



Independent Pricing and Regulatory Tribunal

Richmond Valley 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).

Richmond Valley Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested an increase of 12.3% in 2014/15 followed by annual increases of 5.5% over the subsequent 4 years, or a cumulative increase of 39% by 2018/19.

After assessing its application, we decided to approve the variation as requested. We made this decision under section 508A of the Act.

Box 1.1 The Guidelines for 2014/15

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

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

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

Our decision enables the council to pursue its capital works and financial sustainability program, which it adopted after consultation on its Integrated Planning and Reporting (IP&R) documents and the proposed special variation.

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

1.1 Our decision

We determined that Richmond Valley Council may increase its general income by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.3% in 2014/15 and an assumed 3.0% in each of the following years). The cumulative increase of 39% is 26% more than the rate peg over these years.

After the last year of the special variation (2018/19), the increases will remain permanently in the council's rate base.

The annual increases in the dollar amounts reflect the percentage increases we have approved and any adjustments to the council's general income that occur as a result of various catch-up and valuation adjustments.

Table 1.1 IPART's determination on Richmond Valley Council's special variation for 2014/15 to 2018/19

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				8,808,534
2014/15	12.3	12.3	1,083,315	9,891,849
2015/16	5.5	18.5	544,052	10,435,900
2016/17	5.5	25.0	573,975	11,009,875
2017/18	5.5	31.9	605,543	11,615,418
2018/19	5.5	39.1	638,848	12,254,266

Source: Richmond Valley Council Part A Worksheets 1 and 6.

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 summarises these conditions.

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Richmond Valley Council's application for a special variation over the period from 2014/15 to 2018/19 is subject to the following conditions:

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

2 What did the council request and why?

Richmond Valley Council applied to increase its general income by a cumulative 39% over the 5-year period from 2014/15 to 2018/19, and to permanently incorporate this increase into its general income base.

The council estimated that if its requested special variation is approved, its permissible general income will increase from \$8.8m in 2013/14 to \$12.2m in 2018/19. This will generate additional revenue of \$7.3m above the rate peg increase over 5 years.

The council intends to use the additional revenue above the rate peg to improve its financial sustainability and to fund its capital works program. The additional revenue from the special variation will be used primarily to fund road infrastructure renewals, car parking upgrades, and enhancements to riverfront public spaces.

During the 5 year period, the council will spend \$11.5m on its capital works program of which \$7.3m is funded by the special variation and \$4.2m is funded by loans.²

² Richmond Valley Council, *Section 508A Special Variation Application 2014/15 – Part B* (Richmond Valley Application Part B), p 2, Richmond Valley Council Application Part A Worksheet 6.

The remainder of the extra revenue (23%) is used to fund a number of other projects, which include:

- ▼ playground and public toilet maintenance
- ▼ skate park upgrades
- ▼ cultural and art facility improvements
- ▼ Casino Showground upgrade
- ▼ public wireless internet
- ▼ economic development planning
- ▼ information technology upgrades ('IT innovation fund').³

More detail on the council's proposed program of expenditure to 2018/19 is provided in Appendix A.

3 How did we reach our decision?

We assessed Richmond Valley 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.

Richmond Valley Council has applied on the basis of its adopted IP&R documents, in particular its Delivery Program, Long Term Financial Plan (LTFP) and Asset Management Plan (AMP).

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.

We found that the application met the criteria. 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 evidence that the community is aware of the need for and extent of the rate rise, and that it had considered the community's willingness to pay the proposed rate rises.
3. The impact of the proposed rate rises on ratepayers is significant, but not unreasonable given that the council has taken account of ratepayers' capacity to pay.
4. The council made realistic assumptions in its financial projections.

³ Richmond Valley Council Application Part A Worksheet 6.

5. The council reported productivity savings in past years, but had not provided information on how it will realise further savings during the period of the special variation.

Table 3.1 summarises our assessment against the criteria.

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>	<ul style="list-style-type: none"> ▼ The Community Strategic Plan identifies the need to improve road infrastructure and foster economic development and local employment.^a ▼ The council has an infrastructure backlog of \$18 million (6.1% of general fund assets).^b ▼ Without the special variation, the council’s operating position will improve from a 10% deficit to 3%. With the special variation, the council will reach surplus by 2020/21.^c ▼ Council has explored debt funding options, and plans to borrow \$4 million to further fund infrastructure backlogs.^d
<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>	<ul style="list-style-type: none"> ▼ Council sent out a letter to ratepayers about the rate increase. The letter contained the annual (but not cumulative) percentage and dollar increases, and the projects funded. ▼ A survey of 400 ratepayers found that 74% were aware of the proposal and 66% were at least ‘somewhat supportive’ of the proposal.^e ▼ We received 75 written submissions, including one petition with 357 signatures. ▼ The rate increase is explained on council’s website and the council posted an online survey, which had 16 participants.^f ▼ Council consulted based on an expenditure of \$13 million but subsequently reduced this to \$11.5m.^g The expenditure is funded by both the special variation and loans. ▼ The council’s consultation materials did not state the cumulative increase to ratepayers. ▼ The council’s proposal has been covered by newspapers in the local area.^h
<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>	<ul style="list-style-type: none"> ▼ The proposal will have a significant but reasonable impact on ratepayers. ▼ Average ratepayer income is relatively low and SEIFA ranking is the 2nd lowest in its OLG Group.ⁱ ▼ The council’s rates are currently significantly lower than neighbouring councils.^j ▼ Submissions have stated that the rating structure will have a large impact on ratepayers in Evans Head, a coastal town with a population of approximately 3500 people. Property values in Evans Head are much higher than the rest of the LGA.^k

Criterion	IPART findings
4. Delivery Program and LTFP must show evidence of realistic assumptions.	<ul style="list-style-type: none"> ▼ Under the rate structure, properties with high land values will bear a much higher increase compared to lower valued properties.^l However, high value properties comprise a very small portion of the ratepayer base. ▼ The council's Delivery Program and LTFP generally shows realistic assumptions compared to TCorp benchmarks. ▼ Utilities were assumed to increase 6% per annum, which is much larger than the TCorp benchmark of 2.5%.^m However, this appears to be primarily driven by large previous increases in the cost of electricity (increasing by 13% per annum).ⁿ
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.	<ul style="list-style-type: none"> ▼ Council has undergone restructuring and FTEs have decreased by 13.5% between 2009 and 2012. The council's current cost per FTE (\$71,657) is comparable to peer councils (\$71,116). ▼ The council has discontinued a loss making bridge fabrication business, saving a million dollars per year.^o ▼ There is no information on how the council proposes to achieve further productivity savings in future years.
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.	N/A

^a Richmond Valley Council, *Community Strategic Plan, Towards 2025*, p 10.

^b Richmond Valley Council, *2012/13 Financial Statements*, Special Schedule 7.

^c Richmond Valley Council, *Long Term Financial Estimates 2013/2025*, Richmond Valley Council Resourcing Strategy 2013-2025, adopted 18 February 2014, and IPART calculations.

^d Richmond Valley Council, *Section 508A Special Variation Application 2014/15 – Part B* (Richmond Valley Application Part B), p 13.

^e Richmond Valley Application Part B, Attachment, Special Variation survey prepared by Micromex Research, December 2013, pp 10, 12.

^f Richmond Valley Application Part B, Attachment, Website survey data, 18 February 2014.

^g Richmond Valley Application Part B, p 46.

^h Richmond Valley Application Part B, p 50.

ⁱ ABS, Socio Economic Indexes for Areas (SEIFA) 2011, March 2013; OLG, unpublished comparative data, 2011/12.

^j Richmond Valley Council, *Section 508A Special Variation Application 2014/15 – Part B* (Richmond Valley Application Part B), pp 27-28.

^k Standard Form Letter in submissions to Richmond Valley Council, p 5.

^l Richmond Valley Council Application Part A Worksheets 5a and 5b.

^m Richmond Valley Council, *Long Term Financial Estimates 2013/2025*, Richmond Valley Council Resourcing Strategy 2013-2025, adopted 18 February 2014, p 1. New South Wales Treasury Corporation, *Richmond Valley Council Financial Sustainability Assessment and Benchmarking Report*, 16 April 2013, p 23.

ⁿ Richmond Valley Application Part B, p 41.

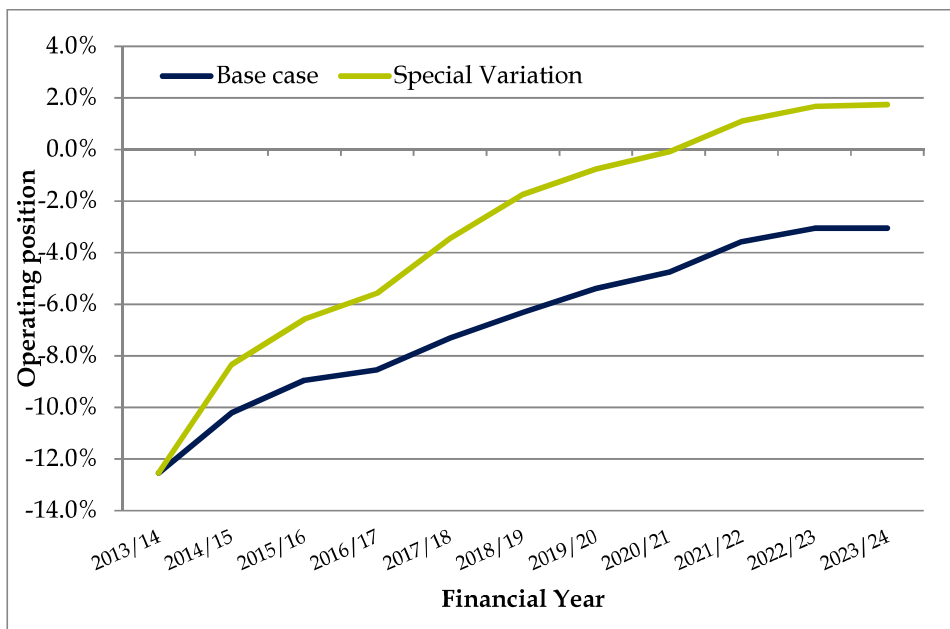
^o Richmond Valley Application Part B, pp 40-41.

3.1 Need for and purpose of the special variation

The need for and purpose of the requested special variation is set out in the council's IP&R documents and specifically identified in its Delivery Program, and LTFP. The purpose of the special variation is for financial sustainability, maintaining existing services, infrastructure renewals, and economic development projects.

The additional revenue from the special variation is projected to bring the operating balance from deficit to surplus within 10 years (Figure 3.1). With the special variation, the operating balance will improve from a 8% deficit in the initial year to a 2% surplus in 2023/24.⁴

Figure 3.1 Richmond Valley Council's forecast operating position



⁴ Richmond Valley Council, *Long Term Financial Estimates 2013/2025*, Appendix G Richmond Valley Council Resourcing Strategy 2013-2025, adopted 18 February 2014, and IPART calculations. In April 2013, NSW Treasury Corporation (TCorp) assessed the council's current financial position as weak and its outlook as 'negative'. NSW Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18. The council's financial outlook has improved since then, primarily because of an increase in operating grants in 2013/14.

The need for the council's capital improvement projects is supported by the Community Strategic Plan and Delivery Program. The Community Strategic Plan was informed by a random survey of 300 residents undertaken during March 2013.⁵ It identified that:⁶

- ▼ 'Maintaining local roads', and 'economic development and local employment' were considered very important by the community and had some of the lowest satisfaction rates.
- ▼ Car parking and playground maintenance are considered moderately important and had low satisfaction rates.

3.2 Community engagement and awareness

We consider that on balance, the council has met this criterion. It has shown that it took reasonable steps to make the community aware of the need for and extent of the special variation, including using a variety of engagement methods and providing opportunities for feedback.

There was considerable opposition to an increase in rates above the rate peg. The ratepayers opposed to the rate rise are predominantly located in Evans Head. Evans Head ratepayers pay relatively high rates because Evans Head is a coastal town that has on average much higher property values than the rest of the LGA.⁷

The council's community engagement strategy included two options; no special rate variation and the full increase sought by council. The form letters we have received support a third option involving a smaller rate increase to fund road renewals only.

After revising its forecast debt position and considering ratepayer submissions, the council revised its Delivery Program down by \$1.5 million (from \$13m to \$11.5m) before its adoption in 18 February 2014.⁸ However, this did not result in a reduction in the rate increases sought. The council has stated that there cannot be a reduction in the rate increases due to the need to maintain its forecast debt service ratio below 10%.⁹

⁵ Richmond Valley Application Part B, Attachment, *Richmond Valley Council Community Strategic Plan Community Priorities Research*, March 2013, p 4.

⁶ Richmond Valley Council, *Community Strategic Plan, Towards 2025*, p 10.

⁷ Standard Form Letter in submissions to Richmond Valley Council, p 5.

⁸ Richmond Valley Application Part B, pp 9, 46.

⁹ Email correspondence between the council and IPART, 14 April 2014.

Community engagement

The council's current suite of IP&R documents was adopted in February 2014. The Community Strategic Plan explained the nature and the need for the rate rise, and explored funding alternatives. The Delivery Program described each project that would be funded by the special variation and how the outcomes would be measured.

Richmond Valley's General Manager sent out a letter to ratepayers (dated 20 November 2013) detailing the special variation. The letter outlined:

- ▼ the annual percentage rate increases (but not the cumulative increase)
- ▼ the projects to be funded by the special variation
- ▼ the dollar impact on rates per week for each rating category.¹⁰

From 9 December 2013 to 10 December 2013 the council held two community meetings in Casino and in Evans Head.¹¹ Nine people attended the Casino meeting and seven people attended the Evans Head meeting.¹² The council stated that the low attendance may indicate that ratepayers are not unduly concerned about the rate increases.

Outcome of consultation on rate rise

The council received 36 written submissions and 15 online submissions through its website.¹³ We received 75 written submissions.¹⁴ Most of the submissions were from ratepayers from Evans Head and rural residents.

The submissions raised issues about the proposal's excessive impact on ratepayers and dissatisfaction with the council's consultation. Virtually all of the petition signatures and form letters opposing the rate rise were from ratepayers in Evans Head. We note that Evans Head is the council's only coastal town and has much higher property values compared to the rest of the LGA.¹⁵ Many submissions stated that it is inequitable that Evans Head ratepayers bear most of the rates increase even though their income levels are low.

¹⁰ Richmond Valley Application Part B, Attachment, General Manager's letter to ratepayers, 20 November 2013.

¹¹ Richmond Valley Application Part B, p 20.

¹² Richmond Valley Application Part B, p 22.

¹³ Richmond Valley Application Part B, p 23. Richmond Valley Application Part B, Attachment, Website survey data, 18 February 2014.

¹⁴ IPART, *Number of public submissions received by IPART – 2014/15 Special Variations*, http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Special_Variations_and_Minimum_Rates/Applications_Determinations/Number_of_public_submissions_received_by_IPART_-_201415_Special_Variations.

¹⁵ Standard Form Letter in submissions to Richmond Valley Council, p 5.

To assess community awareness and willingness to pay, the council engaged Micromex to conduct a random telephone survey of 400 people during December 2013. The Micromex survey showed that:¹⁶

- ▼ 74% were aware of the council's proposal.
- ▼ 66% of ratepayers were at least 'somewhat supportive' of the rate rise, more specifically:
 - 12% were 'very supportive'
 - 28% were 'supportive'
 - 26% were 'somewhat supportive'.
- ▼ 34% of ratepayers were not supportive of the rate rise, more specifically:
 - 16% were 'not very supportive'
 - 18% were 'not at all supportive'.

Neither the survey nor the General Manager's letters set out the cumulative percentage or dollar increases to rates. The council's consultation materials identified each yearly increase in dollar and percentage terms, but did not present the cumulative increases. However, we consider that the community was adequately aware of the size of the rate increase.

3.3 Reasonable impact on ratepayers

The cumulative percentage increase requested by the council is relatively high. However, because the council's rates are relatively low compared to similar councils, we judged the overall impact to be reasonable.

We compared Richmond Valley to a sample of 2 adjoining non-coastal councils and 9 nearby coastal councils.¹⁷ We decided not to use OLG Group 4 averages because the group contains 30 councils across NSW, of which few would be considered comparable to Richmond Valley Council.

Average taxable income in Richmond Valley is about 5% lower than the average of our sample of nearby councils (Table 3.2) but its SEIFA ranking (7) is the 2nd lowest.¹⁸ Table 3.2 compares several socioeconomic indicators for Richmond Valley and its peer councils. The indicators suggest to us that ratepayers in the LGA have very limited capacity to pay. However, the outstanding rates ratio for Richmond Valley indicates that ratepayers are better able to meet payments than in most nearby councils.

¹⁶ Richmond Valley Application Part B, Attachment, Special Variation survey prepared by Micromex Research, December 2013, pp 10, 12.

¹⁷ These councils are: Ballina Shire Council, Clarence Valley Council, Kyogle Council, Lismore City Council, Nambucca Shire Council, Coffs Harbour City Council, Bellingen Shire Council, Tweed Heads Shire Council, Kempsey Shire Council, Port Macquarie-Hastings Council, Greater Taree City Council.

¹⁸ OLG, unpublished data.

Table 3.2 Comparison of Richmond Valley Council's levels of social advantage with peer councils

Council	Average income	SEIFA	Outstanding rates ratio^a	Average residential rates as a % of income
Richmond Valley Council	\$32,991	7	0.04	1.8%
Ballina Shire Council	\$38,541	99	0.09	1.8%
Bellingen Shire Council	\$32,648	55	0.06	2.4%
Clarence Valley Council	\$33,467	13	0.06	2.3%
Coffs Harbour City Council	\$36,684	70	0.05	2.2%
Greater Taree City Council	\$35,296	12	0.06	2.2%
Kempsey Shire Council	\$32,976	4	0.05	2.0%
Kyogle Council	\$29,920	11	0.12	2.2%
Lismore City Council	\$36,297	66	0.09	2.7%
Nambucca Shire Council	\$31,286	9	0.06	2.4%
Port Macquarie-Hastings Council	\$37,236	75	0.08	2.4%
Tweed Shire Council	\$36,964	68	0.07	2.9%
Average	\$34,526	41	0.07	2.3%

^a Outstanding rates ratio is the ratio of rates outstanding to rates collectable.

Source: OLG, unpublished data.

The council's consideration of impact on ratepayers

The council's average residential rates were \$604 in 2011/12, which is much lower than the sample average of \$791.¹⁹ Because the rates increase will be on a relatively low base, the council argues that the cumulative increase of 39% will have a reasonable impact on ratepayers.

The council has a financial hardship policy in place that allows rate payments to be deferred and for interest not being charged on arrears for a set period of time. Interest might also be written off in part or in full at the council's discretion.

Our assessment of impact on ratepayers

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories.

Since 2003/04 the council has applied for and been granted 2 special variations. The successful applications were for:

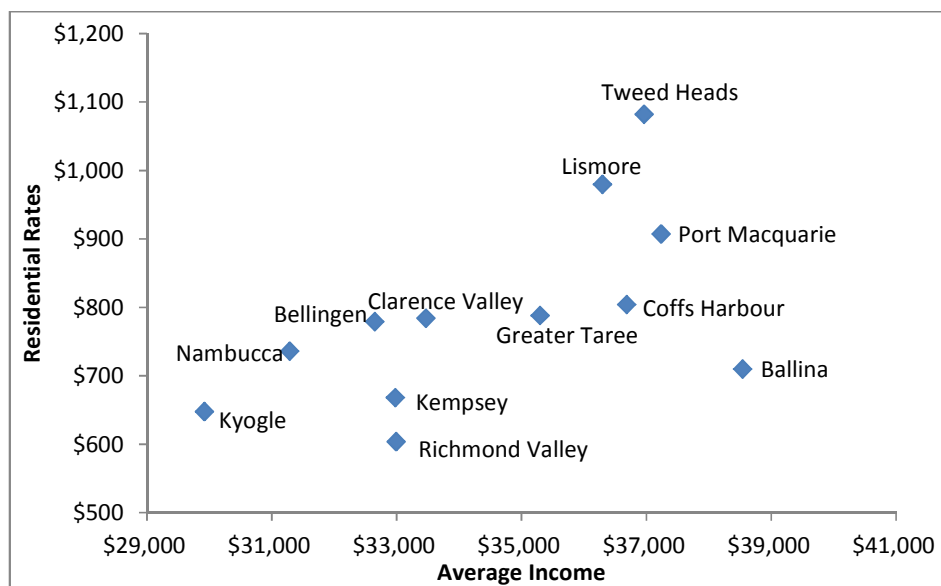
- ▼ a permanent increase of 12.71% in 2004/05
- ▼ a permanent increase of 10.06% in 2007/08.²⁰

¹⁹ OLG, unpublished data and IPART calculations.

²⁰ OLG, unpublished data.

However, despite the two past rate increases the council's rates remain relatively low. Figure 3.2 shows that the council's average residential rate is low compared to neighbouring and similar coastal councils when considering income levels.

Figure 3.2 Average residential rates relative to income levels – selected councils (2011/12)



Source: OLG, unpublished data.

Submissions from Evans Head residents indicated that the council's rating structure will mean that the rate increase will have a large impact on them.²¹ We found that properties with higher land values will bear higher percentage increases.²² For example, the cumulative increase on properties worth over \$400,000 range from 60 to 68%, while the increases for properties below \$200,000 range from 24 to 44%.²³

However, properties with high land values comprise a relatively small proportion of the ratepayer base (properties over \$400,000 comprise 2.7% of total property assessments).²⁴ We consider that on balance, the overall impact on the community is reasonable in the context of existing rate levels and the need for the special variation.

²¹ For example, Standard Form Letter in submissions to Richmond Valley Council, p 5.

²² IPART calculations based on Richmond Valley Council Application Part A Worksheet 5b.

²³ Richmond Valley Council Application Part A Worksheet 5b.

²⁴ Most ratepayers in the LGA have relatively low land values. 6,554 properties are worth under \$200,000, while only 210 properties are worth over \$400,000. Richmond Valley Council Application Part A Worksheet 5b.

4 What does our decision mean for the council?

Our decision means that Richmond Valley Council may increase its general income over the 5-year period from \$8.81m in 2013/14 to \$12.25m in 2018/19 (see Table 1.1). After 2018/19, all other things being equal, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.²⁵

The council estimates that over these 10 years, the additional rates revenue will accumulate to \$19.4m above the rate peg.²⁶ This extra income would allow the council to eliminate its operating deficit after 6 years while maintaining the level of services and assets its community expects, and to make progress in addressing its asset backlog (Figure 3.1).

5 What does our decision mean for ratepayers?

We set the allowable increase in general income, but it is a matter for each individual council to determine how it allocates any increase across different categories of ratepayer, consistent with our determination.

In its application, Richmond Valley Council indicated that it intended to increase rates over the 5 years differently for each category as discussed above.

The council has calculated that average rates across all rating categories will increase by a cumulative 39%, or between \$71 and \$244 in the first year, and between \$226 and \$774 over 5 years.²⁷

Table 5.1 shows how much average rates are expected to increase in each main ratepayer category. The actual impact of our determination on rates is a matter for the council to decide, but the overall impact across the ratepayer base will be consistent with our determination.

²⁵ 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.

²⁶ Richmond Valley Council Application Part A Worksheet 6 and IPART calculations.

²⁷ Richmond Valley Council Application Part A Worksheet 5b.

Table 5.1 Indicative annual increases in average rates as a result of the determination

Year	Residential		Rural Residential		Business		Farmland	
	%	\$	%	\$	%	\$	%	\$
2014/15	12.1	86	12.3	71	12.4	244	12.4	140
2015/16	5.5	44	5.5	36	5.5	122	5.5	70
2016/17	5.5	46	5.5	38	5.5	129	5.5	74
2017/18	5.5	49	5.5	40	5.5	136	5.5	78
2018/19	5.5	51	5.5	42	5.5	143	5.5	82

Source: Richmond Valley Council Application Part A Worksheet 5a.



Appendices

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

Tables A.1 and A.2 show Richmond Valley Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue of \$19.3m over 10 years) to fund:

- ▼ \$3.4m of extra operating expenditure (Table A.1), and
- ▼ \$9.1m of capital expenditure (Table A.2).

The balance of the funds will be used for reserve transfers, loan repayments, and further deficit reduction.

The council will indicate in its Annual Reports how its actual expenditure has evolved relative to its proposed program of expenditure.

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

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
1. Special variation income above rate peg	881	1,200	1,543	1,912	2,308	2,308	2,308	2,308	2,308	2,308	19,382
2. Funding for increased operating expenditures	225	321	383	429	444	392	363	333	302	272	3,465
3. Funding to reduce operating deficits	656	878	1,159	1,483	1,864	1,916	1,945	1,974	2,006	2,035	15,917
4. Funding for capital expenditure	530	640	955	1,068	1,330	890	915	1,040	840	857	9,065
5. Balance of funding for reserve transfers, loan repayments, and further deficit reduction	126	238	204	415	534	1026	1030	934	1166	1179	6852

Note: Funding for operating deficits (item 3) is increased revenue from the special variation (item 1) subtracted by expenses (item 2). Funding to reduce operating deficits can be used for capital expenditure (item 4) or to increase the council's cash reserves (item 5).

Source: Richmond Valley Council Application Part A, Worksheet 6 and IPART calculations.

Table A.2 Proposed capital program related to the special variation (\$'000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Gravel Road Resheeting	100				135						235
Sealed Rural Roads Backlog					0	350	375	500	300	306	1,831
Public Toilet Refurbishment	40				40	40	40	40	40	41	281
Playground Replacement		20									20
Renewals Facilities and Parks	60				100	100	100	100	100	102	662
Ongoing Infrastructure Backlog					300	300	300	300	300	306	1,506
Total Asset Renewal	200	20	0	0	275	790	815	940	740	755	4,535
Casino Riverfront Amphitheatre & Footbridge			650	400							1,050
Casino Crawford Square Regional Park Development				150							150
Casino Showground Upgrades		100									100
Casino Skatepark		240									240
Coraki Riverfront					355						355
Evans Head Skatepark	100										100
Woodburn Riverfront					470						470
Woodburn Skatepark	80										80
Casino Carparking		130	160	160	130						580
Evans Head CBD Carparking			258								258
Total Asset Upgrades	180	470	810	968	955	0	0	0	0	0	3,383
Cultural and Art Facilities	25	25	20	25	25	25	25	25	25	26	246
Sealing of Unsealed Urban Roads	75	75	75	75	75	75	75	75	75	77	752
Public Wi-Fi	50	50	50								150
Total New Assets	150	150	145	100	100	100	100	100	100	102	1,147

Source: Richmond Valley Council Application Part A, Worksheet 6.

B Richmond Valley Council's projected revenue, expenses and operating balance

The council will also 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 Richmond Valley 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	37,700	39,262	40,838	42,400	43,920	45,152	46,415	47,714	49,023	50,003
Total expenses	40,846	41,846	43,110	43,859	44,686	45,498	46,458	47,190	48,206	49,134
Operating result from continuing operations	(3,146)	(2,584)	(2,272)	(1,459)	(766)	(346)	(43)	525	817	869

Source: Richmond Valley Council, Long Term Financial Estimates 2014-15 - 2023-24, adopted 18 February 2014, pp 3, 16.

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 Richmond Valley Council have changed over the 3 years to 2011/12.

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

	2009/10	2010/11	2011/12
Productivity (labour input) indicators^a			
FTE staff (number)	220	202	198
Ratio of population to FTE	104	114	115
Average cost per FTE (\$)	66,191	68,149	71,657
Employee costs as % operating expenditure (General Fund only) (%)	32.4	36.1	30.3
Consultancy/contractor expenses (\$m)	0	0	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 latest selected published data on Richmond Valley 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 Richmond Valley Council, 2011/12

	Council	OLG Group 4 average ^a	NSW average
General profile			
Area (km ²)	3,058		
Population	22,697		
General Fund operating expenditure (\$m)	40		
General Fund operating revenue per capita (\$)	1,544	1,441	2,011
Rates revenue as % General Fund income (%)	25.2	40.1	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	604	837	685
Average rate – business (\$)	1,648	2,976	2,552
Average rate – farmland (\$)	1,034	1,724	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	32,991	40,981	44,140
Growth in average annual income, 2006-2010 (% pa)	3.3	3.2	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.8	2.1	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	7	Na	na
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	4.5	5.7	7
Productivity (labour input) indicators^d			
FTE staff (number)	198	310	293
Ratio of population to FTE	115	121	126
Average cost per FTE (\$)	71,657	74,511	74,438
Employee costs as % operating expenditure (General Fund only) (%)	30.3	37.4	36.8
Consultancy/contractor expenses (\$m)		5.1	6.9
Consultancy/contractor expenses as % operating expenditure (%)		6.7	9.3

^a OLG Group 4 is classified 'Regional Town/City' with a population of up to 70,000. The group comprises 32 councils of which the most comparable to Richmond Valley are Port Macquarie-Hastings, Clarence Valley and Ballina Councils.

^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.

RICHMOND VALLEY COUNCIL'S SPECIAL RATE VARIATION APPROVED

3 June 2014

The Independent Pricing and Regulatory Tribunal (IPART) has approved Richmond Valley Council's application to increase general income by more than the rate peg amount of 2.3% to improve local roads, buildings and public spaces.

The council applied for 5 consecutive increases including 12.3% in 2014/15, followed by annual increases of 5.5% in each year from 2015/16 to 2018/19, all including the annual rate peg and to be permanently retained in Richmond Valley's rate base.

The increases will generate an additional \$7.3 million above the rate peg over the next 5 years which will partially fund a planned \$11.5 million capital works program to primarily upgrade roads, parking and riverfront public space.

IPART has imposed conditions on Richmond Valley Council requiring that the additional income be used for the purposes outlined in the application, and that the council report to the community in its Annual Report each year until 2023/24 on the outcomes achieved.

IPART Chairman Peter Boxall said the council's application was assessed against the NSW Government's published criteria. Submissions received directly from ratepayers, community groups, business groups and ratepayer associations were also considered.

"IPART has decided to approve the special variation in full, allowing Richmond Valley Council to increase its general income from rates by 24% above the rate peg over the next 5 years, and to maintain it at this new base level in the future," Dr Boxall said.

Through the rate peg and special variation process, IPART determines the increases to councils' general income. Councils decide how to allocate the increase among all their different ratepayer categories, such as residential, business and rural lands.

Based on Richmond Valley Council's application, average ordinary residential rates will increase, including the rate peg increase, by \$86 in 2014/15, rural residential rates by \$71, business rates by \$244 and farmland rates by \$140 or 10.1% above the rate peg.

Dr Boxall said special variations are designed to give councils the flexibility to generate additional income above the rate peg to meet their specific needs, with an independent assessment process to approve the increase.

"In making this decision, we are conscious that concerns have been raised both with the council and with IPART about the affordability and equity of the increase, and the level of community consultation," Dr Boxall said.

"Each of these issues has been carefully considered and we have determined that Richmond Valley Council's application meets the criteria for approval of the special variation

by demonstrating a clear need for the additional revenue, that it had appropriately engaged the community about the proposed rate increases, and that it took steps to improve productivity and contain costs.

“In making this assessment, we also considered the council's long term financial plan and whether the impact of the variation on affected ratepayers is reasonable.

“We are aware that our decision to approve the increase in general income by 39.1% including the rate peg over the next 5 years is among the biggest percentage increases in NSW,” Dr Boxall said.

“But although these increases are significant, we have determined that they are reasonable under the criteria given that current rates are relatively low compared to similar council areas.”

In approving the application, IPART noted that Richmond Valley Council has a hardship policy that allows rate payments to be deferred without interest for a set period of time.

Richmond Valley Council is one of 32 councils that made an application for a special variation of the 152 councils in NSW. Twenty-eight applications were approved in full, 1 was declined and 3 applications were partially approved. IPART also approved 2 applications for increases to minimum rates and 3 applications for Crown Land adjustments.

The full report on Richmond Valley Council's application is available on the IPART website at www.ipart.nsw.gov.au.

Richmond Valley Council – special rate variation summary

Increase in 2014/15 (including rate peg)	12.3%
Residential rates \$ increase 2014/15	\$86
Summary of reasons	To fund capital improvements, asset maintenance and renewals and improve financial sustainability.
Total cumulative increase over 5 years (including rate peg)	39.1%

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