



Independent Pricing and Regulatory Tribunal

Coffs Harbour City 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).

Coffs Harbour City Council applied for a special variation in 2013/14 of 5.43% to remain in the rates base for 10 years. 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.

1.1 Our decision

We determined that Coffs Harbour City Council may increase its general income by 5.43% in 2013/14, including the rate peg of 3.40% that is available to all councils. The increase above the rate peg can be retained in the council's general income base for 10 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.

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 Coffs Harbour City Council’s application for a special variation in 2013/14 (%)

Component	Amount
Increase to fund capital works in the City Centre Masterplan (10 years)	2.03
Rate peg increase	3.40
Total increase	5.43

Box 1.1 Conditions attached to the approved special variation for Coffs Harbour City Council

IPART’s approval of Coffs Harbour City 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, and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 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 2023, the council reduces its general income to what it would have been without the special variation.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions.

We note that the council will be reducing its general income for the 2013/14 year by \$668,900 (the value of the expiring special variation). This reduction shall take place before the council’s general income is increased in rating year 2013/14 in accordance with IPART’s determination.

1.2 What did the council request and why?

Coffs Harbour City Council requested a special variation of 5.43%, comprising:

- ▼ a 2.03% increase to fund city centre capital works, including improved city streetscapes and upgrades to car parking, pedestrian and traffic flows
- ▼ the 3.40% rate peg increase available to all councils.²

The special variation was requested to continue a special rate levied on businesses in the city business district (CBD special rate) which has funded revitalisation works in the city centre over the last 12 years.

² Coffs Harbour City Council, *Section 508(2) Special Variation Application 2013/14 - Part A* (Coffs Harbour Application Part A), Worksheet 1.

The proposal to continue the CBD special rate was first initiated by Coffs Harbour business community representatives in 2011, with the aim to fund further improvements to the city centre. The council endorsed the initiative and applied in 2012 for a special variation to continue the CBD special rate for a further 10 years.³

At the time of the council's application in 2012, it had not developed a detailed Masterplan for the city centre. Therefore, we allowed the council to continue the special rate for one year only, during which time it would develop a Masterplan for the proposed works and re-apply in 2013.⁴

The council now has a City Centre Masterplan that has been endorsed by the Coffs Harbour CBD business community.⁵ It has applied to us to continue the CBD special rate for a further 10 years until June 2023. The special rate will partly fund the capital projects identified in the Masterplan.⁶

The council estimated that its requested 2.03% increase above the rate peg would generate \$691,640 in additional revenue in 2013/14, and \$7.9m over 10 years.⁷ This special variation replaces, from 1 July 2013, the special variation that was approved for one year in 2012.

The council indicated that its proposed program of CBD works (including debt-servicing) would cost around \$12m over the 10 years to 2022/23.⁸ It would use the additional revenue from the special variation to fund part of the Masterplan projects and would borrow about \$4m from council reserves to fund the balance.⁹

The council's proposed program of capital expenditure is set out in Appendix A.

³ Coffs Harbour City Council, *Section 508(2) Special Variation Application 2013/14 – Part B* (Coffs Harbour Application Part B), p 9.

⁴ IPART, *Coffs Harbour City Council's application for a special variation 2012/13*, pp 3-4.

⁵ A CBD Masterplan Committee of 4 CBD property owners, 1 community representative and 1 business owner was established in June 2012. The council states that this committee will continue to play an important communication role between the council and the community in the development and implementation of the City Centre Masterplan.

⁶ The Masterplan includes projects to be funded by the special variation and additional projects (estimated to cost more than \$18.6m) to be funded from other sources.

⁷ Coffs Harbour Application Part A, Worksheets 1 and 6.

⁸ Coffs Harbour Application Part A, Worksheet 6.

⁹ Coffs Harbour Application Part B, p 14. These reserve funds include monies currently held in the council's Employee Leave Entitlement (ELE) Reserve. The amount borrowed will be repaid with interest over 10 years.

1.3 How did we reach our decision?

We assessed Coffs Harbour City Council's application against the criteria in the Guidelines, taking into account the transitional arrangements for 2013/14. These arrangements give us the discretion, for the 2013/14 rating year, 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.¹⁰ We also considered a range of comparative data about the council, set out in Appendix B.

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

1. Demonstrated a need for the proposed revenue path to partly fund the city centre projects identified in the Masterplan. Without the special variation the projects could not be funded without increased operating deficits.¹¹
2. Provided evidence of community awareness on both the extent of the rate rises and the proposed works for the city centre. Its extensive engagement with CBD ratepayers indicated that specific community's willingness to pay.
3. Showed that it considers the increases to be affordable. The year-on-year increase in CBD business rates would reflect the rate peg only because the special rate has been applied since 2000.
4. Made realistic assumptions concerning its projected service delivery and budget scenarios for its general fund which are consistent with the assumptions underpinning its City Centre Masterplan.
5. Appears to have achieved significant cost savings in past years of around \$3m and ongoing efficiencies of over \$130,000 pa. Additional savings are planned, based on improvements identified in a recent service review.

The council's IP&R documents, currently being reviewed, include modelling for the proposed city centre special variation and associated works, including additional operating expenditure for maintenance and depreciation of the new capital projects in the 10-year Masterplan.¹²

Table 1.2 summarises our findings against each of the criteria.

¹⁰ 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.

¹¹ The council is undertaking a review of its financial position in the context of updating its IP&R documentation: Coffs Harbour Application Part B, p 33.

¹² Coffs Harbour Application Part B, p 33.

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 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>The council identified the need for, and purpose of, the special variation in that:</p> <ul style="list-style-type: none"> ▼ The City Centre Masterplan is detailed and specific. It is broadly consistent with the vision in the application and the Community Strategic Plan objectives.¹³ ▼ The special variation will partly fund the Masterplan.¹⁴ ▼ Forecast operating deficits rule out funding city centre works without the special variation.¹⁵ ▼ TCorp assessed that the council’s General Fund is likely to be financially unsustainable in the long term.¹⁶
2. Evidence the 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>The council consulted extensively with CBD ratepayers over 2 years by:</p> <ul style="list-style-type: none"> ▼ establishing a special rate steering committee ▼ conducting a survey of business ratepayers¹⁷ ▼ mailing information to CBD business owners and seeking feedback¹⁸ ▼ establishing a CBD Masterplan Committee ▼ publicly exhibiting the draft Masterplan, Delivery Program and Operational Plan ▼ holding community forums and facilitating community workshops to inform stakeholders and seek feedback ▼ providing information to local media. <p>The council considered alternative revenue sources but considered it has clear direction from its community.¹⁹</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>The impact on ratepayers is reasonable because:</p> <ul style="list-style-type: none"> ▼ Only the 323 CBD business ratepayers are affected by the proposed special variation. ▼ If the special variation was not approved, average CBD rates would fall by about \$1,909 or 26.9%.²⁰ ▼ Average residential, farmland and general business rates will rise in line with the rate peg.²¹ ▼ The council assessed the increases as affordable as its average general business rates are lower than the DLG Group 5 average.

¹³ Coffs Harbour Application Part B, p 23.

¹⁴ Coffs Harbour Application Supporting Documents, Attachment 5, *City Centre Masterplan*. Additional city centre projects in the Masterplan will be separately funded.

¹⁵ Coffs Harbour Supporting Documents, Attachment 15, *Baseline Income Statement* and Attachment 16, *Baseline Balance Sheet*. We note that deficits increase under both scenarios, but there is a marginal improvement with the special variation.

¹⁶ Coffs Harbour Supporting Documents, *NSW Treasury Corporation Report*, October 2012, p 4.

¹⁷ Coffs Harbour Supporting Documents, Attachment 9, *Telephone Survey January 2011*, p 21.

¹⁸ Coffs Harbour Supporting Documents, Attachment 8, *First Mail out CBD Ratepayers* and Attachment 13, *Letters of Support*.

¹⁹ Coffs Harbour Application Part B, pp 13-14 and 21, 24.

²⁰ Coffs Harbour Application Part B, pp 26-27.

²¹ Coffs Harbour Application Part A, Worksheet 5.

Criterion	IPART findings
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	The council's assumptions on proposed levels of service and asset backlogs in the Delivery Program are realistic, as are its LTFP assumptions on the rate peg and the growth in labour and non-labour costs. Cost estimates for the City Centre Masterplan are based on industry benchmarks and the expertise of committee members. The assumptions in the Masterplan are consistent with the council's LTFP. ²²
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 reports savings of over \$3m in the last 3-4 years and ongoing efficiencies of over \$130,000 pa. Its recent service review identified opportunities for further improvements. ²³
6. Other relevant matters.	None.

1.4 What does our decision mean for the council?

Our decision means that Coffs Harbour City Council may increase its general income by \$1.9m in 2013/14, as per Table 1.3. Beyond 2013/14, general income will increase by the rate peg, unless we approve further special variations.²⁴

Table 1.3 Impact of approved special variation on Coffs Harbour City 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
34,148,658	5.43	1,859,249	36,007,907

^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. For Coffs Harbour City Council, this includes the rate peg increase of \$1.16m, a catch up amount of \$6,555 and the additional special variation increase of \$691,640.

Source: Coffs Harbour Application Part A, Worksheet 1.

²² Email from Coffs Harbour City Council, dated 19 March 2013.

²³ Coffs Harbour Application Part B, pp 34-36.

²⁴ The actual general income in future years will be influenced by a range of factors apart from the rate peg, including the number of rateable properties, adjustments for previous under-collection or over-collection of rates and the expiry of any temporary special variations. The DLG is responsible for monitoring and ensuring compliance.

1.5 What does our decision mean for ratepayers?

If the council increases its rates as indicated in its application, average rates across all categories will increase by the rate peg rise of 3.4% in 2013/14.

This is less than the increase in general income of 5.43% because the special variation allows the council to continue the special rate levied on businesses in the city business district that was due to expire on 30 June 2013. If the special variation had not been approved, average CBD business rates would have decreased by approximately \$1,909 or 26.9%.²⁵

Table 1.4 sets out the increases in average rates in each category, based on the council's application.²⁶ The actual impact on rates of the special variation is a matter for the council to decide, consistent with our determination.

Table 1.4 Coffs Harbour City Council – average rates in 2013/14, by ratepayer category

	2012/13 ^a	2013/14
Average residential rates^b(\$)	901	932
\$ Increase		31
% Increase		3.4
Average business rates^b (\$)	3,209	3,318
\$ Increase		110
% Increase		3.4
Average CBD business rates^b (\$)	7,085	7,324
\$ Increase		239
% Increase		3.4
Average farmland rates^b (\$)	1,660	1,717
\$ Increase		57
% Increase		3.4

^a 2012/13 is included for comparative purposes.

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

Note: Some numbers may not add due to rounding.

Source: Coffs Harbour Application Part A, Worksheet 5, and Part B, p 26.

²⁵ Coffs Harbour Application Part B, pp 26-27.

²⁶ Coffs Harbour Application Part A, Worksheet 5, and IPART calculations.

A Coffs Harbour City Council's Program of Expenditure

The following table summarises the council's proposed program of expenditure consistent with the City Centre Masterplan. The program of works may need to be re-scheduled and re-prioritised as the program proceeds. The council will report against expenditure on the program in its Annual Report.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	10 years
New projects/services											
City Square Amphitheatre	250,000	-	-	-	-	-	-	-	-	-	250,000
Duke Street Road Extension Works	300,000	-	-	-	-	-	-	-	-	-	300,000
Shade Sails for Vernon Street	0	150,000	-	-	-	-	-	-	-	-	150,000
West High Street Sail	0	150,000	-	-	-	-	-	-	-	-	150,000
Harbour Drive Street Sail	0	150,000	-	-	-	-	-	-	-	-	150,000
Moonee Street Sail	0	150,000	-	-	-	-	-	-	-	-	150,000
Moonee Street Entry Statement	0	30,000	-	-	-	-	-	-	-	-	30,000
Sunday Activation Equipment	50,000	-	-	-	-	-	-	-	-	-	50,000
Christmas Activation Equipment	100,000	-	-	-	-	-	-	-	-	-	100,000
Contingency	200,000	100,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	390,000
Borrowing costs											
Debt servicing costs (Principal and Interest)	180,000	240,000	461,126	574,567	615,128	597,236	638,477	621,286	663,253	1,018,366	5,609,439
Sum of total spending	3,290,000	1,613,450	1,303,130	710,231	754,561	740,552	785,793	772,721	818,931	1,178,414	11,967,783

Source: Coffs Harbour Application Part A, Worksheet 6.

B Comparative indicators

Table B.1 Select comparative indicators for Coffs Harbour City Council, 2011/12

	Coffs Harbour City Council	DLG Group 5 average ^a	NSW average
General profile indicators			
Area (km ²)	1175	-	-
Population	70,933	-	-
General Fund expenditure from continuing operations (\$m)	91.1	-	-
General Fund operating revenue per capita (\$)	1,078	1,231	2,011
Rates revenue as % total General Fund revenue	48.8	49.1	45.7
Average rate indicators^b			
Average rate – residential (\$)	804	919	685
Average rate – business (\$)	3,590	4,530	2,552
Average rate – farmland (\$)	1,463	1,662	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	36,684	42,258	44,140
Growth in average annual income, 2006-2010 (% pa)	3.7	3.4	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	2.2	2.2	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	70	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	5.3	5.4	7.0
Productivity indicators^d			
FTE staff (number)	509	795	293
Ratio of population to FTE	139	164	126
Average cost per FTE (\$)	72,083	81,124	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	32.5	34.9	36.8
Consultancy/contractor expenses (\$m)	26.0	25.6	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	18.7	13.2	9.3

^a DLG Group 5 is a category of Urban Large to Very Large Regional Town/City councils with a population greater than 70,000. This group comprises 8 councils including Lake Macquarie, Newcastle, Shoalhaven, Tweed and Wollongong.

^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 (eg, airport). Coffs Harbour has water and sewerage operations. There are difficulties in comparing councils using this data due to differences in the scope of councils' 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.

