



Independent Pricing and Regulatory Tribunal

# **Randwick City Council's application for a special variation for 2013/14**

**Local Government — Determination  
June 2013**

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# 1 Determination

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

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

Randwick City Council applied for a multi-year special variation under section 508A, beginning in 2013/14. It requested annual increases of 3.59% over 4 years, representing a cumulative total of 15.15% by 2016/17.

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

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## Box 1.1 The Revised Guidelines for 2013/14

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.

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## 1.1 Our decision

We determined that Randwick City Council may increase its general income by the annual percentages shown in Table 1.1, which amounts to a cumulative increase of 15.15% over the next 4 years.<sup>1</sup>

These annual 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 3 years). On average, they are 0.49% above the annual rate peg. The cumulative increase is 2.16% above the cumulative rate peg. After the last year of the special variation (2016/17), the increase will remain permanently in the council's rate base.

**Table 1.1 Impact of approved special variation on Randwick City Council's income from 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 <sup>a</sup> (\$)
2012/13				64,417,040 <sup>b</sup>
2013/14	3.59	3.59	2,312,572	66,725,342 <sup>c</sup>
			-3,594,645 <sup>d</sup>	
2014/15	3.59	7.31	2,266,392	65,397,089
2015/16	3.59	11.16	2,347,755	67,744,844
2016/17	3.59	15.15	2,432,040	70,176,884

**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.

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

**c** The council's proposed permissible general income in 2013/14 includes an increase of \$24 for a prior year catch up and a reduction of \$4,294 due to a valuation objection claimed in a previous year.

**d** This is the effect of the expiry of the Environment Levy on 30 June 2014 (see section 1.1).

**Source:** Randwick Application Part A, Worksheets 1 and 4.

The council did not seek to continue an environment levy which is due to expire on 30 June 2014. We note that the council's modelling in its Long Term Financial Plan (LTFFP) assumes that the program this levy funds will continue to the end of 2022/23.<sup>2</sup> We expect the council will submit a further special variation application for 2014/15 to seek to continue the levy.

<sup>1</sup> Randwick City Council, *Section 508A Special Variation Application 2013/14 – Part A* (Application Part A), Worksheet 1 and IPART calculations. The actual increase in permissible income over the 4 years is 8.94% not 15.15%, due to the expiry of an existing special variation (the Environment Levy) on 30 June 2014.

<sup>2</sup> Randwick City Council, *Long Term Financial Plan 2013/14 to 2022/23*, p 9.

We have attached conditions to our decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.2 lists these conditions.

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**Box 1.2 Conditions attached to the approved special variation for Randwick City Council**

IPART's approval of Randwick City 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 to fund the works 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 program of expenditure that was actually funded by the special variation, and the reasons for any significant differences from the program in Appendix A
  - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions.

We note that the council will be reducing its general income for 2014/15 by \$3,594,645 (the value of the expiring Environment Levy). This reduction in the council's general income shall take place before it is increased in 2014/15 in accordance with IPART's determination.

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

Randwick City Council applied to increase its general income by a cumulative 15.15% over the 4-year period from 2013/14 to 2016/17, and to permanently incorporate this increase into its general income base.<sup>3</sup> This increase included the annual rate peg available to all councils.

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$64.4m in 2012/13 to \$70.2m in 2016/17. This will generate additional revenue of \$12.4m over 4 years, or \$2.8m above the rate peg.<sup>4</sup> Over 10 years, it will generate additional revenue of \$19.7m above the rate peg.<sup>5</sup>

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<sup>3</sup> Randwick City Council, *Section 508A Special Variation Application 2013/14 – Part A* (Application Part A), Worksheet 1.

<sup>4</sup> Application Part A, Worksheet 1 and IPART calculations. The council's permissible income will decrease by \$3.6m at the end of 2013/14 due to expiry of the Environment Levy.

<sup>5</sup> Randwick City Council, Revised Application Part A, Worksheet 6, provided to IPART 13 May 2013.

The council indicated it will use the additional revenue above the rate peg to fund the management of community assets in its Delivery Program 2013-17. More detail on its proposed program of expenditure to 2022/13 is set out in Appendix A.<sup>6</sup>

### 1.3 How did we reach our decision?

We assessed Randwick City Council's application against the criteria in the Guidelines. In making our assessment we also considered a range of comparative data about the council, set out in Appendix B.

We found that the application satisfactorily met the criteria. In particular:

1. The council's proposed special variation was put to the community during its review of the *Randwick City Plan*, and it is clearly set out in the council's Integrated Planning and Reporting (IP&R) documents.
2. There is evidence the community was made aware of the need for and extent of the proposed increase in rates and has been engaged through the review of the *Randwick City Plan*.
3. The impact on residential and business rates above the rate peg is very modest.
4. The council's assumptions appear to be realistic.
5. The council has identified and implemented productivity improvements as part of its long term financial planning.

Table 1.2 summarises our assessment against each of the criteria. The section below discusses our findings on criterion 1 in more detail.

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



**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&amp;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 need for and purpose of the special variation is set out in the council’s IP&amp;R documents. The special variation will increase operating surpluses to fund an enlarged capital program and maintain assets at a satisfactory standard. Regular Community Satisfaction Surveys confirm the importance of maintaining community assets.<sup>7</sup></p>
<p>2. Evidence that the community is aware of need for and extent of proposed rate rises must be provided. The IP&amp;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 community was made aware of the proposed rate rise as part of the review of the <i>Randwick City Plan</i>.<sup>8</sup> Focus groups and a random survey undertaken during this review indicated that the “concept (of applying for the special variation of 3.59% pa for 4 years) was supported by the community.”<sup>9</sup> The IP&amp;R documents clearly set out the council’s proposed special variation. The public exhibition of these documents during December 2012 and January 2013 was advertised widely in the Local Government Area (LGA) including in the local paper, on bus shelters, outdoor banners, and on the <i>Your Say Randwick</i> website.<sup>10</sup> The LTFP indicates that the council has balanced the service needs of the community relative to its capacity and willingness to pay rates.<sup>11</sup></p>

<sup>7</sup> Application Part B, p 34; Micromex Research, *Randwick City Council Community Research, September 2012*, pp 9-10.

<sup>8</sup> Application Part B, pp 18-19; Randwick City Council, *Community Engagement Strategy - Review of the Randwick City Plan, A 20 Year Plan*, p 6.

<sup>9</sup> Application Part B, pp 22-23; and presentation to IPART 14 December 2013.

<sup>10</sup> Application Part B, pp 19-20.

<sup>11</sup> Randwick City Council, *Long Term Financial Plan 2013/14 to 2022/23*, pp 6-9.

Criterion	IPART findings
<p>3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The council's IP&amp;R process should establish that proposed rate rises are affordable, having regard to the local community's capacity to pay.</p>	<p>The impact of the special variation is reasonable as the cumulative increase above the rate peg over 4 years is small:</p> <ul style="list-style-type: none"> <li>▼ average residential rates will increase by \$22 more than with the rate peg (total increase \$152)</li> <li>▼ the minimum rate for residential ratepayers will increase \$14 more than with the rate peg (total increase \$99)</li> <li>▼ the minimum rate for business ratepayers will increase by \$23 more than with the rate peg (total increase \$160).<sup>12</sup></li> </ul> <p>The LGA has a relatively high SEIFA ranking (134, where 153 is the least disadvantaged) and a low outstanding rates ratio (1.8%).<sup>13</sup></p> <p>The council has a Financial Hardship Policy, a Pensioner Concession Policy and a Pensioners Accruing Rates and Charges Policy to assist those having difficulty paying rates.<sup>14</sup></p>
<p>4. Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.</p>	<p>The council's assumptions related to the proposed level of service for assets are realistic in the context of the community's priorities identified in the 2012 Community Satisfaction Survey.<sup>15</sup></p> <p>The 2013/14 to 2022/23 LTFP shows realistic assumptions for growth in the number of assessments, inflation, employee costs and other income and expenditure items.<sup>16</sup></p>
<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>	<p>Over recent years the council has made a range of productivity and cost savings. These include:</p> <ul style="list-style-type: none"> <li>▼ new IT system saving up to \$1m pa</li> <li>▼ water and energy saving initiatives</li> <li>▼ domestic waste garbage and recycling collection - \$0.5m pa</li> <li>▼ Southern Sydney Regional Organisation of Councils (SSROC) joint procurement venture, saving the council an estimated \$1.2m pa.<sup>17</sup></li> </ul>
<p>Other relevant matters.</p>	<p>The increases sought above the rate peg are small, thereby reducing the evidence required for the application.</p>

<sup>12</sup> Application Part A, Worksheet 5a; Application Part B, p 26 and IPART calculations.

<sup>13</sup> ABS, Socio Economic Indexes for Areas (SEIFA) 2011, March 2013; DLG, unpublished comparative data, 2011/12.

<sup>14</sup> Application Part B, p 31.

<sup>15</sup> Application Part B, p 34; Micromex Research, *Randwick City Council Community Research*, September 2012, pp 9-10.

<sup>16</sup> Application Part B, pp 37-41; Randwick City Council, *Long Term Financial Plan 2013/14 to 2022/23*, pp 4-15.

<sup>17</sup> Application Part B, pp 42-44.

### 1.3.1 Need for and purpose of the special variation

In its application, the council stated that the special variation is needed “to secure funding for the management of community assets as outlined in the Delivery Program 2013-17,” which is consistent with community expectations and its resourcing requirements as set out in its LTFP, Asset Management Plans and Workforce Plan.<sup>18</sup> It is also in line with the findings of its regular community satisfaction surveys, which highlight the importance to the community of maintaining assets.<sup>19</sup>

NSW Treasury Corporation (TCorp) rates the financial sustainability of the council as sound with a neutral outlook.<sup>20</sup> This is consistent with the council’s LTFP, which forecasts operating surpluses (before capital) for the next 10 years both with and without the requested special variation.<sup>21</sup> However, the council indicated that without the special variation, it considers it will not be able to maintain assets to a satisfactory standard. With the special variation, it expects to be able to do so.<sup>22</sup>

The council’s infrastructure backlog, that is, the estimated cost to bring assets to a satisfactory condition, is estimated to be \$51.6m for 2011/12. Of this, \$22.6m is for buildings and \$19.6m for roads.<sup>23</sup> TCorp considered the council has significant capacity to undertake borrowings to reduce this backlog.<sup>24</sup> However, the council has adopted a policy to remain debt free.<sup>25</sup> This has limited its resourcing alternatives, and we note the council has a large dependence on rates and annual charges (which represent 68% of general fund revenue).<sup>26</sup>

Nevertheless, we are satisfied that the council satisfies this criterion as the special variation will provide revenue certainty to deliver a program of works supported by the community.

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<sup>18</sup> Application Part B, p 8.

<sup>19</sup> Application Part B, p 34; Micromex Research, *Randwick City Council Community Research*, September 2012, pp 9-10.

<sup>20</sup> Application Part B, p 11; NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

<sup>21</sup> Randwick City Council, *Long Term Financial Plan 2013/14 to 2022/23*, pp 8, 33 and 41. For Model 2 the council calculates the rate peg using the average over the last 4 years of the rises in the Local Government Cost Index (LGCI) less a 0.2% productivity factor.

<sup>22</sup> Application Part B, pp 16-17.

<sup>23</sup> Randwick City Council, *Special Schedules for the year ended 30 June 2012*, Special Schedule 7.

<sup>24</sup> NSW Treasury Corporation, *Randwick City Council Financial Assessment, Sustainability and Benchmarking Report*, 12 April 2013, p 5.

<sup>25</sup> Application Part B, p 15.

<sup>26</sup> Randwick City Council, *Financial Statements 2011/12*, Income Statement; DLG, unpublished comparative data, 2011/12. This compares with the DLG Group 3 average of 56% and NSW average of 46%.

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

Our decision means that Randwick City Council is able to increase its general income from \$64.4m in 2012/13 to \$70.2m in 2016/17 (see Table 1.1). After 2016/17, all other things being equal, the council's permissible general income will increase by the annual rate peg, unless we approve a further special variation.<sup>27</sup>

We estimate that over the 4-year period to 2016/17, the council will generate additional rate revenue of \$12.4m, or \$2.8m above the rate peg.<sup>28</sup>

## 1.5 What does our decision mean for ratepayers?

Randwick City Council only has 2 rating categories – residential and business. A high proportion of ratepayers in both these categories pay the minimum rate. In 2013/14, 53% of residential and 31% of business ratepayers will pay the minimum rate.<sup>29</sup>

In its application, Randwick City Council indicated that it intended to apply the special variation uniformly across its ratepayer base. This means all ratepayers will face a 3.59% rate increase per year over the 4-year period. This would mean that:

- ▼ The average<sup>30</sup> residential rate will rise by \$36 in the first year, and by \$152 (or \$22 more than the rate peg)<sup>31</sup> after 4 years.
- ▼ The minimum residential rate will increase by \$23 in the first year, and by \$99 (or \$14 more than the rate peg) after 4 years.
- ▼ The average business rate will rise by \$226 in the first year, and by \$953 (or \$136 more than the rate peg) after 4 years.
- ▼ The minimum business rate will increase by \$38 in the first year, and by \$160 (or \$23 more than the rate peg) after 4 years.<sup>32</sup>

Table 1.3 sets out the proposed annual percentage and dollar increases in rates, as set out in the council's application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

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<sup>27</sup> The actual general income in future years will be influenced by a range of factors apart from the rate peg, including the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils.

<sup>28</sup> Application Part A, Worksheet 1 and IPART calculations.

<sup>29</sup> Application Part A, Worksheet 3.

<sup>30</sup> The 'average' rate is determined by dividing the notional income yield (rate revenue) by the number of assessments in the category, and includes those on minimum rates.

<sup>31</sup> Rate peg only increase is 3.4% in 2013/14 and an assumed 3% pa thereafter.

<sup>32</sup> Application Part A, Worksheet 5a and IPART calculations.

**Table 1.3 Indicative annual increases in average residential and business rates 2013/14 to 2016/17 as a result of IPART’s determination**

Year	Annual % increase	Average rate (\$)			
		Residential	Res Min	Business	Bus Min
2012/13		1,004	653	6,228	1,053
2013/14	3.59	1,040	677	6,514	1,091
2014/15	3.59	1,077	701	6,748	1,130
2015/16	3.59	1,116	726	6,990	1,170
2016/17	3.59	1,156	752	7,241	1,212

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

All ratepayers also pay an Environment Levy which will be \$71.98 in 2013/14.<sup>33</sup> Although this levy is due to expire on 30 June 2014, the council’s modelling assumes that the program it funds will continue to the end of the LTFP.<sup>34</sup> Therefore, we anticipate the council will apply for another special variation for 2014/15.

<sup>33</sup> Application Part A, Worksheet 5a.

<sup>34</sup> Randwick City Council, *Long Term Financial Plan 2013/14 to 2022/23*, p 9.

## **A Randwick City Council's proposed program of expenditure**

Table A.1 below sets out the proposed program of expenditure for the additional revenue above the rate peg the council will receive as a result of this special variation.

**Table A.1 Randwick City Council Proposed Program of Expenditure 2013/14 to 2022/23 (\$)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Sum of 10 years
Parks including remediation	1,584	98,518	179,427	319,799	389,640	544,017	576,592	729,998	1,577,665	1,279,913	5,697,152
Footpaths	4,753	52,290	96,031	161,709	190,529	247,804	261,630	329,676	371,108	449,641	2,165,172
Roads	8,714	104,581	187,008	346,348	423,969	590,120	599,737	745,697	834,535	1,013,579	4,854,287
Drainage	106,153	224,318	387,915	403,067	592,184	456,421	779,859	749,061	135,281	561,781	4,396,039
Buildings	0	11,367	18,954	37,410	173,364	312,349	332,069	416,020	505,474	591,973	2,398,981
Other capital expenditure	1,188	3,789	11,372	12,068	22,314	17,289	18,113	23,548	21,937	29,113	160,732
<b>Total</b>	<b>122,392</b>	<b>494,863</b>	<b>880,706</b>	<b>1,280,401</b>	<b>1,792,000</b>	<b>2,168,000</b>	<b>2,568,000</b>	<b>2,994,000</b>	<b>3,446,000</b>	<b>3,926,000</b>	<b>19,672,363</b>

**Source:** Randwick City Council, Revised Application Part A, Worksheet 6, provided to IPART 13 May 2013.

## B Comparative indicators

**Table B.1 Select comparative indicators for Randwick City Council, 2011/12**

	Randwick City Council	DLG Group 3 average <sup>a</sup>	NSW average
<b>General profile indicators</b>			
Area (km <sup>2</sup> )	36	–	–
Population	137,757	–	–
General Fund expenditure from continuing operations (\$m)	113.9	–	–
General Fund operating revenue per capita (\$)	852	817	2,011
Rates revenue as % total General Fund revenue (%)	67.7	55.7	45.7
<b>Average rate indicators<sup>b</sup></b>			
Average rate – residential (\$)	924	790	685
Average rate – business (\$)	5,428	4,911	2,552
Average rate – farmland (\$)	n/a	2,124	2,123
<b>Socio-economic/capacity to pay indicators<sup>c</sup></b>			
Average annual income for individuals, 2010 (\$)	61,329	51,108	44,140
Growth in average annual income, 2006-2010 (% pa)	4.1	3.1	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.5	1.6	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	134	–	–
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	1.8	3.3	7.0
<b>Productivity indicators<sup>d</sup></b>			
FTE staff (number)	497	581	293
Ratio of population to FTE	277	251	126
Average cost per FTE (\$)	100,155	85,120	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	43.6	41.8	36.8
Consultancy/contractor expenses (\$m)	22.0	15.5	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	19.3	14.3	9.3

**a** DLG Group 3 is a category of Urban Large to Very Large Metropolitan Developed councils with a population greater than 70,000. This group comprises 17 councils including Rockdale, Ryde, Ku-ring-gai, Parramatta, Hurstville and Bankstown.

**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** 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.