



Independent Pricing and Regulatory Tribunal

Marrickville Council's application for a special variation for 2015-16

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

Local Government — Determination
May 2015



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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?	3
3.1	Community engagement and awareness	6
4	What does our decision mean for the council?	7
5	What does our decision mean for ratepayers?	7
	Appendices	9
A	Expenditure to be funded from the special variation	11
B	Comparative indicators	13

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.

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 for either an increase in a single year (section 508(2)) or successive increases for 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 2015-16.

Marrickville Council applied for a special variation in 2015-16 of 5.4%, to remain permanently in the rate base.² We have assessed the council's application, and decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

Box 1.1 Special Variation Guidelines for 2015-16

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 2015/2016*, issued by the Office of Local Government.

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 (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

Marrickville Council applied for a special variation for the purpose of infrastructure renewal. Our decision, combined with annual productivity improvements, enables the council to fund the renewal shortfall and reduce the infrastructure backlog. 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 Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2015/2016*, October 2014 (the Guidelines).

² Marrickville Council, *Special Variation Application – Part A, 2015-16* (Marrickville Council, *Application Part A*), Worksheet 1.

1.1 Our decision

We determined that Marrickville Council may increase its general income in 2015-16 by 5.4%, including the rate peg of 2.4% 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 Marrickville Council's application for a special variation in 2015-16

Component	%
Infrastructure renewal	3.0
Rate peg	2.4
Total increase	5.4

Box 1.2 Conditions attached to Marrickville Council's approved special variation

IPART's approval of Marrickville Council's application for a special variation in 2015-16 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of reducing infrastructure backlogs as outlined in the council's application and listed in Appendix A.
 - ▼ The council reports in its annual report for 2015-16 to 2024-25 on:
 - 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.
 - ▼ The council reports in its financial statements from 2015-16 to 2024-25 (currently in Special Schedule 9) on its compliance with the special variation and these conditions.
-

2 What did the council request and why?

Marrickville Council requested a special variation of 5.4% in 2015-16, consisting of:

- ▼ a 3.0% increase to renew infrastructure and reduce backlogs, and
- ▼ the rate peg of 2.4%.

Under the proposed special variation, the council's permissible general income would increase from \$43.6m in 2014-15 to \$45.9 million in 2015-16. The council applied to permanently incorporate this increase into its general income base as at 1 July 2015.

The council estimates that its requested increase of 3.0% above the rate peg would generate \$1.3 million in additional revenue in 2015-16 and \$14.8 million over the next 10 years.

The council in its Long Term Financial Plan (LTFP), has indicated that the special variation (combined with annual productivity savings targets) will enable it to fund the annual asset renewal shortfall of \$2.4 million. Over the next 10 years, it proposes to spend \$15.0 million on the infrastructure renewal program.

More detail on the council's proposed program of expenditure to 2024-25 is provided in Appendix A.

3 How did we reach our decision?

We assessed Marrickville Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as a range of comparative data about the council, set out in Appendix B.³

Marrickville Council has applied on the basis of its adopted IP&R documents, in particular the Community Strategic Plan – *Our Place our Vision* (CSP), Delivery Program – *Delivery Program 2013-17* (DP), Long Term Financial Plan – 2014-15 to 2023-24 (LTFP) and Asset Management Plan – *Asset Management Policy and Strategy* (AMP).

In assessing the rate increase for which the council has applied, we considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

³ See Appendix B. Marrickville Council is in OLG Group 3, which is classified as Urban Large/Very Large Metropolitan Developed (pop. >70,000). The group comprises 17 councils, including councils such as Canterbury, Parramatta, Randwick and Rockdale.

Overall, we found that Marrickville Council’s application met the criteria. In particular, we found that:

1. The need for the proposed revenue reflects community priorities as demonstrated in the Community Strategic Plan.
2. The council provided evidence that it has considered the community’s capacity and willingness to pay the proposed rate rises. Council demonstrated community awareness of need, however awareness of the extent in dollar terms was established as an amount above the rate peg.
3. The impact of the proposed rate rises on ratepayers is modest and reasonable given the purpose of the special variation. The council has taken into account ratepayers’ willingness and capacity to pay in regards to the council’s recently increased pensioner rebates.
4. 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 and 3.2 discuss our findings against criteria 2 and 5 in more detail.

Table 3.1 Summary of IPART’s assessment of Marrickville 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, including 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. ▼ It, combined with productivity improvements, will fund the infrastructure renewal shortfall, estimated to be \$2.35 million per annum. <p>TCorp observed in 2012 that the council’s financial position was ‘moderate’ and outlook ‘neutral’.</p> <p>TCorp indicated that while council was in a sound financial position, council’s asset maintenance and renewal ratios were projected to underperform against benchmarks.</p> <p>The council considered alternatives to a rate rise such as increased revenue raising options. Council concluded that a modest rate increase combined with a commitment to a plan of productivity improvements would sufficiently meet the renewal funding shortfall.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The IP&R documentation should clearly set out the extent of the General Fund rate rise under the special variation. The council’s community</p>	<p>The council demonstrated that it had made the community aware of the need and extent of the 5.4% rate increase. We note that council reported the total percentage increase in rates but generally expressed the dollar value impact as an amount above the rate peg.</p> <p>The council’s consultation methods used to inform the</p>

Criterion	IPART findings
engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure an opportunity for community awareness and input to occur.	<p>community included council's webpage, letterbox drops, public information forums and displays, social media, advertisements and an externally conducted statistically valid telephone survey.</p> <p>Results from the online/postal consultation process showed of the total 1,801 submissions, 55% of respondents were at least "somewhat supportive" of the proposed rate increase. The telephone survey indicates that of the 410 participants, 81% were at least "somewhat supportive."</p> <p>Community feedback to council opposing the rate rise generally related to council's level of performance and priority of services.</p> <p>We received four submissions of which two were on behalf of organisations and two from ratepayers. The ratepayer submissions commented on the extent of the community awareness, affordability and whether council were operating "within their means".</p>
<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 IP&R processes 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 local community's capacity to pay. 	<p>The impact on ratepayers will be reasonable given:</p> <ul style="list-style-type: none"> ▼ average residential rates will rise by 5.4% or an estimated \$46 to about \$901 ▼ average business rates will rise by 5.4% or an estimated \$286 to about \$5,582 ▼ council ranks favourably in socio-economic indexes with a SEIFA ranking (127/153) ▼ council has a low outstanding rates ratio (3.4%). <p>The council considers that the community had the capacity and willingness to pay the higher rates based on a comparison of rates of neighbouring LGAs such as Strathfield, Ashfield, Burwood and Leichhardt.</p> <p>This is reinforced by the support of a citizen's jury for the special variation. Affordability is also assisted by council's increased pensioner rebate.</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.	The council exhibited the IP&R documents for a period of two months between December 2014 and February 2015. The documents were adopted by council on 17 February 2015.
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.	Over the last six years, the council has realised savings of \$3 million. Council plans to realise an efficiency dividend and productivity improvement savings valued at \$1.6 million per annum.

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

Sources: Marrickville Council, *Application Part A* and *Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp), *Marrickville Council Financial Assessment and Benchmarking Report*, March 2013; Marrickville Council, *Delivery Program 2013-17*, pp 27-28; Marrickville Council, *Long Term Financial Plan 2014-2025*, pp 33-41.

3.1 Community engagement and awareness

While Marrickville Council undertook an extensive consultation program, we note that the council did not fully communicate the size of the increase in average rates as it only reported the additional dollar increase above the rate peg. On balance, we consider that the council met this criterion.

3.1.1 Community Engagement

Marrickville Council used a variety of tools to engage the community in communicating the need for and purpose of the rate increase. The tools included the use of internet portal pages, mail-outs, public displays at community events, newsletter, social media and advertisements.

As part of the engagement process, Marrickville Council undertook a community-led program to promote greater public input. In October 2014, the council convened a panel of individuals in the form of a citizen's jury to determine an appropriate level of infrastructure provision and how it should be funded.

The jury presented a final report to council on 25 November 2014, containing a number of recommendations that were adopted by council. The report, which set the minimum acceptable standard for infrastructure levels, reduced required asset renewal expenditure by approximately \$2.7 million per annum.⁴

The council recognises that an empowered citizen's jury reflective of local priorities based on a 'deliberative democratic process' added great value and insight. The findings within the jury report have been used directly by council to determine the amount of renewal expenditure funded by the special variation income.

3.1.2 Community Awareness

We consider that council has not fully communicated the extent of special variation outcome in 2015-16. While consultation with the community included the total percentage special variation increase of 5.4%, council generally reported the average impact such as the residential dollar impact of \$25.50 exclusive of the rate peg. The council should have communicated the size of the increase in average rates which included the rate peg increase.

The council's consultation material lists nine key areas for infrastructure renewals. We note that the SV will only fund around 60% of the projects with the remainder being funded by the council's cost savings.⁵

⁴ Marrickville Council, *Application Part B*, Attachment 5, pp 20-28, 40.

⁵ Marrickville Council, *Application Part B*, Attachment 5, p 38, and Marrickville Council, *Application Part A*, Worksheet 6.

In consideration of council’s overall community consultation we conclude that, on balance, the council has met this criterion.

4 What does our decision mean for the council?

Our decision means that Marrickville Council may increase its general income in 2015-16 by an estimated \$2.35 million as indicated in Table 4.1.⁶ This increase will be permanently incorporated into the council’s revenue base. After 2015-16, the council’s general income will increase by the annual rate peg unless we approve further special variations.⁷

Table 4.1 Permissible general income of Marrickville Council in 2015-16 arising from the special variation approved by IPART

Notional general income 2014-15 (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations (\$)	Permissible general income 2015-16 (\$)
43,552,067	5.4%	2,351,812	-	45,903,878

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

5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

In its application, Marrickville Council indicated that it intended to increase rates uniformly for each category.

Council has determined that in 2015-16:

- ▼ the minimum rate for the residential category will increase by 5.4%, or \$33
- ▼ the average residential rate will increase by 5.4%, or \$46, and
- ▼ the average business rate will increase by 5.4%, or \$268.

⁶ Marrickville Council, *Application Part A*, Worksheets 1 and 4.

⁷ General income in future years cannot be determined with precision, as it will be influenced by several factors apart from 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 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

Table 5.1 Indicative increases in average rates under Marrickville Council's approved special variation for 2015-16

Category^a	Average rate 2014-15 (\$)	Increase (\$)	Increase (%)	Average rate 2015-16 (\$)
Average residential rate	855	46	5.4	901
Ordinary residential	849	46	5.4	895
Newtown Urban Centre (special)	209	11	5.4	220
Marrickville Urban Centre (special)	246	13	5.4	259
Petersham Urban Centre (special)	167	9	5.4	176
Dulwich Hill Urban Centre (special)	266	14	5.4	280
Average business rate	5,296	286	5.4	5,582
Ordinary Business	4,060	219	5.4	4,279
Business Industrial Marrickville	6,295	340	5.4	6,635
Business Industrial St Peters	12,847	694	5.4	13,540
Business Industrial St Peters North	4,197	227	5.4	4,424
Business Industrial Camperdown	4,440	240	5.4	4,680
Marrickville Metro	385,849	20,836	5.4	406,685
Airport	28,492	1,539	5.4	30,031

^a Average rates include all applicable ordinary and special rates rounded to the nearest dollar.
Source: Marrickville Council, *Application Part A*, Worksheet 5 and IPART calculations.



Appendices

A Expenditure to be funded from the special variation

Table A.1 shows Marrickville Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of \$14.8 million over the 10 years to 2024-25 to fund the capital renewals program.

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.

Table A.1 Marrickville Council – Income and proposed expenditure over 10 years related to the special variation (\$000)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Special variation income above rate peg	1,306.6	1,345.8	1,386.1	1,427.7	1,470.5	1,462.5	1,506.4	1,551.6	1,598.1	1,646.1	14,701.4
Local Roads	579.2	596.6	614.5	632.9	651.9	671.5	691.6	712.4	733.8	755.8	6,640.2
Stormwater	252.0	259.6	267.3	275.4	283.6	292.1	300.9	309.9	319.2	328.8	2,888.8
Park Footpaths	193.1	198.9	204.9	211.0	217.3	223.9	230.6	237.5	244.6	252.0	2,213.8
Carparks	142.9	147.2	151.6	156.2	160.8	165.7	170.6	175.8	181.0	186.5	1,638.3
Buildings	139.5	143.7	148.0	152.5	157.0	161.8	166.6	171.6	176.8	182.1	1,599.6
Total capital expenditure	1,306.7	1,346.0	1,386.3	1,428.0	1,470.6	1,515.0	1,560.3	1,607.2	1,655.4	1,705.2	14,980.7

Note: Numbers may not add due to rounding.

Source: Marrickville 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 Marrickville Council have changed over the four years to 2012-13.

Table B.1 Trends in selected performance indicators for Marrickville Council, 2009-10 to 2012-13

Performance indicator	2009-10	2010-11	2011-12	2012-13	Average change (%)
FTE staff (number)	509	514	538	523	0.9
Ratio of population to FTE	154	152	151	156	0.4
Average cost per FTE (\$)	78,458	80,268	78,942	86,606	3.3
Employee costs as % operating expenditure (General Fund only) (%)	48.9	46.2	47.0	47.8	
Consultancy/contractor expenses (\$m)	-	-	-	2.4	
Consultancy/contractor expenses as % operating expenditure (%)	-	-	-	2.5	

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.

In Table B.1 we see that since 2009-10, employee costs as a percentage of operating expenditure have remained stable over the period. Employee costs represent approximately half the cost of operating expenditure which is driven by higher costs per FTE compared to OLG Group 3 and state averages (see Table B.2). However, consultancy and contractor expenses as a percentage of operating expenditure were low at 2.5% in 2012-13 compared to OLG Group 3 and state average (13.7 and 10.3 respectively).

General comparative indicators

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

As noted in section 3, Marrickville Council is in OLG Group 3. Unless specified otherwise, the data refers to the 2012-13 financial year.

Table B.2 Select comparative indicators for Marrickville Council, 2012-13

	Marrickville Council	OLG Group 3 average	NSW average
General profile			
Area (km ²)	16	-	-
Population	81,689	-	-
General Fund operating expenditure (\$m)	94.5	-	-
General Fund operating revenue per capita (\$)	1,106	828	2,026
Rates revenue as % General Fund income (%)	56.1	57.1	46.8
Own-source revenue ratio (%)	86.1	77.6	71.1
Average rate indicators^a			
Average rate – residential (\$)	784	815	712
Average rate – business (\$)	8,393	5,253	2,688
Average rate – farmland (\$)		2,198	2,194
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	58,240	54,682	49,070
Growth in average annual income, 2006-2011 (% pa)	4.8	4.3	5.2
Ratio of average residential rates 2012-13, to average annual income, 2011 (%)	1.3	1.5	1.5
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	127		
Outstanding rates and annual charges ratio (General Fund only) (%)	3.4	3.5	6.0
Productivity (labour input) indicators^c			
FTE staff (number)	523	589	294
Ratio of population to FTE	156	252	127
Average cost per FTE (\$)	86,606	85,623	75,736
Employee costs as % operating expenditure (General Fund only) (%)	47.8	41.5	37.1
Consultancy/contractor expenses (\$m)	2.4	15.5	7.8
Consultancy/contractor expenses as % operating expenditure (%)	2.5	13.7	10.3

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.