



Independent Pricing and Regulatory Tribunal

# **Cobar Shire Council's application for a special variation for 2013/14**

**Local Government — Determination  
June 2013**

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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Mr Simon Draper, Part Time Member

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

Dennis Mahoney (02) 9290 8494

Adrienne Bailey (02) 9113 7754

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box Q290, QVB Post Office NSW 1230

Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

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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) (see Box 1.1), and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Cobar Shire Council applied for a special variation in 2013/14 of 25%. After assessing the council's application, we decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

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## Box 1.1 The Revised Guidelines for 2013/14

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Division of Local Government, Department of Premier and Cabinet.

Revised Guidelines were issued in October 2012. These Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The new Guidelines have a stronger emphasis on how councils have undertaken their Integrated Planning and Reporting (IP&R), where councils are expected to engage with the community about service levels and funding priorities in preparing their strategic planning documents. A major change in the Guidelines is that, for most criteria, evidence to support an application must be in the council's IP&R documents.

Another major change is that councils no longer need to demonstrate community support for the special variation. Instead, they must show that the community is aware of the need for, and extent, of the proposed rate rise, and that the council has considered the community's capacity and willingness to pay higher rates. 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, the purpose of the special variation and any other matter we consider relevant.

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## 1.1 Our decision

We determined that Cobar Shire Council may permanently increase its general income by 25% in 2013/14, including the rate peg of 3.4% that is available to all councils. We have attached conditions to the decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

Table 1.1 sets out our decision and Box 1.2 lists the conditions attached to it.

**Table 1.1 IPART's determination on Cobar Shire Council's application for a special variation in 2013/14**

| Adjusted notional general income 2012/13 (\$) | Annual increase in general income (%) | Annual increase in general income (\$) | Permissible general income 2013/14 (\$) <sup>a</sup> |
|---|---------------------------------------|--|--|
| 2,703,957                                     | 25.0                                  | 675,990                                | 3,380,287 <sup>b</sup>                               |

<sup>a</sup> 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).

<sup>b</sup> The council's proposed permissible general income in 2013/14 includes \$340 for a prior year catch up.

Source: Cobar Shire Council, *Application Part A*, Worksheets 1 and 4.

## Box 1.2 Conditions attached to the approved special variation for Cobar Shire Council

IPART's approval of Cobar Shire 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 improving its financial sustainability and, at the same time, funding expenditure on asset renewal, as outlined in the council's application, and set out in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 on:
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan 2012/13 – 2021/22, provided in the council's application, and summarised in Appendix B
  - any significant variations from its proposed expenditure as forecast in the Long Term Financial Plan 2012/13 – 2021/22 and any corrective action taken or to be taken to address any such variation
  - expenditure consistent with the council's application, and set out in Appendix A, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with any conditions.

## 1.2 What did the council request and why?

Cobar Shire Council requested a special variation of 25%, comprising:

- ▼ a 21.6% increase to improve the council's financial sustainability (while maintaining acceptable service levels) and for asset renewal
- ▼ the rate peg of 3.4%.

The council estimated that a 21.6% increase above the rate peg would generate \$584,055 in additional revenue in 2013/14. Over the 10 years, the additional revenue would total \$6.70m, or \$7.82m including rate peg increases.<sup>1</sup>

The council indicated that each year it would use the additional revenue from the special variation in 2 ways:

- ▼ maintaining current services (allocating \$300,000 in the first year, and later indexed by the rate peg, to help meet the shortfall in operating expenses and thereby reducing its operating deficit by this amount)
- ▼ applying the remainder to asset renewal, primarily for bitumen reseals and gravel resheeting on shire roads.<sup>2</sup>

The proposed expenditure is set out in Appendix A. The council's *Long Term Financial Plan 2012/13 – 2021/22* projects the annual operating revenues, expenses and balances if the 25% special variation is approved. These data are set out in Appendix B.

## 1.3 How did we reach our decision?

We assessed Cobar Shire Council's application against criteria included in the Guidelines. In making our assessment we also considered a range of comparative data about the council, set out in Appendix C.

An increase of 25% in one year is high, and the dollar impact on average rate levels will be around \$100 for residential, \$240 for business and \$300 for farmland assessments.

However, the council is facing severe financial challenges, in part because current rates are comparatively low, and we agree with the council's assessment that the community has the capacity to pay the requested increases.

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<sup>1</sup> Cobar Shire Council, *Section 508(2) Special Variation Application 2013/14 – Part A* (Cobar Application Part A), Worksheets 1 and 6.

<sup>2</sup> Cobar Application Part A Worksheet 6 and Cobar Shire Council, *Section 508(2) Special Variation Application 2013/14 – Part B* (Cobar Application Part B), p 10. The *2013 Transport – Asset Management Plan* (p 22) identifies these activities as priority areas. Allocating \$176,000 for gravel resheeting and \$200,000 for bitumen reseals each year would allow for completion of an extra 8km and 7km respectively, Cobar Application Part B, p 22.

We found that the council's application met the criteria. In particular, the council:

- ▼ has articulated the need for, and purpose of, the special variation in its Integrated Planning and Reporting (IP&R) documents, including the Long Term Financial Plan (LTFP) and asset management plans, and shown that the purpose is consistent with the community's priorities for maintaining service levels and improving infrastructure
- ▼ provided evidence that a variety of engagement methods were used so that the community is aware of the need for, and extent of, the rate rise
- ▼ analysed the impact on affected ratepayers, and concluded that the rate rises are reasonable and affordable, in light of current low rate levels and the community's capacity to pay.

Given the size and resources of the council, we consider that its application is thorough and well argued, and provides evidence that the community has been engaged and generally supports the requested special variation. The council is typical of many in remote NSW, with a very small rates base and a heavy reliance on external funding sources. The special variation represents a large percentage increase for ratepayers, but it will be an important element in improving the council's financial sustainability.

However, the special variation alone will not achieve a viable future. The council's LTFP forecasts ongoing operating deficits (in most years) if current service levels are maintained, and growing asset backlogs.<sup>3</sup> The council has committed to further pursue additional funding sources and contain costs. It is heavily dependent on grant funding and has a small rates base, and faces limited options to raise the additional revenue needed to deliver the scope and level of services its community requires and expects. There may well be a need in the future to review the services it provides, or seek IPART's approval for a further special variation.

Table 1.2 summarises our assessment against the criteria. The sections below discuss our findings on each criterion in more detail.

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<sup>3</sup> Cobar Shire Council, *Long Term Financial Plan 2012/13 – 2021/22*, February 2013, (V 2) pp 21-28.



**Table 1.2 IPART’s assessment against the criteria in the Guidelines**

| Criterion   | IPART findings  |
|---|---|
| <p>1. Need for and purpose of special variation must be clearly identified. Evidence could include community need/desire for service levels/project and limited council resourcing alternatives, and the council’s financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).</p>   | <p>The council’s IP&amp;R documents identify the need for, and purpose of, the special variation. It reflects community preferences for no reduction in service levels, will improve the operating result and fund asset renewal.</p> <p>To meet its financial challenges, the council has implemented an extensive range of initiatives to reduce costs and increase revenue, and will pursue further options. It faces limited alternative revenue options.</p> <p>TCorp considers that Cobar’s future financial sustainability requires an improved operating result and more capacity to fund asset renewal and capital expenditure.</p>  |
| <p>2. Evidence that community is aware of need for and extent of proposed rate rise must be provided. An appropriate variety of engagement methods should have been used to ensure opportunity for community awareness/ input, and alternatives to a rate rise should have been canvassed. The impact of the rise on the community, and the council’s consideration of community capacity and willingness to pay higher rates should be provided.</p> | <p>The Cobar community is aware of the need for a special variation and generally supports the requested increase.</p> <p>The council has extensively engaged with the community, seeking feedback on priorities, service levels, 2 options for a rate increase.</p> <p>Engagement methods included emailing and posting information sheets, coverage in print, radio and social media, stakeholder meetings, and information sessions where a survey could be completed.</p> <p>Most survey respondents supported a rate increase: 43% the 1-year 25% increase, and 24% 13% pa for 7 years.</p> <p>The council understands why some residents opposed a rate rise, but was able to answer their main contentions.</p>  |
| <p>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>   | <p>Increases will range from about 22% to 37%, depending on the sub-category, but only 3% or 17% for minimum rates.</p> <p>The council analysed the impact on the community and concluded the rate rises are reasonable and affordable. We do not disagree with their assessment.</p> <p>An increase of 25% is large (on average around \$100 for residential, \$240 for business and \$300 for farmland rates).</p> <p>Although the mining sector has the capacity to pay a greater proportion, the council does not consider this would be good management of risk.</p> <p>We are satisfied that the impact on ratepayers is reasonable given that:</p> <ul style="list-style-type: none"> <li>▼ rates are currently well below Group 10 averages, and will remain lower, even with a 25% increase</li> <li>▼ Cobar’s strong economy and comparative socio-economic measures</li> <li>▼ many low-income earners will have some protection, as they are tenants or pensioners, or on minimum rates, and a hardship policy is in place</li> <li>▼ the effective outstanding rates ratio is only 1.62%.</li> </ul> |

| Criterion  | IPART findings  |
|--|---|
| 4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.  | Assumptions in the council's IP&R documents appear reasonable.<br>Assumptions about future costs, revenue growth and use of debt appear realistic, and are consistent with TCorp's assessment |
| 5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period. | The council provided numerous examples of cost saving measures and strategies to improve productivity and generate income, and quantified the outcomes.                                       |
| 6. Other relevant matters.   | None.   |

### 1.3.1 Need for and purpose of the special variation

All the council's IP&R documents implemented by June 2012 identify the need for, and purpose of, the special variation.<sup>4</sup> The special variation reflects the community's strong preference for not reducing service and asset levels. Asset management planning during 2011/12 revealed a serious level of under investment in asset maintenance and renewal, particularly for the largest asset category of roads. As a result, the council identified a pressing need to improve its financial sustainability, while maintaining acceptable service levels, and starting to address the infrastructure backlog.

The *Delivery Program 2012/13 – 2015/16* specified that applying for a special variation would meet the Community Strategic Plan's objective of a well-funded council. Following council elections in September 2012, all IP&R documents were reviewed. Updated versions of the Community Strategic Plan, Delivery Program and Resource Strategy, (including the revised *Long Term Financial Plan 2012/13 – 2021/22* and the *2013 Transport – Asset Management Plan*) were adopted in February 2013. They all endorsed the previous approaches.

During 2011/12, Cobar Shire Council recognised that its financial position was unsustainable. In response to DLG concerns about the council's financial position, in May 2012, it adopted a Financial Sustainability Action Plan. Monthly progress reports must be considered by the council and passed on to DLG.

Although DLG discussed the urgency of applying for a special variation, the council initially pursued a range of alternative options. These include reducing employment costs, reducing asset maintenance levels, scrutinising costs across programs and projects, and deferring investment in plant and capital works. The council improved internal financial reporting systems and processes, reduced bad debts and instituted full recovery of costs internally. It investigated external management, lease or sale of the Lilliane Brady Village (LBV) aged care facility and sold surplus land assets. It also actively sought private contract works,

<sup>4</sup> See generally Cobar Application Part B, pp 7-12 and Attachments 2.1.8 – 2.1.11.

revised developer contribution plans and voluntary planning agreements, increased some fees and charges and pursued extra grant funding.<sup>5</sup>

These actions have already significantly reduced the operating deficit from \$1.5m in 2010/11 to around \$0.7m in 2011/12.<sup>6</sup> The council acknowledges that the special variation will not eliminate the deficit, and further initiatives will be necessary. These could include a review of service levels, and further rate increases through another special variation.

Each year, almost half of the additional revenue (\$300,000, in 2013/14 and then indexed at the rate peg) will be allocated against the annual shortfall in operating expenses. The remainder will increase funding of bitumen reseals and gravel resheeting, identified as priority areas in the 2013 Transport – Asset Management Plan.<sup>7</sup>

TCorp's recent analysis of the council found it to be in a weak financial position. TCorp concluded that its future financial position and sustainability will be under increasing pressure without an improvement in the operating result and an increased capacity to fund asset renewal and capital expenditure. TCorp acknowledged that the special variation will assist the council, but increasing own-source revenue will be difficult as the rates base is limited. The low liquidity ratios indicate that there is no capacity for further borrowings.<sup>8</sup>

### **1.3.2 Community engagement and awareness**

The council has provided evidence that it extensively engaged its community, and sought feedback on their priorities and desired levels of services, as well as their willingness to pay higher rates.<sup>9</sup>

In October 2012 the council adopted a Community Engagement Strategy to seek input on 2 possible options for a special variation, a 1-year 25% increase or 13% pa for 7 years. The strategy built on consultation with the community during 2011 and 2012 for the original IP&R documents, which also canvassed the need for a special variation. It was followed by public exhibition of the revised IP&R documents in early 2013.

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<sup>5</sup> Cobar Application Part B, pp 27-29 and Attachment 2.1.3, SRV Options Paper and Adopted Minute, Council meeting 4 October 2012. Details of cost savings and higher revenue from many of these initiatives are set out in section 1.3.5 and Appendix D.

<sup>6</sup> Cobar Application Part B, p 23. The 2011/12 figure has been adjusted to remove the impact of the early FAGS payment received from the Commonwealth Government.

<sup>7</sup> Cobar Application Part B, pp 20-22.

<sup>8</sup> NSW Treasury Corporation, *Cobar Shire Council, Financial Assessment, Sustainability and Benchmarking Report*, April 2012 (TCorp Report), pp 4 -5.

<sup>9</sup> See generally Cobar Application Part B, pp 32-38, and Attachments 4.1.1 to 4.2.3.

The council used a wide variety of methods to engage its community, including:

- ▼ 11 information sessions (323 attendees) including in all outlying villages
- ▼ 3 information sheets distributed through the website, by email, at community meetings and made available at council offices, and facilities such as libraries
- ▼ a flyer sent to all residents with a water rates notice
- ▼ meetings with mine managers and a briefing for the Murrin Bridge Land Council
- ▼ a survey distributed at information sessions and by email (118 responses).

The council publicised the special variation proposal in emails to its community and business databases, and provided information on its website and at council premises. Social media was used to promote interest in the debate. Staff were informed so they could answer questions and encourage the community to be involved. They were also available to discuss the proposal with ratepayers, even for one-on-one meetings. The proposal was widely reported in local papers and on radio, through advertisements, news stories, editorials and interviews.

Feedback from the community indicated that they:

- ▼ understood the need for a special variation, particularly if it would be used to improve the road network
- ▼ did not want any reduction in services provided by the council, especially when there was little scope for other organisations or governments to deliver them (eg, the residential aged care facility).

Of those completing the survey, 43% supported a 1-year 25% increase, with a further 24% opting for the much higher increase of 13% pa for 7 years.<sup>10</sup>

The council received only one written submission. This summarised the concerns of ratepayers in Euabalong, where residents generally opposed any rate increase. They were concerned that their increases would be greater than for farmland in other parts of the shire, that services and infrastructure were not provided to their area and they accessed services in Lachlan Shire, not Cobar, and that the road network was not adequately maintained.

The council's application demonstrated that it appreciates the basis of the area's opposition to a rate rise, but was able to answer their main contentions.<sup>11</sup> We consider that the council has addressed these concerns.

IPART did not receive any submissions from Cobar ratepayers about the application.

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<sup>10</sup> See Cobar Application Part B, Attachment 4.2.3 Summary of Survey Results.

<sup>11</sup> Cobar Application Part B, pp 44-46.

### 1.3.3 Impact on ratepayers

The increase in most rate categories in 2013/14 will be about 25%. The increase in 2 categories is higher because of a policy to make rates more equitable, and the impact on minimum rates will be lower.<sup>12</sup>

The increase in rate revenue in 2013/14 will be \$676,000, including the rate peg. The mining sector will be responsible for approximately \$290,000, with the remaining \$386,000 to be paid by the community as a whole.<sup>13</sup> Historically, rates have not always reflected rate peg increases. Currently rates in all categories are well below Group 10 averages, and will remain so, even after the 25% increase.<sup>14</sup>

The council considers that the community wants to retain current service levels and is willing to pay higher rates, and that the increases are affordable. It systematically reviewed the potential impact of the increase on ratepayers, particularly rural landholders in the Euabalong area where the increase was strongly opposed.<sup>15</sup> The council reached the following conclusions:

- ▼ Current rates are comparatively low, in part because the rate peg has not always been fully applied (for example, to protect drought-hit farmers).
- ▼ The mining sector currently has the capacity to pay higher rates, and does not want to see any reduction in services provided by the council. However, for many reasons, it would not be good management of risk to expect miners to pay a greater proportion, as was originally intended. The sector is already responsible for 43% of rate revenue (40% from leases and 3% from houses and business premises) and in the past has borne a bigger share of increases because of the drought and the impact of mine revaluations.
- ▼ Cobar's strong economy and comparative socio-economic measures (including its high SEIFA scores, employment rate, average incomes and housing affordability) indicate that generally, the community can afford to pay the increase in rates.
- ▼ Rate rises are unlikely to impact on the many residents who are tenants (40% of Cobar's housing stock is rented, mostly from public sector agencies and the mines).
- ▼ Some residents have low incomes (eg, 26% earn less than \$600 pw), but many of these would be protected as they are either tenants in public housing or of the local land council, pay only the minimum rate, or are eligible for pensioner concessions. As well, a hardship policy is in place.

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<sup>12</sup> The actual increases for each category are set out in Tables 1.3 and 1.4 in section 1.5.

<sup>13</sup> Mining assessments account for 39.5% of rate revenue, with a further 3.3% paid by mining companies for residential and business properties: Cobar Application Part B, pp 14 and 42.

<sup>14</sup> Since 1999/00 the average business rate has increased only 20%, and the average farmland rate has fallen 14%: DLG, unpublished comparative data, 2011/12 and IPART calculations, and see Cobar Application Part B, pp 16-17 and 46.

<sup>15</sup> See generally Cobar Application Part B, pp 14, 16-17 and 39-57.

- ▼ The outstanding rates ratio of 9.5% in 2011/12 appears high, but this will fall to a 'legitimate and collectable' 1.62% as a result of sales of land for unpaid rates and actions to deal with small parcels of land with unknown owners.<sup>16</sup>

We do not disagree with the council's analysis. As the driver of the strong economy, the mining sector provides the basis for a more positive outlook for the area, and a more sustainable future for the council to increase its rates base because of associated economic development.

### **1.3.4 Assumptions in Delivery Program and Long Term Financial Plan**

The assumptions in the council's IP&R documents appear reasonable. The Delivery Program reflects the community's priorities for maintaining the current level of services, and increasing funding to address its growing asset backlog.

The most recent LTFP models the impact of the requested variation on the council's operating result. It is based on a comprehensive examination of the council's circumstances and incorporates the ongoing cost saving and revenue raising measures implemented recently.

Key assumptions in the LTFP are for unchanged interest rates, costs to increase at inflation, wages to grow at 3.5% and a future rate peg of 3%. It adopts conservative assumptions about growth in revenue from the rate base and sources such as grants and fees and charges. It does not plan to increase debt, which is consistent with TCorp's assessment that its poor liquidity position precludes further borrowings.<sup>17</sup>

### **1.3.5 Productivity improvements and cost containment strategies**

The council has been able to reduce its operating deficit since 2011. The application provides numerous examples of cost saving measures and strategies adopted to improve productivity and generate income, quantifying the improvements to its operating result. These are itemised in Appendix D.

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<sup>16</sup> See Cobar Application Part B, p 56. The effective amount outstanding is about \$44,000, representing 35 assessments.

<sup>17</sup> TCorp Report, pp 4 and 23.

Key initiatives include:

- ▼ reviewing every budget item, cutting activities, withdrawing from services, renegotiating leases, reducing staff numbers (natural attrition)
- ▼ introducing better financial reporting systems to monitor and review expenditure
- ▼ actively seeking private contract works (eg, road maintenance) and replacing contractors with council staff where this is more cost-effective (eg, airport services, cleaning, weeds maintenance)
- ▼ improving staff productivity by extra training eg, in financial reporting and road maintenance, and purchasing equipment that is more efficient and makes better use of staff time (eg, telemetry systems, water pumps on trucks, upgrading the IT system)
- ▼ implementing widespread changes to road maintenance processes, procedures, procurement, scheduling and equipment use, to improve staff productivity and standards.

#### **1.4 What does our decision mean for the council?**

Our decision means that in 2013/14 Cobar Shire Council can increase its general income by \$675,990 to \$3,380,287 (see Table 1.1). The increase will be permanently incorporated into the council's revenue base. Over 10 years, the council estimates that as a result of the special variation, it will receive around \$7.82m in additional revenue, including the rate peg).<sup>18</sup>

After 2013/14, the council's general income will increase by the annual rate peg unless we approve further special variations.<sup>19</sup>

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<sup>18</sup> Cobar Application Part A, Worksheet 6.

<sup>19</sup> 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, including the number of rateable properties and adjustments for previous under or over collection of rates. The DLG is responsible for monitoring and ensuring compliance.

## 1.5 What does our decision mean for ratepayers

Consistent with the approach we use for other councils, we have calculated the impact of the requested special variation (including the rate peg) on the 'average' rates in 2012/13. We found that an increase of 25% would mean that in 2013/14:

- ▼ the average residential rate would increase by \$99 to \$527
- ▼ the average business rate would increase by \$243 to \$1,027
- ▼ the average farmland rate would increase by \$302 to \$1,513.<sup>20</sup>

The council has 3 different residential and business rates, one farmland rate and 2 mining rates. It has minimum rates in most subcategories. For ad valorem ratepayers, the council proposes to increase rates by around 25%, although slightly higher increases will apply in 2 instances where it is seeking to improve equity between categories. To assist ratepayers with less capacity to pay, residential minimum rates will increase by 17%, and all other minimum rates by only 3%.

Table 1.3 sets out the proposed impact of the special variation on average rates (including minimum rate assessments) in all ratepayer categories, based on the council's application. Table 1.4 sets out the proposed impact on the minimum rate the council sets for most residential and business subcategories.

The actual impact on particular categories of rates is a matter for the council to decide, consistent with our determination.

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<sup>20</sup> Cobar Application Part A, Worksheets 2 and 3, and IPART calculations. The average rate is the total rates revenue collected from a given rate category (eg, ordinary residential) divided by the number of assessments in that category.



**Table 1.3 Cobar Shire Council – proposed impact of special variation in 2013/14 on all categories of ratepayers (including minimum rate assessments)**

|                             | Number of assessments<br>2012/13 | Average rate<br>2012/13<br>(\$) <sup>a</sup> | Increase<br>(%) | Increase<br>(\$) | Average rate<br>2013/14<br>(\$) |
|-----------------------------|----------------------------------|--|-----------------|------------------|---------------------------------|
| <b>Residential Cobar</b>    | 1691                             | 455  | 22.40           | 102              | 557                             |
| <b>Residential Rural</b>    | 86                               | 586  | 30.71           | 180              | 765                             |
| <b>Residential Villages</b> | 274                              | 211  | 24.48           | 52               | 263                             |
| <b>Business Cobar</b>       | 206                              | 673  | 37.02           | 249              | 922                             |
| <b>Business Cobar CBD</b>   | 86                               | 1,339  | 24.43           | 327              | 1,666                           |
| <b>Business Villages</b>    | 51                               | 302  | 24.75           | 75               | 376                             |
| <b>Farmland</b>             | 400                              | 1,210  | 24.98           | 302              | 1,513                           |
| <b>Mining Gold</b>          | 20                               | 19,132                                       | 25.51           | 4,881            | 24,013                          |
| <b>Mining Other</b>         | 7                                | 98,577                                       | 24.97           | 24,614           | 123,191                         |

<sup>a</sup> 2012/13 is included for comparative purposes.

Source: Cobar Application Part A, Worksheets 3 and 5.

**Table 1.4 Cobar Shire Council – proposed impact of special variation in 2013/14 on minimum rates**

| Category                    | Number of assessments<br>2012/13 | Percentage of category | Minimum rate<br>2012/13<br>(\$) | Minimum rate<br>2013/14<br>(\$) | Increase<br>(%) | Number of assessments<br>2013/14 |
|-----------------------------|----------------------------------|------------------------|---------------------------------|---------------------------------|-----------------|----------------------------------|
| <b>Residential Ordinary</b> | 694                              | 41                     | 402                             | 470                             | 17              | 447                              |
| <b>Residential Rural</b>    | 22                               | 25                     | 402                             | 470                             | 17              | 20                               |
| <b>Business Ordinary</b>    | 113                              | 56                     | 480                             | 495                             | 3               | 68                               |
| <b>Business CBD</b>         | 18                               | 21                     | 480                             | 495                             | 3               | 13                               |
| <b>Mining Gold</b>          | 4                                | 25                     | 485                             | 500                             | 3               | 5                                |
| <b>Mining Other</b>         | 4                                | 40                     | 485                             | 500                             | 3               | 2                                |

Source: Cobar Application Part B, pp 48-49.

## A Cobar Shire Council – Proposed expenditure of revenue from the special variation

The council has indicated that each it intends to spend almost all of the additional revenue from the special variation, including the rate peg percentage, to improve its financial sustainability and invest in asset renewal.

Approximately \$300,000 (increasing each year by the rate peg percentage) will be used to maintain current services, allocated to help meet the shortfall in operating expenses.

The remainder of the additional revenue each year will be applied to asset renewal: in Year 1 \$200,000 for bitumen reseals and \$176,000 for gravel resheeting. Renewal and upgrade works will be undertaken based on a risk assessment in accordance with the *2013 – Transport Asset Management Plan*.

**Table A.1 Cobar Shire Council’s program of expenditure 2013/14 to 2022/23 (\$)**

| Year         | Maintenance of current services <sup>a</sup> | Asset renewal <sup>b</sup> | TOTAL            |
|--------------|--|----------------------------|------------------|
| 2013/14      | 300,000                                      | 375,990                    | <b>675,990</b>   |
| 2014/15      | 309,000                                      | 387,270                    | <b>696,270</b>   |
| 2015/16      | 318,270                                      | 398,888                    | <b>717,158</b>   |
| 2016/17      | 327,818                                      | 410,854                    | <b>738,673</b>   |
| 2017/18      | 337,652                                      | 423,180                    | <b>760,833</b>   |
| 2018/19      | 347,782                                      | 435,875                    | <b>783,658</b>   |
| 2019/20      | 358,216                                      | 448,952                    | <b>807,167</b>   |
| 2020/21      | 368,962                                      | 462,420                    | <b>831,382</b>   |
| 2021/22      | 380,031                                      | 476,293                    | <b>856,324</b>   |
| 2022/23      | 391,432                                      | 490,582                    | <b>882,014</b>   |
| <b>Total</b> | <b>3,439,164</b>                             | <b>4,310,304</b>           | <b>7,749,468</b> |

<sup>a</sup> The council intends to allocate these amounts against the shortfall in operating expenses.

<sup>b</sup> The council intends to apply these amounts to renewal of road infrastructure.

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

**Source:** Cobar Application Part A, Worksheet 6 and IPART calculations.

## **B Cobar Shire Council – Projected revenue, expenses and operating result with special variation**

Table B.1 is an extract from Cobar Shire Council's, *Long Term Financial Plan 2012/13 – 2021/22* (28 February 2013) showing the council's projected revenue, expenditure and operating result (including capital), assuming that the council's requested special variation is approved in full.

**Table B.1 Scenario 2: 25% SV, Summary of projected operating statement, Cobar Shire Council, 2013/14 to 2021/22 (\$000)**

|  | 2012/13       | 2013/14     | 2014/15    | 2015/16    | 2016/17     | 2017/18     | 2018/19     | 2019/20     | 2020/21     | 2021/22     |
|--|---------------|-------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total revenue                                      | 27,369        | 30,007      | 31,237     | 32,228     | 33,245      | 34,289      | 35,356      | 36,468      | 37,623      | 38,817      |
| Total expenses                                     | 28,891        | 30,180      | 31,063     | 32,119     | 33,442      | 34,441      | 35,581      | 36,677      | 37,893      | 39,111      |
| <b>Operating result from continuing operations</b> | <b>-1,522</b> | <b>-174</b> | <b>174</b> | <b>109</b> | <b>-197</b> | <b>-152</b> | <b>-225</b> | <b>-210</b> | <b>-270</b> | <b>-294</b> |

**Note:** The operating result includes income from capital grants, contributions and asset sales. Excluding these, the council's operating result will typically be lower. Our analysis in the report excludes capital income and asset sales.

**Source:** Cobar Shire Council, *Long Term Financial Plan 2012/13 – 2021/22*, 28 February 2013 (V 2), p 22.

## C Comparative indicators

**Table C.1 Select comparative indicators for Cobar Shire Council, 2011/12**

|  | Cobar Shire Council | DLG Group 10 average <sup>a</sup> | NSW average |
|--|---------------------|-----------------------------------|-------------|
| <b>General profile indicators</b>  |                     |                                   |             |
| Area (km <sup>2</sup> )  | 45,609              | -                                 | -           |
| Population   | 4,710               | -                                 | -           |
| General Fund expenditure-continuing operations (\$m)                             | 21.6                | -                                 | -           |
| General Fund operating revenue per capita (\$)                                   | 4,433               | 2,580                             | 2,011       |
| Rates revenue as % total General Fund revenue (%)                                | 12.0                | 24.6                              | 45.7        |
| <b>Average rate indicators<sup>b</sup></b>                                       |                     |                                   |             |
| Average rate – residential (\$)  | 433                 | 492                               | 685         |
| Average rate – business (\$)   | 784                 | 1,077                             | 2,552       |
| Average rate – farmland (\$)   | 1,291               | 2,192                             | 2,123       |
| <b>Socio-economic/capacity to pay indicators<sup>c</sup></b>                     |                     |                                   |             |
| Average annual income for individuals, 2010 (\$)                                 | 48,351              | 35,157                            | 44,140      |
| Growth in average annual income, 2006-2010 (% pa)                                | 3.4                 | 2.6                               | 3.0         |
| Ratio of average residential rates 2011/12, to average annual income, 2010 (%)   | 0.9                 | 1.4                               | 1.6         |
| SEIFA, 2011 (NSW rank; 153 least disadvantaged)                                  | 60                  |                                   |             |
| Outstanding rates and annual charges ratio (incl water and sewerage charges) (%) | 9.5                 | 9.2                               | 7.0         |
| <b>Productivity indicators<sup>d</sup></b>                                       |                     |                                   |             |
| FTE staff (number)   | 152                 | 105                               | 293         |
| Ratio of population to FTE   | 31                  | 70                                | 126         |
| Average cost per FTE (\$)  | 67,625              | 65,736                            | 74,438      |
| Employee costs as % ordinary expenditure – (General Fund only) (%)               | 41.9                | 35.5                              | 36.8        |
| Consultancy/contractor expenses (\$m)  | -                   | 1.6                               | 6.9         |
| Consultancy/contractor expenses as % ordinary expenditure (%)                    | -                   | 7.4                               | 9.3         |

<sup>a</sup> DLG Group 10 are Rural Large Agricultural councils (population 5,001-10,000), or Remote councils (population 3,001-20,000). This group comprises 26 councils including Bland, Junee, Lachlan, Narromine, and Walgett Shire Councils.

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

<sup>c</sup> Average annual income includes income from all sources excluding government pensions and allowances.

<sup>d</sup> Based upon total council operations and finances ie, General Fund and if applicable, Water and Sewer, and other funds (eg, Airport). 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; Cobar Shire Council, Correspondence with IPART dated 29 May 2013; 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.

## D Cobar Shire Council – initiatives to reduce costs, increase revenue and improve productivity

**Table D.1 Initiatives taken recently by Cobar Shire Council to reduce costs, increase revenue and improve productivity**

| Activity  | Saving (\$) | Timeframe              |
|---|-------------|------------------------|
| <b>Cost saving measures</b>   |             |                        |
| Review of printer lease, more cost-effective use                                    | 30,000      | 2011/2012 and ongoing  |
| Travel and conferences reduced (councillors, staff)                                 | 10,000      | 2011/2012 and 2012/13  |
| Withdrawal from Country Mayors Association  | 2,500       | 2012/2013 and ongoing  |
| Withdrawal from Centrelink contract   | 5,000       | 2012/2013 and ongoing  |
| Reduced community donations   | 2,000       | 2012/2013              |
| Rent subsidy cut for Primary Health Care Centre                                     | 5,000       | 2012/2013 and ongoing  |
| General Managers Review Committee savings   | 2,000       | 2012/2013 and ongoing  |
| <b>Income generating measures</b>   |             |                        |
| Increasing plant hire rates to 100% cost recovery                                   | 500,000     | 2012/2013 and ongoing  |
| Increased on-cost recovery for labour costs   | 300,000     | 2012/2013 and ongoing  |
| Improved funding for RMS Motor Registry service                                     | 40,000      | 2012/2013 and ongoing  |
| Voluntary Planning Agreement with Hera mine   | 70,000      | 2013/2014 for 10 years |
| Higher swimming pool fees (33% pa for 3 years)                                      | 20,000      | 2012/2013 and ongoing  |
| Increasing Crown Reserves land licence fees   | 2,000       | 2012/2013 and ongoing  |
| Debtor Reduction – sale of land to Peak Gold Mine                                   | 120,000     | 2012/2013              |
| House and land sales – 2 residential blocks   | 190,000     | 2012/2013              |
| Introduction of corporate overhead cost collection by general fund from other funds | 243,000     | 2012/2013 and ongoing  |
| More private works and profit from major projects                                   | 80,000      | 2012/2013              |
| Cobar Infrastructure Contributions Plan   | 150,000     | 2013/2014 and ongoing  |
| <b>Productivity improvement measures</b>  |             |                        |
| 8 FTE outdoor staff reduction (natural attrition)                                   | 400,000     | 2011/2012 and ongoing  |
| Removal of 2 staff positions  | 60,000      | 2012/2013 and ongoing  |
| Implementation of IT Strategy   | 60,000      | 2012/2013 and ongoing  |
| New pumps for faster filling of water tankers                                       | 80,000      | 2012/2013 and ongoing  |
| Increased daily use from GPS tracking of plant                                      | 150,000     | 2012/2013 and ongoing  |
| Reduced travel for road crews   | 40,000      | 2012/2013 and ongoing  |
| Telemetry system for water and sewer monitoring                                     | 16,000      | 2012/2013 and ongoing  |
| Automating aeration for sewerage treatment  | 16,000      | 2012/2013 and ongoing  |
| Energy efficiency measures at swimming pool   | 12,000      | 2013/2014 and ongoing  |
| Irrigation solenoids to reduce evaporation  | 7,500       | 2012/2013 and ongoing  |
| Water and Sewer Developer Servicing Plan  | 2,000       | 2012/2013 and ongoing  |
| Review of on-call arrangements  | 30,000      | 2013/2014 and ongoing  |

Source: Cobar Application Part B, pp 64-68.