,263	75,736
Employee costs as % operating expenditure (General Fund only) (%)	24.1	37.1	37.1
Consultancy/contractor expenses (\$m)	0.2	6.1	7.8
Consultancy/contractor expenses as % operating expenditure (%)	0.2	7.6	10.3

^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.