



Independent Pricing and Regulatory Tribunal

Rockdale 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 (DLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Rockdale City Council applied for a special variation in 2013/14 of 6.4%. After assessing the council's application, we decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

1.1 Our decision

We determined that Rockdale City Council may increase its general income by 6.4% in 2013/14. This includes the rate peg of 3.4% that is available to all councils. This income may be retained permanently in its rate base.

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

Table 1.1 sets out our decision and Box 1.1 lists the conditions attached to it.

Table 1.1 IPART's decision on Rockdale City Council's application for a special variation in 2013/14 (%)

Component	Amount
Increase to fund infrastructure renewal	3.0
Rate peg increase	3.4
Total increase	6.4

¹ *Guidelines for the preparation of an application for a special variation to general income*, issued by Division of Local Government, Department of Premier and Cabinet, October 2012. The criteria in the Guidelines have been revised for 2013/14. Councils applying under section 508(2) no longer need to demonstrate adequate community consultation. Instead they need to demonstrate appropriate engagement methods have been used and the community has had opportunity for awareness and input. The council must also consider the community's capacity and willingness to pay. 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, and the purpose of the special variation.

Box 1.1 Conditions attached to the approved special variation for Rockdale City Council

IPART's approval of Rockdale City Council's application for a special variation in 2013/14 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to fund asset renewals as outlined in the council's application, and listed in Appendix A.
- ▼ The council reports in its annual report from 2013/14 to 2022/23 on 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 2013/14 by \$1,147,704 (the value of the expiring special variation). This reduction shall take place before the council's general income is increased in 2013/14 in accordance with this determination.

1.2 What did the council request and why?

Rockdale City Council requested a special variation of 6.4%.² The requested special variation included 2 components:

- ▼ a 3.0% increase to continue its expiring Community Building Levy, as part of its Infrastructure Levy, for asset renewals
- ▼ the rate peg of 3.4%.

The council estimated that the 3.0% increase above the rate peg would generate \$1.19m in additional revenue in 2013/14, and \$13.61m over 10 years. This increase will replace an existing special variation for an equivalent amount that will expire on 30 June 2013.³

The council indicated that over the 10 years to 2022/23, it would use this additional revenue to help fund its proposed \$21.36m program of asset renewal works in areas such as playground and park improvements, sport and recreation, and community buildings and public amenities, as set out in Appendix A.⁴

² Rockdale City Council, *Section 508(2) Special Variation Application 2013/14 – Part A* (Application Part A), Worksheet 1.

³ Application Part A, Worksheets 4 and 6.

⁴ Application Part A, Worksheet 6; Rockdale City Council, *Draft Community Strategic Plan 2013-2025*, March 2013, pp 47-49.

1.3 How did we reach our decision?

We assessed Rockdale City Council's application against the criteria in the Guidelines, under the transitional arrangements. These arrangements give us the discretion, for the 2013/14 rating year, to award a single-year variation where we assess that the council has met the general principles of the criteria even though the evidence is not necessarily contained within its latest available Integrated Planning and Reporting (IP&R) documentation.⁵ We also considered a range of comparative data about the council, set out in Appendix B.

We found that the application met the criteria as they are to be applied under the transitional arrangements. In particular, the council:

1. Demonstrated a need for the revenue to increase funding for asset renewal and improve financial sustainability.
2. Provided evidence that it had used a variety of engagement methods to increase community awareness of the need for, and extent of, the rate rise.
3. Provided evidence that the impact on ratepayers is reasonable as it involves the continuation of a levy that all ratepayers already pay.
4. Made realistic assumptions regarding appropriate levels of service delivery and cost estimates.
5. Appears to have made productivity and cost savings in the past and intends to continue to investigate further efficiencies.

The 2013/14 special variation application indicates that the council intends to apply for a multi-year special variation in 2014/15. It indicates that these special variations are part of the council's '3-pronged approach' for improving its financial sustainability. The other 2 elements of this approach are planned productivity improvements and savings in service delivery, and a review of the council's property portfolio.⁶

At the time of application, the council was yet to formally adopt all of its updated IP&R documents, which contain the proposed program of expenditure, and budget scenarios with and without the proposed special variations. However, it provided us with drafts of its various IP&R documents.

Table 1.2 summarises our findings against each of the criteria.

⁵ These arrangements were included in the Guidelines because, in light of the 2012 local government elections and the requirement for councils to review their IP&R documents and update key plans and programs by 30 June 2013, it was recognised that the revised Guidelines and application timing may create a difficulty for councils who wish to apply but have not yet formally adopted their updated plans and programs.

⁶ Rockdale City Council, *Draft Community Strategic Plan 2013-2025*, March 2013, p 7.

Table 1.2 Summary of IPART’s assessment of the criteria in the Guidelines under the transitional arrangements

Criterion	IPART findings
1. Need for and purpose of special variation must be clearly identified. Evidence could include community need/desire for service levels/project and limited council resourcing alternatives, and the council’s financial sustainability conducted by the NSW Treasury Corporation (TCorp).	The need was identified in the Draft Long Term Financial Plan 2013-2025 (LTFP) and Draft Community Strategic Plan 2013-2025. Asset renewal spending reflects community priorities identified in community surveys undertaken in 2010 and 2012. ⁷
2. Evidence that the community is aware of need for and extent of proposed rate rise must be provided. An appropriate variety of engagement methods should have been used to ensure opportunity for community awareness/input, and alternatives to a rate rise should have been canvassed. The impact of the rise on the community, and the council’s consideration of community capacity and willingness to pay higher rates should be provided.	The council has used a variety of engagement methods to make the community aware of the need for a rate rise of 3% pa above the rate peg for 5 years. The council sought feedback and considered willingness to pay by: <ul style="list-style-type: none"> ▼ distributing the “Your City- Your Assets – Your Rates” newsletter with a reply-paid questionnaire to 38,000 households and local businesses ▼ making this newsletter and questionnaire available on the council’s website and at council events during the engagement period ▼ holding a Community Forum on 7 February 2013, with a presentation by the Mayor.⁸
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 proposed rate increases must be affordable, having regard to the local community’s capacity to pay.	The special variation will have a reasonable impact on ratepayers given that: <ul style="list-style-type: none"> ▼ ratepayers are already paying the existing Community Building Levy ▼ it will result in a modest increase in the combined value of the current Community Building and Infrastructure Levies ▼ there appears to be capacity to pay these increases, based upon the LGA’s relatively high SEIFA ranking (114 where 153 is the least disadvantaged)⁹ ▼ the council has recently formalised a financial hardship policy.¹⁰

⁷ Rockdale City Council, *Section 508(2) Special Variation Application 2013/14 – Part B*, (Application Part B), p 38; Rockdale City Council, *Draft Asset Management Strategy 2013-2025*, March 2013, pp 18-20.

⁸ Application Part B, pp 26-27.

⁹ ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*.

¹⁰ Application Part B, p 34.

Criterion	IPART findings
4. Latest available Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.	The Draft LTFP 2013-2025 shows realistic assumptions in forecasting various scenarios although the assumed rate peg of 3.5% for 2014/15 onwards appears to be a little high. ¹¹ Regular community surveys capture the importance of council services and determine appropriate levels of service. ¹² Cost estimates have been prepared based on recent costings and industry benchmarks. ¹³
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.	Over recent years productivity and cost savings have occurred across many areas. ¹⁴ The council is planning an efficiency target of 0.5% pa with the savings to be used for asset renewals. ¹⁵ Further service reviews are aimed at achieving efficiencies. ¹⁶
6. Other relevant matters.	None

The following sections discuss our assessment against 3 of the criteria in more detail.

1.3.1 Need for and purpose of the special variation

The council's financial projections demonstrate the need for the special variation to fund the renewal of assets. Scenario 1 in the council's Draft Long Term Financial Plan (LTFP) assumes the expiring Community Building Levy is continued in 2013/14 (as part of the Infrastructure Levy) and the council applies for a further special variation application in 2014/15 of 3.0% above the rate peg each year for 4 years.

Even under this scenario, the forecast operating deficit for 2013/14 is \$9.1m.¹⁷ Although the deficit decreases over the 12 years of the LTFP, it is forecast to be \$3.3m in 2024/25. This clearly indicates that the council does not have surplus funds to undertake asset renewals.

¹¹ Rockdale City Council, *Draft Long Term Financial Plan 2013-2025*, March 2013, pp 15-17.

¹² Application Part B, pp 38-39; Rockdale City Council, *Draft Asset Management Strategy 2013-2025*, March 2013, p 19.

¹³ Application Part B, p 36.

¹⁴ Application Part B, pp 42-43.

¹⁵ Application Part B, p 13; Rockdale City Council, *Draft Long Term Financial Plan 2013-2025*, March 2013, p 19.

¹⁶ Application Part B, pp 12-13.

¹⁷ Excluding capital grants and contributions.

Under Scenario 1, the council forecasts an improvement in the Building and Infrastructure Renewals ratio from 0.44 in 2013/14 to 0.75 in 2024/25.¹⁸ In 2011/12 this ratio was 0.21.¹⁹

At present, the council's annual financial statements show there is a \$7.8m gap between its required and current annual maintenance spending.²⁰ Further, the Draft Asset Management Plan 2013-2025 identifies a current \$38.5m backlog to bring assets to a satisfactory condition.²¹

1.3.2 Community awareness and engagement

The council engaged and consulted the community on its proposals to seek a special variation of 3.0% in 2013/14 to renew an expiring special variation, and a further 3.0% special variation in each of the following 4 years.

We consider the council should have included the rate peg in its proposed special variation amounts, as this would have more clearly conveyed the impact of the proposals on ratepayers. That is, it should have indicated that the full special variation is 6.4% in 2013/14, and 6.0% per annum for the 4 forward years.²² However, we note that the *Your City -Your Assets -Your Rates* newsletter contained a residential and business rates calculator which compared the impact on rates with the rate peg only and with the special variation.²³

The council distributed a reply paid questionnaire to 38,000 households and local businesses seeking their feedback to assess willingness to pay. The questionnaire was also available on the council's website. Of 1,903 respondents for both online and hard copy questionnaires:

- ▼ 43% (813 respondents) supported "a 3% special variation" (Option 1)
- ▼ 22% (414 respondents) were "somewhat supportive of the special variation but suggest cuts such as..." (Option 2)
- ▼ 35% (676 respondents) indicated that they "do not support the special variation and accept that this means the following types of cuts..." (Option 3).²⁴

These results are fairly mixed. As respondents were self-selecting, it is difficult to draw strong conclusions about the level of support for the special variation.

¹⁸ Rockdale City Council, *Draft Long Term Financial Plan 2013-2025*, March 2013, p 34.

¹⁹ Rockdale City Council, *2011/12 Statutory Annual Report, Financial Statements Note 13*, p 147.

²⁰ Rockdale City Council, *2011/12 Statutory Annual Report, Special Schedule 7*, p 171.

²¹ Rockdale City Council, *Draft Asset Management Strategy 2013-2025*, March 2013, p 5.

²² Based on assumed rate peg of 3.0% pa from 2014/15 onwards.

²³ Rockdale City Council, *Your City -Your Assets -Your Rates* Newsletter.

²⁴ Application Part B, pp 27-28; Rockdale City Council, *Draft Report on Community Feedback - Special Rate Variation 2013*, February 2013, pp 7-19.

IPART received 5 submissions by 8 April 2013, the end of our public submission period, regarding the council's special variation application. Several of these were copies of submissions made to the council. The issues raised included council management and efficiency; the clarity of consultation material, particularly the way the options were presented; and concerns about the affordability of the proposed rate increases.

If the council proceeds with its foreshadowed 2014/15 multi-year special variation application, it is important that it clearly explains the cumulative impact of the special variation (including the rate peg) to ratepayers and carefully considers the community's capacity and willingness to pay.

1.3.3 Productivity improvements and cost containment strategies

The council demonstrated that it has achieved a range of productivity and cost savings over recent years. The productivity savings involved achieving additional outputs with the same resources. Some of the cost savings were ongoing (per annum) savings, while others were one-off savings.²⁵

As part of its '3-pronged approach' for improving its financial sustainability, the council intends to set itself a further savings target of 0.5% per annum for the years 2014/15 to 2017/18. It proposes to use the \$250,000 per annum these savings raise for asset renewals.²⁶

The council also intends to continue to review its services to improve performance and identify savings opportunities. It is currently undertaking reviews in the areas of Information Technology and Information Services, and Building Certification and Compliance.²⁷

1.4 What does our decision mean for the council?

Our decision means that Rockdale City Council can permanently increase its general income by an estimated \$2.53m in 2013/14.²⁸ After this year, this income will increase by the annual rate peg unless we approve further special variations.²⁹

²⁵ Application Part B, p 43.

²⁶ Application Part B, p 13.

²⁷ Application Part B, p 45.

²⁸ Application Part A, Worksheet 1.

²⁹ 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.

Table 1.3 Impact of approved special variation on Rockdale City Council's income in 2013/14

Adjusted notional general income 2012/13 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2013/14 (\$) ^a
39,586,663 ^b	6.40	2,533,547	42,159,062 ^c

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 The 2012/13 adjusted notional general income level is not part of the council's application and is only included for comparative purposes.

c Includes a prior year catch up of \$38,852.

Source: Application Part A, Worksheets 1 and 4.

1.5 What does our decision mean for ratepayers?

As a result of this special variation, the expiring Community Building Levy will continue as part of the existing Infrastructure Levy from 2013/14.

For 2013/14 this levy will increase:

- ▼ for residential ratepayers by 1.6% or \$1.02
- ▼ for business ratepayers by 21.9% or \$27.73
- ▼ for farmland ratepayers by 12.7% or \$10.42.³⁰

If the council changes its rates as indicated in its application, average ordinary rates would increase in 2013/14 by the rate peg of 3.4% compared with 2012/13.³¹

This is less than the full special variation amount of 6.4% because this amount includes the existing Community Building Levy which ratepayers are already paying. Ratepayers would have lower rates in 2013/14 if this was allowed to expire on 30 June 2013.

The ordinary minimum rate will rise by 2.22% in 2013/14, from \$675 to \$690.³²

Approximately 50% of residential ratepayers and 25% of business ratepayers currently pay this minimum rate.

Table 1.4 sets out the rate increases for all affected ratepayer categories, 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.

³⁰ Application Part A, Worksheet 5; IPART calculations.

³¹ Application Part A, Worksheet 5. Note: These averages include both minimum and ad valorem ratepayers.

³² Application Part A, Worksheets 2 and 3; IPART calculations.

Table 1.4 Rockdale City Council's requested rate increases for residential, business and farmland ratepayers in 2013/14

	Average rate 2012/13 ^a	Requested Increase (\$)	Requested Increase (%)	Average rate 2013/14 ^b
Ordinary Rates^c				
Residential rates (\$)	864	29	3.40	894
Business rates (\$)	2,550	87	3.40	2,636
Farmland rates (\$)	1,226	42	3.40	1,267
Special Rates				
Community Safety Levy				
Residential	8.68	0.28	3.28	8.96
Business	17.51	0.82	4.69	18.33
Farmland	10.88	0.33	3.03	11.21
Combined Infrastructure Levy^d				
Residential	62.69	1.02	1.63	63.71
Business	126.49	27.73	21.92	154.22
Farmland	82.15	10.42	12.68	92.57
<i>Of which:</i>				
Community Building Levy^e				
<i>Residential</i>	<i>27.92</i>			
<i>Business</i>	<i>56.66</i>			
<i>Farmland</i>	<i>38.55</i>			
Infrastructure Levy				
<i>Residential</i>	<i>34.77</i>			
<i>Business</i>	<i>69.83</i>			
<i>Farmland</i>	<i>43.60</i>			

^a 2011/12 is included for comparative purposes.

^b Due to rounding numbers may not add.

^c Averages include the minimum rate in their calculation. It is noted that approximately 50% of residential ratepayers and 25% of business ratepayers are on the minimum rate. There are only 5 farmland ratepayers, none of whom are on the minimum rate.

^d Demonstrates the impact on the combined Community Building and Infrastructure Levies.

^e From 2013/14, the Community Building Levy is being continued as part of the Infrastructure Levy.

Note: At the council's discretion, actual percentage increases for each ratepayer category may differ from the percentage approved for the special variation.

Source: Application Part A, Worksheet 5; IPART calculations.

A Rockdale City Council's proposed program of expenditure

The council intends to use the additional income above the rate peg from this special variation towards funding its asset renewal program, as set out in Table A.1.

Table A.1 Rockdale City Council's proposed program of expenditure 2013/14 to 2022/23 (\$)

Community buildings and public amenities	Suburb	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Sum of 10 years
Cook Park – Scarborough St public amenities	Monterey	350,000										
Arncliffe Park amenities	Arncliffe	292,435										
Cook Park – opposite Emmaline St public amenities	Ramsgate Beach	245,165										
Sans Souci Branch Library – refurbishment and expansion	Sans Souci	300,000										
Guild theatre roof replacement	Rockdale		466,075									
Peter Depena Reserve – South amenities	Dolls Point		372,963									
Jack & Jill Kindergarten	Bexley		126,690									
Bexley North public toilet	Bexley North		257,500									
Wilson's Cottage heritage item	Rockdale			395,715								
Bexley Oval toilets and kiosk	Bexley			561,853								
Scott Park toilet block	Sans Souci			302,357								
Old St Davids's Church	Turrella				218,545							

Community buildings and public amenities	Suburb	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Sum of 10 years
Rockdale Park amenities	Rockdale				273,182							
Syd Frost Hall – internal refurbishment	Ramsgate				218,545							
Rockdale Community Aid	Rockdale				163,909							
Tonbridge St Reserve – amenities and kiosk	Ramsgate Beach				423,542							
Administration Building	Rockdale					1,027,139						
Kyeemagh Boat Ramp Reserve	Kyeemagh					309,515						
Building renewals (program TBA)							1,376,754	1,418,057	1,460,598	1,504,416	1,549,549	
Total		1,187,600	1,223,228	1,259,925	1,297,723	1,336,654	1,376,754	1,418,057	1,460,598	1,504,416	1,549,549	13,614,503

Source: Rockdale City Council, detailed program of works provided to IPART, 13 May 2013.

B Comparative indicators

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

	Rockdale City Council	DLG Group 3 average ^a	NSW average
General profile indicators			
Area (km ²)	28	-	-
Population	102,843	-	-
General Fund expenditure from continuing operations (\$m)	81.4	-	-
General Fund operating revenue per capita (\$)	736	817	2,011
Rates revenue as % total General Fund revenue (%)	64.2	55.7	45.7
Average rate indicators^b			
Average rate – residential (\$)	785	790	685
Average rate – business (\$)	3,467	4,911	2,552
Average rate – farmland (\$)	1,200	2,124	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	45,130	51,108	44,140
Growth in average annual income, 2006-2010 (% pa)	3.1	3.1	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	1.7	1.6	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	114	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	5.6	3.3	7.0
Productivity indicators^d			
FTE staff (number)	349	581	293
Ratio of population to FTE	295	251	126
Average cost per FTE (\$)	85,570	85,120	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	36.6	41.8	36.8
Consultancy/contractor expenses (\$m)	21.0	15.5	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	25.7	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 Randwick, 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.

