



Independent Pricing and Regulatory Tribunal

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

under section 508A 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 Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2016-17.

Lachlan Shire Council (Lachlan Council) applied for a multi-year special variation under section 508A. The council requested increases of 6.80% for 2016-17 and 7.40% in each of 2017-18, 2018-19 and 2019-20, a cumulative increase of 32.3%. It applied for these increases 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 508A 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 (OLG), *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, January 2016 (the Guidelines).

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

Our decision enables the council to use the additional revenue from the special variation to fund:

- ▼ increased asset maintenance
- ▼ increased capital expenditure on renewals and upgrades for its key assets
- ▼ loan repayments to partly fund the replacement of the council’s works depot, and
- ▼ transfers to reserves to be used to support capital expenditure programs.

Over the same 10-year time frame, the additional revenue will also be used to improve the council’s financial sustainability.

The council consulted its community on the special variation in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its application to IPART.³

1.1 Our decision

We determined that Lachlan Council may increase its general income between 2016-17 and 2019-20 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (1.8% in 2016-17).⁴ The cumulative increase of 32.3% is 22.7% more than the assumed rate peg increase over these years.

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 Lachlan Shire Council’s application for a special variation in 2016-17

	2016-17	2017-18	2018-19	2019-20
Percentage increase approved	6.80	7.40	7.40	7.40

Note: The rate peg in 2016-17 is 1.8%. In later years the council has assumed a rate peg of 2.5%.

Source: Lachlan Shire Council, *Application Part A*, Worksheet 1 and IPART calculations.

³ The cumulative size of the increase is not discussed in the delivery program, however the cumulative size and purpose is outlined in the council’s Long Term financial Plan (LTFP).

⁴ The council has assumed a rate peg of 2.5% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.

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

IPART's approval of Lachlan Shire Council's application for a special variation over the period from 2016-17 to 2019-20 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving financial sustainability and reducing infrastructure backlogs 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 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, and
 - the outcomes achieved as a result of the actual program of expenditure.
-

2 What did the council request and why?

Lachlan Council applied to increase its general income by a cumulative 32.3% over the 4-year period from 2016-17 to 2019-20, and to permanently incorporate these increases into its general income base.⁵

The special variation was consistent with the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At that time, the council proposed a cumulative increase of 33.4% over the 4-year period from 2016-17 to 2019-20, including the rate peg. Lachlan Council proposed the funds would be used to improve financial sustainability, and to implement an asset maintenance and renewal program for roads infrastructure, buildings and other community facilities.⁶

⁵ Lachlan Shire Council, *Application Part A*, Worksheet 1.

⁶ This was higher than the requested 32.3% largely because of the change in the assumed 2016-17 rate peg from 2.5% to the actual value of 1.8%.

The council estimated that if this proposed special variation is approved, its permissible general income would increase from \$5.1 million in 2015-16 to \$6.8 million in 2019-20. This would generate additional revenue of \$2.8 million above the assumed rate peg increases between 2016-17 and 2019-20.

The council intends to use the additional revenue from the special variation to fund:

- ▼ increased asset maintenance
- ▼ increased capital expenditure on renewals and upgrades for its key assets
- ▼ loan repayments to partly fund the replacement of the works depot, and
- ▼ transfers to reserves to be used to support this capital expenditure program.

The additional revenue will also be used to improve the council's financial sustainability.⁷

Over 10 years, the special variation would generate revenue of \$10.4 million above the assumed rate peg. The council proposed to spend over the period from 2026-17 to 2025-26, an additional \$2.1 million on operational expenses:

- ▼ \$0.6 million on unsealed road maintenance⁸
- ▼ \$0.6 million on building maintenance, and
- ▼ \$0.8 million on interest repayments towards the works depot replacement loan.⁹

A further \$7.8 million will be used to fund higher capital expenditures:

- ▼ \$2.6 million on road re-sheeting, edgeworks, widening, footpaths, cycleways, kerbs and guttering
- ▼ \$1.9 million on buildings, halls and community centres
- ▼ \$2.2 million on sporting and recreation grounds, parks, reserves, swimming pools, caravan parks and public toilets
- ▼ \$1.0 million towards a retirement village,¹⁰ and
- ▼ A further \$0.2 million on information technology.

Over this period, \$0.4 million will also be transferred to reserves.¹¹ More detail on the council's proposed program of expenditure to 2024-25 is provided in Appendices A and B.

⁷ Lachlan Shire Council, *Application Part B*, p 9.

⁸ This maintenance/improvement is forecast to generate \$1.9 million in maintenance cost savings from 2020-21 to 2025-26. See: Email from Lachlan Shire Council, 15 March 2016.

⁹ The proposed loan to be funded by the special variation, will be used to bring forward the upgrade of the works depot.

¹⁰ The council has indicated that while it is no longer involved in the operation of the retirement village, it is still the owner of the facility and responsible for its capital maintenance.

¹¹ These reserves will be consumed by 2020-21 as part of a works depot replacement project. See: Email from Lachlan shire Council, 18 March 2016.

3 How did we reach our decision?

We assessed Lachlan 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.¹²

Lachlan Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan – Living Lachlan Style 2025, Delivery Program, Operational Plan, Long Term Financial Plan 2015/16- 2024/25 (LTFP)* and *Asset Management Plan*.

The rate increases for which the council has applied are 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 found that Lachlan Council's 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, reflects community priorities, and is supported by its FFTF proposal showing the need to improve financial sustainability.
2. The council provided evidence that indicates, on balance, **the community is aware** of the need for and extent of the rate increases. However, the council did not always clearly communicate the total annual percentage increase for the proposed special variation.
3. The **impact of the proposed rate increases on ratepayers** is reasonable given this is the council's first application for a special variation and the existing rate levels are low compared to neighbouring and comparable councils.
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 during the period of 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.

¹² See Appendix C. Lachlan Shire Council is in OLG Group 10, which is classified as Rural Large Agricultural (population 5,001-10,000) or Remote (population 3,001-20,000). The group comprises 25 councils, including councils such as Bland Shire, Cobar Shire and Narromine Shire.

Table 3.1 Summary of IPART’s assessment of Lachlan 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 explain the need for special variation and show that it:</p> <ul style="list-style-type: none"> ▼ is consistent with community priorities ▼ will enable the council to maintain its assets, and ▼ will support the council to become financially sustainable. <p>In 2013, NSW Treasury Corporation (TCorp) indicated that Lachlan Council was moderately sustainable in the short term. However, the TCorp analysis suggested it would be unable to maintain service levels for its infrastructure assets, especially the large road network.</p> <p>Our FFTF assessment (2015) observed that the council’s operating performance ratio was 4.2% (surplus) in 2014-15. However this surplus was based on inadequate levels of maintenance spending that did not meet the FFTF benchmarks. The FFTF analysis indicated that if the special variation was approved and operating expenses were increased to meet benchmarks, the operating performance ratio would tighten to 0.1% by 2024-25. This would lift the asset maintenance ratio from 61.8% to 104.5% over the same period.</p> <p>The council considered alternatives to a rate rise such as borrowing and grant funding. The council concluded it has better ways to utilise debt and has incorporated loan borrowings into its LTFP.</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>On balance, we consider that council met the requirements of this criterion.</p> <p>The council provided evidence that the community was made aware of the proposed rate increases and their purpose. However, the need for and extent of the rate rise was not clearly communicated across all mediums.</p> <p>The council did not receive any community submissions in relation to the proposed special variation. IPART received only one submission on the special variation.</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 Program 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 council's application provides evidence it has considered the community's capacity and willingness to pay. The impact on ratepayers will be substantial, but reasonable given:</p> <ul style="list-style-type: none"> ▼ existing residential rate levels are low (\$405pa) compared with the OLG Group 10 average (\$540pa) and neighbouring councils (as at 2013-14) ▼ in 2013-14 the council's rates as a proportion of income (0.9%) is lower than the OLG Group 10 average (1.3%) and all neighbouring councils (0.4% to 1.7%) ▼ the council's outstanding rates ratio of 8.7% in 2014-15 is within the benchmark of 10% for rural councils ▼ the lack of community submissions opposing the rate increase, and ▼ the level of community support (61% approval) for a rate increase to support financial sustainability as indicated in the community survey.
<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 income.</p>	<p>The council adopted the Community Strategic Plan in June 2015 and exhibited its Delivery Program and Operational Plan between 21 May 2015 and 19 June 2015. They were adopted on 24 June 2015.</p> <p>The council adopted the Long Term Financial Plan setting out the special variation scenario, as part of the FFTF review, in June 2015.</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 last six years, the council has realised annual savings by withdrawing from operating an aged care facility. The council is projecting cumulative savings of at least \$5.6 million in operating expenditure over 10 years by:</p> <ul style="list-style-type: none"> ▼ Reducing employee expenditure by a cumulative \$3.9 million over the 10-year LTFP. ▼ Closure of some small scale waste management facilities, upgrading other facilities, restricting operating hours and collection of user fees for access to waste facilities. ▼ Reducing road maintenance costs by \$1.9 million from asset upgrades. ▼ Phasing out subsidies to local medical services.

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

Sources: Lachlan Shire, *Application Part A*, and *Application Part B*; OLG, Unpublished data 2013-14; NSW Treasury Corporation (TCorp); *Lachlan Shire Council Financial Assessment, Sustainability and Benchmarking Report*, 19 March 2013; Lachlan Shire Council, *Delivery Program 2014-15*; Lachlan Shire Council, *Long Term Financial Plan 2015/16*, Email from Lachlan Shire Council, 10 March 2016.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

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

- ▼ Fund asset maintenance and renewal. The asset maintenance ratio is forecast to improve from 73.9% in 2014-15 to 105.0% (above the benchmark of 100%) by 2019-20.
- ▼ The asset renewal ratio will be improved from 59.5% in 2014-15 to 109.2% (above the benchmark of 100%) by 2019-20.
- ▼ Reduce the infrastructure backlog ratio from 3.3% in 2014-15 to 0.5% by 2019-20 (ie, below the benchmark of 2%).¹³

The improvement in asset maintenance, asset renewals and infrastructure backlogs will assist the council to be more financially sustainable over the longer term.

The council's IP&R documents indicate that the community's priorities were to maintain infrastructure, particularly the road system and to improve the council's recreational assets.¹⁴

Alternative funding options

The council considered alternatives to the rate rise such as borrowing and obtaining more grant funding. The council concluded that it could use debt more effectively and has incorporated loan borrowings into the LTFP. Lachlan Council has also explored alternative options and opportunities for grants without any success.

The council also considered merging with neighbouring Parkes Shire Council. This proposal did not receive community support.

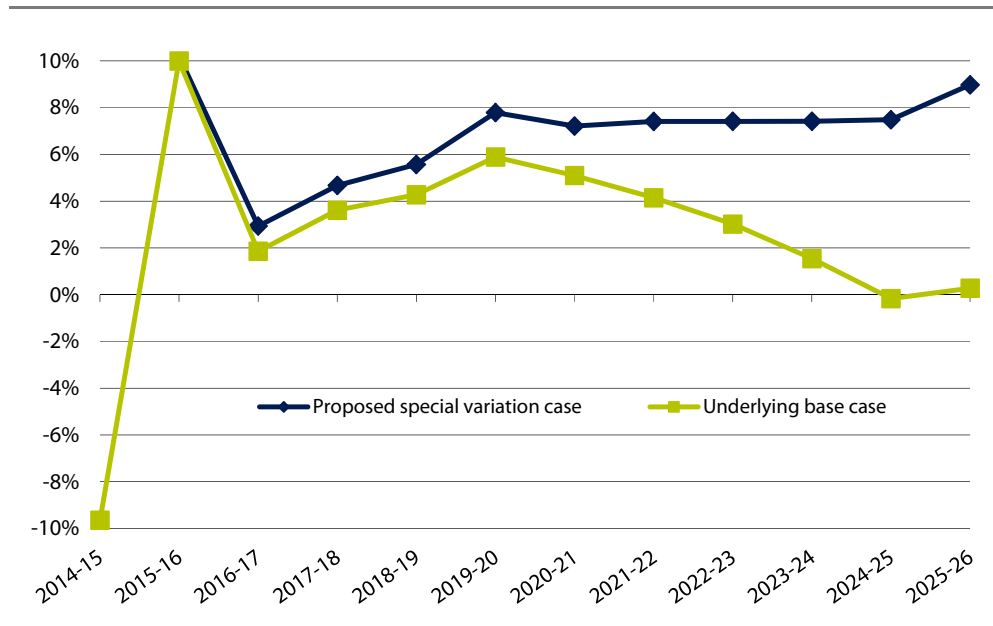
Financial sustainability, including infrastructure backlogs

The impact of the proposed special variation on the council's financial sustainability is shown in Figure 3.1 and Table 3.2. The council recorded a significant turnaround in its operating performance between 2014-15 and 2015-16 from a deficit of 9.6% to a surplus of 10.2%. Lachlan Council advised that this was attributable to a one off increase in operating grants of \$1.5 million in 2015-16.

¹³ Email from Lachlan Shire Council, 30 March 2016.

¹⁴ Lachlan Shire Council, *Community Strategic Plan – Living Lachlan Style 2025*, June 2015, pp 10-12; Lachlan Shire Council, *Delivery Program, Operational Plan and Budget*, June 2015, pp 3-4; Lachlan Shire Council, *LTFP*, June 2015, pp 4-5.

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



Data source: Lachlan Shire Council, *Application Part A*, Worksheet 7 and IPART calculations.

The council's underlying base case shows a trend of declining operating surpluses over the next 10 years without the special variation. In the underlying base case, the operating performance ratio decreases from a peak of 5.9% in 2019-20 to break even by 2024-25. This scenario includes fully funding asset maintenance at benchmark levels without the special variation.¹⁵

As the council is not expected to record operating deficits in either the base case or special variation scenarios, Lachlan Council also has the capacity to fund future asset renewals as they emerge.

However, the special variation is required to reduce existing renewals backlogs (by \$2.5 million) and to fund asset upgrades (of \$5.3 million) over the next 10 years. The additional revenue will enable the council to effectively eliminate the infrastructure backlog. The backlog ratio will decrease from 3.3% in 2014-15 to 0.8% by 2024-25 (benchmark of 2.0% or less).

¹⁵ The underlying base case represents Lachlan Council's operating performance ratio if it were to undertake the additional operational expenditure under this proposal, without receiving additional revenue from the special variation. This compares with the base case in Lachlan Council's application which funded maintenance at 74% of the required level.

At the same time, the special variation will not result in the council excessively accumulating cash and short term investments. These are expected to increase from \$6.2 million in 2015-16 to \$9.3 million in 2024-25. This is consistent with an unrestricted current ratio (a measure of liquidity), increasing from 1.8 in 2014-15 to 2.4 by 2024-25.¹⁶ This compares with the benchmark of a minimum of 1.5.

Table 3.2 Projected operating performance ratio (%) for Lachlan Shire 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	10.2%	2.9%	4.7%	5.6%	7.8%	7.2%	7.4%	7.4%	7.4%	7.5%
Excluding SV	10.2%	3.0%	4.5%	4.9%	6.2%	6.0%	5.1%	3.9%	2.4%	0.7%
FFTF – including SV	-0.1%	0.0%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Lachlan Shire, *Application Part A, Worksheet 7.*

The council reports the discrepancy between the operating performance ratios presented in the FFTF review and those presented in the council's special variation application (shown in Table 3.2) are due to the LTFP being updated since the original submission to FFTF. For example, the cost savings generated from asset renewals (funded as part of this special variation) were not included in forecasts during the FFTF review.

In 2015, our Fit for the Future (FFTF) assessment found that the council met the criteria for:¹⁷

- ▼ Financial sustainability as it was forecast to meet the benchmarks for the **operating performance ratio** and for building and asset renewals from 2016-17.
- ▼ Infrastructure and service management as it was forecast to meet the **infrastructure backlog benchmark** and **asset maintenance benchmark** from 2016-17 and the **debt service benchmark** from 2015-16.
- ▼ Efficiency based on a declining opex per capita.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was moderate and considered its outlook to be negative. TCorp observed that the council was moderately sustainable in the short term. However, the council faces increasing pressures over the medium to long term with infrastructure asset funding. The shortfall in asset maintenance and

¹⁶ The unrestricted current ratio is calculated as current assets less external restrictions divided by current liabilities less specific purpose liabilities.

¹⁷ It should be noted that these findings were based on forecasts that assumed the special variation application would be successful.

renewals funding identified in the Asset Management Plan (AMP) highlighted that the council was unable to maintain the current service levels for its infrastructure assets, in particular for the large road network.¹⁸

The proposed special variation is consistent with the special variation included in Lachlan Council's FFTF proposal, and responds to TCorp's assessment, by increasing funding levels to improve the council's asset maintenance ratio and to reduce infrastructure renewal backlogs.

3.2 Community engagement and awareness

On balance, we consider the council's engagement strategy to be adequate, but not ideal.

Our assessment of council's community engagement found elements which supported the council's application meeting the criteria:

- ▼ the percentage magnitude of the cumulative increases were communicated clearly on most occasions
- ▼ the average dollar impact on ratepayer categories was communicated clearly
- ▼ the magnitude and purpose of the special variation was communicated clearly in the six public meetings (in both dollar and percentage terms)
- ▼ the council advised that the three public meetings were attended by approximately 1.4% of the population of Lachlan Shire¹⁹
- ▼ local media had sufficient coverage of the special variation proposal to ensure a reasonable level of community awareness²⁰
- ▼ the statistically valid survey showed community support for the proposed special variation, and²¹
- ▼ the council's LTFP clearly outlined the purpose of the special variation to the public.

¹⁸ New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18; New South Wales Treasury Corporation (TCorp), *Lachlan Shire Council - Financial assessment, sustainability and benchmarking report*, March 2013, pp 4-5.

¹⁹ The Lachlan Shire community comprises approximately 6,735 people who make up 4,166 rate assessments, half of which are urban residential.

²⁰ The area's primary newspaper is the Condobolin Argus which advised it has a print run of 1,200 each week. Total readership is estimated by the Argus at approximately 3,000. This is in addition to the approximately 2,000 readers who access the Argus online each week and 4,000 weekly Facebook interactions.

²¹ The survey indicated that 61% of respondents supported an increase in rates in order for council to become more financially sustainable. See: Micromex research, *Lachlan Shire Council - fit for the future*, June 2015, p 16.

However, our analysis also identified elements of the community engagement that were inadequate or unclear:

- ▼ The communication of the proposed special variation’s magnitude and purpose was not always consistent and was sometimes ambiguous. For example, the annual percentage increases in the LTFP and other IP&R documents were not always communicated as a total figure (of 7.4%), but rather as 5% in addition to the assumed rate peg each year.
- ▼ The special variation was generally communicated within the context of being necessary to ensure the council could remain a stand-alone council.
- ▼ The survey’s preamble included the magnitude and impact of the proposed special variation, however this did not directly lead to the question gauging the community’s support for the proposed special variation.

Given this mixed effectiveness with its community engagement, we have assessed the council to have on balance, met this criterion. Overall, we consider there is sufficient evidence the community was made aware of the purpose and magnitude of the proposed special variation.

3.3 Reasonable impact on ratepayers

The impact on ratepayers will be substantial but reasonable given the low existing rate levels and comparisons with the OLG Group 10 average and neighbouring councils. Table 3.3 shows how Lachlan Council compares.

Table 3.3 Lachlan Shire Council - comparison of rates and socio-economic indicators with surrounding councils and Group 10 averages (2013-14)

Council (DLG 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					
Forbes (11)	714	40,917	1.7	6.4	44
Parkes (11)	616	44,797	1.4	3.9	36
Narromine (10)	525	42,839	1.2	7.4	29
Cobar (10)	500	54,502	0.9	6.8	60
Bland (10)	434	48,794	0.9	6.8	77
Lachlan (10)	405	47,246	0.9	5.7	39
Bogan (9)	198	50,534	0.4	5.9	40
Group 10	540	41,325	1.3	6.6	-

^a The average residential rate (ordinary and special) is calculated by dividing total ordinary and special 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.

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.

Lachlan Council's rates are 19% below the average of its neighbouring councils and 25% below the Group 10 average. Lachlan Council's residential rates as a proportion of income is also below most neighbouring and comparable councils.

4 What does our decision mean for the council?

Our decision means that Lachlan Council may increase its general income over the 4-year special variation period from \$5.1 million in 2015-16 to \$6.8 million in 2019-20. Table 4.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and, in 2016-17, adjustments that occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2019-20, the council's permissible general income can increase by the annual rate peg, or by more if a further special variation is approved.²²

Table 4.1 Permissible general income of Lachlan Shire Council from 2016-17 to 2019-20 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2016				5,120,333
2016-17	6.80	6.80	347,739	5,468,071
2017-18	7.40	14.70	404,637	5,872,709
2018-19	7.40	23.19	434,580	6,307,289
2019-20	7.40	32.31	466,739	6,774,029
Total increase approved			1,653,696	

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

The council estimates that over these four years, it will collect \$2.8 million in additional revenue above the assumed rate peg increases.

This additional revenue is the amount the council requested to enable it to undertake additional operating and capital expenditure to maintain its infrastructure assets at acceptable standards and to enhance its long term financial sustainability.

²² 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.

5 What does our decision mean for ratepayers?

IPART sets 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, Lachlan Council indicated that it intended to increase rates over the four years uniformly for each category. The council has calculated that:

- ▼ the average residential rate will increase by a cumulative 32.3%, or by \$31 in the first year and by \$148 over four years (from \$458 to \$605)
- ▼ the average business rate will increase by a cumulative 32.4%, or by \$35 in the first year and by \$167 over four years (from \$517 to \$684)
- ▼ the average farmland rate will increase by a cumulative 32.3%, or by \$182 in the first year and by \$865 over four years (from \$2,676 to \$3,541)
- ▼ the average mining rate will increase by a cumulative 32.3%, or by \$2,011 in the first year and by \$9,555 over four years (from \$29,575 to \$39,130).²³

Table 5.1 sets out Lachlan Council's estimates of the expected increases in average rates for each ratepayer category.

Table 5.1 Indicative annual increases in average rates under Lachlan Shire Council's approved special variation 2016-17 to 2019-20

Year	2016-17	2017-18	2018-19	2019-20	Cumulative increase
Residential rate					
\$ increase	31	37	39	41	148
% increase	6.8	7.5	7.4	7.3	32.3
Business rate					
\$ increase	35	41	44	47	167
% increase	6.8	7.4	7.4	7.4	32.4
Farmland rate					
\$ increase	182	212	227	244	865
% increase	6.8	7.4	7.4	7.4	32.3
Mining rate					
\$ increase	2,011	2,338	2,510	2,696	9,555
% increase	6.8	7.4	7.4	7.4	32.3

Note: The average rate is calculated by applying the rate increase to the average property in each rating category, and includes the ordinary rate and any special rates applying to the rating category.

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

²³ There is currently one mining assessment in Lachlan Shire making this the actual rate paid by the mine.



Appendices

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

Table A.1 and Table A.2 show Lachlan Council's proposed expenditure of the special variation funds over the next 10 years. Over this period, the special variation will generate additional revenue of \$10.38 million above the assumed rate peg. The council plans to spend an additional \$2.10 million on the following **operating expenses**:

- ▼ \$0.60 million on road maintenance/improvement
- ▼ \$0.65 million in increased building maintenance, and
- ▼ \$0.85 million in interest repayments on loans

The \$0.85 million in interest repayments will support the council's planned replacement of its works depot in 2019-20. This expenditure is budgeted at \$5.00 million which is to be funded from \$1.20 million in accumulated reserves and \$3.80 million in loans. The loan is being used to fund a cash flow shortfall due to the council bringing forward this project.²⁴

A further \$7.85 million will be used to fund the following **capital expenditure** programs:

- ▼ \$2.58 million in **road spending** consisting of:
 - \$1.75 million in road re-sheeting
 - \$0.48 million on footpaths and cycleway
 - \$0.25 million in sealed roads edgeworks, and
 - \$0.10 million on kerb and gutter
- ▼ \$1.89 million on **buildings** consisting of:
 - \$1.54 million on buildings, and
 - \$0.35 million on halls and community centres
- ▼ \$1.87 million on **sporting and recreation** consisting of:
 - \$1.42 million on sporting and recreation grounds, and
 - \$0.45 million on parks and reserves
- ▼ \$0.98 million towards a **retirement village**
- ▼ \$0.54 million on **other capital works** consisting of:
 - \$0.23 million on information technology
 - \$0.15 million on swimming pools
 - \$0.14 million on caravan parks, and
 - \$0.02 million on public toilets.

²⁴ Email from Lachlan Shire Council, 18 March 2016.

A further \$0.40 million will be transferred to reserves, which will be spent on replacing the works depot.

As a condition of IPART's approval, the council will be required to indicate in its Annual Report to the community how its actual expenditure compares with this proposed program of expenditure.

Table A.1 Lachlan Shire 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	256	530	831	1,161	1,190	1,220	1,251	1,282	1,314	1,347	10,382
Funding for increased operating expenditures	256	200	160	90	221	237	236	235	232	229	2,096
Funding to reduce operating deficits (or increase surpluses)	0	330	671	1,071	969	983	1,014	1,047	1,082	1,117	8,286
Funding for capital expenditure	0	331	467	875	958	980	1,011	1,042	1,073	1,111	7,848
Transfers to reserves	0	0	200	200	0	0	0	0	0	0	400
Total expenditure	256	531	827	1,165	1,179	1,217	1,247	1,276	1,305	1,340	10,345

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Lachlan Shire Council, *Application Part A*, Worksheet 6.

Table A.2 Lachlan Shire Council – Proposed 10-year capital expenditure program related to the proposed special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Roads^a											
Renewals	0	0	0	0	0	0	0	0	0	0	0
Upgrades	0	250	100	150	270	200	220	390	275	245	2,100
Buildings^b											
Renewals	0	81	100	220	220	100	230	230	300	220	1,701
Upgrades	0	0	0	0	26	0	0	0	32	130	188
Sport & recreation grounds^c											
Renewals	0	0	202	260	15	0	39	15	15	50	596
Upgrades	0	0	0	245	155	432	330	128	204	253	1,746
Retirement village											
Renewals	0	0	0	0	0	0	0	0	0	0	0
Upgrades	0	0	0	0	163	163	163	163	163	163	978
Other^d											
Renewals	0	0	0	0	75	0	5	57	75	0	212
Upgrades	0	0	65	0	34	85	24	59	9	50	326
Total Asset Renewal	0	81	302	480	310	100	274	302	390	270	2,510
Total Asset Upgrades	0	250	165	395	648	880	737	740	683	841	5,338
Total Capital Expenditure	0	331	467	875	958	980	1,011	1,042	1,073	1,111	7,848

a Roads includes road re-sheeting, edgeworks, widening, kerbs and guttering.

b Buildings includes buildings, halls and community centres.

c Sport & recreation grounds also includes parks, reserves, footpaths and cycleways.

d Other includes spending on: information technology, swimming pools, caravan parks and public toilets.

Note: Numbers may not add due to rounding.

Source: Information provided by Lachlan Shire Council.

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

As a condition of IPART's approval, Lachlan Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (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 Lachlan 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	24,804	25,840	26,484	27,520	28,098	28,691	29,299	29,922	30,661	31,772
Total expenses	22,683	23,012	23,645	24,060	24,743	25,236	25,793	26,364	27,024	27,591
Operating result from continuing operations	2,122	2,828	2,839	3,460	3,356	3,456	3,506	3,558	3,637	4,180
Net operating result before capital grants and contributions	686	1,128	1,395	2,032	1,923	2,019	2,065	2,112	2,186	2,720

Note: Numbers may not add due to rounding.

Source: Lachlan Shire 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 Lachlan Council have changed over the four years to 2013-14.

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

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	119	119	141	131	3.3
Ratio of population to FTE	58	57	48	51	-3.8
Average cost per FTE (\$)	69,034	71,227	64,837	78,122	4.2
Employee costs as % operating expenditure (General Fund only) (%)	34.4	30.3	35.7	30.3	-4.2
Consultancy/contractor expenses (\$m) ^a	0	0	7.8	4.0	-
Consultancy/contractor expenses as % operating expenditure (%) ^a	0	0	27.7	11.2	-

^a 38% of contractor costs are attributable to maintenance of Lachlan Shire's road network, as a result of RMS contracts to Lachlan Shire Council or to obtain specialist skills and machinery for road maintenance.

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 2013-14.

In addition to the above table, the following comparisons can be made:²⁵

- ▼ The ratio of population to FTE has declined from 58 to 51 and is below the Group 10 average of 72, and below the level of neighbouring councils: Parkes (96), Narromine (74), Forbes (84), Bogan (55) and Bland (53). Lachlan compares favourably with Cobar (37).
- ▼ The percentage of operational expenditure attributable to consultancy/contractors (11.2%) is higher than the Group 10 average of 8.7%. Lachlan's ratio is lower than neighbouring councils: Parkes (14.0%), Narromine (13.8%), Forbes (16.9%), Bogan (20.7%) and higher than Cobar (8.4%) and Bland (0.8%).

²⁵ OLG, unpublished data.

- ▼ The cost per FTE (\$78,122) has increased by 4% over the 4-year period and is above the Group 10 average of \$70,408. It is also higher than neighbouring councils: Parkes (\$75,310), Narromine (\$71,935), Forbes (\$67,540) and Bland (\$53,687). However, it is below that of Cobar (\$82,720) and Bogan (\$93,309).
- ▼ The 4.2% increase in cost per FTE is greater than that of neighbouring councils: Parkes (2.8%), Narromine (3.9%), Forbes (-8.4%) and Bland (4.0%). It is below that of Cobar (8.6%) and Bogan (9.8%).
- ▼ The proportion of operating expenditure attributable to employees has decreased from 34.4% to 30.3% over this period, which is below the Group 10 average of 36.4% and below that of Parkes (43.0%), Narromine (39.4%), Bogan (40.5%) and Cobar (50.1%) but above that of Bland (24.8%) and Forbes (22.9%)

Our 2015 FFTF review found:

- ▼ Lachlan Council's proposal did not satisfy the scale and capacity criterion. The Independent Local Government Review Panel Report identified options for a Joint Organisation with Central Western councils or merger with Parkes Shire Council and specified no preference.²⁶
- ▼ The council met the criterion for sustainability as it is forecast to meet the operating performance, building and asset renewal benchmarks from 2016-17.
- ▼ The council met the criterion for efficiency based on the declining real opex per capita.
- ▼ Real opex per capita was \$3,480 in 2014-15 and is forecast to reduce to \$3,160 by 2019-20. This forecast reflected the council's assumption that the population will remain static.
- ▼ The council's population is projected to decline which will adversely affect the council's financial position in the long term.

General comparative indicators

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

As indicated in Section 3, Lachlan Council is in OLG Group 10. Unless specified otherwise, the data refers to the 2013-14 financial year.

²⁶ Independent Local Government Review Panel, *Revitalising Local Government – Final Report*, October 2013, p 116.

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

	Lachlan Shire Council	OLG Group 10 average	NSW average
General profile			
Area (km ²)	13,744		
Population	6,735		
General Fund operating expenditure (\$m)	30.7		
General Fund operating revenue per capita (\$)	3,462	2,315	1,857
Rates revenue as % General Fund income (%)	23.7	31.2	48.9
Own-source revenue ratio (%)	33.1	56.3	73.8
Average rate indicators^a			
Average rate – residential (\$)	405	540	743
Average rate – business (\$)	511	1,174	2,781
Average rate – farmland (\$)	2,552	2,339	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	47,246	41,325	49,070
Growth in average annual income, 2006-2011 (% pa)	12.8	6.0	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	0.9	1.3	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	39		
Outstanding rates and annual charges ratio (General Fund only) (%)	5.7	6.6	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	131	104	294
Ratio of population to FTE	51	72	127
Average cost per FTE (\$)	78,122	70,408	78,374
Employee costs as % operating expenditure (General Fund only) (%)	30.3	36.4	38.1
Consultancy/contractor expenses (\$m)	4.0	2.0	8.3
Consultancy/contractor expenses as % operating expenditure (%)	11.2	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 2013-14; 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.

