

# **Junee Shire Council's application for a special variation for 2013/14**

**Local Government — Determination  
June 2013**

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# 1 Determination

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

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

Junee Shire Council applied for a special variation in 2013/14 of 10.0%. 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 Junee Shire Council may increase its general income by 10.0% in 2013/14. This includes the rate peg of 3.4% that is available to all councils, and may be retained permanently in the council's income base.

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 Junee Shire Council’s application for a special variation in 2013/14 (%)**

Component	Amount
Increase to fund road renewal works	6.6
Rate peg increase	3.4
<b>Total increase</b>	<b>10.0</b>

**Box 1.1 Conditions attached to the approved special variation for Junee Shire Council**

IPART’s approval of Junee Shire 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 funding the program of works in the council’s application, and in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 on:
  - the program of expenditure that was actually funded by the special variation, and the reasons for any significant differences from the program in Appendix A
  - the outcomes achieved as a result of the actual program of expenditure.

The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions attached to the approved special variation.

**1.2 What did the council request and why?**

Junee Shire Council requested a special variation of 10.0% in 2013/14,<sup>2</sup> comprising:

- ▼ a 6.6% increase for road renewal works, to be retained in its income base permanently
- ▼ the rate peg of 3.4%.<sup>3</sup>

The council estimated that a 6.6% increase above the rate peg would generate \$0.18m in additional revenue in 2013/14 and \$2.1m over 10 years.<sup>4</sup> It intends to use the full \$2.1m towards a proposed \$2.5m program of road renewal works.<sup>5</sup>

The annual cost of the proposed program is set out in Appendix A.

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

<sup>3</sup> Junee Application Part A, Worksheet 4; Junee Shire Council, *Section 508(2) Special Variation Application 2013/14 – Part B* (Junee Application Part B), p 6; Correspondence with Junee Shire Council, 23 May 2013.

<sup>4</sup> Junee Application Part A, Worksheet 6.

<sup>5</sup> Junee Application Part A, Worksheet 1; Junee Application Part A, Attachment 4 - Proposed Expenditure; Correspondence with Junee Shire Council, 23 May 2013.

### 1.3 How did we reach our decision?

We assessed Junee Shire Council's 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 the latest available Integrated Planning and Reporting (IP&R) documentation.<sup>6</sup> We also considered a range of comparative data about the council, set out in Appendix B.

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

1. demonstrated a need for the proposed revenue to fund road works
2. provided evidence that the community is aware of the need for and extent of the rate rise, and that the rise has broad community support
3. showed that the impact on ratepayers is reasonable and affordable
4. made realistic assumptions about its projected service delivery and budget
5. reported productivity savings in past years, and plans to realise additional savings over the period of the special variation.

Table 1.2 summarises our findings against each of the criteria, and further discussion follows.

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<sup>6</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.

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

Criterion	IPART findings
<p>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>	<p>Purpose of special variation reflects community priorities as outlined in the Community Strategic Plan<sup>7</sup> that was informed by surveys in 2006 and 2011.<sup>8</sup></p> <p>Need for special variation supported by the Asset Management Strategy and Roads Asset Management Plan, which suggest the council does not have the financial ability to maintain its assets into the future.<sup>9</sup></p> <p>The Long Term Financial Plan (LFTP) and TCorp’s assessment indicate that alternative revenue sources are needed to fund current service levels and achieve financial sustainability.<sup>10</sup></p>
<p>2. Evidence that 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>	<p>The community engaged through a variety of methods. These included a resident newsletter, advertisements in the local newspaper, community forums, the council’s website and social media.<sup>11</sup></p> <p>In a 2013 mail out survey of ratepayers, 67% of the 202 respondents supported the proposed rate rise.<sup>12</sup></p>

<sup>7</sup> Junee Shire Council, *Community Strategic Plan to 2022*, May 2012, p 15.

<sup>8</sup> IRIS Research, *Junee Shire Council Community Survey*, October 2006, pp 4 and 5; IRIS Research, *Junee Shire Council Community Survey*, September 2011, pp 3-4 and 11.

<sup>9</sup> Junee Shire Council, *Asset Management Strategy*, April 2012, pp 16-17; Junee Shire Council, *Roads Asset Management Plan*, April 2012, pp ii,12-13 and 33.

<sup>10</sup> Junee Shire Council, *Draft Long Term Financial Plan 2013 – 2023*, February 2013, pp 2, 4 and 7; NSW Treasury Corporation, *Financial Assessment, Sustainability and Benchmarking Report – Junee Shire Council*, 5 April 2013, pp 4-5.

<sup>11</sup> Junee Shire Council, Extracts from media in support of SRV Application process; Junee Application Part B, pp 28-30.

<sup>12</sup> Junee Application Part B, pp 32-34.



Criterion	IPART findings
3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community's capacity to pay.	<p>The impact on ratepayers seems to be reasonable given that:</p> <ul style="list-style-type: none"> <li>▼ Average rates will rise modestly in 2013/14 (see section 1.5).<sup>13</sup></li> <li>▼ Charges for domestic waste or sewerage will not rise over the next 4 years.<sup>14</sup></li> <li>▼ The council has a financial hardship policy, and is reviewing this to improve access.<sup>15</sup></li> <li>▼ The council assessed the rises as being affordable by comparing the typical residential rate rise to average incomes of households, single pensioners and pensioner couples. The largest impact (1.1% of income) will be on single pensioners in the Junee township.<sup>16</sup></li> </ul>
4. Latest available Delivery Program and LTFP must show evidence of realistic assumptions.	<p>The Delivery Plan assumptions on levels of service and asset backlog reductions seem realistic and in line with the community's priorities.<sup>17</sup></p> <p>The LTFP assumptions also seem realistic.<sup>18</sup></p>
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	<p>The council reported productivity and cost savings in the past and aims to do so in the future.<sup>19</sup> However, it did not quantify these savings.</p>
6. Other relevant matters.	<p>Junee is a relatively small council with limited resources. We took this into account particularly in relation to cost savings that were cited but not quantified.</p>

Comparative data suggests some ratepayers have limited capacity to pay the proposed rate increase. Although council's average farmland rates in 2011/12 were below the average of its DLG Group, Group 10, the council's average residential and business rates in 2011/12 were above the average. The council also had a higher outstanding rates and annual charges ratio of 10.6% compared to the already-high Group 10 average of 9.2%<sup>20</sup> and a low socioeconomic ranking on the SEIFA index of 34.<sup>21</sup>

<sup>13</sup> Junee Application Part B, p 40.

<sup>14</sup> Junee Application Part B, p 40; Junee Shire Council, *Draft Long Term Financial Plan 2013 – 2023*, February 2013, p 8.

<sup>15</sup> Junee Shire Council, Rates and Charges Hardship Policy, 7 April 2009; Junee Application Part B, p 47.

<sup>16</sup> Junee Application Part B, pp 44-45.

<sup>17</sup> Junee Shire Council, *Delivery Program 2012-2016*, June 2012.

<sup>18</sup> Junee Shire Council, *Draft Long Term Financial Plan 2013 – 2023*, February 2013, pp 4-11; Correspondence with Junee Shire Council, 21 March 2012.

<sup>19</sup> Junee Application Part B, pp 51-52.

<sup>20</sup> DLG, unpublished comparative data, 2011/12.

<sup>21</sup> ABS, *Socio Economic Indexes for Areas (SEIFA) 2011*, March 2013.

However, the council's careful consideration of the community's willingness and capacity to pay, the clear demonstration of its need and the evidence it provided of broad community support for the rate rise were major considerations in our decision to approve the proposed increase in full. Further, the council has sought to limit the financial impact on ratepayers through a hardship policy. It is reviewing the hardship policy, as well as looking at ways to improve the council's rates collection efficiency.<sup>22</sup>

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

Our decision means that Junee Shire Council can permanently increase its general income by an estimated \$0.28m in 2013/14.<sup>23</sup> After this year, general income will increase by the annual rate peg, unless we approve further special variations.<sup>24</sup>

**Table 1.3 Impact of approved special variation on Junee Shire 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>
2,800,525	10.0	280,053	3,080,581

<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.

Source: Application Part A, Worksheets 1 and 4.

#### 1.5 What does our decision mean for ratepayers?

Junee Shire Council has 6 ratepayer categories - 3 residential, 2 business and 1 farmland. It intends to apply the 10% rate increase uniformly across these categories.<sup>25</sup>

Table 1.4 sets out the proposed impact of rate increases 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>22</sup> Correspondence with Junee Shire Council, 3 June 2013.

<sup>23</sup> Junee Application Part A, Worksheet 4.

<sup>24</sup> The actual general income in future years will be influenced by a range of factors apart from the rate peg including growth in the number of rateable properties.

<sup>25</sup> Junee Application Part A, Worksheet 5.

**Table 1.4 Junee Shire Council – Indicative increases to average rates in 2013/14 as a result of the approved special variation, by ratepayer categories**

Rate category	Average rate 2012/13 (\$) <sup>a</sup>	Requested Increase (\$)	Requested increase (%)	Average rate 2013/14 (\$)
<b>Residential</b>				
Town	595	60	10	655
Rural and village	444	44	10	488
Kinvara	776	78	10	854
<b>Business</b>				
Town	1,773	177	10	1,950
Other	684	68	10	753
<b>Farmland</b>				
All	1,877	188	10	2,064

<sup>a</sup> 2012/13 is included for comparative purposes.

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

## **A Junee Shire Council – Program of Expenditure**

The following table shows the council's proposed program of works to be funded by the special variation.

The council has estimated that the total cost of the program of works will be \$2.5m over the next 10 years.<sup>26</sup> The special variation will generate a total of around \$2.1m over this same period.<sup>27</sup> This means that the council will fund around \$0.3m of the program of works from alternative sources of income (eg, existing rate revenue).

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<sup>26</sup> Junee Application Part A, Attachment 4 - Proposed Expenditure.

<sup>27</sup> Junee Application Part A, Worksheet 6.

**Table A.1 Junee Shire Council – Program of works for road renewals, 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>Sum of total spending (SRV Component)</b>	<b>184,835</b>	<b>190,380</b>	<b>196,091</b>	<b>201,974</b>	<b>208,033</b>	<b>214,274</b>	<b>220,702</b>	<b>227,323</b>	<b>234,143</b>	<b>241,167</b>	<b>2,118,922</b>
Difference between total spending & additional SRV income (Existing rate revenue component)	39,165	86,820	112,709	14,526	16,667	24,026	37,898	0	0	0	<b>331,811</b>
<b>Sum of total spending</b>	<b>224,000</b>	<b>277,200</b>	<b>308,800</b>	<b>216,500</b>	<b>224,700</b>	<b>238,300</b>	<b>258,600</b>	<b>227,323</b>	<b>234,143</b>	<b>241,167</b>	<b>2,450,733</b>

**Note:** The proposed program includes the resealing of 13 roads over the next 7 years and further roads, not yet identified, in the following 3 years.

**Source:** Junee Shire Council, Part A Worksheet 6 - Proposed Expenditure attachment; Correspondence with Junee Shire Council, 18 March 2013; Correspondence with Junee Shire Council, 23 May 2013.

## B Comparative indicators

**Table B.1 Select comparative indicators for Junee Shire Council, 2011/12**

	Junee Shire Council	DLG Group 10 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	2027	-	-
Population	6,091	-	-
General Fund expenditure-continuing operations (\$m)	12.0	-	-
General Fund operating revenue per capita (\$)	2,024	2,580	2,011
Rates revenue as % total General Fund revenue (%)	24.1	24.6	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	520	492	685
Average rate – business (\$)	1,355	1,077	2,552
Average rate – farmland (\$)	1,775	2,192	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010 (\$)	37,958	35,157	44,140
Growth in average annual income, 2006-2010 (% pa)	3.0	2.6	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.4	1.4	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	34		
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	10.6	9.2	7.0
<b>Productivity indicators<sup>d</sup></b>			
FTE staff (number)	75	105	293
Ratio of population to FTE	81	70	126
Average cost per FTE (\$)	54,773	65,736	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	33.0	35.5	36.8
Consultancy/contractor expenses (\$m)	2.2	1.6	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	17.3	7.4	9.3

<sup>a</sup> DLG Group 10 are Rural Large Agricultural councils (population 5,001-10,000), or Remote councils (population 3,001-20,000). This group comprises 26 councils including Blayney, Bland, Walgett and Cobar Shire Councils.

<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. 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; Correspondence with Junee Shire Council, 24 April 2013 (Council average business and farmland rates); 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.