



Independent Pricing and Regulatory Tribunal

Camden Council's application for a special variation for 2013/14

**Local Government — Determination
June 2013**

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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.

However, councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines issued by the Division of Local Government (DLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Camden Council applied for a single special variation in 2013/14 of 4.5%, to remain in the rate base on a temporary basis for 6 years. After assessing the application, we decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

1.1 Our decision

We have determined that Camden Council may increase its general income by 4.5% in 2013/14. This includes a 1.1% increase which is a levy to fund the Community Infrastructure Renewal Program (CIRP), as well as the rate peg of 3.4% that is available to all councils. The increase above the rate peg can be retained in the council's general income base for 6 years.

We have attached conditions to this decision, including that the council uses the income raised from the special variation for the purposes set out in its application and that, on 1 July 2019, the council reduces its general income to what it would have been without the levy.

Table 1.1 sets out our decision and Box 1.1 lists the conditions attached to it.

¹ *Guidelines for the preparation of an application for a special variation to general income*, issued by Division of Local Government, Department of Premier and Cabinet, October 2012. The criteria in the Guidelines have been revised for 2013/14. Councils applying under section 508(2) no longer need to demonstrate adequate community consultation. Instead they need to demonstrate appropriate engagement methods have been used and the community has had opportunity for awareness and input. The council must also consider the community's capacity and willingness to pay. In addition, in assessing applications against the criteria we are now required to consider the size and resources of a council, the size of the rate increase, current and previous rate levels, and the purpose of the special variation.

Table 1.1 IPART’s decision on Camden Council’s application for a special variation in 2013/14 (%)

Component	Amount
Increase to fund the Community Infrastructure Renewal Program (CIRP)	1.1
Rate peg increase	3.4
Total increase	4.5

Box 1.1 Conditions attached to the approved special variation for Camden Council

IPART’s approval of Camden Council’s application for a special variation in 2013/14 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the works outlined in the council’s application, as listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2018/19 on:
 - the program of expenditure that was actually funded by the special variation, and the reasons for any significant differences from the program in Appendix A
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ On 1 July 2019, the council reduces its general income to what it would have been without the 1.1% (CIRP levy) temporary component of the special variation in 2013/14.
- ▼ The council reports to the DLG by 30 November each year on its compliance with these conditions.

We note the council will be reducing its general income for 2013/14 by \$1,307,510 (the value of the expiring special variation). This reduction shall take place before the council’s general income is increased in 2013/14 in accordance with IPART’s determination.

1.2 What did the council request and why?

Camden Council requested a special variation of 4.5% in 2013/14², comprising of 2 components:

- ▼ a 1.1% increase to be retained for 6 years, for renewing infrastructure including roads, bridges, kerb and gutter, footpaths, buildings, parks and reserves
- ▼ the rate peg of 3.4%.

² Camden Council, *Section 508(2) Special Variation Application - Part A* (Application Part A), Worksheet 1.

The council estimates that the 1.1% increase above the rate peg will generate around \$0.4m in additional revenue in 2013/14, and \$2.3m over 6 years. This increase will replace a larger existing levy that is due to end on 30 June 2013. The expiring levy was approved for 4.5% above the rate peg for the period 2010/11 to 2012/13 for similar purposes.³

The council has indicated that it will use the extra \$2.3m generated over 6 years to help fund its proposed \$6.0m program of renewal works. Under this program, \$3.2m will be spent on road reconstruction and resurfacing, \$0.4m on bridges, \$0.4m on kerb and gutter renewals and \$0.2m on footpaths. The remaining \$1.8m will be spent on buildings, parks and reserves.⁴ The council's full program of expenditure and its funding are set out in Appendix A.

1.3 How did we reach our decision?

We assessed Camden Council's application against the criteria in the Guidelines, under the transitional arrangements. These arrangements give us the discretion, for 2013/14, to award a single-year variation where we assess that the council has met the general principles of the criteria even though the evidence is not necessarily contained within its latest available Integrated Planning and Reporting (IP&R) documentation.⁵ We also considered a range of comparative data about the council, set out in Appendix B.

We found that the application met the criteria as they are to be applied under the transitional arrangements. In particular, the council:

1. Demonstrated a need for additional revenue to allow it to fund infrastructure renewal spending (the CIRP levy).
2. Provided evidence that the community is aware of the need for and the extent of the proposed rate rise, as well as evidence of broad support for the CIRP.
3. Showed that the impact on affected ratepayers is reasonable.
4. Made realistic assumptions concerning its projected service delivery and budget scenarios within its financial plan.
5. Reported productivity savings in past years, and plans to realise additional savings over the period of the proposed special variation.

³ Camden Application Part A, Worksheets 4 and 6. The council's 2011/12 Long Term Financial Plan (LTFP) foreshadowed that a special variation application would be made in 2013/14 and that it would include a CIRP levy of 4.5%. However, the council in its 2012/13 LTFP revised the earlier proposal and decided to apply for a special variation of 4.5%, including continuation of the levy at a rate of 1.1%. Sources: Camden Council, 2011/12 Long Term Financial Plan, pp 32-33, and Camden Council, Section 508(2) Special Variation Application - Part B (Camden Application Part B), Attachment 9.

⁴ Camden Application Part A, Worksheet 6.

⁵ These arrangements were included in the Guidelines because, in light of the 2012 local government elections and the requirement for councils to review their IP&R documents and update key plans and programs by 30 June 2013, it was recognised that the revised Guidelines and application timing may create a difficulty for councils who wish to apply but have not yet formally adopted their updated plans and programs.

While the council had not yet publicly exhibited and finalised its updated IP&R documents for 2013–2017, it provided us with the current Community Strategic Plan, Delivery Program, Operational Plan, proposed program of expenditure and Long Term Financial Plan (LTFP) budget scenarios in its application.⁶

Table 1.2 summarises our findings against each of the criteria.

Table 1.2 Summary of IPART’s assessment of the criteria in the Guidelines under the transitional arrangements

Criterion	IPART findings
1. Need for and purpose of special variation must be clearly identified. Evidence for this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives and the assessment of the council’s financial sustainability as conducted by the NSW Treasury Corporation (TCorp).	<p>The application identified the need for extra revenue to fund infrastructure renewals. This is consistent with community priorities outlined in the Community Strategic Plan, Delivery Program and Asset Management Strategy.⁷ In addition:</p> <ul style="list-style-type: none"> ▼ TCorp identified underspending on asset renewal and maintenance in its review of the council’s financial sustainability.⁸ ▼ The council is unable to fund the CIRP without the SV. Its LTFP shows increasing operating deficits (before capital) over the next 10 years.⁹ ▼ The council will use alternative funding sources to help fund the CIRP including internal reserves and additional debt.¹⁰
2. Evidence that the community is aware of the need for and extent of proposed rate rise must be provided. An appropriate variety of engagement methods must be used to ensure there is the opportunity for community awareness/ input, and alternatives to a rate rise should be canvassed. The impact of any rises on the community, and its capacity and willingness to higher pay rates must be considered.	<p>The council has generally made the community aware of the need through the media and public consultation.¹¹ It used a variety of community engagement methods, including a resident newsletter, online information, media advertising, a telephone survey and public information sessions.¹² It assessed willingness and capacity to pay through a phone survey of 400 people that showed 89% of respondents were at least ‘somewhat supportive’ of the 1.1% CIRP levy for 6 years.¹³</p>

⁶ Camden Application Part B, p 5. The updated Community Strategic Plan and Resource Plan, including the LTFP, will be publicly exhibited during April 2013. The Delivery Program and Operational Plan will be exhibited shortly after that.

⁷ Camden Application Part B, Attachment 3, *End of Term Report*, p 35; Attachment 4, *Camden 2040*, pp 5, 13; Attachment 5, *Delivery Program 2011/12-2014/15 and 2012/13 Operational Plan*, p 12; Attachment 6, *Asset Management Strategy*, pp 43-45; and Attachment 7, *AMP Roads and Transport*, p 6.

⁸ Camden Application Part B, p 13.

⁹ Camden Application Part B, Attachment 8, *Draft LTFP, No Increase Scenario*, p 1.

¹⁰ Camden Application Part B, p 10.

¹¹ Camden Application Part B, pp 16-20.

¹² Camden Application Part B, pp 16-17.

¹³ Camden Application Part B, Attachment 11, *Special Rate Variation - Telephone Survey prepared by Micromex Research*, February 2013, p 17.

Criterion	IPART findings
3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community's capacity to pay.	<p>The impact on ratepayers seems reasonable given that:</p> <ul style="list-style-type: none"> ▼ Ratepayers currently pay a 4.5% CIRP levy which will be replaced with a 1.1% levy.¹⁴ ▼ The proposed increases in average rates are modest (see section 1.5). ▼ The council has a relatively high SEIFA ranking and above average income levels.¹⁵ ▼ The council has a Financial Hardship Policy.¹⁶
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	<p>The assumptions for the Delivery Program related to the proposed level of service and asset backlogs are realistic.¹⁷ The LTFP uses realistic assumptions for the rate peg, growth in labour and other expenses and growth in rate assessments.¹⁸</p>
5. Productivity improvements and cost containment strategies the council has realised in past years must be explained, as well as its plans to realise savings over the proposed special variation period.	<p>The council has reported productivity savings estimated at \$1.9m per annum.¹⁹ It aims to continue to contain operating costs.²⁰</p>
6. Other relevant matters.	<p>The requested variation is small and is to continue an existing levy.</p>

¹⁴ Camden Application Part B, p 22.

¹⁵ Refer to Appendix B of this report.

¹⁶ Camden Application Part B, Attachment 17, *Hardship Provision for Outstanding Rates Policy*; Attachment 19, *Debt Recovery Policy for Rates and Debtors*; and Attachment 20, *Pensioners Policy – Pensioner Concessions and Recovery of Long-Term Overdue Rates and Charges*.

¹⁷ Camden Application Part B, Attachment 5, *Delivery Program 2011/12-2014/15 and 2012/13 Operational Plan*, pp 124-128, 130-134, 143-144, 152-155.

¹⁸ Camden Application Part B, Attachment 21, *Long Term Financial Plan Assumptions*.

¹⁹ IPART calculations and Camden Application Part B, pp 28-31.

²⁰ Camden Application Part B, p 31.

1.4 What does our decision mean for the council?

Our decision means that Camden Council may increase its general income by an estimated \$1.48m in 2013/14, including the rate peg.²¹

This increase will be incorporated into the council's revenue base for a fixed period of 6 years. On 1 July 2019, the council is to reduce its general income to the level it would have been without the CIRP levy. After 2018/19, general income will increase by the annual rate peg unless we approve further special variations.²²

Table 1.3 Impact of approved special variation on Camden Council's income in 2013/14

Adjusted notional general income 2012/13 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2013/14 (\$) ^a
32,894,138	4.5	1,480,237	34,373,090

^a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year's notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. In this case, a deduction of \$1,285 due to valuation objections was made to Permissible General Income for 2013/14.

Source: Camden Council, Application Part A, Worksheet 1 and Worksheet 4.

1.5 What does our decision mean for ratepayers?

If the council changes its rates as indicated in its application, average ordinary rates will increase in 2013/14 by 0.4% for residents, 1.9% for businesses and 1.4% for farmers.

Table 1.4 sets out the proposed impact of rate increases by ratepayer category.

Table 1.4 Impact of approved special variation on Camden Council's average rates in 2013/14

Category ^a	Average rate 2012/13 (\$)	Approved increase (\$)	Approved increase (%)	Average rate 2013/14 (\$)
Average residential rate	1,253	5	0.4	1,258
Average business rate	4,758	92	1.9	4,850
Average farmland rate	2,501	36	1.4	2,537

^a Average residential, business and farmland rates include all applicable ordinary and special rates.

Note: Average rates have been rounded to the nearest dollar.

Source: Camden Application Part A, Worksheet 5 and IPART calculations.

²¹ Camden Application Part A, Worksheet 4.

²² The actual general income in future years cannot be determined with precision, as it will be influenced by a range of factors apart from the rate peg. This may include the number of rateable properties and adjustments for previous under or over collection of rates. The DLG is responsible for monitoring and ensuring compliance.

The increases in average rates are less than the rise in general income because the 2013/14 special variation includes continuing an existing variation, which is already being paid by ratepayers. The 1.1% CIRP levy included in 2013/14 special variation replaces the much larger expiring 4.5% levy that ratepayers are currently paying. As a result of this replacement, the rate increases in 2013/14 are less than the rate peg.

The increases in average rates in Table 1.4 are based on the council's application. The actual impact on particular categories of rates is a matter for the council to decide, consistent with our determination.

A Camden Council's Program of Expenditure

Camden Council has estimated that the total cost of the program of works will be around \$6.0m over the next 6 years (Table A.1). It further estimates that there will be extra costs associated with general inflation. The council has allowed \$0.3m for indexation and another \$2.7m over the next 10 years for debt servicing. The total expenditure required will therefore be \$9.0m.

The 1.1% CIRP levy approved in this special variation is estimated to generate \$2.3m extra revenue over 6 years. To cover the \$6.7m gap, the council:²³

- ▼ has borrowed \$2m
- ▼ has applied for a subsidy from the State Government on interest due on the loan of \$0.4m under Local Infrastructure Renewal Scheme (LIRS)²⁴
- ▼ expects to earn \$0.1m on related investments
- ▼ will use council reserves of \$1.5m
- ▼ will use ordinary rate income from council of up to \$2.7m.

Table A.1 Camden Council's program of expenditure (\$m)

Category	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Road Reconstruction and Renewal	0.531	0.531	0.531	0.531	0.531	0.531	3.186
Parks and Reserves Renewal	0.218	0.218	0.218	0.218	0.218	0.218	1.308
Buildings and Surrounds Renewal	0.089	0.089	0.089	0.089	0.089	0.089	0.534
Bridge Renewal	0.072	0.072	0.072	0.072	0.072	0.072	0.432
Kerb and Gutter Renewal	0.061	0.061	0.061	0.061	0.061	0.061	0.366
Footpath Renewal	0.029	0.029	0.029	0.029	0.029	0.029	0.174
Total	1.000	1.000	1.000	1.000	1.000	1.000	6.000

Note: This table is in current dollars and does not include figures relating to program indexation.

Source: Camden Application Part A, Worksheet 6.

²³ Application Part A, Worksheet 6.

²⁴ LIRS refers to the NSW Government's Local Infrastructure Renewal Scheme which provides concessional interest rates on approved loan borrowings by council. Source: DLG web site http://www.dlg.nsw.gov.au/dlg/dlghome/dlg_generalindex.asp?sectionid=1&mi=6&ml=22&AreaIndex=LIRS.

B Comparative indicators

Table B.1 Select comparative indicators for Camden Council, 2011/12

	Camden Council	DLG Group 6 average ^a	NSW average
General profile indicators			
Area (km ²)	201	-	-
Population	58,376	-	-
General Fund expenditure from continuing operations (\$m)	64.5	56.2	56.6
General Fund operating revenue per capita (\$)	1,112	955	2,011
Rates revenue as % total General Fund revenue (%)	27.1	38.0	45.7
Average rate indicators^b			
Average rate – residential (\$)	1,151	1,054	685
Average rate – business (\$)	4,573	2,590	2,552
Average rate – farmland (\$)	2,899	2,480	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	50,234	48,004	44,140
Growth in average annual income, 2006-2010 (% pa)	3.3	3.2	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	2.3	2.2	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	133	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	6.2	7.1	7.0
Productivity indicators^d			
FTE staff (number)	301	254	293
Ratio of population to FTE	194	221	126
Average cost per FTE (\$)	84,216	82,076	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	39.3	36.8	36.8
Consultancy/contractor expenses (\$m)	0.8	2.3	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	1.2	3.4	9.3

^a DLG Group 6 is a category of Urban Small to Medium Fringe councils with a population of up to 70,000. This group comprises only 3 councils - Camden Council, Hawkesbury City Council and Wollondilly Shire Council.

^b Average rate levels equal the total rates revenue collected from a given rate category divided by the number of assessments in that category.

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

^d Based upon total council operations and finances ie, General Fund and if applicable, Water and Sewer, and other funds. There are difficulties in comparing councils using this data due to differences in the scope of councils' activities and measurement methods across councils.

Note: General Fund refers to all council activities except Water and Sewer and, in some cases, other activities.

Source: DLG, unpublished comparative data, 2011/12; ABS, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, Time Series, 2005-06 to 2009-10*, February 2013; and ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.

