



Independent Pricing and Regulatory Tribunal

# **Guyra Shire Council's application for a special variation for 2014/15**

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

**Local Government — Determination**  
June 2014



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# 1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

Councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines set by the Office of Local Government (OLG),<sup>1</sup> and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act). Box 1.1 explains the Guidelines for 2014/15.

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## Box 1.1 The Guidelines for 2014/15

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

The Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

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Guyra Shire Council applied for a special variation in 2014/15 of 8.0% to remain permanently in the rate base. After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

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<sup>1</sup> Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective February 2014 the Division of Local Government became the Office of Local Government.

## 1.1 Our decision

We determined that Guyra Shire Council may increase its general income by 8.0% in 2014/15, including the rate peg of 2.3% that is available to all councils (see Table 1.1). The increase above the rate peg can be retained in the council's general income base permanently.

We have attached conditions to this decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

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

**Table 1.1 IPART's decision on Guyra Shire Council's application for a special variation in 2014/15**

Component	%
Increase	5.7
Rate peg	2.3
<b>Total increase</b>	<b>8.0</b>

### Box 1.2 Conditions attached to the approved special variation

IPART's approval of Guyra Shire Council's application for a special variation in 2014/15 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding asset renewals 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 2014/15 to 2023/24 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 the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Office of Local Government by 30 November each year on its compliance with these conditions.

We note the council will be reducing its general income for 2014/15 by \$139,611 (the value of the expiring special variation). This reduction shall take place before the council's general income is increased in 2014/15 in accordance with IPART's determination.



## 2 What did the council request and why?

Guyra Shire Council requested a special variation of 8.0% in 2014/15 comprising 2 components:<sup>2</sup>

- ▼ an increase of 5.7% to fund road related asset renewals (road resealing and drainage) and to improve its financial sustainability
- ▼ the rate peg of 2.3%.

The council estimated that the 5.7% increase above the rate peg would generate \$0.14m in additional revenue in 2014/15, and \$1.58m over 10 years. It indicated this revenue will marginally improve its financial sustainability and fund additional capital expenditure over 10 years as follows:

- ▼ \$1.12m for road resealing
- ▼ \$0.46m for rural drainage.

This increase will replace an existing special variation that is due to end on 30 June 2014. The expiring special variation was approved for 8.43% (including the rate peg of 3.50%) for the period 2009/10 to 2013/14 for similar purposes.

We note that the council's application indicates an intention to apply for a further special variation in 2015/16 to balance longer term revenue and service levels.<sup>3</sup>

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

## 3 How did we reach our decision?

We assessed Guyra Shire Council's application against the criteria in the Guidelines. In making our assessment we also considered a range of comparative data about the council.

Guyra Shire Council has applied on the basis of its adopted Integrated and Reporting (IP&R) documents, in particular its Delivery Program, Long Term Financial Plan (LTFP) and Asset Management Plan (AMP).

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<sup>2</sup> Guyra Shire Council, *Section 508(2) Special Variation Application Form - Part A* (Guyra Application Part A), Worksheet 1.

<sup>3</sup> Guyra Shire Council, *Section 508(2) Special Variation Application Form - Part B* (Guyra Application Part B), p 4.

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

1. The need to fund infrastructure renewal is demonstrated in the council's IP&R documents and reflects community priorities. The council has a small rates base and limited alternative revenue sources. The council faces challenges in funding asset renewal and improving financial sustainability without the special variation.
2. The council used a variety of engagement methods and provided evidence that the community is aware of the need for, and extent of, the rate rises. It demonstrated that it has considered the community's capacity and willingness to pay the proposed rate rises.
3. The impact of the rate rises is reasonable as the application is for the continuation of a special variation ratepayers are already paying. Year-on-year changes in average rates will reflect a combination of rate peg increases and changes due to land revaluations in 2014/15. The council anticipates some rates may decrease.
4. The council made realistic assumptions concerning its projected service delivery and budget scenarios.
5. The council reported productivity savings in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

**Table 3.1 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&amp;R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). LTFP must include scenarios both with and without the special variation.</p>	<p>The council identified the need for and purpose of the special variation to continue funding of road maintenance and renewal and improve financial sustainability, consistent with community priorities articulated in its IP&amp;R documents.<sup>a</sup></p> <p>The council has low rates income (due to its small population of 4,397), is heavily reliant on grants and has limited resourcing alternatives to fund road maintenance and renewal backlogs.<sup>b</sup> It last reported a backlog of \$14.5m and an annual road maintenance gap of \$1.5m.<sup>c</sup></p> <p>The additional revenue will marginally improve the council’s financial sustainability, but its LTFP forecasts large ongoing operating deficits, even with the special variation.<sup>d</sup></p> <p>TCorp identified that underfunding the council’s asset renewal will increase infrastructure backlogs.<sup>e</sup> It rated the council’s financial sustainability as Moderate and its outlook Negative.<sup>f</sup></p>
<p>2. Evidence that the community is aware of need for, and extent of, the proposed rate rises. The IP&amp;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 various engagement methods to ensure community awareness and provide opportunities for feedback, including:</p> <ul style="list-style-type: none"> <li>▼ meetings (public and reference groups)</li> <li>▼ bulk mail out, special variation online portal, monthly eNewsletters and social media</li> <li>▼ advertising through newspaper/radio and static displays</li> <li>▼ online and letter box survey (79% of 186 respondents supported continuing the special variation).<sup>g</sup></li> </ul> <p>The council received 6 ratepayer submissions and IPART received one. The council considered ratepayer feedback and demonstrated it considered the community’s capacity and willingness to pay even though the proposal will continue a special variation ratepayers are already paying.<sup>h</sup></p>
<p>3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and proposed purpose of the variation. The council’s IP&amp;R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.</p>	<p>The proposed rate rises are reasonable as:</p> <ul style="list-style-type: none"> <li>▼ Year-on-year changes will reflect rate peg increases combined with adjustments from land revaluations only. The council indicated that some rates will decrease by 1.7% while the highest increase will be around 3.1%.<sup>i</sup></li> <li>▼ Average residential rates are slightly higher than OLG Group 9, but lower than neighbouring councils. Business and farmland rates are similar to or lower than OLG Group 9 and neighbouring councils.<sup>j</sup></li> </ul> <p>While the Local Government Area has a relatively low SEIFA ranking (27 out of 153),<sup>k</sup> we consider the proposed changes are modest. The council has a pensioner and hardship policy.</p>

Criterion	IPART findings
4. Delivery Program and LTFP must show evidence of realistic assumptions.	<p>Assumptions about the proposed level of service and proposed rate of work to address asset backlogs appear realistic.</p> <p>Assumptions related to the rate peg and the growth in labour and non-labour costs are realistic in the context of the council's projected budget.</p>
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 reported productivity and cost savings realised from sharing services with neighbouring Armidale Dumaresq Council and working as part of the Northern Group of Councils.<sup>l</sup></p> <p>It achieved further savings from some online service provision and sales of excess council land, although these savings were not quantified.<sup>m</sup></p> <p>The council is undertaking operational and structural reviews, including of its aged and childcare services, to identify future opportunities for savings.<sup>n</sup></p>
6. Other relevant matters.	None
<p><sup>a</sup> Guyra Application Part B, Appendix 1.1 Community Strategic Plan 2013-2023, p 24, Appendix 1.5 Delivery Program 2013-2017, p 3 and Appendix 1.2 Long Term Financial Plan 2013-23, pp 3-4.</p> <p><sup>b</sup> Guyra Application Part B, pp 5, 8-9.</p> <p><sup>c</sup> Guyra Shire Council, <i>General Purpose Financial Statements for the year ended 30 June 2013, Special Schedule 7</i>, p 1.</p> <p><sup>d</sup> Guyra Application Part B, Appendix 1.2(a), <i>LTFP statements for General Fund</i>, p 4.</p> <p><sup>e</sup> New South Wales Treasury Corporation (TCorp), <i>Guyra Shire Council, Financial Assessment and Benchmarking Report</i>, 22 March 2013, p 4.</p> <p><sup>f</sup> New South Wales Treasury Corporation (TCorp), <i>Financial Sustainability of the New South Wales Local Government Sector</i>, April 2013, p 17.</p> <p><sup>g</sup> Guyra Application Part B, Appendix 2.2, <i>Community Survey Special Rate Variation, Summary of Results</i>, pp 3-4 and Appendix 2.3, <i>Community Engagement Plan, Special Rate Variation, Summary of Results</i>, pp 8, 13, 18 and 23.</p> <p><sup>h</sup> Guyra Application Part B, pp 20-21.</p> <p><sup>i</sup> Guyra Application Part B, p 20.</p> <p><sup>j</sup> Appendix C, <i>Comparative Indicators</i>, Table C.2 and Guyra Application Part B, p 21.</p> <p><sup>k</sup> Appendix C, <i>Comparative Indicators</i>, Table C.2. The socio-economic index for areas (SEIFA) rankings for local government are published by the Bureau of Statistics.</p> <p><sup>l</sup> Guyra Application Part B, p 34.</p> <p><sup>m</sup> Guyra Application Part B, Appendix 1.5, <i>Delivery Program 2013-2017</i>, p 4.</p> <p><sup>n</sup> Guyra Application Part B, p 9.</p>	

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

Our decision means that Guyra Shire Council may increase its general income by an estimated \$0.06m in 2014/15 as indicated by Table 4.1.<sup>4</sup> This will be permanently incorporated into the council's revenue base. After 2014/15, general income will increase by the annual rate peg unless we approve further special variations.<sup>5</sup>

**Table 4.1 Impact of approved special variation on Guyra Shire Council income in 2014/15**

<b>Notional general income 2013/14 (\$)</b>	<b>Adjustment: expiring special variation</b>	<b>Increase approved (%)</b>	<b>Increase approved (\$)</b>	<b>Adjustments: Catch-ups, valuations</b>	<b>Permissible general income 2014/15 (\$)</b>
2,621,245	-139,611	8.0	198,531	-645	2,679,520

**Note:** The net increase in general income is \$58,275 after adjustments for the expiring special variation and a prior year excess.

**Source:** Guyra Application Part A, Worksheet 4.

## 5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

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

- ▼ average residential rates will increase by 1.9% or \$9
- ▼ average business rates will increase by 2.3% or \$15
- ▼ average farmland rates will increase by 1.4% or \$31
- ▼ average mining rates will increase by 2.3% or \$13.<sup>6</sup>

Table 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

<sup>4</sup> Guyra Application Part A, Worksheet 1 and Worksheet 4.

<sup>5</sup> General income in future years cannot be determined with precision, as it will be influenced by several factors apart from the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The OLG is responsible for monitoring and ensuring compliance.

<sup>6</sup> Guyra Application Part A, Worksheet 5 and IPART calculations using weighted averages based on the number of assessments in each rating category.

**Table 5.1 Indicative rate increases under the approved special variation**

<b>Category/ Sub-category</b>	<b>Average rate 2013/14 (\$)</b>	<b>Approved increase (\$)</b>	<b>Approved increase (%)</b>	<b>Average rate 2014/15 (\$)</b>
<b>Residential</b>				
Guyra	468	10	2.1	478
Tingha	467	12	2.6	479
Village	352	11	3.1	363
Non-urban	547	-9	-1.7	538
<b>Business</b>				
Guyra	794	18	2.3	812
Tingha	515	12	2.3	527
Village	227	5	2.2	232
<b>Farmland</b>				
Farmland	2,249	31	1.4	2,280
Intensive	10,746	247	2.3	10,993
<b>Mining</b>				
	577	13	2.3	590

**Note:** Average rates include all applicable ordinary and special rates rounded to the nearest dollar.

**Source:** Guyra Application Part A, Worksheet 5.

The percentage increase in average rates is lower than the 2014/15 special variation increase of 8% because the special variation includes continuing an expiring variation, which is already being paid by ratepayers. Rate levels will also be impacted by any changes in land valuations that apply in 2014/15. The council anticipates that some rates may decrease.



## **Appendices**





## **A Expenditure to be funded from the special variation**

Tables A.1 and A.2 show how the council intends to spend the special variation income that it receives above the rate peg.

The council will use the additional special variation revenue of \$1.6m over 10 years to reduce its operating deficits (Table A.1) and for additional capital expenditure (Table A.2).

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

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
<b>Special variation income above rate peg</b>	<b>141</b>	<b>145</b>	<b>149</b>	<b>152</b>	<b>156</b>	<b>160</b>	<b>164</b>	<b>168</b>	<b>172</b>	<b>177</b>	<b>1,585</b>
Funding for increased operating expenditures	-	-	-	-	-	-	-	-	-	-	-
Funding to reduce operating deficits <sup>a</sup>	141	145	149	152	156	160	164	168	172	177	1,585
Funding for capital expenditure	141	145	149	152	156	160	164	168	172	177	1,585
Balance	-	-	-	-	-	-	-	-	-	-	-

<sup>a</sup> Using the special variation revenue for capital expenditure improves the council's operating result by a corresponding amount.

**Note:** Numbers may not add due to rounding.

**Source:** Guyra Application Part A, Worksheet 6.

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Rural road resealing	100	103	105	108	110	113	116	119	122	125	1,120
Rural road drainage	41	42	44	45	46	47	48	49	51	52	464
<b>Total Asset Renewal</b>	<b>141</b>	<b>145</b>	<b>149</b>	<b>152</b>	<b>156</b>	<b>160</b>	<b>164</b>	<b>168</b>	<b>172</b>	<b>177</b>	<b>1,585</b>

**Note:** Numbers may not add due to rounding.

**Source:** Guyra Application Part A, Worksheet 6.

## **B Guyra Shire Council's projected revenue, expenses and operating balance**

The council will report annually against its projected revenue, expenses and operating result as classified in its Annual Financial Statements and as currently set out in its LTFP (shown in Table B.1).

Revenues and the operating result in the annual accounts are reported inclusive of capital grants and contributions and asset sales.

In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excluded all items of a capital nature. We have adopted the same approach in Table B.1. When they are included in the council's public reports, total revenue will be higher and the operating deficit lower (or the operating surplus higher).

**Table B.1 Summary of projected operating statement for Guyra Shire Council, 2014/15 to 2023/24 (\$000)**

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue (excluding capital grants and contributions)	9,422	9,661	9,911	10,169	10,439	10,706	10,950	11,231	11,498	11,754
Total expenses	10,458	10,771	11,003	11,219	11,446	11,682	11,926	12,183	12,448	12,721
Operating result from continuing operations	-1,036	-1,110	-1,092	-1,050	-1,006	-977	-976	-953	-950	-968

**Note:** Numbers may not add due to rounding.

**Source:** Guyra Application Part B, Appendix 1.2(a), *Long Term Financial Plan, General Fund Data with base case and variation*, Worksheet 'Base case + 8% in 14\_15'.

## C Comparative indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

In Table C.1 we show how selected indicators for Guyra Shire Council have changed over the 3 years to 2011/12.

**Table C.1 Trends in selected indicators for Guyra Shire Council, 2009/10 to 2011/12**

	2009/10	2010/11	2011/12	Average Change (%)
<b>Productivity (labour input) indicators<sup>a</sup></b>				
FTE staff (number)	71	61	61	-7.3
Ratio of population to FTE	64	74	74	8.1
Average cost per FTE (\$)	57,465	67,033	70,557	10.8
Employee costs as % operating expenditure (General Fund only) (%)	42.2	39.8	38.2	
Consultancy/contractor expenses (\$m)	0.7	0.5	1.1	27.6
Consultancy/contractor expenses as % operating expenditure (%)	7.1	4.5	9.6	

<sup>a</sup> Based upon total council operations including General Fund, Water & Sewer and other funds, if applicable.

**Source:** OLG, unpublished data.

In Table C.2 we compare the latest selected published data on Guyra Shire Council with the average of the councils in the OLG Group and with NSW councils as a whole.

**Table C.2 Select comparative indicators for Guyra Shire Council, 2011/12**

	Council	OLG Group 9 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	4,521		
Population	4,543		
General Fund expenditure-continuing operations (\$m)	10.3	13.0	56.6
General Fund operating revenue per capita (\$)	2,057	3,800	2,011
Rates revenue as % total General Fund income (%)	25.9	18.9	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	409	347	685
Average rate – business (\$)	634	683	2,552
Average rate – farmland (\$)	2,103	2,390	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010 (\$)	32,068	35,717	44,140
Growth in average annual income, 2006-2010 (% pa)	2.8	3.4	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.3	1.0	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	27		
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	7.5	11.2	7.0
<b>Productivity indicators<sup>d</sup></b>			
FTE staff (number)	61	70	293
Ratio of population to FTE	74	51	126
Average cost per FTE (\$)	70,557	69,438	74,438
Employee costs as % operating expenditure (General Fund only) (%)	38.2	33.0	36.8
Consultancy/contractor expenses (\$m)	1.1	1.4	6.9
Consultancy/contractor expenses as % operating expenditure (%)	9.6	9.8	9.3

<sup>a</sup> OLG Group 9 is classified as Rural Medium Agricultural with a population of 2,000-5,000 or Remote with a population of 1,000-3,000. The group comprises 21 councils of which the most comparable to Guyra Shire Council is Walcha Council. Comparable neighbouring councils in the New England area are Uralla Shire, Glen Innes Severn and Inverell Shire councils (OLG Groups 10 and 11).

<sup>b</sup> Average rate equals total rates revenue divided by the number of assessments in each category.

<sup>c</sup> Average annual income includes income from all sources excluding government pensions and allowances.

<sup>d</sup> Based upon total council operations including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and may be defined and measured differently between councils.

**Source:** OLG, unpublished data; ABS, National Regional Profiles, NSW, November 2011; ABS, Regional Population Growth, July 2012; ABS, Estimates of Personal Income for Small Areas, 2005-06 to 2009-10, February 2013, ABS, Socio-Economic Indexes for Areas (SEIFA) 2011, March 2013.