



Independent Pricing and Regulatory Tribunal

Holroyd Council's application for a special variation for 2014/15

under section 508A 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),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Holroyd City Council applied for a multi-year special variation under section 508A. The council requested increases of 8% each year from 2014/15 to 2016/17 and 7% each year in 2017/18 and 2018/19, or a cumulative increase of 44.22% over the next 5 years. After assessing its application, we decided to approve the variation as requested. We made this decision under section 508A of the Act.

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.

Our decision enables the council to fund a program of operating expenditure, including maintenance, and renewal of key assets and to improve its financial sustainability. 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 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 Holroyd City 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 (2.3% in 2014/15 and an assumed 3.0% in each of the following years). The cumulative increase of 44.22% is 29.08% more than the rate peg over these years.

After the last year of the special variation (2018/19), the increase will remain permanently in the council's rate base.

Table 1.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and any adjustments that occur as a result of various catch-up and valuation adjustments.

Table 1.1 IPART's determination on Holroyd City Council's special variation for 2014/15 to 2018/19

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2014				39,078,209
2014/15	8.00	8.00	3,209,119	42,287,328
2015/16	8.00	16.64	3,382,986	45,670,314
2016/17	8.00	25.97	3,653,626	49,323,940
2017/18	7.00	34.79	3,452,675	52,776,615
2018/19	7.00	44.22	3,694,363	56,470,978

Source: Holroyd City Council, *Section 508A Special Variation Application 2014/15 – Part A* (Holroyd 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 summarises these conditions.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Holroyd City Council's application for a special variation over the period from 2014/15 to 2018/19 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to improve its financial sustainability and fund the program of expenditure outlined in its 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 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 Office of Local Government by 30 November each year on its compliance with these conditions.
-

2 What did the council request and why?

Holroyd City Council (Holroyd Council) applied to increase its general income by a cumulative 44.22% over the 5-year period from 2014/15 to 2018/19, and to permanently incorporate this increase into its general income base.

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$39.1m in 2013/14 to \$56.5m in 2018/19. This will generate additional revenue of \$33.8m above the rate peg increases over 5 years.

The council intends to use the additional revenue from the special variation to fund gaps in operating and capital expenditure for its key assets - buildings, roads and bridges, parks and recreation and stormwater. Over the medium to longer term, the additional revenue will also improve its financial sustainability.

The council indicated that during the 10 years of its Long Term Financial Plan (LTFP), it proposes to spend:

- ▼ \$57.1m on asset renewal
- ▼ \$10.5m on asset maintenance
- ▼ \$29.5m on operational works.²

More detail on the council's proposed program of expenditure to 2023/24 is provided in Appendices A and B.

3 How did we reach our decision?

We assessed Holroyd 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 a range of comparative data about the council, set out in Appendix C.

Holroyd Council has applied on the basis of its adopted IP&R documents, in particular its *Living Holroyd Community Strategic Plan 2013, Delivery Program 2013-2017, Long Term Financial Plan 2014/15- 2023/24* and Asset Management Plans.

The rate increases for which the council has applied are significant, and we carefully considered, among other things, 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. We note that the council's current application requests slightly lower percentage increases than those it consulted its community about and originally notified us it would require.

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 increases, and that it had considered the community's capacity and willingness to pay the proposed increases
3. the impact of the proposed rate increases on ratepayers is significant, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation and the council's consideration of ratepayers' willingness and capacity to pay
4. the council made realistic assumptions concerning its projected service delivery and budget

² Holroyd City Council, *Section 508A Special Variation Application 2014/15 – Part B* (Holroyd Application Part B), p 21.

- 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 Summary of IPART’s assessment against 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 assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include 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"> the community considers that maintaining assets and infrastructure at sustainable levels are a priority for meeting the needs of its growing population the council has explored and used revenue alternatives in its LTFP to reduce the extent of the special variation needed, but still faces a funding gap of \$57.1m for renewal, \$10.5m for maintenance and \$29.5m for operational costs for key assets it is unable to raise the additional revenue due to ongoing operating deficits forecast in its LTFP. <p>TCorp observed that the council’s financial position is weak and additional investment is needed for asset maintenance, renewals and purchases.</p> <p>The special variation revenue will improve the council’s infrastructure renewal ratio and reduce its operating deficit.</p>
<p>2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. 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 aware-ness and provide opportunities for input.</p>	<p>The council’s consultation strategy was comprehensive and it used various methods to explain the need for, purpose of and extent of the rate increases.</p> <p>A random survey showed that, when asked to rank their funding preference, 40% of respondents chose Option 2 (increases of 9% over 4 years and 8% for one year) and 35% chose Option 3 (increases of 9% over 6 years). A total of 46.9% of respondents to an opt-in survey supported rate increases under Options 2 and 3.</p> <p>The council opted for Option 2, but slightly lowered the percentage variation requested in its application. It received 5 submissions (4 in opposition, 1 with comments). IPART received 3 submissions opposing the application. The council considered ratepayers’ concerns and has applied for the increases after examining its priorities as well as the community’s capacity and willingness to pay.</p>
<p>3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the proposed purpose of the variation. The council’s IP&R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.</p>	<p>The impact on ratepayers will be significant, but reasonable as:</p> <ul style="list-style-type: none"> current residential rates are low compared with other Group 3 councils after factoring in increases from the special variation, rate levels in 2018/19 will be comparable to the group and surrounding councils socioeconomic indicators and outstanding rates ratio suggest capacity to pay the council has a hardship policy, payment arrangements and an additional \$15 pensioner rebate above the statutory \$250 rebate.

Criterion	IPART findings
4. Delivery Program and LTFFP must show evidence of realistic assumptions.	Assumptions about its proposed level of service and assumed rate of work to address asset renewals appear realistic. Assumptions related to the rate peg, population growth, the growth in labour and non-labour costs are realistic in the context of the council's projected budget.
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.	Over the last 15 years, the council has realised annual savings of 3% of operating expenditure (up to \$600k) by freezing some cost items. Its LTFFP includes savings of around \$27.5m from using internally restricted reserves and maximising returns on land assets. In the future it proposes to generate income through land development and reduce costs currently incurred for its 3 swimming centres by developing a single aquatic centre.
6. IPART's assessment of the size and resources of the council, the size of the increase, current rate levels and previous increases, the purpose of the special variation and other relevant matters.	None.

Source: Holroyd Application Part B and supporting documents, and NSW Treasury Corporation reports. For specific referencing please see the sections below which discuss our findings in more detail.

The sections below discuss our findings for some criteria in more detail.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

Holroyd Council's IP&R documents clearly set out the need for, and purpose of the requested special variation, which is to:

- ▼ fund asset maintenance, renewal and operational costs
- ▼ enhance financial sustainability.³

The council stated that over the years it has contained the need to apply for a special variation by using its financial reserves and maintaining expenditure under rate peg limits. It has curtailed new capital works above its statutory s94 capital obligations. However, it noted that this approach is unsustainable for maintaining its infrastructure assets in a good condition in the long term.⁴

The population growth in the local government area (LGA) has placed additional pressure on existing infrastructure and services. Population growth between 2006 and 2011 was 10.5% and is projected to increase by a further 42.8% by 2031.⁵

³ Holroyd Application Part B, p 10.

⁴ Holroyd Application Part B, pp 21-22, 25-26.

⁵ Holroyd Application Part B, p 3. ABS Census data shows the population grew from 89,766 in 2006 to 99,163 in 2011 with an additional 42,420 new residents estimated by 2031.

The council's IP&R documents clearly indicate that the community prioritises maintaining its infrastructure and assets to support the needs of its population.⁶

Alternative funding options

To minimise the extent of the special variation required, the council has explored alternative revenue options through:

- ▼ maximising the use of reserves – its LTFP includes the use of \$21.7m from existing reserves
- ▼ maximising returns from property assets – its LTFP includes \$4.5m in revenue from new property returns
- ▼ increasing fees and charges where possible
- ▼ grants funding - it actively seeks grants from EasyGrants Newsletters, OLG, Department of Planning and LGNSW circulars
- ▼ new developments – its LTFP includes \$25.7m in additional rate revenue from the development of new dwellings.⁷

Infrastructure maintenance, renewal and operational works

In 2013, the council reviewed the condition, service levels and lifecycle costs of assets in key asset classes - buildings, roads and bridges, stormwater, parks and recreation. It identified that without a special variation, it would have a \$97.1m funding gap over the next 10 years as outlined in Table 3.2.

Table 3.2 Holroyd City Council – cost allocations for key assets (\$m)

	Renewals	Maintenance	Operational	Total
Buildings	18.1	1.7	0.9	20.7
Parks and recreation	7.8	4.2	19.9	31.9
Roads and bridges	28.1	4.5	4.6	37.2
Stormwater	3.1	0.1	4.1	7.3
Total	57.1	10.6	29.5	97.1

Note: Figures may not add due to rounding.

Source: Holroyd Application Part B, pp 20-21 and correspondence dated 14 April 2014.

The council indicated that the additional revenue from the special variation will reduce backlogs over time and improve its building and infrastructure renewal ratio from 64% in 2012/13 to 102% in 2023/24.⁸

⁶ Holroyd Application Part B, pp 3, 14-19 and Attachment 17, *Holroyd City Council Community Research*, Report prepared by Micromex Research, September 2013, p 5.

⁷ Holroyd Application Part B, pp 23-24.

⁸ Holroyd Application Part B, p 27. An asset renewal ratio is the asset expenditure relative to its depreciation, amortisation and impairment expense. The industry benchmark for an asset renewal ratio is 100%.

Financial sustainability

The council states that in the past it has sought to maintain balanced budgets by reducing expenditure.⁹ However, its LTFP projects that without a special variation, it will face operating deficits of 7% to 8% of operating revenue over the next 10 years.¹⁰

The additional revenue from the special variation would reduce the council's operating deficits to less than 1% of operating revenue by 2019/20 and enhance its financial sustainability by enabling an additional \$57.1m in capital expenditure as noted in the section above.¹¹

TCorp Assessment

TCorp observed that the council's financial position is weak in the short to medium term and the continuing operating deficits projected will eventually have a negative effect on its sustainability and ability to replace key infrastructure assets as they become due for renewal.¹² It stated that the council needed to invest additional funds in asset maintenance, renewals and purchases to avoid further deterioration of its asset base and to reduce infrastructure backlogs.¹³

TCorp also noted that the council has been debt free since the 2010 financial year and had capacity to manage borrowings that could have funded capital works.

The council submitted that it does not have a policy of no debts and its intention is to borrow throughout the 10-year LTFP when strategically prudent, to bring forward renewal works that would benefit the community. It noted an added benefit would be a reduction in ongoing maintenance costs for those infrastructure assets that are renewed.¹⁴

⁹ Holroyd Application Part B, p22.

¹⁰ Holroyd Application Part B, Attachment 28, Adjusted Scenario 1 and IPART calculations.

¹¹ Holroyd Application Part B, Attachment 28, Adjusted Scenario 2 and IPART calculations.

¹² The council submitted that it has reassessed the original TCorp rating and considers that had its 2013 financial results been used, it would have received a more favourable rating from TCorp. Holroyd Application Part B, p 26, and Attachment 25, Holroyd Council's TCorp Review.

¹³ New South Wales Treasury Corporation, *Holroyd City Council, Financial Assessment, Sustainability and Benchmarking Report*, 12 April 2013, p 5.

¹⁴ Holroyd Application Part B, p 77 and email correspondence dated 11 April 2014.

3.2 Community engagement and awareness

We consider that the council has met this criterion.

In 2012/13 Holroyd Council reviewed its IP&R documents in consultation with its community.¹⁵ Between July 2013 and February 2014, it undertook a comprehensive strategy of community consultation on the special variation through its 'Local Solutions' campaign.¹⁶ It clearly explained the need for, purpose of and the extent of the rate increases and provided reasonable opportunities for community feedback.

It used a variety of methods to engage with its community including:

- ▼ 2 random phone surveys (to examine the community's attitudes towards services and its preferred long term funding option)¹⁷
- ▼ opt-in online survey
- ▼ focus groups (5 face to face and 2 online)
- ▼ 3 public meetings (residential, small business and large business)
- ▼ 36,000 ratepayer letters mailed with reply paid card outlining options
- ▼ brochures, flyers, frequently asked questions and fact sheets delivered to ratepayers
- ▼ press releases for local media, community newspapers
- ▼ dedicated Holroyd Herald Special Edition on the Special Rate Variation
- ▼ 5 listening posts at community events and community/shopping centres
- ▼ 'The Holroyd that I know' video on YouTube, Instagram, Facebook, website
- ▼ information on council's website and Corporate News Publications
- ▼ exhibition of the draft delivery program for 55 days.¹⁸

The council noted that over 11,000 residents viewed its special variation material, expressed a view, shared information, attended a meeting or returned a survey.¹⁹

¹⁵ Holroyd Application Part B, p 7.

¹⁶ Holroyd Application Part B, pp 4, 29.

¹⁷ The surveys used a random sample of 400, providing a statistically valid result with 95% confidence. Holroyd Application Part B, Attachment 17, *Holroyd City Council Community Research*, prepared by Micromex Research, September 2013, p 1, and Attachment 19, *Holroyd City Council Special Rate Variation Research*, prepared by Micromex Research, December 2013.

¹⁸ Holroyd Application Part B, pp 7-8, 31.

¹⁹ Holroyd Application Part B, p 33.

In response to community feedback from the focus groups and its first random survey, the council modelled a 'base case' option and 2 additional options in its LTFP, to deliver sustainable infrastructure and services:

- ▼ Option 1: Base case (rate peg increases only) – would require a reduction in services and infrastructure standards – the infrastructure/services to be reduced would need to be determined.
- ▼ Option 2: Increases of 9% for 4 years and 8% for one year – would enable maintenance of services and infrastructure at current standards and reduce backlogs over time.
- ▼ Option 3: Increases of 9% for 6 years – would enable enhanced services and infrastructure standards including new projects and works, and reduce backlogs over time.²⁰

Outcome of consultation on rate increases

Although this criterion does not require councils to demonstrate community support for the special variation, we note there is evidence of support for the rate increases requested.

As noted in the section above, the council undertook 2 random phone surveys. The first survey indicated that the primary concern for many residents was population growth and a perceived lack of supporting infrastructure and facilities in the area such as, parking, roads, parks, schools and hospitals.²¹

The second survey found that the majority of respondents supported rate increases in recognition of the need to maintain services and facilities. When asked to rank their preference between the 3 options, 40% preferred Option 2, 35% preferred Option 3 and 26% preferred Option 1.²²

The council's opt-in online survey found that of 79 participants, 53.2% preferred Option 1, 26.6% preferred Option 2 and 20.3% preferred Option 3.²³ We note that typically, opt-in surveys tend to go heavily against the special variation.

Based on these outcomes the council decided to apply for rate increases under Option 2. We note that the council has since applied for a special variation with a slightly lower cumulative increase than that outlined in Option 2 as a result of updating its 2013/14 rating base figure.²⁴

²⁰ Holroyd Application Part B, p 32 and Attachment 12, *Long Term Financial Plan*, pp 8-12.

²¹ Holroyd Application Part B, p 35.

²² Holroyd Application Part B, Attachment 19, *Holroyd City Council Special Rate Variation Research*, prepared by Micromex Research, December 2013, p 20.

²³ Holroyd Application Part B, p 56.

²⁴ Holroyd Application Part B, Attachment 27, *Cover letter to IPART*, 24 February 2014.

Submissions

The council received 5 written submissions: 4 opposing the application and 1 requesting that some additional works be undertaken. The main reasons for opposition were: affordability; a perception that infrastructure demands were unsustainable; and that costs needed to be contained.²⁵

The council has considered its community's feedback by:

- ▼ its decision to apply for lower rate increases than those it consulted on
- ▼ the various revenue alternatives it pursued to minimise the need for rate increases
- ▼ explicitly considering its SEIFA ranking, average income levels and outstanding rates ratio which suggested the community has capacity to pay.

The council submitted that it also has a hardship policy and a pay by month option for ratepayers facing financial difficulty, as well as an additional \$15 pensioner rebate over and above the \$250 statutory rebate to assist ratepayers.²⁶

IPART received 3 submissions opposing the application for similar reasons (one correspondent also made a submission to the council). We note that the council has considered its ratepayer concerns and has applied for a special variation in light of its understanding of the community's priorities, and capacity and willingness to pay.

On balance, we consider the council has met this criterion.

3.3 Reasonable impact on ratepayers

We consider that the impact of the special variation will be significant as all rates in the LGA will rise on average by a cumulative 44.22% over the 5 years of the variation period. However, given the council's existing rate levels, history of previous special variations, socio economic indicators and the purpose of the application, the increases are considered reasonable.

A comparison of Holroyd's average rates with its OLG Group peers indicates:

- ▼ its residential ordinary rates are 17% lower than OLG Group 3 councils
- ▼ its business rates are 5% higher than OLG Group 3 councils.²⁷

The council indicated that its average business rate may be inflated by some large industrial ratepayers in the LGA.²⁸

²⁵ Holroyd Application Part B, Attachment 20, Submissions to report.

²⁶ Holroyd Application Part B, pp 72-73 and Attachment 21, *Hardship – Rate Relief*.

²⁷ Based on 2011/12 data. See Appendix C, Table C.2.

²⁸ The LGA includes 3 large industrial sites at Smithfield, Hemway and Girraween. Discussion with Holroyd Council dated 16 April 2014.

Over the 5 years of the special variation, the council will apply the rate increases uniformly across its rating categories so that average:

- ▼ residential rates will increase from \$775 in 2013/14 to \$1,118 in 2018/19
- ▼ business rates will increase from \$5,971 in 2013/14 to \$8,613 in 2018/19.²⁹

The council's consideration of impact on ratepayers

The council noted that it has historically had one of lowest rating bases among Sydney metropolitan councils. Its average residential rate is currently the fifth lowest out of 43 metropolitan councils.³⁰

The council examined a range of socio-economic indicators for neighbouring OLG Group 3 councils as seen in Table 3.3.³¹

Table 3.3 Holroyd City Council – comparison of socio-economic indicators

Council	Median weekly Household Income (\$)	Median rent \$ per week	Median housing loan repayment (\$/month)	SEIFA Index NSW Rank
Holroyd	1,209	330	2,058	91
Auburn	1,106	350	2,000	62
Bankstown	1,361	330	2,200	67
Blacktown	1,816	370	2,383	93
Fairfield	1,022	280	1,800	5
Ryde	1,466	370	2,329	136

Source: Holroyd Application Part B, p 67 based on ABS Census 2011 and OLG Comparative Data.

Table 3.3 shows that Holroyd has a mid-range median weekly income and below average housing costs in comparison with surrounding councils. Its SEIFA ranking of 91 (where 153 is the least disadvantaged council) is better than several neighbouring councils and places it in a relatively advantaged position among NSW councils.

The council noted that its outstanding rates ratio has been below the industry benchmark of 5% over the last 10 years and is currently 2.86%. It forecasts this will remain below the industry benchmark at 3.5% if the special variation is fully approved.³²

²⁹ Holroyd Application Part A, Worksheet 5a.

³⁰ Holroyd Application Part B, p 69 and correspondence dated 22 April 2014. The council advised this is based on OLG 2011/12 comparative data on ordinary residential rates for metropolitan councils.

³¹ Holroyd Application Part B, p 71.

³² Holroyd Application Part B, p 68.

As noted in Section 3.2 the council has a hardship policy, a pay by month option for ratepayers and an additional \$15 pensioner rebate over and above the \$250 statutory rebate.

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 2003/04:

- ▼ The council has applied for and been granted 1 special variation of 9.9% in 2007/08 under s508(2). The special variation was to permanently retain an expiring special variation in its revenue base.
- ▼ Its average annual growth in residential ordinary and special rates was 3.3% and 3.8% for business rates. This indicates rates growth has been broadly in line with rate peg increases only.³³

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.

We found that Holroyd's average residential rate is currently at the lower end of similar and surrounding councils and would remain comparable at the end of the special variation period.³⁴

We also note that the council has a hardship policy and a low outstanding rates ratio as outlined in the previous section, which suggests some capacity to pay.

We have taken into account all of the above factors. We consider that the impact of the increases are significant, but reasonable given the council's existing rate levels, history of previous special variations, the socio economic indicators in the LGA and the purpose of the application.

3.4 Productivity and cost savings

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.³⁵

³³ OLG Comparative data 2003/04 and 2011/12, and IPART calculations.

³⁴ IPART calculations based on a comparison with Auburn, Bankstown, Blacktown, Canterbury, Fairfield, Rockdale and Ryde councils.

³⁵ Holroyd Application Part B, p 80.

Holroyd submitted that over the last 10 - 15 years, it has frozen the costs of its non-wage and non-statutory components of operations to achieve annual savings ranging from \$450,000 to \$600,000 or 3% of operating expenditure. This has enabled a delay in the timing for a special variation to this point.

In addition it has achieved past savings and cost containment through using:

- ▼ contestability of major supplier contracts
- ▼ building management recycling activities
- ▼ recycled materials in road construction
- ▼ continuous improvement programs to seek out operational efficiencies.

The council indicated it has included revenue from efficiency initiatives in its current 10 year LTFF of:

- ▼ over \$23m by reallocating internally restricted reserves
- ▼ \$4.5m from property rentals through maximising the return on land assets.

It is also planning future efficiency initiatives through the:

- ▼ sale/development of major land holding in the Merrylands CBD, the proceeds of which will be used to acquire income generating property assets
- ▼ development of a single aquatic/wellness centre to reduce the costs it currently incurs (around \$1.6m annually) on its 3 existing swimming centres.

4 What does our decision mean for the council?

Our decision means that Holroyd City Council may increase its general income over the 5-year special variation period from \$39.1m in 2013/14 to \$56.5m in 2018/19 (see Table 1.1). After 2018/19, all other things being equal, 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 5 years, the additional rates revenue will accumulate to \$33.8m above the rate peg.³⁷ This extra income is the amount the council requested to enable it to undertake additional operating and capital expenditure to maintain service levels at acceptable standards and to enhance its financial sustainability.

³⁶ General income in future years cannot be determined with precision because it will be influenced by several factors apart from the rate peg. Those 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.

³⁷ Holroyd Application Part A, Worksheet 1, and IPART calculations.

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.

In its application, Holroyd City Council indicated that it intended to increase rates over the 5 years uniformly for each category as discussed above.

The council has calculated that:

- ▼ average residential rates will increase by a cumulative 44.2%, or by \$62 in the first year and by \$343 over 5 years
- ▼ average business rates will increase by a cumulative 44.2%, or by \$478 in the first year and by \$2,641 over 5 years
- ▼ the minimum rates for its business category will increase by a cumulative 44.2% or by \$65 in the first year and by \$360 over 5 years.³⁸

Table 5.1 shows how average rates are expected to increase in each main ratepayer category. The actual impact of our determination on rates is a matter for the council to decide, however, the overall impact across the ratepayer base will be consistent with our determination.

Table 5.1 Indicative annual increases in average ordinary and special rates as a result of the determination

Year	Residential			Business		
	Increase %	Increase \$	Rate \$	Increase %	Increase \$	Rate \$
2013/14			775			5,972
2014/15	8	62	837	8	478	6,450
2015/16	8	67	904	8	516	6,966
2016/17	8	72	977	8	557	7,523
2017/18	7	68	1,045	7	527	8,049
2018/19	7	73	1,118	7	563	8,613

Note: Some numbers may not add due to rounding.

Source: Holroyd Application Part A, Worksheet 5a.

³⁸ Holroyd Application Part A, Worksheet 5a. The council does not have a minimum rate for its residential rate; see Holroyd Application Part B, p 70.



Appendices

A Expenditures to be funded from the special variation above the rate peg

Tables A.1 and A.2 show Holroyd City Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the special variation revenue above the rate peg of \$96.1m and \$1.0m from reserves (total \$97.1m), over 10 years to fund:

- ▼ \$40.0m of extra operating expenditure (including maintenance) (Table A.1), and
- ▼ \$57.1m of 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
Special variation income above rate peg	2,228	4,409	6,824	9,002	11,383	11,725	12,077	12,439	12,812	13,196	96,094
Transfer to (from) reserves	-7,386	-6,088	-4,660	-2,706	2,303	2,784	4,637	3,354	3,955	2,798	-1,010
Funding for increased operating expenditures	3,348	3,362	3,468	3,592	3,873	4,016	4,157	4,333	4,556	5,308	40,012
Funding for capital expenditure	6,265	7,135	8,017	8,116	5,207	4,925	3,283	4,752	4,301	5,090	57,092

Note: Numbers may not add due to rounding.

Source: Holroyd City Council 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
Buildings	1,652	1,462	2,834	1,497	1,828	1,362	101	2,374	1,729	698	15,535
Parks and recreation	781	902	1,231	776	998	260	457	262	0	1,385	7,052
Roads and bridges	3,236	4,182	2,981	4,623	1,637	2,080	2,068	1,057	1,054	1,554	24,472
Stormwater	681	358	306	318	17	396	0	0	450	16	2,542
Total Asset Renewal	6,350	6,904	7,352	7,214	4,480	4,098	2,681	3,693	3,288	3,653	49,601

Note: Inconsistencies between this table and Table A.1 (funding for capital expenditure) is due to the Asset Management Plans recording expenditure in \$2013 (real values) and the LTFP recording costs as projected nominal values. Numbers may not add due to rounding.

Source: Holroyd City Council Application Part B, Attachment 5, *Building Renewals*, Attachment 7, *Parks and Recreation Renewals*, Attachment 8, *Roads and Bridges Asset Management Plan*, *Executive Summary*, p 9, Attachment 11, *Stormwater, Flood Mitigation and Environmental Quality Devices Renewals*.

B Holroyd City 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 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 Holroyd City 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)	89,439	94,262	99,303	104,672	110,961	116,202	120,276	124,480	128,861	133,150
Total expenses	97,244	100,067	103,847	107,990	112,567	116,452	120,970	125,632	131,074	136,072
Operating result from continuing operations	-7,805	-5,805	-4,544	-3,318	-1,606	-250	-694	-1,152	-2,213	-2,922

Notes: Numbers may not add due to rounding.

Source: Holroyd City Council, Application Part B, Attachment 28, *Adjusted Scenario 2*.

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 Holroyd City Council have changed over the 3 years to 2011/12.

Table C.1 Trends in selected indicators for Holroyd City Council, 2009/10 to 2011/12

	2009/10	2010/11	2011/12	Average Change (%)
Productivity (labour input) indicators ^a				
FTE staff (number)	443	446	454	1.2
Ratio of population to FTE	226	224	229	0.6
Average cost per FTE (\$)	72,698	73,960	81,555	5.9
Employee costs as % operating expenditure (General Fund only) (%)	47.5	42.2	40.1	
Consultancy/contractor expenses (\$m)	1.2	1.8	1.9	26.6
Consultancy/contractor expenses as % operating expenditure (%)	1.7	2.3	2.0	

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In Table C.2 we compare selected published data on Holroyd City 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 Holroyd City Council, 2011/12

	Council	OLG Group 3 average^a	NSW average
General profile			
Area (km ²)	40		
Population	103,869		
General Fund operating expenditure (\$m)	92.3		
General Fund operating revenue per capita (\$)	757	847	2,011
Rates revenue as % General Fund income (%)	57.5	55.4	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	654	790	685
Average rate – business (\$)	5,169	4,935	2,552
Average rate – farmland (\$)	n/a	2,124	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	42,717	52,899	44,140
Growth in average annual income, 2006-2010 (% pa)	3.1	3.1	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.5	1.6	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	91		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	2.7	3.3	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	454	571	293
Ratio of population to FTE	229	247	126
Average cost per FTE (\$)	81,555	85,525	74,438
Employee costs as % operating expenditure (General Fund only) (%)	40.1	41.6	36.8
Consultancy/contractor expenses (\$m)	1.9	16.0	6.9
Consultancy/contractor expenses as % operating expenditure (%)	2.0	14.9	9.3

^a OLG Group 3 is classified 'Urban Large/Very Large Metropolitan developed' with a population of >70,000. The group comprises 16 councils of which the most comparable to Holroyd City Council are Canterbury, Rockdale and Ryde councils.

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

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

^d Based upon total council operations. 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, *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.