



Independent Pricing and Regulatory Tribunal

Gwydir Shire Council's application for a special variation for 2016-17

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

Local Government — Determination
May 2016



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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 income from rates. 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.

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (section 508(2)) or for successive years up to seven years (section 508A).

IPART assesses these applications against criteria in the Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2016-17.

Gwydir Shire Council (Gwydir Council) applied for a special variation for 2016-17 of 30%, to remain permanently in the rate base.²

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.

Box 1.1 The Guidelines for 2016-17

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and 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. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, January 2016 (the Guidelines).

² Gwydir Shire Council, *Special Variation Application Form Part A 2016-17* (Gwydir Council, *Application Part A*), Worksheet 1.

Our decision enables the council to enhance its financial sustainability while maintaining the existing services it provides. The council last year applied for a special variation increase of 15% for both 2015-16 and 2016-17; a cumulative increase of 32.25%. This was approved in part ie, a 15% increase for 2015-16 on a temporary basis. Partial approval was granted because the criterion for community awareness had not been adequately satisfied. The council was encouraged to re-engage with its community in order to re-apply in 2016-17 for its originally proposed special variation.

The council consulted its community extensively to address these issues, both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

1.1 Our decision

We determined that Gwydir Council may increase its general income in 2016-17 by 30.0%, including the rate peg of 1.8% that is available to all councils (see Table 1.1). This increase includes the continuation of the 12.6% increase above the rate peg approved last year that would otherwise expire at 30 June 2016.³ The special variation 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 purposes consistent with those set out in its application.

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

Table 1.1 IPART's decision on Gwydir Shire Council's application for a special variation in 2016-17

Component	%
Increase to improve financial sustainability and continue the expiring special variation	28.2
Rate peg	1.8
Total increase	30.0

³ Gwydir Shire Council, *Special Variation Application Form – Part B for 2016-17* (Gwydir Council, *Application Part B*), p 4.

Box 1.2 Conditions attached to Gwydir Shire Council's approved special variation

IPART's approval of Gwydir Shire Council's application for a special variation in 2016-17 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 and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2016-17 to 2025-26 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan (LTFP) 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, and
 - the outcomes achieved as a result of the actual program of expenditure.

We note the council will be reducing its general income for 2016-17 by \$718,783 (the value of the expiring special variation). This reduction must take place before the council's general income is increased in 2016-17 in accordance with IPART's determination.

2 What did the council request and why?

Gwydir Council applied to increase its general income by 30.0% in 2016-17, consisting of:

- ▼ a 28.2% increase to improve financial sustainability which also includes an expiring special variation of 12.6%, and
- ▼ the rate peg of 1.8%.⁴

This is consistent with the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At the time, the council proposed an increase of 32.3% in 2016-17, including the rate peg. These funds were to be used for improving financial sustainability.

The proposed increase includes replacement of an existing special variation that is due to expire on 30 June 2016. The expiring levy was originally approved for 12.6% above the rate peg for 2015-16 (1-year) to allow temporary financial improvement, whilst allowing the council to consult further with its community.

⁴ Gwydir Council, *Application Part A*, Worksheet 4 and Gwydir Council, *Application Part B*, pp 4-5.

Under this proposed special variation, the council's permissible general income would increase from \$5.8 million in 2015-16 to \$7.5 million in 2016-17. The council applied to permanently incorporate this increase into its general income base.

The council estimates that its requested increase of 28.2% above the rate peg would generate \$1.6 million in additional revenue in 2016-17 and \$18.3 million over 10 years. The primary purpose of the additional revenue is to help the council reduce its operating deficit (before capital grants and contributions), and become financially sustainable by 2025-26.⁵

The council indicated that during the 10 years of its Long Term Financial Plan (LTFP), it proposes to spend \$18.3 million on improving the operating balance.⁶

More detail on the council's proposed program of expenditure to 2025-26 is provided in Appendices A and B.

3 How did we reach our decision?

We assessed Gwydir Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix C.⁷

Gwydir Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2014-2024, Delivery Program 2016-2020* and *Long Term Financial Plan 2015/16- 2025/26*.

The rate increase for which the council has applied for is substantial, and we considered, among other things, the council's need for the increase, its consideration of the community's priorities, capacity and willingness to pay, and the impact of the rate increase on ratepayers. We noted that rates would not increase by 30.0% in 2016-17 as ratepayers are already paying the 15.0% increase that was approved on a temporary basis in 2015-16. The overall rate rise in 2016-17 will be 15.7% on 2015-16 levels.

⁵ Gwydir Council, *Application Part B*, p 5.

⁶ Gwydir Council, *Application Part A*, Worksheet 6.

⁷ See Appendix C. Gwydir Council is in OLG Group 10, which is classified as Rural Large. The group comprises 25 councils, including councils such as Kyogle Shire Council, Lachlan Shire Council, Liverpool Plains Shire Council and Uralla Shire Council.

We found that Gwydir Council's application met the criteria. In particular, we found that:

1. The **need for the proposed revenue** reflects community priorities as is demonstrated in the council's IP&R documents and is supported by IPART FFTF's assessment of the council's financial sustainability.
2. The council provided adequate evidence that **the community is aware** of the need for, and extent of, the rate rise. This application has rectified most of the issues identified with the council's 2015-16 application. The council provided the annual and cumulative impact (in dollar and percentage terms) for all rating subcategories. Though the dollar impact of the special variation was overstated on occasion, the impact is considered immaterial.
3. The **impact of the proposed rate rise on ratepayers** is substantial but reasonable given the purpose of the special variation. Ratepayers are already paying the 15.0% partially approved special variation that would otherwise expire. The overall rate rise in 2016-17 will be 15.7% on 2015-16 levels. The council has taken into account ratepayers' willingness and capacity to pay.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
5. The council reported **productivity savings** in past years, and indicated its intention to realise further savings with or without the special variation.

Table 3.1 summarises our assessment against the criteria. Sections 3.1, 3.2 and 3.3 discuss our findings against criteria 1, 2 and 3 in more detail.

Table 3.1 Summary of IPART's assessment of Gwydir Shire Council's application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council's IP&R documents clearly explain the need for and purpose of the special variation and show that:</p> <ul style="list-style-type: none"> ▼ it is consistent with community priorities, and ▼ it will address the council's financial sustainability. <p>Without the special variation, the council intends to reduce service levels in order to become financially sustainable.</p> <p>NSW Treasury Corporation (TCorp) (2013) reported that the council was continually experiencing large operating deficits (-30.9% operating performance ratio in 2011-12) and noted that the council was not in a financial position to maintain its service levels.</p> <p>This is consistent with our 2015 FFTF assessment which observed the council's operating performance ratio was -37.8% in 2014-15.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.</p>	<p>The council's special variation application for 2015-16 was partially approved as this criterion was not adequately satisfied. The council has since made the community aware of the need for and the extent of the rate increase. To achieve this awareness it held community meetings, placed advertisements in newspapers and engaged the University of Technology Sydney, Centre for Local Government (UTS:CLG) to ensure a higher quality engagement process.</p> <p>Feedback from the online (self-selecting) survey indicated that 49% (of 59 respondents) support the current application. It was acknowledged that this survey was not representative of the population.</p> <p>In the absence of submissions against the special variation, the council considered the community supportive of the application. IPART received 9 submissions, all opposing the increase.</p> <p>We note there were some minor inconsistencies in the communication of the percentage impact for two rating subcategories. However, the overall annual and cumulative increases (in dollar and percentage terms) for the major rating categories were clearly communicated.</p>

Criterion	IPART findings
<p>3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay. 	<p>The 30% increase is substantial but reasonable given the purpose of the special variation and ratepayers are already paying the 15% increase approved in 2015-16 that would otherwise expire.</p> <p>Our assessment finds:</p> <ul style="list-style-type: none"> ▼ The 2013-14 average residential rate (\$429) was lower than the average of OLG Group 10 by 21% and the NSW average by 42%. (These figures exclude the impact of Gwydir Council's special variation and rating restructure in 2015-16). ▼ The council has a SEIFA ranking of 38 out of 153. This indicates that the Local Government Area is relatively disadvantaged in socioeconomic terms. ▼ The average income level (\$33,581) was below the Group 10 and NSW averages by 19% and 32%, respectively (2013-14 figures). ▼ The council's outstanding rates ratio for 2014-15 is 0.3%. The benchmark for rural councils is 10.0%. ▼ The special variation will increase average residential rates from \$610 in 2015-16 to \$706 in 2016-17 (an increase of \$95). <p>The council considers that the community has the capacity and willingness to pay the higher rates based on:</p> <ul style="list-style-type: none"> ▼ the absence of community opposition ▼ the hardship policy which can assist ratepayers who may be in financial hardship, and ▼ the council having only been granted one previous special variation (2015-16).
<p>4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.</p>	<p>The council adopted the Community Strategic Plan in 2015. The council exhibited its Delivery Program between 17 December 2015 and 2 February 2016 and adopted it on 11 February 2016.</p> <p>The council adopted the LTFP setting out the special variation scenario on 25 February 2016.</p>
<p>5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>Over the past 2 years, the council has realised savings of \$1.0 million through service reviews and a further \$1.0 million through reducing employee expenses.</p> <p>The council proposes further annual savings of \$0.3 million with, or \$1.1 million without the special variation.</p>

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2.

Sources: Gwydir Council, *Application Part A* and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Gwydir Shire Council Financial Assessment, Sustainability and Benchmarking Report*, 9 April 2013; Gwydir Council, *Application Part B*, Attachment 2, *Delivery Program 2016-2020*, pp 9, 13; Gwydir Council, Financial Statements, 2014-15, p 84; Gwydir Council, *Application Part B*, Attachment 6, *Community Feedback - Community Engagement Report*, p 6; Email from Gwydir Shire Council, 12 April 2016.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

The council has clearly articulated the community's priorities and identified the need for and purpose of the requested special variation in its IP&R documents. The Community Strategy Plan lists 'proactive regional and local leadership' (through sustainable financial performance) as one of the Local Government Area's (LGA) highest priorities over the next 10 years.⁸

Alternative funding options

The council is not in a financially sustainable position. As IPART partially approved the council's special variation request last year, this application requests the cumulative 30% increase applied for in 2015-16. The council considers the proposed special variation, combined with planned cost savings, to be the only feasible options to assist it in achieving financial sustainability.

Financial sustainability, including infrastructure backlogs

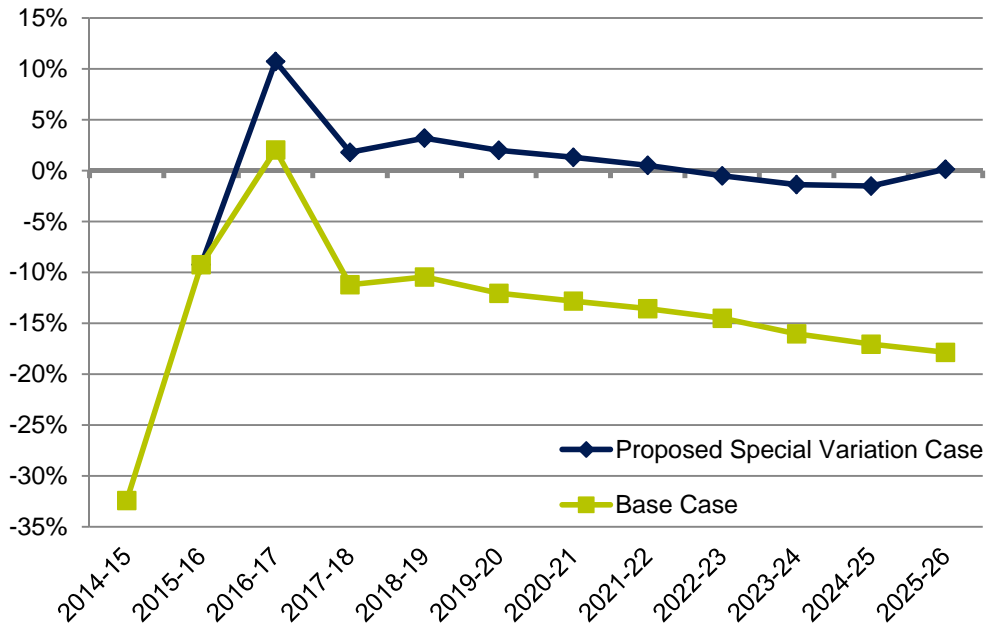
The council is forecasting the operating performance ratio declining from 2.0% to -17.9% (or a surplus of \$0.49 million to a deficit of \$4.95 million) over the next 10 years without a special variation. The special variation would enable the council to record operating performance ratios (before capital grants and contributions) which decline from 10.7% to 0.1% (or surpluses between \$2.80 million to \$0.04 million) for the next 10 years. The fall in projected ratios for both the special variation and base case is attributed to the removal of additional funding from the Roads to Recovery grants from 2016-17.

The special variation would place the council in a better position to reach sustainability benchmarks including the infrastructure backlog and asset renewal ratios, as well as maintain existing service levels.⁹

⁸ Gwydir Council, *Application Part B*, Attachment 1, *Community Strategic Plan 2014/24*, p 19.

⁹ Gwydir Council, *Application Part A*, Worksheet 7.

Figure 3.1 Gwydir Council's Operating Ratio excluding Capital Grants and Contributions (2014-15 to 2025-26)



Note: The improvement in the base case for the 2016-17 projection is related to a \$2.5 million saving in road depreciation costs (28% saving from previous year). The fall in the forecasts for both the special variation and base case in 2017-18 is attributed to the removal of additional funding from the Roads to Recovery grants in 2016-17.

Source: Gwydir Council *Annual Financial Statements*, various, Gwydir Council, *Application Part A, Worksheet 7*, IPART calculations and email from Gwydir Shire Council, 19 April 2016.

Table 3.2 Projected operating performance ratio (%) for Gwydir Council's special variation application compared with its FFTF proposal

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Application - including SV ^a	-9.2	10.7	1.8 ^c	3.2	2.0	1.3	0.5	-0.5	-1.4	-1.5
Excluding SV	-9.2	2.0	-11.2 ^c	-10.4	-12.0	-12.8	-13.6	-14.5	-16.0	-17.0
FFTF – including SV ^b	-33.0	-13.9	0.4	1.6	-0.8	-1.6	-3.6	-4.9	-7.1	-8.0

^a The improved results compared to the FFTF forecast are a result of cost saving measures (redundancies), roads revaluation (decreased depreciation costs), the unanticipated Roads to Recovery grant (not included in FFTF), and additional cost savings as identified through the community consultation process.

^b The projected ratios include the then proposed special variation for 2016-17 of 32.3% cumulative (29.8% above the assumed rate peg). This was to continue the temporary one year special variation of 15.0% approved in 2015-16 (12.6% above the rate peg).

^c The projected fall in the 2017-18 ratios for both the base and special variation case relates to the removal of the Roads to Recovery grants in 2016-17 (approximately \$2.4 million).

Note: FFTF figures are calculated as 3 year moving averages. The council did not provide projections at the time of FFTF which excluded the special variation scenario.

Source: Gwydir Council, *Application Part A*, Worksheet 7, email from Gwydir Shire Council, 12 and 19 April 2016.

In 2015, our Fit for the Future (FFTF) assessment found the council 'Not Fit' as it did not satisfy the scale and capacity and financial criteria. The council:

- ▼ Did not meet the criterion for sustainability as it was not forecast to meet **the operating performance benchmark** by 2024-25 with an operating performance ratio of -8.0%. This forecast assumed the approval of a permanent 32.3% special variation in 2016-17.
- ▼ Satisfied the criterion for infrastructure and service management as it was forecast to remain above the **asset maintenance benchmark** and the debt service benchmark by 2019-20.
- ▼ Met the criterion for efficiency based on its operational expenditure per capita declining over the period to 2019-20. This was partly due to reductions in service levels.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was 'very weak'.¹⁰ This assessment was made largely due to forecast deficits. TCorp also considered these operating deficits would affect the council's capacity to fund required asset renewals and capital expenditure.¹¹

The special variation allows for an improvement in the operating performance ratio and for the council to maintain adequate service levels.

¹⁰ New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 17.

¹¹ New South Wales Treasury Corporation (TCorp); *Gwydir Shire Council Financial Assessment, Sustainability and Benchmarking Report*, April 2013, pp 4-5.

3.2 Community engagement and awareness

We consider the council has met this criterion.

In 2015, Gwydir Council applied for a multi-year special variation of 15% in each of 2015-16 and 2016-17. IPART partially approved the request as we had considered that the council did not meet the criterion for community engagement and awareness. The council did not provide adequate evidence that the community was aware of the full annual or cumulative impact of the special variation (in dollar and percentage terms) and the community consultation was insufficient, given the large percentage increase requested.

Consultation strategy

For its 2016 application, we consider the council adequately communicated the impacts of the rate increases.

Whilst there was no rationale provided as to why the percentage increases varied across rating categories and subcategories, the annual and cumulative increases (in dollar and percentage terms) were clearly provided and the council acknowledged that the impacts were overstated in its communication.¹²

Furthermore, we note that there were some inconsistencies between the communicated percentage impact for two rating subcategories.¹³ This was limited to farmland intensive and residential rural. As there are only two rate assessments within the farmland intensive category, we consider that the council has generally satisfied this criterion.

The council used a variety of methods to engage with its community for this application, including:

- ▼ Advertising the special variation in newspapers (including the average percentage and dollar impact for all categories and subcategories). The proposed percentage and dollar impact was advertised in the Bingara Advocate which has a circulation of 900 - this represents 18% of Gwydir Council's population (based on 2012 data). We note that the average dollar impact per subcategory was overstated to the community; this impact was immaterial and given the absence of community opposition/submissions, the council considered that there was some support for the rate increases.¹⁴
- ▼ Community meetings (held during May and June 2015).

¹² Email from Gwydir Shire Council, 20 April 2016.

¹³ The residential rural percentage impact was understated at 17.26% instead of the actual increase of 27.21%. The farmland intensive percentage impact was incorrectly stated as -71.39% instead of the actual increase of 15.58%.

¹⁴ The council advised that it erred in not deducting the expiring special variation before applying the proposed 30.00% increase which led to the dollar impact being overstated to the community.

- ▼ The council commissioned the University of Technology Sydney, Centre for Local Government (UTS:CLG) to undertake an online (self-selecting) community survey and conduct a deliberative panel.

The deliberative panel consisted of 22 participants. Prior to the information sessions, 45% of participants indicated that they would support a rate rise. Following the sessions, this support increased to 73%. UTS:CLG clearly explained the overall percentage impact of the special variation and provided an anonymised spreadsheet of the dollar impact for each participant's property.

The survey was accessed online and self-selecting; with a very small number of respondents (94) representing 2% of Gwydir Council's population (based on 2012 data). Of those who answered the relevant questions, the results revealed 49% of respondents supported this special variation application.¹⁵ We note that the survey used was not targeted to be representative of the population.¹⁶

The council considered that once the community was fully informed on the need for the special variation, the application would be supported. This was evident with the deliberative panel.

Submissions

The council did not receive any submissions opposing the special variation. One supportive written submission was received by council which compares to the eight submissions received last year that opposed the application.

IPART received nine submissions opposing the special variation for 2016-17, with common concerns being the unaffordability of the rate increase and perceived council inefficiencies. Last year's application saw IPART receive a petition with over 1000 signatures against the proposed special variation.

3.3 Reasonable impact on ratepayers

We consider the impact of the special variation will be substantial given the size of the dollar increase. The council estimates the average dollar impact on residential rates at \$95, including the rate peg, for 2016-17.

¹⁵ There were 59 respondents to the question 'Do you support retention of the temporary 15% rate raise granted for the current rating year as well as an additional permanent 15% raise for the 2016-17 rating year and thereafter?' and 29 selected yes.

¹⁶ Gwydir Council, *Application Part B, Attachment 6, Community Feedback - Community Engagement Report*, pp 19-20, 23-24.

Socioeconomic indicators and the impact on ratepayers

Table 3.3 Gwydir Council - comparison of rates and socioeconomic indicators with surrounding councils and Group 10 averages (2013-14)

Council (OLG Group)	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Surrounding Councils					
Moree Plains ^d (11)	938	48,990	1.9	5.9	23
Inverell Shire (11)	746	35,598	2.1	7.2	18
Uralla Shire ^d (10)	585	36,711	1.6	5.3	94
Gwydir Shire (10)	429	33,581	1.3	6.6	38
Guyra Shire (9)	424	34,225	1.2	8.0	27
Group 10	540	41,325	1.3	6.6	-

^a The average residential rate (ordinary) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

^b The outstanding rates ratio includes water and sewer.

^c The highest possible ranking is 153 which denotes a council that is least disadvantaged in NSW.

^d Councils Moree Plains and Uralla Shire have previously had multiple special variations granted in the past 10 years. The data in this table captures the increases from these special variations.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

Table 3.3 shows that:

- ▼ In 2013-14, average residential rate levels were lower than the Group 10 average by \$112 (20.7%) and lower than three surrounding councils. (These figures exclude the special variation granted last year).
- ▼ Based on 2011 figures, Gwydir Council had the lowest average personal income (\$33,581) compared to surrounding councils. It was also 18.7% lower than the Group 10 average.
- ▼ The ratio of average rates to income (1.3%) in 2013-14 was relatively low compared to surrounding councils and was equal to the Group 10 average.
- ▼ The council has a relatively low SEIFA ranking of 38 out of 153.¹⁷

¹⁷ OLG, Unpublished data and IPART calculations. The SEIFA index ranks LGAs in terms of their relative socioeconomic advantage and disadvantage. A ranking of 153 means the LGA is the least disadvantaged in socioeconomic terms.

Our assessment found that:

- ▼ While residential ratepayers account for 56% of the total assessments, these ratepayers contribute only 16% of the council's rates revenue. We also note that 98% of residential properties are valued below \$100,000.
- ▼ The council's outstanding rates ratio for 2014-15 is 0.3%. The benchmark for rural councils is 10.0%. This is supportive of the council's assessment that ratepayers have the capacity to pay.
- ▼ Since the council was formed as a result of a voluntary merger between Bingara and Yallaroi Shire Councils in 2004, Gwydir Council has applied for and been partially granted one special variation (15.0% was approved in 2015-16).
- ▼ The council has a hardship/debt recovery policy for ratepayers requiring financial assistance. Provisions include payment arrangements for pensioners or those in financial hardship.
- ▼ The council employed improved consultation strategies for the 2016-17 application to gauge the willingness of the community to pay the rate increases. Additionally, the council considered its level of rates relative to comparable councils.¹⁸

Taking these factors into account, we consider that the impact of the increases are substantial, but reasonable, given the council's existing rate levels, limited history of previous special variations and the purpose of the application.

4 What does our decision mean for the council?

Our decision means that Gwydir Council may increase its general income in 2016-17 by an estimated \$1.7 million as indicated in Table 4.1.¹⁹ This increase will be permanently incorporated into the council's revenue base. After 2016-17, the council's general income will increase by the annual rate peg unless we approve further special variations.²⁰

¹⁸ Gwydir Council, *Application Part B*, Attachment 2, *Delivery Program 2016-2020*, pp 11-12.

¹⁹ Gwydir Council, *Application Part A*, Worksheets 1 and 4.

²⁰ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

Table 4.1 Permissible general income of Gwydir Council in 2016-17 arising from the special variation approved by IPART

Notional general income 2015-16 (\$)	Adjustment: expiring special variation (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations ^a (\$)	Permissible general income 2016-17 (\$)
6,508,109	718,783	30	1,736,798	5,756	7,531,880

^a A prior catch-up of \$5,756 to be recouped in 2016-17 that had not been recouped by the time of the application was submitted to IPART.

Source: Gwydir Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

This extra income is the amount the council requested to enable it to realise its planned operating surpluses and maintain service levels at acceptable standards.

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.

The percentage increases in average rates are less than the rise in general income of 30.0% because the 2016-17 special variation includes continuing the existing special variation of 15.0%, which is already being paid by ratepayers. The overall rate rise in 2016-17 will be 15.7% on 2015-16 levels.²¹

The rate increases will not be uniformly distributed across all rating categories.

The council has calculated that:

- ▼ the average residential rate will increase by 15.6%, or \$95
- ▼ the average business rate will increase by 20.1%, or \$228, and
- ▼ the average farmland rate will increase by 15.5%, or \$729.²²

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

²¹ The council applied last year for a multi-year 508A with increases of 15.00% for 2015-16 and 15.00% for 2016-17, a cumulative increase of 32.25%.

²² Gwydir Council, *Application Part A*, Worksheet 5a.

Table 5.1 Indicative increases in average rates under Gwydir Council's approved special variation for 2016-17

Category^a	Average rate 2015-16 (\$)	Increase (%)	Increase (\$)	Average rate 2016-17 (\$)
Residential Average	610	15.6	95	706
Residential	427	13.9	59	486
Residential – Rural	605	27.2	165	770
Residential – Village	370	13.3	49	419
Residential Urban – Bingara	737	14.7	108	845
Residential Urban – Warialda	594	14.0	83	677
Business Average	1,135	20.1	228	1,363
Business	935	18.2	170	1,105
Business Urban – Bingara	1,510	21.5	324	1,834
Business Urban – Warialda	1,070	20.6	221	1,291
Farmland Average	4,690	15.5	729	5,419
Farmland	4,659	15.5	724	5,382
Intensive	22,058	15.6	3,437	25,495

^a 2015-16 is included for comparison.

Notes: The average rate is calculated by Gwydir Council. Some numbers may not add due to rounding.

Source: Gwydir Council, *Application Part A*, Worksheet 5a.



Appendices

A Expenditure to be funded from the special variation

Table A.1 show Gwydir Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use all the additional special variation revenue, above the rate peg, of \$18.3 million over 10 years to fund an improvement in the operating balance (excluding capital grants and contributions).²³

As a condition of IPART's approval, the council is to indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

²³ Gwydir Council, *Application Part A*, Worksheet 6.

Table A.1 Gwydir Council – Income and proposed expenditure over 10 years related to the special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Special variation income above assumed rate peg	1,633	1,673	1,715	1,758	1,802	1,847	1,893	1,941	1,989	2,039	18,291
Funding for increased operating expenditures	0	0	0	0	0	0	0	0	0	0	0
Funding to reduce operating deficits or (increase surpluses)	1,633	1,673	1,715	1,758	1,802	1,847	1,893	1,941	1,989	2,039	18,291
Funding for capital expenditure	0	0	0	0	0	0	0	0	0	0	0
Additional expenditure	0	0	0	0	0	0	0	0	0	0	0

Note: Numbers may not add due to rounding.

Source: Gwydir Council, *Application Part A*, Worksheet 6.

B Gwydir Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, Gwydir Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFFP (shown in Table B.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capitals and contributions. 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 excludes capital grants and contributions.

Table B.1 Summary of projected operating statement for Gwydir Shire Council, 2016-17 to 2025-26 (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Total revenue	26,736	25,073	25,724	26,349	27,044	27,751	28,417	29,072	29,801	30,492
Total expenses	23,254	24,203	24,482	25,390	26,247	27,159	28,107	29,013	29,793	29,995
Operating result from continuing operations	3,482	870	1,242	959	797	592	310	59	8	497
Net operating result before capital grants and contributions	2,800	444	809	519	350	144	-140	-392	-444	43

Note: Numbers may not add due to rounding.

Source: Gwydir Council, *Application Part A*, Worksheet 7.

C Comparative indicators

Performance 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.

Table C.1 shows how selected performance indicators for Gwydir Council have changed over the four years to 2013-14.

Table C.1 Trends in selected performance indicators for Gwydir Shire Council, 2010-11 to 2013-14

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	158	169	172	165	1.5
Ratio of population to FTE	34	30	30	31	-3.1
Average cost per FTE (\$)	56,544	66,071	61,831	67,830	6.3
Employee costs as % operating expenditure (General Fund only) (%)	32.4	30.9	37.1	36.1	3.6
Consultancy/contractor expenses (\$m)	1.8	3.4	3.4	2.4	10.2
Consultancy/contractor expenses as % operating expenditure (%)	6.5	10.6	10.5	7.9	6.6

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

The above table shows that:

- ▼ Total employee numbers remained relatively constant with an average change of 1.5% over the four years. The overall change was seven FTE staff from 158 in 2010-11, to 165 in 2013-14.
- ▼ Average costs per FTE have fluctuated with an average growth of 6.3%. Although the average cost per FTE (\$67,830) has increased by 20.0% since 2010-11, it remains lower than the OLG Group 10 (\$70,408) average by 3.7% and NSW (\$78,374) average by 13.5%.
- ▼ Consultancy and contractor expenses, as a percentage of operating expenditure, have fluctuated over the four year period from 2011 to 2014. The 2013-14 result of 7.9% compares well against an average of 8.7% for Group 10.

The Independent Local Government Review Panel (ILGRP) report identified options for a Namoi Joint Organisation OR merger with Moree Plains.²⁴

Our 2015 FFTF review found:

- ▼ The council met the criterion for efficiency. It forecast a decline in its real operating expenditure per capita ratio through reduced service levels.
- ▼ Real opex per capita was \$5,885 in 2014-15 and is forecast to be \$4,945 by 2019-20.

General comparative indicators

Table C.2 compares selected published and unpublished data about Gwydir Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As noted in section 3, Gwydir Council is in OLG Group 10. Unless specified otherwise, the data refers to the 2013-14 financial year.

²⁴ Independent Local Government Review Panel, *Revitalising Local Government - Final Report*, October 2013.

Table C.2 Select comparative indicators for Gwydir Shire Council, 2013-14

	Gwydir Council	OLG Group 10 average	NSW average
General profile			
Area (km ²)	8,967	-	-
Population	5,111	-	-
General Fund operating expenditure (\$m)	29.0	-	-
General Fund operating revenue per capita (\$)	3,761	2,315	1,857
Rates revenue as % General Fund income (%)	31.5	31.2	48.9
Own-source revenue ratio (%)	62.8	56.3	73.8
Average rate indicators^a			
Average rate – residential (\$)	429	540	743
Average rate – business (\$)	353	1,174	2,781
Average rate – farmland (\$)	4,213	2,339	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	33,581	41,325	49,070
Growth in average annual income, 2006-2011 (% pa)	6.2	6.0	5.2
Ratio of average residential rates 2013-14, to average annual income, 2011 (%)	1.3	1.3	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	38	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	6.6	6.6	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	165	104	294
Ratio of population to FTE	31	72	127
Average cost per FTE (\$)	67,830	70,408	78,374
Employee costs as % operating expenditure (General Fund only) (%)	36.1	36.4	38.1
Consultancy/contractor expenses (\$m)	2.4	2.0	8.3
Consultancy/contractor expenses as % operating expenditure (%)	7.9	8.7	10.5

^a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

^b Average annual income includes income from all sources excluding government pensions and allowances.

^c Except as noted, data is 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 they may be defined and measured differently between councils.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

