Independent Pricing and Regulatory Tribunal

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

Local Government — Determination
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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 (see Box 1.1). We may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Wyong Shire Council applied for a multi-year special variation from 2013/14 under section 508A. The council requested increases of 6.9% per year over the next 7 years, amounting to a cumulative increase of 59.53% by 2019/20.

After assessing its application, we decided not to approve the special variation in full. Instead we have approved a special variation of 6.9% per year over the next 4 years, amounting to a cumulative increase of 30.59%. We made this decision under section 508A of the Act.

Box 1.1 The Revised Guidelines for 2013/14

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 Division of Local Government, Department of Premier and Cabinet.

Revised Guidelines were issued in October 2012. These 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 new Guidelines have a stronger emphasis on how councils have undertaken their Integrated Planning and Reporting (IP&R), where councils are expected to engage with the community about service levels and funding priorities in preparing their strategic planning documents. A major change in the Guidelines is that, for most criteria, evidence to support an application must be in the council's IP&R documents.

Another major change is that councils no longer need to demonstrate community support for the special variation. Instead, they must show that the community is aware of the need for, and extent, of the proposed rate rise, and that the council has considered the community's capacity and willingness to pay higher rates. 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, the purpose of the special variation and any other matter we consider relevant.

1.1 Our decision

We have determined that Wyong Shire Council may increase its general income by the annual percentages shown in Table 1.1, resulting in a cumulative increase of 30.59% over the next 4 years, or 17.6% above the rate peg. These annual increases incorporate the rate peg to which the council would otherwise be entitled (3.4% in 2013/14 and an assumed 3.0% in each of the subsequent years).

After the last year of the special variation (2016/17), the increases will remain permanently in the council's rate base.

Table 1.1 IPART's determination on Wyong Shire Council's application for a special variation in 2013/14

Year	Increase in general income approved (%)	Cumulative increase in general income approved (%)	Annual increase in general income ($)	Total permissible general income[a] ($)
2012/13				63,570,411[b]
2013/14	6.9	6.90	4,386,358	67,810,125[c]
2014/15	6.9	14.28	4,678,899	72,489,023
2015/16	6.9	22.16	5,001,743	77,490,766
2016/17	6.9	30.59	5,346,863	82,837,629

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 catchups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage.

b This income level is the 2012/13 adjusted notional general income level, not the permissible general income level.

c The council's proposed permissible general income in 2013/14 includes the requested special variation of 6.9% and decreases of $337 for a prior year catchup and $146,982 for valuation objections claimed in 2012/13.

Source: Wyong Shire Council, Special Variation Application 2013/14 – Part A, Worksheets 1 and 4.

We have attached conditions to this decision, including that the council use the income raised through the special variation for purposes consistent with those set out in its application. Box 1.2 lists these conditions.

Box 1.2 Conditions attached to the approved special variation for Wyong Shire Council

IPART's approval of Wyong Shire Council's application for a special variation over the period from 2013/14 to 2016/17 is subject to the following conditions:

- The council uses the additional income from the special variation to improve its financial sustainability and to contribute towards the revised program of expenditure to reduce its asset backlog, consistent with the council's application.
- The council provides to IPART and the Division of Local Government, as soon as practicable, a revised program of expenditure for 2013/14 to 2016/17, and the revised Long Term Financial Plan for 2013/14 to 2022/23, consistent with the purposes of the special variation as set out in its application.
- The council reports in its annual report for each year from 2013/14 to 2022/23 on:
  - actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the revised Long Term Financial Plan for 2013/14 to 2022/23
  - any significant variations from its financial results as forecast in the revised Long Term Financial Plan for 2013/14 to 2022/23, and any corrective action taken or to be taken to address any such variation
  - expenditure to reduce its asset backlog, consistent with the revised program of expenditure for 2013/14 to 2016/17, and the reasons for any significant differences from the revised proposed expenditure for 2013/14 to 2016/17
  - the outcomes achieved as a result of the actual program of expenditure resulting from the special variation.
- 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?

Wyong Shire Council applied to permanently increase its general income by 6.9% each year for 7 years, which amounts to a cumulative increase of 59.53% (including the rate peg).[1]

The council intends to use the income from the requested special variation to improve its financial sustainability by turning projected operating deficits in the General Fund into surpluses, and to use the surpluses to help fund capital expenditures to reduce its asset backlog.[2]

1 Wyong Shire Council, *Section 508A Special Variation Application 2013/14 – Part A* (Wyong Application Part A), Worksheet 1.

2 Wyong Shire Council, *Section 508A Special Variation Application 2013/14 – Part B* (Wyong Application Part B), pp 4-5 and Wyong Shire Council, *Draft Community Strategic Plan 2013-2017*, p 12.

Without the special variation, the council is projecting operating deficits of between $2.3m and $3.9m or 1% to 2% of operating income over the 10-year Long Term Financial Plan (LTFP) (2012/13 to 2022/23).

The council has identified an asset backlog of $130m for the General Fund (ie, excluding its water and sewer infrastructure), most of which consists of public roads ($95.1m). Other categories include town centre improvements ($10.4m), natural assets, open space and leisure and tourist facilities ($10.8m) and public buildings ($5.3m).[3]

1.3 How did we reach our decision?

We assessed the council's application against the criteria in the Guidelines. In making our assessment we also considered a range of comparative data that are set out in Appendix E.

The rate increases sought by the council were substantial and we carefully considered the council's need for the increases, the impact of the special variation on ratepayers, and the council's financial planning and assumptions.

We found:

1. The council has a need for a special variation to improve its financial sustainability and reduce the asset backlog, but that its planning is not sufficiently detailed to justify a variation of the size requested.
2. The council used a variety of methods to engage with its community to develop the IP&R documents and specifically consulted them about options for a special variation.
3. While the council has considered that the community has capacity to pay the requested increases, we consider that it would be preferable for the council to re-engage with its community after 4 years.
4. In general, the council's assumptions about future revenue and costs are reasonable. However, the aggressive phasing of the council's program of capital expenditure may expose it to liquidity risks and its financial plans do not indicate what the large increases in revenue in later years will be used for once the infrastructure backlog has been cleared.
5. The council has identified some recent productivity improvements and cost savings.

Overall, we concluded that while the council has met the criteria for a multi-year special variation, its financial planning is not sufficiently detailed to demonstrate that annual increases of 6.9% are warranted at this time for the full 7 years requested. This is particularly so since the Guidelines emphasise that a 4-year special variation period, in line with the IP&R cycle, should be the norm.

3 Wyong Application Part B, p 27.

Therefore, we decided to approve the requested annual increases for 4 years only.

Although the council has assessed that the community has the capacity to pay the requested rate increases are affordable, we consider an increase for 4 years is preferable.

The council will be able to improve its financial sustainability and make progress on addressing the asset backlog as planned. After 4 years, the council can review its program of expenditure in light of what has been achieved and re-engage with the community.

Table 1.2 summarises our findings against each of the criteria. The sections below discuss our assessment against the criteria in more detail.

Table 1.2 Summary of IPART's assessment against the 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 council's financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).	The need for, and purpose of, the special variation is articulated in the IP&R documents. These documents show that: ▼ without the special variation, the council's operating deficits will be 1% to 2% of income from 2013/14 ▼ with the special variation, the council can achieve operating surpluses and make reasonable progress in addressing the $130m asset backlog. However, we consider that the council's planning is not sufficiently detailed to justify a variation of the size requested. After 4 years it could review its plans in light of what has been achieved in meeting the need it has identified. This will align with the next 4-year planning cycle.
2. Evidence that the community is aware of need for and extent of proposed rate rises must be provided. 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.	The council has used a variety of methods to engage with the community about a special variation. The community was provided with extensive opportunities to become aware of the need for and extent of a rate rise and provide feedback. The council explicitly considered the community's concerns about affordability that were expressed during consultation, and responded by requesting a lower special variation than it consulted the community about. We received 66 submissions, all objecting to the special variation.

Criterion	IPART findings
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 council's IP&R process should establish that proposed rate rises are affordable, having regard to the local community's capacity to pay.	The council considered the community's capacity to pay and assessed that the increases would be affordable. It relied on the current low rate levels (compared with similar councils) and the community's socio-economic indicators.
4. Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	Assumptions about future growth in revenue and costs in the IP&R documents appear realistic, and asset management planning is based on reasonable estimates. However, we are concerned about the ambitious timeframe for reducing the asset backlog and council's funding assumptions. The intention to exhaust cash reserves presents significant liquidity risks, as TCorp highlighted. In addition, the plans do not adequately account for the large operating surpluses and accumulated cash reserves that would result after the special variation period
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 past and ongoing productivity improvements and cost savings following an organisation-wide Service Delivery Review. It has reported $2.6m in reduced costs and gains of $4m from productivity increases. However, few initiatives have been individually quantified, as they apply to the Consolidated Fund, not just the General Fund. The council intends to continue to explore revenue and cost-reduction initiatives in future years.
6. Other relevant matters.	None

1.3.1 Need for and purpose of the special variation

Overall, we consider that council has demonstrated a need for a special variation to help it improve its financial sustainability and reduce its asset backlog, and that its opportunities to generate additional revenue from alternative sources are limited. However, we consider the council's planning is not sufficiently detailed in the later years to justify the full 7-year special variation as requested. This is particularly so since the Guidelines emphasise that a 4-year special variation period, in line with the IP&R cycle, should be the norm.

Operating surpluses and asset backlog reductions

The requested special variation is part of the council's strategy to eliminate the $130m asset backlog in 10 years. The need for the special variation stems from the council's financial sustainability and asset management, including the low infrastructure renewal rate. In 2009/10, the council's General Fund operating deficit was $18.8m, and its consolidated operating deficit was $30m.[4]

Since then, the council has improved its financial management, and achieved a General Fund operating surplus in 2011/12 and expects to achieve a surplus for 2012/13.[5] However, going forward, it considers that to address the estimated $130m asset backlog, services must be reduced or income increased. Reducing the backlog is important to reduce the risk to the council and the community if an asset fails. It will also help the council to meet the expected demand for services arising from the State Government's target of an additional 50,000 residents in Wyong Shire by 2031.[6]

The council's 10-year Long Term Financial Plan (LTFP) was adopted in April 2013. It considers 4 scenarios for increasing its rates income, but it models only one: the Base Case of rate peg increases only.[7] The council did provide us with more detailed modelling but this has not been included in the adopted LTFP.

Capital expenditures under the requested special variation are set out in the Operational Plan for 2013/14 and summarised for the 4-year period of the Delivery Program (2013-2017). The council provided a more detailed 10-year program of works to be wholly or partially funded by the additional special variation income.

Without the special variation, the council expects the General Fund operating surpluses in 2011/12 and 2012/13 to turn into deficits from 2013/14. The council indicates that the deficit in 2013/14 occurs because income will fall by about $11m.[8] It projects that operating deficits will remain at between 1% to 2% of operating income over the next 10 years (Figure 1.1). Thus it will be unable to generate funds that could be used to reduce the asset backlog.[9]

4 Wyong Application Part B, p 38.

5 Wyong Application Part B, pp 44-45.

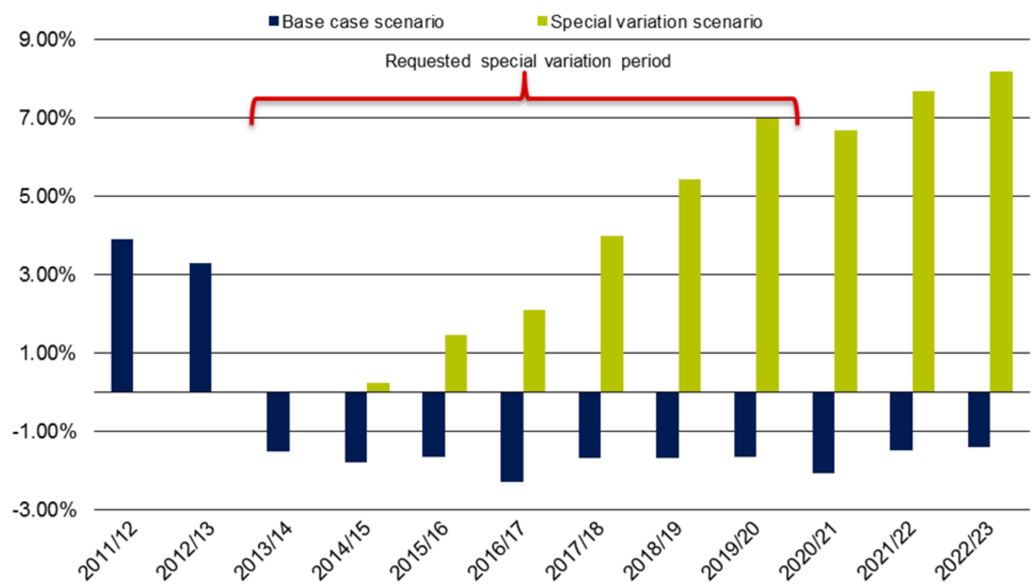
6 Wyong Application Part B, pp 31-34 and 56.

7 Wyong Shire Council, *Community Strategic Plan*, p 142. The other 3 scenarios are the requested SV, Full SV (9.5% pa for 7 years) and Conservative (lower water price increases). The council explained that it relied on the Base Case to indicate the need for the special variation and that outcomes from other options including a special variation were incorporated elsewhere in the Strategic Plan. Source: Email to IPART, 16 May 2013.

8 This will occur because of lower user fees and charges from reduced use of the rubbish tip ($4.4m), lower work orders from the RMS ($1.3m) and the end of grant funding for estuary management ($4.9m, while spending will be maintained at $3.2m). Source: Correspondence with the council, 17 April 2013.

9 Wyong Application Part B, p 23 and Wyong Shire Council, *Draft Community Strategic Plan 2013-2017*, p 182.

Figure 1.1 Wyong Shire Council operating balance ratio[a]



a Calculated as operating surplus (deficit) excluding capital grants and gains or losses on disposal of assets divided by operating revenue excluding the same items. Water and Sewer activities are excluded.

Source: Wyong Shire Council Application Part B, p 78 and email to IPART from Wyong Shire Council, 15 April 2013.

The council has canvassed alternatives to the special variation in the IP&R documents and its application. These include reviewing user fees and charges and other sources of income, delaying or declining investment in new assets, joint ventures with the private sector, and alternative or lower levels of services. However it concludes that opportunities to realise the funds needed to address the asset backlog from such sources are limited.[10]

With the special variation, the General Fund would generate an operating surplus estimated at $2.5m in 2015/16. The surpluses would then rise to $14.5m by 2019/20.[11] The cumulative surplus from 2013/14 to 2019/20 would be $39.5m.[12]

If the special variation scenario of 6.9% pa for 7 years is approved, the council intends to spend an extra $15m a year, or $105m over 7 years, to reduce the asset backlog. Of this amount, operating surpluses will fund around $40m and cash reserves would fund the balance.[13]

10 Wyong Shire Council, *Draft Community Strategic Plan*, p 187, Wyong Application Part B, pp 59-63, and correspondence with the council, 15 April 2013.

11 Correspondence with the council, 17 April 2013.

12 Wyong Shire Council, *Long Term Financial Plan for 6.9% Special Variation* provided to IPART, 15 April 2013.

13 Wyong Application Part B, p 55.

We note that this strategy will have a significant impact on the council's future liquidity, and there are concerns about the long term financial effects of a permanent increase to the council's rate base from a special variation over 7 years. We discuss liquidity at section 1.3.4.

1.3.2 Community engagement and awareness

We consider that the council has met this criterion, in particular:

- the council has used a variety of methods to engage the community about a special variation
- the community has had a range of opportunities to become aware of the need for and extent of a rate rise and provide feedback
- the council explicitly considered the concerns about affordability that were expressed during consultation, by canvassing a further option (ie, a lower than 9.5% increase) and ultimately resolving to apply for 6.9% pa rather than 9.5% pa.

Although the criterion does not require councils to demonstrate community support for the special variation, we note that there is evidence of support for an increase in rates above the rate peg. However, we have received a relatively large number of submissions from ratepayers, all of which oppose the application.

Awareness and methods of engagement

The council conducted an extensive engagement program using a variety of methods to make its community aware of the need for the special variation and the extent of the rate rise. This program is set out in the council's current IP&R documents, and detailed in the council's application. The engagement program and outcomes are summarised in Appendix C.

During 2012, the council undertook a Service Standards Review to identify community values, service levels and priorities. In late 2012 (Stage 2) it canvassed 3 options for rate increases:

- Option 1 – rate peg increase only
- Option 2 – a special variation of 9.5% pa for 7 years
- Option 3 – a special variation for 12.5% pa for 7 years.

During January and February 2013, further consultation occurred (Stage 3). In response to community feedback Option 3 was discarded, and another option (Option 4, for a "lower than 9.5% increase") was introduced.

The later stages were extensively advertised in local media, and online. Information was provided on the council's website and distributed to residents and ratepayers directly and through local newspapers. Feedback was sought at community information sessions, and through random surveys, online and mail-in surveys and direct submissions.

Outcome of consultation on rate rise

Feedback in Stage 2 indicated little community support for Option 3, although there was some support for Option 2 (see Table C.1). As before, in Stage 3, the majority of respondents supported the rate peg only increase (see Table C.2).

As part of all the surveys in Stage 3, those favouring Option 1 were asked whether they would support a lesser increase than 9.5% (Option 4). These respondents did show some support for Option 4, particularly in the statistically valid telephone survey (see Table 1.3). The council then calculated the overall level of support for an increase above the rate peg by combining support for Option 2 and Option 4 (see Table 1.4).

Table 1.3 Stage 3 consultation outcomes – support for a lesser increase (Option 4), by consultation method

Forum	Yes	No
Information sessions	43% (72)	57% (96)
Phone survey	58% (153)	42% (110)
Online survey	24% (738)	76% (2,323)
Return mail survey	45% (1,069)	55% (1,302)

Source: Wyong Application Part B, p 110.

Table 1.4 Stage 3 consultation outcomes – overall level of support for a lesser increase (Option 4)

Forum	Option 2- 9.5% pa for 7 years	Option 4 - lesser increase above the rate peg	Total support for increase above rate peg (Options 2 and 4 combined)
Information sessions	15% (30)	36% (72)	51% (102)
Phone survey	34% (137)	38%(153)	73% (290)
Online survey	13% (481)	21% (738)	34% (1,219)
Mail in survey	10% (272)	40% (1,069)	51% (1,341)

Source: Wyong Application Part B, p 110.

Capacity and willingness to pay

The council considered the community's capacity and willingness to pay in 2 ways. It did this explicitly when considering the outcomes from the Stage 2 consultation, by dropping Option 3 (12.5% pa for 7 years). Then, in Stage 3 it offered ratepayers Option 4 (increase "lower than 9.5% pa"). Based on the outcomes of Stage 3, the councillors asked that the impact on average rates of an increase of 6.9% pa for 7 years should be modelled. As a result, they determined to apply for a special variation of this size. They considered that "the community understands the situation it is facing and does support an increase in rates that will provide tangible outcomes".[14]

Consultation on IP&R documents

IPART granted the council an extension allowing it to provide the IP&R documents after the closing date for special variation applications.

As required by the Act, the council prepared revised IP&R documents after the local government elections last September, relying on consultation between November 2012 and February 2013. The council placed the revised IP&R documents on exhibition between 4 March 2013 and 2 April 2013. The council received 6 submissions which objected to the special variation. Only 1 submission supported the requested special variation. The council adopted the documents on 10 April 2013.[15]

Submissions to IPART

We received 66 direct submissions from 63 ratepayers and 3 organisations across the Shire by April 8 2013, the end of our public submission period.[16] All objected to the special variation. There appears to be some campaigning against the special variation, but we received no petitions or form letters.

The majority of ratepayer submission included objections to the council's special variation because it was not affordable, and also because of concerns about the council's financial and operational management. A few submissions raised concerns about the way the consultation was conducted, in particular that information about the need and extent of the special variation was not clear, or that alternatives were not canvassed, and information sessions did not inform or invite feedback.

We consider that overall, the council's engagement with the community presented adequate information about the special variation and opportunity for feedback.

14 Wyong Application Part B, p 111.
15 Email to IPART from Wyong Shire Council, 15 April 2013.
16 Only submissions which expressly gave us permission were posted on our website.

We consider the impact and affordability of the special variation in section 1.3.3 and the council's financial management and strategy in section 1.3.4.

1.3.3 Impact on ratepayers

The council intends to apply the increase evenly across all rate categories (see Table 1.5 in section 1.5).

The council has assessed the community's capacity and willingness to pay for the special variation, and considers that the impact is reasonable. A selection of data used in assessing this criterion is set out in Appendix D.

Council's assessment of affordability

The council has considered the community's willingness to pay for a moderate rate rise from the consultation process. The council concluded that the community has the capacity to pay, and that the proposed increases are affordable. It asserts that:

- historically, increases to ordinary rates have been limited despite steadily increasing expenses
- the average residential rate is among the lowest of DLG Group 7 councils (see Table D.1), and lower than or similar to those in neighbouring councils and councils with a similar SEIFA ranking
- housing costs in Wyong Shire are the lowest of DLG Group 7 councils and, when they are included in the SEIFA score, Wyong residents' relative level of disadvantage is just below the median for NSW councils
- 20% of ratepayers are non-residents, and are assumed to own investment or holiday homes and have a higher capacity to pay; and 6.4% of properties are owned by ratepayers with multiple properties
- the particular circumstances of the council's farmland, business and mining ratepayers suggest that they will have the capacity to pay the higher rates
- improved approaches to credit management and options for ratepayers finding difficulty in paying rates have reduced the outstanding rates ratio from over 7.0% to 6.06%, indicating that the community actually has the capacity to pay
- the Hardship Policy in place will assist when necessary
- it proposes only small increases to other rates and charges, including for water and sewer, and waste management.[17]

[17] See generally, Wyong Application Part B, pp 113–129.

Our assessment of impact on ratepayers

We independently assessed indicators of the community's capacity to pay, and took into account that affordability was a major concern in submissions opposing the special variation.

We consider that the magnitude of the requested increase, in the context of concerns about the adequacy of the council's planning, suggest that it is preferable for the council to reassess its progress on improving its financial sustainability and reducing the asset backlog and re-engage with its community after 4 years.

Currently, average rates in Wyong Shire are well below DLG Group 7 averages for all categories, but after 7 years, the council estimates show that by 2019/20, the average residential rate in Wyong would be the second highest in the DLG Group 7 (Table D.1) if the requested 7-year special variation was implemented.[18]

Various indicators of capacity to pay all suggest Wyong Shire residents are comparatively less able to afford such a large increase in rates (see Table D.2). In particular, among its DLG Group 7 peers, the Wyong Shire LGA has:

- the lowest weekly household income
- the highest proportion of low income households (less than $600 per week)
- the highest unemployment rate and
- the lowest ranking of socio-economic advantage.

The cumulative increase requested is large, and we consider that it would be preferable for the council to re-engage with its community after 4 years.

1.3.4 Assumptions in the Delivery Program and Long Term Financial Plan

The council's application outlined the assumptions that underpinned its 4-year Delivery Program (2013-2017) and the LTFP (2013/14-2022/23). It provided the scheduled 10-year program of expenditure to address the asset backlog it intends to implement if the requested special variation is approved. It also explained the basis of the assumptions in Part B of the application, and the LFTP.[19]

18 In 2011/12 the average residential rate in Wyong ($798) is only marginally above the lowest in DLG Group 7 (Gosford, $790): see Table D.1.

19 Wyong Application Part B, pp 133-139.

While we did not undertake a detailed evaluation of the council's assumptions, we are satisfied that estimates for future growth in non-rates income, labour costs and non-labour expenses appear realistic. The asset management strategy and infrastructure backlog also appear to have been prepared using reasonable estimates and assumptions.[20] Priorities for spending have been established as part of the IP&R process and other community consultation.[21]

However, we are not satisfied that the impact of proposed capital expenditure on the council's liquidity forecast is reasonable. Furthermore, the Strategic Plan adopted in April 2013 contains detailed modelling of the Base Case scenario only. Financial modelling of the impact of the requested special variation is not rigorous, particularly as it relates to operating surpluses and the accumulation of cash reserves in the later years of the 10-year LTFP.

Program of expenditure and cash flow forecasts (LTFP)

The council's commitment to use cash reserves to fund a reduction of the asset backlog will lead to significant liquidity risks in the medium term.[22] Council's modelling forecasts that it will run down its cash and cash equivalent assets to zero over the period 2017/18 to 2018/19. The rundown in its cash and investments is also significant (Figure 1.2).[23]

After 2018/19, the ongoing operating surplus is large enough to both fund the reduction in the backlog and add significantly to the council's cash reserves.

TCorp considers that a high rate of backlog reduction implies that the council will experience serious liquidity risks during the special variation period. We agree. We consider that the program of expenditure, with its attendant forecast liquidity risks, is not realistic or practical.

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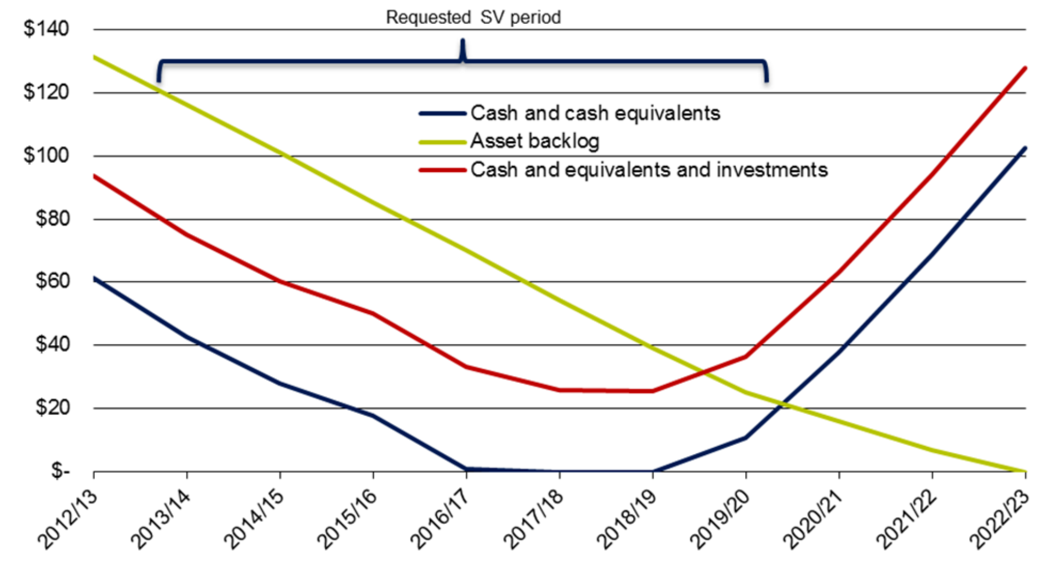
20 Wyong Application Part B, pp 132-136.

21 Wyong Application Part B, pp 134-135.

22 See Appendix A for the proposed allocation of expenditure for the first 4 years of the special variation period. We estimate that the council will use around $36m from its cash reserves to help fund its expenditures.

23 Wyong Shire Council, *Draft Community Strategic Plan 2013-2017*, p 144 and correspondence with Wyong Shire Council, 15 April 2013.

Figure 1.2 Impact of reduction in asset backlog on cash reserves ($m)



Source: Email to IPART from Wyong Shire Council, 15 April 2013 and IPART calculations.

The council's application indicates that it will "prioritise expenditures and leverage off savings" to ensure there is sufficient cash to cover restricted cash balances.[24] We are not certain how realistic or practical this may be, given the current annual operating budget for its General Fund is about $170m and that the unrestricted current ratio will be significantly below benchmark levels for most of the special variation period.[25] We also note that the council has already implemented a range of initiatives to reduce costs in turning around the very large operating deficit recorded in 2009/10 (see section 1.3.5).

There may be potential for the council to reduce the proposed capital expenditure and spread it over a longer period of time, as it projects large levels of accumulated cash in later years. Depending on the reductions, the council may be able to mitigate the forecast liquidity risks by not significantly running down its cash reserves.

We have asked the council to provide IPART and DLG with a revised program of expenditure consistent with our decision on its special variation application.

24 Wyong Application Part B, p 74.
25 Wyong Application Part B, p 74.

Issues with the council's long term planning

We also observe that if the special variation was approved as requested, it would generate a significant increase in the council's income after 7 years. As its asset backlog would have been largely cleared by this time, the council would experience large operating surpluses (of around 7% to 8% from 2019/20). This would allow it to accumulate large levels of cash reserves (around $100m in 2022/23).[26]

The council is conscious that the special variation will permanently increase its rates base, and stated that it will consider using the additional revenue for one or more of several possible uses (eg, meeting additional need for services and infrastructure from the expected population growth and demographic change, more funding for natural assets, lower rates or increase service levels).[27] We also consider it is prudent to only approve 4 years of the requested 7-year special variation because the council does not appear to have formulated detailed plans for using such large increases in revenue and cash reserves.

1.3.5 Productivity improvements and cost containment strategies

In the past 3 years, the council has pursued initiatives to improve productivity, contain costs, expand revenue sources and review the scope and level of services. The council reports ongoing gains of $24.8m in the General Fund and it plans to reduce the operating deficit to nil by 2014/15.[28]

The application noted a range of initiatives, however many have not been quantified, as they relate to the council's Consolidated Fund (including water and sewer functions).[29]

The council undertook a comprehensive organisation-wide Service Delivery Review in 2010, examining all services and standards. It outlined various initiatives to improve productivity and contain costs, notably in employee costs, materials and contracts, and other operating expenses. [30]

Specific initiatives are noted, but few have been individually quantified. The council estimates that as a result of the Service Delivery Review it has:

- reduced costs by $2.6m annually and by $0.7m in one-off savings
- realised savings from higher productivity of around $4.0m pa.[31]

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26 Correspondence with Wyong Shire Council, 15 April 2013.
27 Wyong Application Part B, pp 56-57.
28 Wyong Application Part B, p 142.
29 Wyong Application Part B, p 143.
30 Wyong Application Part B, pp 143-144.
31 Wyong Application Part B, p 143.

It has focused on reducing direct labour costs eg, outsourcing where cost-effective and reducing overtime costs. Full time equivalent (FTE) staff numbers have fallen from 1,150 to 1,069 in the last 2 years and are forecast to be 1,050 in 2013/14.[32] Consultancy expenditure has also decreased, from $8.6m in 2009/10 to $5.9m in 2011/12.[33]

In particular, the council has:

- employed a Legal Counsel and reduced legal costs by up to $1.9m per year
- realised a one-off saving of $2.1m by changing the vehicle replacement procedures for light vehicles in 2011/12
- saved $62,500 per year on procurement of paper, motor vehicles and turf supplies, and saved $85,000 per year in printing costs.[34]

The council intends to continue to explore revenue and cost-reduction initiatives in future years.[35]

1.4 What does our decision mean for the council?

Our decision means that Wyong Shire Council may increase its general income from $63.6m in 2012/13 to $82.8m in 2016/17 (see Table 1.1).[36] After 2016/17, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.

Since we are approving the special variation for 6.9% pa for 4 years rather than 7 years as requested, the council may have to adjust its expenditure plans. We consider that the approved special variation will enable the council to make reasonable progress in addressing the asset backlog, while achieving an operating surplus, as indicated by the council's IP&R documents.

After 4 years, the council will need to review its financial and asset planning to consider whether there is a need to adjust spending on assets and/or services to a level that is financially sustainable, and re-engage with its community.

32 Wyong Application Part B, p 144.
33 Wyong Application Part B, p 148.
34 Wyong Application Part B, p 149.
35 Wyong Application Part B, pp 151-152 and section 3.3.2.
36 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.

1.5 What does our decision mean for ratepayers?

While IPART sets the allowable increase in general income, each individual council determines how it will allocate this increase to different categories of ratepayers.

In its application, Wyong Shire Council indicated that it intended to increase rates by around the same percentage across all rates categories over the 7 years. If so, then our decision means that rates will increase by around 6.9% each year for 4 years or just over 30% in each ratepayer category by 2016/17.

Table 1.5 shows the increases over the 4 years in percentage and dollar amounts.

Table 1.5 Wyong Shire Council – indicative impact of IPART's determination on average rates by 2016/17

Rate category	Average rate 2012/13 ($)	Increase ($)	Increase (%)	Average rate 2016/17 ($)
Residential	868	263	30.3	1,131
Business	2,727	827	30.3	3,555
Business Major Retail	55,137	16,711	30.3	71,849
Mining	164,547	49,926	30.3	214,474
Farmland	2,168	660	30.5	2,828
Special rates				
Non-residential Wyong Area	428	131	30.6	559
Non-residential Toukley Area	755	229	30.3	984
The Entrance Town Centre	592	181	30.6	774

Source: Wyong Application Part A, Worksheet 5a.

A Wyong Shire Council – Program of expenditure

Wyong Shire Council is to use the additional income from the special variation to improve its financial position and at the same time, contribute towards a program of expenditure to reduce its asset backlog.

Table A.1 sets out the first 4 years of the allocation of expenditure proposed by Wyong Shire Council to reduce the asset backlog. The council intends to fund the expenditure in part from the special variation income and the balance from cash reserves.

As we are approving the special variation for 4 years, rather than the requested 7 years, the council will need to review the planned program of expenditure, and may need to revise it.

Table A.1 Wyong Shire Council' – Indicative annual expenditure to reduce the asset backlog, 2013/14 to 2016/17 ($m)

	2013/14	2014/15	2015/16	2016/17
Funding source				
Additional SV income	2.22	4.87	7.70	10.72
Cash reserves (estimate)	12.94	10.34	7.92	4.64
Expenditure by service unit				
Building Certification and Health		0.01		
Community and Cultural Development	0.03	0.02	0.02	
Community and Customer Relations		0.03	0.03	0.02
Community Buildings	0.53	0.72	0.11	0.08
Finance	0.34	0.37	0.34	0.34
Information Management	0.39	0.55	0.63	0.35
Lifelong Learning	0.06	0.09	0.04	0.03
Place Management	1.10	1.35	1.50	1.25
Roads	11.19	10.98	10.71	11.10
Sport Leisure and Recreation	0.82	0.40	1.47	1.48
Sustainability	0.49	0.49	0.49	0.49
Waterways and Asset Management	0.20	0.20	0.29	0.23
Total asset backlog capital expenditure	15.16	15.21	15.62	15.36

Source: Wyong Application Part B, p 55, correspondence with Wyong Shire Council, 3 May 2013, and IPART calculations.

B Wyong Shire Council – Projected income, expenses and operating result

Table B.1 is an extract from the council's LTFP (2013/14-2022/23) showing the council's projected income, expenses and operating result for its General Fund, assuming that the council's requested special variation was approved in full.

As we are approving the special variation for 4 years, rather than the requested 7 years, the council will need to review its LTFP and may need to revise it.

Table B.1 Wyong Shire Council's projected income, expenses and operating result 2013/14 to 2022/23 ($)

Year	Total income from continuing operations	Total expenses from continuing operations	Operating result
2013/14	164,934,091	156,296,280	8,637,811
2014/15	169,808,164	162,208,805	7,599,359
2015/16	177,574,632	167,853,454	9,721,178
2016/17	185,749,362	174,777,078	10,972,284
2017/18	194,515,376	179,781,980	14,733,396
2018/19	204,176,581	186,159,130	18,017,450
2019/20	214,824,541	192,976,164	21,848,377
2020/21	222,747,384	200,978,571	21,768,813
2021/22	231,343,203	206,786,430	24,556,773
2022/23	240,352,856	213,868,610	26,484,245

Note: This LTFP was based on the council's assumption that the requested special variation would be approved in full by IPART. We have only approved the percentage amounts requested by the council in the first 4 years (2013/14 to 2016/17), not the 7 years requested by the council. The operating result includes income from capital grants, contributions and asset sales. Excluding these, the council's operating result will typically be lower. Our analysis in the report excludes capital income and asset sales.

Source: Wyong Shire Council, *Long Term Financial Plan (2013/14 – 2022/23)*, email to IPART 15 April 2013.

C Wyong Shire Council – Engagement program and outcomes

Engagement program

Stage 1 (May 2012 – June 2012)

- Service Standards Review to identify community values, service levels and priorities.
- Publicised by fact sheets, paid advertising, website and social media, posters and postcards at railway stations and council facilities.
- Feedback gathered at community workshops and an online survey.[37]

Stage 2 (November 2012 – December 2012)

- Canvassed 3 options for rate increases (rate peg increase only, 9.5% pa for 7 years, 12.5% pa 7 years).
- Publicised extensively by paid advertising and news items in local print media radio and television. Information provided through council website and social media. A 4-page supplement was distributed in a local newspaper with a circulation of 58,000. An information booklet was placed at council facilities and shopping centre displays, and sent to 8,000 ratepayers/residents on council databases, and 12,700 non-resident ratepayers.
- Feedback through workshops (61 participants) random telephone survey (400 respondents), online survey (876 respondents), mail-in survey (469 respondents) and 44 direct submissions from individuals and organisations.[38]

Stage 3 (January 2013 – February 2013)

- Further consultation on 3 options – rate peg increase only, 9.5% pa for 7 years and for those who selected rate peg only option, "an increase of a lesser amount" (ie, Option 4). (This approach responded directly to ratepayers' concerns about affordability).
- Publicised by another information booklet sent to all ratepayers (59,000), extensive newspaper and radio advertising, media releases, social media and detailed information on website.
- Feedback through community information sessions (417 participants and 181 respondents), another random survey (400 respondents), online survey (3,599 respondents), mail-in survey (2,595 respondents) and 112 direct submissions.[39]

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37 Wyong Application Part B, pp 84-85.
38 Wyong Application Part B, pp 89-91.
39 Wyong Application Part B, pp 96-100.

Outcomes of consultation

In Stage 2, most workshop participants supported a rate increase of at least 9.5% pa for 7 years, but the majority of respondents in all other surveys supported a rate peg only increase (see Table C.1).

Table C.1 Stage 2 consultation outcomes

Forum	Option 1 (Rate peg)	Option 2 (9.5% pa for 7 years)	Option 3 - (12.5% pa for 7 years)
Workshops	17% (7)	64% (27)	19% (8)
Phone survey	51% (206)	41% (164)	8% (30)
Online survey	66% (580)	21% (187)	13% (109)
Return mail survey	68% (307)	23% (106)	9% (39)

Source: Wyong Application Part B, p 108.

In Stage 3, again the overwhelming majority of respondents supported a rate peg only increase. However, these respondents did show some support for the Option 4 (lower than 9.5%) (see Table C.2).

Table C.2 Stage 3 consultation outcomes

Forum	Option 1 – Rate peg	Option 2 – 9.5% pa for 7 years
Information sessions	85% (168)	15% (30)
Phone survey	66% (263)	34% (137)
Online survey	87% (3,118)	13% (481)
Return mail survey	90% (2,371)	10% (272)

Source: Wyong Application Part B, p 110.

D Capacity to pay indicators

Table D.1 Comparison of average residential rates in Group 7 councils ($)

Council	2011/12	2012/13[a]	2019/20[a]
Blue Mountains City Council	1,129	1,210	1,488
Campbelltown City Council	817	947	1,168
Gosford City Council	790	865	1,068
The Hills Shire Council	938	974	1,198
Hornsby Shire Council	936	1,123	1,343
Liverpool City Council	929	1,040	1,279
Penrith City Council	957	1,020	1,292
Wyong Shire Council	**798**	**868**	**1,382**

[a] Wyong Shire Council estimates – basis of estimates not disclosed.

Source: DLG database, 2011/12 and Wyong Application Part B, p 120.

Table D.2 Comparison of capacity to pay indicators

Council	Household income ($ per week)	Low-income households (%)	Unemployment rate (%)	2011 SEIFA ranking
Blue Mountains	1,270	22.7	4.9	125
Campbelltown	1,251	22.0	7.4	58
Gosford	1,089	27.2	6.1	115
The Hills	2,044	11.6	4.2	149
Hornsby	1,824	15.1	4.8	143
Liverpool	1,299	21.5	7.0	88
Penrith	1,398	18.9	5.5	109
Wyong	**934**	**31.6**	**7.8**	**56**

Source: ABS, Census data, 2011 and *Socio-Economic Indexes for Areas (SEIFA) 2011,* March 2013.

Table D.3 Wyong Shire council – Total rates and annual charges 2012/13 to 2019/20

			Cumulative Increase	
Council	**2012/13($)**	**2019/20($)**	**($)**	**(%)**
Ordinary rates	868	1,382	514	59
Domestic waste	460	612	152	33
Stormwater management	25	25	0	0
Water service	167	134	-34	-20
Sewerage	463	535	72	15
Drainage	90	134	43	48
Total annual rates and charges	**2,074**	**2,821**	**747**	**36**

Note: Domestic waste, stormwater management, water, sewerage and drainage service charges for the first 4 years are set according to IPART's price determination for 2012/13 to 2016/17 and then 3.0% pa thereafter.

Source: Wyong Application Part B, pp 126-127.

E Comparative indicators

Table E.1 Select comparative indicators for Wyong Shire Council, 2011/12

	Wyong Shire Council	DLG Group 7 average[a]	NSW average
General profile indicators			
Area (km^2)	740	-	-
Population	153,992	-	-
General Fund expenditure from continuing operations ($m)	146.7	-	-
General Fund operating revenue per capita ($)	998	897	2,011
Rates revenue as % total General Fund revenue (%)	52.7	51.9	45.7
Average rate indicators[b]			
Average rate – residential ($)	798	912	685
Average rate – business ($)	2,926	3,591	2,552
Average rate – farmland ($)	2,000	2,407	2,123
Socio-economic/capacity to pay indicators[c]			
Average annual income for individuals, 2010 ($)	40,643	47,762	44,140
Growth in average annual income, 2006-2010 (% pa)	3.4	3.1	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	2.0	1.9	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	56	-	-
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	6.4	4.5	7.0
Productivity indicators[d]			
FTE staff (number)	988	754	293
Ratio of population to FTE	156	222	126
Average cost per FTE ($)	74,335	78,420	74,438
Employee costs as % ordinary expenditure (General Fund only) (%)	40.2	39.3	36.8
Consultancy/contractor expenses ($m)	32.0	24.0	6.9
Consultancy/contractor expenses as % ordinary expenditure	13.6	15.0	9.3

a DLG Group 7 is a category of Urban Large to Very Large Fringe councils with a population greater than 70,000. This group comprises 8 councils including Campbelltown, Gosford, The Hills, Hornsby, and Penrith.

b Average rate levels equals 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 (eg, Airport). There are difficulties in comparing councils using this data due to differences in the scope of councils' activities and measurement methods across councils.

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.