



Independent Pricing and Regulatory Tribunal

Coffs Harbour City Council's application for a special variation for 2014/15

under section 508(2) of *Local Government Act 1993*

Local Government — Determination
June 2014

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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.

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 set by the Office of Local Government (OLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Coffs Harbour City Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases over 3 years of 7.90% (2014/15), 8.14% (2015/16) and 7.75% (2016/17), a cumulative increase of 25.73%, and to permanently incorporate this increase into its general income base.² After assessing its application, we decided to approve a one year permanent increase of 7.90% in 2014/15. We made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2014/15

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 Office of Local Government

The 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 Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) 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. As a result, for most criteria, 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 Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective February 2014 the Division of Local Government became the Office of Local Government.

² Coffs Harbour City Council, *Special Variation Application 2014/15 – Part A* (Coffs Harbour City Council Application Part A), Worksheet 1.

Our decision enables the council to partly increase its infrastructure maintenance and renewal expenditure in line with its Integrated Planning and Reporting (IP&R) documents and the proposed special variation, which it adopted after extensive community consultation.

1.1 Our decision

We determined that Coffs Harbour City Council may increase its general income by 7.9% in 2014/15, including the rate peg of 2.3% that is available to all councils (see Table 1.1). The increase can be retained in the council's general income base permanently.

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.

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

Table 1.1 IPART's decision on Coffs Harbour City Council's application for a special variation in 2014/15

Component	%
Increase (to fund asset maintenance, rehabilitation and renewal programs)	5.6
Rate peg	2.3
Total increase	7.9

Source: Coffs Harbour City Council, *Special Variation Application 2014/15 – Part A, Worksheets 1.*

In making this decision, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application (see Appendix A), and will need to prioritise planned expenditure in future years.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of a permanent, one year special variation for Coffs Harbour City Council is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of rehabilitation, maintenance and renewal of infrastructure as outlined in the council's application and listed in Appendix A.
 - ▼ The council reports in its annual report for each year from 2014/15 to 2023/24 on:
 - expenditure consistent with the council's application and listed 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 Office of Local Government by 30 November each year on its compliance with these conditions.
-

2 What did the council request and why?

Coffs Harbour City Council applied to increase its general income by a cumulative 25.73% over the 3-year period from 2014/15 to 2016/17, and to permanently incorporate this increase into its general income base.³

Table 2.1 Coffs Harbour City Council's application for a special variation for 2014/15 to 2016/17

Year	Increase applied for (%)	Cumulative increase applied for (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				36,070,064
2014/15	7.90	7.90	2,869,200 ^a	38,939,264
2015/16	8.14	16.68	3,169,656	42,108,920
2016/17	7.75	25.73	3,263,441	45,372,362

^a Including adjustments of \$19,665.

Source: Coffs Harbour City Council, *Special Variation Application 2014/15 – Part A*, Worksheets 1 and 6.

The council estimated that if its requested special variation was approved, its adjusted notional general income would increase from \$36.1m in 2013/14 to \$45.4m in 2016/17. This would generate additional revenue of \$18.2m over 3 years, or \$12.3m above the rate peg increase.⁴

³ Coffs Harbour City Council, Application Part A, Worksheet 1.

⁴ Coffs Harbour City Council, Application Part A, Worksheet 1; IPART calculations.

During the 3-year special variation period, the council planned to spend \$12.3m on asset maintenance, rehabilitation and renewal programs, funded by the special variation.⁵

More detail on the council's proposed program of capital expenditure to 2016/17 is provided in Appendix A.

3 How did we reach our decision?

We assessed Coffs Harbour City Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as a range of comparative data about the council (set out in Appendix B).

Coffs Harbour City Council has applied on the basis of its adopted IP&R documents, in particular *its Delivery Program, Long Term Financial Plan (LTFP) and Asset Management Plan (AMP)*.

The rate increases for which the council has applied are significant over 3 years. We carefully considered, among other things, the council's need for the increase, its consideration of the community's priorities, capacity and willingness to pay, and the impact of the rate increase on ratepayers.

We found that the application met most but not all of the criteria. In particular, we found:

1. The need for the proposed revenue is demonstrated in the council's IP&R documents, and reflects community priorities.
2. The council provided evidence that the community is aware of the need for a rate rise, it had considered the community's capacity and willingness to pay the proposed rate rises. However, the evidence indicates that the extent of the rate rise in percentage terms was communicated ambiguously, and that the community could possibly have interpreted that the council sought rate increases of 5% per annum over the 3-year period from 2014/15 to 2016/17. Overall, we consider the council did not satisfactorily meet the requirements of this criterion.
3. The impact of the proposed rate rises on ratepayers is significant though reasonable given the purpose of the special variation and that the council has taken account of ratepayers' willingness and capacity to pay.
4. The council made realistic assumptions concerning its projected service delivery and budget.

⁵ Coffs Harbour City Council Application Part A, Worksheet 6.

5. The council reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

Table 3.1 Summary of IPART’s assessment against criteria in the Guidelines

Criterion	IPART findings
<p>1. Need for and purpose of the special variation must be clearly articulated in the council’s IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include scenarios both with and without the special variation.</p>	<p>IP&R documents identified the need for additional revenue to maintain current infrastructure, consistent with community priorities outlined in the Delivery Program and Asset Management Strategy.^a</p> <ul style="list-style-type: none"> ▼ The LTFP base case indicates an operating deficit exceeding 15% over the next 10 years - well below the benchmark operating deficit of 4%.^b ▼ TCorp’s most recent financial sustainability outlook for council is ‘negative’, with underinvestment on asset renewal highlighted.^c
<p>2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, the impact of any rises on the community, and the council’s consideration of community capacity and willingness to pay higher rates. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.</p>	<p>The council has engaged the community through a variety of methods, including a letter to all residential ratepayers, media advertising, public information sessions and online self-selected and invitation-only surveys.^d</p> <p>The extent of the rate rise was ambiguous and not clearly communicated to the community (refer section 3.1 below). A proposal for a 5% increase on the total rate bill (including general, sewer and water rates) was headlined instead of the 8% (general fund) increase applied for by council^e. The cumulative dollar impact for residential ratepayers was communicated broadly and correctly. However, the annual dollar impact was presented only twice plus on the council website.</p>
<p>3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the proposed purpose of the variation. The council’s IP&R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.</p>	<p>Council concluded that the rise was affordable based on:</p> <ul style="list-style-type: none"> ▼ Council’s 2011/12 average residential rate being 13% lower than the comparable council reference group average.^f ▼ Vulnerable socio-economic groups, including pensioners, are covered under council’s hardship policy.^g <p>A mid-range SEIFA ranking (70 out of 153) considered alongside the current relative rate level suggests capacity to pay, however this is counteracted by average annual income being 15% lower than peer average.^h</p>

Criterion	IPART findings
	Community feedback to consultation includes: <ul style="list-style-type: none"> ▼ 47 written submissions to council, of which 42 opposed the application. IPART has received 36 submissions. Objections mostly addressed affordability, and council financial management and governance concerns. ▼ The results of open public online survey were against the special variation proposal.ⁱ
4. Delivery Program and LTFP must show evidence of realistic assumptions.	The assumptions for income and expenditure growth in the LTFP are reasonable, including allowances for property growth in rates revenue. The sustainable budget model appropriately reflects the special variation and projected additional cost saving initiatives. ^j
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.	Council's past savings projects include the introduction of a VOIP phone system (2008/09) resulting in savings estimated at over \$150,000 per annum. Future improvements are centred on implementation of opportunities to be identified by the Transformation to Sustainability program. Forecast savings associated with this project are \$1.3m in 2014/15. ^k
6. IPART's assessment of the size and resources of the council, the size of the increase, current rate levels and previous increases, the purpose of the special variation and other relevant matters.	Coffs Harbour LGA has been declared a natural disaster area on four occasions since February 2009. As identified by TCorp, this has increased the cost of maintaining the road network to community standards, which has resulted in other capital projects being delayed. ^l

^a Coffs Harbour City Council, Special Variation Application 2014/15 – Part B, (Coffs Harbour City Council Application Part B), Attachments 1-5, Delivery Program 2013-2017; and Attachments 8-10, Buildings, Recreational and Transport Asset Management Plan.

^b Coffs Harbour City Council Application Part B, Attachment 25, *LTFP, Baseline and Sustainable Models*.

^c Coffs Harbour City Council Application Part B, Attachment 13, *TCorp Financial Assessment and Benchmarking Report*, p 16. Infrastructure Backlog ratio is 5.6% (2012/13) against a benchmark of < 2.0%. Building and Infrastructure Renewal Ratio is 21.4% (2012/13) against a benchmark of >100%. IPART calculations.

^d Coffs Harbour City Council Application Part B pp 24–26; and Attachments 17–22, *Community Engagement*.

^e Coffs Harbour City Council Application Part B, Attachments 19–22.

^f Coffs Harbour City Council Application Part B, p 43.

Coffs Harbour residential rates are \$804 (2011/12) compared to reference group average of \$911.

^g Coffs Harbour City Council Application Part B pp 42–43; Council's hardship policy includes forgiving rates, fees and interest accrued and considering alternative payment arrangements.

^h OLG, Unpublished data, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013; Coffs Harbour average total income is \$36,684 pa compared to the OLG Group 5 average of \$42,258.

ⁱ Coffs Harbour City Council Application Part B, pp 31–32.

Note: A reference panel survey was also conducted and 28% were strongly against the proposal to increase rates versus 17% who strongly supported the proposal.

^j Coffs Harbour City Council Application Part B, Attachment 25.

^k Coffs Harbour City Council Application Part B, pp 10, 47–49.

^l Coffs Harbour City Council Application Part B, Attachment 13, *TCorp Report Financial Assessment and Benchmarking Report*, p 4.

The sections below discuss our findings for some criteria in further detail.

3.1 Awareness of Extent of Proposed Rate Rises

We consider the council has not made the community completely aware of the impact on rates of the special variation and hence we have determined a permanent special variation for one year. The community was made aware of the proposed rate rise through a letter to all residential ratepayers, media advertising, public information sessions and online surveys. However, the awareness campaign did not clearly communicate the extent of the rate rise in percentage terms; with written material headlining a 5% per annum rise in total water, sewerage and general fund rates over 3 years. This understated the impact on general fund ratepayers (approximately 8% pa), as special variation does not apply to water and sewerage rates.

The actual residential rates increase proposed by council, and the cumulative 25.73% increase, were referred to in a supporting table that contained information on both the ordinary residential rate and other charges, including water and sewer charges. However, it did not provide comparable information for business and farmland ratepayers.

We consider the presentation of the special variation to the community by the council did not clearly communicate the full impact on residential rate increases in percentage terms. It is possible that the community is not properly aware of the extent of the proposed rate rises.⁶

In approving the increase applied for by the council for 2014/15 we have looked at other aspects of the council's consultation with the community around awareness of the extent of the rate rise, including the presentation of dollar impacts and supporting tables.

4 What does our decision mean for the council?

Our decision means that Coffs Harbour City Council may increase its general income by an estimated \$2.87m, including a catch-up adjustment in 2014/15 as indicated by Table 4.1. This will be permanently incorporated into the council's revenue base. After 2014/15, general income will increase by the annual rate peg unless we approve further special variations.⁷

⁶ IPART, *Fact Sheet – Community awareness and engagement for special variation applications*, October 2013.

⁷ 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 DLG is responsible for monitoring and ensuring compliance.

Table 4.1 Impact of approved special variation on Coffs Harbour City Council income in 2014/15

Notional general income 2013/14 (\$)	Adjustment: expiring special variation	Increase in general income (%)	Adjustments: Catch-ups, valuations ^a	Annual increase in general income (\$)	Permissible general income 2014/15 (\$)
36,070,064	-	7.9	19,665	2,849,535	38,939,264

^a For Coffs Harbour City Council, these are a prior catch-up of \$19,665.

Source: Coffs Harbour City Council Application Part A, Worksheet 4.

5 What does our decision mean for ratepayers?

We set 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 ratepayers, consistent with our determination.

If the council changes its rates as indicated in its application, average ordinary rates, including the environmental levy, would increase in 2014/15 (including the rate peg) as follows:

- ▼ average residential rates will increase by 7.9% or \$76
- ▼ average business rates will increase by 7.9% or \$328
- ▼ average farmland rates will increase by 7.9% or \$139.⁸

Table 5.1 Indicative rate increases under the approved special variation

Category ^a	Average rate 2013/14 (\$)	Approved increase (\$)	Approved increase (%)	Average rate 2014/15 (\$)
Average residential rate	969	76	7.9	1045
Average business rate	4100	328	8.0	4428
Average farmland rate	1770	139	7.9	1909

^a Average rates include all applicable ordinary and special rates rounded to the nearest dollar.

Source: Coffs Harbour City Council Application Part A, Worksheet 5a and IPART calculations.

⁸ Coffs Harbour City Council Application Part A, Worksheet 5a, and IPART calculations.



Appendices

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

Tables A.1 and A.2 show Coffs Harbour City Council's proposed expenditure of the special variation funds over the next 10 years.

The council proposed to use the additional special variation revenue of \$55.7m over 10 years) to fund:

- ▼ \$11.6m of maintenance operating expenditure (Table A.1), and
- ▼ \$44.1m of capital expenditure (Table A.2).

In partially approving Coffs Harbour City Council's application, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application (see Appendix A), and will need to re-prioritise planned expenditure in future years.

The council will indicate in its Annual Reports how its actual expenditure compares to its proposed program of expenditure.

Table A.1 Income and proposed expenditure related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Special variation income above rate peg, comprising:	2,020	2,081	2,143	2,207	2,274	2,342	2,412	2,484	2,559	2,636
Funding for increased operating expenditures, asset management and maintenance	410	422	435	448	461	475	490	504	519	535
Funding for capital expenditure	1,610	1,658	1,708	1,759	1,812	1,866	1,922	1,980	2,039	3,171

Notes: This table does not include figures related to program indexation after 2016/17.

This table varies from what was submitted by council in Worksheet 6 due to our decision to partially approve the special variation.

Source: Coffs Harbour City Council Application Part A, Worksheet 6.

Table A.2 Proposed capital program related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Additional Road Rehabilitation Program	680	1,342	2,005	2,005	2,005	2,005	2,005	2,005	2,005	2,005
Other Transport Assets Renewal Program	190	390	600	600	600	600	600	600	600	600
Buildings Renewal Program	480	980	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Recreation Services Asset Renewal Program	260	520	800	800	800	800	800	800	800	800
Total Proposed Special Variation Capital Program	1,610	3,232	4,905	4,905	4,905	4,905	4,905	4,905	4,905	4,905

Notes: This table does not include figures related to program indexation after 2016/17.

In making this decision, we recognise that the council will not be able to undertake the full allocation of expenditure on the purposes set out in its application (see Appendix A), and will need to re-prioritise planned expenditure in future years.

Source: Coffs Harbour City Council Application Part A, Worksheet 6.

B Comparative 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.

In Table B.1 we show how selected indicators for Coffs Harbour City Council have changed over the 3 years to 2011/12.

Table B.1 Trends in selected indicators for Coffs Harbour City Council 2009/10 to 2011/12

	2009/10	2010/11	2011/12
Productivity (labour input) indicators^a			
FTE staff (number)	524	515	509
Ratio of population to FTE	137	139	139
Average cost per FTE (\$)	\$65,397	\$65,612	\$72,083
Employee costs as % operating expenditure (General Fund only) (%)	27.9	30.7	32.5
Consultancy/contractor expenses (\$m)	20.6	23.0	26.0
Consultancy/contractor expenses as % operating expenditure (%)	16.8	16.9	18.7

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

Consultancy/contractor expenses increased from \$20.6m in 2009/10 to \$26.0m in 2011/12. This was driven by an increase in garbage and recycling contracts and a rise in temporary staff.

In Table B.2 we compare the latest selected published data on Coffs Harbour City Council with the average of the councils in the OLG Group and with NSW councils as a whole.

Table B.2 Select comparative indicators for Coffs Harbour City Council 2011/12

	Council	OLG Group 5 average ^a	NSW average
General profile			
Area (km ²)	1175		
Population	70,933		
General Fund operating expenditure (\$m)	91.1		
General Fund operating revenue per capita (\$)	1,078	1,177	2,011
Rates revenue as % General Fund income (%)	48.8	48.4	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	804	911	685
Average rate – business (\$)	3,587	4,330	2,552
Average rate – farmland (\$)	1,459	1,724	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	36,684	42,432	44,140
Growth in average annual income, 2006-2010 (% pa)	3.7	3.5	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	2.2	2.2	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	70		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	5.3	5.4	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	509	695	293
Ratio of population to FTE	139	169	126
Average cost per FTE (\$)	72,083	79,825	74,438
Employee costs as % operating expenditure (General Fund only) (%)	32.5	34.5	36.8
Consultancy/contractor expenses (\$m)	26.0	21.3	6.9
Consultancy/contractor expenses as % operating expenditure (%)	18.7	11.7	9.3

^a OLG Group 5 is classified Urban large/very large regional town/city with a population greater than 70,000. The group comprises 6 councils including: Lake Macquarie City Council, Newcastle City Council and Tweed Shire Council.

^b Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

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

^d Based upon total council operations. 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, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013, ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.