



Independent Pricing and Regulatory Tribunal

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

Box 1.1 The Revised Guidelines for 2013/14

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

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

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

Another major change is that councils no longer need to demonstrate community support for the special variation. Instead, they must show that the community is aware of the need for, and extent, of the proposed rate rise, and that the council has considered the community's capacity and willingness to pay higher rates. In addition, in assessing applications against the criteria, we are now required to consider the size and resources of a council, the size of the rate increase, current and previous rate levels, the purpose of the special variation and any other matter we consider relevant.

Gunnedah Shire Council applied for a multi-year special variation from 2013/14, under section 508A. The council requested annual increases of 9.4%, 8.5%, 9.5% and 7.5% over the next 4 years, or a cumulative increase of 39.7%. After assessing its application, we decided to approve the special variation as requested.

Our decision enables the council to pursue its 'Sustainable Services' Program, which it adopted after extensive consultation on its Integrated Planning and Reporting (IP&R) documents and the proposed special variation.¹ We made this decision under section 508A of the Act.

1.1 Our decision

We determined that Gunnedah Shire Council may increase its general income by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (3.4% in 2013/14 and an assumed 3.0% in each of the subsequent years). The cumulative increase is 26.7% more than the rate peg over these years.

After the last year of the special variation (2016/17), the increase will remain permanently in the council's rate base.

Table 1.1 IPART's determination on Gunnedah Shire Council's special variation for 2013/14 to 2016/17

Year	Increase in general income (%)	Cumulative increase in general income (%)	Annual increase in general income (\$)	Total permissible general income ^a (\$)
2012/13				8,942,258 ^b
2013/14	9.4	9.4	840,572	9,765,471 ^c
2014/15	8.5	18.7	830,065	10,595,536
2015/16	9.5	30.0	1,006,576	11,602,112
2016/17	7.5	39.7	870,158	12,472,270

a Permissible general income refers to the maximum general income that the council can generate in the year, including 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.

b This income level is the 2012/13 adjusted notional general income level, not the permissible general income.

c The council's proposed permissible general income in 2013/14 includes the requested special variation of 9.40% and decreases of \$17,359 for a prior year excess.

Source: Gunnedah Shire Council, Application Part A, Worksheet 1, and IPART calculations.

We have attached conditions to this decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.2 lists these conditions.

¹ Gunnedah Shire Council, *Section 508A Special Variation Application 2013/14*, Part B, (Application Part B), p 14.

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

IPART's approval of Gunnedah Shire Council's application for a special variation over the period from 2013/14 to 2016/17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding debt servicing associated with its capital works program and improving its financial sustainability as 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 actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
 - 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
 - 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 Division of Local Government by 30 November each year on its compliance with these conditions.
-

1.2 What did the council request and why?

Gunnedah Shire Council applied to increase its general income by a cumulative 39.7% over the 4-year period from 2013/14 to 2016/17, and to permanently incorporate this increase into its general income base.²

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$8.9m in 2012/13 to \$12.5m in 2016/17. This will generate additional revenue of \$8.7m over 4 years, or \$5.8m above the rate peg increase.³

The council intends to use the additional revenue above the rate peg to fund debt servicing costs associated with a capital works program, and to improve its financial sustainability.

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

³ Application Part A, Worksheet 1 & 6.

During the 4-year special variation period, the council will spend \$53.2m on its capital works program. This will be funded partly by \$20m in loans and partly from its financial reserves.⁴

1.3 How did we reach our decision?

We assessed Gunnedah Shire Council's application against the criteria in the Guidelines. In making our assessment, we also considered the council's 2013 IP&R documents, which support its application, as well as a range of comparative data about the council, set out in Appendix D.

The rate increases sought by the council were significant, and we carefully considered the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

On balance, we found that the application met the criteria. In particular, we found that:

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 and extent of the rate rise, and that it had considered the community's capacity and willingness to pay the proposed rate rises
3. the impact of the proposed rate rises on ratepayers is significant, but not unreasonable 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. the council reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 1.2 summarises our assessment against the criteria. The sections below discuss our findings for some criteria in more detail.

⁴ Application Part A, Worksheet 6 and Gunnedah Shire Council Long Term Financial Plan (LTFP) 2013/14 -2022/23, p 17.

Table 1.2 Summary of IPART’s assessment against the 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 council’s financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).</p>	<p>The council’s 2013 IP&R documents explain the need for and purpose of the special variation and show that:</p> <ul style="list-style-type: none"> ▼ it is based on the council’s long-term financial and strategic planning ▼ it is consistent with community priorities ▼ the council has considered and will make use of alternative revenue sources as appropriate. <p>Without the special variation, the council would face rising operating deficits and could not undertake the capital works program. TCorp rated the council’s financial outlook as ‘negative’ largely due to its forecast use of cash reserves for asset renewal.⁵</p>
<p>2. Evidence that the community is aware of need for and extent of proposed rate rises must be provided. 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 used a variety of engagement methods to make the community aware of the proposed special variation, and get feedback on its spending priorities and support for the variation. For example, it:</p> <ul style="list-style-type: none"> ▼ held over 40 community meetings/workshops ▼ made extensive use of press releases and fact sheets ▼ conducted surveys, used feedback forms and quizzes ▼ invited written submissions (34 received), the majority of which opposed the rate rise, or aspects of it.
<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 council’s IP&R process should establish that proposed rate rises are affordable, having regard to the local community’s capacity to pay.</p>	<p>On balance, we are satisfied the impact of the proposed rate rises are reasonable. We note the council’s current business, farmland and mining rates are high compared to the average of its DLG group. However:</p> <ul style="list-style-type: none"> ▼ its residential rates are below the Group average ▼ there is some evidence of willingness to pay from survey results and other feedback received ▼ the council has considered capacity to pay in structuring rates to lessen impact ▼ compared with the rate levels of surrounding councils, we consider that, proposed rates are not unreasonable.

⁵ NSW Treasury Corporation, *Gunnedah Shire Council, Financial Assessment, Sustainability and Benchmarking Report*, 8 March 2013 (TCorp Report), p 5.

Criterion	IPART findings
4. Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	The council's IP&R documents, including the LTFP, contain realistic assumptions regarding costs and revenues. Asset maintenance costs are based on the council's asset management plans.
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 has reported savings in operating costs of 0.5% (excluding depreciation) over the last 2 years, without reducing services. ⁶ It is investigating various future opportunities for savings, albeit these are not quantified. ⁷
6. Other relevant matters.	None.

1.3.1 Need for and purpose of the special variation

The need for and purpose of the requested special variation is set out in the council's IP&R documents and specifically identified in its Delivery Program, Operational Plan, Asset Management Plan (AMP) and Long Term Financial Plan (LTFP).

In developing its AMP in 2011, the council identified an infrastructure backlog of \$25.7m and a need to increase spending in order to develop a sustainable asset base for the community.⁸ The council noted that reductions in its asset base would result in diminishing service levels.

NSW Treasury Corporation (TCorp) observed that the council's current financial position was 'sound', but it considered its outlook to be 'negative', largely because the council proposed to use its reserves for asset renewal. TCorp considered that this would affect the council's ability to service current liabilities.⁹

⁶ Application Part B, p 72.

⁷ Application Part B, pp 73 - 78.

⁸ Application Part B, pp 9, 12 and 40.

⁹ New South Wales Treasury Corporation, *Gunnedah Shire Council, Financial Assessment, Sustainability and Benchmarking Report*, 8 March 2013 (TCorp Report), p 5. TCorp noted that "the AMP highlighted that Council needs to undertake extensive maintenance and renewal works in order to prevent its asset base from deteriorating to critical levels. It appears that, based on the current projected income levels, Council cannot comply with these infrastructure funding requirements without weakening its cash position." It then noted that "the 'Sustainability' model [the requested special variation] ... shows that Council would be able to fund all of the required infrastructure expenditure and maintain both sound operating results and cash position."

In its 2011 LTFP, the council modelled 4 scenarios to enhance asset and service levels and address its financial sustainability (see Section 1.3.2).¹⁰ Based on feedback from the community it adopted the 'Sustainable Services' model in its IP&R documents with some additions and alterations. This model is used as the basis for its 2013/14 special variation application.¹¹

Without the special variation, the council's base case LTFP shows that its operating deficit would rise from \$0.6m in 2013/14 to \$1.2m in 2020/2021.¹² This indicates that it would not be able to fund from its operating account, any of the required infrastructure spending identified in its recent AMP.

With the special variation, the council will be able to fund extra operating costs and bring the operating account (excluding capital) from deficit back into balance by 2017/18. After that, a small, but modestly rising, operating surplus is forecast.¹³

During the 4-year special variation period, the council will undertake a \$53.2m program of capital works. The program will comprise asset renewals (84% - most of which relates to roads), asset upgrades (10%) and new assets (about 7%).¹⁴ It will be funded by a combination of accumulated depreciation reserves, capital grants and contributions and by borrowing \$20m.

1.3.2 Community engagement and awareness

We consider that the council has met this criterion. In particular it has shown that it took reasonable steps to make the community aware of the need for and extent of the special variation, including using a variety of engagement methods and providing opportunities for feedback.

Although the criterion does not require councils to demonstrate community support for the special variation, we note there is evidence of some support for an increase in rates above the rate peg. The council also received a number of submissions from ratepayers, most of which opposed the application. However, we are satisfied that it has considered the issues raised in these submissions, and addressed them to the extent possible.

¹⁰ Application Part B, p 12.

¹¹ Application Part B, p 14.

¹² Email dated 23 May 2013 - Base case LTFP projections.

¹³ Application Part B, p 26.

¹⁴ Application Part B, pp 10-12 and Application Part A, Worksheet 6 and IPART calculations.

Community engagement

The council's current suite of IP&R documents was adopted in March 2013.¹⁵ The council began consulting the community about its priorities in early 2011. It used various strategies to inform its Community Strategic Plan (CSP), Operational Plan and Delivery Program including:

- ▼ 24 community and stakeholder workshops, surveys (338 respondents) and a photo competition (37 submissions received) to inform its CSP
- ▼ a further 8 workshops in May 2012 to present 4 funding options to inform its Delivery Program and Operational Plan.¹⁶

The 4 options proposed were:

- ▼ Option 1: Current Income Layer - rate peg increases only
- ▼ Option 2: Sustainable Services Layer - s 508(2) rate increase of 18.8% in 2013/14 (including the rate peg) and cumulative increases in sewerage rates of 28% over 3 years
- ▼ Option 3: Service and Asset Expansion Layer - s 508(2) rate increase of 23.6% in 2013/14 (including the rate peg) and cumulative increases in sewerage rates of 28% over 3 years
- ▼ Option 4: New Assets & Services Layer - s 508(2) rate increase of 25.1% in 2013/14 (including the rate peg) and cumulative increases in sewerage rates of 49.3% over 4 years.¹⁷

The community opted for Option 2 with some inclusions from Option 3. After extensive consultation, the council revised its proposal to increase rates over 3 years under s 508A, by 19%, 9% and 9% pa respectively.¹⁸

Between November 2012 and March 2013, the council consulted directly about these rate increases using the following methods:

- ▼ fact sheets, posters, web content, press releases, video, radio and 2 mail-outs
- ▼ a telephone-based, random, deliberative poll¹⁹ and online surveys
- ▼ 9 community meetings and a rates workshop (about 300 in total attended; presentations were made by Mayor, General Manager and other council staff)
- ▼ an on-line guest book, quick polls and feedback forms.²⁰

¹⁵ Application Part B, p 7.

¹⁶ Application Part B, pp 40-41.

¹⁷ Application Part B, p 12.

¹⁸ Application Part B, p 43.

¹⁹ The deliberative poll involved sending all ratepayers an information package outlining the council's proposal and reasons for the special variation. After a period of time, a random sample of ratepayers was polled, excluding those that had not read the information supplied.

²⁰ Application Part B, pp 42-49.

In January 2013, based on community feedback, the council again revised its special variation proposal to spread the increases over 4 years as requested in this application (and to freeze its water charges over that period).

Outcome of consultation on rate rise

The results of the community engagement show a level of support for the requested special variation:

- ▼ of 143 respondents to the deliberative random survey (conducted February 2013), 61.9% supported the proposed special variation²¹
- ▼ of 31 feedback forms returned, 12 supported the proposed special variation, 9 supported some rate increases but considered the proposed increases too high and 10 opposed the rate increases
- ▼ of 249 quizzes returned, 149 supported the special variation, 100 did not²²
- ▼ of 131 respondents to online and quick poll surveys, 57 respondents supported the special variation, 48 opposed it and 26 were undecided.²³

Submissions

The council also received 34 written submissions from a cross section of the community (including residential, farmland, business and mining ratepayers as well as a submission from the Aero Club). The majority opposed the special variation for reasons including:²⁴

- ▼ the impact on residents, particularly on farmland and business ratepayers
- ▼ council's poor financial management and wasteful spending in the past – some submissions considered it should cut costs not increase rates
- ▼ public concern about a potential closure of the airport – some submissions felt that the maintenance and development of the airport was critical for 'Fly In Fly Out' purposes and that the council should consider making the airport more viable for the economic health of the area
- ▼ the inequity of increasing the rating burden on the mining category – as it was already subject to a considerable bias in rating proportions and already provides significant funding towards the council's infrastructure costs.

²¹ Supporting Document, Attachment V - IRIS Research, *Gunnedah Shire Council Special Variation to Rates Survey 2013*, pp 3 and 8. The question did not give respondents a range of choices but required a yes/no answer on whether they preferred to pay the higher rates or have a cut in services.

²² Application Part B, p 50. Moviegoers received a two-for-one movie pass if they completed a special variation quiz following viewing of a special variation film.

²³ Application Part B, p 54 and Supporting Document, Attachment T, Summary Report for Special Variation Survey.

²⁴ Application Part B, p 55 and Supporting Document, Attachment U, Confidential Written Submissions.

IPART also received 9 submissions by 8 April 2013, the end of our public submission period. This included one from a mining company, which expressed similar concerns.

The council's application indicated it had considered the issues in individual submissions. Its responses noted that it had limited alternatives to funding its asset management and renewal requirements and that not maintaining its assets would significantly impact on future costs.²⁵

1.3.3 Impact on ratepayers

We consider that the impact of the special variation will be significant, but the council intends to distribute rate increases to reduce the impact on ratepayers other than mining ratepayers.

The council's consideration of impact on ratepayers

The council's average residential rates are currently 9% lower than its peer councils in DLG Group 11. But its average business, farmland and mining rates are 76%, 34% and 54% higher than DLG Group 11 averages respectively.²⁶

Some socio-economic indicators also suggest there may be capacity to pay issues associated with the proposed rate increases. The Gunnedah LGA has a relatively low SEIFA ranking of 43 (where 153 is the least disadvantaged council). The average income in the LGA is \$39,004, which is below the state average of \$44,140 although slightly above the DLG Group 11 average of \$38,968.

The council has specifically considered the prevailing rate levels and socio-economic characteristics of its community.²⁷ It indicated that since 2009 it has restructured its rates to allocate a higher share to the mining sector to balance capacity to pay considerations. It intends to continue this approach for the 4 years of the special variation to further lessen the impact of rate increases on most ratepayers.

The proposed rates distribution means residential, business and farmland ratepayers will face lower increases than the 39.7% increase to general income:

- ▼ average residential rates will rise by a cumulative 33%
- ▼ average business rates will rise by a cumulative 27%
- ▼ average farmland rates will rise by a cumulative 33%
- ▼ average mining rates will rise by a cumulative 120%.

²⁵ Application Part B, pp 18-23.

²⁶ Appendix D and IPART calculations

²⁷ Application Part B, p 62.

Table 1.3 shows the proposed relative contribution to the council's total rates revenue from each rating category by the end of the special variation period.

Table 1.3 Gunnedah Council – proposed contribution to total rating revenue by each rating category

Category	Residential	Business	Farming	Mining
Contribution 2012/13	32.27%	19.09%	40.00%	8.64%
Contribution 2016/17	30.81%	17.39%	38.20%	13.60%

Source: Application Part B, p 58.

The council also indicated that:

- ▼ The DLG Group 11 average is not a good indicator for farmland and business rates given the range of councils in that group and the differences between them. It generally considers rate levels of its neighbouring councils (Moree Plains, Narrabri and Liverpool Plains) as better benchmarks.²⁸
- ▼ It acknowledges its relatively high average business rate and has specifically limited the increases to this category to 27% (including the rate peg increases of 13% which would normally apply).²⁹ This increase is lower than that applied to other rating categories.
- ▼ It proposes to freeze increases to annual water rates over the 4-year special variation period to provide further relief to ratepayers.³⁰
- ▼ It has a pensioner rebate policy and hardship policy for ratepayers facing financial difficulties.³¹

Our assessment of impact on ratepayers

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. We found that since 1997/98:

- ▼ the council has applied for and been granted only one special variation, which was a single year, permanent increase of 8.10%
- ▼ it advised us that it has not always applied the full rate peg increase, and as a result we estimate that:
 - average residential rates have risen by an annual average of 2.6%
 - average farmland rates have risen by an annual average of 2.3%
 - average business rates have risen by an annual average of 2.8%.³²

²⁸ Email dated 13 May 2013. We provide a rate comparison with these councils in Appendix C.

²⁹ We have assumed rate peg increases of 3% in 2014/15 – 2016/17.

³⁰ Application Part B, p 59. In 2012/13, residential ratepayers paid an average water rate of \$170.

³¹ Application Part B, p 65.

³² DLG Comparative Data (various years) and IPART calculations.

This suggests that business and farmland rates have been historically high and have risen broadly in line with the rate peg (3%) in the past 15 years.

We also compared the council's current average rates to a selection of similar and surrounding councils both currently and at the *end* of the special variation period, assuming its requested special variation was approved (Table C.1 and Table C.2). We found that by 2016/17:

- ▼ The council's average residential rate would still be the third lowest after Warrumbungle and Liverpool Plains. We note that 4,447 (or 74%) of its 6,049 assessments are residential assessments.
- ▼ Its average business rate would be the second highest after Dubbo (492 assessments).
- ▼ Its average farmland rate would be the third highest after Moree Plains and Liverpool Plains (1,100 assessments).

We also considered the council's proposal to increase mining rates by 120% and the issues raised by the mining sector in its submission. The submission acknowledged the council's requirement for infrastructure maintenance and renewal but requested that the council's rates allocation reflect a more reasonable and equitable distribution. It stated that the mining category is already subject to considerable bias in rating proportions and its ad-valorem rate is significantly higher than other rating categories in the LGA and mining rates in other councils.

The council advised us that prior to consultation with the general public it discussed the issues raised with the mining company. The council indicated its strategy is aimed at a reasonable balance between rating categories over the long term.³³

We consider that the council's proposed 120% increase in mining rates (over 4 years) is substantial. We would caution against over-reliance on any one rating category particularly mining, given the cyclical nature of the industry.

However, the Local Government Act gives councils the responsibility for determining rating structure and it is a decision for the council how it ultimately distributes the rate increases. We are required to assess how a council's application meets the criteria in the Guidelines overall.

We have taken into account all of the above and concluded that on balance, the application should be approved. We consider that the impact of the increases on some categories of ratepayers in Gunnedah will be significant, but not unreasonable given the purpose of the special variation. Further, we accept that the council has consulted extensively with its community and has applied for the large special variation in the light of its understanding of its community's priorities and capacity and willingness to pay.

³³ Discussion with Gunnedah Shire Council 22 May 2013.

1.3.4 Productivity improvements and cost containment strategies

The council's application sets out the cost containment and productivity improvement initiatives it has undertaken in recent years and plans to implement in the future.

The council submitted that in the last 2 years, it was able to realise 0.5% in total reductions in operating costs (excluding depreciation) without impacting service delivery.³⁴

The council indicated it is also planning future initiatives which include:

- ▼ rationalising staffing and funding operations for different services
- ▼ exploring ways to reduce IT costs and take advantage of the impending NBN expansion into the LGA
- ▼ rationalising its vehicle fleet to reduce fringe-benefit-tax costs and more efficient use of council's vehicles
- ▼ reviewing overhead measurements and allocations and purchasing processes
- ▼ reviewing ways to improve waste, facility and planning management.³⁵

However, it did not quantify its future savings or productivity improvements. We would encourage the council to explain the outcome of its reviews and to regularly update the community on its progress.

1.4 What does our decision mean for the council?

Our decision means that Gunnedah Shire Council may increase its general income from \$8.9m in 2012/13 to \$12.5m in 2016/17 (see Table 1.1). After 2016/17, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.³⁶

The council estimates that over these 4 years, the additional rates revenue will accumulate to \$8.7m, or \$5.8m above the rate peg.³⁷

³⁴ Application Part B, p 72.

³⁵ Application Part B, pp 72-78.

³⁶ 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.

³⁷ Application Part A and IPART calculations.

1.5 What does our decision mean for ratepayers?

In its application, Gunnedah Shire Council indicated that it intended to increase rates over the 4 years differently for each ratepayer category as discussed above. In addition, the council indicated it would freeze water rates over the special variation period.

The council has calculated that:

- ▼ Average residential rates will increase by a cumulative 33.4%, or between \$26 and \$53 in the first year, and between \$118 and \$238 over 4 years.
- ▼ Average business rates will increase by a cumulative 27.2%, or between \$31 and \$214 in the first year, and between \$158 and \$1,074 and over 4 years.
- ▼ Average farmland rates will increase by a cumulative 33.4%, or \$239 in the first year, and \$1,081 over 4 years.
- ▼ Average mining rates will increase by a cumulative 120%, or \$53,833 in the first year and \$184,739 over 4 years.
- ▼ The majority of minimum rates will increase by a cumulative 21.7%, or \$75. The residential village and ordinary business minimum rate will increase by \$50 over the 4-year special variation period.³⁸

Table 1.4 shows the average increases by ratepayer category, as set out in the council's application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

³⁸ Application Part A, Worksheet 5a.

Table 1.4 Gunnedah Shire Council – Indicative increase in average rates as a result of the approved special variation, 2012/13 to 2016/17

Rate category	Average rate 2012/13 (\$)	Requested Increase (\$)	Requested Increase (%)	Average rate 2016/17(\$)
Residential				
Ordinary	527	176	33.4	704
Rural	714	238	33.4	952
Gunnedah	709	237	33.4	946
Village	355	118	33.4	473
Mix Development	461	158	34.2	619
Business				
Ordinary	573	158	27.6	731
Gunnedah	3,968	1,074	27.1	5,042
Mix Development	1,937	525	27.1	2,461
Farmland	3,236	1,081	33.4	4,317
Mining	153,413	184,739	120.4	338,152

Source: Application Part A, Worksheet 5a.

A Gunnedah Shire Council's proposed expenditure program

Tables A.1 and A.2 show Gunnedah Shire Council's proposed expenditure of the special variation funds and associated capital works program. The council will use the additional special variation revenue to fund increases in borrowing costs associated with its capital works program and to improve its financial position. The council will report annually on the actual expenditure against the program in its Annual Report.

Table A.1 Gunnedah Shire Council – proposed expenditure (\$'000)

	2013/14	2014/15	2015/16	2016/17
Special variation income	536	1,089	1,814	2,390
Funding for increased debt servicing	280	589	1,208	1,418
Funding to reduce operating deficits	257	500	605	973

Note: Figures may not add due to rounding.

Source: Gunnedah Application Part B, p 26, Base case scenario dated 23 May 2013 and IPART calculations.

Table A.2 Gunnedah Shire Council – proposed capital program (\$'000)

	2013/14	2014/15	2015/16	2016/17	Total
Asset Renewal					
Urban, regional and rural roads	5,261	4,710	4,945	5,029	19,945
Bridges, kerb & gutter	411	382	1,763	405	2,961
Plant	1,905	2,005	1,805	1,755	7,470
Swimming Pool	500	1,551	6,595	-	8,646
Other (saleyards, IT, parks & reserves)	1,013	1,249	1,009	2,161	5,431
Total Asset Renewal	9,090	9,897	16,117	9,350	44,454
Asset Upgrades					
Public buildings	650	40	-	-	690
Depot rehabilitation	203	21	21	21	266
Regional roads	206				206
Other upgrades (footpaths, cycleways)	217	1,701	1,896	145	3,958
Total Asset Upgrades	1,275	1,762	1,917	166	5,119
New Assets					
Saleyards	300	-	-	300	
Domestic Waste	300	60	75	-	435
Stormwater	178	38	583	105	904
Other New Assets (parks & reserves, commercial property)	544	788	502	127	1960
Total New Assets	1,322	886	1,160	232	3,599

Note: Figures may not add due to rounding.

Source: Gunnedah Shire Council Application Part A, Worksheet 6.

B Gunnedah Shire Council's projected revenue, expenses and operating result

The council will also report annually against its projected revenue, expenses and operating result as shown in Table B.1.

Table B.1 Summary of projected operating statement for Gunnedah Shire Council, 2013/14 to 2021/22 (\$'000)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Total revenue	28,584	31,134	32,833	33,552	35,088	36,622	38,105	39,722	41,433
Total expenses	28,435	29,983	31,853	33,261	34,675	36,208	37,633	39,205	40,606
Operating result from continuing operations	149	1,151	980	291	413	413	473	517	827

Note: The operating result from continuing operations 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: Gunnedah Shire Council, *Long Term Financial Plan 2013-14 - 2022-23*, adopted 30 January 2013, p 15.

C Gunnedah Shire Council – Comparison of rates with similar and surrounding councils

Table C.1 Comparison of average rates in 2011/12

Council	DLG Group	Average residential rate	Average farmland rate	Average business rate
Tamworth	4	729	1,474	2,303
Dubbo	4	900	2,646	4,957
Liverpool Plains	10	504	3,549	1,415
Narrabri	11	766	2,985	1,766
Moree Plains	11	842	7,574	3,197
Parkes	11	527	1,547	2,111
Warrumbungle	11	452	2,462	1,339
Gunnedah	11	577	3,097	3,127
Average for similar councils^a		631	2,325	1,788

^a The average includes DLG Group 11 councils and selected neighbouring councils.

Source: DLG, unpublished comparative data, 2011/12. DLG Group 11 contains 20 councils. We have shown data for selected Group 11 and surrounding councils. Dubbo is the nearest large regional council. Parkes data taken from its 2013/14 special variation application.

Table C.2 Average rates in 2016/17 if requested special variations are approved in full

Council	Average residential rate	Average farmland rate	Average business rate
Tamworth	944	1,849	2,982
Dubbo	1,053	3,098	5,803
Liverpool Plains	590	4,155	1,656
Narrabri	897	3,494	2,067
Moree Plains	985	8,866	3,742
Parkes	890	2,614	3,566
Warrumbungle	529	2,882	1,568
Gunnedah	797	4,019	4,132
Average for similar councils^a	765	2,816	2,183

^a The average includes DLG Group 11 councils and selected neighbouring councils.

Note: An assumed rate peg of 3% is applied from 2014/15 to 2016/17 unless a council has a current special variation application.

Source: DLG, unpublished comparative data, 2011/12 and IPART calculations.

D Comparative Indicators

Table D.1 Select comparative indicators for Gunnedah Shire Council, 2011/12

	Gunnedah Shire Council	DLG Group 11 average ^a	NSW average
General profile indicators			
Area (km ²)	5,068	–	–
Population	12,515	–	–
General Fund expenditure-continuing operations (\$m)	28.0	–	–
General Fund operating revenue per capita (\$)	2,373	2,011	2,011
Rates revenue as % total General Fund revenue (%)	31.9	31.3	45.7
Average rate indicators^b			
Average rate – residential (\$)	577	632	685
Average rate – business (\$)	3,127	1,781	2,552
Average rate – farmland (\$)	3,097	2,307	2,123
Average rate – mining (\$)	148,000	96,435	107,443
Socio-economic /capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	39,004	38,968	44,140
Growth in average annual income, 2006-2010 (% pa)	4.8	2.9	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.5	1.7	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	43	–	–
Outstanding rates and annual charges ratio (incl water and sewerage charges (%))	8.9	7.7	7.0
Productivity indicators^d			
FTE staff (number)	163	150	293
Ratio of population to FTE	77	91	126
Average cost per FTE (\$)	75,509	71,545	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	39.9	34.6	36.8
Consultancy/contractor expenses (\$m)	0.3	2.1	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	1.0	6.3	9.3

^a 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 Muswellbrook, Nambucca, Cowra, Corowa, Narrabri and Parkes.

^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). Gunnedah has water and sewerage operations. There are difficulties in comparing councils using this data due to differences in the scope and council 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; and ABS, *Socio Economic Indexes for Areas (SEIFA) 2011*, March 2013.