



Independent Pricing and Regulatory Tribunal

Lismore City Council's application for a special variation for 2016-17

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

Local Government — Determination
May 2016



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Contents

1	Determination	1
1.1	Our decision	2
2	What did the council request and why?	3
3	How did we reach our decision?	4
3.1	Need for and purpose of the special variation	7
3.2	Community engagement and awareness	9
3.3	Reasonable impact on ratepayers	11
4	What does our decision mean for the council?	13
5	What does our decision mean for ratepayers?	14
	Appendices	17
A	Expenditure to be funded from the special variation	19
B	Comparative indicators	22

1 Determination

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

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

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

Lismore City Council (Lismore Council) applied for a special variation for 2016-17 of 3.6%, to remain permanently in the rate base.²

After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2016-17

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

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. The IP&R documents, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

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

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

Our decision enables the council to fund its Biodiversity Management Strategy to protect Lismore’s biodiversity while preserving agricultural land. The council consulted its community extensively to address these issues, both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

1.1 Our decision

We determined that Lismore Council may increase its general income in 2016-17 by 3.6%, including the rate peg of 1.8% that is available to all councils (see Table 1.1). The special variation can be retained in the council’s general income base permanently.

We have attached conditions to this decision, including that the council uses the income raised from the special variation for purposes consistent with those set out in its application.

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

Table 1.1 IPART’s decision on Lismore City Council’s application for a special variation in 2016-17

Component	%
Funding for a Biodiversity Management Strategy	1.8
Rate peg	1.8
Total increase	3.6

Box 1.2 Conditions attached to Lismore City Council’s approved special variation

IPART’s approval of Lismore City Council’s application for a special variation in 2016-17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purpose of funding the Biodiversity Management Strategy 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:
 - expenditure consistent with the council’s application, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.

2 What did the council request and why?

Lismore Council applied to increase its general income by 3.6% in 2016-17, consisting of:

- ▼ a 1.8% increase to fund a Biodiversity Management Strategy, and
- ▼ the rate peg of 1.8%.³

The council presented its proposal for the Fit for the Future (FFTF) assessment in June 2015. This did not include a special variation scenario for 2016-17. The operating performance ratio was forecast to remain in deficit until 2017-18.⁴

With the proposed special variation, the council's permissible general income would increase from \$27.7 million in 2015-16 to \$28.7 million in 2016-17. The council applied to permanently incorporate this increase into its general income base.

The council estimates that its requested increase of 1.8% above the rate peg would generate \$0.5 million in additional revenue in 2016-17 and \$5.6 million over 10 years.⁵ This will be achieved by applying the rate increases to only the residential and farmland rating categories.

The special variation will be used to fund the Biodiversity Management Strategy up to 2025-26. The strategy includes maintaining local biodiversity and ecology in a sustainable manner, improving community awareness and partnerships, and providing a framework for environmental management.⁶

The council indicated that during the 10 years of its Long Term Financial Plan (LTFP), it proposes to spend \$5.6 million on additional operational expenditure to implement the Biodiversity Management Strategy, resulting in minimal impact on its financial sustainability. At the time of the FFTF proposal the council forecast it would achieve a very small deficit of -0.5% in 2016-17. Due to the reclassification of Roads to Recovery grants, the 2016-17 projection has been revised to a surplus of 3.7%.⁷

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

³ Lismore Council, *Application Part A*, Worksheet 4 and Lismore Council, *Application Part B*, p 5.

⁴ The FFTF proposal included a special variation scenario of 3.0% above the rate peg for 2018-19.

⁵ Lismore Council, *Application Part A*, Worksheet 6.

⁶ Lismore Council, *Biodiversity Management Strategy for the Lismore LGA 2015-2035*, 2015, p 7.

⁷ Roads to Recovery grants were previously considered capital grants but has been reclassified as an operating grant. Email from Lismore City Council, 17 March 2016.

3 How did we reach our decision?

We assessed Lismore 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 B.⁸

Lismore Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan - Imagine Lismore 10 Year Plan 2013-23 (Imagine Lismore)*, *Delivery Program (Imagine Lismore 4 Year Plan 2013-2017)* and *Long Term Financial Plan 2015/16- 2024/25*.

The rate increase for which the council has applied is relatively small (in percentage terms), 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 note the council's application requests a slightly lower percentage increase (3.6%) than that on which it consulted its community (4.3%), reflecting a lower than expected rate peg for 2016-17.⁹

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

1. The **need for the proposed revenue** reflects community priorities as is demonstrated in the council's IP&R documents.
2. The council provided **evidence that the community is aware** of the need for, and extent of, the rate rise. However, the full extent of the rate increase was not always communicated. On balance, the council has met this criterion.
3. The **impact of the proposed rate rises on ratepayers** is modest and reasonable given the small size of the special variation and will only be applicable to residential and farmland ratepayers. The council has taken into account ratepayers' willingness and capacity to pay.
4. The council provided evidence that the **relevant IP&R documents have been exhibited and adopted**.
5. The council reported **productivity savings** in past years, and indicated its intention to realise further savings 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.

⁸ See Appendix B. Lismore Council is in OLG Group 4, which is classified as 'urban small/medium regional town or city with a population up to 70,000'. The group comprises 30 councils, including Ballina Shire, Richmond Valley, Tweed Shire (which all surround Lismore), Shellharbour City and Wagga Wagga City.

⁹ This higher percentage rate reflects an assumed rate peg of 2.5% before the December 2015 announcement of 1.8% for 2016-17.

Table 3.1 Summary of IPART’s assessment of Lismore City Council’s application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents clearly explain the need for and purpose of the special variation and show that:</p> <ul style="list-style-type: none"> ▼ it is consistent with community priorities, and ▼ it will address the environmental concerns faced in the Local Government Area. <p>Our assessment observed that the special variation will have a minimal impact on the council’s projected operating performance ratio.</p> <p>Our FFTF assessment observed that the council’s operating deficit ratio was forecast to improve from a -3.0% deficit in 2014-15 to a 1.0% surplus by 2017-18.</p> <p>The council considered grant funding and general purpose revenue as alternatives to a rate rise.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council’s community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.</p>	<p>The council demonstrated it made the community aware of the need for and extent of the rate rise. However, the communication of the full 3.6% percentage impact was not always consistent. It used a variety of tools to consult with the community including: mail outs, a telephone survey, media releases and a community forum.</p> <p>Feedback from the 1,526 community submissions to council indicated 58.9% were opposed to the special variation.</p> <p>The council acknowledged the mixed responses received.</p> <p>Feedback from the 209 participants in the Hunter Research Foundation’s (HRF) statistically valid survey indicated that 61.0% of the survey respondents considered the rate rise a reasonable price for funding the Biodiversity Management Strategy.</p> <p>IPART received 49 submissions, 30 in support and 19 opposing. The main concern was affordability.</p> <p>The council was broadly split (six to five) in resolving to apply for the special variation. Three out of these five councillors provided submissions to IPART opposing 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 Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay. 	<p>The impact on ratepayers will be modest given:</p> <ul style="list-style-type: none"> ▼ the small size of the special variation both in percentage terms and its average impact of \$45 on residential rates, and ▼ Lismore Council's SEIFA index ranking (66 out of 153) indicates it is not relatively disadvantaged in socioeconomic terms. <p>However, our assessment finds:</p> <ul style="list-style-type: none"> ▼ Average residential rates are 14.7% higher than the OLG Group 4 average (by \$135). ▼ The council's 2013-14 outstanding rates ratio (9.9%) is much higher than the Group 4 (4.9%) and NSW average (5.5%), and the OLG benchmark (5.0%). This indicates that a significant number of ratepayers may be in financial hardship. However, this ratio shows a downward trend from a peak of 10.8% in 2010-11 to 9.2% in 2014-15. ▼ No special variations have been applied to residential or farmland properties over the past 10 years. ▼ The average income level (\$38,784) is 12.6% lower than the Group 4 average (\$44,351) and 21.0% below the NSW average (\$49,070). <p>The council considers the community has the capacity and willingness to pay the higher rates based on the low dollar impact of the special variation and the results of the HRF survey.</p>
<p>4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.</p>	<p>The council adopted the Community Strategic Plan in 2013. The council exhibited its amended Delivery Program and Long Term Financial Plan which set out the special variation scenario between 24 October 2015 and 21 November 2015 and adopted them on 8 December 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>The council in 2013 undertook a service level review which resulted in savings of \$1.20 million. The current service delivery review is in its early stages and has yielded savings of \$0.65 million per year through improved and more efficient service delivery.</p>

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

Sources: Lismore City, *Application Part A* and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Lismore City Council Financial Assessment, Sustainability and Benchmarking Report*, 12 March 2013; *Imagine Lismore Four Year Plan, Delivery Program 2013-17*, p 5; Lismore Council, *Application Part B, Attachment 6, Community Feedback – Community Survey Report*, p 21; Lismore Council, *Application Part B, Attachment 8, Resolution to apply for the proposed Special Variation*, p 1; Lismore Council, *Financial Statements, 2014-15*, p xiv.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

The council has clearly articulated the community's priorities and identified the need for and purpose of the requested special variation in its IP&R documents. The *Imagine Lismore* 10 Year Plan lists environmental sustainability and leadership as the Local Government Area's (LGA) highest priority over the next 10 years.¹⁰

The Biodiversity Management Strategy actions were tailored to the Lismore LGA and will address issues such as increasing pressure from weeds and pest animals and the disintegration of habitats. Actions 48 and 53 of the Biodiversity Management Strategy propose restoring riverbanks in rural areas and remediation in urban areas.¹¹

Alternative funding options

The council has explored alternative revenue options such as general purpose revenue and grant funding. It concluded that these options would result in either a reduction of services provided by the council or would not provide sufficient funding.

The council considered various levels of potential funding amounts for the Biodiversity Management Strategy. These options included: \$0.3 million, \$0.5 million and \$0.7 million per annum relating to different levels of planning, partnership and environmental activities.¹² The council decided to proceed with applying for a special variation providing annual revenue \$0.5 million above the rate peg increase.

Financial sustainability, including infrastructure backlogs

It is not intended that this special variation improve the council's financial sustainability. The purpose of the special variation is to fund the implementation of the Biodiversity Management Strategy without adversely affecting the council's operating performance ratio. The council is forecasting operating surpluses between \$1.5 million and \$2.8 million over the next 10 years without a special variation.¹³

Since all the additional revenue will be spent on the new Biodiversity Management Strategy, there will be no effect on the operating performance ratio, which is forecast to improve, as shown in Figure 3.1.

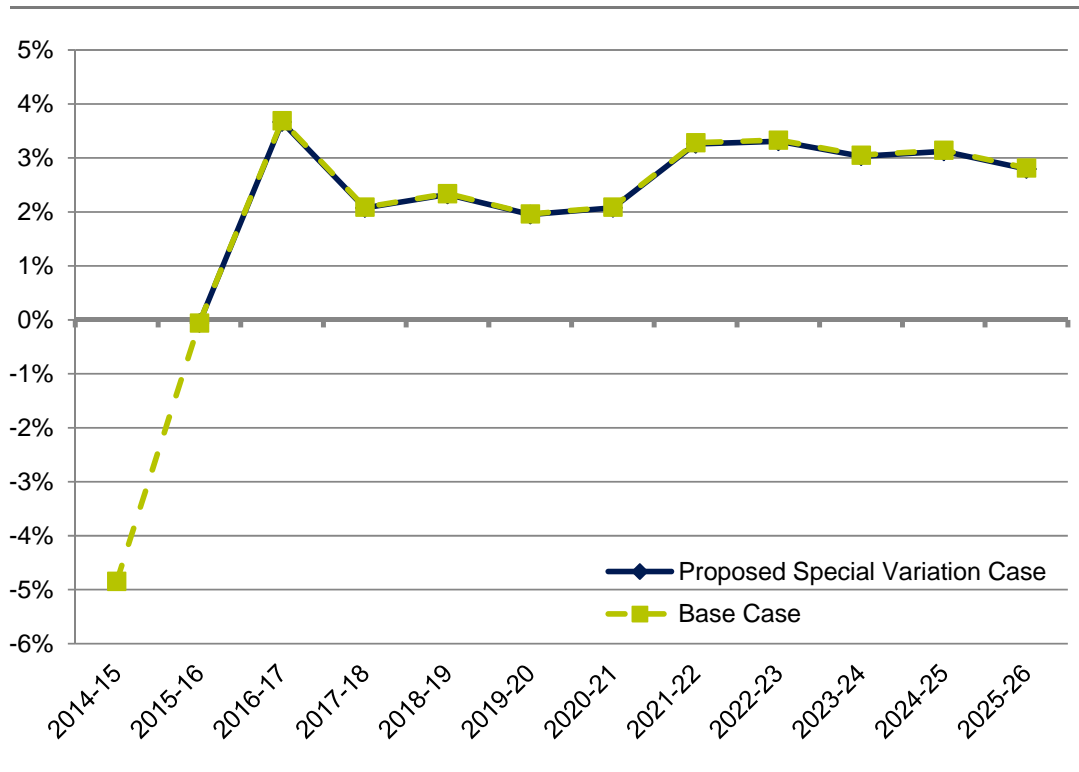
¹⁰ Lismore Council, *Application Part B*, Attachment 1, *Community Strategic Plan 2013-23*, p 25.

¹¹ Lismore Council, *Application Part B*, pp 11, 13.

¹² Lismore City Council, *Comparative SRV options for consideration*, pp 1-2.

¹³ Lismore Council, *Application Part A*, Worksheet 7.

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



Source: Lismore Council *Annual Financial Statements*, various, Lismore Council, *Application Part A, Worksheet 7* and IPART calculations.

In 2015, our Fit for the Future (FFTF) assessment found the council to be ‘Fit’ and overall satisfied the scale and capacity and financial criteria. The council:

- ▼ Met the criterion for sustainability. The **operating performance benchmark** was forecast to be met by 2019-20 (3.3%) and the building and infrastructure renewal ratio was forecast to trend close to benchmark over the 2015-16 to 2019-20 period (106% in 2014-15).
- ▼ Did not meet the criterion for infrastructure and service management as it will not reach the infrastructure backlog or **asset maintenance benchmark** by 2019-20. However, the infrastructure backlog ratio forecast demonstrates improvement, from 11.8% in 2014-15 to 5.6% by 2019-20. Its debt service ratio is within benchmark range.
- ▼ Satisfied the criterion for efficiency based on its operating expenditure per capita declining over the period to 2019-20.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was 'moderate', but considered its outlook to be 'negative'.¹⁴ This assessment was made at a time when the council was experiencing recurrent deficits (-8% in 2012) with forecast operating performance ratio deficits ranging from 5% to 13% between 2013 and 2022. Forecast capital expenditure was considered insufficient to meet the cost of expected asset renewal requirements. It was advised that this would place the council in a deteriorating financial position in the long term and would affect the quality of its services.¹⁵

The infrastructure renewal ratio was observed at 53% in 2012 and has significantly improved to 98% in 2014-15 (benchmark of 100%). The high infrastructure backlog ratio at the time of TCorp's analysis remains unchanged in 2014-15 at 28% (compared to a 2% benchmark).¹⁶

We conclude that the special variation will assist the council to fund the Biodiversity Management Strategy without reducing its forecast future operating surplus.

3.2 Community engagement and awareness

We consider that the council has, on balance, met this criterion.

In 2014-15, the council reviewed its IP&R documents in consultation with its community. It clearly explained the need for, purpose of and the extent (in dollar terms) of the rate increases.

The council communicated the percentage increase adequately but not consistently:

- ▼ The survey conducted by Hunter Research Foundation only referred to the proposed increase above the assumed rate peg, not the total increase in rates (3.6%). However, respondents were provided with the correct dollar impact corresponding to their property's land value.¹⁷
- ▼ Only two instances out of ten promotional materials (not including the survey), mentioned the total percentage increase for the proposed special variation. While this is a concern, it is adequate given the small size of the special variation and the consistent and correct communication of the dollar impact.

¹⁴ New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

¹⁵ TCorp; *Lismore City Council Financial Assessment, Sustainability and Benchmarking Report*, March 2013, pp 4, 11-12, 15, and 17.

¹⁶ Lismore Council, *Financial Statements*, 2014-15, p 147.

¹⁷ Lismore Council, *Application Part B*, Attachment 8, *Community Survey Report*, pp 27-28. If they did not provide a land value for their property, the survey used the average land value for the corresponding category.

The council provided reasonable opportunities for community feedback. It used a variety of methods to engage with its community including:

- ▼ mail outs to all residents and affected ratepayers
- ▼ an independent telephone survey
- ▼ media releases
- ▼ local market stalls, and
- ▼ a community forum.

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 a degree of support for the rate increase requested.

The council engaged the Hunter Research Foundation to undertake a random, statistically valid, survey of residential and farmland ratepayers. Feedback from the 209 participants in the HRF survey indicated 61% agreed that the rate rise that would apply would be a reasonable price to pay for funding the Biodiversity Management Strategy.¹⁸

Based on the outcomes of its community engagement, the council decided to apply for a special variation that would generate \$500,000 per annum (above the assumed rate peg), for funding the Biodiversity Management Strategy. The council voted for the special variation by a narrow margin (six to five).

Submissions

The council received 1,526 written submissions on both the Biodiversity Management Strategy and the proposed special variation: 59% (899) opposing the application and 39% (598) in support. The main reasons for opposition were:

- ▼ affordability and additional burden to ratepayers
- ▼ unequal distribution of the rate increases between business and farmland ratepayers, and
- ▼ that money could be better spent on roads and infrastructure.

The council acknowledged the mixed responses from the community feedback and considered that there was considerable support for the special variation. This was based on the statistically valid survey being reflective of the views of the community.

¹⁸ Lismore Council, *Application Part B, Attachment 8, Community Survey Report*, pp 3-4.

IPART received 49 submissions: 30 in favour and 19 opposing the application. Common issues raised in the 15 opposing submissions included unaffordability of the rate increases, opposition to the Biodiversity Management Strategy, the quality of the information presented by the council and perceived council inefficiencies.

Three of the five councillors who voted against the proposal provided submissions to IPART opposing the special variation. Their main concerns mirrored those of the community.

3.3 Reasonable impact on ratepayers

We consider the impact of the special variation will be modest given the small increase of 1.8% above the rate peg. The council estimates the average dollar impact on residential rates at \$26 above the rate peg, and \$45 including the rate peg.

The council's consideration of impact on ratepayers

The council examined socioeconomic indicators such as the SEIFA index as well as average rates surrounding the Local Government Area to assess the impact on ratepayers. On the basis of the low dollar impact of the rate increases, it concluded that the impact would be affordable to most residential and farmland ratepayers. Business rates will increase in line with the rate peg.

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 also compared current rates and socioeconomic indicators within the LGA and surrounding councils as shown in Table 3.2.

Table 3.2 Lismore Council - comparison of rates and socioeconomic indicators with surrounding councils and Group 4 averages (2013-14)

Council (OLG Group)	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Surrounding Councils					
Tweed Shire (5)	1,199	39,594	3.0	6.1	68
Lismore City (4)	1,057	38,784	2.7	9.9	66
Ballina Shire (4)	796	40,734	2.0	5.6	99
Kyogle ^d (10)	708	32,640	2.2	14.1	11
Richmond Valley ^d (4)	650	35,020	1.9	9.2	7
Group 4	927	44,351	2.1	4.9	-

^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 the council that is least disadvantaged in NSW.

^d The data in this table does not capture the increases from multi-year special variations approved for Richmond Valley Council in 2014-15 (cumulative 39.1% over five years) and Kyogle Council in 2015-16 (cumulative 38.9% over five years).

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.

We found that since 2004-05:

- ▼ The council has applied for and been granted two special variations that were used for promotion of businesses within the Lismore LGA. One of these special variations (of 3.8% for 5 years, including the assumed rate peg) will expire in 2017-18. As these special variations were only applied to businesses, there were no increases above the rate peg for residential and farmland properties over this period.
- ▼ The council has a hardship policy for ratepayers requiring financial assistance. Provisions include writing off/reducing interest accrued, extension of pensioner concessions and hardship relief.
- ▼ Average rate levels in 2013-14 were higher than the Group 4 average by \$135 (14.7%). Table 3.3 shows that Lismore Council is exceeded only by Tweed Shire Council (Tweed Council) with the level of average rates amongst neighbouring LGAs. Tweed Council is also applying for a special variation in 2016-17. Councils with previously approved special variations include both Richmond Valley Council in 2014-15 (cumulative 39.1%) and Kyogle Council in 2015-16 (cumulative 38.9%).
- ▼ Average incomes in 2011 were 12.6% (\$5,567) lower than the Group 4 average. However, as shown in Table 3.3, compared to surrounding councils, Lismore Council's average income level is the third highest.

- ▼ Lismore Council's outstanding rates ratio (9.9%) is higher than surrounding local councils with the exception of Kyogle Council (14.1%). It is also higher than the averages for Group 4 (4.9%) and NSW (5.5%) and the OLG's benchmark of 5.0% for urban & coastal councils.¹⁹
- ▼ Lismore Council has a SEIFA ranking slightly below the midpoint (66 out of 153). This indicates that it is not relatively disadvantaged in socioeconomic terms when compared with other NSW councils. Compared with surrounding councils' rankings, Lismore Council is also positioned in the middle.²⁰

We consider that the impact of the special variation increase is modest given the small percentage increase and dollar impact, the council's history of previous special variations, the socioeconomic indicators compared with those in surrounding councils and the extent of support from the community.

4 What does our decision mean for the council?

Our decision means that Lismore Council may increase its general income in 2016-17 by an estimated \$1.0 million as indicated in Table 4.1.²¹ This increase will be permanently incorporated into the council's revenue base. After 2016-17, the council's general income will increase by the annual rate peg unless we approve further special variations.²²

¹⁹ Kyogle Council obtained approval for a large special variation for 2015-16 with a cumulative increase of 38.94% over five years. Average annual income in Kyogle Council is 15.84% lower than in Lismore Council.

²⁰ OLG, Unpublished data and IPART calculations.

²¹ Lismore Council, *Application Part A*, Worksheets 1 and 4.

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.

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

Notional general income 2015-16 (\$)	Adjustment: expiring special variation (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations ^a (\$)	Permissible general income 2016-17 (\$)
27,670,339	-	3.6	996,132	(684)	28,665,787

^a An prior catch-up of \$684 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2016-17.

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

This extra income is the amount the council requested to enable it to implement its Biodiversity Management Strategy which will enable preservation of productive agricultural land and biodiversity in the LGA.

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, Lismore Council indicated that it intended to apply the rates increase only to residential and farmland properties. Business rates will be unaffected by the special variation, and will rise by 0.2% less than the rate peg in 2016-17.

The council has calculated that:

- ▼ the average residential rate will increase by 3.9%, or \$45
- ▼ the average business rate will increase by 1.6%, or \$76, and
- ▼ the average farmland rate will increase by 3.8%, or \$84.²³

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

²³ Lismore Council, *Application Part A*, Worksheet 5a.

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

Category ^a	Average rate 2015-16 (\$)	Increase (%)	Increase (\$)	Average rate 2016-17 (\$)
Average residential rate	1,162	3.9	45	1,207
Average business rate	4,664	1.6	76	4,741
Average farmland rate	2,217	3.8	84	2,301

a 2015-16 is included for comparison.

Notes: The average rate is calculated by Lismore Council and reflects the ordinary rate. Some numbers may not add due to rounding.

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



Appendices

A Expenditure to be funded from the special variation

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

This special variation will not fund capital expenditure. The council will use the additional revenue, above the rate peg, of \$5.6 million and funding of \$94,000 from the council's budget (allocated for biodiversity-related activities), over 10 years to fund the Biodiversity Management Strategy. This will involve preserving the LGA's biodiversity and agricultural land, promoting partnerships with the community and implementing a Koala Management Plan (see Table A.1).²⁴

The council has acknowledged that the special variation will have minimal impact on the council's financial sustainability.

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

²⁴ Email from Lismore City Council, 17 March 2016.

Table A.1 Lismore 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	498	511	520	533	547	560	574	589	603	619	5,555
Funding for increased operating expenditures ^a	500	513	525	538	552	566	580	594	609	624	5,602
Funding from recurrent budget	2	2	5	5	5	5	5	6	6	6	47
Funding to reduce operating deficits or (increase surpluses)	0	0	0	0	0	0	0	0	0	0	0
Funding for capital expenditure	0	0	0	0	0	0	0	0	0	0	0
Additional expenditure	500	513	525	538	552	566	580	594	609	624	5,602

^a These expenses include project planning, processes and implementation for work the community, landholders and the environment.

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding from recurrent budget.

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

Table A.2 Lismore Council – Proposed 10-year operational expenditure program 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
Cleaning up our own backyard											
Planning & Processes	120	31	32	38	39	40	41	42	43	44	467
Supporting the community	25	46	47	49	50	51	52	53	55	56	483
Working with rural land holders											
Implementation	183	290	293	306	325	334	339	371	363	374	3,177
Working in the urban environment											
Implementation & Management	101	109	116	97	105	106	107	91	112	93	1,037
Koala Plan of Management											
Implementation	71	37	38	50	34	35	42	37	38	57	438
Total Operational Expenditure	500	513	525	538	552	566	580	594	609	624	5,602

Note: Numbers may not add due to rounding.

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

B 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 B.1 shows how selected performance indicators for Lismore Council have changed over the four years to 2013-14.

Table B.1 Trends in selected performance indicators for Lismore City Council, 2010-11 to 2013-14

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	377	397	401	400	2.0
Ratio of population to FTE	121	112	111	111	-2.8
Average cost per FTE (\$)	66,735	70,766	75,274	71,650	2.4
Employee costs as % operating expenditure (General Fund only) (%)	30.1	32.6	29.8	32.8	2.9
Consultancy/contractor expenses (\$m)	-	-	-	-	-
Consultancy/contractor expenses as % operating expenditure (%)	-	-	-	-	-

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

Source: OLG, unpublished data.

The above table shows that:

- ▼ The total number of staff increased by 6.2% from 2010-11 (377) to 2013-14 (400) or an annual average increase of 2.0%. The ratio of population to FTE fell by 8.3% from 121 (2010-11) to 111 (2013-14).
- ▼ Average costs per FTE have increased by 7.4% from \$66,735 (2010-11) to \$71,650 (2013-14) or an average annual increase of 2.4%. However, 2013-14 FTE costs remain lower than the Group 4 average (\$77,772).
- ▼ While the council's performance for employee related expenses has fluctuated since 2010-11, it compares favourably to the average performance of Group 4 councils. Employee expenses, as a percentage of operating expenditure have increased from 30.1% in 2010-11 to 32.8% in 2013-14. This compares with an average of 37.8% in 2013-14 for Group 4.²⁵
- ▼ The council has no consultancy expenses. The Group 4 council's average is \$6.2 million or 7.9% of operating expenditure.

²⁵ OLG, unpublished data.

The Independent Local Government Review Panel (ILGRP) report identified options for a Northern Rivers Joint Organisation OR a merger with Kyogle Council.²⁶

Our 2015 FFTF review found:

- ▼ The council met the criterion for efficiency based on an improvement in its real opex per capita ratio by 2019-20.
- ▼ Real opex per capita was \$1,430 in 2014-15 and is forecast to be \$1,310 in 2019-20.

Our special variation assessment found the council intends real opex to decline as savings are realised from improved productivity and efficiency initiatives. This includes undertaking service delivery and service level reviews with savings (approximately \$3.0 million) to be realised between 2017-18 and 2018-19.

General comparative indicators

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

As noted in section 3, Lismore Council is in OLG Group 4. 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.

Table B.2 Select comparative indicators for Lismore Shire Council, 2013-14

	Lismore Council	OLG Group 4 average	NSW average
General profile			
Area (km ²)	1,289	-	-
Population (2012)	44,485	-	-
General Fund operating expenditure (\$m)	73.3	-	-
General Fund operating revenue per capita (\$)	1,548	1,380	1,857
Rates revenue as % General Fund income (%)	38.7	43.9	48.9
Own-source revenue ratio (%)	76.1	69.2	73.8
Average rate indicators^a			
Average rate – residential (\$)	1,057	922	743
Average rate – business (\$)	4,215	3,326	2,781
Average rate – farmland (\$)	2,123	1,927	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	38,784	44,351	49,070
Growth in average annual income, 2006-2011 (% pa)	4.3	4.5	5.2
Ratio of average residential rates 2013-14, to average annual income, 2011 (%)	2.7	2.1	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	66	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	9.9	4.9	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	400	320	294
Ratio of population to FTE	111	125	127
Average cost per FTE (\$)	71,650	77,772	78,374
Employee costs as % operating expenditure (General Fund only) (%)	32.8	37.8	38.1
Consultancy/contractor expenses (\$m)	-	6.2	8.3
Consultancy/contractor expenses as % operating expenditure (%)	-	7.9	10.5

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

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

^c Except as noted, data is based upon total council operations including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

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