

Our reference: 11/416
Your reference:

– 26 June 2012

Mr Glenn Wilcox
General Manager
Blayney Shire Council
PO Box 62
Blayney NSW 2799

Dear Mr Wilcox

**BLAYNEY SHIRE
COUNCIL**

29 JUN 2012

Doc. No.

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Sent.

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Contact Alison Milne

**INSTRUMENT OF APPROVAL AND FULL REPORT FOR SPECIAL RATE
VARIATION APPLICATION 2012/13**

I refer to IPART's determination on Blayney Shire Council's application for a special variation in 2012/13 which was issued on 26 June 2012.

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 Blayney Shire Council for your records.

We have attached conditions to our approval, including that general income from non-mining rating categories should not increase by more than the rate peg in 2012/13 and subsequent years, unless a future determination from IPART allows.

If you have any queries, please contact Alison Milne on [REDACTED].

Yours sincerely



James Cox PSM
Chief Executive Officer
and Full Time Member

LOCAL GOVERNMENT ACT 1993
INSTRUMENT UNDER SECTION 508(2)
BLAYNEY SHIRE 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 Blayney Shire Council may increase its general income for the year 2012/2013 is 40.70%.
2. The percentage increase set out in clause 1 above is subject to the following conditions:
 - I. The council uses the Additional Income for the purposes of funding roads, bridges, land acquisition, community infrastructure works and community contributions. The program of works is listed in Appendix A of IPART's determination dated June 2012 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 2012/2013 to 2021/2022 on:
 - a) expenditure on the program of roads, bridges, land acquisition, community infrastructure works and community contributions listed in Appendix A of IPART's Determination;
 - b) the outcomes achieved as a result of the special variation;
 - c) its asset renewal and maintenance expenditure;
 - d) its actual productivity savings achieved; and
 - e) any significant variations from its financial results as forecast in its Long Term Financial Plan and any corrective action taken or to be taken.
 - III. Subject to any subsequent special variation determination made under section 508(2) or section 508A of the Act, the council increases general income from rates levied on rateable land categorised other than as mining land:
 - a) in the 2012/2013 rating year, by no more than 3.6%; and
 - b) in each subsequent rating year, by no more than:
 - i. the percentage specified under section 506 of the Act for the applicable rating year; plus
 - ii. where the council is permitted to catch up a shortfall in general income under section 511 of the Act for the applicable rating year, the amount of the shortfall that

council would have been permitted to levy on rateable land categorised other than as mining land in accordance with this instrument; plus

- iii. where a valuation for a parcel of land categorised other than as mining is reduced on objection, any catch up of general income permitted under section 511A of the Act for the applicable rating year.

[**Note:** The intention of clause III is to ensure that the increase above the rate peg due to this special variation is paid only by the mining ratepayer category, and that other ratepayer categories will not pay the increase above the rate peg, subject to any subsequent special variation determinations. This is consistent with the council's application for this special variation and the council's resolution of 12 June 2012 in relation to its rating structure for 2012/2013. Council may apply to vary this condition by an application made in accordance with any applicable guidelines.]

Dated this 26th day of June, 2012


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



Independent Pricing and Regulatory Tribunal

Blayney Shire Council's application for a special variation 2012/13

Local Government — Determination
June 2012



Independent Pricing and Regulatory Tribunal

Blayney Shire Council's application for a special variation 2012/13

Local Government — Determination
June 2012

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Dr Peter J Boxall AO, Chairman

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

Ms Sibylle Krieger, 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 can increase their general income, which mainly includes 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 provided by the Division of Local Government,¹ and may allow special variations under either section 508(2) or section 508A of the *Local Government Act 1993* (the Act).

Blayney Shire Council made a late application for special variation of 40.7% in 2012/13. The application was prompted by a recent revaluation of land in the Blayney Shire, which had major implications for the council's rates structure and income. We agreed to accept the application due to these unusual circumstances.² After assessing it, we decided to approve the special variation as requested. We made this decision under section 508(2) of the Act.

We note that the council's application indicated that, under its rates proposal, the special variation will affect only 1 mining ratepayer – Newcrest Mining Limited (Newcrest). We also note that the council has consulted with Newcrest prior to making its application, and the company indicated support for the proposal and willingness to pay the higher rates involved.

¹ *Guidelines for the preparation of an application for a special variation to general income in 2012/2013* were issued by Division of Local Government, Department of Premier and Cabinet, September 2011.

² IPART allowed Blayney Shire Council to make a late application by 11 May 2012.

1.1 Our decision

IPART decided that Blayney Shire Council can increase its general income by 40.7% in 2012/13. This increase includes the rate peg of 3.6% that is available to all councils, and will be retained permanently in the council's income base. We have attached conditions to our decision, including that the council uses the increase raised from the special variation for the purposes set out in its application. We have also made it a condition of our approval that the increase above the rate peg will apply only to the mining rate category. We have attached this condition to ensure that the council does not recoup any shortfall in revenue resulting from subsequent revaluations relating to the mining category from other rating categories.

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

Table 1.1 IPART's decision on Blayney Shire Council's application for a special variation in 2012/13 (%)

Increase on mining category to fund road maintenance and improvements, community facilities and community grants	37.1
Rate peg increase	3.6
Total increase	40.7

Box 1.1 Conditions attached to IPART's decision on Blayney Shire Council's application for a special variation in 2012/13

IPART's approval of Blayney Shire Council's application for a special variation in 2012/13 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the program of expenditure outlined in the council's application and listed in Appendix A of this report.
- ▼ The council reports in its annual report for the period from 2012/13 to 2021/22 on:
 - expenditure on the program listed in Appendix A
 - the outcomes achieved as a result of the special variation
 - its asset renewal and maintenance expenditure
 - its productivity savings achieved, and
 - any significant variations from its financial results as forecast in its Delivery Plan and Long Term Financial Plan and any corrective action taken or to be taken.
- ▼ The council only applies the increase above the rate peg to the mining rate category. Total general income from non-mining rate categories will increase by no more than the rate peg, subject to any future special variation determinations.

1.2 What did the council request and why?

Blayney Shire Council requested a special variation of 40.7% in 2012/13, and to permanently incorporate this increase into its general income base. The requested special variation includes an increase of 37.1% to fund road improvements and maintenance, as well as community grants and infrastructure programs, plus the rate peg of 3.6%.³ Table 1.2 shows the components of the requested special variation.

Table 1.2 Components of Blayney Shire Council's requested special variation in 2012/13 (%)

Increase on mining category to fund road maintenance and improvements, community facilities and community grants	37.1
Rate peg increase	3.6
Total increase	40.7

The council's application was prompted by the Valuer General of NSW's revaluation of land in the Blayney Shire, issued in January 2012. The revaluation resulted in a large increase in the land value of the Cadia Valley Operations gold and copper mine site, which is owned by Newcrest. This value increased by 246%, from \$12.2m to \$41.7m.⁴

The revaluation had major implications for the council because:

- ▼ it determines its ratepayers' annual rates by applying an ad valorem (or fixed percentage) rate to their land value, and
- ▼ without a special variation, it is only permitted under the Act to increase its general income by the annual rate peg.

In other words, the large increase in the land value of the mine site meant that, without a special variation, the council would have had to reduce the ad valorem rate applied to mining ratepayers in 2012/13 (and/or reduce rates for other ratepayers) to keep the increase in its general income in line with the 3.6% rate peg in 2012/13.

Rather than do this, the council consulted Newcrest, and received its support to retain the existing ad valorem rate for the mining rate category, and apply this rate to the increased land value of the mine site. The council then applied to IPART for a special variation that would allow it to do this.⁵

³ The rate peg set by IPART for 2011/12 is 3.6%. The rate peg for 2013/14 will be determined by IPART in December 2012.

⁴ Email from Blayney Shire Council to IPART, 6 June 2012 and IPART calculations. The valuations take effect from 1 July 2012 for rating purposes.

⁵ A supplementary valuation can be made under section 49 of the *Valuation of Land Act 1916*. According to the council a supplementary valuation would have allowed the council to include the revaluation amount in the permissible income calculation for 2012/13 (Blayney Application Part B, pp 3-4).

The council estimated that the requested increase above the rate peg will generate an additional \$1.7m in revenue in 2012/13, and an additional \$18.1m over 10 years.⁶ It proposed to use the additional revenue over 10 years to meet needs arising from increased mining activity in the Blayney Shire. In particular, it proposed to fund:

- ▼ maintenance and improvements to roads and bridges along 3 routes that service the Cadia Valley mine (\$14.2m)⁷
- ▼ a community infrastructure program (\$2.9m)⁸
- ▼ a community contributions program (\$1.0m)⁹.

Appendix A sets out in detail the council's proposed program of expenditure relating to the special variation.

1.3 How did we reach our decision?

We assessed Blayney Shire Council's application against criteria included in the Guidelines. We found that the application satisfactorily meets these criteria. However, in relation to Criterion 1, we note that the council's asset management planning is in its early stages. We recommend the council continue to work on its asset management planning.

Table 1.3 summarises our findings against each criterion.

⁶ Blayney Application Part A, Worksheet 6. It is not possible to determine the council's future general income with precision. A council's actual general income is affected by many factors, including the rate peg, the number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils.

⁷ Blayney Application Part B, pp 5-9.

⁸ Blayney Application Part B, p 10.

⁹ Blayney Application Part A, Worksheet 6.

Table 1.3 Summary of IPART's assessment against the criteria in the Guidelines

Criterion	IPART findings
1. Demonstrated need for the rate increase implied by the special variation	<p>The council demonstrated a need for the program of expenditure to be funded by the special variation. However, we encourage it to continue work to determine its future strategic needs. We note that:</p> <ul style="list-style-type: none"> ▼ The council's asset management planning is still in its early stages. Given the magnitude of the projects to be funded by the special variation, and the projected growth in the mine tonnages, we suggest the council undertake more thorough asset planning. ▼ The special variation percentage appears to have been determined by the revaluation of the Newcrest mine site. We suggest that the size of any future requested special variations should reflect the need derived from asset management planning and demand for services (eg, roads).
2. Adequate community consultation regarding the special variation	<p>The component of the increase above the rate peg (37.1%) will apply to a single ratepayer (Newcrest Mining Limited). The council indicated it has met with this ratepayer and informed it of the application details. The ratepayer has indicated in writing that it supports the application. We consider this consultation to be adequate.</p>
3. Reasonable impact on ratepayers	<p>We considered that the impact on ratepayers is likely to be reasonable because:</p> <ul style="list-style-type: none"> ▼ only one ratepayer will be affected, and it has indicated support for the application ▼ this ratepayer is a large business, and the scale of its recent expansion suggests it has capacity to pay ▼ other ratepayers will, on average, pay an increase in line with the rate peg.
4. Sustainable financing strategy consistent with the principles of intergenerational equity	<p>The special variation will not address the council's long-term sustainability issues. The council does not intend to use debt to fund the program of works related to the special variation; however, it will increase its debt servicing costs within an acceptable range over the period in which the works are conducted.</p> <p>The council's broad financial strategy generally meets this criterion.</p>
5. An explanation of the productivity improvements and cost containment strategies the council has implemented in past years, and is planning over the requested special variation period	<p>The council periodically reviews its internal structure, and has achieved cost savings through council cooperative groups.</p> <p>We have compared the council to similar councils and the NSW council average, and found the council to have below average staffing levels. The council has indicated it does not have scope to reduce staffing levels to achieve productivity gains.</p> <p>We consider the council to be relatively efficient and encourage it to continue to identify cost containment opportunities in the future.</p>

Note: In accordance with the Guidelines, IPART may also consider any other matters it considers relevant in assessing a council's application for a special variation. In the case of Blayney's application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that Blayney Shire Council can increase its general income by approximately \$1.7m in 2012/13. This increase is around \$1.6m more than the increase available from the annual rate peg only, and takes the council's total permissible general income to almost \$5.9m in 2012/13.¹⁰ All other things being equal, after this year, the council's general income will increase by the annual rate peg unless we approve further special variations.¹¹

We have attached conditions to our decision, including that the council uses the increase raised from the special variation for the purposes set out in its application. We have also made it a condition of our approval that the increase above the rate peg will apply only to the mining rate category. We have attached this condition to ensure that the council does not recoup any shortfall in revenue resulting from subsequent revaluations from other rating categories.

1.5 What does our decision mean for ratepayers?

Consistent with Blayney Shire Council's application, our decision will affect one ratepayer only – Newcrest.¹² As discussed in section 1.2 above, the council indicated that it will achieve the increase in its general income above the rate peg by continuing to apply the existing ad valorem rate for the mining rate category to the increased land value of Newcrest's mine site. The other mining ratepayer will not be affected, as its land value has not changed substantially.

The council also indicated that it will apply the 3.6% rate peg increase across all of its rate categories. It also intends to restructure rates in the business category, but this restructuring is not part of the special variation application. Based on the council's application, we estimate that in 2012/13:

- ▼ average residential rates will increase by \$17 (or 2.9%)
- ▼ average business rates will increase by \$81 (or 7.7%), and
- ▼ average farmland rates will increase by \$85 (or 3.6%).¹³

However these rate increases are indicative only, and the actual impact on rates is a matter for the council to determine, consistent with this decision.

¹⁰ Blayney Application Part A, Worksheet 1.

¹¹ As stated in footnote 6, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

¹² Note that while IPART sets the allowable increase in general income, each individual council determines how it will allocate this increase to different categories of ratepayer.

¹³ Blayney Application Part A, Worksheet 5, and IPART calculations.

1.6 What does the rest of this report cover?

The rest of this report discusses the council's application and our assessment and findings in making our decision in more detail:

- ▼ Chapter 2 focuses on the council's application
- ▼ Chapter 3 discusses our assessment against the criteria.

The appendices provide the proposed program of expenditure and a summary of comparative data that we considered in our assessment, such as data on average Local Government Area (LGA) income levels and council staffing levels.

2 Blayney Shire Council's application

Blayney Shire Council applied to increase its general income by 40.7% (including the rate peg of 3.6%) in 2012/13 and to retain the additional income permanently in its income base.¹⁴

The sections below provide some brief background information on the council and its history of special variations. The subsequent sections outline its application for a special variation in 2012/13, how the council proposes to use the additional income it would raise, and how the proposed rate increases would affect different ratepayers.

2.1 About the council

Blayney Shire Council serves an area located in the Central Tablelands of NSW, which covers 1,525 square kilometres and has a population of 6,593. The area includes the town of Blayney and the villages of Millthorpe, Carcoar, Mandurama, Lyndhurst, Neville, Newbridge, Hobbys Yards and Barry. The local economy mainly includes primary industries (dairy, beef, lamb, wool, viticulture, fruit, potatoes, canola and other grain farming), and associated processing and manufacturing industries.¹⁵ There are also 2 mines, the largest of which is the Cadia Valley mine. Mine owner Newcrest recently invested \$891m in the 'Cadia East project'. When this project opens in 2012, the Cadia Valley mine will become the largest underground mine in Australia.¹⁶

The council is in DLG Group 10, which indicates it is classified as a "rural, large, agricultural or remote" council. We recognise that some councils in this group receive little or no income from mining rates (eg, Walgett Shire Council). Nevertheless, we consider it to be the most suitable peer grouping for the purpose of comparing it with other councils.¹⁷

¹⁴ Blayney Application Part A, Worksheet 1.

¹⁵ Blayney Shire Council, *Blayney Shire 2025 - All the pieces together*, pp 4-5.

¹⁶ Newcrest Mining Limited, *Newcrest Annual Report 2011*, p 14 and p 42.

¹⁷ DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2009/10*, p 11-17. The Australian Classification of Local Governments (ACLG) system classifies councils into 22 categories according to their socio-economic characteristics and their capacity to deliver a range of services to the community. The DLG has reduced this to 11 groups because some of the ACLG categories contained few or no councils in NSW. There are 25 councils in DLG Group 10 including, for example, Cobar Shire Council and Walgett Shire Council.

Blayney LGA has a SEIFA ranking of 65, which places it slightly below the average in terms of economic and social advantage in NSW.¹⁸ The council's average residential rates are relatively low. In 2010/11, they were \$448, compared with an average of \$477 for councils in DLG Group 10, and \$659 for all councils in NSW.¹⁹

Blayney Shire Council raises around 80% of its General Fund revenue from rates and annual charges, and operating grants and contributions.²⁰ In 2010/11:

- ▼ Rates and annual charges accounted for 45.2% of total General Fund revenue. This was higher than the average for DLG Group 10 councils (27.4%) and slightly lower than the average for all NSW councils (46.7%).
- ▼ Operating grants and contributions accounted for 33.9% of General Fund revenue, which is lower than the average for DLG Group 10 (40.4%) and higher than the average for all NSW councils (26.1%).²¹

This indicates that compared with its peer councils in DLG Group 10, Blayney Shire Council is more reliant on rates revenue, and less reliant on operating grants and contributions.

The council is also relatively small. In 2010, its total General Fund revenue was \$9.8m, which is lower than the average for DLG Group 10 (\$16.9m), and for all NSW councils (\$58.6m).²² Given this, and the size of proposed increase in general income, the requested special variation will have significant financial impact on the council.

2.2 History of special variations

In the past 10 years Blayney Shire Council has had 1 special variation approved. In 2008/09 the Minister of Local Government approved a single-year increase of 11.42% under section 508(2) of the Act for a fixed period of 10 years. The purpose of this special variation was to repay a loan used to fund the redevelopment of Blayney Community Centre.²³

¹⁸ SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics. It can be used to determine the level of social and economic well-being in regions relative to one another. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes a ranking for "unincorporated NSW"). A ranking of 1 means the council is least advantaged relative to all the other councils in NSW. A ranking of 153 means it is most advantaged relative to all the other councils in NSW.

¹⁹ DLG, unpublished comparative data, 2010/11.

²⁰ General Fund refers to all council activities except the provision of water and sewer services.

²¹ DLG, unpublished comparative data, 2010/11.

²² DLG, unpublished comparative data, 2010/11.

²³ DLG, *Special Variation Master Record*, copy provided to IPART in October 2010 and Blayney Shire Council, *Blayney Shire Council Annual report 2008/09*, p 11.

2.3 Requested special variation for 2012/13

Blayney Shire Council requested a special variation of 40.7% in 2012/13, to be permanently retained in its general income base. The council estimates that the variation will increase its total permissible general income by about \$1.7m in 2012/13 (Table 2.1). This estimate has been verified by the DLG.²⁴

Table 2.1 Special variation requested by Blayney Shire Council, including the rate peg

Adjusted notional general income 2011/12 (\$)	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2012/13 (\$) ^a
4,191,665 ^b	40.7	1,706,008	5,895,023

^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. Blayney Shire Council's proposed permissible general income in 2012/13 includes the requested special variation of 40.7%, less a prior year excess amount totaling \$2,650.

^b The 2011/12 adjusted notional general income level is not part of the council's application and is only included here to indicate the size of the base to which the special variation applies.

Source: Blayney Application Part A, Worksheet 4.

The council's application indicated that the requested special variation comprises:

- ▼ a 37.1% increase to fund road improvements and maintenance, as well as community grants and infrastructure programs
- ▼ the 3.6% rate peg increase determined by IPART, which is available to all councils in 2012/13.

Note that in setting the rate peg amount, IPART included a carbon price advance of 0.4% to assist councils to meet higher prices arising from the introduction of the carbon price from 1 July 2012.²⁵

Table 2.2 sets out the components of the council's requested special variation.

²⁴ DLG email to IPART, 4 June 2012.

²⁵ Given that the effects of the carbon price will eventually be captured in the Local Government Cost Index (LGCI), we will reverse the upfront adjustment we have made in the 2012/13 rate peg over 2 years. We will deduct 0.1% in 2013/14 and 0.3% in 2014/15 from the rate pegs in these years. See IPART, *Effects of the carbon price on local councils - Information Paper*, December 2011 for more information.

Table 2.2 Components of Blayney Shire Council's requested special variation for 2012/13 (%)

Component	%
Increase on mining category to fund road maintenance and improvements, community facilities and community grants	37.1
Rate peg increase	3.6
Total increase	40.7

Source: Blayney Application Part A, Worksheets 1 and 4.

The council's application was prompted by a recent revaluation of land in the Blayney Shire, which resulted in a large increase in the land value of Newcrest's Cadia Valley mine site. Without a special variation, this increase in the mine's land value would have meant council had to reduce the ad valorem rate applied to mining ratepayers in 2012/13 (and/or reduce rates for other ratepayers) to keep the increase in its general income in line with the 3.6% rate peg in 2012/13.²⁶

Rather than do this, the council applied for a special variation to increase its permissible general income for 2012/13 to the level it would have been if it continued to apply the existing ad valorem rate to the increased land value.²⁷

2.4 How the council proposes to use the income raised

Blayney Shire Council indicated that it proposes to use the additional income raised by the special variation to fund additional spending on roads and community infrastructure arising from the expected increase in mining activity in the shire. Over 10 years, it estimates that this income will total \$18.1m and proposes to spend:

- ▼ \$14.2m for maintaining and improving roads and bridges along routes that service the Cadia Valley mine, including:
 - \$2.9m on general maintenance of current road network
 - \$2.1m on increased re-sheeting of gravel roads and resealing of paved roads
 - \$2.1m on a bridge replacement program
 - \$1.0m on land acquisition, preliminary works and engineering design for roads and bridges
 - \$6.2m for upgrading and sealing Forest Reefs Road, Errowanbang Road and Burnt Yards Road²⁸
- ▼ \$1.0m for an enhanced community contributions program, including donations to local community, charity and sporting groups²⁹

²⁶ Blayney Application Part B, pp 3-4.

²⁷ See footnote 5.

²⁸ Blayney Application Part B, pp 5-8. Adds to \$14.3m due to rounding.

²⁹ Blayney Shire Council, *Operational Plan 2012-2013, Part 2 Financial Information including annual budget and fees and charges*, p 10.

- ▼ \$2.9m for maintenance and upgrades to existing community infrastructure,³⁰ including community halls, shelters, toilets, sporting facilities, emergency services and council administration and works facilities.³¹

Appendix A sets out details of Blayney Shire Council's proposed program of expenditure.

2.5 How the council proposes to allocate the special variation among ratepayers

In its application, the council indicated that it would allocate the 3.6% rate peg increase to all rate categories, and the remaining 37.1% increase to a single ratepayer in the mining rate category, Newcrest. It would do so by applying the existing ad valorem mining rate (or a very similar rate) to the increased land value of Newcrest's mine.

The council also advised that it intends to restructure its business rate category for 2012/13, as part of a strategy to improve the consistency of the ad valorem rates across business sub-categories. The average rates for the following business subcategories will change as a result of this restructuring:

- ▼ other areas rates will increase by \$100 (or 15%)
- ▼ power generation rates (2 ratepayers) will increase by 68% (or \$3,114)
- ▼ limestone production rates (1 ratepayer) will decrease by 50% (or \$3,834)
- ▼ slate production rates (1 ratepayer) will decrease by 46% (or \$945).³²

These changes are independent of the increase in general income above the rate peg increase.

Taking into account the impact of both the special variation and the restructuring of business rates, the council indicated that in 2012/13:

- ▼ average residential rates will increase by 2.9% (or \$17)
- ▼ average business rates will increase by 7.7% (or \$81)
- ▼ average farmland rates will increase by 3.6% (or \$85).³³

Table 2.3 shows the council's estimate of the impact of the requested special variation on average rates in each of its ordinary rate categories. Note that while average mining rates are expected to increase by 253%, average rates for Blayney Shire Council's second mining ratepayer (other than Newcrest) will increase by only 3.7%.

³⁰ Blayney Shire Council, *Buildings and other structures asset management plan*, February 2012, p iii.

³¹ Blayney Application Part A, Worksheet 6, Blayney Application Part B, pp 6-10, and IPART calculations.

³² Blayney Application Part A, Worksheet 5.

³³ Blayney Application Part A, Worksheet 2 and Worksheet 3, and IPART calculations.

Table 2.3 Impact of the requested special variation on average rate levels for each rate category

Rate category	Average rate 2011/12	Average rate 2012/13	Proposed increase/ decrease	Proposed increase/ decrease
	(\$)	(\$)	(\$)	(%)
Residential				
Blayney	609	626	17	2.8
Millthorpe	694	714	20	3.0
Carcoar	476	489	13	2.6
Other areas	543	559	16	2.9
Business				
Blayney	1,054	1,087	32	3.1
Millthorpe	1,340	1,383	44	3.3
Carcoar	1,246	1,286	40	3.2
Villages ^a	-	440	-	-
Power generation	4,585	7,699	3,114	68
Limestone production	7,748	3,914	-3,834	-49.5
Slate production	2,067	1,122	-945	-45.7
Other areas	661	761	100	15.1
Farmland				
Farmland	2,345	2,430	85	3.6
Mining				
Gold/Copper Mining	313,540	1,109,108	795,568	253.7

^a The Business – Villages rate category will introduced in 2012/13.

Source: Blayney Application Part A, Worksheet 5.

3 | IPART's assessment

To make our decision on Blayney Shire Council's application for a special variation in 2012/13, we assessed this application against each of the 5 criteria set out in the Guidelines. We found that the application adequately meets these criteria.

However, in relation to Criterion 1, we note that the council's asset management planning is still in its early stages. We encourage the council to continue to work on its asset management planning. This is particularly important in relation to road works, given the projected growth of mine activity.

Table 1.3 (in Chapter 1) summarised our findings in relation to each criterion. The sections below discuss these findings in more detail.

3.1 Criterion 1 - Demonstrated need for the rate increases implied by the special variation

Councils seeking special variations must demonstrate that their requested increase in general income is necessary. This includes:

- ▼ supporting their application with relevant strategic, asset management and long-term financial planning information
- ▼ providing evidence that the income raised by the special variation will be used to fund an efficient and feasible program of expenditure, and
- ▼ if possible, providing evidence that the special variation will improve their financial sustainability.

Blayney Shire Council's requested increase in general income will fund a 10-year program of expenditure on roads, bridges and community facilities.³⁴ The council's application indicated that this expenditure is necessary to meet the needs of the community arising from increased mining activity, particularly the extension of Newcrest's Cadia Valley mine operations. (Appendix A provides this proposed program of expenditure.)

³⁴ Blayney Application Part B, pp 9-10.

We are satisfied that that the purpose of the special variation is consistent with the council's Long Term Financial Plan and other planning information. The proposed spending on roads and bridges along 3 routes that service the Cadia Valley mine operations is consistent with the priorities set out in the council's Long Term Financial Plan.³⁵ The proposed spending on community infrastructure is in line with the priorities in its asset management plans,³⁶ and the spending on community contributions is consistent with its Operational Plan.³⁷

To assess whether the special variation is likely to improve the council's financial sustainability, we considered 3 key indicators of financial performance – the operating balance ratio, debt service ratio and asset renewal ratio (Table 3.1). Even with the special variation, the council is projecting ongoing operating deficits, which indicates that the increased income will not have a significant impact on its long-term financial sustainability.

Table 3.1 Key performance indicators for General Fund if special variation approved

Indicator	Year	Year	Year	Year	Year
	ended	ended	ended	ended	ended
	30/6/11	30/6/12	30/6/13	30/6/14	30/6/15
	Actual	Estimate	Forecast	Forecast	Forecast
Operating balance ratio (%)	-15.9	-25.0	-24.8	-26.8	-23.1
Debt service ratio (%)	1.3	2.4	5.6	6.6	9.3
Asset renewal ratio (%)	18.5	77.1	82.6	119.1	197.7

Notes: Operating balance ratio is the net operating result (excluding capital) relative to operating revenue.

Debt service ratio is debt service costs divided by operating expense.

Asset renewal ratio is asset renewals expenditure divided by depreciation, amortisation and impairment expenses.

Source: Email from Blayney Shire Council to IPART, 6 June 2012.

The asset renewals ratio does improve markedly in the first 3 years with the special variation. This reflects the large increase in capital investment in roads and bridges. However, it may also reflect an underestimation of depreciation expense in future periods.

We note that Blayney Shire Council's asset planning related to the program of expenditure to be funded by the special variation is still in its early stages. The council appears to have determined the size of the requested special variation based on the increase in the land value of the Newcrest mine site, rather than by projected levels of expenditure derived from asset management planning. Therefore, the amount of the special variation may over or under estimate the need.

³⁵ Blayney Application Part A, Worksheet 6, and IPART calculations.

³⁶ Blayney Shire Council, *Buildings and other structures asset management plan*, February 2012, p iii.

³⁷ Blayney Shire Council, *Operational Plan 2012-2013, Part 2 Financial Information including annual budget and fees and charges*, p 10.

While we are satisfied that the council has demonstrated a need for the special variation, we encourage it to continue its asset planning work related to the program of expenditure to more accurately determine its future strategic needs.

3.2 Criterion 2 - Adequate community consultation

Councils seeking special variations must demonstrate that they have undertaken adequate community consultation regarding the special variation and the associated program of expenditure. The consultation material should be clear and accurate, and must explain what the rate increase will be used for and the impact on ratepayers.

Blayney Shire Council's proposed special variation will mainly impact on a single mining ratepayer - Newcrest. We are satisfied that Blayney Shire Council has adequately consulted with Newcrest and therefore has met this criterion.

The council has consulted with Newcrest about the proposed special variation through:

- ▼ regular meetings with Newcrest as part of its community engagement process for the 2012/13 Operational Plan
- ▼ discussions regarding the Valuer General's changes to land valuations and the impact on the council's rating structure³⁸
- ▼ providing its special variation application to Newcrest prior to submitting it to IPART, and clearly indicating the dollar impact of the proposed special rate variation and the priorities for expenditure on the proposed road works program.³⁹

The council submitted a letter from Newcrest in support of the proposed special variation which stated that the company considers the identified projects meet the infrastructure and service needs of the mining district.⁴⁰

The council's application has also been mentioned in local media stories.

³⁸ Correspondence from Cadia Valley Operations with General Manager, Blayney Shire Council, dated 13 March 2012, Blayney Application Part B supporting document.

³⁹ Verbal advice from Blayney Shire Council dated 6 June 2012.

⁴⁰ Correspondence from Cadia Valley Operations with General Manager, Blayney Shire Council, dated 23 May 2012, email from Blayney Shire Council to IPART, 23 May 2012.

3.3 Criterion 3 - Reasonable impact on ratepayers

This criterion is important, given that the primary purpose of regulating council revenues is to protect ratepayers from unreasonable increases in rates. To assess whether a council's application meets the criterion, we consider the magnitude of the impact of rate rises resulting from the requested special variation, the ratepayers' capacity to pay the increased rates, and outcomes from the council's community consultation.

Blayney Shire Council's proposed special variation will mainly impact on a single mining ratepayer - Newcrest. This is because it intends to generate the requested 37.1% increase in its general income (above the rate peg) by applying the current ad valorem component of the mining rate to the significantly increased land value of Newcrest's mine site. This will mean that Newcrest's rates will more than treble in 2012/13, increasing from \$0.6 to around \$2.2m (Table 3.2)⁴¹

Table 3.2 Impact of Blayney Shire Council's requested special variation on Newcrest

	2011/12 (\$)	2012/13 (\$)	Annual increase (\$)	Annual increase (%)
Land value	12,000,000	41,500,000	29,500,000	246
Rates on land	614,500	2,205,756 ^a	1,591,256	259

^a Council estimates.

Source: Email from Blayney Shire Council to IPART, 6 June 2012 and IPART calculations.

Newcrest supports the special variation and has shown a willingness to pay the higher rate level in accordance with the council's application. The new underground mine at Cadia East is expected to incorporate \$891m in development and will become Australia's largest underground mine. Operations at the mine are expected to begin production mid-2012 and continue for the next 30 years.⁴² This suggests that the mining company will have the capacity to pay the higher rate level in the foreseeable future.

The council's application indicates that the impact on other ratepayers in the Blayney LGA is broadly in line with the rate peg of 3.6%. The other mining ratepayer's rates are expected increase by 3.7% in 2012/13, reflecting that its land's value has not changed significantly. Average residential and farmland rates will increase by between 2.9% and 3.6%, depending on the rating sub-category.

Business rates will increase or decrease, depending on the sub-category, because the council intends to alter its rating structure and redistribute the rates. On average, these rates will increase by 7.7% or \$81 in 2012/13.⁴³ The rating structure is a matter for the council to decide, and these changes are independent of the increase in

⁴¹ Email from Blayney Shire Council to IPART, 6 June 2012.

⁴² Newcrest Mining, *Newcrest Annual Report 2011*, August 2011, p 14 and p 42.

⁴³ Blayney Application Part A, Worksheet 5 and IPART calculations.

general income above the rate peg increase. IPART has not limited the council's capacity to make these changes to its rating structure within the rate peg.

3.4 Criterion 4 - Sustainable financing strategy consistent with the principles of intergenerational equity

Councils seeking special variations must demonstrate that they have considered the use of all available financing options to address their capital expenditure requirements. Their financing strategy must be both sustainable and ensure intergenerational equity. The concept of intergenerational equity means that the costs of long lived assets (such as infrastructure) are shared between current and future users, based on their likely share of the use of these assets over their life. Council borrowings spread the financing costs of infrastructure over a long period, rather than meeting them through large rate increases in the short to medium term.

Blayney Shire Council's application indicated it will not be using debt to help finance the proposed infrastructure work, which is largely maintenance and renewal.⁴⁴ Therefore, we have reviewed the council's broader financial strategy in assessing this criterion.

The council noted in its application that it is considering future debt for a range of major new infrastructure projects including community facilities. It has also planned to ensure that borrowings sustain the debt service ratio below 10% over the next 10 years.⁴⁵ We note that the council's debt service ratio is forecast to increase from 2.35% in 2011/12 to 9.27% in 2014/15.⁴⁶

In our view, this financing strategy appears sustainable and in general terms, is consistent with intergenerational equity.

3.5 Criterion 5 - Productivity impacts and cost containment strategies.

Councils seeking special variations must demonstrate that they have implemented a program of productivity or efficiency improvements and cost containment strategies to ease expenditure pressures before considering an increase in rates. In particular, they need to provide details of the productivity improvements, efficiencies and cost containment strategies that they have implemented over the past 2 or more years, and details of those that they propose to realise over the period of the special variation.

Overall, we are satisfied that the council has demonstrated productivity improvements and efficiency gains, and meets this criterion.

⁴⁴ Blayney Application Part A, Worksheet 6.

⁴⁵ Blayney Application Part B, p 27.

⁴⁶ Email from Blayney Shire Council to IPART, 6 June 2012.

The council indicated that it regularly reviews various areas of council activities, including its staffing and organisational structure to improve efficiency and contain costs. As a result of recent reviews, the council has submitted:

- ▼ There are currently no surplus staff, so it does not have scope for staff rationalisation. Instead, it considers there is a need for additional staff in specialist areas such as risk management, workplace health and safety, and internal control and audit.
- ▼ Feedback from community consultation has indicated strong support for increased resourcing for economic development and tourism in the LGA.
- ▼ The Environmental Services Department has been restructured.⁴⁷

The council indicated that it is also a member of several council groups such as WBC (Wellington, Blayney, Cabonne Councils and Central Tablelands Water), Centroc, NetWaste and Central West Libraries. Through these memberships, it has accessed savings associated with resource sharing, joint tendering, and joint controls and utilities charges.

Our examination of comparative productivity data from the DLG for 2010/11 (see Appendix B) also indicates that the council functions with lower levels of staffing than its peers. In summary, we found that the council's:

- ▼ number of FTE staff (65) is lower than the average for DLG Group 10 (109) and all NSW councils (294)
- ▼ ratio of population to staff (110) is higher than the average for DLG Group 10 (72) but lower than the average for NSW councils (126)
- ▼ employee costs as a percentage of its ordinary expenditure (38.8%) is similar to the averages for DLG Group 10 (36.1%) and NSW councils (37.3%).

⁴⁷ Blayney Application Part B, p 29.



Appendices

A Blayney Shire Council's proposed program of Expenditure

The following table outlines the expenditures Blayney Shire Council intends to make from the additional revenue raised from the special variation.

Table A.1 Blayney Shire Councils proposed program of expenditure 2013 to 2021

DESCRIPTION	\$
Roads and Bridges	
Rehabilitate and upgrade	
Forrest Reefs Road	1,749,640
Errowanbang Road (sealed section)	1,963,744
Burnt Yards Road	2,439,944
Timber Bridge Replacement	
Four Mile Creek Road	470,122
Forrest Reefs Road	311,966
Errowanbang Road	1,294,064
Resealing	
Vittoria Road	163,772
Forrest Reefs Road	194,056
Panuara Road	54,913
Long Swamp Road	104,224
Errowanbang Road	27,000
Burnt Yards Road	190,323
Maintenance	
Sealed and unsealed roads	4,339,486
Other expenditure	
Community Infrastructure program	2,861,094
Community Contribution program	950,000
Land Acquisition and Engineering design	980,272
Total	18,094,620

Source: Blayney Application Part A, Worksheet 6 and email from Blayney to IPART 5 June 2012.

B Comparative indicators

Table B.1 Comparative performance against selected indicators, 2010/11

	Blayney Shire Council	DLG Group 10 average	NSW average ^a
General profile indicators			
Area (km ²) ^e	1,525	–	–
Population ^e	6,593	–	–
General Fund operating expenditure (\$m)	11.26	16.9	54.8
General Fund revenue per capita (\$)	1,365	2,451	2,006
Rates revenue as % total General Fund revenue (%)	45.2	27.4	46.7
Average rate indicators			
Average rate level – residential (\$)	448	477	659
Average rate level – business (\$)	768	1,068	2,450
Average rate level – farmland (\$)	2,192	2,164	2,121
Local government area (LGA) socio-economic/capacity to pay indicators			
Average annual income, 2009 (\$)	38,334	33,793	41,376
Growth in average annual income, 2006-2009 (%)	5.3	4.4	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009 (%)	1.0	1.3	1.5
SEIFA, 2006 (NSW rank) ^b	65	–	–
Outstanding rates ratio (%) ^c	9.1	9.5	7.3
Productivity indicators			
FTE staff (no) ^c	65	109	294
Ratio of population to FTEs ^{c,d}	110	72	126
Average cost per FTE (\$) ^c	68,615	60,938	71,155
Employee costs as % ordinary expenditure – General Fund only (%)	38.8	36.1	37.3
Contractor expenses (\$m) ^c	–	1.6	6.2
Contractor expenses as % ordinary expenditure (%) ^c	0.0	7.8	8.0

^a NSW averages exclude Snowy River Shire Council because data was not yet available.

^b See footnote 18 (for SEIFA index).

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

^d The ratio indicates the number of residents in the population per total council FTE. A higher ratio indicates that there are fewer council staff for each person in the community whereas a lower ratio indicates that there are more council staff.

^e Blayney Shire Council, *Blayney Shire 2025 - All the pieces together*, p 4.

Note: General Fund refers to all council activities except Water and Sewer and, in some cases, other activities eg, airports.

Source: DLG, unpublished comparative data, 2010/11 and ABS, National Regional Profiles, NSW, November 2011.