IPART
New South Wales

Independent Pricing and Regulatory Tribunal

Warringah Council's application for a special variation for 2014/15

under section 508A of *Local Government Act 1993*

Local Government — Determination
June 2014

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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.

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 set by the Office of Local Government (OLG),[1] and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Warringah Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases of 6.1%, 6.0%, 6.0% and 5.9% over 4 years for a cumulative increase of 26.25% by 2017/18.

After assessing its application, we decided that the council has not sufficiently demonstrated a need for an increase of this magnitude. Instead, we have approved a special variation that better reflects the need and the preferences of the community. We have approved annual increases of 3.1%, 3.0%, 3.0% and 9.4% for the years 2014/15 to 2017/18. We made this decision under section 508A of the Act.

Box 1.1 The Guidelines for 2014/15

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Office of Local Government.

The Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) 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. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

1 Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15,* September 2013 (the Guidelines). Effective 24 February 2014, the Division of Local Government became the Office of Local Government.

1.1 Our decision

We determined that Warringah Council may increase its general income by the annual percentages shown in Table 1.1. The cumulative increase is less than the council sought in its application. The annual increases in the dollar amounts reflect the percentage increases we have approved to the council's general income plus a very small prior year catch-up in 2014/15.

The 4 annual increases are the same as those presented to the community as 'Option 2'. The first 3 are the rate peg increases that the council assumed for the purpose of undertaking its consultation with the community. The fourth annual increase includes an assumed rate peg of 3.0% to which the council would otherwise be entitled. The cumulative increase over the 4 years is 19.7% which is 7.9% more than the rate peg over these years.[2]

After the last year of the special variation, the increase will remain permanently in the council's rate base.

Table 1.1 IPART's determination on Warringah Council's special variation for 2014/15 to 2017/18

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income ($)	Permissible general income ($)
Adjusted notional income 30 June 2014				73,990,446
2014/15	3.1	3.1	2,293,741	76,284,187
2015/16	3.0	6.2	2,288,526	78,572,712
2016/17	3.0	9.4	2,357,181	80,929,894
2017/18	9.4	19.7	7,607,410	88,537,304

Source: Warringah Council *Special Variation Application 2014/15 – Part A*, Worksheet 1 (Warringah Council Application Part A) and IPART calculations.

We have attached conditions to this decision, as shown in Box 1.2.

In making our decision, we recognise that the council may not be able to undertake the full allocation of expenditure on the purposes set out in its application (see Appendix A), and will need to re-prioritise planned expenditure in future years.

2 The actual rate peg for 2014/15 is 2.3%, but we decided to approve the council's assumed 3.1% because this has been the basis of the council's financial plans and consultation with the community. For 2014/15, 2015/16 and 2016/17 the council is entitled to increase its rates either by the approved percentage or by the actual rate peg, whichever is the higher.

Box 1.2 Conditions attached to the approved special variation

IPART's partial approval of Warringah Council's application for a special variation over the period from 2014/15 to 2017/18 is subject to the following conditions:

- The council uses the additional income from the special variation for the purposes of improving its financial sustainability and funding part of the program of expenditure outlined in the council's application and set out in Appendix A.
- The council reports in its annual report for each year from 2014/15 to 2023/24 on:
  - the actual revenues, expenses and operating balance against projected revenues, expenses and operating balance which are to be revised in the light of this determination
  - any significant variations from its proposed expenditure as forecast in the revised Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
  - expenditure consistent with the revised Long Term Financial Plan, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.
- The council reports to the Office of Local Government by 30 November each year on its compliance with these conditions.

2 What did the council request and why?

Warringah Council applied to increase its general income by a cumulative 26.25% over the 4 years from 2014/15 to 2017/18, and to permanently incorporate this increase into its general income base. The effect of the proposed special variation on the council's general income is shown in Table 2.1.

Table 2.1 Warringah Council's proposed special variation

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income ($)	Permissible general income ($)
Adjusted notional income 1 July 2014				73,990,446
2014/15	6.1	6.1	4,513,454	78,503,900
2015/16	6.0	12.5	4,710,234	83,214,134
2016/17	6.0	19.2	4,992,848	88,206,982
2017/18	5.9	26.3	5,204,212	93,411,194

Source: Warringah Council Application Part A Worksheet 1 and IPART calculations.

If its requested special variation had been approved, permissible general income would have increased from $74.0m in 2013/14 to $93.4m in 2017/18. This would have generated additional revenue of $47.4m over 4 years, or $26.7m above the rate peg.[3]

The council intended to use the additional revenue above the rate peg to fund both higher operating and capital spending plans.[4]

In the council's adopted LTFP, which covers the 9 years to 2022/23, the extra rates income from the special variation was expected to be $77.5m. The total extra funds from the special variation would also be enhanced by an extra $6.1m in investment earnings.[5] In its application, the council estimated that the extra income from the proposed special variation over 10 years would be $97.7m.[6]

The LTFP adopted on 25 June 2013 reveals no increase in operating costs (comparing the special variation case with the base case). The council has indicated that it wishes to consult with its community to determine their priorities for operational and capital service level increases. After this consultation and by the time of its application to us, the council had indicated that, over the 10 years to 2023/24, $37.1m of the extra special variation revenue would have been expended on operating costs and $40.0m on capital works. The balance would be used to repay debt or added to asset reserves.[7]

3 How did we reach our decision?

We assessed Warringah Council's application against the criteria in the Guidelines. We also considered the council's most recent Integrated Planning and Reporting (IP&R) documents and a range of comparative data about the council, set out in Appendix C.

The rate increases for which the council has applied are significant in cumulative dollar terms, and we carefully considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

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3 Warringah Application Part A, Worksheet 1.

4 Specific projects and the annual operating and capital costs associated with each are set out to 2017/18 in Warringah Application Part B, pp 8-11.

5 Warringah Council *Special Variation Application 2014/15 Part B* (Warringah Council Application Part B), Attachment 3, pp 12 and 18. The figures are derived by us from the differences between the special variation case and the base case in the LTFP.

6 Warringah Application Part A, Worksheet 6.

7 Warringah Application Part A, revised Worksheet 6 and IPART calculations.

We have found that the application has not met all the criteria. In particular, we found that:

- Criterion 1: the need for the proposed revenue is *not* apparent for several more years
- Criterion 3: the impact on ratepayers was not reasonable, primarily because the community indicated a willingness to pay to maintain services, but not to improve them.

We did find that:

- Criterion 2: the council provided evidence that the community is aware of the need for, and extent of, the proposed rate rise, and that it considered the community's capacity and willingness to pay
- Criterion 4: the assumptions in the council's planning documents appear realistic
- Criterion 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. The following sections discuss our findings for some of the criteria in more detail.

3.1 Need for and purpose of the special variation

As previously noted, the need for, and purpose of, the requested special variation as set out in the council's IP&R documents adopted on 25 June 2013 highlighted funding for a range of capital projects. In its application, however, the council indicated that following the adoption of a revised LTFP on 10 December 2013, higher operating costs would also be incurred.

The council is in an overall favourable financial position but its outlook in the LTFP is for operating deficits from 2018/19 onwards, as illustrated below.

3.1.1 Operating financial sustainability

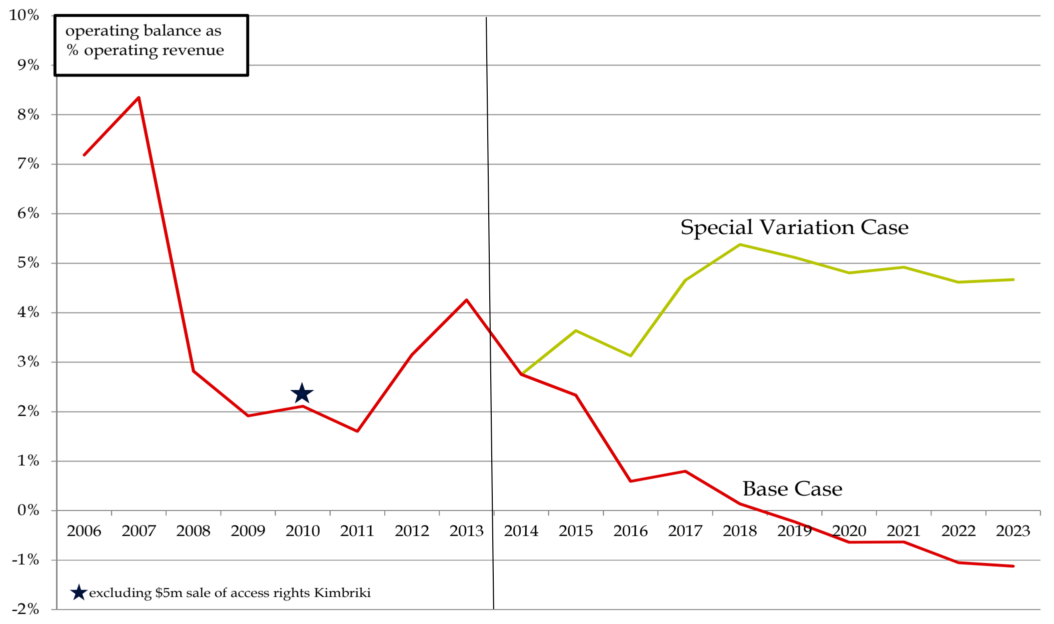
Figure 3.1 shows the council's operating balance (excluding all capital items[8]) since the mid-2000s. The council has run operating surpluses since the mid-2000s which have supplemented the funds provided for a range of capital projects from capital grants and contributions and, on occasion, asset sales.

8 Excluded are both capital grants and contributions and proceeds from asset sales. Following the *OLG Code of Accounting Practice and Reporting*, Update 21, June 2013, the council does not deduct the minority interests associated with Kimbriki Enterprises. If we did so in this report, the council's annual surpluses would be around $1m lower and the operating account would move into deficit from 2017/18.

Table 3.1 Summary of IPART's assessment against criteria in the Guidelines

Criterion	IPART findings
1. Need for and purpose of the special variation must be clearly articulated in the council's IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council's financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include scenarios both with and without the special variation.	▼ Need stated in terms of improving financial sustainability and increased services. But history of ongoing operating surpluses expected to continue for next 3 years without the special variation. ▼ The adopted LTFP projects a slide into operating deficits from 2018/19 without the special variation. ▼ TCorp assessed council finances as 'sound' and 'positive'.
2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, the impact of any rises on the community, and the council's consideration of community capacity and willingness to pay higher rates. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.	▼ Community clearly aware of extent of proposed rate rises; significant proportion do not accept the need to improve services ▼ Alternatives to a rate rise considered early in IP&R process, less so in special variation consultation period ▼ Council concludes its community has the capacity and willingness to pay ▼ Appropriate variety of engagement methods employed and input gathered
3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's IP&R process should establish that proposed rate rises are affordable, having regard to the community's capacity to pay.	▼ Proposed 26% cumulative increase would bring average residential rates to, and lift average business rate above, average of nearby councils. ▼ 2/3rds of residents preferred no more than 'maintain services' option that requires no above-rate-peg increase before 2017/18.
4. Delivery Program and LTFP must show evidence of realistic assumptions.	▼ Forecasting assumptions within range of reasonable projections.
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.	▼ Past and future cost savings provided. Operating costs have grown in line with average of nearby councils in recent years ▼ Council's high employee costs per FTE and employee & contractor costs as % of operating costs suggest area for further efficiency gains.

Figure 3.1 Warringah Council operating balance as % of operating revenue



Note: To see if operating income covers operating expenses, we exclude from the operating balance all capital items such as developer contributions and other capital grants and the net proceeds from asset sales.

Source: To 2012/13, Warringah Council *Annual Financial Statements*, various. From 2013/14, Warringah Application Part B, Attachment 3 (Long Term Financial Plan 2013-2023), pp 12 and 18 and IPART calculations.

Despite the historical run of surpluses, over the next 5 years the council's adopted LTFP projects a base case in which the operating account moves into increasing deficit, from 2018/19 onwards.

The future deficits occur because the growth in operating income is projected to slow more than the growth in operating costs. In the 4 years to 2017/18, income is projected to rise by an average 4.5% per annum and operating costs by 5.2% per annum.[9]

The LTFP assumes much higher domestic waste management charges and tipping costs associated with the closure of the Belrose landfill site.[10] The council has since indicated that the new site will not be available until after 2017/18.[11] Accordingly, domestic waste management charges will not rise by the projected 60% over the 4 years to 2017/18. The council estimates that the revised growth in income will fall more than the growth in costs, thus turning a small operating surplus in 2017/18 in the LTFP into a $6.7m deficit.[12]

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9 Over the 4 years to 2013/14, operating income rises on average by 5.7% per annum and operating costs 5.5%.

10 Warringah Council Application Part A, Worksheet 5a and Part B, Attachment 3, p 10: "Materials and contracts for Domestic Waste Management are forecast to increase by an average of 19.84% between 2014/15 and 2017/18 reflecting additional tipping costs associated with the closure of the Belrose Resource Recovery Centre landfill facility".

11 Warringah Council Application Part B, p 40.

12 Email correspondence between the council and IPART, 7 April 2014.

Although the base case has changed since the LTFP was originally adopted on 25 June 2013, we assume that the effect of the proposed special variation remains the same relative to the base case. That is, the special variation provides an extra $97.7m over 10 years.[13]

3.1.2 Capital financial sustainability

To assess financial sustainability on the capital side, we see if the council's ratio of net capital expenditure (purchases of capital assets less sales) to depreciation is greater than 1.0.[14]

In recent years, the ratio for Warringah Council has averaged 1.75, in part reflecting the council's attempt to reduce its infrastructure backlog and undertake capital works related to developer contributions. In the base case of the LTFP the ratio is expected to fall, but still average 1.68 over the 10 years to 2022/23. Higher capital spending funded from the proposed special variation would lift this average to 1.94.[15]

3.1.3 Overall financial sustainability

Our assessment is that the council's financial position and outlook is sound in both operating and capital terms for the immediate future without the special variation. We base this judgement principally on the base case in the adopted LTFP which shows operating surpluses for the next few years without a special variation.[16]

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13 The details of the extra income from the proposed special variation and its associated disbursements are set out in Appendix A.

14 If a council has a growing population (as Warringah does – up 4.7% in the past 5 years) it will want to expand its assets so as to maintain the same levels of service to all ratepayers. In that case, the required ratio will exceed 1.0. If council considers that depreciation understates replacement cost, this will be another reason for a ratio greater than 1.0. The appropriate ratio will depend on these factors and the degree to which the community wants (and is willing to pay for) higher assets per head and their associated higher levels of service.

15 Warringah Council Application Part B, Attachment 3 (LTFP) and IPART calculations using depreciation from the income statements and capital spending from the cash flow statements. When the focus is only on capital spending that maintains existing assets, the relevant measure is the asset renewals ratio. Under the Warringah base case, the ratio would fall from 1.45 in 2014/15 to 1.08 in 2017/18 (LTFP p 29).

16 We also note that the council has a low infrastructure backlog that is $16.5m as at 30 June 2013 or just 2% of the written-down value of its assets.

This assessment is similar to the assessment made by the NSW Treasury Corporation (TCorp) in 2013, which rated the council as only 1 of 3 in the state to have a 'sound' current financial position and a 'positive' financial outlook.[17]

Although the financials have altered since the TCorp report and the adoption of the LTFP, we conclude that the council's financial position remains sound for the immediate future. Therefore, we assess that the council has not demonstrated the need for a cumulative rise in rates of 26.25% starting in 2014/15.

3.2 Community engagement and awareness

Prior to the consultation on the special variation, Warringah Council consulted extensively with its community and has concluded that its community supports it to "further enhance service levels and site-improvements, to better align with the growing expectations and needs of the community".[18]

3.2.1 More services or maintain services?

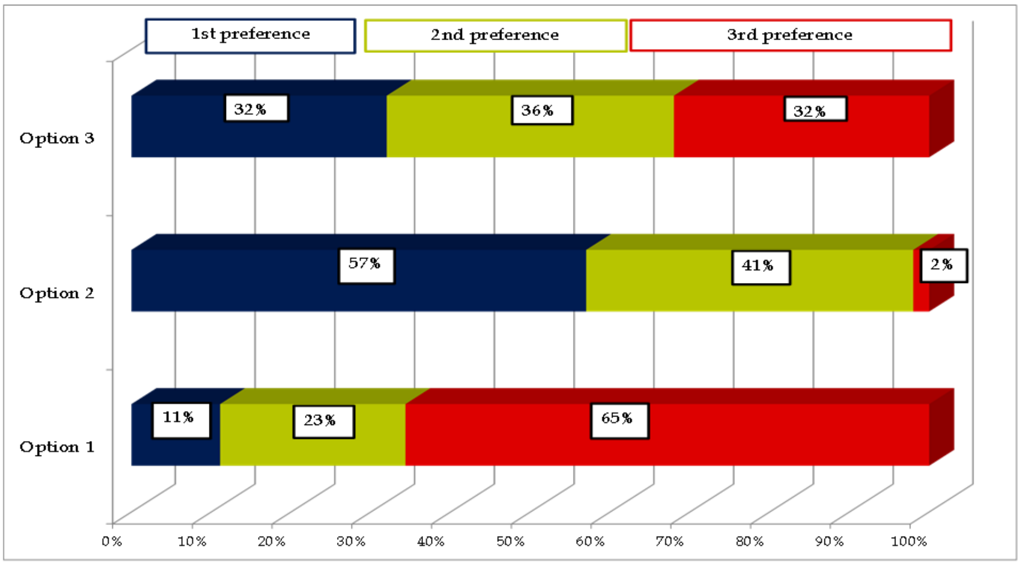
The community's desire for better services was not sustained when it was asked in late 2013 if it were willing to pay for them.

In particular, the representative random phone survey of 400 residents indicated that two-thirds of them did not want the option that would improve services, (Option 3) but preferred either to 'maintain services' (Option 2) or 'decline in services' (Option 1). The responses are set out in Figure 3.2.

17 New South Wales Treasury Corporation, *Warringah Council, Financial Assessment, Sustainability and Benchmarking Report*, 4 April 2013 (TCorp Report), pp 4 and 24 (Figure 15). TCorp observed that Warringah's operating surpluses would be 4% of operating revenue by 2015/16, that capital spending would keep exceeding depreciation and its infrastructure backlog would stay low. One other metropolitan council rated 'sound'/'positive' - The Hills. City of Sydney rated 'strong'/'positive'.

18 Warringah Council Application Part B, p 14. The application details a wide range of community requests for better services on pp 15-17.

Figure 3.2 Warringah residents' phone survey: ranking options



Source: Warringah Council Application Part B Attachment 7, p 130 - Micromex survey results.

In a separate online survey, to which 419 residents responded, one-third of respondents continued to prefer to 'improve services' but a higher proportion of the two-thirds preferred 'decline in services' rather than 'maintain services'.[19]

3.2.2 Other engagement methods and their outcomes

In addition to the phone and online surveys, the council disseminated information about the special variation across the LGA by exhibiting hard copies in public places, establishing a specific web site, holding public meetings, distributing a brochure to residents, targeting specific groups by email and placing advertisements in local newspapers.

Community feedback mostly came from the phone and online surveys and 151 written submissions. The council summarised these submissions in its application.[20]

Submissions to IPART

We also received 185 direct submissions from residents in the LGA. Almost all opposed the special variation. The most frequent reasons cited were that council spending appeared to be either excessive or inefficient and that the cumulative rate rise was not affordable. We carefully examined the submissions and took their views into account when assessing the council's application in the light of the criteria in the Guidelines.

19 Warringah Council Application Part B Attachment 7, pp 130 and 147.
20 Warringah Council Application Part B, p 37.

3.2.3 Alternatives to a rate rise

The council has been investigating alternative funding sources and cost savings for some time.[21] During its consultation period, the council emphasised what each option would mean for spending and rates rather than canvas various alternatives to a rate rise. It did, however, highlight which services might be closed or curtailed if the council had to function without the higher income provided by a special variation.[22]

3.2.4 Council consideration of capacity and willingness to pay

In assessing its community's capacity to pay, the council examined socioeconomic data such as SEIFA rankings, household incomes and employment data published by the ABS and rates data published by the OLG. It also made various comparisons with 3 nearby councils (Manly, Mosman and Pittwater) and the OLG Group 3 in terms of average rates and outstanding rates ratios. In general, the council concluded that its community had the capacity to pay higher rates.[23]

To assess its community's willingness to pay, the council relied principally on the responses it received to the surveys.

The council combined the responses to Options 2 and 3 to conclude that, as their first preference, 89% of the phone survey respondents and 57% of the online survey respondents were supportive of some form of special variation.[24] But the majority of respondents to the phone survey preferred not to improve services. Further, the 'maintain services' option does not require above-rate-peg increases until 2017/18.

However, we conclude that the council has met Criterion 2 as it is stated in the Guidelines (also in Table 3.1).

3.3 Reasonable impact on ratepayers

Under Criterion 3, we are to assess whether the effect on ratepayers of the proposed special variation is reasonable, given current rate levels, the existing ratepayer base and the purpose of the special variation. We are also to consider affordability and capacity to pay.

21 These are outlined in its application Part B, pp 17-22.

22 This was frequently set out when explaining the impact of the rate-peg-only option on services in various council publications and the phone survey.

23 Warringah Council Application Part B, pp 43-47.

24 Warringah Council Application Part B, p 49.

3.3.1 Capacity to pay

On several of the standard indicators of capacity to pay (presented at the back of this report in Table C.2), Warringah residents have above-average capacity to pay. This is particularly the case in relation to average individual incomes and socioeconomic (SEIFA) rankings compared to their OLG Group 3. The council also has a lower outstanding rates ratio, indicating that Warringah residents are better at paying their rates on time relative to other OLG Group 3 councils.

However, because the 17 councils in OLG Group 3 are so diverse (and they exclude adjacent councils Hornsby, Manly and Pittwater), we concentrate on comparisons with Warringah's nearby councils - those adjacent to it or members of SHOROC.[25]

3.3.2 Rate comparisons between Warringah and neighbouring LGAs

Because Warringah council has only had 1 special variation in the past 10 years, the rises in its average residential and business rates have been below-average compared to nearby councils.[26]

More importantly, the level of the average residential rate in Warringah in 2011/12 has remained low compared to those in nearby councils while its average business rate is relatively high. Increases in average rates since 2003/04 are shown in Table 3.2.

Table 3.2 Changes in average rate levels since 2003/04 – selected councils

	Residential ($)		Business ($)		Residential	Business
	2003/04	2011/12	2003/04	2011/12	% increase p.a.	% increase p.a.
Hornsby	706	1,027	2,287	2,901	4.8	3.0
Ku-ring-gai	888	1,147	4,815	5,412	3.2	11.4
Manly	871	1,181	3,387	3,863	3.9	1.7
Mosman	845	1,140	2,052	2,524	3.8	2.6
Pittwater	1,001	1,275	1,994	1,912	3.1	-0.5
Warringah	787	1,035	3,329	3,389	3.5	0.2
Simple average	**850**	**1,201**	**2,638**	**2,926**	**4.4**	**3.4**

Source: OLG *Comparative Information on NSW Local Government, 2011/12* and OLG unpublished data and IPART calculations.

25 SHOROC is the Shore Regional organisation of Councils which comprises Manly, Mosman, Pittwater and Warringah.

26 Because some councils garner substantial revenue from special rates, we have calculated the averages for ordinary *plus* special rates for all councils For example, we have inflated Ku-ring-gai's average *ordinary* residential and business rates by 94% based on the size of special rates revenue relative to ordinary rates revenue in the 2011/12 financial accounts. The same adjustments have been made for the other councils where relevant.

Average residential rates in Warringah were almost 15% lower than the average paid by residential ratepayers in adjoining councils. Only residential ratepayers in Hornsby faced a similar average rate. The average business rate in Warringah was 15% above the 'group' average in 2011/12.

Under the rate peg, the council estimates that by 2017/18, its average residential and business rates would be higher by $133 and $403 respectively. With the proposed special variation, they would rise by $299 and $905 respectively. The extra $166 would put Warringah's average residential rate close to the average for the group in Table 3.2 if the rest of the group had rate-peg-only increases. The average business rate would be well above the group average.

This comparison suggests that Warringah's residential ratepayers have the capacity to pay for the proposed special variation. Further, the council enhances the pensioner rebate. The council's hardship policy may assist with affordability unless rates due are only deferred, possibly with interest accruing.

However, at least two-thirds of the Warringah community oppose paying to improve services under Option 3. This opposition is apparent in the phone and online responses and in the written submissions to the council and to us.[27] The 'maintain services' Option 2 requires no increase in rates above the assumed rate pegs until 2017/18 (Table 3.3).

Table 3.3 Options offered to the Warringah community

	2014/15	2015/16	2016/17	2017/18	Cumulative
Option 1	3.1%	3.0%	3.0%	2.9%	12.55%
Option 2	3.1%	3.0%	3.0%	9.4%	19.66%
Option 3	6.1%	6.0%	6.0%	5.9%	26.25%

Note: The council assumed a rate peg for 2014/15 of 3.1% before the actual rate peg of 2.3% was announced.
Source: Warringah Council Application Part B, p 34.

We consider Option 2 to better reflect the majority of the community's desires (and willingness to pay) than the proposed special variation.

3.4 Productivity and cost savings

The council's application sets out various cost containment and productivity improvement initiatives it has undertaken in recent years and plans to implement in the future. We consider some cost comparisons here because many submissions questioned the council's cost efficiency.

[27] Given our experience with community feedback on proposed special variations since 2011, the feedback to Warringah Council is better described as 'not insignificant' rather than as 'minimal'.

As with most councils, Warringah Council found it difficult to convert their productivity improvements and cost savings into quantitative terms. However, the council provided examples of savings from lower sick leave and turnover rates, WorkCover Compensation insurance premiums and staffing and procurement practices.[28]

We show Warringah's labour input indicators and those of nearby councils in Table 3.4. Such measures may be difficult to interpret unless more is known about the circumstances behind the figures. Nevertheless, some broad observations may at least raise issues that councils might examine more closely.

Table 3.4 Labour cost input indicators, 2011/12 – selected councils

	Employee Costs per FTE $	Employee Costs % of opex	Contractor/ Consultancy Costs (CCC) % of opex	Total employee and CCC % of opex	FTEs per 1,000 of population
	(1)	(2)	(3)	(4)	(5)
Hornsby	79,150	37	27	63	3.3
Ku-ring-gai	76,494	38	24	61	3.9
Manly	72,301	50	3	53	9.6
Mosman	84,411	36	26	62	5.7
Pittwater	91,828	39	18	57	4.7
Warringah	99,879	41	30	70	3.7
Simple average	**84,011**	**40**	**21**	**61**	**5.6**

Source: OLG unpublished data.

In 2011/12, Warringah had the highest employee costs per FTE among its adjoining councils (column 1). That usually translates into relatively high total employee costs as a proportion of operating expenditure (opex, column 2).

The exception is Manly Council. It employed more FTEs in 2011/12 (especially relative to its population – column 5) and had the highest proportion of employee costs relative to total opex (column 2). But it employed few contractors/consultants so that its total 'labour' input as a proportion of opex was the lowest in the group (column 4).[29]

28 Warringah Council Application Part B, pp 73-85.

29 The 70.2% has been rounded in Table 3.4. We also recognise that contractor/consultancy costs include other than labour costs and that councils employ different degrees of outsourcing that makes 'employee costs' to narrow a measure of labour input. Likewise, contractor/consultancy costs may in some cases be disclosed under Other Expenses and therefore distort the ability to provide a meaningful comparison. With this qualification in mind, we add contractor/consultancy costs to employee costs to obtain a measure of labour input.

In Warringah's case, the current 70.2% ratio of employee plus consultancy/ contractor costs as a proportion of opex seems very high relative to other councils.[30] The council has advised that it has a high proportion of casual staff as well as seasonal staff who do not work during the winter seasons and accordingly are not included in its FTE numbers reported as at 30 June. This may have an impact on the calculation of the reported employee cost per FTE.

More broadly, we also considered recent trends in total operating costs. The rate of increase in Warringah's operating costs per head of population has been about the same as the average of nearby councils.[31] This suggests that the past cost savings mentioned in the council's application must be ongoing if future costs are to rise no faster than in nearby councils.

4 What does our decision mean for the council?

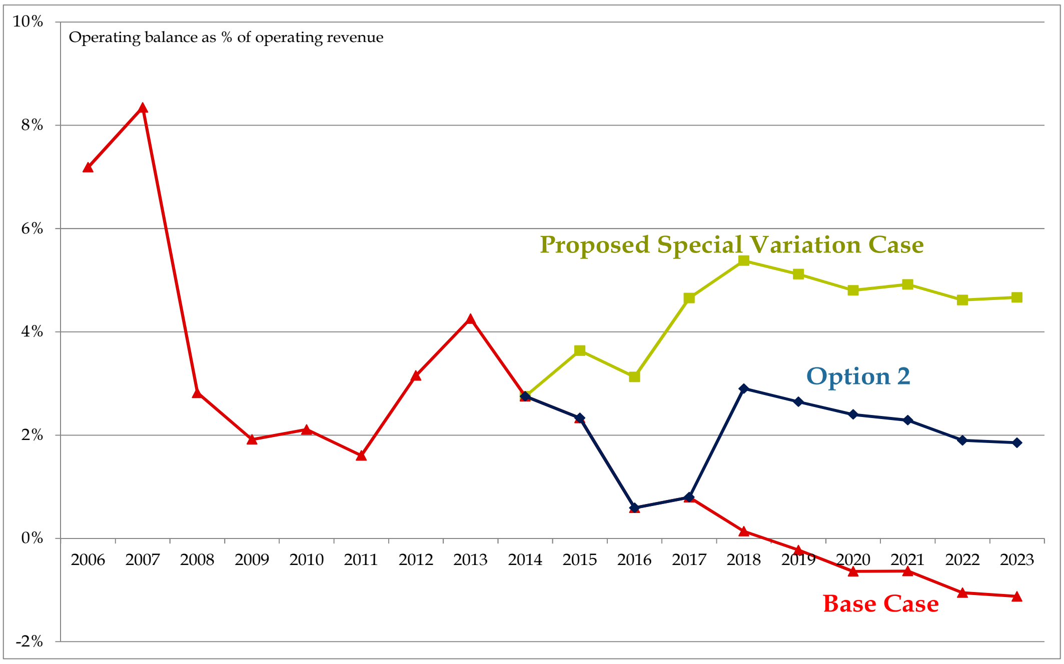
Our decision means that Warringah Council may increase its general income over the next 4 years by 3.1%, 3.0%, 3.0% and 9.4%. The effect on the council's general income is shown in Table 1.1 and the effect on its financial outlook is shown in Figure 4.1. In particular, the increase in rates in 2017/18 is likely to enable the council to avoid operating deficits from 2017/18 onwards.[32]

30 If fees paid to contractors/consultants by the commercial enterprise, Kimbriki Environmental Enterprises (which is 51% owned by the council), are excluded, the employee cost plus contractor/consultancy costs as a percentage of opex falls by only a few percentage points. It therefore remains high relative to nearby councils.

31 IPART calculations based on financial data supplied by OLG.

32 In 2017/18, a 3% operating surplus would be equal to around $5.4m.

Figure 4.1 Warringah Council operating balance ratio – various scenarios



Source: To 2012/13, Warringah Council *Annual Financial Statements*, various. From 2013/14, Warringah Application Part B, Attachment 3 and LTFP exhibited revisions approved 24 September 2013, p 42 for Option 2.

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, Warringah Council indicated that rate increases would be allocated equally across its rating categories. If it does this with the increases we have approved will increase:

- the average residential rates by $35 in 2014/15 and by $224 by 2017/18
- the average business rate by $107 in 2014/15 and $678 by 2017/18
- the Warringah Mall rate by $20,623 in 2014/15 and by $130,788 by 2017/18
- the minimum residential rate by $25 in 2014/15 and by $156 by 2017/18
- the minimum business rate by $32 in 2014/15 and by $200 by 2017/18.

The levels and changes in rates over the 4 years to 2017/18 will be as shown in Table 5.1.

Table 5.1 Indicative cumulative increase by rate categories under our determination

	2013/14	2017/18	Increase	Increase[a]
	$	$	$	%
Ordinary rates				
Residential	1,139	1,363	224	19.7
Business	3,448	4,126	678	19.7
Business – Warringah Mall	665,251	796,039	130,788	19.7
Minimum rates				
Residential	793	949	156	19.7
Business	1,018	1,218	200	19.7

a The percentage increase in rates has been calculated by using the unrounded cumulative rise of 19.66%. Figures for rates and their change in dollars have been rounded to the nearest whole number.

Source: Warringah Application Part A Worksheet 5a and IPART calculations.

Appendices

A Expenditures that were to be funded by the proposed special variation

Tables A.1 and A.2 show how Warringah Council intended to spend the funds raised by the proposed special variation over the next 10 years. The figures are taken from the council's revised Worksheet 6 of Part A of its application.

The council would have used the additional special variation revenue of $97.7m to fund:

- $37.1m of extra operating expenditure (Table A.1), and
- $40.0m of capital expenditure (Table A.2).

The balance of the funds would have been used to repay debt of ($5.7m) and add to cash reserves ($14.9m).

Given our partial approval of the proposal equivalent to 'Option 2' as presented to ratepayers during community consultation, the council will now report in its Annual Reports how its actual expenditure has evolved relative to its revised program of expenditure.

Table A.1 Income and expenditure related to the proposed special variation ($000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
1. Special variation income above rate peg	2,812	5,251	7,905	10,700	11,000	11,308	11,647	11,996	12,356	12,727	**97,703**
2. Funding for increased operating expenditures	750	1,521	2,762	4,586	4,486	4,525	4,563	4,610	4,656	4,620	**37,080**
3. Funding to increase operating surpluses	2,062	3,730	5,143	6,114	6,514	6,783	7,084	7,386	7,700	8,107	**60,623**
4. Funding for capital expenditure	1,750	1,750	2,800	4,900	4,500	4,608	4,732	4,860	4,991	5,126	**40,018**
5. Repaying debt principal	0	0	0	350	738	791	848	909	974	1125	**5,734**
6. Balance of funding	312	1,980	2,343	864	1,276	1,384	1,504	1,617	1,735	1,856	**14,871**

Source: Warringah Council Application Part A, revised Worksheet 6. For each column, Line 1 equals the sum of Line 2 plus Lines 4 to 6.

Table A.2 Operating expenditure related to the proposed special variation ($000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Biodiversity Management	100	203	208	214	219	225	230	236	242	249	**2,126**
Community Festivals	0	0	75	77	79	81	83	85	87	90	**657**
Cultural Vitality and Creativity	0	0	10	10	11	11	11	11	12	12	**88**
Economic Development	0	72	77	79	81	83	85	87	90	92	**745**
Education for Sustainability	0	0	30	31	32	32	33	34	35	36	**263**
Footpath and Cycleways	33	193	248	388	398	407	417	428	440	452	**3,402**
Natural Area Recreation	0	0	0	2	2	2	2	2	2	2	**15**
Parks and Reserves	82	142	418	629	645	660	676	694	713	732	**5,391**
Roads Traffic and Streetscaping	0	112	625	646	663	678	695	713	733	753	**5,617**
Sports and Recreation	0	0	0	30	31	31	32	33	34	35	**227**
Waste and Cleansing	535	800	972	998	1,023	1,047	1,072	1,101	1,131	1,162	**9,841**
Waterways	0	0	100	633	649	664	680	698	717	737	**4,877**
Recreation and Wellness	0	0	0	503	0	0	0	0	0	0	**503**
Recreation and Wellness - Interest	0	0	0	347	656	603	547	486	420	270	**3,329**
Total Operating Costs	**750**	**1,521**	**2,762**	**4,586**	**4,486**	**4,525**	**4,563**	**4,610**	**4,656**	**4,620**	**37,080**

Note Figures may not add due to rounding to nearest $1,000.

Source: Warringah Application Part A Worksheet 6, revised and submitted to IPART by email 8 April 2014.

Table A.3 Proposed capital program related to the proposed special variation ($000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Community Buildings				1,000							1,000
Cultural Hub	1,000	1,000									2,000
Cultural Vitality and Creativity			200								200
Footpaths and Cycleways	550	590	1,110								2,250
Natural Area Recreation				1,360							1,360
Parks and Reserves			200								200
Playgrounds		160	790	330							1,280
Roads, Traffic and Streetscaping			500	310							810
Sports and Recreation				1,900							1,900
Waste and Cleansing	200										200
Projects to be determined					4,500	4,608	4,732	4,860	4,991	5,126	28,818
Total Capital Expenditure	**1,750**	**1,750**	**2,800**	**4,900**	**4,500**	**4,608**	**4,732**	**4,860**	**4,991**	**5,126**	**40,018**

Source: Warringah Council Application Part A, Worksheet 6 revised 8 April 2014. The specific projects planned under each broad category are in Warringah Application Part B, pp 9-12.

B Warringah Council's projected revenue, expenses and operating balance under its base case

The council will report annually against its projected revenue, expenses and operating result as classified in its Annual Financial Statements and shown in Table B.1.

Revenues and the operating result in the annual accounts are reported inclusive of capital grants and contributions and asset sales.

In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excluded all items of a capital nature. When they are included in the council's public reports, total revenue will be higher and the operating deficit lower (or the operating surplus higher).

Because our determination partially approves the council's application, the projected revenues, expenses and operating results will be different from the base case in the adopted LTFP (shown below), notably from 2017/18 onwards.

Table B.1 Summary of projected base case operating statement for Warringah Council, 2014/15 to 2022/23 ($000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	164,918	179,381	184,653	189,954	195,464	201,244	206,843	213,106	219,731
Total expenses	157,345	174,424	179,186	185,570	191,669	198,174	203,678	210,734	217,460
Operating result from continuing operations (including minority interests)	7,573	4,957	5,467	4,384	3,795	3,070	3,165	2,371	2,271

Source: Warringah Council Application Part B, Attachment 3, Long Term Financial Plan 2013-2023, base case.

C Comparative indicators

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

In Table C.1 we show how selected indicators for Warringah Council have changed over the 3 years to 2011/12. We commented on the latest indicators in relation to nearby councils in the report.

Table C.1 Trends in selected indicators for Warringah Council, 2009/10 to 2011/12

	2009/10	2010/11	2011/12
Productivity (labour input) indicators			
FTE staff (number)	560	554	545
Ratio of population to FTE	257	260	271
Average cost per FTE ($)	92,027	94,648	99,879
Employee costs as % operating expenditure (%)	42.3	40.8	40.5
Consultancy/contractor expenses ($m)	9.4	38.3	39.9
Consultancy/contractor expenses as % operating expenditure (%)	7.7	29.7	29.7

Source: OLG, unpublished data.

In Table C.2 we compare the latest selected published data on a wide range of measures for the council with OLG Group 3 and NSW averages.

Table C.2 Select comparative indicators for Warringah Council, 2011/12

	Council	DLG Group 3 average[a]	NSW average
General profile			
Area (km^2)	149		
Population	147,611		
General Fund operating expenditure ($m)	134.3		
General Fund operating revenue per capita ($)	939	847	2,011
Rates revenue as % General Fund income (%)	58.1	55.4	45.7
Average ordinary rate indicators[b]			
Average rate – residential ($)	1,035	790	685
Average rate – business ($)	3,389	4,935	2,552
Socio-economic/capacity to pay indicators[c]			
Average annual income for individuals, 2010 ($)	60,034	52,899	44,140
Growth in average annual income, 2006-2010 (% pa)	3.1	3.1	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.7	1.6	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	140		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	2.9	3.3	7.0
Productivity (labour input) indicators[d]			
FTE staff (number)	545	571	293
Ratio of population to FTE	271	247	126
Employee costs per FTE ($)	99,879	85,525	74,438
Employee costs as % operating expenditure (General Fund only) (%)	40.5	41.6	36.8
Consultancy/contractor expenses ($m)	39.9	16.0	6.9
Consultancy/contractor expenses as % operating expenditure (%)	29.7	14.9	9.3

a DLG Group 3 is classified 'Large Metropolitan' or 'Very Large Metropolitan' with a population of 70,000 and above. The group currently comprises 17 councils of which only Ku-ring-gai and Willoughby are adjacent or close by to Warringah.

b In this table, average rates equal total *ordinary* rates revenue divided by the number of assessments in each category. It omits special rates revenue which we took into account in the text.

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

d Based upon total council operations. 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, Comparative Information 2011/12, October 2013; ABS, National Regional Profiles, NSW, November 2011; ABS, Regional Population Growth, July 2012; ABS, Estimates of Personal Income for Small Areas, 2005-06 to 2009-10, February 2013, ABS, Socio-Economic Indexes for Areas (SEIFA) 2011, March 2013.