



Independent Pricing and Regulatory Tribunal

Blue Mountains City 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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Contents

1	Determination	1
1.1	Our decision	2
2	What did the council request and why?	3
3	How did we reach our decision?	5
3.1	Community engagement and awareness	8
3.2	Reasonable impact on ratepayers	9
4	What does our decision mean for the council?	11
5	What does our decision mean for ratepayers?	12
	Appendices	15
A	Expenditures to be funded from the special variation above the rate peg	17
B	Blue Mountains City Council's projected revenue, expenses and operating balance	20
C	Comparative indicators	22

1 Determination

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

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be 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 explains the Guidelines for 2015-16.

Blue Mountains City Council (Blue Mountains Council) applied for a multi-year special variation under section 508A to remain permanently in the rates base. The council requested an increase of 6.6% in 2015-16 followed by increases of 9.6% in each of the next three years to 2018-19, or a cumulative increase of 40.34%.²

We have assessed the council's application and decided to approve the special variation as requested. We made this decision under section 508A of the Act.

Box 1.1 The Guidelines for 2015-16

IPART assesses special variation applications 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.

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 Blue Mountains City Council, *Special Variation Application – Part A, 2015-16* (Blue Mountains Council, *Application Part A*), Worksheet 1.

1.1 Our decision

We determined that Blue Mountains Council may increase its general income from 2015-16 to 2018-19 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 It also includes an increase of 6.6% in 2015-16 to continue the environmental programs previously funded by the Environment Levy that would otherwise expire at 30 June 2015.⁴

The cumulative increase of 40.34% over four years is 28.45% more than the assumed rate peg increase over these years. However, in effect, the increase will be around 36% (or 24% above the rate peg) due to the expiring special variation (see Section 3.2).

After the last year of the special variation (2018-19), the increase will remain permanently in the council's rate base.

Table 1.1 IPART's decision on Blue Mountains City Council's application for a special variation in 2015-16

	2015-16	2016-17	2017-18	2018-19
Percentage increase approved	6.6 ^a	9.6	9.6	9.6

a To continue the environmental programs previously funded by the Environmental Levy originally approved in 2005-06 for 7.15% (including the rate peg). The Environment Levy was approved for 10 years and is due to expire on 30 June 2015. See also Footnote 4.

Note: The rate peg in 2015-16 is 2.4%. In later years the council has assumed a rate peg of 3%. However, the special variation approved overrides the rate peg amount.

Source: Blue Mountains, *Application Part A*, Worksheet 1.

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.

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

⁴ Blue Mountains City Council, *Special Variation Application – Part B, 2015-16* (Blue Mountains Council, *Application Part B*), p 10. In July/August 2014 when the council consulted on continuing the Environment Levy, it assumed a rate peg of 3.0% as the 2015-16 rate peg of 2.4% had not been determined. To retain the value of the expiring special variation it calculated it needed an increase of 6.6% (3.6% above the rate peg). With the lower rate peg, the special variation will generate 4.2% additional revenue, slightly more than needed to replace the expiring special variation.

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

IPART's approval of Blue Mountains City Council's application for a special variation over the period from 2015-16 to 2018-19 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to improve its financial sustainability and fund the program of expenditure 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:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
 - 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 in its financial statements (currently in Special Schedule 9) on its compliance with the special variation and these conditions for each year from 2015-16 to 2024-25.

We note the council will be reducing its general income for 2015-16 by \$1,623,227 (the value of the expiring special variation). This reduction must take place before the council's general income is increased in 2015-16 in accordance with IPART's determination.

2 What did the council request and why?

Blue Mountains Council applied to increase its general income by a cumulative 40.34% over the 4-year period from 2015-16 to 2018-19, and to permanently incorporate this increase into its general income base.⁵

The increase in 2015-16 includes the continuation of a special variation due to end on 30 June 2015. This special variation was originally approved for 3.65% above the rate peg from 2005-06 to 2014-15 to fund a program of environmental protection and restoration works.⁶

⁵ Blue Mountains Council, *Application Part A*, Worksheet 1 and *Application Part B*, p 10.

⁶ Blue Mountains Council, *Attachment 2, Supplementary Delivery Program*, December 2014, p 11.

In addition to continuing its environmental program, the council has requested the special variation to fund infrastructure renewal and maintenance; to improve services to the community; to enhance its capacity for emergency response; and to improve its financial sustainability.

The council has also made this application with a view to addressing the financial and capital sustainability requirements of the Government's Fit for the Future (FFTF) reforms.⁷

The council estimated that if the requested special variation is approved, its permissible general income would increase from \$49.6 million in 2014-15 to \$67.4 million in 2018-19. This would generate additional revenue of \$30.4 million above the rate peg increases over four years.

Over the 10 years of its Long Term Financial Plan (LTFP), the special variation would generate additional revenue of \$121.4 million which the council would spend as shown in Table 2.1.⁸

Table 2.1 Blue Mountains Council - special variation funding allocation (\$m)

	Operating Expenditure (\$m)	Capital Expenditure (\$m)	Total (\$m)
Built Infrastructure ^a	31.9	31.2	63.1
Environment	17.9	7.7	25.7
Emergency Preparedness and Response	3.5	1.7	5.2
Community & Recreation Facilities (sport, recreation, aquatic facilities)	11.3	16.2	27.4
Total	64.7	56.8	121.4

^a Built infrastructure refers to roads, bridges, footpaths, stormwater, town centre and buildings. Being a designated World Heritage area, the LGA comprises a significant proportion of 'natural' assets which the council distinguishes from its 'built' assets. Blue Mountains Council, *Application Part B*, pp 4, 11.

Note: Figures may not add due to rounding.

Source: Blue Mountains Council, *Application Part A*, Worksheet 6 and IPART calculations.

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

⁷ Blue Mountains Council, *Application Part B*, p 1.

⁸ Blue Mountains Council, *Application Part A*, Worksheet 6. We note the council has assumed a rate peg of 3.0% in 2015-16 in its *Long Term Financial Plan 2014-2024*, pp 96, 99-100 and 111-112. The rate peg determined for 2015-16 was 2.4%. This results in an underestimation of additional special variation revenue in the council's LTFP.

3 How did we reach our decision?

We assessed Blue Mountains 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 C.⁹

Blue Mountains Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan – Sustainable Blue Mountains 2025, Supplementary Delivery Program 2015-19*, and *Resourcing Strategy 2014 -2024* (including its *Long Term Financial Plan 2014 -24* and *Asset Management Policy and Strategy 2014 -2024*).

The rate increases for which the council has applied are significant, 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 found that Blue Mountains Council's application met the criteria. In particular, we found that:

1. The need for the proposed revenue is demonstrated in the council's IP&R documents. It reflects community priorities and is supported by TCorp's assessment of the council's financial sustainability. The council has forecast ongoing operating deficits, and has significant infrastructure backlogs. Funding from the special variation will enable the council to achieve small surpluses and to reduce the backlog over the longer term.
2. The council undertook a comprehensive community engagement strategy and provided evidence that the community is aware of the need for and extent of the rate increases.
3. The impact of the proposed rate increases on ratepayers is significant, but reasonable given the council's existing rate levels in comparison to neighbouring councils, 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.

⁹ See Appendix C. Blue Mountains Council is in OLG Group 7, which is classified as Urban Large/Very Large Fringe (population >70,000). The group comprises 8 councils, Blue Mountains City Council, Campbelltown City Council, Gosford City Council, The Hills Shire Council, The Council of the Shire of Hornsby, Liverpool City Council, Penrith City Council and Wyong Shire Council.

Table 3.1 summarises our assessment against the criteria. Sections 3.1 and 3.2 discuss our findings against criteria 2 and 3 in more detail.

Table 3.1 Summary of IPART’s assessment of Blue Mountains 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, 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>IP&R documents explained the need for and purpose of the special variation and are consistent with community priorities. The council has:</p> <ul style="list-style-type: none"> ▼ an infrastructure backlog of \$183m with 21% of built assets currently in ‘poor’ condition; its current asset renewal ratio of 18% is unsustainable ▼ explored revenue alternatives but is constrained in raising additional revenue due to deficits of 4% - 7% forecast in its LTFP. <p>TCorp observed that the council’s financial position is ‘weak’ and outlook ‘neutral’ and additional investment is needed to maintain an acceptable asset base. The additional revenue will improve financial sustainability by enabling the council to record small operating surpluses and reduce its asset backlog to \$162m by 2023-24. With the rates increases, it forecasts an asset renewal ratio of 50% in 2023-24. We consider the assumptions underlying this forecast may be conservative and the council may be able to address its backlogs more quickly than currently planned.</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’s consultation strategy was comprehensive. It used its IP&R documents and various other methods to explain the need for, purpose of and extent of the rate increases. It received 4,312 responses from its mail outs and online consultation, of which 54.6% preferred the proposed special variation option. A majority of respondents from a telephone survey and five workshops also preferred this option. Most of the 4,312 respondents to the mail out simply indicated their preferred option, however the council also received 576 written comments some in favour of the special variation, and others expressing concerns with the need to improve efficiency and affordability and issues around the consultation process. IPART received 135 submissions (including a petition with around 3,500 signatures).</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>The impact on residential ratepayers will be significant, but reasonable as:</p> <ul style="list-style-type: none"> ▼ current residential rates are similar to many surrounding councils although higher than the OLG Group 7 average; business and farmland rates are lower than the Group 7 averages ▼ since 2003-04, the average annual growth in residential rates was 4.5% (which is only 1.3% above the average annual increases in the rate peg) ▼ the purpose of the special variation is clearly demonstrated and aligns with community priorities. <p>The council's application and IP&R process clearly outlined the impact of rate rises. The council considered the community's feedback and compared its current rates and socio-economic factors with neighbouring and comparable councils. Its SEIFA ranking of 125 (where 153 is the least disadvantaged council), and outstanding rates ratio of 4%, suggest capacity to pay. It has a hardship policy which offers alternative payment arrangements and pensioner rebates. It concluded that the community has capacity and willingness to pay.</p>
<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 its <i>Sustainable Blue Mountains 2025, Community Strategic Plan</i> in June 2013. It exhibited its Supplementary Delivery Program (2015-19) and Resourcing Strategy including its Long Term Financial Plan, Asset Management Policy and Strategy and Workforce Management Plan between 4 August and 15 September 2014 and adopted these documents in December 2014.</p> <p>The Delivery Program and LTFP set out the options on which the council consulted its community before applying for a special variation to its general revenue.</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 provides the majority of services in-house. It has undertaken service reviews and workforce productivity measures over the last four years and calculated:</p> <ul style="list-style-type: none"> ▼ cost savings of over \$15m ▼ efficiencies of over \$0.9m, and ▼ additional revenue of almost \$6m through various initiatives. <p>In the next four years, it estimates it will achieve:</p> <ul style="list-style-type: none"> ▼ cost savings of nearly \$21m ▼ efficiency savings of nearly \$0.9m, and ▼ additional revenue of around \$3.3m.

Sources: Blue Mountains Council, *Application Part A*, and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013; TCorp, *Blue Mountains City Council, Financial Assessment and Benchmarking Report*, March 2013; Blue Mountains Council, *Application Part B, Attachment 1, Community Strategic Plan extracts, Attachment 2, Supplementary Delivery Program 2015-19* and Blue Mountains Council, *Application Part B, Attachment 3, Long Term Financial Plan 2014 -2024*.

3.1 Community engagement and awareness

We consider that the council has met this criterion. Its consultation clearly explained the need for, purpose of and extent of the rate increases and provided opportunities for feedback. Its engagement methods included:

- ▼ Public exhibition of its updated IP&R documents outlining the need for additional funding and options for proposed rate increases.
- ▼ Mayoral letters to 32,531 ratepayers outlining three funding options, the impact on each ratepayer category (in percentage and dollar terms) and a reply paid 'submission' form for feedback on a preferred option. The options were:
 - Option 1: Service levels improved (increase of 40.4% over four years)
 - Option 2: Service levels maintained (increase of 32.1% over four years)
 - Option 3: Service levels reduced (rate peg increases of 12.6% over four years).
- ▼ A telephone survey of 504 households that had read the *Resourcing our Future* information.¹⁰
- ▼ Five workshops in Blackheath, Katoomba, Lawson, Springwood and Blaxland - attended by 91 participants (out of 230 randomly selected participants).
- ▼ Advertisements and notices in the Blue Mountains Gazette.
- ▼ Provision of special variation information and online rates calculators at libraries, 'Have your say' and council websites.¹¹

Outcome of consultation on rate increases

Although this criterion does not require councils to demonstrate community support for the special variation, we note there is evidence of support for the rate increases requested, as summarised in Table 3.2.

Table 3.2 Results from Blue Mountains City Council consultation

Consultation method	Number of responses	Prefer Option 1 (%)	Prefer Option 2 (%)	Prefer Option 3 (%)
Brochures, letters and emails	4,312	54.6	23.3	20.4
Telephone survey	504	48.8	35.7	15.5
Workshops	84	58.3	35.7	6.0

Source: Blue Mountains Council, *Application Part B*, pp 91-95.

¹⁰ Blue Mountains Council, *Application Part B, Attachment 6b, Report on the Results of Blue Mountains Special Rates Variation Telephone Survey August 2014*, p 8. The survey was conducted by IRIS Research who selected a representative, random sample of households and administered the questionnaire to households that had read the *Resourcing our Future* brochure and were familiar with the special variation proposals.

¹¹ Blue Mountains Council, *Application Part B*, pp 79-80, *Attachment 5b*, p 5 and *Attachment 6a*, p 10.

Submissions

Most of the 4,312 respondents to the mail out simply indicated their preferred option, however, the council also received 576 written comments, expressing views for and against the special variation.

The key themes of those in favour included:

- ▼ the need to improve specific services and facilities, eg, roads, kerb and gutter, community services, footpaths, pedestrian access and green waste removal
- ▼ willingness to pay more to have improved services and facilities, and
- ▼ support paying more and would like the council to improve its efficiency and productivity.

The key themes of those not in support include:

- ▼ the need for the council to improve efficiency, by streamlining administration, reducing wastage, reducing debt and finding other sources of revenue
- ▼ affordability of the rate increases with rates already being higher than average, and
- ▼ the lack of, or misleading information provided in the consultation process.¹²

The council has considered its community's feedback. It submitted that it has developed a 'best value' service framework which aims for continuous improvements to service delivery and efficiency.¹³ It has resolved to further review its hardship measures to ensure it can provide adequate support to those facing financial difficulties.¹⁴

IPART received 135 submissions (including a petition with more than 3,500 signatures). The concerns expressed were similar to those in the council submissions. We note that Blue Mountains Council has considered its ratepayers' feedback and has applied for a special variation in light of its understanding of the community's priorities, and capacity and willingness to pay.

3.2 Reasonable impact on ratepayers

We consider that the impact of the special variation will be significant, as all rates in the LGA will increase on average by a cumulative 36% over four years.¹⁵

¹² Blue Mountains Council, *Application Part B*, pp 88, 92-94.

¹³ Blue Mountains Council, *Application Part B*, pp 119-120.

¹⁴ Blue Mountains Council, *Application Part B*, p 49.

¹⁵ The cumulative rate increase of 36% is lower than the 40% increase in general income because ratepayers are already paying the Environment Levy which is to be continued.

A comparison of the council's average rates with its OLG Group peers indicates:

- ▼ its residential rates are 23% higher than OLG Group 7 councils
- ▼ its business rates are 30% lower than OLG Group 7 councils
- ▼ its farmland rates are 21% lower than OLG Group 7 councils.¹⁶

However, we note that since 2003-04, the average annual growth in the council's residential ordinary and special rates was 4.5% (which is only 1.3% more than the increases due to the rate peg). The annual growth for business rates was 7.4% (4.2% above the rate peg increases) and 3.2% for farmland rates (the same as for rate peg increases) over the same period.

IPART's consideration of impact on ratepayers

In assessing the reasonableness of the impact of the special variation on ratepayers, we also compared the current rates and socio economic indicators in the LGA with surrounding councils as shown in Table 3.3.

We noted that the council's average residential rates and SEIFA ranking is similar to these councils. Its outstanding rates ratio of 4% is better than the surrounding councils. This ratio is also better than the OLG group and NSW average of 4.4% and 6% respectively.¹⁷

Taking all these factors into account, we consider that the impact of the increases is significant, but reasonable.

Table 3.3 Blue Mountains City Council - comparison of ordinary rates and socio-economic indicators with surrounding councils (2012-13)

Council	Average residential rate (\$) ^a	Average total income (excl govt pensions and allowances) (\$)	Outstanding rates and annual charges ratio (%)	SEIFA Index NSW Rank ^b
Blue Mountains	1,164	49,902	4.0	125
Camden	1,191	53,729	6.1	133
Hawkesbury	985	48,482	6.8	118
Wollondilly ^c	1,131	50,960	7.6	124

^a The average residential rate is calculated by dividing the notional general income for a category by the number of assessments in the category.

^b The highest possible ranking is 153 which denotes the council that is least disadvantaged in NSW.

^c Wollondilly has applied for a special variation in 2015-16.

Source: OLG, unpublished data; 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.

¹⁶ See Appendix C, Table C.2 (2012-13 data). However, three councils in Group 7 (Campbelltown City, Liverpool City and Wyong Shire) received approval for increases above the rate peg since 2012-13, which will have changed current relativities in the Group 7 averages.

¹⁷ See Appendix C, Table C.2.

The council's consideration of impact on ratepayers

The council considered the impact on ratepayers by comparing its rates with councils of similar geographic and socio-economic characteristics such as SEIFA rankings, household ownership and income and unemployment status.¹⁸

The council acknowledged that some ratepayers may have difficulty in paying the increased rates but submitted that it recently reformed its rating structure to minimise the rates burden and has a hardship policy that offers alternative payment arrangements, payment relief, referrals to advisory services and a pensioner rebate. It has also committed to reviewing its hardship policy to investigate further assistance it can give ratepayers facing payment difficulties.¹⁹

The council has concluded that overall, its ratepayers have the capacity to pay the proposed rate increases.²⁰

4 What does our decision mean for the council?

Our decision means that Blue Mountains Council may increase its general income over the four year special variation period from \$49.6 million in 2014-15 to \$67.4 million in 2018-19. 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 2018-19, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.²¹

¹⁸ Blue Mountains Council, *Application Part B*, pp 103-104 and *Attachment 13, Resourcing Strategy*, pp 53-64.

¹⁹ Blue Mountains Council, *Application Part B*, pp 17, 99-109 and *Attachment 7, Hardship Relief Policy*.

²⁰ Blue Mountains Council, *Application Part B*, p 17.

²¹ 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.

Table 4.1 Permissible general income of Blue Mountains Council from 2015-16 to 2018-19 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 ^a				47,984,567
2015-16	6.6	6.6	3,166,981	51,179,896 ^b
2016-17	9.6	16.83	4,913,270	56,093,166
2017-18	9.6	28.05	5,384,944	61,478,110
2018-19	9.6	40.34	5,901,899	67,380,009

^a Includes adjustment of -\$1,623,227 for a special variation that expires on 30 June 2015.

^b This includes a prior catch-up of \$28,348 that had not been recouped by the time the application was submitted to IPART and which is to be recouped in 2015-16.

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

The council estimates that over these four years, the additional rates revenue will accumulate to \$30.4 million above the rate peg.

This extra income is the amount the council requested to enable it to address its asset renewal and maintenance funding needs, improve capacity to respond to emergencies and continue protection and restoration of the environment. The extra income will also enhance its financial sustainability in the medium term.

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.

In its application, Blue Mountains Council indicated that it intended to increase rates over the four years uniformly for each category.

The council has calculated that compared to 2014-15:

- ▼ the average residential rate will increase by a cumulative 35.9%, or by about \$41 in the first year and \$456 over four years
- ▼ the average business rate will increase by a cumulative 35.9%, or by about \$98 in the first year and \$1,096 over four years
- ▼ the average farmland rate will increase by a cumulative 35.9%, or by about \$64 in the first year and \$719 over four years, and
- ▼ the minimum rates for the residential category will increase by a cumulative 35.8% or by about \$16 in the first year and \$186 over four years

- ▼ the minimum rates for business and farmland categories will increase by a cumulative 35.8% or by about \$30 in the first year and \$340 over four years.²²

Table 5.1 sets out Blue Mountains Council’s estimates of the expected increase in average rates in the residential and business ratepayer categories.

Table 5.1 Indicative annual increases in average rates under Blue Mountains’ approved special variation 2015-16 to 2018-19

Year	Residential			Business		
	Increase (%)	Increase (\$)	Rate (\$)	Increase (%)	Increase (\$)	Rate (\$)
2014-15			1,271			3,057
2015-16	6.6	41	1,311	6.6	98	3,155
2016-17	9.6	126	1,437	9.6	303	3,457
2017-18	9.6	138	1,575	9.6	332	3,789
2018-19	9.6	151	1,727	9.6	364	4,153
Cumulative	35.9	456		35.9	1,096	

Notes: The average rate is calculated by dividing the notional general income by the number of assessments for the year and includes the ordinary rate and any special rates applying to the rating category.

Figures may not add due to rounding.

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

The increases in average rates in 2015-16 are less than the rise in general income of 6.6% because the 2015-16 special variation includes continuing an existing variation of 7.15%, which is already being paid by ratepayers.

²² Blue Mountains Council, *Application Part A*, Worksheet 5a.



Appendices

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

Tables A.1 and A.2 show Blue Mountains 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 \$121.4 million, over 10 years to fund:

- ▼ operating expenditure of \$64.7 million, and
- ▼ capital expenditure \$56.8 million.²³

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.

²³ Blue Mountains Council, *Application Part A*, Worksheet 6, and IPART calculations.

Table A.1 Blue Mountains City 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	2,015	5,454	9,319	13,657	14,066	14,488	14,923	15,371	15,832	16,307	121,432
Funding for increased operating expenditures	1,767	3,500	4,630	5,954	6,456	7,107	7,817	8,475	9,281	9,664	64,651
Funding for capital expenditure	248	1,954	4,689	7,703	7,610	7,381	7,106	6,896	6,551	6,642	56,781
Total expenditure	2,015	5,454	9,319	13,657	14,066	14,488	14,923	15,371	15,832	16,307	121,432

Note: Numbers may not add due to rounding.

Source: Blue Mountains Council, *Application Part A*, Worksheet 6.

Table A.2 Blue Mountains City Council – Proposed 10-year capital expenditure program 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
Built Infrastructure											
Transport & Public Access	-	892	1,599	2,797	2337	3,220	2,705	2,981	3,224	3,184	22,939
Water Resource Management ^a	-	109	200	665	555	659	364	669	574	784	4,578
Town Centres	-	-	-	256	-	27	-	411	-	-	695
Other (eg, buildings, asset management)	-	100	500	720	625	380	-	650	-	-	2,975
Environment											
Natural Area Visitor Facilities	248	376	537	734	854	1,010	1,178	688	1,019	1,071	7,716
Emergency Preparedness & Response											
Emergency Management	-	150	159	169	179	189	201	213	226	239	1,724
Community & Recreation											
Community cultural programs & facilities	-	-	610	802	850	598	113	58	319	127	3,475
Sport recreation & aquatic facilities	-	327	1,084	1,561	2,211	1,297	2,546	1,226	1,189	1,238	12,679
Total Capital Expenditure	248	1,954	4,689	7,703	7,610	7,381	7,106	6,896	6,551	6,642	56,781

^a For example stormwater management infrastructure.

Note: Numbers may not add due to rounding.

Source: Blue Mountains Council, *Application Part A*, Worksheet 6.

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

As a condition of IPART's approval, Blue Mountains Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (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 Blue Mountains City Council, 2015-16 to 2024-25 (\$'000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Total revenue (including capital grants and contributions)	97,716	103,830	110,828	118,668	122,384	126,374	130,509	134,793	138,687	143,265
Total expenses	102,975	107,015	111,332	115,989	119,904	124,292	128,791	133,534	138,607	143,731
Operating result from continuing operations	-5,260	-3,185	-504	2,679	2,480	2,083	1,718	1,260	80	-465
Net operating result before capital grants and contributions	-6,012	-3,937	-1,256	1,927	1,728	1,331	966	508	-672	-1,217

Note: Numbers may not add due to rounding.

Source: Blue Mountains Council, *Application Part A*, Worksheet 7.

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 Blue Mountains Council have changed over the four years to 2012-13.

Table C.1 Trends in selected performance indicators for Blue Mountains City Council, 2009-10 to 2012-13

Performance indicator	2009-10	2010-11	2011-12	2012-13	Average annual change (%)
FTE staff (number)	478	490	494	528	3.4
Ratio of population to FTE	163	159	159	148	-3.0
Average cost per FTE (\$)	83,780	83,482	85,814	82,227	-0.6
Employee costs as % operating expenditure (General Fund only) (%)	46.8	42.3	38.3	44.4	na
Consultancy/contractor expenses (\$m)	1.1	0.8	1.0	0.9	-4.2
Consultancy/contractor expenses as % operating expenditure (%)	1.2	0.8	0.9	0.9	na

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.

General comparative indicators

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

As indicated in section 3, Blue Mountains Council is in OLG Group 7. Unless specified otherwise, the data refers to the 2012-13 financial year.

Table C.2 Select comparative indicators for Blue Mountains City Council, 2012-13

	Blue Mountains City Council	OLG Group 7 average	NSW average
General profile			
Area (km ²)	1,432		
Population	78,691		
General Fund operating expenditure (\$m)	97.7		
General Fund operating revenue per capita (\$)	1,166	883	2,026
Rates revenue as % General Fund income (%)	58.5	55.1	46.8
Own-source revenue ratio (%)	79.9	73.1	71.1
Average rate indicators^a			
Average rate – residential (\$)	1,164	943	712
Average rate – business (\$)	2,615	3,723	2,688
Average rate – farmland (\$)	2,000	2,543	2,194
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	49,902	50,628	49,070
Growth in average annual income, 2006-2011 (% pa)	3.9	4.1	5.2
Average residential rates 2012-13 to average annual income, 2011 (%)	2.3	1.9	1.5
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	125	na	na
Outstanding rates and annual charges ratio (General Fund only) (%)	4.0	4.4	6.0
Productivity (labour input) indicators^c			
FTE staff (number)	528	746	294
Ratio of population to FTE	148	226	127
Average cost per FTE (\$)	82,227	80,625	75,736
Employee costs as % operating expenditure (General Fund only) (%)	44.4	40.3	37.1
Consultancy/contractor expenses (\$m)	0.9	26.7	7.8
Consultancy/contractor expenses as % operating expenditure (%)	0.9	16.2	10.3

^a Average rates equal total ordinary and special 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.

