



Independent Pricing and Regulatory Tribunal

# **Corowa Shire 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),<sup>1</sup> and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Corowa Shire Council applied for a special variation in 2013/14 of 7.0%. 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 Corowa Shire Council may increase its general income by 7.0% in 2013/14, including the rate peg of 3.4% that is available to all councils. This income may be retained permanently in its income base.

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.

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<sup>1</sup> *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 Corowa Shire Council’s application for a special variation in 2013/14 (%)**

Component	%
Financial sustainability	3.6
Rate peg	3.4
<b>Total increase</b>	<b>7.0</b>

**Box 1.1 Conditions attached to the approved special variation for Corowa Shire Council**

IPART’s approval of Corowa 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 purpose of improving financial sustainability as outlined in the council’s application.
- ▼ The council reports in its annual report for each rating year over the period 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 (2012-2022), provided in the council’s application and summarised in Appendix A
  - any significant variations from its financial results as forecast in its Long Term Financial Plan (2012-2022), as provided with the council’s application and summarised in Appendix A, and any corrective action taken or to be taken to address any such variation
  - the outcomes achieved as a result of the special variation.

The council reports to the Division of Local Government, Department of Premier and Cabinet, by 30 November each year on its compliance with these conditions for each rating year over the period from 2013/14 to 2022/23.

**1.2 What did the council request and why?**

Corowa Shire Council requested a special variation of 7.0%, comprising:

- ▼ 3.6% to improve financial sustainability,
- ▼ the rate peg of 3.4%.<sup>2</sup>

The council estimated that a 3.6% increase above the rate peg would generate around \$149,000 in additional revenue in 2013/14, and around \$1,737,000 over 10 years.<sup>3</sup>

<sup>2</sup> Corowa Shire Council, *Section 508(2) Special Variation Application 2013/14 – Part A* (Corowa Application Part A), Worksheet 1.

<sup>3</sup> Corowa Application Part A, Worksheet 6.

The council's *Long Term Financial Plan 2012-2022* projects the annual operating revenues, expenses and balances if the special variation is approved. These data are set out in Appendix A.

The council has applied for 7.0% for 2013/14 as an interim measure. The council's application indicated that the special variation is part of a broader series of measures it intends to take to improve its financial sustainability, in line with the current Integrated Planning and Reporting (IP&R) documents.<sup>4</sup> The additional revenue will assist the council in addressing the infrastructure backlog and generally maintain service level standards by accounting for rising costs, while starting to reduce the operating deficits.<sup>5</sup> No specific program of works is attached to the additional revenue.

### 1.3 How did we reach our decision?

We assessed Corowa Shire Council's application against the criteria in the Guidelines, under the transitional arrangements. 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 the latest available Integrated Planning and Reporting (IP&R) documentation.<sup>6</sup> We also considered a range of comparative data, set out in Appendix B.

We found that the application met the criteria under the transitional arrangements. In particular:

- ▼ The council has adequately identified the need for the special variation to improve its financial sustainability in the face of rising costs and a growing asset backlog. Income from the special variation will help reduce the council's operating deficit which is estimated to be around \$2.0m (7.0% of operating revenue) in 2012/13.<sup>7</sup>
- ▼ The impact on ratepayers appears to be reasonable given the Shire's relatively low rates, the modest size of the proposed increase and the council's assessment of ratepayers' capacity to pay.

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<sup>4</sup> The council's current IP&R documents (adopted in June 2012) include a proposed section 508A special variation of 7.0% per year for 5 years, commencing in 2013/14. The task of revising the IP&R documents, including consultation on the proposed special variation, will not be completed until June 2013. Source: Corowa Shire Council, *Section 508(2) Special Variation Application 2013/14 – Part B*, March 2013 (Corowa Application Part B), p 6.

<sup>5</sup> Corowa Application Part B, p 8.

<sup>6</sup> 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.

<sup>7</sup> Corowa Application Part B, *Supporting Documents – Long Term Financial Plan Tables*, p 2.

Table 1.2 summarises our findings against each of the criteria, and discussion about some of the criteria follows.

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

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 need for and purpose of the special variation are consistent with community priorities. The current Long Term Financial Plan (LTFP) projects rising operating deficits without additional rate revenue.<sup>8</sup> Alternative sources of revenue are limited.<sup>9</sup></p> <p>TCorp’s assessment noted that the council may not be financially sustainable without sourcing additional revenue, finding further efficiencies or reviewing service levels. It noted insufficient asset renewals expenditure and a likely increase in backlogs.<sup>10</sup></p>
<p>2. Evidence that 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>	<p>The council adequately demonstrated that the community was made aware of both the need for and extent of the proposed rate rise, particularly by reports in local newspapers in December 2012.<sup>11</sup></p> <p>The council extensively engaged the community in developing the current IP&amp;R documents before June 2012.</p>
<p>3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, the 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>Despite Corowa residents having a high proportion of retirees and a low median income, the impact of the special variation appears to be reasonable given that:</p> <ul style="list-style-type: none"> <li>▼ the rate base is very small, and average rates are well below Group and NSW averages</li> <li>▼ proposed increases in average rates are modest</li> <li>▼ the council is concerned about affordability and rising living costs, but considers there is capacity for households to pay given the low rate base, small increase and mid-range SEIFA scores</li> <li>▼ the council has a financial hardship policy.<sup>12</sup></li> </ul>

<sup>8</sup> Corowa Application Part B, *Supporting Documents – Long Term Financial Plan Tables*, p 2.

<sup>9</sup> Corowa Application Part B, p 11.

<sup>10</sup> Corowa Application Part B, pp 8-10.

<sup>11</sup> Corowa Application Part B, *Supporting Documents – Media*, pp 1-13.

<sup>12</sup> Corowa Application Part B, pp 22-23.

Criterion	IPART findings
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	<ul style="list-style-type: none"> <li>▼ Most cost assumptions in the current LTFP appear to be realistically based, relying on existing service levels and historical data and trends.</li> <li>▼ Revenue projections rely on realistic assumptions about growth in other-source revenue, but factor in a further special variation over the next 4 years.<sup>13</sup></li> <li>▼ The current Delivery Program's assumptions to constrain asset expansion and service levels appear realistic.<sup>14</sup></li> <li>▼ The council has reviewed its capital projects and prioritised key expenditures in the current Delivery Program.<sup>15</sup></li> </ul>
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.	<p>The council has not provided specific details of or quantified productivity improvements and cost containment strategies. However it notes that:</p> <ul style="list-style-type: none"> <li>▼ the recommendations of a recent service review are being implemented</li> <li>▼ staff numbers will not increase over the life of the current LTFP, despite the review's recommendations</li> <li>▼ after a capital expenditure review, projects worth around \$20m were removed from the LTFP.<sup>16</sup></li> </ul>
6. Other relevant matters.	<p>We took into account that Corowa Shire Council is a small council facing significant financial challenges, with limited resources and very low rates, and proposed a modest increase.</p>

The council's financial challenges have been identified in the current IP&R documentation. The Asset Management Plan shows a significant (\$44.6m) and increasing infrastructure backlog.<sup>17</sup> The council recognises that an increase in rate revenue is a step towards addressing the backlog and key community priorities identified in the Community Strategic Plan.<sup>18</sup>

<sup>13</sup> Corowa Application Part B, pp 27-28.

<sup>14</sup> Corowa Application Part B, pp 24-25.

<sup>15</sup> Corowa Application Part B, p 25.

<sup>16</sup> Corowa Application Part B, pp 30-31.

<sup>17</sup> Corowa Application Part B, p 10.

<sup>18</sup> Corowa Application Part B, p 25.

The council intends that its financial capacity will be improved and the operating deficit eliminated by 2021/22 by adopting a number of measures in addition to the 7.0% special variation in 2013/14:

- ▼ a further proposed special variation of 7.0% per year from 2014/15 to 2017/18 (inclusive)
- ▼ some reductions in service levels and standards
- ▼ the removal of capital expenditure projects worth \$20m from the LTFP
- ▼ maintaining current workforce levels (which are already much lower than comparable councils).<sup>19</sup>

Although the council will update the current IP&R documents in June 2013, the council advised that they are unlikely to contain major changes.<sup>20</sup> We will assess any future application for a special variation against the evidence in these IP&R documents.

The council extensively engaged the community and canvassed alternative options in developing the IP&R documents before they were adopted in June 2012.<sup>21</sup> The Delivery Program (2012-2016) and Long Term Financial Plan (2012-2022) exhibited in May 2012 incorporated a 5-year 7.0% annual rate increase, which only 1 ratepayer opposed.<sup>22</sup>

The application does not specify or quantify the productivity improvements and cost-containment strategies that have been implemented. However, the council has indicated that major cost-containment has come from a capital expenditure review that will save \$20m over the next 10 years and a decision not to employ more staff, even though this was recommended in a recent external review of services.<sup>23</sup>

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

Our decision means that Corowa Shire Council may permanently increase its general income by an estimated \$290,000 in 2013/14.<sup>24</sup> After 2013/14, this income will increase by the annual rate peg, unless we approve further special variations.

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<sup>19</sup> Corowa Application Part B, pp 8-9 and 30-31.

<sup>20</sup> Corowa Application Part B, p 6.

<sup>21</sup> Corowa Application Part B, *Supporting Documents – Community Engagement Report (February 2012)*, p 3, and *Supporting Documents – Media*, pp 1-13.

<sup>22</sup> Corowa Application Part B, pp 17 and 27.

<sup>23</sup> Corowa Application Part B, pp 30-31.

<sup>24</sup> Corowa Application Part A, Worksheet 1.

**Table 1.3 Impact of approved special variation on Corowa Shire Council's general 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 (\$) <sup>a</sup>
4,132,382	7.0	289,267	4,432,980

<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 a prior year catch up of \$11,311 plus the annual dollar increase permitted by the proposed special variation percentage.

**Source:** Corowa Application Part A, Worksheet 1.

## 1.5 What does our decision mean for ratepayers?

Corowa Shire Council's rating structure is relatively complex. There are separate ordinary rate categories for residential, rural residential and business properties in each of its 3 main townships, as well as for farmland and non-urban businesses. The council also levies a Town Improvement special rate in Howlong.<sup>25</sup> It does not have minimum rates.

The council's application indicated that it would apply the rate increase from the 7.0% special variation differentially across the 12 rate categories. Table 1.4 shows the average increases in 2013/14 for each category by percentage and in dollar amounts, as outlined in the council's application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

<sup>25</sup> Corowa Application Part A, Worksheet 5.

**Table 1.4 Impact of Corowa Shire Council's special variation on average rates in 2013/14**

Rate category	Average rate 2012/13 (\$)	Requested increase (\$)	Requested increase (%)	Average rate 2013/14 (\$)
<b>Residential</b>				
Corowa	350	23	6.5	<b>373</b>
Howlong	377	26	6.8	<b>402</b>
Mulwala	598	51	8.5	<b>649</b>
<b>Rural residential</b>				
Corowa	322	19	6.0	<b>342</b>
Howlong	485	38	7.9	<b>523</b>
Mulwala	599	51	8.5	<b>650</b>
<b>Business</b>				
Corowa	706	48	6.9	<b>754</b>
Howlong	625	41	6.6	<b>667</b>
Mulwala	2,202	176	8.0	<b>2,378</b>
Non-urban	469	28	5.9	<b>496</b>
<b>Farmland</b>				
Corowa Shire	1,935	143	7.4	<b>2,079</b>
<b>Special rate</b>				
Howlong Town Improvement	170	13	7.5	<b>183</b>

Source: Corowa Application Part A, Worksheet 5.

## A Corowa Shire Council's projected income, expenses and operating result

The special variation for Corowa Shire Council is to improve its financial sustainability. Table A.1 summarises the financial outcomes the council plans to achieve with the requested special variation as outlined in its Long Term Financial Plan (2012-2022).

**Table A.1 Summary of Corowa Shire Council's projected income statement – 2013/14 to 2021/22 (\$)**

Year	Total income from continuing operations	Total expenses from continuing operations	Operating result before capital
2013/14	27,482,721	26,319,482	1,163,239
2014/15	26,446,593	26,870,984	(424,391)
2015/16	27,361,514	27,680,998	(319,485)
2016/17	28,671,346	28,444,813	226,533
2017/18	29,537,419	29,078,828	458,591
2018/19	30,432,506	29,750,783	681,723
2019/20	31,239,358	30,445,396	793,962
2020/21	34,695,767	31,464,618	3,231,149
2021/22	35,521,167	32,324,164	3,197,002

**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:** Corowa Application Part B, *Supporting Documents – Long Term Financial Plan Tables*, p 2.

## B Comparative indicators

**Table B.1 Select comparative indicators for Corowa Shire Council, 2011/12**

	Corowa Shire Council	DLG Group 11 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	2,337	-	-
Population	11,302	-	-
General Fund expenditure from continuing operations (\$m)	19.7	-	-
General Fund operating revenue per capita (\$)	1,547	2,011	2,011
Rates revenue as % total General Fund revenue (%)	20.4	31.3	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	396	632	685
Average rate – business (\$)	924	1,781	2,552
Average rate – farmland (\$)	1,862	2,307	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010(\$)	35,809	38,968	44,140
Growth in average annual income, 2006-2010 (% pa)	1.8	2.9	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.1	1.7	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	57	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	7.9	7.7	7.0
<b>Productivity indicators<sup>d</sup></b>			
FTE staff (number)	114	150	293
Ratio of population to FTE	99	91	126
Average cost per FTE (\$)	63,193	71,545	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	23.4	34.6	36.8
Consultancy/contractor expenses (\$m)	-	2.1	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	-	6.3	9.3

<sup>a</sup> DLG Group 11 is a category of Rural Very Large Agricultural councils with a population of 10,001-20,000. This Group comprises 20 councils including Bellingen, Cabonne, Gunnedah, Muswellbrook, Nambucca, Narrabri, Parkes, Upper Hunter and Young.

<sup>b</sup> Average rate is total revenue from a given category divided by the number of assessments in that category in 2011/12.

<sup>c</sup> Average annual income includes income from all sources but excludes 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; 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.