



Independent Pricing and Regulatory Tribunal

# **Great Lakes 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).

Great Lakes Council applied for a special variation in 2013/14 of 14.37%. After assessing the council's application, we decided to allow a special variation of 13.92%, which is slightly less than the percentage requested. We made this decision under section 508(2) of the Act.

We estimate that our decision will increase average ordinary rates by between 7.7% and 8.4% in 2013/14. This increase mainly reflects a determination made in 2011 and it is inclusive of the rate peg of 3.4% that is available to all councils. The rates increase is lower than the 13.92% special variation because part of the special variation continues the environmental levy that is already in rates.

## 1.1 Our decision

We determined that Great Lakes Council may increase its general income by 13.92% in 2013/14. This includes an increase of 6.0% to continue the expiring Environmental/Dredging Levy (EDL). It also includes an increase of 7.9% that we previously approved for 2013/14<sup>2</sup> (which provides for the rate peg of 3.4% that is available to all councils) and a Crown land adjustment of 0.02%.<sup>3</sup> The increase for the EDL levy may be retained for 7 years. The remaining increases may be retained permanently in the general income base.

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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.

<sup>2</sup> In 2011/12, IPART approved a multi-year special variation that included an 8.0% increase in 2013/14. This was adjusted to 7.9% in May 2012 to reflect the first withdrawal of the carbon price advance that was granted in 2012/13.

<sup>3</sup> The 0.02% adjustment is because formerly Crown land has become rateable.

We have attached conditions to our decision, including that the council uses the additional income raised from the special variation for the purposes set out in its application. These conditions include a requirement for council to reduce its general income on 30 June 2020 to what it would have been without the EDL.

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

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

<b>Component</b>	<b>%</b>
Increase to continue the Environmental/Dredging Levy (7 years)	6.00
Previously approved increase to improve financial sustainability and fund infrastructure maintenance and renewals, including the rate peg	7.90
Adjustment to reflect former Crown land becoming rateable	0.02
<b>Total increase</b>	<b>13.92</b>

**Box 1.1 Conditions attached to the approved special variation for Great Lakes Council**

IPART’s approval of Great Lakes 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
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation.
- ▼ On 1 July 2020, the council reduces its general income to what it would have been without the 6.0% (EDL) temporary component of the special variation in 2013/14.
- ▼ 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 reduce its general income for 2013/14 by \$1,532,288 (the value of the expiring EDL). This reduction shall take place before the council’s general income is increased in 2013/14 in accordance with IPART’s determination.

Because the increase we approved to continue to EDL is slightly less than the council requested, it may have to prioritise how it spends the income from this increase on the various environmental and dredging works outlined in Appendix A.

## 1.2 What did the council request and why?

Great Lakes Council requested a special variation of 14.37% for 2013/14.<sup>4</sup> This amount included 3 components:

- ▼ a 6.45% increase to continue its expiring EDL until 30 June 2020, and increase this levy from 6% to fund current environmental and dredging works as well as new environment projects and services<sup>5</sup>
- ▼ a 7.9% increase which the council applied for and we approved in 2011 to improve its financial sustainability and fund infrastructure, renewal of roads, drainage and some recreational facilities and includes the rate peg of 3.4% available to all councils, and
- ▼ a 0.02% adjustment for former Crown land that had become rateable.

Table 1.2 shows the components of the requested special variation.

**Table 1.2 Great Lakes Council's requested special variation for 2013/14 (%)**

<b>Component</b>	<b>%</b>
Increase to continue expiring EDL and increase it from 6% (7 years)	6.45
Increase to improve financial sustainability and fund infrastructure renewals, including provision for the rate peg of 3.4%	7.90
Crown land adjustment	0.02
<b>Total increase</b>	<b>14.37</b>

**Source:** Application Part A, Worksheets 4 and 6.

The council estimated that the increase of 10.97% above the rate peg would generate around \$2.9m in additional revenue in 2013/14, and \$27m over 10 years.<sup>6</sup> Approximately half of this additional revenue would be attributable to the increase approved by IPART in 2011 and used to improve infrastructure and financial sustainability.<sup>7</sup>

It proposed to use the remaining \$13.2m to fund the 7-year environmental and dredging program of works set out in Appendix A.<sup>8</sup> Of this \$13.2m, \$12.4m was to be used to fund current environmental and dredging works and \$0.8m for new environmental projects and services.<sup>9</sup>

<sup>4</sup> Application Part A, Worksheet 4.

<sup>5</sup> Council sought to increase the EDL to 6.45% in 2013/14 so as to generate a broadly equivalent increase in revenue to that it would have received if the levy was renewed at 6% of council's income in 2014/15. This is when the EDL is otherwise due to end.

<sup>6</sup> Application Part A, Worksheets 4 and 6 and IPART calculations.

<sup>7</sup> Application Part A, Worksheet 6 and IPART calculations.

<sup>8</sup> The council's expenditure program of \$14.39m is made up of planned spending of \$13.2m for the EDP program and \$1.2m for infrastructure works to be funded by the s508A special variation approved by IPART in 2011/12. Application Part A, Worksheet 6.

<sup>9</sup> Application Part A, Worksheet 6 and IPART calculations.

### 1.3 How did we reach our decision?

We assessed Great Lakes 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 its latest available Integrated Planning & Reporting (IP&R) documentation.<sup>10</sup> We also considered a range of comparative data about the council, set out in Appendix B.

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

1. Demonstrated a need for the revenue. Prior to 2009 the environmental levy did not include funding for dredging works and the council's financial position precluded funding navigational dredging of its lakes and waterways. Since 2009, the levy has aided the recovery of local waterways.<sup>11</sup>
2. Provided evidence that the community is aware of the need to continue the EDL until 30 June 2020 and that there is broad community support for continuing the levy. However, the council's intention to increase the EDL from 6% to 6.45% was not made apparent to the community.<sup>12</sup>
3. Showed that the impact on affected ratepayers is reasonable and affordable.
4. Made realistic assumptions concerning projected service delivery and budget.
5. Reported productivity savings in past years, and has plans to realise additional savings over the period of the proposed special variation.

The council's 2011 Long Term Financial Plan (LTFP) foreshadowed that a special variation application would be made to extend the environmental levy of 6%. However, it did not model the effect of this on the budget.<sup>13</sup>

Although the council has not yet finalised its updated IP&R documents for 2013–2017, it has provided the proposed program of expenditure and extracts from its draft Community Strategic Plan, draft Delivery Program and draft Operational Plan and budget projections.

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<sup>10</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>11</sup> Application Part B, pp 9, 56-57 and Annexure 33.

<sup>12</sup> Application, Annexures 2, 13-14, 16-19, 21-23, 25-27. These annexures highlight the considerable coverage of the council's notices on the EDL and provide background information on the levy and/or opportunities for the community to provide feedback. They did not, however, refer to the magnitude of the EDL. Annexure 11, the November 2012 presentation(s), referred to the extent of the EDL as 'continuing the current levy at 6%' of ordinary rates, as did Annexures 12, 20 (community newsletter), 28-30.

<sup>13</sup> Great Lakes Council, *Long Term Financial Plan 2011-2021*, p 8.

Table 1.3 summarises our findings against each of the criteria.

**Table 1.3 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 application identified the need for extra revenue to:</p> <ul style="list-style-type: none"> <li>▼ Fund environmental activities, infrastructure works and financial sustainability as reflected in community priorities outlined in the Draft Community Strategic Plan and Draft Delivery Program.<sup>14</sup></li> <li>▼ Assist the council to obtain grant funding to assist with its infrastructure renewals and environmental management plans.<sup>15</sup></li> </ul> <p>TCorp’s analysis indicates that the council is projected to have operating deficits on a ‘on a no-change basis’ over the next 10 years. This special variation will not change this projection.<sup>16</sup></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>There was evidence that the community was made aware of the need to continue the EDL, but not of the council’s intention to increase the EDL from 6% to 6.45%.<sup>17</sup></p> <p>The council used a variety of engagement methods including press and public notices, a direct mail out to ratepayers, online information/survey and public workshops.<sup>18</sup></p> <p>The council considered the community’s willingness to pay based on the results of a self-selecting online survey that showed 67% of respondents supporting “continuation of the existing EDL at the existing level of 6%”.<sup>19</sup></p>

<sup>14</sup> Application Part B, pp 16 – 19 and Annexure 1.

<sup>15</sup> Application Part B, pp 26-27.

<sup>16</sup> Application Part B, Annexure 4, NSW Treasury Corporation, *Great Lakes Council Financial Assessment and Benchmarking Report*, October 2012, pp 4-5.

<sup>17</sup> Refer to Footnote 12, above.

<sup>18</sup> Application, Annexures 9 and 10.

<sup>19</sup> Application Part B, p 43 and Annexure 29.

Criterion	IPART findings
3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community's capacity to pay.	<p>The impact seems reasonable given that:</p> <ul style="list-style-type: none"> <li>▼ The community is already paying the EDL.<sup>20</sup></li> <li>▼ We estimate that average residential rates will rise by around \$83 in 2013/14, average business rates by around \$215 and average farmland rates by around \$51.<sup>21</sup></li> <li>▼ The council has a financial hardship policy.<sup>22</sup></li> </ul> <p>Although Great Lakes is a relatively disadvantaged LGA with a low SEIFA ranking (26/153) and below-State average income levels, the rate rises are likely to be affordable.</p>
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	Draft Delivery Program assumptions related to proposed levels of service and asset backlogs seem realistic, as do the rate peg and expense growth assumptions in the LTFP. <sup>23</sup>
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 reported ongoing productivity and cost savings of \$0.7m in recent years and expects a similar annual amount in future years. <sup>24</sup>
6. Other relevant matters.	None.

For future applications, the council should ensure that it clearly includes in its communication to ratepayers the:

- ▼ magnitude of the increase being sought including the percentage amount of any levy
- ▼ full cumulative impact of the special variation including the rate peg, and
- ▼ impacts on average rates in the event that the application was not approved.

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

Our decision means that Great Lakes Council may increase its general income by an estimated \$3.7m in 2013/14. Of this amount, \$1.6m for the EDL will be retained in the rates base until 30 June 2020, then the council's general income will be reduced to what it would otherwise have been without the levy.<sup>25</sup>

<sup>20</sup> Application Part B, p 63 and footnote 2 above for link to IPART's 2011/12 determination.

<sup>21</sup> Application Part A, Worksheet 5 and IPART calculations.

<sup>22</sup> Application, Annexure 34. Also refer to Appendix B.

<sup>23</sup> Application Part B, pp 66-71 and Annexure 1.

<sup>24</sup> Application Part B, pp 72-80.

<sup>25</sup> IPART calculation based on Application Part A, Worksheets 3, 4 and 6.

The remaining \$2.1m will be permanently incorporated into the council's revenue base.<sup>26</sup> After 2013/14, general income will increase by the annual rate peg, unless we approve further special variations.<sup>27</sup>

**Table 1.4 Impact of approved special variation on Great Lakes Council's income in 2013/14**

<b>Adjusted notional general income 2012/13 (\$)</b>	<b>Annual increase in general income (%)</b>	<b>Annual increase in general income (\$)</b>	<b>Permissible general income 2013/14 (\$)<sup>a</sup></b>
26,756,323	13.92	3,724,201	30,474,544

**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 of \$109, excesses and valuation objections of \$6,089) plus the annual dollar increase permitted by the proposed special variation percentage including income adjustments for formerly Crown land becoming rateable of \$5,072.

**Source:** Great Lakes Council, Application Part A, Worksheets 2,3,4,6 and IPART calculations.

## 1.5 What does our decision mean for ratepayers?

We estimate that if the council changes its rates as indicated in its application, average ordinary rates will increase in 2013/14 by between 7.7% and 8.4%. This increase is lower than our determination of 13.92% because these rates already include the EDL, which we have approved for a further 7 years. Thus, the increase is primarily due to the 7.9% increase we previously approved for 2013/14. This includes the rate peg of 3.4% available to all councils.

Table 1.5 sets out the proposed impact on average rates in each ratepayer category, which we have estimated based on the council's application. The actual impact on particular categories of rates is a matter for the council to decide, consistent with our determination.

<sup>26</sup> IPART calculation based on Application Part A, Worksheets 4 and 6.

<sup>27</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.

**Table 1.5 Great Lakes Council – indicative increases in average rates in 2013/14 as a result of the approved special variation**

<b>Category<sup>a</sup></b>	<b>Average rate 2012/13 (\$)</b>	<b>Approved Increase (\$)</b>	<b>Approved Increase (%)</b>	<b>Average rate 2013/14 (\$)</b>
<b>Average residential rate</b>	1,075	83	7.7	1,158
<b>Average business rate</b>	2,780	215	7.7	2,995
<b>Average farmland rate</b>	638	51	8.0	689
<b>Average mining rate</b>	8,946	753	8.4	9,699

<sup>a</sup> Average residential, business and farmland rates include all applicable ordinary and special rates.

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

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

## **A Great Lakes Council's Program of Expenditure**

IPART accepts that as we have partially approved the council's application, the council may have to re-schedule and re-prioritise planned expenditure to be funded from the special variation. The program of works for its environmental and dredging works outlined in its application and the table below is indicative. The council will report actual expenditure on the program in its annual report.

**Table A.1 Great Lakes Council's Program of Expenditure 2013/14 to 2019/20 (\$m)**

Category	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
Infrastructure (S508A approval June 2011)	1.20							<b>1.20</b>
Lakes, Estuaries and Wetlands Management	0.36	0.36	0.36	0.36	0.37	0.39	0.40	<b>2.59</b>
Rural Catchment Water Quality	0.08	0.08	0.08	0.08	0.08	0.08	0.09	<b>0.56</b>
Program Management and Delivery	0.50	0.51	0.52	0.54	0.56	0.57	0.59	<b>3.79</b>
Navigational Dredging	0.28	0.28	0.29	0.30	0.31	0.32	0.33	<b>2.11</b>
Wallamba River Restoration Program	0.13	0.13	0.13	0.13	0.13	0.13	0.13	<b>0.89</b>
Stormwater Quality Improvement devices	0.11	0.11	0.11	0.11	0.12	0.12	0.12	<b>0.80</b>
Other on-going environmental activities <sup>a</sup>	0.23	0.24	0.23	0.23	0.24	0.25	0.26	<b>1.67</b>
New projects <sup>b</sup>	0.06	0.08	0.12	0.13	0.13	0.14	0.14	<b>0.78</b>
<b>TOTAL</b>	<b>2.93</b>	<b>1.77</b>	<b>1.83</b>	<b>1.88</b>	<b>1.94</b>	<b>1.99</b>	<b>2.05</b>	<b>14.39</b>

<sup>a</sup> Includes: Waterway & Catchment Report Card, State of the Environment Reporting, Hawks Nest/Tea Gardens Endangered Koala Population Recovery Plan, Urban Community Engagement/Behavioural Change for Sustainability & Water Quality, Bushcare & Landcare Support, Sustainable Business Program, School & Community Events, Water Quality and Sustainability Program and Strategy Implementation, Environmental Management System Development & Implementation, Hunter Councils Regional Management Strategy Partnership.

<sup>b</sup> Includes: Karuah River Catchment, Urban Water Quality - DCP 54, Science Partnerships - Rehabilitation monitoring, Biodiversity Conservation Framework, Tops to Lakes Corridor, Marine & Estuary Education.

**Note:** Council's expenditure program of \$14.39m is made up of planned spending of \$13.2m for the EDP program and \$1.2m for infrastructure works to be funded by the s508A special variation approved by IPART in 2011/12. The above expenditures have been rounded.

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

## B Comparative indicators

**Table B.1 Select comparative indicators for Great Lakes Council, 2011/12**

	Great Lakes Council	DLG Group 4 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	3,380	-	-
Population	35,601	-	-
General Fund expenditure—continuing operations (\$m)	64.1	57.4	56.6
General Fund operating revenue per capita (\$)	1,870	1,414	2,011
Rates revenue as % total General Fund revenue (%)	46.9	40.6	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	934	840	685
Average rate – business (\$)	2,510	3,023	2,552
Average rate – farmland (\$)	594	1,735	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010 (\$)	35,113	41,104	44,140
Growth in average annual income, 2006-2010 (% pa)	2.5	3.2	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	2.7	2.1	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	26	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	6.3 <sup>d</sup>	5.7	7.0
<b>Productivity indicators<sup>e</sup></b>			
FTE staff (number)	284	315	293
Ratio of population to FTE	125	125	126
Average cost per FTE (\$)	74,264	74,599	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	32.6	37.1	36.8
Consultancy/contractor expenses (\$m) <sup>f</sup>	12.1	5.3	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	18.7	6.7	9.3

<sup>a</sup> DLG Group 4 is a category of Urban Small to Medium Regional councils with a population of up to 70,000. This group comprises 30 councils including Greater Taree, Bega Valley, Kempsey and Port Stephens.

<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> Council Ratio from Council *General Purpose Financial Statements year ended 30 June 2012*, Note 13a(i).

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

<sup>f</sup> Council's higher use of consultants/contractors reflects waste management contract (\$3.7m); management contract for aquatic & leisure centre (\$1.2m); environmental programs requiring specialist expertise (\$1m) and a state roads contract (\$3.6m). Source: Great Lakes Council email dated 18 April 2013.

**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.

