



Independent Pricing and Regulatory Tribunal

Parke Shire Council's application for a special variation for 2013/14

**Local Government — Determination
June 2013**

© Independent Pricing and Regulatory Tribunal of New South Wales 2013

This work is copyright. The *Copyright Act 1968* permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

ISBN 978-1-925032-08-6

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Mr Simon Draper, Part Time Member

Inquiries regarding this document should be directed to a staff member:

Dennis Mahoney (02) 9290 8494

Nick Singer (02) 9290 8459

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box Q290, QVB Post Office NSW 1230

Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

Contents

1	Determination	1
1.1	Our decision	2
1.2	What did the council request and why?	4
1.3	How did we reach our decision?	4
1.4	What does our decision mean for the council?	17
1.5	What does our decision mean for ratepayers?	17
	Appendices	
A	Parkes Shire Council's proposed expenditure program	19
B	Parkes Shire Council's projected revenue, expenses and operating result	22
C	Parkes Shire Council – comparative rate levels with similar and surrounding councils	24
D	Comparative indicators	25

1 Determination

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

However, councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines issued by the Division of Local Government (DLG) (see Box 1.1). We may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Box 1.1 The Revised Guidelines

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Division of Local Government, Department of Premier and Cabinet.

Revised Guidelines were issued in October 2012. These Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The new Guidelines have a stronger emphasis on how councils have undertaken their Integrated Planning and Reporting (IP&R), where councils are expected to engage with the community about service levels and funding priorities in preparing their strategic planning documents. A major change in the Guidelines is that, for most criteria, evidence to support an application must be in the council's IP&R documents.

Another major change is that councils no longer need to demonstrate community support for the special variation. Instead, they must show that the community is aware of the need for, and extent, of the proposed rate rise, and that the council has considered the community's capacity and willingness to pay higher rates. In addition, in assessing applications against the criteria, we are now required to consider the size and resources of a council, the size of the rate increase, current and previous rate levels, the purpose of the special variation and any other matter we consider relevant.

Parkes Shire Council applied for a multi-year special variation from 2013/14, under section 508A. The council requested increases of 13% per year over the next 4 years, amounting to a cumulative increase of 63.05% by 2016/17.¹

¹ Parkes Shire Council, *Section 508A Special Variation Application 2013/14 - Part A* (Parkes Application Part A), Worksheet 1.

After assessing its application, we decided to approve the special variation as requested. We made this decision under section 508A of the Act. The percentage increases that we have approved will enable the council to undertake its Progressive Delivery Program, which was the higher of 2 options for a special variation on which it consulted the community.²

The special variation will enable the council to improve its financial sustainability within 4 years. During this period it will also start to enhance levels of service by improving existing infrastructure, investing in new infrastructure and reducing its infrastructure backlog.

1.1 Our decision

We determined that Parkes Shire Council may increase its general income by the annual percentages shown in Table 1.1, resulting in a cumulative increase of 63.05% over the next 4 years, or 50.06% above the rate peg.

These increases incorporate the rate peg increases to which the council would otherwise be entitled (3.4% in 2013/14 and an assumed 3.0% in each of the subsequent years). After the last year of the special variation (2016/17), the increase will remain permanently in the council's rate base.

We have attached conditions to this decision, which are set out in Box 1.2.

² Parkes Shire Council, *Section 508A Special Variation Application 2013/14 – Part B* (Parkes Application Part B), pp 44-46.

Table 1.1 IPART’s determination on Parkes Shire Council’s special variation for 2013/14 to 2016/17

Year	Increase in general income approved (%)	Cumulative increase in general income approved (%)	Annual increase in general income (\$)	Total permissible general income ^a (\$)
2012/13				8,006,961 ^b
2013/14	13.00	13.00	989,072	8,996,033
2014/15	13.00	27.69	1,169,485	10,165,518
2015/16	13.00	44.29	1,321,517	11,487,035
2016/17	13.00	63.05	1,493,315	12,980,350

a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year’s notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. The council’s proposed permissible general income in 2013/14 includes the requested special variation of 13% and decreases of \$47,382 for a prior year excess and \$4,451 for valuation objections claimed in 2012/13.

b This income level is the 2012/13 adjusted notional general income, not the permissible general income.

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

Box 1.2 Conditions attached to the approved special variation

IPART’s approval of Parkes Shire Council’s application for a special variation over the period from 2013/14 to 2016/17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving its financial sustainability and funding the program of expenditure outlined in the council’s application, and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council’s application, and summarised in Appendix B
 - any significant 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 the reasons for any significant differences from the proposed expenditure
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions.

1.2 What did the council request and why?

Parkes Shire Council applied to increase its general income by 13% each year for 4 years, and to permanently incorporate this increase into its general income base. This includes the rate peg increases to which the council would otherwise be entitled. The cumulative increase would be 63.05%.

The council estimated that the requested special variation would increase its annual general income from \$8.0m in 2012/13 to \$13.0m in 2016/17. This will result in additional revenue of \$11.6m over the 4 years, or \$9.2m above the rate peg.³

The council intends to use the income from the requested special variation to improve its financial sustainability. Specifically, it aims to eliminate projected operating deficits by the end of the period of the special variation. At the same time, it will draw on its capital grants and contributions and financial reserves to enhance service levels and to start to address the infrastructure backlog.⁴

The council's *Long Term Financial Plan 2013-14 to 2022-23* projects the annual revenues, expenses and operating results if the special variation is approved. These are set out in Appendix B.

During the period of the special variation, the council will undertake \$9.4m of capital spending (detailed in Appendix A), including:

- ▼ \$4.2m on new projects or enhancements to existing infrastructure such as drainage, swimming pools, sporting complexes, open spaces, and an airport terminal
- ▼ \$2.7m on road maintenance (more frequent road re-sheeting)
- ▼ \$1.8m on footpaths, weed/pest programs and public toilets
- ▼ \$0.3m on additional maintenance on village centres
- ▼ \$0.4m on an additional, voluntary, pensioner rate rebate.⁵

1.3 How did we reach our decision?

We assessed Parkes Shire Council's application against the criteria in the Guidelines. The council included comprehensive supporting information, both in the application and in its Integrated Planning and Reporting (IP&R) documents. We also considered a range of comparative data about the council, set out in Appendix D.

³ Parkes Application Part A, Worksheet 1, and IPART calculations.

⁴ Parkes Application Part B, pp 4-5, and *Community Strategic Plan 2022*, p 12.

⁵ Parkes Application Part A, Worksheet 6, and IPART calculations.

The cumulative rate increase sought by the council is substantial, and we carefully considered the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact on ratepayers. In general, we found that the application met the criteria. In particular, we found that:

1. the need for the proposed revenue was clearly demonstrated in the IP&R documents, and reflects community priorities
2. the council provided evidence that the community is aware of the need for and extent of the rate rise, and that it has considered the community's capacity and willingness to pay
3. the impact on ratepayers is not unreasonable, given that current rate levels are low, the rate rises appear generally affordable, and the council has a Hardship Policy for cases where affordability is an issue
4. the council made realistic assumptions concerning projected service delivery and budgets
5. the council reported productivity savings in past years, and plans to realise additional savings over the proposed special variation period.

Table 1.2 summarises our assessment against each of the criteria. The sections below discuss this assessment in more detail.

Table 1.2 Summary of IPART’s assessment against the criteria in the Guidelines

Criterion	IPART findings
<p>1. Need for and purpose of the special variation must be clearly articulated in the council’s IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the council’s financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).</p>	<p>The current IP&R documents clearly identify the need for and purpose of the special variation.</p> <p>The council projects ongoing operating deficits without the special variation. With the special variation, it will be able to address its long-term financial sustainability, while using reserves to improve services and reduce infrastructure backlogs in the short term. This approach is consistent with TCorp’s recommendations.</p> <p>Alternative revenue sources will not yield the revenue required to address long-term financial sustainability.</p> <p>The proposed special variation is consistent with the community priorities identified in the Community Strategic Plan, and the council’s consultation indicates there is community support for it.</p>
<p>2. Evidence that the community is aware of the need for, and extent of, the proposed rate rises must be provided. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, the impact of any rises on the community, and the council’s consideration of community capacity and willingness to pay higher rates. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.</p>	<p>The council used a variety of engagement methods to inform the community about the special variation.</p> <p>We consider there was sufficient opportunity for the community to become aware and provide feedback to the council on the options for a rate increase.</p> <p>The feedback the council received was limited. Survey samples were small and not randomly selected, but demonstrated strong support for the special variation. The council and IPART also received 15 and 16 submissions respectively, all of which opposed it.</p> <p>The council conducted a thorough analysis of the issues raised in individual submissions, but concluded that the special variation was warranted.</p> <p>We accept that the council has consulted extensively with the community and that it has applied for the large special variation in light of its understanding of the community’s priorities, and their capacity and willingness to pay.</p>

Criterion	IPART findings
3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and proposed purpose of the variation. The council's IP&R process should establish that proposed rate rises are affordable, having regard to the local community's capacity to pay.	<p>The council considered the impact on the community, as reflected in its IP&R documents. It concluded that the rise was affordable based on:</p> <ul style="list-style-type: none"> – the Shire's current low rates compared with similar and surrounding areas – the conclusions of a report from the Western Research Institute – lower-than-average outstanding rates ratio. <p>Nevertheless, it has updated its Hardship Policy and introduced an additional, voluntary pensioner rebate.</p> <p>A low SEIFA ranking (36 out of 153) suggests low capacity to pay, but average annual income is only slightly less than the peer average. The council raises much less rate revenue per capita than its peers.</p> <p>We recognise that the impact on ratepayers in Parkes Shire will be significant, but consider that it is not unreasonable, given current rate levels, the socio-economic indicators, and the Hardship Policy.</p>
4. Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	<p>The council's IP&R documents, including the LTFP, contain realistic assumptions regarding costs and revenues. Asset maintenance costs are based on the council's detailed asset management plans.</p>
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	<p>The council provided evidence of improvements to productivity and containment of costs, some of which have been quantified.</p> <p>The council appears to have productivity levels that are comparable with its peers.</p>
6. Other relevant matters.	None.

1.3.1 Need for and purpose of the special variation

The council's application states that the special variation is required to turn the council's current operating deficits into operating surpluses, so it can reduce the asset backlog and pay for a series of enhancements to current levels of service, most of which are related to improved asset standards.

The council's current IP&R documents (adopted March 2013) clearly identify the need for, and purpose of, the special variation. The plans are comprehensive and link the strategic objectives in the Community Strategic Plan (CSP) to various resource planning documents. These documents include the Long Term Financial Plan (LTFP), the 4-year Delivery Program, 4-year Delivery Program Financial Forecasts, the 1-year Operational Plan and 1-year Operational Budget.

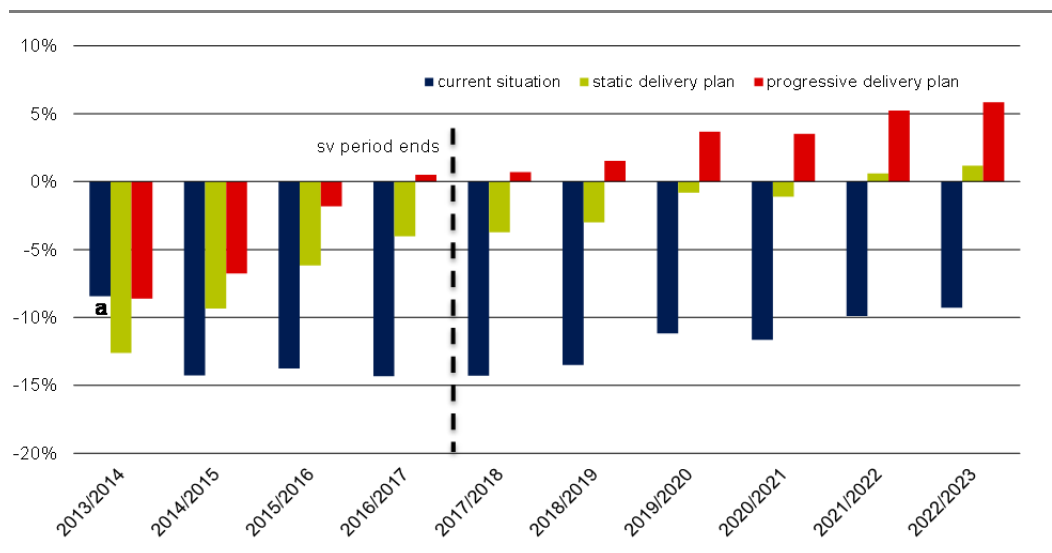
The need for a special variation was included in the IP&R documents revised in late 2012, and the subject of direct community consultation in recent months.⁶

The council’s 10-year LTFP modelled 3 scenarios:

- ▼ Current Situation - rate revenue increases by an assumed rate peg of 3.4% each year.
- ▼ Static Delivery Program - rate revenue increases by 10% pa for 4 years, then by 3.4% each year after that.
- ▼ Progressive Delivery Program - rate revenue increases by 13% pa for 4 years, then by 3.4% each year after that.

Figure 1.1 shows the projected operating balance ratios for the council’s General Fund over the next 10 years under each of the 3 scenarios.

Figure 1.1 Parkes Shire Council projected operating balance ratio 2013/14 – 2022/23



a For 2013/14, operating grants are only higher in the Current Situation scenario.

Note: The ratio is operating balance excluding capital grants and gains/losses on disposal of assets divided by operating revenue excluding the same items. Water and Sewer activities are excluded.

Data source: Parkes Shire Council, *Long Term Financial Plan 2013-14 to 2022-23*, pp 16, 28 and 36, and IPART calculations.

The requested special variation is based on the Progressive Delivery Program which aims to eliminate the council’s operating deficits (excluding capital) by 2016/17. After that, the operating surplus should increase steadily each year. The surpluses (a cumulative \$6.9m between 2016/17 and 2022/23) will allow the council to fund further reductions in the infrastructure backlog.

⁶ Parkes Shire Council, *Community Strategic Plan 2022*, pp 15 and 21-28; Parkes Shire Council, *Delivery Program 2013-14 to 2016-17*, p 28; Parkes Shire Council, *Operational Plan 2013-14*, p 28; Parkes Shire Council, *Delivery Program Financial Forecasts 2013-14 to 2016-17*, pp 26-136, and Parkes Shire Council, *Operational Budget 2013-14*, pp 34-145.

Under the Static Delivery Program, it would take 9 years to produce an operating surplus. Under the Current Situation, operating deficits would continue at levels well above 5% of operating revenue.⁷

The key driver of the deficit in recent years has been asset revaluations that have increased annual depreciation charges since 2008/09.⁸ The latest increase in asset values followed the development of comprehensive asset management plans in 2012.⁹

The Progressive Delivery Program is consistent with the community priorities as identified in the CSP, and was supported during consultation on the requested special variation. The community does not want the levels of services to decrease, and considers reducing the infrastructure backlog as a high priority.¹⁰

The council considered several alternative revenue sources to address its long-term financial sustainability, including increasing user charges and fees, the sale of industrial and residential land, increasing developer contributions, additional grant funding and a greater use of debt. It concluded that these alternatives would not yield the revenue required.¹¹

TCorp indicated that the council has the financial capacity to borrow up to \$6m under the Progressive Delivery Program. However, the council plans to borrow for water and sewer purposes and does not want to further increase its debt service ratio (currently 1.63).¹²

1.3.2 Community awareness and engagement

The council used a variety of engagement methods to inform the community of the need for, and purpose and extent of the special variation. We consider that the community has had sufficient opportunity to become aware of the proposed rate increase, and to provide feedback to the council.

⁷ Parkes Shire Council, *Long Term Financial Plan 2013-14 to 2022-23*, pp 16, 28 and 36, and IPART calculations.

⁸ NSW Treasury Corporation, *Parkes Shire Council Financial Assessment and Benchmarking Report* (TCorp Report), 27 February 2013, p 14.

⁹ TCorp Report, p 18 states, "The total value of infrastructure assets has increased by \$176.5m since 2009, due to asset revaluations. In addition, an asset management plan was implemented and Council reassessed the cost to bring assets to satisfactory standard. This more thorough assessment was the reason for the large increase in the backlog in 2010. In 2012, council completed extensive asset data collection and analysis for their 2012 asset management plans which enabled a more accurate analysis and resulted in a higher backlog value in 2012".

¹⁰ Parkes Shire Council, *Community Engagement Strategy – A Continuum*, pp 12-13.

¹¹ Parkes Application Part B, pp 21-25.

¹² TCorp Report, pp 33 and 41; Parkes Application Part B, pp 22-23, and Parkes Shire Council, *General Purpose Financial Statements for the year ended 30 June 2012*, Note 13a(i), p 58.

In preparing the IP&R documents that were adopted in 2010 and 2012, the council consulted the community about its priorities.¹³ It used a variety of engagement strategies, including 18 independently facilitated workshops, 2 half-day information kiosks at a shopping centre, and a survey sent to 8,000 households asking questions about service priorities.¹⁴

In addition, between October 2012 and February 2013, the council consulted the community directly about potential rate increases. It proposed 3 options that reflected the 3 scenarios modelled in the IP&R documents (see section 1.3.1 above). The engagement methods used included:

- ▼ 5 community workshops, with a survey of attendees¹⁵
- ▼ advertisements and media coverage¹⁶
- ▼ direct communication to community groups and community leaders via the council website and other online channels¹⁷
- ▼ a brochure calling for feedback to an online survey distributed through newspapers with a combined circulation of around 4,000¹⁸
- ▼ an online survey¹⁹
- ▼ public exhibition of the IP&R documents, which clearly outline the special variation application, for 28 days in January and February 2013.²⁰

Apart from written submissions, recorded community feedback was captured by the 2 surveys. Although the sample sizes were small and respondents elected to participate (ie, it was not a random survey), the results show a high level of support for the requested special variation:

- ▼ of the 135 responses from the workshop, 78% supported the Progressive Delivery Program (13% pa increase, in line with the special variation) and 16% the Static Delivery Program (10% pa increase)²¹
- ▼ of the 104 responses to the online survey, 61% supported the Progressive Delivery Program and 25% supported the Static Delivery Program.²²

¹³ Parkes Application Part B, p 33.

¹⁴ Parkes Application Part B, pp 35 and 38, and Parkes Shire Council, *Community Engagement Strategy - A Continuum*, p 10.

¹⁵ Parkes Application Part B, pp 44-46.

¹⁶ Parkes Application Part B, Annexure 2.k.

¹⁷ Parkes Application Part B, pp 46-47, and Parkes Shire Council, *Community Engagement Strategy: A Continuum*, pp 16-17.

¹⁸ Parkes Application Part B, p 47.

¹⁹ Parkes Application Part B, p 48, and Annexure 2.r. *Survey Monkey Results*. The survey question did not specifically state that the rate increases would be every year for 4 years.

²⁰ Parkes Application Part B, p 50.

²¹ Parkes Application Part B, p 46.

²² Parkes Application Part B, p 48, and Annexure 2.r. *Survey Monkey Results*. The survey question did not specifically state that the rate increases would be every year for 4 years.

In contrast, all 15 submissions to the council opposed the proposed rate increase, for reasons including:

- ▼ inadequate community consultation
- ▼ unreasonable rating structure and impact on ratepayers
- ▼ delivery program and LTFP assumptions not realistic
- ▼ productivity and cost containment strategies not realised.²³

In its application, the council indicated that it had thoroughly analysed and considered the issues raised in individual submissions but concluded that they did not warrant a change to the proposed special variation.²⁴ The council addressed each submission, and the issues raised, and reported these to the Councillors during their deliberations on the special variation application (Council meeting on 15 March 2013).²⁵

IPART received 16 submissions,²⁶ mainly from rural ratepayers, expressing similar concerns:

- ▼ the size of increase and residents' capacity to pay
- ▼ impact on rural ratepayers
- ▼ poor financial management and past investment decisions by the council
- ▼ poor and/or inequitable share of services
- ▼ inadequate consultation.

We discuss the impact of the increase on all ratepayers below in section 1.3.3. We also discuss the council's financial management and efficiency below in section 1.3.4 and section 1.3.5. We found the council's financial planning and consideration of alternative revenue sources to be satisfactory. The council has conducted extensive community consultation over a long period of time, as noted above.

1.3.3 Impact on ratepayers

The council intends to increase rates across all ratepayer categories by approximately 13% in each of the 4 years of the special variation period (see Table 1.4, section 1.5). Minimum rates will also increase by 13% in each year.²⁷

²³ Parkes Application Part B, pp 50-51, and Annexure 2.x *Submissions*.

²⁴ Parkes Application Part B, Annexures 2.x *Submissions* and 2.y *Ordinary Meeting Minutes - 5 March 2013*.

²⁵ Parkes Application Part B, pp 50-51.

²⁶ These are submissions received by 8 April 2013, the end of our public submission period.

²⁷ Parkes Application Part A, Worksheet 5a.

We recognise that the impact of these rate rises on Parkes Shire ratepayers will be significant. However, we accept that the council has consulted extensively with the community and that it has applied for the large special variation in light of its understanding of the community's priorities, and its capacity and willingness to pay.

The council's consideration of impact on ratepayers

The council specifically considered the impact on ratepayers of the rate increase it is requesting, and this is reflected in the IP&R documents.²⁸ In concluding that the special variation was reasonable, the council relied on the fact that the Shire's rate levels are currently low compared with those in similar and surrounding areas.²⁹ It also relied on the conclusions of an independent report commissioned from the Western Research Institute (WRI) assessing 3 different measures of reasonableness:

- ▼ comparing how rates will rise relative to recent rises in "other prices and costs in Parkes Shire"
- ▼ the ratio of rates to total spending per household or value added per business
- ▼ where the Shire stands relative to its council peers in terms of incomes, land values and socio-economic indicators.³⁰

The council also highlighted that the lower than average outstanding rates ratio indicates the community's capacity to pay.³¹

Nevertheless, it has elected to update its Hardship Policy and provide for an additional, voluntary, pensioner rebate to assist those who may have difficulty meeting their rate commitments.³²

Our assessment of impact on ratepayers

In assessing the reasonableness of the impact of the special variation, we compared Parkes Shire Council's current average rates with those of a selection of similar and surrounding councils and the average for all councils in its DLG Group (see Appendix D).

²⁸ Parkes Application Part B, p 56.

²⁹ Parkes Application Part B, p 58.

³⁰ Parkes Application Part B, Annexure 3.b, Western Research Institute, *Report on Proposed Special Rates Variation*, December 2012.

³¹ Parkes Application Part B, p 55.

³² Parkes Application Part B, p 55.

We found the council's average rates have risen only marginally faster than the rate peg in the 8 years to 2011/12.³³ Current average residential and farmland rates are much lower than the averages for Group 11 councils and the averages for many of the surrounding councils (Table C.1). The current average business rate (\$2,111) is well above the Group 11 average (\$1,781).³⁴

We also compared the council's average rates with those of the same group of councils at the *end* of the special variation period, assuming its special variation was approved (Table C.2).³⁵ We found that in Parkes Shire:

- ▼ the average residential rate would be the second highest after Dubbo
- ▼ the average farmland rate would be the second lowest after Forbes
- ▼ the average business rate would be the third highest after Dubbo and Gunnedah.

We also specifically considered the council's current minimum rate, as almost 20% of the council's assessments are charged this rate.³⁶ The current minimum rate for all ratepayer categories is \$300,³⁷ which is well below the statutory maximum of \$474.³⁸ At the end of the special variation period, the minimum rate will be \$489,³⁹ which is only slightly higher than the current statutory maximum of \$474.

Finally, we considered a range of comparative indicators of the community's capacity to pay the proposed rates increases (see Appendix C). Parkes Shire has a low SEIFA ranking (36 where 153 is the least disadvantaged) which suggests the community's capacity to pay may be low. However, the area's average income in 2010 (\$37,010) was only 5% lower than the average for DLG Group 11 (\$38,968). Furthermore, the council's general revenue per capita (\$1,549) is significantly less than the average for Group 11 (\$2,011).⁴⁰

³³ Average residential and business rates rose 34%, average farmland rates rose 32%, and the cumulative rise under rate-peg-only increases was 29%. Source: DLG, unpublished comparative data, 2011/12.

³⁴ See Appendix D.

³⁵ In order to calculate the table, we have assumed that all the other councils except Gunnedah receive only the rate peg to 2016/17. We assume Gunnedah receives the special variation it has applied for this year, but again, only for comparative purposes.

³⁶ These assessments are predominantly residential and business ratepayers in the small outlying towns. See Parkes Application Part A, Worksheet 3.

³⁷ Parkes Application Part A, Worksheet 5a.

³⁸ *Local Government (General) Amendment (Minimum Rates) Regulation 2013*, cl 1. The regulation sets the maximum amount that can be charged for a minimum rate under *Local Government (General) Regulation 2005*, cl 126.

³⁹ 2013/14 statutory maximum adjusted by the assumed rate peg of 3%, and IPART calculations.

⁴⁰ DLG, unpublished comparative data, 2011/12.

Taking into account all the above, we concluded that the impact on ratepayers in Parkes Shire will be significant, but not unreasonable. Further, we accept that the council has consulted extensively with the community and that it has applied for the large special variation in the light of its understanding of its community's priorities, and capacity and willingness to pay.

1.3.4 Assumptions in the Delivery Program and Long Term Financial Plan

The council explained the assumptions underpinning its application and the various IP&R documents, including the LTFP.⁴¹

The income raised by the special variation will be used to fund a program of expenditure, as detailed in the council's IP&R documents. Priorities in the Delivery Program have been established by the IP&R processes and other community consultation (see section 1.3.2). The council has prepared detailed asset management plans to analyse the infrastructure backlog and estimate maintenance costs. These plans use evidence-based estimates, historical costs and engineering opinion.⁴²

TCorp accepts that the assumptions in the LTFP are realistic but notes that overall expenses may grow faster than the projected 2.5%.⁴³

While we did not undertake a detailed evaluation of the council's expenditure items, we accept that the proposed program of expenditure has been prioritised, and that program costs are reasonable.

⁴¹ Parkes Application Part B, pp 62-65, and Parkes Shire Council, *10 Year Long Term Financial Plan 2013-14 to 2022-23*, pp 18-21, 29 and 37.

⁴² Parkes Shire Council, *Open Space Asset Management Plan*, October 2012; Parkes Shire Council, *Transport Asset Management Plan*, November 2012; Parkes Shire Council, *Building Asset Management Plan*, December 2012; Parkes Shire Council, *Stormwater Asset Management Plan*, December 2012, and Parkes Shire Council, *Parkes Regional Airport Asset Management Plan*, December 2012.

⁴³ TCorp Report, p 25.

1.3.5 Productivity improvements and cost containment strategies

The council's application sets out a range of cost containment and productivity improvement initiatives undertaken in recent years and plans to implement in the future. Some of the key initiatives include:

- ▼ establishing an Enterprise Risk Management system to improve the culture, structure and processes of the council (purchasing, contracts, overtime, development assessment, and workplace health and safety have been audited, and Project Management Group will manage projects to avoid cost over-runs)
- ▼ providing financial management/analysis training for the management team
- ▼ adopting strict budget targets to contain costs (\$70,000 cost reduction in 2012/13, all variable costs increases to be less than 2.5% in future years)
- ▼ developing better asset management planning
- ▼ implementing better procurement processes, including shared purchasing with Centroc councils⁴⁴
- ▼ entering shared staff arrangements with other agencies and the private sector
- ▼ regularly reviewing workforce structure and controlling labour costs
- ▼ installing energy saving technologies.⁴⁵

In some instances, the financial effect of the initiatives cannot be measured. Table 1.3 summarises the more significant, quantified improvements.

⁴⁴ These include Bathurst, Blayney, Boorowa, Cabonne, Cowra, Forbes, Harden, Lachlan, Lithgow, Oberon, Orange, Parkes, Upper Lachlan, Weddin, Wellington, Young and Central Tablelands Water. See also Parkes Application Part B, p 86.

⁴⁵ Parkes Application Part B, pp 81-103.

Table 1.3 Parkes Shire Council – Savings achieved by recent productivity improvements and cost containment measures

Type	Description	2013/14 (\$)	Timeframe
CENTROC procurement	Fuel	4,900	Ongoing
	Electricity contracts	525,075	3 years only
	Stationery, training, telephony etc	157,000	Ongoing
Printing and distribution	Consolidation of printing devices; electronic distribution	15,000	Ongoing
Shared and co-funded staff arrangements	Aboriginal project officer, grants officer, road safety and injury prevention officer	118,000	Ongoing
Energy	Distributed energy plan, renewable energy infrastructure works and energy saving technologies	375,000	Ongoing
	Henry Parkes Centre Visitor Centre, and other Water Buildings	10,229	Ongoing
	Water pumping locations, depot, administration building, pool and museum site	384,000	Ongoing
	e21 software	60,000	Ongoing
Plant, equipment and fleet	Internalising outsourced hire	60,000	Ongoing
Insurance	Reduction in premiums due to higher level of self-insurance	60,000	Ongoing
Swimming centre	Reduced running costs	15,000	Ongoing
Waste management	Joint procurement	69,900	Ongoing
Overtime control	Reduction on overtime	100,000	Ongoing

Source: Parkes Application Part B, pp 84-103.

Other indicators of efficiency show that the council is performing broadly in line with its DLG Group. For example, the council has a similar population-to-staff ratio and lower costs per full-time equivalent (FTE) staff than the average for both DLG Group 11 councils and all NSW councils.

Although its employee costs as a percentage of operating expenditures are higher, this is partially offset by its lower consultant and contractor expenses relative to operating expenditures.⁴⁶

⁴⁶ See Appendix D.

1.4 What does our decision mean for the council?

Our decision means that Parkes Shire Council may increase its general income from \$8.0m in 2012/13 to \$13.0m in 2016/17 (Table 1.1). After 2016/17, the council's permissible general income will increase by the annual rate peg, unless we approve a further special variation.⁴⁷

The council estimates that over these 4 years, it will accumulate additional rates revenue of \$11.6m, or \$9.2m above the rate peg.⁴⁸

The council will be able to maintain operating surpluses as forecast in the LTFP and thus begin to fund reductions in its infrastructure backlog from those surpluses. It will also undertake additional asset enhancements.⁴⁹

1.5 What does our decision mean for ratepayers?

In its application, the council indicated that it intended to increase rates by similar percentages for all the ratepayer categories; namely that:

- ▼ average residential rates will rise by a cumulative 62%, or between \$44 and \$85 in the first year, and between \$220 and \$431 over 4 years
- ▼ average business rates will rise by cumulative 60% to 63%, or between \$40 and \$583 in the first year, and between \$193 and \$3,123 over 4 years
- ▼ average farmland rates will rise by a cumulative 62%, or \$198 in the first year, and \$1,012 over 4 years
- ▼ the minimum rate in all categories (currently \$300) will rise by a cumulative 63%, or \$39 in the first year and \$189 over 4 years.⁵⁰

Table 1.4 shows the average increases by ratepayer category, as outlined in the council's application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

⁴⁷ The actual general income in future years cannot be determined with precision, as it will be influenced by a range of factors apart from the rate peg, including the number of rateable properties and adjustments for previous under or over collection of rates. The DLG is responsible for monitoring and ensuring compliance.

⁴⁸ Parkes Application Part A, Worksheet 1, and IPART calculations.

⁴⁹ Parkes Application Part B, pp 13-18.

⁵⁰ Parkes Application Part A, Worksheet 5a.

Table 1.4 Parkes Shire Council – indicative impact of IPART’s determination on average rates by 2016/17

Rate category	Average rate 2012/13 (\$)	Requested increase (\$)	Requested increase (%)	Average rate 2016/17 (\$)
Residential				
General	353	220	62.3	573
Parkes	696	431	61.9	1,127
Business				
General	1,846	1,168	63.3	3,014
Parkes CBD	5,153	3,123	60.6	8,276
Peak Hill	405	255	63.0	660
Trundle	386	244	63.2	630
Tullamore	306	193	63.1	499
Bogan Gate	397	250	63.0	647
Mining				
General	1,308	825	63.1	2,133
Copper Producing	813,516	514,993	63.3	1,328,509
Farmland				
General	1,638	1,012	61.8	2,650

Source: Parkes Application Part A, Worksheet 5a.

A Parkes Shire Council's proposed expenditure program

The special variation for Parkes Shire Council is for the purpose of improving its financial position and funding a program of capital expenditure.

This Appendix sets out an expenditure program of \$9.37m that the council intends to undertake during the period of the special variation. It is part of the Progressive Delivery Program that incorporates the revenue increase from the special variation, and which the council consulted the community on.

Although the council characterises the program as 'capex', some of the projects appear to be more operational than capital in nature.

Table A.1 Parkes Shire Council – proposed capex program 2013/14 to 2016/17 (\$)

	2013/14	2014/15	2015/16	2016/17	Total
Maintenance of current services					
Village maintenance (parks, gardens, streetscapes and amenity blocks)	60,000	70,000	80,000	80,000	290,000
Enhanced services					
Road renewals	200,000	500,000	1,000,000	1,000,000	2,700,000
Infrastructure backlog (existing asset renewals – council buildings)	14,000	20,000	100,000	349,000	483,000
Footpath renewals	100,000	200,000	350,000	400,000	1,050,000
Pensioner rebate	36,000	58,000	101,000	151,000	346,000
Noxious weeds/pests/toilets		100,000	100,000	100,000	300,000
New projects/services					
Village drainage	100,000	100,000	300,000	500,000	1,000,000
Swimming pools – improvements/renewals	80,000	330,000	400,000		810,000
Sporting infrastructure (renewals and plans)	50,000	50,000	100,000	200,000	400,000
IP&R-determined community infrastructure (village footpaths, historical cottage, museum, community contributions, etc)	50,000	100,000	100,000	265,000	515,000
Open space infrastructure (trees, footpaths renewal, village centre beautification)			171,000	995,000	1,166,000
Airport terminal upgrade	110,000	200,000			310,000
Total	800,000	1,728,000	2,802,000	4,040,000	9,370,000

Source: Parkes Application Part A, Worksheet 6.

Table A.2 Summary of projects in the Progressive Delivery Program relating to special variation

Program	Type of work (from delivery program)	Work detail
Local roads	Re-sealing	\$1.5m to reseal each road at most every 15 years to extend pavement life
	Pavement rehabilitation	Repairs to extend life of pavement with average age of 60 years or over
	Maintenance	Budget of \$1000/km covering 100% of the network once every 3 years New works above renewal program Allows for grade, water and roll
	Gravel re-sheeting	Each road every 15 to 20 years plus new works
Footpaths	Budgeted	Total spend of \$1,050,000 for footpaths
	Renewal	<ul style="list-style-type: none"> ▼ Year 1 – Upgrades to townships of Peak Hill and Trundle main street ▼ Year 2 – Upgrades to Tullamore and Parkes main streets ▼ Year 3 – Parkes School precincts along with further Township upgrades ▼ Year 4 – Aged care precincts in Parkes Ensure access for mobility aids and gophers is incorporated into all works Repair defects not covered under usual maintenance budget Parkes CBD including Post Office
	New footpaths	<ul style="list-style-type: none"> ▼ walking tracks ▼ exercise paths ▼ Kelly Reserve to Henry Parkes Centre
Sporting fields and facilities	Improvements, refurbishments, upgrades and maintenance	Year 1 – Master plans for Sporting Grounds leading to \$250,000 averaged out per year to be set utilised for: <ul style="list-style-type: none"> ▼ master plan projects ▼ backlog of much needed upgrades ▼ upgrades and maintenance to facilities and amenities (to be driven by master plan)
Village drainage	Maintenance	Ongoing Budget of \$220,000 to maintain drainage network Shire wide (extra \$100,000)
	Drainage /Flood plans	<ul style="list-style-type: none"> ▼ Stormwater Management Plan for Peak Hill, Tullamore, Bogan Gate ▼ Floodplain Management Plan for Cookamidgera (partially State Funded)
	Network improvements	\$200,000 per year extra for increasing network capacity (effectively condenses 10-year plan to 4 years)
Pools	Future pool works	\$830,000 extra capital over 4 years that will fund remaining high priority works and some medium priority works including: <ul style="list-style-type: none"> ▼ refurbishment of pool entrance at Parkes Pool ▼ upgrades to Peak Hill, Trundle and Tullamore pool structures and associated items

Program	Type of work (from delivery program)	Work detail
Parks and gardens – buildings and amenities	Upgrades	<ul style="list-style-type: none"> ▼ \$500,000 improvements to Shire parks and gardens ▼ refurbishments and upgrades to playgrounds and recreational facilities ▼ \$150,000 for street beautifications ▼ \$250,000 for public buildings and amenities upgrades
Attract more visitors to shire	Actions	<ul style="list-style-type: none"> ▼ \$150,000 towards capital improvement of the Henry Parkes Centre Moat Cottage project ▼ additional amount of approximately \$100,000 over 4 years to augment town improvement votes
Airport	Upgrades	\$310,000 towards enhancing the airport terminal and runway lighting coupled with grant funding
Rangers	Activities	\$300,000 to fund significant increase in staffing time allocated to additional services
Aboriginal and youth	Improved service access	\$120,000 to fund a contract partnership position for Shire Aboriginal Project Officer with North Parkes Mine. Will improve access to transport, employment, education, cultural, and health services and benefits particularly for indigenous youth
Weed control	Weed management	\$120,000 to fund additional hours for weeds officers to attend to education and other strategies with private landholders. Aim to reduce spread of weeds on their properties
Health services	Facility refurbishment	\$100,000 in Year 4 of the Delivery Program to refurbish Tullamore Surgery

Source: Parkes Application Part B, pp 13-18.

B Parkes Shire Council's projected revenue, expenses and operating result

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

Table B.1 Summary of projected operating statement for Parkes Shire Council, 2013/14 to 2022/23, (\$000)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	27,865	29,050	29,358	30,868	31,312	32,197	33,142	34,143	35,155	36,199
Total expenses	26,884	27,669	28,263	29,111	29,473	30,088	30,303	31,304	31,695	32,452
Operating result from continuing operations	981	1,381	1,095	1,757	1,839	2,109	2,839	2,839	3,460	3,747

Source: Parkes Shire Council, *Long Term Financial Plan 2013-14 to 2022-23*, 5 March 2013, p 38.

C Parkes Shire Council – comparative rate levels with similar and surrounding councils

We considered how average residential rates in Parkes Shire compare with some similar councils (ie, DLG Group 11) and some other surrounding councils. In calculating rate levels in 2016/17, we assume all other councils except Gunnedah receive only the rate peg to 2016/17. Gunnedah is assumed to receive the special variation requested in 2013/14 of 39.72% cumulative over 4 years.

Table C.1 Comparison of average rates in Parkes Shire Council, 2011/12 (\$ per assessment)

Council	DLG Group	Residential	Farmland	Business
Cabonne	11	536	2,309	456
Dubbo	4	900	2,646	4,957
Forbes	10	620	1,987	2,220
Gilgandra	9	418	3,000	764
Gunnedah	11	577	3,097	3,127
Lachlan	10	375	2,404	479
Narromine	10	530	2,922	1,227
Parkes	11	527	1,547	2,111
Warrumbungle	11	452	2,462	1,339
DLG Group 11 average		632	2,307	1,781

Source: DLG, unpublished comparative data, 2011/12. DLG Group 11 contains 20 councils. For comparison purposes, we have selected 5 adjoining councils and the 3 between Parkes and Gunnedah inclusive, regardless of their group classification.

Table C.2 Comparison of average rates in Parkes Shire Council's, 2016/17, if requested special variation is approved (\$ per assessment)

Council	Residential	Farmland	Business
Cabonne	606	2,609	515
Dubbo	1,017	2,990	5,601
Forbes	701	2,245	2,508
Gilgandra	472	3,390	863
Gunnedah	806	4,327	4,369
Lachlan	424	2,716	541
Narromine	599	3,302	1,386
Parkes	859	2,522	3,442
Warrumbungle	511	2,782	1,513

Source: DLG, unpublished comparative data, 2011/12, and IPART calculations.

D Comparative indicators

Table D.1 Select comparative indicators for Parkes Shire Council, 2011/12

	Parkes Shire Council	DLG Group 11 average ^a	NSW average
General profile indicators			
Area (km ²)	6,021	-	-
Population	15,084	-	-
General Fund expenditure-continuing operations (\$m)	24.2	-	-
General Fund operating revenue per capita (\$)	1,549	2,011	2,011
Rates revenue as % total General Fund income (%)	33.1	31.3	45.7
Average rate indicators^b			
Average rate – residential (\$)	527	632	685
Average rate – business (\$)	2,111	1,781	2,552
Average rate – farmland (\$)	1,547	2,307	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	37,010	38,968	44,140
Growth in average annual income, 2006-2010 (% pa)	3.4	2.9	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.4	1.7	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	36	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	4.5 ^d	7.7	7.0
Productivity indicators^e			
FTE staff (number)	158	150	293
Ratio of population to FTE	95	91	126
Average cost per FTE (\$)	69,728	71,545	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	41.7	34.6	36.8
Consultancy/contractor expenses (\$m)	0.7	2.1	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	2.3	6.3	9.3

a DLG Group 11 is a category of Rural Very Large Agricultural councils with a population of 10,001-20,000. This group comprises 20 councils including Cabonne, Cooma-Monaro, Gunnedah, Muswellbrook and Upper Hunter Shire councils.

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

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

d The ratio for the council is from Parkes Shire Council, *General Purpose Financial Statements for the year ended 30 June 2012*, Note 13a(i).

e Based upon total council operations and finances ie, General Fund and if applicable, Water and Sewer, and other funds. There are difficulties in comparing councils using this data due to differences in the scope of councils' activities and measurement methods across councils.

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

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

