

Independent Pricing and Regulatory Tribunal



Our reference: 12/585
Your reference:

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12 June 2013

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Mr Gary Murphy
General Manager
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Dear Mr Murphy

**INSTRUMENT OF APPROVAL AND FULL REPORT FOR SPECIAL RATE
VARIATION APPLICATION 2013/14**

I refer to IPART's determination on Lismore City Council's application for a special rate variation in 2013/14 which was issued on 11 June 2013.

I am writing to advise you that copies of the final reports on our special variation determinations are now available on the IPART website. I have attached a hard copy of the final report and the Instrument of Approval for Lismore City Council for your records.

If you have any queries, please contact Alison Milne on 02 9290 8443 or Tony Camenzuli on 02 9113 7706.

Yours sincerely

James Cox PSM
Chief Executive Officer
and Full Time Member

LOCAL GOVERNMENT ACT 1993

INSTRUMENT UNDER SECTION 508(2)

LISMORE CITY COUNCIL

The Independent Pricing and Regulatory Tribunal (IPART), delegate of the Minister for Local Government, pursuant to the delegation dated 6 September 2010, determines:

1. under section 508(2) of the *Local Government Act 1993* (the Act), that the percentage by which Lismore City Council may increase its general income for the year 2013/2014 is 3.82%.

[Note: The council will be reducing its general income for the year 2013/2014 by \$106,434 (the value of an expiring special variation) before increasing its general income for that year in accordance with this clause 1.]

2. the percentage increase set out in clause 1 above (special variation) is subject to the following conditions:

- I. The council uses the Additional Income for the purposes of funding the Lismore Business Promotion Program as outlined in the council's application for the special variation. This program of expenditure is listed in Appendix A of IPART's determination dated June 2013 of the council's application under section 508(2) of the Act (IPART's Determination).

Additional Income means:

- a) the additional general income raised in accordance with clause 1 of this instrument, less
 - b) the additional general income that would otherwise be available to the council under section 506 of the Act.
- II. The council reports in its annual report for each rating year over the period from 2013/2014 to 2017/2018 on:
 - a) the program of expenditure that was actually funded by the special variation and the reasons for any significant differences from the program listed in Appendix A of IPART's Determination; and
 - b) the outcomes achieved as a result of the special variation.
- III. The council reduces its general income for the 2018/2019 rating year by:
 - a) \$106,102 (Initial Reduction Amount); and
 - b) the cumulative additional income derived for the 2014/2015 to 2017/2018 rating years on the application of:
 - 1) any special variation percentage approved under section 508(2) or 508A of the Act for the council for each rating year during the period from 2014/2015 to 2017/2018; and
 - 2) any general variation percentage approved under section 506 of the Act for the council for each rating year during the period from 2014/2015 to 2017/2018,



Independent Pricing and Regulatory Tribunal

Lismore City Council's application for a special variation for 2013/14

**Local Government — Determination
June 2013**

to the Reduction Amount.

Reduction Amount means:

The Initial Reduction Amount as increased by the additional income derived for each previous rating year relating to the Initial Reduction Amount.

[Note: the purpose of this clause is to reduce the council's general income to the amount of general income that the council would have had in 2018/2019 without this special variation.]

- IV. The council reports to the Division of Local Government, Department of Premier and Cabinet, by 30 November each year on its compliance with these conditions for each rating year over the period from 2013/2014 to 2017/2018.

Dated this 12th day of June, 2013


Dr Peter J. Boxall, AO
Chairman, Independent Pricing and Regulatory Tribunal

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The Tribunal members for this review are:

Dr Peter J Boxall AO, Chairman

Mr James Cox PSM, Chief Executive Officer and Full Time Member

Mr Simon Draper, Part Time Member

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

Lismore City Council applied for a special variation in 2013/14 of 3.82%. After assessing the council's application, we decided to allow the special variation as requested. We made this decision under section 508(2) of the Act.

1.1 Our decision

We determined that Lismore City Council may increase its general income by 3.82% in 2013/14. This percentage increase includes the rate peg of 3.4% that is available to all councils. The increase above the rate peg may be retained in the council's general income base for 5 years.

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

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

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

Table 1.1 IPART's decision on Lismore City Council's application for a special variation in 2013/14 (%)

Component	%
Increase to continue expiring special variation to fund the Lismore Business Promotion Program (5 years)	0.42
Rate peg increase	3.40
Total increase	3.82

Box 1.1 Conditions attached to the approved special variation for Lismore City Council

IPART's approval of Lismore City Council's application for a special variation in 2013/14 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the Lismore Business Promotion Program as outlined in the council's application and Appendix A.
- ▼ The council reports in its annual report for each year from 2013/14 to 2017/18 on:
 - the program of expenditure that was actually funded by the special variation, and the reasons for any significant differences from the program in Appendix A
 - the outcomes achieved as a result of the actual program of expenditure.
- ▼ On 1 July 2018, the council is to reduce its general income to what it would have been without the special variation.
- ▼ The council reports to the Division of Local Government by 30 November each year of the special variation period on its compliance with these conditions.

We note that the council will be reducing its general income for 2013/14 by \$106,434 (the value of the expiring special variation). This reduction shall take place before the council's general income is increased in 2013/14 in accordance with IPART's determination.

1.2 What did the council request and why?

Lismore City Council requested a special variation of 3.82%, comprising:

- ▼ a 0.42% increase to fund the Lismore Business Promotion Program for a further 5 years
- ▼ the rate peg of 3.40%.²

² Lismore City Council, *Section 508(2) Special Variation Application 2013/14 - Part B* (Application Part B), p 6, and Lismore City Council, *Section 508(2) Special Variation Application 2013/14 - Part A* (Application Part A), Worksheet 1.

The council estimated that a 0.42% increase above the rate peg would generate \$106,102 in additional revenue in 2013/14, and \$563,310 over 5 years.³ This will fund about one-third of the Lismore Business Promotion Program set out in Appendix A. The remaining two-thirds will be funded by sponsorships and the council directly.⁴

The increase above the rate peg will replace a special variation that expires on 30 June 2013 for an equivalent amount.⁵

1.3 How did we reach our decision?

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

We found that the application met the criteria as they apply under the transitional arrangements. In particular, the council:

1. Demonstrated a need for continued spending to help fund its Business Promotion Program.
2. Provided evidence that the community is aware of the need for and the extent of the rate impact involved. In particular, the business ratepayers affected are aware and supportive of the rate rise.
3. Showed that the rate impact is low, and affects only the small proportion of urban and inner CBD business ratepayers that pay the levy for the Business Promotion Program.
4. Made realistic assumptions concerning its projected service delivery related to the Business Promotion Program and associated budget.
5. Achieved productivity savings in past years, and plans to realise additional savings over the period of the proposed special variation.

The evidence provided by the council is yet to be included the IP&R documents which are being updated for a 25 June 2013 meeting of the council.

Table 1.2 summarises our findings against each of the criteria.

³ Application Part A, Worksheet 4 and Worksheet 6.

⁴ Application Part B, Attachment 8, p 4, and Application Part B, Attachment 9.

⁵ Application Part A, Worksheet 4.

⁶ These arrangements were included in the Guidelines because councils have until 30 June 2013 to review their IP&R documents. This creates a difficulty for councils who wish to apply to us but have not yet formally adopted their updated plans and programs.

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

Criterion	IPART findings
1. Need for and purpose of special variation must be clearly identified. Evidence could include community need/desire for service levels/project and limited council resourcing alternatives, and the council's financial sustainability assessment conducted by the NSW Treasury Corporation (TCorp).	Clear identification of need to help fund the Lismore Business Promotion Program. The council provided evidence of support for the special variation by the affected ratepayers, which indicates that its purpose is understood. ⁷
2. Evidence that community is aware of need for and extent of proposed rate rise must be provided. An appropriate variety of engagement methods should have been used to ensure opportunity for community awareness/input, and alternatives to a rate rise should have been canvassed. The impact of the rise on the community, and the council's consideration of community capacity and willingness to pay higher rates should be provided.	The council engaged Lismore area business ratepayers through a variety of methods: <ul style="list-style-type: none"> ▼ reviewing the Lismore Business Promotion Program by: <ul style="list-style-type: none"> – calling for public submissions – discussing the plan with businesses – surveying businesses and the public. ▼ holding a workshop, mailing information to ratepayers and providing media releases.⁸ The council considered ratepayers' capacity and willingness to pay: <ul style="list-style-type: none"> ▼ business ratepayers affected by continuing the levy will have their rates rise by less than the rate peg ▼ 73% of surveyed business respondents and 93.5% of workshop attendees supported continuing the levy.⁹
3. Impact on affected ratepayers must be reasonable, having regard to both current rate levels, existing ratepayer base and proposed purpose of the variation. The proposed rate increases must be affordable, having regard to the local community's capacity to pay.	The impact seems reasonable given that business ratepayers support continuation. However, business rates are higher than DLG Group and NSW averages, and the council's hardship provisions do not apply to them. ¹⁰
4. Latest available Delivery Program and Long Term Financial Plan (LTFP) must show evidence of realistic assumptions.	Assumptions in the draft LTFP (to be adopted in June 2013) seem realistic. ¹¹
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 reported past productivity and cost savings and its intended savings in the future. ¹²
6. Other relevant matters.	None.

⁷ Application Part B, pp 9 and 16.

⁸ Application Part B, pp 12-15, and Attachment 1, Attachment 3, Attachment 6 and Attachment 7.

⁹ Application Part B, p 16.

¹⁰ Appendix B, and Application Part B, p 19.

¹¹ Application Part B, p 21.

¹² Application Part B, pp 23-24.

1.4 What does our decision mean for the council?

Our decision means that Lismore City Council can increase its general income by an estimated \$965,019 in 2013/14. Of this, \$106,102 is attributable to the 0.42% increase above the rate peg. This increase will be incorporated into the council's revenue base for 5 years.¹³

From 2014/15 to 2017/18, the council's permissible general income will increase by the rate peg, unless we approve further special variations.¹⁴ On 30 June 2018, this income will be reduced to what it would otherwise have been without this special variation.

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

Adjusted notional general income 2012/13 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2013/14 (\$) ^a
25,262,263	3.82	965,019	26,226,420

a Permissible general income refers to the maximum general income that the council can generate in the year. It equals the previous year's notional general income level adjusted for any expiring special variation, other adjustments (prior year catch ups, excesses, valuation objections and income adjustments for Crown land) plus the annual dollar increase permitted by the proposed special variation percentage. Permissible income in 2013/14 includes an adjustment deduction of \$862.

Source: Application Part A, Worksheet 1 and 4.

1.5 What does our decision mean for ratepayers?

Only the small proportion of urban and inner CBD business ratepayers pay the levy for the Business Promotion Program, which the council is renewing.

If the council changes its rates as indicated in its application, average ordinary rates in each ratepayer category (with the exception of the Inner CBD and Urban business categories) will increase in 2013/14 approximately in line with the rate peg of 3.4%.¹⁵

The increase in average rates in the Inner CBD and Urban business categories are less than the rise in general income (3.82%) because the special variation continues an existing levy which ratepayers in these categories are already paying. If the special variation had not been approved, these average rates would have increased by only 1.2%, including the rate peg.¹⁶

¹³ Application Part A, Worksheet 1.

¹⁴ Application Part A, Worksheet 1, 4 and 6. The actual general income in future years will be influenced by a range of factors including the rate peg, the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils.

¹⁵ Application Part A, Worksheet 5.

¹⁶ Application Part A, Worksheet 5 and IPART calculations.

Table 1.4 sets out the increases in average rates for each ratepayer category, as set out in the council's application. The actual impact on rates is a matter for the council to decide, consistent with our determination.

Table 1.4 Lismore City Council – Indicative rate increases in 2013/14 as a result of the approved special variation, by ratepayer category

	2012/13 ^a	2013/14
Average residential rates – Urban/Village (\$)	1,023	1,058
\$ Increase		35
% Increase		3.42
Average residential rates – Rural (\$)	1,275	1,319
\$ Increase		44
% Increase		3.45
Average business rates – Inner CBD (\$)	7,407	7,654
\$ Increase		247
% Increase		3.33
Average business rates - Urban (\$)	3,829	3,956
\$ Increase		127
% Increase		3.32
Average business rates - Other (\$)	1,540	1,592
\$ Increase		52
% Increase		3.38
Average business rates – Nimbin (\$)	2,133	2,206
\$ Increase		73
% Increase		3.42
Average farmland rates (\$)	2,060	2,130
\$ Increase		70
% Increase		3.40

^a 2012/13 is included for comparative purposes.

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

A Lismore City Council's Program of Expenditure

The following table shows the total budget relating to the Lismore Business Promotion Program Business Plan. The program is also funded directly by the council and from sponsorships.¹⁷

Table A.1 5-Year budget for the Lismore Business Promotion Program (\$)

	2013/14	2014/15	2015/16	2016/17	2017/18
Marketing	80,000	80,000	82,000	82,000	82,000
Events	80,000	80,000	82,000	82,000	82,000
Place-making	32,000	36,000	37,000	37,000	37,000
Business and Community	40,000	42,000	44,500	44,500	44,500
Contingency	8,080	8,082	8,527	8,527	8,527
CCM employment	87,920	90,118	92,821	95,605	98,743
Total	328,000	336,200	346,848	349,632	352,770

Source: Application Part B, Attachment 9.

¹⁷ For more detail see Application Part B, Attachments 8 and 9.

B Comparative indicators

Table B.1 Select comparative indicators for Lismore City Council, 2011/12

	Lismore City Council	DLG Group 4 average ^a	NSW average
General profile indicators			
Area (km ²)	1,289	-	-
Population	44,282	-	-
General Fund expenditure from continuing operations (\$m)	71.9	-	-
General Fund operating revenue per capita (\$)	1,555	1,414	2,011
Rates revenue as % total General Fund income (%)	37.4	40.6	45.7
Average rate indicators^b			
Average rate – residential (\$)	980	840	685
Average rate – business (\$)	3,864	3,023	2,552
Average rate – farmland (\$)	1,984	1,735	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	36,297	41,104	44,140
Growth in average annual income, 2006-2010 (% pa)	3.1	3.2	3.0
Ratio of average residential rates 2011/12, to average annual income, 2010 (%)	2.7	2.1	1.6
SEIFA, 2011 (NSW rank; 153 least disadvantaged)	66		
Outstanding rates and annual charges ratio (incl water and sewerage charges) (%)	11.6 ^d	5.7	7.0
Productivity indicators^e			
Total FTE staff (number)	397	315	293
Ratio of population to FTE	112	125	126
Average cost per FTE (\$)	70,766	74,599	74,438
Employee costs as % ordinary expenditure - General Fund only (%)	32.6	37.1	36.8
Consultancy/contractor expenses (\$m)	-	5.3	6.9
Consultancy/contractor expenses as % ordinary expenditure (%)	-	6.7	9.3

^a DLG Group 4 is a category of Urban Small to Medium Regional Town or City councils with a population of up to 70,000. This group comprises 30 councils including Bega Valley, Kiama, Shellharbour, Orange, Kiama and Great Lakes.

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

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

^d DLG Lismore City Council, *General Purpose Financial Report for the year ended 30 June 2012*, Note 13.

^e Based upon total council operations and finances ie, General Fund and if applicable, Water and Sewer, and other funds (eg, Airports). 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.