



Independent Pricing and Regulatory Tribunal

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

**Local Government — Determination
June 2013**

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1 Determination

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

However, councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines issued by the Division of Local Government (DLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

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

1.1 Our decision

IPART determined that Walgett Shire Council may increase its general income by 6.4% in 2013/14, including the rate peg of 3.4% that is available to all councils. This increase may be permanently retained in the council's general income base.

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

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

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

Table 1.1 IPART’s decision on Walgett Shire Council’s application for a special variation in 2013/14 (%)

| Component | Amount |
|--------------------------------|---------------|
| Increase to fund road upgrades | 3.0 |
| Rate peg increase | 3.4 |
| Total increase | 6.4 |

Box 1.1 Conditions attached to the approved special variation for Walgett Shire Council

IPART’s approval of Walgett Shire Council’s application for a special variation in 2013/14 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the works outlined in the council’s application, and listed in Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2022/23 on:
 - the program of expenditure that was actually funded by the special variation, and the reasons for any significant differences from the program in Appendix A
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ The council reports to the Division of Local Government by 30 November each year on its compliance with these conditions.

1.2 What did the council request and why?

Walgett Shire Council requested a special variation of 6.4% in 2013/14, comprising:

- ▼ a 3.0% increase for upgrading of local roads
- ▼ the rate peg of 3.4%.²

The council estimated that the increase above the rate peg would generate \$0.14m in additional revenue in 2013/14, and \$1.6m over the next 10 years.³

² Walgett Shire Council, *Section 508(2) Special Variation Application - Part A*, (Walgett Application Part A) Worksheets 1 and 4.

³ Walgett Application Part A, Worksheet 6.

It indicated it will use this additional revenue to help fund its proposed \$4.7m local road upgrading program over the next 10 years.⁴ It will also apply for \$3.1m in 'Betterment' grants from State and Federal Governments to assist with funding this program of capital expenditure, which is set out in Appendix A.⁵

1.3 How did we reach our decision?

We assessed Walgett Shire Council's application against the criteria in the Guidelines under the transitional arrangements. These arrangements give us the discretion, for 2013/14 rating year, to award a single-year variation where we assess that the council has met the general principles of the criteria even though the evidence is not necessarily contained within its latest available Integrated Planning & Reporting (IP&R) documentation.⁶ We also considered a range of comparative data about the council, set out in Appendix B.

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

1. Demonstrated a need for the additional revenue to fund an upgrade of its local roads. It made its application in response to community concerns about the failure of the local road network, including school bus routes, during flood events in each of the past 3 years.⁷ It does not have the capacity to fund such works from its existing budget, due to its small rates base.
2. Provided evidence that the community has been made aware of the need for and the magnitude of the rate rise.
3. Showed that the impact on affected ratepayers is reasonable, particularly in light of the community benefits to the community of minimising future flood damage to its infrastructure, and currently low residential rates compared with similar councils.
4. Made realistic assumptions concerning its projected service delivery and budget.

⁴ Walgett Application Part A, Worksheet 6.

⁵ The Commonwealth's 2007 Ministerial Determination for Natural Disaster Relief and Recovery Arrangements (NDRAA) provides "betterment" grants as a means for the 3 levels of government to share the cost of rebuilding infrastructure damaged by disasters to a more disaster-resilient standard. If State/Federal grants are not forthcoming the council will continue with its own upgrading program with the outcomes achieved over a longer period. See Walgett Shire Council, *Section 508(2) Special Variation Application - Part B*, (Walgett Application Part B), pp 3-5.

⁶ These arrangements were included in the Guidelines because, in light of the 2012 local government elections and the requirement for councils to review their IP&R documents and update key plans and programs by 30 June 2013, it was recognised that the revised Guidelines and application timing may create a difficulty for councils that wish to apply but have not yet formally adopted their updated plans and programs.

⁷ Walgett Application Part B, p 3 and outcomes from teleconference meeting held on 14 February 2013. Recent floods have prevented children from attending school for periods of more than 6 weeks. Similarly, farmers have been prevented from getting their grain harvest to silos.

5. Reported productivity savings in recent years.
6. Has not applied for a special variation since before 1994/95.

The council has not yet finalised its updated Integrated Planning and Reporting (IP&R) documents for 2013-2017. However, the council did provide extracts from its draft Community Strategic Plan, Delivery Program, Operational Plan, proposed program of expenditure and budget scenarios in its application.⁸

Table 1.2 summarises our findings against each of the criteria.

⁸ See Walgett Application Part B, Attachment E, *Integrated Planning and Reporting Action Plan*, p 1. The updated Community Strategic Plan and Resource Plan, including the LTFP, will be publicly exhibited during April 2013. The Delivery Program and Operational Plan will be exhibited shortly after that.

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

| Criterion | IPART findings |
|---|---|
| 1. Need for and purpose of special variation must be clearly identified. Evidence could include community need/desire for service levels/project and limited council resourcing alternatives, and the council’s financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp). | <p>The application identified the need for extra revenue to:</p> <ul style="list-style-type: none"> ▼ Fund upgrades to roads including school bus routes, to minimise flood damage, consistent with priorities of its draft Community Strategic Plan, Delivery Program, Operational Plan and Asset Management Plan.⁹ ▼ Assist the council to obtain grant funding for its road upgrades.¹⁰ ▼ TCorp’s analysis identified flood damage as a contributing factor to the council’s recent operating deficits. The council is forecasting to have operating deficits for most of the next 10 years.¹¹ |
| 2. Evidence that community is aware of need for, and extent of, proposed rate rise must be provided. An appropriate variety of engagement methods should have been used to ensure opportunity for community awareness/input, and alternatives to a rate rise should have been canvassed. The impact of the rise on the community, and the council’s consideration of community capacity and willingness to pay higher rates should be provided. | <p>The council has taken steps to make the community aware of need for and the extent of the rates rise, providing information to local media and on its website.¹² It has assessed willingness to pay through an online survey. 71% of respondents considered the road network did not meet their needs and 51% considered reliable roads were the highest priority for the community.¹³</p> |
| 3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community’s capacity to pay. | <p>On balance, the impact is reasonable. Average residential (\$330) and business rates (\$619) are low and average income levels are comparable to Group 10. While Walgett is a relatively disadvantaged local government area (LGA) with a low SEIFA (3/153) ranking, the council is developing a financial hardship policy.¹⁴</p> |

⁹ Walgett Application Part B, Attachment A, *Draft Community Strategic Plan*, pp 4, 21, 24, 48-51, Attachment B, *Delivery Program and Operational Plan*, pp 8-9, *Roads Asset Management Plan 2012*, pp 22, 26, 34.

¹⁰ Walgett Application Part B, p 5.

¹¹ NSW Treasury Corporation, *Walgett Shire Council Financial Assessment and Benchmarking Report*, pp 4-5; Walgett Application Part B, Attachment C, *Long Term Financial Plan – Updated April 2013*, pp 20-28.

¹² Media Release to; ABC Western Plains, ABC New England, 2WEB, NOW FM/2VM, Opal FM, Walgett Spectator, Lightning Ridge News, Mungindi Matters, Daily Liberal, Western Magazine, Prime, WIN, Southern Cross 10, Imparja and NBN; Application Part B, pp 3-10. Also Lightning Ridge News, *Rate rise to fund road upgrades*, 18 April 2013. Application, Attachment A – *Draft Strategic Community Plan*, March 2013, pp 1-18.

¹³ Walgett Application Part B, Attachment A, *Draft Community Strategic Plan*, pp 21, 24, 48.

¹⁴ Walgett Shire Council’s General Manager advised IPART on 3 April 2013 that the council will adopt a Financial Hardship policy by June 2013. See also Appendix B.

| Criterion | IPART findings |
|--|---|
| 4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions. | Assumptions for the Delivery Program are realistic, as are those for the number of rateable properties, wages and materials expenses and grants in the LTFP. ¹⁵ |
| 5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period. | The council has reported productivity and cost savings in recent years, including joint tenders and shared use of an internal auditor with neighbouring councils. ¹⁶ |
| 6. Other relevant matters. | Walgett Shire Council has very limited resources due to a very small rates base (4,929) and has not previously applied for a special variation. ¹⁷ |

In considering the application, we noted that the council has high average farm rates. In addition, its outstanding rates ratio for all ratepayers is quite high. This ratio was 11.2% in 2011/12, and had increased from 7.9% in 2009/10.¹⁸

The council had clearly considered the affordability of farmland rates. Its application provided evidence that the high average farmland rates reflect the relatively large number of high value farms, including irrigated farms, within the LGA. In particular, 357 (or 44%) of farm rate assessments are valued at more than \$1m, and 90 (or 11%) are valued at more than \$3m.¹⁹

We sought advice from the council about its outstanding rates ratio. It indicated that it is addressing the relatively high outstanding rates ratio by filling a staff vacancy in its rates recovery area, and by selling certain properties with outstanding rates. The council anticipates that it will reduce the outstanding rates ratio to approximately 8% in 2012/13, and to between 5% and 6% in 2013/14. We encourage the council to continue its efforts to reduce its currently high level of outstanding rates.²⁰

¹⁵ Walgett Application Part B, Attachment C, *Long Term Financial Plan*, pp 6-8, 27.

¹⁶ Walgett Application Part B, pp 9, 28.

¹⁷ Refer to Walgett Application Part A, Worksheet 3 and Appendix B of this report.

¹⁸ Refer to Appendix B and Walgett Council's *Financial Statements 2012*, Note 13a(i).

¹⁹ Walgett Application Part A, Worksheets 3 and 5.

²⁰ Telephone discussion with the council's GM on 30 April 2013.

1.4 What does our decision mean for the council?

Our decision means that Walgett Shire Council can increase its general income, including the rate peg, by an estimated \$0.3m in 2013/14.²¹ This increase will be permanently incorporated into the council's revenue base. After this year, this income will increase by the annual rate peg, unless we approve further special variations.²²

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

| Adjusted notional general income 2012/13 (\$) | Annual increase in general income (%) | Annual increase in general income (\$) | Permissible general income 2013/14 (\$) ^a |
|---|---------------------------------------|--|--|
| 4,672,561 | 6.4 | 299,044 | 4,989,354 |

^a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year's notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, in this case, of \$17,749, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage.

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

1.5 What does our decision mean for ratepayers?

If the council changes its rates as indicated in its application, average ordinary rates will increase in 2013/14 by 6.4% in each ratepayer category (Table 1.4). The actual impact on particular categories of rates is a matter for the council to decide, consistent with our determination.

Table 1.4 Walgett Shire Council's proposed rate increases for residential, business and farmland ratepayers in 2013/14

| Category ^a | Average rate 2012/13 (\$) | Approved Increase (\$) | Approved Increase (%) | Average rate 2013/14 (\$) |
|--------------------------|---------------------------|------------------------|-----------------------|---------------------------|
| Average residential rate | 330 | 21 | 6.4 | 351 |
| Average business rate | 619 | 40 | 6.4 | 659 |
| Average farmland rate | 3,905 | 250 | 6.4 | 4,155 |

^a Average residential, business and farmland rates include all applicable ordinary and special rates.

Note: Average rates have been rounded to the nearest dollar.

Source: Walgett Application Part A, Worksheet 5 and IPART calculations.

²¹ Walgett Application Part A, Worksheet 4.

²² The actual general income in future years cannot be determined with precision, as it will be influenced by a range of factors apart from the rate peg, including the number of rateable properties and adjustments for previous under or over collection of rates. The DLG is responsible for monitoring and ensuring compliance.

A Walgett Shire Council – Program of Expenditure

Walgett Council has estimated that the total cost of the program of works will be around \$4.7m to be spent over the next 10 years (Table A.1). This includes 'Betterment' grant funding for infrastructure upgrading from State and Federal governments totalling \$3.1m over this period. The council's special variation will contribute \$1.6m to this expenditure program over the next 10 years.

The council will not be using debt funding to assist it finance its roads upgrades.

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

| Category | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | Total |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| School bus routes - Rehabilitation | - | - | - | 0.10 | 0.47 | - | - | - | - | - | 0.57 |
| School bus routes - Upgrades | - | 0.14 | 0.44 | 0.36 | - | - | - | - | - | - | 0.94 |
| Other road restoration/upgrading works | 0.42 | 0.29 | - | - | - | 0.49 | 0.50 | 0.52 | 0.53 | 0.47 | 3.22 |
| TOTAL | 0.42 | 0.43 | 0.44 | 0.46 | 0.47 | 0.49 | 0.50 | 0.52 | 0.53 | 0.47 | 4.73 |

Note: Figures have been rounded to the nearest \$0.01m.

Source: Walgett Application Part A, Worksheet 6.

B Comparative indicators

Table B.1 Select comparative indicators for Walgett Shire Council, 2011/12

| | Walgett Shire Council | DLG Group 10 average ^a | NSW average |
|--|-----------------------|-----------------------------------|-------------|
| General profile indicators | | | |
| Area (km ²) | 24,030 | - | - |
| Population | 6,860 | - | - |
| General Fund expenditure-continuing operations (\$m) | 22.5 | 18.3 | 56.6 |
| General Fund operating revenue per capita (\$) | 3,090 | 2,580 | 2,011 |
| Rates revenue as % total General Fund revenue (%) | 21.0 | 24.6 | 45.7 |
| Average rate indicators^b | | | |
| Average rate – residential (\$) | 296 | 492 | 685 |
| Average rate – business (\$) | 421 | 1,077 | 2,552 |
| Average rate level – farmland (\$) | 3,755 | 2,192 | 2,123 |
| Socio-economic/capacity to pay indicators^c | | | |
| Average annual income for individuals, 2010 (\$) | 36,808 | 35,157 | 44,140 |
| Growth in average annual income 2006-2010 (% pa) | 4.9 | 2.6 | 3.0 |
| Ratio of average residential rates 2011/12, to average annual income, 2010 (%) | 0.8 | 1.4 | 1.6 |
| SEIFA, 2011 (NSW rank; 153 least disadvantaged) | 3 | - | - |
| Outstanding rates and annual charges ratio (incl water and sewerage charges) (%) | 11.2 | 9.2 | 7.0 |
| Productivity indicators^d | | | |
| FTE staff (number) | 113 | 105 | 293 |
| Ratio of population to FTE | 61 | 70 | 126 |
| Average cost per FTE (\$) | 58,867 | 65,736 | 74,438 |
| Employee costs as % ordinary expenditure – General Fund only (%) | 27.8 | 35.5 | 36.8 |
| Consultancy/contractor expenses (\$m) ^e | 8.8 | 1.6 | 6.9 |
| Consultancy/contractor expenses as % ordinary expenditure (%) | 34.6 | 7.4 | 9.3 |

^a DLG Group 10 are Rural Large Agricultural councils (population 5,001-10,000) or Remote councils (population 3,001-20,000). This group comprises 26 councils including Cobar, Kyogle, Gwydir and Tenterfield Shire councils.

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

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

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

^e Walgett Shire Council's expenditure on contractors has increased significantly in recent years due to road restoration works made necessary as a result of repeated flood events. As a result, use of contractors accounted for 60% of council's expenditure in 2010/11 and 62% in 2009/10. DLG, comparative data, 2009/10 and 2010/11.

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

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