

Wagga Wagga City Council's application for a special variation for 2016-17

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

Local Government — Determination
May 2016



Independent Pricing and Regulatory Tribunal

Wagga Wagga City Council's application for a special variation for 2016-17

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

**Local Government — Determination
May 2016**

© Independent Pricing and Regulatory Tribunal of New South Wales 2016

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

ISBN 978-1-925340-82-2

The Tribunal members for this review are:

Dr Peter J. Boxall AO, Chairman

Ms Catherine Jones

Mr Ed Willett

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

Derek Francis (02) 9290 8421

Tony Camenzuli (02) 9113 7706

David Pryor (02) 9113 7731

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box K95, Haymarket Post Shop NSW 1240

Level 15, 2-24 Rawson Place, Sydney NSW 2000

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

www.ipart.nsw.gov.au

Contents

1	Determination	1
1.1	Our decision	2
2	What did the council request and why?	3
3	How did we reach our decision?	4
3.1	Need for and purpose of the special variation	7
4	What does our decision mean for the council?	9
5	What does our decision mean for ratepayers?	10
	Appendices	13
A	Expenditure to be funded from the special variation	15
B	Comparative indicators	17

1 Determination

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

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be 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 the Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2016-17.

Wagga Wagga City Council (Wagga Council) applied for a temporary special variation for 2016-17 of 5.63%, to remain in the rate base for five years to 2020-21.² We have assessed the council's application, and decided to approve the variation as requested. We made this decision under section 508(2) of the Act.

Our decision enables the council to partly fund an upgrade of its flood levee system (the levee). The council consulted its community extensively to address this issue, both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

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.

¹ 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).

² Wagga Council, *Special Variation Application Form Part A 2016-17* (Wagga Council, *Application Part A*), Worksheet 1.

1.1 Our decision

We determined that Wagga Council may increase its general income in 2016-17 by 5.63%, including the rate peg of 1.8% that is available to all councils (see Table 1.1). The special variation can be retained in the council's general income base for five years and is to be removed from the council's rate base after 2020-21.

We note that in its application, the council has committed to reduce the revenue collected by the special variation, in proportion to reductions in proposed spending, if the levee upgrade does not proceed, or is reduced in scope.³

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 Wagga Wagga City Council's application for a special variation in 2016-17

Component	%
Upgrade the flood levee system	3.83
Rate peg	1.80
Total increase	5.63

Box 1.2 Conditions attached to Wagga Wagga City Council's approved special variation

IPART's approval of Wagga Wagga City Council's application for a special variation in 2016-17 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation to upgrade the flood levee system 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 2020-21 on:
 - expenditure consistent with the council's application, 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 2021, the council is to reduce its general income to what it would have been without the special variation.

³ Wagga Council, *Application Part B, Attachment 5(b) Community engagement Plan*; Wagga Council, email to IPART, 7 March 2016.

2 What did the council request and why?

Wagga Council requested a special variation of 5.63% in 2016-17, to be retained for five years, consisting of:

- ▼ a 3.83% increase to upgrade the levee, and
- ▼ the rate peg of 1.8%.

The purpose of the special variation is to fund the council's one-third share of the cost to:

- ▼ return the Main City levee to a 1:100 year flood level from its current 1:60 year rating, and
- ▼ return the North Wagga levee to a 1:20 year flood level from its current 1:16 year rating.

This special variation was included in Wagga Council's Fit for the Future (FFTF) assessment in 2015. At that time, the council proposed a similar 5-year temporary increase of 3.64% above the rate peg (from 2016-17), to raise \$7.8 million for the levee upgrade.⁴

Under the proposed special variation, the council's permissible general income would increase from \$38.9 million in 2015-16 to \$41.1 million in 2016-17. The council applied to retain the increase for five years, removing the increase from its rates base at 1 July 2021.

Wagga Council estimates that its requested increase of 3.83% above the rate peg would generate \$1.5 million in additional revenue in 2016-17 and \$7.8 million over five years. The council proposes to spend the \$7.8 million to fund its one-third share of the projected \$23.3 million cost of the levee upgrade.⁵

Wagga Council's proposal is dependent on receiving the remaining two-thirds funding for the levee upgrade from Commonwealth and State Governments. In January 2016, the council was successful in securing a \$2 million grant from the Office of Environment and Heritage (OEH) for Stage 1 of the levee upgrade works.⁶

The council proposes to earmark the special variation funds to a special reserve used for the levee upgrade, providing flexibility to use the revenue when grant funding is received.

More detail on the council's proposed program of expenditure to 2020-21 is provided in Appendix A.

⁴ Wagga Council, *Fit For The Future Council Improvement Proposal*, pp 16-18.

⁵ Wagga Council, *Application Part A*, Worksheet 1; Wagga Council, *Application Part B*, p 5.

⁶ Wagga Council, *Application Part B*, p 6.

3 How did we reach our decision?

We assessed Wagga Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent 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.⁷

Wagga Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan (Strategic Plan)*, *Combined Delivery Program and Operational Plan 2015/2016 (Delivery & Operational Plan)* and *Long Term Financial Plan 2015/25 (LTFFP)*.

The rate increases for which the council has applied are modest and reasonable, and 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. We note that the council's application requests a slightly lower percentage increase than those it consulted its community about and originally notified us it would require.⁸

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

1. The **need for the proposed revenue** reflects community priorities as demonstrated in the above IP&R documents and is supported by IRART's FFTF assessment of the council's financial sustainability.
2. The council provided evidence that **the community is aware** of the need for, and extent of, the rate rise.
3. The **impact of the proposed rate rises on ratepayers** is modest and reasonable given the purpose of the special variation. The council has reduced the impact for those paying farmland rates, to an increase of 3.7% in comparison with 5.8% for residential rates, due to hardship being experienced by these ratepayers as a result of drought.
4. The council provided evidence that the relevant **IP&R documents have been exhibited and adopted**.
5. The council reported **productivity savings** in past years, and indicated its intention to realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria. Section 3.1 discusses our findings against criterion 1 in more detail.

⁷ See Appendix B. Wagga Council is in OLG Group 4 and is classified as an Urban Small/Medium Regional City (with population up to 70,000). The group comprises 32 councils, including comparable councils such as Albury City, Bathurst Regional, Dubbo City and Orange City with well-developed urban centres and a mix of urban and rural populations.

⁸ Community consultation was carried out on the basis of a 3% rate peg. The special variation application has been reduced in line with the published 1.8% rate peg.

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

Criterion	IPART findings
<p>1. The need for and purpose of a different revenue path for the council’s General Fund (as requested through the special variation) is clearly articulated and identified in the council’s IP&R documents, 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&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents clearly explain the need for and purpose of the special variation; to fund the levee upgrade and return the existing levees to the required level of flood protection. They show that:</p> <ul style="list-style-type: none"> ▼ this is consistent with community priorities, being the subject of a dialogue that began in 2011 ▼ the upgrade of the Main City levee will address the identified flood risk to the Wagga Wagga city centre and surrounds by returning the levee to a 1:100 year level of flood protection, and ▼ upgrade of the North Wagga levee requires completion of a detailed flood study to finalise its planned height – either returning it to a 1:20 level or increasing it to a 1:100 year level of flood protection. <p>The council considered using loans to fund its share of the levee upgrade as an alternative to a rate rise. It concluded that borrowing costs would adversely affect service levels and operating performance.</p> <p>The council’s FTF assessment observed that the council’s operating performance ratio met the benchmark to breakeven over three years (from 2018 to 2020). This was due to the special variation income and other measures to reduce costs and generate revenue.</p> <p>In this application, the council excluded cost-savings and revenue generating measures that were included in FTF. As a result, the application shows a weaker improvement in the operating performance ratio, from -4.3% (deficit) in 2015-16, to a balanced budget in 2017-18 before declining to -1.3% (deficit) in 2020-21.</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>Community engagement on the levee upgrade has been part of the IP&R process since 2013-14. The proposed use of a special variation to pay for the levee upgrade was introduced in 2014-15.</p> <p>The council demonstrated community awareness, of the need for and extent of the rate increase, through consultation on the revised 2015-16 IP&R documents.</p> <p>The council’s community engagement included:</p> <ul style="list-style-type: none"> ▼ the Flood Futures website, with a public Q&A ▼ an insert in rates notices provided to all rate payers ▼ ‘funding the levee upgrade’ media campaign, with extensive coverage in local media, and ▼ a community forum, neighbourhood meetings and public stalls. <p>Community feedback was generally in favour of using a special variation to upgrade the Main City levee, with support for a 1:100 year North Wagga levee.</p> <p>IPART did not receive any submissions.</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 Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay. 	<p>The impact on ratepayers will be modest, but reasonable given:</p> <ul style="list-style-type: none"> ▼ residential rates of \$932 in 2013-14 were close to the \$922 average for Group 4 councils ▼ the 3.7% increase in farmland rates is less than for other categories (compared with 5.8% for residential rates), recognising the financial hardship of drought affected rural residents ▼ while business rates are 49% above the Group 4 council average (in 2013-14), they are comparable with peer Group 4 councils supporting major inland regional centres such as Albury, Orange, Dubbo and Bathurst, and ▼ moderate levels of outstanding rates (6% as compared to the OLG 5% benchmark), and a low percentage of pensioner rebates (14% compared with the 21% average for Group 4 councils in 2013). <p>The council considers that the community has the capacity and willingness to pay the rates increase based on:</p> <ul style="list-style-type: none"> ▼ an above average ranking on the SEIFA socioeconomic index (108/153) in which it performs better than comparable regional centres ▼ a combination of relatively low housing costs and low unemployment (5.2%) ▼ the special rate being charged as an ad valorem rate with no minimum charge, to spread the cost of the levee across all ratepayers, and ▼ a hardship policy, with potential to waive interest costs, to assist those having financial difficulty in paying rates.
<p>4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.</p>	<p>The council adopted the Strategic Plan in 2012, with floodplain management as a targeted measure.</p> <p>The council's revised Delivery & Operational Plan and LTFP for 2015-16 set out the special variation scenario. They were exhibited in October 2015 and adopted on 23 November 2015 after no submissions were received on the revised documents.</p>
<p>5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.</p>	<p>The council stated that over the last two years it has achieved a balanced budget, with savings of approximately \$3.8 million in 2013-14, and \$1.6 million in 2014-15. The savings were sourced mainly from employee cost reductions and reduced services.</p> <p>Further savings proposed for 2015-16 and beyond include investigation of shared services with neighbouring councils, operational efficiency reviews, and a review of asset depreciation.</p>

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

Sources: Wagga Council, *Application Part A, Application Part B, Application Attachment 5(b) Community engagement Plan; Combined Delivery Program and Operational Plan 2015-16, Combined Delivery Program and Operational Plan 2013-14, Long Term Financial Plan 2015-16 and Community Strategic Plan*. OLG, Unpublished data and *Your Council, Time Series Data 2011/12 – 2013/14*; NSW Treasury Corporation (TCorp), *Wagga Wagga City Council Financial Assessment and Benchmarking Report*, 8 October 2012.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion, having clearly articulated the community's priorities and identified the need for and purpose of the requested special variation in its IP&R documents.

Upgrading the levee system

The current Floodplain Risk Management Plan adopted by Wagga Council recommends:

- ▼ a 1:100 year level of flood protection for the Main City Levee and
- ▼ a 1:20 year level of flood protection for the North Wagga Levee.⁹

Following the floods in 2012, the levee system is no longer considered fit for purpose because the updated flood model shows that approximately 25% less flow is required for flood waters to reach the same height as under the previous modelling.¹⁰

It is important to note that current OEH funding is for the Main City levee, and that OEH may not consider any funding of the North Wagga levee until:

- ▼ works are completed on the Main City levee, and
- ▼ the Wagga Wagga Floodplain Risk Management Study and Plan is updated and adopted by Wagga Council.¹¹

Finalisation of the council's position on the North Wagga levee is dependent on an update of the Wagga Wagga Floodplain Risk Management Study and Plan, due in December 2016.¹² To account for this, proposed works on the levee are staged, with the upgrade of the North Wagga levee to be completed after the Main City levee, to provide time for planning to be completed.¹³

Wagga Council has indicated that if the levee upgrade does not proceed, or is reduced in scope, the additional funds raised through the special variation will be adjusted down accordingly.¹⁴

⁹ Wagga Council, *Wagga Wagga Floodplain Risk Management Plan*, May 2009, p ii. The report identified that the level of flood protection provided by the Main City has been reduced to a 1:60 year level (p 2).

¹⁰ WMAwater Pty Ltd, *Wagga Wagga Detailed Flood Model Revision*, Draft Final Report 2014, p 2.

¹¹ Office of Environment and Heritage (OEH), email to IPART, 17 March 2016.

¹² Wagga Council, *Application Part B*, pp 8-9. The North Wagga levee is identified as providing a 1:16 year level of flood protection. The updated flood plan may suggest an increase in the North Wagga levee to a 1:100 year level, which would be supported by the council. The council has indicated that these additional works may cost \$820,000, to be funded by the council. The special variation application includes \$1.26 million for additional works to bolster the Main City levee if the North Wagga levee is increased to a 1:100 year level.

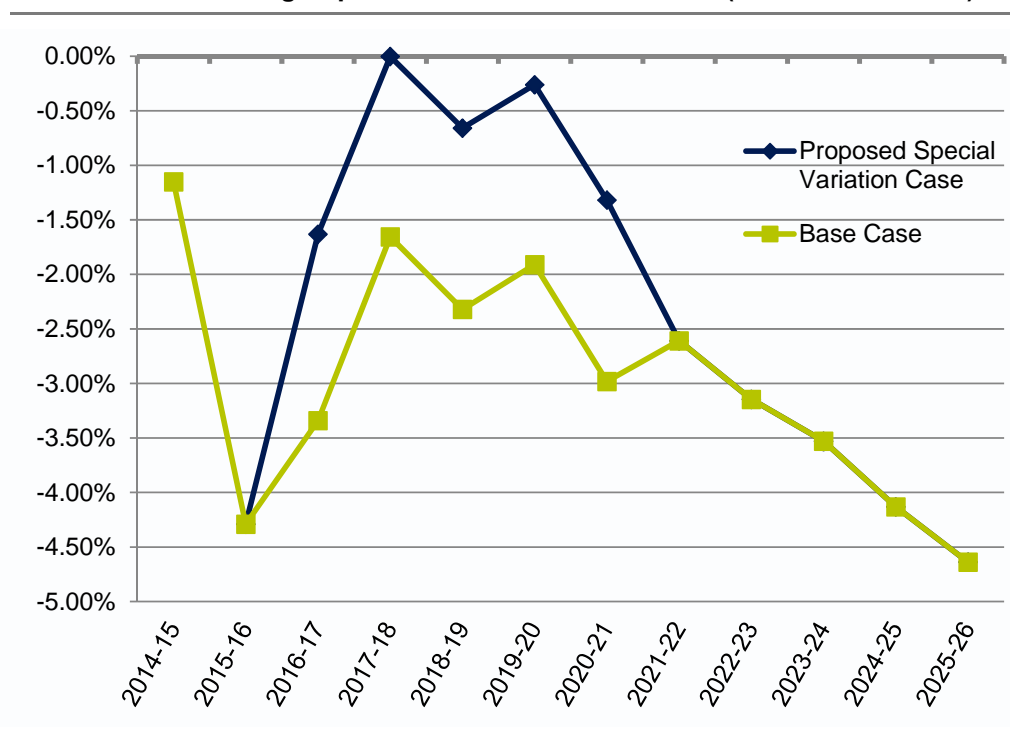
¹³ Wagga Council, email to IPART, 7 March 2016.

¹⁴ Wagga Council, *Application Part B, Attachment 5(b) Community engagement Plan*; Wagga Council, email to IPART, 7 March 2016.

Financial sustainability, including infrastructure backlogs

The special variation causes a temporary improvement in the council’s operating performance ratio. It enables the council to reduce its operating deficits (before capital grants and contributions) over the five years the special variation is in place, but otherwise it has no permanent effect.

Figure 3.1 Wagga Wagga City Council’s Operating Performance Ratio excluding Capital Grants and Contributions (2014-15 to 2025-26)



Source: Wagga Council *Annual Financial Statements*, various, 2016-17; Wagga Council, *Application Part A, Worksheet 7* and IPART calculations.

Figure 3.1 shows that without the special variation the council is forecasting a reduction in the operating deficit, from \$3.6 million in 2015-16 (operating performance ratio of -4.3%) to \$1.5 million in 2017-18 (operating performance ratio of -1.7%). With the income from a special variation a balanced operating budget will be achieved in 2017-18 before the deficit again increases to -2.6% in 2021-22. Following the special variation, Figure 3.1 shows a trend of increasing deficits to 2024-25.

The present LTFP does not include the \$1.2 million identified in FFTF improvement proposals. The council is planning to include these improvements in future operating budgets.¹⁵

¹⁵ Wagga Council, email to IPART, 24 March 2016. Additional FFTF measures not included in the special variation application include: \$8,000 in reduced expenditure from salary savings or other operating expenses; a \$3,000 increase in operating revenue due to a cost recovery strategy; and \$1,000 in targeted grant funding and partnership-in-kind contributions.

In 2015, our Fit for the Future (FFTF) assessment found that the council:

- ▼ Satisfied the criterion for financial sustainability as it is forecast to meet both the operating performance benchmark and the building and asset renewal benchmark from 2018-19.
- ▼ Did not meet the criterion for infrastructure and service management as it was forecast to not meet the infrastructure backlog and asset maintenance benchmarks until 2019-20. The debt service benchmark was expected to be met for the period from 2015-16 to 2019-20. While the council did not forecast to meet the benchmark for the asset maintenance ratio, it forecasts this ratio to remain steady at around 83% for the period from 2015-16 to 2019-20.
- ▼ Wagga Wagga is projected to experience continued population growth which may help to improve the council's medium to long term financial situation.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was 'moderate' with a 'negative' outlook'.¹⁶ Close monitoring of further borrowing was suggested, along with consideration of measures to increase revenue and reduce expenditure. Using a special variation to fund the levee upgrade avoids further borrowing and is consistent with the TCorp assessment.

4 What does our decision mean for the council?

Our decision means that Wagga Council may increase its general income in 2016-17 by an estimated \$2.2 million including the rate peg, as indicated in Table 4.1.¹⁷ The increase above the rate peg is to be removed from the council's rate base after 2020-21. After 2016-17, the council's general income will increase by the annual rate peg unless we approve further special variations.¹⁸

¹⁶ TCorp, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18; TCorp, *Wagga Wagga City Council Financial Assessment and Benchmarking Report*, 8 October 2012, p 30.

¹⁷ Wagga Council, *Application Part A*, Worksheets 1 and 4.

¹⁸ 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.

Table 4.1 Permissible general income of Wagga Wagga City Council in 2016-17 arising from the special variation approved by IPART

Notional general income 2015-16 (\$)	Adjustment: expiring special variation (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations ^a (\$)	Permissible general income 2016-17 (\$)
38,882,133	-	5.63	2,189,064	9,507	41,080,704

^a A prior catch-up of \$9,507 to be recouped in 2016-17 that had not been recouped by the time of the application was submitted to IPART.

Sources: Wagga Council, *Application Part A*, Worksheets 1 and 4 and IPART calculations.

The council estimated that over the period 2016-17 to 2020-21, the additional rate revenue will accumulate to \$7.8 million above the assumed rate peg. This extra income is the amount the council requested to enable it to contribute to upgrading the levee system.

To ensure the funds collected from the special variation are used for capital works on the levee upgrade, the council proposes to earmark the funds to a special reserve used for that purpose.¹⁹ This will ensure that if the works program and allocation of grant funding extends past the five years of the special variation, the funds collected will be available for use when ultimately required.

We note that council may need to adjust its proposed works on the levee over time. It is the responsibility of the council to consult and inform the community through its annual report on how the special variation funds, collected to upgrade the levee system, are used.

The council has indicated that it proposes to reduce the funds collected from the special variation if the levee is reduced in scope or does not proceed.²⁰

5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination. In its application, Wagga Council indicated that it intended to increase rates uniformly for each category, with the exception of farmland rates.

¹⁹ Wagga Council, email to IPART, 7 March 2016.

²⁰ Wagga Council, *Application Part B, Attachment 5(b) Community engagement Plan*; Wagga Council, email to IPART, 7 March 2016.

The council has calculated that:

- ▼ the average residential rate will increase by 5.8% (\$58) from \$1,007 in 2015-16 to \$1,065 in 2016-17
- ▼ the average business rate will increase by 5.9% (\$339) from \$5,754 in 2015-16 to \$6,093 in 2016-17, and
- ▼ the average farmland rate will increase by 3.7% (\$90) from \$2,433 in 2015-16 to 2,524 in 2016-17.²¹

Table 5.1 sets out the proposed impact of rate increases on all affected categories.

Table 5.1 Indicative increases in average rates under Wagga Wagga City Council's approved special variation for 2016-17

Category ^a	Average rate 2015-16 (\$)	Increase (%)	Increase (\$)	Average rate 2016-17 (\$)
Average residential rate	1,007	5.77	58	1,065
Average business rate	5,754	5.89	339	6,093
Average farmland rate	2,433	3.72	90	2,524

^a 2015-16 is included for comparison.

Notes: The average rate is calculated by Wagga Council, and includes the ordinary rate and any special rates applying to the rating category. Some numbers may not add due to rounding.

Sources: Wagga Council, *Application Part A*, Worksheet 5a; Wagga Council, *Application Part B*, pp 40-45 and IPART calculations.

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.

We also compared current rates and socioeconomic indicators with peer Group 4 councils in other major inland regional centres such as Albury, Orange, Dubbo and Bathurst, as shown in Table 5.2.

Table 5.2 shows the average residential rates, average income and the ratio of rates for Wagga Council in the middle of its peers. It has the highest SEIFA ranking (SEIFA of 108) of the group, indicating good socioeconomic conditions. However, the outstanding rates ratio of 6% in 2014-15 is above the 5% benchmark, having reduced from 7% in 2012-13.

²¹ Ratepayers paying minimum rates will also pay the ad valorem special rate for the levee upgrade, as it will be applied to all rateable properties.

Table 5.2 Wagga Wagga City Council – comparison of rates and socio-economic indicators with Group 4 and peer councils' averages (2013-14)

Council	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Orange City	\$1,147	\$50,126	2.3%	7.2%	90
Albury City	\$1,145	\$46,736	2.5%	2.6%	87
Dubbo City	\$941	\$46,001	2.0%	2.2%	83
Wagga Wagga City	\$932	\$47,678	2.0%	6.0%	108
Bathurst Regional	\$878	\$47,492	1.8%	5.4%	104
Group 4 Average	\$922	\$44,351	2.1%	4.9%	-

^a The average residential rate (ordinary and special) is calculated by dividing total Ordinary and Special Rates revenue by the number of assessments in the category.

^b The outstanding rates ratio includes water and sewer.

^c The highest possible ranking is 153 which denotes a council that is least disadvantaged in NSW.

Sources: 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.



Appendices

A Expenditure to be funded from the special variation

Table A.1 and Table A.2 show Wagga Council's proposed expenditure of the special variation funds over the next five years.

The council will use the additional special variation revenue above the rate peg, of \$7.8 million over five years, to fund a one-third share of an upgrade to the existing flood levee system, including the Main City levee and the North Wagga levee. The proposed total expenditure is dependent on State and Commonwealth grant funding for the remaining two-thirds of the cost.

The council has also committed to reduce the revenue collected by the special variation, in proportion to reductions in proposed spending, if the levee upgrade does not proceed, or is reduced in scope.²²

Grant funding of \$2 million has been approved from OEH for Stage 1 of the levee upgrade (only for the Main City levee). The council has indicated that the current grant funding is sufficient to commence works on Stage 1 if the special variation is approved, and that it will cover any gap to the actual cost.²³

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.

²² Wagga Council, *Application Part B, Attachment 5(b) Community engagement Plan*; Wagga Council, email to IPART, 7 March 2016.

²³ Wagga Council, email to IPART, 8 March 2016.

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

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Special variation income above assumed rate peg	1,489	1,526	1,565	1,604	1,644	7,828
Funding for increased operating expenditures	0	0	0	0	0	0
Funding to reduce operating deficits or (increase surpluses) ^a	1,489	1,526	1,565	1,604	1,644	7,828
Funding for capital expenditure	1,489	1,526	1,565	1,604	1,644	7,828
Additional expenditure	1,489	1,526	1,565	1,604	1,644	7,828

^a While the special variation is not intended for financial sustainability, it does have a positive impact on the operating performance ratio.

Note: Numbers may not add due to rounding.

Source: Wagga Council, *Application Part A*, Worksheet 6.

Table A.2 Wagga Wagga City Council – Proposed 5-year capital expenditure program related to the special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Special variation income above assumed rate peg	1,489	1,526	1,565	1,604	1,644	7,828
Grant funding to upgrade levee ^a	2,745	2,910	3,085	3,268	3,462	15,470
Total Funding	4,234	4,436	4,650	4,872	5,106	23,298
Cost to upgrade the flood levee system	4,234	4,436	4,650	4,872	5,106	23,298
Total Capital Expenditure	4,234	4,436	4,650	4,872	5,106	23,298

^a Grant funding of \$2 million secured for 2016-17 for Stage 1 and only for the Main City levee. Applications for the remaining grant funding are still to be made however, OEHL has indicated projects that have commenced get a higher ranking through the assessment process (OEHL email to IPART, 8 March 2016).

Note: Numbers may not add due to rounding.

Sources: Wagga Council, *Application Part A*, Worksheets 6 and 7.

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 Wagga Council have changed over the four years to 2013-14.

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

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	467	473	466	462	-0.4
Ratio of population to FTE	135	130	133	134	-0.3
Average cost per FTE (\$)	68,998	73,499	84,504	87,223	8.1
Employee costs as % operating expenditure (General Fund only) (%)	40.3	35.6	40.5	38.4	-1.6
Consultancy/contractor expenses (\$m)	7.0	6.9	9.2	6.5	-2.3
Consultancy/contractor expenses as % operating expenditure (%)	7.5	6.3	8.4	5.6	-9.4

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.

The above table shows that:

- ▼ The results of the council's efforts to contain employee costs have been successful, demonstrated by small reductions in staff numbers. The staff to population ratio, and employee costs relative to operating expenditure, have remained broadly steady in the face of rising costs per full time employee.
- ▼ Consultant and contractor expenses increased as a percentage of operating revenue in 2012-13 due to increased operating costs associated with the repair of flood damage sustained in 2012.

Our 2015 FFTF review found:

- ▼ Wagga Council was assessed as fit.
- ▼ The council satisfied the scale and capacity criteria, and a merger option that was better than the council's stand-alone option was not identified. The Independent Local Government Review Panel (ILGRP) identified options for a Riverina Joint Organisation or merger with Lockhart Shire Council.²⁴ The council has committed to be part of the pilot Riverina Joint Organisation.
- ▼ The council met the criterion for efficiency based on a decline in real operating expenditure over the period to 2019-20. Real opex per capita was \$1,354 in 2014-15 and is forecast to be \$1,301 in 2019-20.

General comparative indicators

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

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

²⁴ Independent Local Government Review Panel, *Revitalising Local Government, Final Report*, October 2013.

Table B.2 Select comparative indicators for Wagga Wagga City Council, 2013-14

	Wagga Council	OLG Group 4 average	NSW average
General profile			
Area (km ²)	4,839	-	-
Population	61,746	-	-
General Fund operating expenditure (\$m)	97.4	-	-
General Fund operating revenue per capita (\$)	1,442	1,380	1,857
Rates revenue as % General Fund income (%)	41.6	43.9	48.9
Own-source revenue ratio (%)	65.0	69.2	73.8
Average rate indicators^a			
Average rate – residential (\$)	932	922	743
Average rate – business (\$)	4,971	3,326	2,781
Average rate – farmland (\$)	2,317	1,927	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	47,678	44,351	49,070
Growth in average annual income, 2006-2011 (% pa)	4.8	4.5	5.2
Ratio of average residential rates 2013-14, to average annual income, 2011 (%)	2.0	2.1	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	108	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	6.0	4.9	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	462	320	294
Ratio of population to FTE	134	125	127
Average cost per FTE (\$)	87,223	77,772	78,374
Employee costs as % operating expenditure (General Fund only) (%)	38.4	37.8	38.1
Consultancy/contractor expenses (\$m)	6.5	6.2	8.3
Consultancy/contractor expenses as % operating expenditure (%)	5.6	7.9	10.5

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

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

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

Sources: 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.

