



Independent Pricing and Regulatory Tribunal

# **Hunter's Hill Council application for a special variation for 2013/14**

**Local Government — Determination  
June 2013**

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# 1 Determination

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

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

Hunter's Hill Council applied for a special variation in 2013/14 of 10.67% (including the rate peg of 3.40%). It applied to retain 5.27% of the special variation in its rates base for 10 years and 2% permanently. The rate peg component is also retained permanently. After assessing the council's application, we decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

## 1.1 Our decision

We determined that Hunter's Hill Council can increase its general income by 10.67% in 2013/14. This includes an increase of 5.27% that the council can retain for 10 years, and which replaces an expiring special variation. It also includes an increase of 2% that the council can retain permanently, as well as the rate peg of 3.4% that is available to all councils.

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 1.1 lists the conditions attached to it.

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<sup>1</sup> *Guidelines for the preparation of an application for a special variation to general income*, issued by Division of Local Government, Department of Premier and Cabinet, October 2012. The criteria in the Guidelines have been revised for 2013/14. Councils applying under section 508(2) no longer need to demonstrate adequate community consultation. Instead they need to demonstrate appropriate engagement methods have been used and the community has had opportunity for awareness and input. The council must also consider the community's capacity and willingness to pay. In addition, in assessing applications against the criteria we are now required to consider the size and resources of a council, the size of the rate increase, current and previous rate levels, and the purpose of the special variation.

**Table 1.1 IPART’S decision on Hunter’s Hill Council application for a special variation in 2013/14**

<b>Component</b>	<b>%</b>
Increase to fund road-related infrastructure renewal and environmental works (10 years)	5.27
Increase for operational catch-up (permanent)	2.00
Rate peg increase	3.40
<b>Total increase</b>	<b>10.67</b>

**Box 1.1 Conditions attached to the approved special variation for Hunter’s Hill Council**

IPART’s approval of Hunter’s Hill Council’s application for a special variation in 2013/14 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving its financial sustainability and funding the program of expenditure outlined in the council’s application, and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 on:
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council’s application, and summarised in Appendix B
  - any significant variation 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.
- ▼ On 1 July 2023, the council reduces its general income to what it would have been without the 5.27% temporary component of the special variation in 2013/14.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions.

We note that the council will be reducing its general income for 2013/14 by \$387,445 (the total value of the expiring special variation). This reduction shall take place before general income is increased in 2013/14 in accordance with IPART’s determination.

## 1.2 What did the council request and why?

Hunter's Hill Council requested a special variation of 10.67%.<sup>2</sup> The requested special variation included 3 components:

- ▼ An increase of 5.27% to fund road-related infrastructure renewal (footpaths, kerb and gutter) and environmental works (bush care and improving efficiencies of existing stormwater systems)<sup>3</sup> to be retained for 10 years. This component will replace, from 1 July 2013, an existing special variation that is due to end on 30 June 2013.<sup>4</sup>
- ▼ An increase of 2% to fund an operational gap and improve its financial sustainability.
- ▼ The rate peg increase of 3.4%.

The council estimated that the 7.27% increase above the rate peg would generate \$0.5m in additional revenue in 2013/14, and \$6.1m over 10 years. It indicated it will use this revenue as follows:

- ▼ \$2.5m for footpath, kerb and gutter renewal
- ▼ \$1.8m for environmental works
- ▼ \$1.7m to improve its financial sustainability.<sup>5</sup>

The council's proposed program of expenditure is set out in Appendix A.<sup>6</sup>

## 1.3 How did we reach our decision?

We assessed Hunter's Hill application against the criteria in the Guidelines under the transitional arrangements for 2013/14. These arrangements give us the discretion, for the 2013/14 rating year, to award a single-year variation where we assess that the council has met the general principles of the criteria even though the evidence is not necessarily contained within its latest available Integrated Planning & Reporting (IP&R) documentation.<sup>7</sup> We also considered a range of comparative data about the council, set out in Appendix C.

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<sup>2</sup> Hunter's Hill Council, *Section 508(2) Special Variation Application - Part A* (Application Part A), Worksheet 1.

<sup>3</sup> Email correspondence with Hunter's Hill Council, dated 21 March 2013.

<sup>4</sup> Application Part A, Worksheets 4 and 6. The existing special variation funded a loan for land acquisition and an environmental works program.

<sup>5</sup> Application Part A, Worksheet 6.

<sup>6</sup> The residual of about \$0.1m will presumably be used to improve its financial sustainability.

<sup>7</sup> These arrangements were included in the Guidelines because, in light of the 2012 local government elections and the requirement for councils to review their IP&R documents and update key plans and programs by 30 June 2013, it was recognised that the revised Guidelines and application timing may create a difficulty for councils who wish to apply but have not yet formally adopted their updated plans and programs.

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

1. Demonstrated a need for the revenue to fund its infrastructure renewal and environmental works programs and to address a funding gap in operating expenses. The council has a small rates base (about 4,859 ratepayers)<sup>8</sup> and limited capacity for alternative revenue sources. Therefore, it faces challenges in funding its asset maintenance programs and achieving financial sustainability.
2. Provided evidence of community awareness of the need for and extent of the rate rise and has engaged with its community. It consulted extensively in 2011/12 and maintained community awareness in 2012/13.
3. Showed that the rise in rates is reasonable and affordable, based primarily on the high SEIFA ranking and above-average income levels of the LGA. It also indicated that although average residential rates are high (due to the small rates base), these rates have risen by only a modest 2.5% per annum over the last 11 years.<sup>9</sup>
4. Made realistic assumptions concerning its projected service delivery and budget scenarios.
5. Reported productivity savings in past years, and plans to realise additional savings over the period of the proposed special variation. However, the savings were not quantified.

The council is currently reviewing its IP&R documents and aiming to finalise them by 30 June 2013.<sup>10</sup>

Table 1.2 summarises our findings against each of the criteria.

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<sup>8</sup> Application Part A, Worksheet 3.

<sup>9</sup> DLG unpublished comparative data, 2011/12 and IPART calculations.

<sup>10</sup> In light of the 2012 local government elections, councils are required to review their IP&R documents by 30 June 2013.

**Table 1.2 Summary of IPART’s assessment of the criteria in the Guidelines under the transitional arrangements**

Criterion	IPART findings
1. Need for and purpose of special variation must be clearly identified. Evidence could include community need/desire for service levels/project and limited council resourcing alternatives, and the council’s financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).	<p>The need for the revenue was identified and is consistent with the current Community Strategic Plan, Delivery Program and Operational Plan.<sup>11</sup></p> <ul style="list-style-type: none"> <li>▼ A condition audit/valuation of footpaths, kerbs and gutters identified a maintenance gap of \$0.2m pa.<sup>12</sup></li> <li>▼ A maintenance gap also exists for its environmental assets (natural bush and stormwater).</li> <li>▼ The current Long Term Financial Plan (LTFP) forecasts rising operating deficits to 2020/21 (which the current application only marginally addresses).<sup>13</sup></li> <li>▼ TCorp’s 2012 assessment recommended the council find alternative revenue sources to support its financial sustainability.<sup>14</sup> The council has identified revenue sources such as parking fees, rent from mobile phone towers, development opportunities and asset sales which it will use in the future.<sup>15</sup></li> </ul>
2. Evidence that the community is aware of need for and extent of proposed rate rise must be provided. An appropriate variety of engagement methods should have been used to ensure opportunity for community awareness/input, and alternatives to a rate rise should have been canvassed. The impact of the rise on the community, and the council’s consideration of community capacity and willingness to pay higher rates should be provided.	<p>The council demonstrated that it has maintained awareness of the need for and extent of the proposed rate rise over the past 2 years through its:</p> <ul style="list-style-type: none"> <li>▼ Community consultation campaign in 2011/12 to determine expenditure priorities and assess support for rate rises in 2012/13 and 2013/14.<sup>16</sup></li> <li>▼ Community awareness campaign in 2012/13 using resident newsletters, media releases, councillor workshops, an e-poll and comment box at council premises.<sup>17</sup></li> </ul> <p>The council considered the community’s willingness and capacity to pay. It has undertaken online and phone surveys<sup>18</sup> and sought feedback and public submissions on the proposed increases.<sup>19</sup></p>

<sup>11</sup> Hunter’s Hill Council, *Section 508(2) Special Variation Application - Part B* (Application Part B), pp 7-10 and email correspondence dated 21 March 2013.

<sup>12</sup> Email from Hunter’s Hill Council, 21 March 2013 stated that the council engaged Australian Road Research Board (ARRB) to carry out a condition audit and valuation in 2010. The ARRB recommended condition ratings be calculated for kerb and gutter, but not for footpaths.

<sup>13</sup> Hunter’s Hill Council, Supporting Documents 2013/14 (Supporting Documents 2013/14) Attachment 2, *Long Term Financial Plan (LTFP) Budget Scenarios*.

<sup>14</sup> NSW Treasury Corporation, *Hunter’s Hill Council Financial Assessment, Sustainability and Benchmarking Report* (TCorp Report), 5 December 2012, p 19.

<sup>15</sup> Application Part B, pp 12-14.

<sup>16</sup> Hunter’s Hill Council Supporting Documents 2012/13 (Supporting Document 2012/13), Attachment 1, *Consultation from Community Engagement 2012/13*.

<sup>17</sup> Supporting Documents Attachment 2, *Community Engagement Strategy*, p 9.

<sup>18</sup> Supporting Documents, *Rating Options Survey*, February 2012, p 9. 72.0% of respondents to a telephone survey preferred higher rates to reduced standards of infrastructure and 41.6% of respondents to an online survey supported the rate rises currently proposed as noted in IPART’s 2012/13 Determination, *Hunters Hill Council’s application for a special variation 2012/13*, p 15.

<sup>19</sup> Application Part B, p 17 and Supporting Documents 2012/13, Attachment 1, *Consultation from Community Engagement 2012/13*.

Criterion	IPART findings
3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, the existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community's capacity to pay.	<p>The average residential rates in the LGA are the highest in NSW (although business rates are lower than DLG Group 2 and the NSW average).<sup>20</sup> Nevertheless, the impact on ratepayers is likely to be reasonable as:</p> <ul style="list-style-type: none"> <li>▼ average residential rates in the LGA have risen on average by only 2.5% pa over the past 11 years<sup>21</sup></li> <li>▼ residential rates will increase modestly in 2013/14 because most of the special variation replaces an existing special variation ratepayers are already paying</li> <li>▼ the LGA's high SEIFA ranking and average income levels suggest affordability and capacity to pay<sup>22</sup></li> <li>▼ the council offers a pensioner rebate and hardship payment arrangements.<sup>23</sup></li> </ul>
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	The current Delivery Program's assumptions about levels of service and asset backlogs are realistic, as are the assumptions for rate pegs and the growth in expenses in the LTFP. <sup>24</sup>
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	The council reported productivity and cost savings in the past and aims for similar savings in the future. <sup>25</sup> However, savings have not been quantified. The council has a low staff/population ratio and its employee costs are low as a percentage of expenditure. <sup>26</sup> It plans to review all fees and charges in 2013/14.
6. Other relevant matters.	None.

<sup>20</sup> See Appendix C - Comparative Indicators 2011/12.

<sup>21</sup> IPART calculations based on council's rates history.

<sup>22</sup> Application Part B, pp 31-34 and Appendix C - Comparative Indicators 2011/12.

<sup>23</sup> Application Part B, p 35.

<sup>24</sup> Application Part B, pp 36-40 and Supporting Documents 2013/14, Attachment 2, *LTFP Budget Scenarios*.

<sup>25</sup> Application Part B, pp 41 - 45. Also see IPART's 2012/13 Determination for Hunter's Hill.

<sup>26</sup> See Appendix C - Comparative Indicators for 2011/12.

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

Our decision means that Hunter’s Hill Council may increase its general income by \$776,822 in 2013/14. Of this, \$393,143 will be permanently incorporated into the revenue base and \$383,679 may be retained for 10 years.<sup>27</sup>

From 2014/15, the approved income will increase by the annual rate peg unless we approve further special variations.<sup>28</sup>

**Table 1.3 Impact of approved special variation on Hunter’s Hill Council’s income in 2013/14**

Adjusted notional general income 2012/13 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2013/14 (\$) <sup>a</sup>
7,280,430	10.67	776,822	8,057,237

<sup>a</sup> Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year’s notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. Hunter’s Hill Council’s proposed permissible general income in 2013/14 includes its 2012/13 notional general income, the total special variation increase of \$776,822, less an excess amount of \$15 for the prior year.

**Source:** Application Part A, Worksheets 1 and 4.

## 1.5 What does our decision mean for ratepayers?

If the council increases its rates in the various residential and business sub-categories as indicated in its application:

- ▼ average ordinary rates would increase in 2013/14 by between 4.77% and 5.98%
- ▼ minimum residential rates would increase by 5.35%.<sup>29</sup>

The estimated increase in average rates for 2013/14 is significantly lower than the total increase in general income for this year. This is because around half of the special variation amount allows the council to continue an expiring special variation, which is already reflected in rates.

Table 1.4 sets out the proposed increases in rates by ratepayer category, based on the council’s application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

<sup>27</sup> Application Part A, Worksheet 1 and IPART calculations.

<sup>28</sup> The actual general income in future years will be influenced by a range of factors such as the number of rateable properties, adjustments for previous under-collection or over-collection of rates made by councils and the expiry of any temporary special variations. The DLG is responsible for monitoring and ensuring compliance.

<sup>29</sup> Application Part A, Worksheets 2, 3 and 5.

**Table 1.4 Hunter’s Hill Council – indicative increases to average rates in 2013/14 as a result of the approved special variation, by ratepayer category**

	Average rate 2012/13 (\$) <sup>a</sup>	Requested increase (\$)	Requested increase (%)	Average rate 2013/14 (\$)
<b>Average residential rates<sup>b</sup></b>	<b>1,396</b>	<b>71</b>	<b>5.10</b>	<b>1,468</b>
Residential dwellings	1,750	95	5.44	1,845
Strata Units	555	29	5.15	584
Mixed Use Dwellings	455	25	5.55	481
Mixed Use Strata Units	341	18	5.35	359
<b>Residential minimum rates</b>	<b>467</b>	<b>25</b>	<b>5.35</b>	<b>492</b>
<b>Average business rates<sup>b</sup></b>	<b>940</b>	<b>66</b>	<b>6.98</b>	<b>1,006</b>
Business Properties	1,308	78	5.98	1,386
Strata Units - Business	549	26	4.77	575
Mixed Use – Business Properties	732	44	5.98	776
Mixed use Strata Business	145	9	5.95	154
Maritime Lease	147	0.33	0.23	147

**a** 2012/13 is included for comparative purposes.

**b** Average residential and business rates include all applicable ordinary and special rates. This is a weighted average based on assessment numbers in each sub-category. The number of residents rose significantly in the sub-category with the smallest increase in rates in 2013/14. As a result, the overall average residential rate rise is 5.10% which is less than the average rise in each sub-category. The opposite effect of reduced assessment numbers affected the average business rate.

**Source:** Application Part A, Worksheets 2 and 5.

## **A Hunter's Hill Council's proposed program of expenditure**

Hunters Hill Council proposes to use the additional income from the special variation for the purposes of improving its financial sustainability and funding a program of expenditure.

Table A.1 outlines the council's indicative program of expenditure which may be re-prioritised as projects proceed over the period. The council will report annually on the actual expenditure against the program in its Annual Report.

**Table A.1 Hunter's Hill Council's Proposed Program of Expenditure, 2013/14 to 2022/23 (\$)**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Sum of 10 years
<b>Maintenance of current services</b>											
Operations and catch-up	145,609	149,977	154,476	159,110	163,884	168,800	173,864	179,080	184,453	189,986	<b>1,669,239</b>
Environmental works	174,500	157,491	187,536	141,749	204,051	163,488	194,058	181,627	226,674	169,881	<b>1,801,055</b>
Infrastructure – footpaths, kerbs & gutter	241,000	267,786	283,143	222,056	216,769	273,234	233,449	249,514	273,720	263,284	<b>2,523,955</b>
<b>Sum of total spending</b>	<b>561,109</b>	<b>575,254</b>	<b>625,155</b>	<b>522,915</b>	<b>584,704</b>	<b>605,522</b>	<b>601,371</b>	<b>610,221</b>	<b>684,847</b>	<b>623,151</b>	<b>5,994,249</b>

Source: Application Part A, Worksheet 6.

## **B Hunter's Hill Council's projected revenue, expenses and operating result**

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

**Table B.1 Summary of projected operating statement for Hunter's Hill Council, 2013/14 to 2022/23 (\$000)**

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	13,443	13,849	14,347	14,688	15,077	15,453	15,920	16,453	16,828	17,269
Total expenses	13,758	14,148	14,640	15,023	15,443	15,931	16,381	17,065	17,396	17,958
Operating result from continuing operations	(315)	(299)	(293)	(335)	(366)	(478)	(461)	(613)	(568)	(689)

**Note:** The operating result from continuing operations includes income from capital grants, contributions and asset sales. Excluding these, the council's operating result will typically be lower. Our analysis in the report excludes capital income and asset sales.

**Source:** Hunter's Hill Council, Public Supporting Document, Attachment 2, 2013/14 *Application for a Special Variation*, Table: Infrastructure Special Rate, Environmental Special Rate and Operational Rate Increase, Income Statement.

## C Comparative indicators 2011/12

**Table C.1 Select comparative indicators for Hunter's Hill Council, 2011/12**

	Hunter's Hill Council	DLG Group 2 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	6	-	-
Population	13,880	-	-
General Fund expenditure from continuing operations (\$m)	14.3	-	-
General Fund operating revenue per capita (\$)	907	1,117	2,011
Rates revenue as % total General Fund revenue (%)	67.7	51.4	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	1,305	947	685
Average rate – business (\$)	845	3,854	2,552
Average rate – farmland (\$)	n/a	2,167	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010 (\$)	108,642	77,095	44,140
Growth in average annual income, 2006-2010 (% pa)	2.4	3.0	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.2	1.3	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	146	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	2.5	4.0	7.0
<b>Productivity indicators<sup>d</sup></b>			
FTE staff (number)	59	291	293
Ratio of population to FTE	235	179	126
Average cost per FTE (\$)	81,949	81,931	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	33.8	41.9	36.8
Consultancy/contractor expenses (\$m)	3.4	7.6	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	23.5	13.2	9.3

<sup>a</sup> DLG Group 2 are Urban Small to Medium Metropolitan Developed councils with a population of up to 70,000. This group comprises 14 councils including Ashfield, Lane Cove, Leichhardt, North Sydney and Strathfield.

<sup>b</sup> Average rate levels equal the total rates revenue collected from a given rate category divided by the number of assessments in that category.

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

<sup>d</sup> Based upon total council operations and finances ie, General Fund and if applicable, Water and Sewer, and other funds. Hunter's Hill Council does not have water and sewerage operations. There are difficulties in comparing councils using this data due to differences in the scope of councils' activities and measurement methods across councils.

**Note:** General Fund refers to all council activities except Water and Sewer and, in some cases, other activities.

**Source:** DLG, unpublished comparative data, 2011/12; ABS, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, Time Series, 2005-06 to 2009-10*, February 2013 and ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.

