



Independent Pricing and Regulatory Tribunal

# **Singleton Council's application for a special variation for 2016-17**

under section 508A of *Local Government Act 1993*

**Local Government — Determination**  
May 2016





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ISBN 978-1-925340-80-8

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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 income from rates. Each year we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

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

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

Singleton Council applied for a multi-year special variation under section 508A. The council requested increases of 9.75% per year for the four years from 2016-17 to 2019-20, a cumulative increase of 45.1%. It applied for the increase to remain permanently in the rate base.<sup>2</sup>

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

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## Box 1.1 The Guidelines for 2016-17

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

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

**A council that is the subject of a merger proposal** will not be eligible for a special variation for the 2016-17 rating year.

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

<sup>2</sup> Singleton Council, *Special Variation Application Form Part A 2016-17* (Singleton, Application Part A), Worksheet 1.

Our decision enables the council to fund identified shortfalls in capital renewal for its key infrastructure assets and, over the medium to longer term, improve its operating performance.

## 1.1 Our decision

We determined that Singleton Council may increase its general income between 2016-17 and 2019-20 by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (1.8% in 2016-17).<sup>3</sup> The cumulative increase of 45.1% is 35.5% more than the assumed rate peg increase over these years.

The actual increase in general income in 2017-18 will be less than 9.75% as the council must reduce its general income because a special variation of 5.50% above the rate peg will expire on 30 June 2017. The actual increase in the council's general income is estimated to be 39.8% over the next four years.

The special variation can be retained in the council's general income base permanently.

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

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

**Table 1.1 IPART's decision on Singleton Council's application for a special variation in 2016-17 (%)**

	2016-17	2017-18	2018-19	2019-20
Percentage increase approved	9.75	9.75	9.75	9.75

**Note:** The rate peg in 2016-17 is 1.8%. In later years the council has assumed a rate peg of 2.5%.

**Source:** Singleton, *Application Part A*, Worksheet 1.

<sup>3</sup> The council has assumed a rate peg of 2.5% in future years. The special variation percentage approved will not change to reflect the actual rate peg in those years.



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**Box 1.2      Conditions attached to Singleton Council's approved special variation**

IPART's approval of Singleton Council's application for a special variation over the period from 2016-17 to 2019-20 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding capital expenditure as outlined in the council's application and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2016-17 to 2025-26 on:
  - expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure, and
  - the outcomes achieved as a result of the actual program of expenditure.

On 1 July 2017, the council is to reduce its general income to what it would have been without the expiring special variation. This reduction must take place before the council's general income is increased in 2017-18 in accordance with IPART's determination.

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## 2      What did the council request and why?

Singleton Council applied to increase its general income by a cumulative 45.1% over the 4-year period from 2016-17 to 2019-20, and to permanently incorporate this increase into its general income base.<sup>4</sup>

The council has an existing special variation for 5.05% above the rate peg which was approved in 2002 for a term of 15 years. This special variation will expire in June 2017, reducing the council's general income by an estimated \$639,280. As a result, the actual increase in the council's general income is estimated to be 39.8% over the four years

This request is consistent with the council's proposal submitted for the Fit for the Future (FFTF) assessment conducted in 2015. At that time, the council proposed a cumulative increase of 45.1% over the 4-year period from 2016-17 to 2019-20, including the rate peg.<sup>5</sup>

The council's Action Plan included pursuing a series of special variations in order to ensure the future financial sustainability of the council's asset management program. The increased rate revenue was considered necessary to meet the Operating Performance Ratio within five years, and assist in achieving the required renewal and maintenance of infrastructure to satisfy the FFTF benchmarks.<sup>6</sup> It also responds to the findings made by NSW Treasury

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<sup>4</sup> Singleton, *Application Part A*, Worksheet 1.

<sup>5</sup> See Singleton Council, *Fit For the Future Council Improvement Proposal*, June 2015, p 2.

<sup>6</sup> See Singleton Council, *Fit For the Future Council Improvement Proposal*, June 2015, pp 2, 41 and 47.

Corporation (TCorp) when assessing the council's financial sustainability in 2012, which recommended the council address its forecast operating deficits and review the forecast levels of capital expenditure.<sup>7</sup>

Although the effect of the additional revenue over the medium to longer term improves the council's financial sustainability by improving financial indicators such as the operating performance and own source revenue ratios, the expenditure is intended to be entirely for capital renewal.

The council proposes to use the additional revenue to fund the shortfall in capital spending for renewal of its key assets. Asset management planning has identified that additional expenditure was needed for all classes of assets: buildings, roads and bridges, parks and recreation and stormwater.<sup>8</sup> In time, however, the operating result will improve and allow for additional expenditure on asset maintenance, which has been insufficient in recent years.

The council estimated that if the requested special variation is approved, its permissible general income would increase from \$15.7 million in 2015-16 to \$21.9 million in 2019-20. This would generate additional revenue of \$13.0 million above the assumed rate peg increases over four years.

### 3 How did we reach our decision?

We assessed Singleton Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent Integrated Planning and Reporting (IP&R) documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix B.<sup>9</sup>

Singleton Council has applied on the basis of its adopted IP&R documents, in particular the Community Strategic Plan Our Place: A Blueprint for 2023 (CSP), the Delivery Program 2014-2018 and Operational Plan 2015-16, June 2015, and the Long Term Financial Plan, June 2015 (2015 LTFP). The council also relied on information in the various Asset Management Plans prepared for each infrastructure type.<sup>10</sup>

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<sup>7</sup> TCorp, *Singleton Council Financial Assessment and Benchmarking Report*, October 2012, pp 4-5 and 30.

<sup>8</sup> Singleton, *Application Part A*, Worksheet 6 and *Application Part B*, Attachment 53.

<sup>9</sup> See Appendix B. Singleton Council is in OLG Group 4, which is classified 'Urban Small/Medium Regional Town/City with a population up to 70,000'. The group comprises 30 councils of which the most comparable to Singleton include Armidale Dumaresq, Bathurst Regional, Cessnock City, Dubbo City, Goulburn Mulwaree, Great Lakes, Greater Taree City, Lithgow, Port Stephens and Tamworth Regional councils.

<sup>10</sup> *Transport Infrastructure Asset Management Plan*, February 2015, *Urban Stormwater Drainage Asset Management Plan 2015*, February 2015, *Parks and Other Structures Asset Management Plan*, February 2015, and *Buildings Asset Management Plan*, February 2015.

The rate increases for which the council has applied are significant. We considered, among other things, the council's need for the increase, its consideration of the community's priorities, capacity and willingness to pay, and the impact of the rate increase on ratepayers. The application is consistent with the council's Fit for the Future proposal submitted in June 2015.

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

1. The **need for the proposed revenue** is demonstrated in the council's IP&R documents, responds to TCorp's recommendations for improving financial sustainability, and implements the council's FFTF proposal for meeting the financial sustainability criteria, on the basis of which IPART assessed the council as being 'fit for the future'.
2. The council demonstrated that **the community is aware** of the need for and extent of the rate increases. It used a variety of strategies to inform the community, although it provided little detail about how the additional revenue would be spent. There were sufficient opportunities for community feedback, and the council considered the community's views.
3. The **impact of the proposed rate increases on ratepayers** is significant, but reasonable given the council's existing rate levels, its history of special variations, the purpose of the special variation, indicators of the community's capacity to pay, and the council's consideration of affordability.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
5. The council reported **productivity improvements and cost containment strategies** in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. Sections 3.1, 3.2 and 3.3 discuss our findings against criteria 1, 2 and 3 in more detail.

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

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&amp;R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&amp;R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&amp;R documents clearly explain the need for and purpose of the special variation (SV). It was foreshadowed in 2014 when the council successfully applied for a SV of 5% above the rate peg for infrastructure spending. The SV is consistent with the council’s FFTF proposal. It will enable the council to meet the FFTF benchmarks within the FFTF 5-year period, while maintaining existing facilities and services.</p> <p>Our FFTF assessment in October 2015 noted the council’s Operating Performance Ratio of -19.6% in 2014-15 was forecast to be 0.5% in 2018-19, an improvement mainly driven by the proposed SV.</p> <p>TCorp recommended that the council address operating deficits and increase capital spending. The council has pursued a range of alternative funding options including grants for major capital projects, more debt with interest subsidies, efficiencies and development contributions.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council’s community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.</p>	<p>Overall, we consider the community was adequately consulted. The council used a range of methods to make the community aware of the need for, extent and impact of the rate rise, and to seek feedback. It gave detailed explanations about the purpose and impact of the SV, but provided limited information about how the extra revenue would be spent.</p> <p>The engagement strategy for both FFTF and the SV included an information brochure, a webpage with rates calculator, public meetings, media releases, social media, surveys (random telephone and opt-in online) and in-depth interviews.</p> <p>Support for the SV was 35% to 40% in the telephone survey, and around 10% in the online survey and submissions.</p> <p>Issues raised in feedback related to inefficient council practices, poor financial management, the need to reduce expenditure and services and rely on other revenue sources, as well as affordability. The council considered the issues. IPART received 8 submissions, all opposing the SV.</p>

Criterion	IPART findings
<p>3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery program and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> <li>▼ Clearly show the impact of any rises upon the community</li> <li>▼ Include the council's consideration of the community's capacity and willingness to pay rates, and</li> <li>▼ Establish that the proposed rate increases are affordable having regard to the community's capacity to pay.</li> </ul>	<p>The impact on ratepayers will be significant but reasonable given:</p> <ul style="list-style-type: none"> <li>▼ current rate levels that are, in most cases, well below those in comparable and neighbouring councils</li> <li>▼ historical rate changes which have been only moderately above the rate peg, and</li> <li>▼ socioeconomic indicators of capacity to pay, such as SEIFA rank (116), relatively high average incomes, and low levels of outstanding rates and pensioner rebates, and</li> <li>▼ the council changed the rate mix to ease the impact on residential ratepayers (82% of assessments).</li> </ul> <p>It considers the increases affordable based on socioeconomic indicators and research which concluded that the impact, on balance, met reasonableness tests.</p>
<p>4. The relevant IP&amp;R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.</p>	<p>The council endorsed a revised CSP in June 2013 after public exhibition. A revised Delivery Program for 2014-2018 was adopted in February 2014 after public exhibition. The Operational Plan for 2015-2016 was adopted in June 2015 after public exhibition. The current LTFP was adopted in June 2015. The AMPs were updated in February 2015.</p>
<p>5. The IP&amp;R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>The application provides evidence of the council's commitment to deliver services and infrastructure efficiently, reduce costs and improve productivity. Examples of the approaches adopted include:</p> <ul style="list-style-type: none"> <li>▼ undertaking waste collection through a company jointly owned with three other councils (\$4 million savings over 10 years)</li> <li>▼ new waste management processes to extend landfill life (saving \$6-12m and avoiding \$15m for a new facility)</li> <li>▼ using Strategic Services Australia Ltd for specialist services, eg, procurement, legal, training and records storage</li> <li>▼ outsourcing specialist management (eg, gym and pool) and infrastructure delivery to limit recurrent employee or high capital input costs</li> <li>▼ an organisational restructure in 2013 that cut two executive positions (saving \$270,000 pa)</li> <li>▼ reducing councillors from 12 to 10, and</li> <li>▼ investigating shared services, eg, for library, risk management, HR and IT systems.</li> </ul> <p>Productivity data compares favourably with peer councils (see Appendix B, Table B.2).</p>

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

**Sources:** Singleton, *Application Part A*, and *Application Part B*; OLG, Unpublished data; and NSW Treasury Corporation (TCorp), *Singleton Council Financial Assessment, Sustainability and Benchmarking Report*, October 2012.

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

We conclude that the council has met this criterion.

The need for additional revenue for asset management that would improve operational performance has been identified in both the council's IP&R processes and its response to the FFTF reforms. It also reflects TCorp's findings and recommendations. It forms part of a four-pronged strategy the council has adopted, and will continue to pursue, in order to secure long term sustainability.

The council's *Community Strategic Plan Our Place: A Blueprint for 2023*, the *Delivery Program 2014-2018 and Operational Plan 2015-16*, the *Long Term Financial Plan*, June 2015 all refer to the special variation and the purpose for which it is to be used. It reflects community priorities established in the CSP for sustainable assets, and for funding council services through rates rather than higher user charges.

While considering the special variation of 7.3% (permanent) for road maintenance that was approved in 2014, the council recognised that a second 4-year variation would be required to ensure its long term financial sustainability. A special variation was reflected in the Delivery Program and Long Term Financial Plan adopted in February 2014. When the FFTF reform program was released in September 2014, the council deferred consideration of the special variation pending the council's response.

The council considers the special variation necessary for it to meet all the FFTF financial indicator benchmarks within the stipulated timeframes, while maintaining existing facilities and service delivery.<sup>11</sup>

Financial modelling undertaken for FFTF identified that the council only met two of the financial indicators, and would only meet the Operating Performance Ratio within five years by increasing revenue or dramatically changing services and possibly selling assets. The Council Improvement Proposal submitted to IPART in June 2015 included an action to increase rate revenue through a series of special variations (retaining an expiring variation) to ensure the future financial sustainability of the council's asset management program, as well as other strategies to improve efficiencies across all operations, and explore opportunities for outsourcing and shared services with other councils.<sup>12</sup>

Consultation on the FFTF proposal clearly stated that the funds from the special variation would be allocated towards asset renewal works ensuring that the infrastructure backlog was adequately funded and the annual required maintenance reduced. It would not be spent on new major projects or wish lists, and there would be no new major asset purchases or developments.<sup>13</sup>

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<sup>11</sup> See generally Singleton, *Application Part B*, pp 7-13.

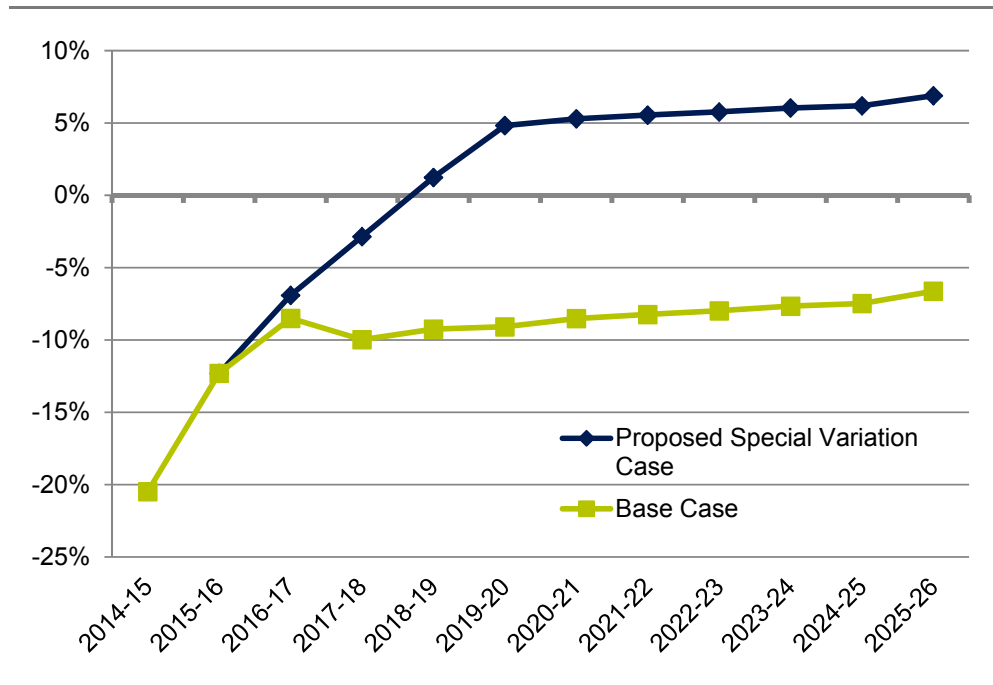
<sup>12</sup> Singleton Council, *Fit for the Future Council Improvement Proposal*, June 2015, pp 40- 41.

<sup>13</sup> Singleton Council, FAQs <http://www.singleton.nsw.gov.au/faq.aspx?qid=224>.

### Financial sustainability, including infrastructure backlogs

The council’s LTFP forecasts operating deficits (before capital grants and contributions) that average \$3 million per year over the next 10 years without a special variation. The special variation would enable the council to record operating surpluses (before capital grants and contributions) from 2018-19.<sup>14</sup> This would place the council in a position to have the capacity to provide required additional funding for asset maintenance, which has not been funded to the necessary levels in recent years.

**Figure 3.1 Singleton Council’s Operating Performance Ratio excluding Capital Grants and Contributions (2013-14 to 2025-26)**



**Note:** The data for 2014-15 is actual, and for other years is forecast.

**Source:** Singleton Council, *Annual Financial Statements, 2014-15* and Singleton, *Application Part A, Worksheet 7* and IPART calculations.

<sup>14</sup> Singleton, *Application Part A, Worksheet 7*.

**Table 3.2 Projected Operating Performance Ratio (%) for Singleton Council's special variation application compared with its FFTF proposal**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Application - including SV	-12.3	-6.9	-2.9	1.2	4.8	5.3	5.5	5.8	6.0	6.2
Excluding SV	-12.3	-8.5	-10.0	-9.2	-9.1	-8.5	-8.2	-8.0	-7.7	-7.5
FFTF – including SV	-13.3	-10.2	-3.7	0.5	3.6					

**Note:** FFTF figures are calculated as 3 year moving averages.

**Source:** Singleton, *Application Part A, Worksheet 7* and Singleton Council, *Fit for the Future Council Improvement Proposal, June 2015*.

In 2015, our FFTF assessment found that the council:

- ▼ Met the criterion for sustainability overall as it was forecast to meet the **operating performance benchmark** from 2018-19 (based on the requested special variation) and the own source revenue benchmark from 2016-17. The **building and infrastructure renewal** ratio would not reach the benchmark, and would fluctuate during the reporting period because of grant funding, however the council indicated that it should achieve the benchmark with the proposed special variation and other strategies in its Action Plan.
- ▼ Met the criterion for infrastructure and service management based on improvements in the ratios above the benchmarks. It would meet the **infrastructure backlog benchmark** in 2015-16, having reduced its backlog in recent years by securing external funding grants and interest subsidies from the Local Infrastructure Renewal Scheme (LIRS) as well as a special variation in 2014-15. The **debt service benchmark** would be achieved in all years, based on the council's policy for modest debt levels. While the council was not forecast to meet the benchmark for the **asset maintenance ratio**, its forecast demonstrated improvement.
- ▼ Met the criterion for efficiency with its **real opex per capita benchmark** showing a steady decline over the reporting period, reflecting relatively low population growth, no new services, and strategies to improve efficiency, enhance organisational performance, share resources and use technology to streamline service delivery and asset management.



TCorp observed in 2013 that the council's financial sustainability rating was 'Moderate', and outlook was 'Neutral'.<sup>15</sup> Even though the council had a comparatively low level of infrastructure backlog and high level of asset maintenance, capital spending was reducing, and lower than necessary to maintain a sound asset base, and asset maintenance had been insufficient which could risk asset conditions deteriorating. TCorp recommended that the council address its forecast operating deficits and review the forecast levels of capital expenditure.<sup>16</sup>

Since then the council has pursued strategies suggested by TCorp to contain rising costs and improve efficiencies, use debt funding and source additional revenue to improve financial flexibility and to assist in reducing the infrastructure backlog.<sup>17</sup> The special variation requested is an element of that response. As TCorp advised, the council also reviewed and updated all its asset management plans, including the asset lives to use for depreciating transport infrastructure, and used this information to update its LTFP.

### Alternative funding options

In recent years, to improve its financial sustainability the council has introduced productivity and cost containment strategies, and has been successful in sourcing additional revenue other than from rates and charges. Key alternative funding options have been:

- ▼ increased debt funding, assisted by interest subsidies under the Local Infrastructure Renewal Scheme (LIRS) to replace Bourkes Bridge, and undertake other road infrastructure renewal works and reduce the infrastructure backlog
- ▼ securing funding from the Resources for Regions program (more than \$30 million in total) for projects including revitalisation of the Town Centre, upgrades to the Singleton Regional Livestock Markets, and various road and bridge renewal, replacement and upgrades
- ▼ applying to the Hunter Infrastructure Investment Fund for \$5.7 million used to upgrade and redevelop the Singleton Gym & Swim, and
- ▼ using Voluntary Planning Agreements (VPAs) to fund infrastructure renewal.<sup>18</sup>

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<sup>15</sup> New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

<sup>16</sup> TCorp, *Singleton Council Financial Assessment and Benchmarking Report*, October 2012, pp 4-5 and 30.

<sup>17</sup> Singleton, *Application Part B*, p 10.

<sup>18</sup> Singleton, *Application Part B*, pp 10-11.

In addition, the council has reviewed operations and management to achieve efficiencies and savings in service delivery and operations through strategies such as a revised organisational structure and fewer councillors, service level reviews, use of new technology, rationalisation of assets including disposal of land and plant and equipment, shared services with other councils, and reviews of user fees and charges.

### **3.2 Community engagement and awareness**

We consider that, overall, the council has met this criterion. The council used a variety of methods to engage with the community, ensuring that ratepayers were aware of the proposed special variation and had opportunities to provide feedback. The council provided information about the need for and the extent and impact of the rate increase, and sought community feedback. Although the council explained the purpose of the special variation, it did not specify in detail how the additional revenue would be spent.

Consultation on the Fit for the Future proposal explained that, along with other strategies, a special variation of the same size and duration as requested would be necessary for Singleton Council to meet the financial sustainability benchmarks and be found 'Fit for the Future'. A dedicated webpage, with a rates calculator, social media with a video, newsletters, community information sessions, media releases and advertising as well as media coverage, made the community aware of the proposal submitted to IPART.<sup>19</sup>

Participation by the community and their feedback came from:

- ▼ 385 web page views and 367 downloads of the information booklet and rates calculator
- ▼ 12,700 views of a video shared through Facebook, Twitter and YouTube
- ▼ a random representative telephone survey of 465 residential and farmland ratepayers and 101 business ratepayers
- ▼ 115 respondents to an opt-in online survey
- ▼ 179 written submissions including 141 tear-off feedback forms in the 8-page information brochure
- ▼ 20 participants (recruited from survey respondents) in online forums and six in-depth telephone interviews, and
- ▼ a total of 11 attendees at two of the four community information sessions held.

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<sup>19</sup> Singleton, *Application Part B*, pp 20 and 22.

Information provided to the community canvassed the impact of the special variation on each of the subcategories of ratepayers, rate levels in comparable councils and other actions the council had taken to increase efficiency and secure funding from other sources, including previous special variations and how they had been spent. The council explained the reasons for the special variation, particularly for delivering on its FFTF proposal for meeting the financial indicators in the mandated time without reducing the levels of services and infrastructure. However, there was little explanation of how the additional revenue would be spent.

Notwithstanding the lack of detail about how the funds would be used, community opposition appeared to focus on concerns commonly voiced in response to proposed rate rises, as noted in the next section.

Overall, we consider that the community engagement was adequate.

#### Outcome of consultation on rate increases

This criterion does not require councils to demonstrate community support for the special variation. Although much of the feedback from the community opposed increasing rates, the random survey showed some degree of support for the council's proposal.<sup>20</sup>

The random telephone survey and the opt-in online survey presented participants with two options: the requested 9.75% increase each year for four years (Programmed model) and the Base Case, rate peg only increase.

In both surveys, the majority favoured the Base Case. In the online survey 91% of the 115 respondents preferred the rate peg only increase. However, the special variation increase was supported by 35% of residential ratepayers and 40% of business ratepayers in the telephone survey. Analysis suggested that preferences were driven by the level of rates currently paid, and also affordability and perceptions of value received from the council, but not ability to pay. Responses in the surveys indicated that many ratepayers perceived rates in Singleton to be relatively high, and although many thought that the council needed to provide more services, there was a reluctance to pay more rates.<sup>21</sup> Only 13% of written submissions supported the special variation.<sup>22</sup>

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<sup>20</sup> See generally Singleton, *Application Part B*, pp 28-34.

<sup>21</sup> Singleton, *Application Part B*, pp 28-29, and *Attachment – Community Feedback Surveys* (Instinct and Reason, dated 17 November 2015 and 15 December 2015).

<sup>22</sup> Singleton, *Application Part B*, p 31.

Follow up qualitative research undertaken with survey respondents found that typically the increase was opposed because it was unjustified and/or unaffordable. The consultants concluded that there would be high levels of dissatisfaction among ratepayers if the proposed rate increase were introduced.<sup>23</sup>

A variety of concerns with the proposed special variation were expressed by ratepayers, including:

- ▼ council inefficiencies and waste, particularly on projects considered unnecessary (eg, main street revitalisation, community events)
- ▼ the need to reduce expenditure on services and infrastructure, and reduce staff and councillor numbers
- ▼ rate levels are already high and any increase was unaffordable, particularly given the downturn in mining and pressures on farming, and
- ▼ the need for the council to rely on alternative funding sources such as the mining companies and council reserves rather than a rate rise.

### Submissions

During the consultation period the council received 179 written submissions (38 written and 141 tear-off slips from the information booklet), with the majority opposing a rate increase.

IPART received eight submissions about the special variation proposal. In each case the submission opposed the special variation.

We consider that the council's application demonstrated an appropriate consideration of the issues raised by ratepayers. Opposition to the proposed rate increase was strong. Councillors considered the range of views expressed in feedback from the community, as well as a proposal to reduce the amount of the special variation by 1% per annum. Ultimately, they decided to make the application without amendment.

### 3.3 Reasonable impact on ratepayers

We consider that the impact of the special variation on average rate levels will be significant, but reasonable given current average rate levels and the community's capacity to pay in particular, as well as the purpose of the special variation to improve financial sustainability. Our conclusion is supported by socioeconomic indicators for Singleton when compared with similar and neighbouring councils, and the council's consideration of affordability.

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<sup>23</sup> Singleton, *Application Part B*, p 30, and Instinct and Reason, *Singleton Council SRV Research, Follow Up Qualitative Research*, pp 1-2.

## Magnitude of increase

The council requested a cumulative percentage increase of 45.1%, or 35.5% above the assumed rate peg that would remain permanently in the rate base. As a result of the special variation (approved for 5.05% above the rate peg) that will expire in June 2017, the net increase in the council's general income will be 39.8% over the four years, or 34.4% above the rate peg.

The council intends to apply the same overall percentage increase to all ratepayers each year, but because of a change to the rate mix and an expiring special variation, the actual increase for each category of ratepayers will be different. This will occur for two reasons.

- ▼ The council will alter the rating mix from the 2016-17 rating year onwards, so that residential ratepayers (82% of total assessments) will pay a smaller proportion of the total rate revenue than currently, and business and mining ratepayers will contribute a greater proportion.<sup>24</sup>
- ▼ A lower increase than 9.75% in 2017-18 as ratepayers will no longer be paying the special variation that expires at the end of the 2016-17 rating year.

The cumulative rise in the average rate will be:

- ▼ 35.1% for residential ratepayers
- ▼ 40.1% for farmland ratepayers
- ▼ 42.1% for mining ratepayers, and
- ▼ 52.3% for business ratepayers.

## The council's consideration of impact on ratepayers

In assessing whether the community has the capacity to pay higher rates flowing from the special variation, the council considered a variety of factors.<sup>25</sup>

- ▼ Current rate levels in Singleton are generally lower than those in neighbouring councils, such as Maitland City, Muswellbrook and Cessnock City, and the position was expected to remain unchanged during the 4-year period.
- ▼ Among the 30 Group 4 councils, in 2013-14, Singleton had the lowest average business rate, the third lowest average residential rate and the tenth lowest average farmland rate. Lower rate levels reflect the nearly 35% of general rate income contributed by the mining category.

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<sup>24</sup> See section 4 below. The percentage of rate revenue paid by residential ratepayers will fall from 46.7% to 44.8%. Businesses ratepayers will provide 10.5%, up from 9.6%, and the mining sector will now provide 35.5%, up from 34.5%. The percentage derived from farmland ratepayers will remain the same. See Singleton, *Application Part B*, p 38. There are 893 Business rate assessments and 49 in the Coal mine subcategory.

<sup>25</sup> See Singleton, *Application Part B*, pp 40-44.

- ▼ The revised rating mix would benefit residential ratepayers, and share the burden more equitably with business and mining ratepayers.
- ▼ The council's relatively low level of outstanding rates (2% to 3%), which was not expected to be adversely affected by the special variation.
- ▼ SEIFA ranking of 116 in NSW that indicates residents of the LGA are not unduly disadvantaged and could have capacity to pay higher rates.
- ▼ Analysis commissioned from Western Research Institute (WRI) to assess the impact of the proposed rate increases. It concluded that, on balance, the impact on households would not unduly compromise overall expenditure and was reasonable. For business and farmland ratepayers, results were variable, but increases were considered serviceable for businesses and farmland ratepayers would continue to have relatively lower rates than in comparable councils.
- ▼ The hardship policy and other policies in place would assist in reducing the impact of rates and charges on vulnerable residents.

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories, as well as a range of socio-economic data.

We consider that the comparatively low current level of residential and business rates, and socioeconomic indicators, including Singleton's SEIFA rank and average annual income, combined with a low level of pensioner concessions indicate that overall, the increases are reasonable.

We also found that:

- ▼ Singleton has the highest average annual income of any non-metropolitan council and a relatively low unemployment rate
- ▼ since 2002-03 the council has been granted three special variations, for relatively small increases that were used for transport, recreational and community infrastructure<sup>26</sup>
- ▼ since 2004-05 the average annual growth in residential ordinary rates was 4.8% and 4.3% for business rates, which is higher than the 3.1% growth due to the rate peg, and
- ▼ the council has gradually increased the proportion of rate revenue derived from the mining sector in recent years.

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<sup>26</sup> The council has received permanent increases above the rate peg of 5.6% in 2006 and 5% in 2014. In June 2002 a 15-year increase of 5.05% above the rate peg was approved for loan repayments. At the end of June 2017, the value of the increase (estimated to be about \$640,000) will be taken out of the Council's permissible general income.

Table 3.3 shows IPART calculations of projected rate increases for Singleton and other Hunter councils from 2013-14 to 2019-20. Although average rate levels in Singleton will increase significantly compared with councils other than Maitland, by 2019-20 they will still be at or below the averages in those councils. We consider that the changes in Singleton's relative position for all rate categories are within reasonable limits.

**Table 3.3 Average rates in Singleton and neighbouring LGAs in 2013-14 and projections for 2019-20 (%)**

Council	Average ordinary and special rates, 2013-14			Cumulative rise 2013-14 to 2019-20	Projected average rates, 2019-20		
	Res	Bus	Farm		%	Res	Bus
Cessnock	1,014	2,875	1,961	23.0	1,247	3,536	2,412
Maitland	994	5,347	2,848	52.2	1,513	8,138	4,334
Muswellbrook	684	1,897	2,736	14.8	786	2,179	3,142
<b>Singleton</b>	<b>705</b>	<b>1,431</b>	<b>1,559</b>	<b>52.0</b>	<b>1,071</b>	<b>2,175</b>	<b>2,369</b>
Upper Hunter	635	964	2,872	22.9	780	1,184	3,528
<b>Four neighbours (simple average)</b>	<b>832</b>	<b>2,771</b>	<b>2,604</b>	<b>28</b>	<b>1,081</b>	<b>3,759</b>	<b>3,354</b>
<b>Singleton/four neighbours</b>	<b>0.85</b>	<b>0.52</b>	<b>0.60</b>	<b>1.84</b>	<b>0.99</b>	<b>0.58</b>	<b>0.71</b>

**Note:** The projections to 2019-20 have been derived by applying current approved special variations evenly to all average rates in each LGA; and where there is no approved special variation, applying an assumed annual rate peg of 2.5%.

**Source:** OLG, *Your Council Report, Time Series Data 2011/12 – 2013/14* and IPART calculations based on current special variations approved prior to this year.

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

Our decision means that Singleton Council may increase its general income over the 4-year special variation period from \$17.23 million in 2015-16 to \$21.94 million in 2019-20. Table 4.1 shows the annual increases in the dollar amounts to the council's general income. These amounts reflect the percentage increases we have approved and adjustments that occur in 2016-17 as a result of various catch-up and valuation adjustments. The amount in 2017-18 reflects the expiry of a special variation of 5.05% above the rate peg approved for 15 years in 2002-03.<sup>27</sup>

<sup>27</sup> The council estimates the amount to be removed from its permissible general income on 30 June 2017 will be around \$640,000.

These increases will be permanently incorporated into the council's revenue base. After 2019-20, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.<sup>28</sup>

**Table 4.1 Permissible general income of Singleton Council from 2016-17 to 2019-20 arising from the special variation approved by IPART**

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 1 July 2016 <sup>a</sup>				15,694,163
2016-17	9.75		1,534,318	17,228,480 <sup>a</sup>
2017-18 <sup>a</sup>	9.75	20.45	985,850 <sup>b</sup>	18,214,330
2018-19	9.75	32.19	1,775,897	19,990,227
2019-20	9.75	45.08	1,949,047	21,939,274
<b>Total increase approved</b>			<b>6,245,112</b>	

<sup>a</sup> A prior catch-up of \$4,137 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2016-17.

<sup>b</sup> Includes adjustment of -\$632,280 for a special variation that expires on 30 June 2017.

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

The council estimates that over these four years, it will collect an additional \$13.0 million rate revenue than if rate increases were limited to the assumed rate peg.

This extra income is the amount the council requested to enable it to undertake additional expenditure on capital renewal, while maintaining service levels at acceptable standards. It will also enhance its financial sustainability. The effect on the council's operating balance is shown in **Error! Reference source not found.**

<sup>28</sup> General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.



## 5 What does our decision mean for ratepayers?

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

In its application Singleton Council indicated that it would apply the 9.75% (cumulative 45.1%) increase in general income approximately equally across all rating categories and subcategories. However, in each category, the increases (annual and cumulative) will be different for two reasons.

- ▼ In conjunction with applying for a special variation, the council decided in September 2015 that before the increase was applied to rates, it would change the rate mix among the categories for the 2016-17 rating year onwards. The proportion of rate revenue contributed by the residential category will fall, and that contributed by the business and mining categories rise. The 9.75% increase will not apply to the current rate levels for these categories.<sup>29</sup>
- ▼ Rather than an increase of 9.75% in 2017-18, general income will rise by only 5.7% because the special variation being paid by ratepayers will expire at the end of June 2017.

The council has calculated that:

- ▼ the average residential rate will increase by a cumulative 35.1%, or by \$51 in the first year and by \$293 over four years
- ▼ the average business rate will increase by a cumulative 52.3%, or by \$332 in the first year and by \$885 over four years
- ▼ the average farmland rate will increase by a cumulative 40.1%, or by \$152 in the first year and by \$606 over four years, and
- ▼ the average mining rate will increase by a cumulative 42.1% or by \$12,985 in the first year and by \$47,043 over four years.<sup>30</sup>

Table 5.1 sets out Singleton Council's estimates of the expected increase in average rates in each of the ratepayer categories.

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<sup>29</sup> Rate revenue from the residential category will fall from 46.7% to 44.8%, business rate revenue will increase from 9.6% to 10.5%, and mining rate revenue will increase from 34.5% to 35.5%, and the farmland category will continue to contribute 9.2% of total rate revenue: Singleton, *Application Part B*, p 38.

<sup>30</sup> The average rate in each category is calculated by dividing the total rate revenue from ordinary rates in that category divided by the number of assessments in the category. There are no special rates levied by Singleton Council. For the mining category, the average is for the 49 assessments in the Coal mine subcategory. It excludes the 76 assessments in the Coal rights subcategory. A 'coal right' is not a mine and the rate is a nominal value. In 2016-17, the average rate will be \$1.78, and total estimated revenue from the subcategory \$136. See Singleton, *Application Part A*, Worksheets 3 and 5a.

**Table 5.1 Singleton Council – indicative annual increases in average rates 2016-7 to 2019-20 under approved special variation**

	2015-16 <sup>a</sup>	2016-17	2017-18	2018-19	2019-20	Cumulative increase
<b>Residential</b>						
<b>Singleton</b>	812	863	912	1,001	1,098	
\$ increase		50	49	89	98	286
% increase		6.2	5.7	9.8	9.8	35.2
<b>Rural Residential</b>	1,129	1,194	1,257	1,380	1,514	
\$ increase		66	63	123	134	386
% increase		5.8	5.3	9.8	9.7	34.2
<b>Village</b>	539	575	612	671	737	
\$ increase		36	36	60	65	198
% increase		6.7	6.3	9.8	9.8	36.7
<b>Ordinary</b>	804	854	904	992	1,088	
\$ increase		50	49	88	96	284
% increase		6.3	5.8	9.8	9.7	35.4
<b>Business</b>						
<b>Singleton</b>	1,938	2,322	2,452	2,691	2,954	
\$ increase		384	130	239	262	1,016
% increase		19.8	5.6	9.8	9.8	52.4
<b>Mount Thorley</b>	2,404	2,887	3,046	3,343	3,669	
\$ increase		482	159	297	326	1,264
% increase		20.1	5.5	9.8	9.8	52.6
<b>Village</b>	918	1,086	1,154	1,266	1,389	
\$ increase		168	67	113	123	471
% increase		18.3	6.2	9.8	9.8	51.3
<b>Ordinary</b>	1,012	1,200	1,273	1,397	1,534	
\$ increase		188	73	124	136	522
% increase		18.6	6.1	9.8	9.8	51.5
<b>Farmland</b>	1,510	1,662	1,756	1,928	2,116	
\$ increase		152	94	171	188	606
% increase		10.1	5.7	9.8	9.8	40.1
<b>Mining – Coal Mine</b>	111,769	124,753	131,839	144,700	158,812	
\$ increase		12,985	7,086	12,860	14,112	47,043
% increase		11.6	5.7	9.8	9.8	42.1

a 2015-16 is included for comparison.

**Note:** Some numbers may not add due to rounding.

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



## **Appendices**



## **A Expenditures to be funded from the special variation above the rate peg**

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

The council will use the additional special variation revenue, above the rate peg, of \$48.3 million over 10 years to fund infrastructure renewal as identified in its asset management plans for transport, buildings, urban stormwater drainage and parks and recreation.<sup>31</sup>

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

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<sup>31</sup> Singleton, *Application Part A*, Worksheet 6.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
<b>Special variation income above assumed rate peg</b>	<b>1,248</b>	<b>2,466</b>	<b>3,848</b>	<b>5,394</b>	<b>5,529</b>	<b>5,667</b>	<b>5,809</b>	<b>5,954</b>	<b>6,103</b>	<b>6,255</b>	<b>48,273</b>
Funding for capital expenditure	1,248	2,466	3,848	5,394	5,529	5,667	5,809	5,954	6,103	6,255	<b>48,273</b>
<b>Additional expenditure</b>	<b>1,248</b>	<b>2,466</b>	<b>3,848</b>	<b>5,394</b>	<b>5,529</b>	<b>5,667</b>	<b>5,809</b>	<b>5,954</b>	<b>6,103</b>	<b>6,255</b>	<b>48,273</b>

**Note:** Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

**Source:** Singleton, *Application Part A*, Worksheet 6.

## B Comparative indicators

### Performance indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

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

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

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	204	196	189	205	0.2
Ratio of population to FTE	117	120	126	116	-0.2
Average cost per FTE (\$)	69,980	70,770	74,693	71,829	0.9
Employee costs as % operating expenditure (General Fund only) (%)	39.4	37.0	31.0	35.8	-3.1
Consultancy/contractor expenses (\$m)	1.9	2.0	2.1	2.2	5.1
Consultancy/contractor expenses as % operating expenditure (%)	4.8	5.0	4.3	4.9	1.1

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

**Source:** OLG, unpublished data.

Over recent years, Singleton's productivity indicators have been relatively stable. Overall, employee costs and consultancy/contractor expenses do not constitute a large proportion of expenditure. This is confirmed by the comparative data in Table B.2.

### General comparative indicators

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

Our 2015 FFTF review found:

- ▼ The council satisfied the scale and capacity criterion as its proposal was consistent with the Independent Local Government Review Panel's (ILGRP) option, which was for Singleton to be a stand-alone council in the Hunter Joint Organisation.<sup>32</sup>
- ▼ The council satisfies the criterion for sustainability based on its forecast to meet the benchmarks for the operating performance ratio, the own source revenue ratio and the building infrastructure and asset renewal ratio by 2019-20.
  - The council's proposal relied in part on the successful application for and adoption of a special variation from 2016-17 of 45.1% cumulative over four years (34.7% above the rate peg), which is consistent with the special variation requested.
- ▼ The council satisfied the criterion for infrastructure and service management based on meeting the benchmarks for the infrastructure backlog, asset maintenance and debt service ratios by 2019-20.
  - This again relied on the requested special variation, as well as reducing the backlog by securing additional loan funding through the LIRS program (\$4 million) and the special variation approved in 2014-15 for transport infrastructure.
- ▼ Singleton Council met the criterion for efficiency based on an improvement in its real opex per capita ratio, from \$1,320 in 2013-14 to \$1,160 in 2019-20.
  - The reduction was to be achieved by reducing operating expenses through an external efficiency review, service planning and outsourcing, enhancing organisational structure and performance, resource sharing with neighbouring councils greater use of information technology, now new services and forecast low population growth. These are consistent with strategies outlined in the special variation application.

As indicated in section 3, Singleton Council is in OLG Group 4. Unless specified otherwise, the data refers to the 2013-14 financial year.

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<sup>32</sup> Independent Local Government Review Panel, *Revitalising Local Government, Final Report*, October 2013.



**Table B.2 Select comparative indicators for Singleton Council, 2013-14**

	Singleton Council	OLG Group 4 average	NSW average
<b>General profile</b>			
Area (km <sup>2</sup> )	4862		
Population	23,785		
General Fund operating expenditure (\$m)	36.6		
General Fund operating revenue per capita (\$)	1,353	1,380	1,857
Rates revenue as % General Fund income (%)	43.3	43.9	48.9
Own-source revenue ratio (%)	73.1	69.2	73.8
<b>Average rate indicators<sup>a</sup></b>			
Average rate – residential (\$)	705	922	743
Average rate – business (\$)	1,431	3,326	2,781
Average rate – farmland (\$)	1,559	1,927	2,293
<b>Socio-economic/capacity to pay indicators<sup>b</sup></b>			
Average annual income for individuals, 2011 (\$)	63,310	44,351	49,070
Growth in average annual income, 2006-2011 (% pa)	6.2	4.5	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	1.1	2.1	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	116		
Outstanding rates and annual charges ratio (General Fund only) (%)	2.5	4.9	5.5
<b>Productivity (labour input) indicators<sup>c</sup></b>			
FTE staff (number)	205	320	294
Ratio of population to FTE	116	125	127
Average cost per FTE (\$)	71,829	77,772	78,374
Employee costs as % operating expenditure (General Fund only) (%)	35.8	37.8	38.1
Consultancy/contractor expenses (\$m)	2.2	6.2	8.3
Consultancy/contractor expenses as % operating expenditure (%)	4.9	7.9	10.5

<sup>a</sup> Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

<sup>b</sup> Average annual income includes income from all sources excluding government pensions and allowances.

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

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

