



Independent Pricing and Regulatory Tribunal

Weddin Shire 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).

Weddin Shire Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested annual increases of 7.0% for each of the next 4 years, or a cumulative increase of 31.1% by 2017/18.

After assessing its application, we decided not to approve the special variation.

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.

1.1 Our decision

We determined that Weddin Shire Council may not increase its general income above the annual rate peg (2.3%) in 2014/15.

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 February 2014 the Division of Local Government became the Office of Local Government.

2 What did the council request and why?

Weddin Shire Council applied to increase its general income by a cumulative 31.1% over the 4-year period from 2014/15 to 2017/18, and to permanently incorporate this increase into its general income base.²

The council estimated that if its requested special variation was approved, its permissible general income would have increased from \$2.1m in 2013/14 to \$2.3m in 2017/18. This would have generated additional revenue of \$1.6m over 4 years, or \$0.97m above the rate peg increase.³

The council intended to use the additional revenue above the rate peg to fund debt servicing costs associated with a capital works program (the building of a medical centre), and to improve its financial sustainability.⁴

During the 4-year special variation period, the council intended to spend:

- ▼ \$0.51m on loan principal repayments for the building of a medical centre in Grenfell
- ▼ \$0.16m on interest associated with these borrowings
- ▼ the balance was to be dedicated to improving financial sustainability.⁵

More detail on the council's proposed program of expenditure to 2017/18 is provided in Appendices A and B.

3 How did we reach our decision?

We assessed Weddin Shire Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as a range of comparative data about the council, set out in Appendix C.

Weddin Shire Council has applied on the basis of its adopted Integrated Planning & Reporting (IP&R) documents, in particular its Delivery Program 2013/17 and Long Term Financial Plan 2013/23 (LTFP).

The rate increases for which the council has applied are significant, 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.

² Weddin Shire Council, *Section 508(A) Special Variation Application - Part A* (Weddin Shire Application Part A), Worksheet 1.

³ Weddin Shire Council Application Part A, Worksheet 1.

⁴ Weddin Shire Council Application Part A, Worksheet 6.

⁵ Weddin Shire Council Part A, Worksheet 6.

In particular, we found that:

1. The need for the proposed revenue is demonstrated in the council's IP&R documents, and reflects community priorities.
2. The council provided some evidence that the community is aware of the need for the rate rise. However, we did not consider that the community had been made sufficiently aware regarding the extent and impact (in \$ and % terms) of the proposed rate rise.
3. The impact of the proposed rate rises on ratepayers is relatively significant.
4. The council made generally realistic assumptions concerning its projected service delivery and budget.
5. The council could have better demonstrated a commitment to cost containment and productivity improvements during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

The sections below discuss our findings for some criteria in more detail.

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

Criterion	IPART findings
<p>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.</p>	<p>Weddin Shire Council’s IP&R documents identify the need for and purpose of the requested special variation is to improve financial sustainability, and to fund borrowings to build a medical centre in Grenfell (main town), which is consistent with community priorities to attempt to arrest the trend of population decline.^a Without the special variation, the council’s LTFP projects operating deficits of 4% and a balanced budget by 2017/18 with the variation.^b TCorp assessed that spending on infrastructure in the past 4 years has been insufficient, partly due to diverting funding to fix flood-related damage.^c They noted that, while the council has capacity to borrow, it would be prudent for the council to improve its operating position before doing so. The council has considered these comments in applying for the variation.</p>
<p>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.</p>	<p>The council undertook consultation in 2011 on its IP&R documents.^d Consultation on the special variation itself (as distinct from the consultation on the council’s IP&R documents and population growth strategy) was inadequate, particularly regarding the impact (in \$ and % terms) of the proposed rate increases. Poor consultation reduced the ability of the council to demonstrate that it fully considered willingness and capacity to pay.</p>
<p>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.</p>	<p>The impact of the proposed variation is relatively significant. Rates would increase over the four years as follows:^e</p> <ul style="list-style-type: none"> ▼ Residential rates (Grenfell) by \$162 (to \$685) ▼ Residential rates (ordinary) by \$206 (to \$868) ▼ Main St business rates by \$270 (to \$1,137) ▼ Farmland rates by \$393 (to \$1,660). <p>The council has no prior special variations, with rates increasing only by the rates peg since 1997/98.^f</p> <p>However, at 53 of 153, the council’s SEIFA ranking is mid-to-low range (that is, relatively indicative of disadvantage). The council’s outstanding rates ratio of 9.5% (in June 2013) is lower than peer councils, however, it is significantly above the State average of 7%. The average income for the LGA is lower than that of its peer Group (OLG Group 9).^g The council does not have a Hardship Policy.^h</p> <p>No ratepayers have written to us in regards to the proposed variation. However, given the size of the increase (31.1% over 4 years), this may indicate a</p>

Criterion	IPART findings
4. Delivery Program and LTFP must show evidence of realistic assumptions.	<p>lack of community awareness.</p> <p>The council revised its LTFP after the submission date in response to questions from us. Its new LTFP addresses the issues we raised and assumptions included are generally realistic.</p> <p>We do note that TCorp assessed some of the underlying growth assumptions as optimistic in the context of population decline. These assumptions are maintained in the revised LTFP.</p>
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.	<p>The council does not demonstrate significant productivity savings over the period. The council participates in a few regional cost savings initiatives (for example, regional procurement and energy initiatives).ⁱ The council has not quantified potential savings.</p>
6. IPART's assessment of the size and resources of the council, the size of the increase, current rate levels and previous increases, the purpose of the special variation and other relevant matters.	<p>The council is small with limited opportunities to raise substantial revenue. The council is pursuing an application for an interest rate subsidy to assist in servicing the proposed infrastructure loan.^j</p>

^a Weddin Shire Council, *Section 508(A) Special Variation Application - Part B* (Weddin Shire Application Part B), p 6.

^b IPART calculations based on Weddin Shire Council, *Long Term Financial Plan (2013/23)*, updated 12 March 2014. Operating deficits calculated excluding capital grants and contributions

^c TCorp, *Financial Assessment, Sustainability and benchmarking report – Weddin Shire Council* (TCorp *Weddin Shire Report*), March 2013, p 26.

^d Weddin Shire Council, *Community Strategic Plan*, adopted 21 June 2013, p 18. The council also included 170 responses from students as part of its materials. However, we have discounted the use of this survey data, as the students are underage (and therefore not local government voters or ratepayers). The council also surveyed 5 council staff members, which we do not take into our analysis of community priorities, due to potential conflicts of interest.

^e Weddin Shire Application, Part A, Worksheet 5a.

^f OLG, unpublished data.

^g See data in Appendix C.

^h Weddin Shire Application, Part B, p 25.

ⁱ Weddin Shire Application, Part B, p 27.

^j Weddin Shire Council, Part B, p 19.

3.1 Community engagement and awareness

We consider that the council has not sufficiently met this criterion. In particular, the community is not aware of the size and impact (in dollar and percentage terms) of the proposed special variation.

Community engagement on IP&R documents

The council's current suite of IP&R documents was adopted in June 2013.

In formulating its Community Strategic Plan, the council:

- ▼ Surveyed the community on how it wanted to address population trends in the area. Of 4 options, over half (40 of 79 respondents) chose the option which promoted a range of new initiatives to attempt to reverse or halt rural population decline (including the potential for “above base-line rate rises and borrowing funds for infrastructure”).⁶
- ▼ Held 5 workshops across a variety of locations, with a total of 80 attendees. These workshops demonstrated majority support for the 2 options (of 4) that pursued a strategy of some target for population growth (rather than stagnation or decline).
- ▼ Visited 35 small businesses Grenfell (the main town) to gather input.

The results of the consultation (in particular, results from the community meetings, and survey results) clearly demonstrated that the community supports the development and implementation of a strategy to encourage some level of population growth. There was dispute about the level of population growth supported (between a preference to try to return the town’s population to 1976 levels at a minimum, or a more aggressive strategy to try and grow the town’s population to a population even larger than 1976 levels).

Consultation on the proposed rate increases

Consultation on the special variation itself, as distinct from consultation on the council’s IP&R documents, was very limited.

The council noted its intention to apply for a special variation very briefly in the Council News in local media between April to August 2013, and again in November and December 2013.⁷

The council first noted its intention to apply for a special rate variation in the context of TCorp’s recent assessment of the council’s financial sustainability.⁸ A range of purposes for the variation was proposed, including borrowing to fund capital renewals, financial sustainability, and the need to avoid amalgamations.

The council initially stated (in June 2013) that it was considering increasing rates by a total of 9% over 3 years.⁹

⁶ Weddin Shire Council, *Community Strategic Plan*, adopted 21 June 2013, p 18. The council also included 170 responses from students as part of its materials. However, we have discounted the use of this survey data, as the students are underage (and therefore not local government voters or ratepayers). The council also surveyed 5 council staff members, which we do not take into our analysis of community priorities, due to potential conflicts of interest.

⁷ Weddin Shire Council Application, Part B, Attachment 5: Media Releases – *Weddin Shire Council News*, various pages.

⁸ Weddin Shire Council Application, Part B, Attachment 5: Media Releases – *Weddin Shire Council News*, various pages in April, May, July, November and December.

⁹ Weddin Shire Council Application, Part B, Attachment 5: Media Releases – *Weddin Shire Council News*, 5 June 2013, p 3.

The council subsequently stated (in August 2013) it was proposing increases of 4% per year for 4 years to improve financial sustainability, and to borrow to assist the funding of 3 capital projects, including a medical centre. The council suggested that farmland rates would increase by approximately \$44 per annum, and residential rates in the main town (Grenfell) by \$20 per annum above the rate peg.¹⁰

The council also held a community meeting with 30 to 40 attendees in November 2013, where it outlined the need to borrow to build a medical centre as a way of attempting to arrest the trend of population decline. The council compared Weddin Shire's rates to neighbouring council rates, but provided no quantification of the proposed special variation (in percentage or dollar terms).

Weddin Shire Council applied to us for a proposed increase of 7% (including the rate peg) each year for 4 years. The council did not consult on this figure, nor the dollar impact on rates.

Therefore, we consider that the council did not consult adequately on the proposed increase, nor on its impact, in terms of the dollar and percentage increase in rates across the different rating categories.

We accept that there is demonstrable community support for a population growth strategy and no ratepayers have written to us in regards to the proposed variation.¹¹ We also consider that the council undertook significant effort in consulting on its IP&R documents, including soliciting community feedback on their preferred options to grow the population of the town.

In the future, we would prefer the council to more clearly consult with its community on the specific impact of any proposed special variation. The council could seek feedback on impact, for example, by outlining the dollar and percentage impact of any proposed variation figure in local media prior to submitting an application to us. Consultation should also note whether a proposed variation is permanent (to remain in the council's rates base) or temporary. This would allow for the local community to consider and comment on the specific detail of any proposal in terms of its impact on them as ratepayers.

3.2 Impact on Ratepayers

The impact of the proposed variation is relatively significant.

¹⁰ Weddin Shire Council Application, Part B, Attachment 5: Media Releases – *Weddin Shire Council News*, 28 August 2013, p 3.

¹¹ Weddin Shire Council, *Community Strategic Plan*, adopted 21 June 2013, p 4.

Under the proposed special variation, rates would have increased each year for four years by 7%, a cumulative increase of 31.1% over the period. The council intended to distribute rate increases almost evenly across rating categories.¹²

The council has no prior special variations, with rates increasing only by the rate peg since 1997/98.¹³ Further, Weddin's rates are lower across all rating categories than its neighbouring councils of Forbes, Cowra and Young.¹⁴ The council's average residential rates are similar to its OLG Group 9 peers, and their farmland rates are approximately half the OLG Group 9 average. As noted by the council, a number of farmers with land running across Weddin *and* neighbouring councils have requested to become Weddin ratepayers for the purpose of paying Weddin Shire Council farmland rates, as these are lower than neighbouring councils.

However, we note that the impact of low farmland rates appears to be borne by Weddin Shire Council business ratepayers, who pay business rates significantly higher (approximately 50%) than the OLG Group 9 average. Further, whilst residential rates are roughly equal to comparable peer OLG Group 9 councils, the average income of Weddin Shire ratepayers is lower than average OLG Group 9 incomes.¹⁵

The council considers that its outstanding rates ratio of 9.5% (in June 2013) indicates capacity to pay, as this is lower than neighbouring councils.¹⁶ This figure is improving, having fallen slightly from 2011/12 figures (9.9%).¹⁷ It is also lower than the OLG Group 9 average (11.2%).¹⁸

Finally, we note that the council does not have a Hardship Policy to assist ratepayers having difficulty in paying their rates. However, it has stated in its application that it maintains a flexible approach to those in financial difficulty and provides assistance on a case by case basis.¹⁹ The council has not provided any detail or data on how it proposes to use (or has previously utilized) such an approach.

¹² Weddin Shire Council Application, Part A, Worksheet 5a.

¹³ OLG, unpublished data.

¹⁴ Weddin Shire Council Application, Part B, p 27.

¹⁵ See data in Appendix C to this report.

¹⁶ Weddin Shire Council Application, Part B, p 22.

¹⁷ See data in Appendix C.

¹⁸ See data in Appendix C.

¹⁹ Weddin Shire Council Application, Part B, p 25.

4 What does our decision mean for the council and ratepayers?

Our decision means that Weddin Shire Council may increase its general income in 2014/15 by the rate peg only.²⁰ However, it is a matter for the council to set rates across different categories of ratepayer.²¹

We recognise that the council may consider reapplying for a special variation in the future.

²⁰ General income in future years cannot be determined with precision because it will be influenced by several factors apart from the rate peg. Those factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The OLG is responsible for monitoring and ensuring compliance.

²¹ In its application, Weddin Shire Council indicated that it intended to increase rates over the 4 years nearly evenly across categories. Weddin Shire Application, Part B, p 20.



Appendices

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

Tables A.1 and A.2 show what Weddin Shire Council had proposed to expend the special variation funds on, over the next 10 years.

The council would have used the additional special variation revenue of \$3.6m over 10 years) to fund:

- ▼ \$1.9m of extra operating expenditure, including improving the council's financial sustainability (Table A.1), and
- ▼ \$1.6m of capital expenditure (Table A.2).

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Special variation income above rate peg	97,151	188,535	288,854	398,808	410,773	423,096	435,789	448,863	462,329	476,198	3,630,396
Interest on loan repayments (opex to construct centre)	27,000	50,955	46,780	42,165	37,366	32,273	26,870	21,138	15,057	8,606	308,210
Principal on loan repayments (capex to construct centre)	66,988	140,066	148,596	157,645	167,246	177,431	188,236	199,701	211,862	224,764	1,682,535
Balance of funding to reduce operating deficits	3,163	-2,486	93,478	198,998	206,161	213,392	220,683	228,024	235,410	242,828	1,639,651

Source: Weddin Shire Council Application Part A, Worksheet 6.

Table A.2 Proposed capital program related to the special variation (\$)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Loan repayments – principal (to fund construction of medical centre)	66,988	140,066	148,596	157,645	167,246	177,431	188,236	199,701	211,862	224,764	1,682,535
Total New Assets	66,988	140,066	148,596	157,645	167,246	177,431	188,236	199,701	211,862	224,764	1,682,535

Source: Weddin Shire Council Application Part A, Worksheet 6.

B Weddin Shire Council's projected revenue, expenses and operating balance

The council would have been required to 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).

Table B.1 Summary of projected operating statement for Weddin Shire Council, 2014/15 to 2023/24 (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue	13,227	13,605	14,046	14,433	14,910	15,326	15,754	16,194	16,648	17,115
Total expenses	12,943	13,231	13,528	13,834	14,150	14,476	14,812	15,158	15,515	15,883
Operating result from continuing operations	285	375	518	599	760	850	942	1,036	1,133	1,232

Source: Weddin Shire Council, *Long Term Financial Plan 2014-15 - 2023-24*, adopted 12 March 2014, p 48.

C Comparative 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.

In Table C.1 we show how selected indicators for Weddin Shire Council have changed over the 3 years to 2011/12.

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

	2009/10	2010/11	2011/12	Average change (%)
Productivity (labour input) indicators^a				
FTE staff (number)	66	54	56	-7.9
Ratio of population to FTE	57	69	67	8.3
Average cost per FTE (\$)	53,576	64,537	63,161	8.6
Employee costs as % operating expenditure (General Fund only) (%)	42.0	33.9	31.4	
Consultancy/contractor expenses (\$)	3,000	0	0	-100.0
Consultancy/contractor expenses as % operating expenditure (%)	0.0	0.0	0.0	

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In Table C.2 we compare the selected published data on Weddin Shire Council with the average of the councils in the OLG Group and with NSW councils as a whole.

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

	Council	OLG Group 9 average ^a	NSW average
General profile			
Area (km ²)	3410	-	-
Population	3,734	-	-
General Fund operating expenditure (\$m)	11.0	-	-
General Fund operating revenue per capita (\$)	2,818	3,800	2,011
Rates revenue as % General Fund income (%)	18.5	18.9	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	367	347	685
Average rate – business (\$)	931	683	2,552
Average rate – farmland (\$)	1,146	2,390	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	30,046	35,717	44,140
Growth in average annual income, 2006-2010 (% pa)	2.3	3.4	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.2	1.0	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	52		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	9.9	11.2	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	56	70	293
Ratio of population to FTE	67	51	126
Average cost per FTE (\$)	63,161	69,438	74,438
Employee costs as % operating expenditure (General Fund only) (%)	31.4	33.0	36.8
Consultancy/contractor expenses (\$m)	-	1.4	6.9
Consultancy/contractor expenses as % operating expenditure (%)	-	9.8	9.3

^a OLG Group 9 is classified 'rural Medium Agricultural' with a population of 2,001-5,000 or 'Remote' with a population of 1,001-3,000. The group comprises 21 councils of which comparable to Weddin Shire Council include councils such as Bogan Shire Council, Gilgandra Shire Council and Hay Shire Council.

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

^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, unpublished data; 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.