

Our reference: 11/613

Your reference:

19 June 2012

Mr Barry Smith
General Manager
Hunters Hill Council
PO Box 21
Hunters Hill NSW 2110



PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street Sydney NSW 2000
T (02) 9290 8400 F (02) 9290 2061
ABN 49 202 260 878

www.ipart.nsw.gov.au



Contact Alison Milne
T (02) 9290 8443
E alison_milne@ipart.nsw.gov.au

Dear Mr Smith

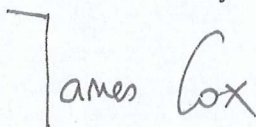
**INSTRUMENT OF APPROVAL AND FULL REPORT FOR SPECIAL RATE
VARIATION APPLICATION 2012/13**

I refer to IPART's determination on Hunters Hill Council's application for a special variation in 2012/13 which was issued on 4 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 Hunters Hill Council for your records.

If you have any queries, please contact Alison Milne on 02 9290 8443.

Yours sincerely



James Cox

James Cox PSM
Chief Executive Officer
and Full Time Member

LOCAL GOVERNMENT ACT 1993
INSTRUMENT UNDER SECTION 508(2)
HUNTERS HILL 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 Hunters Hill Council may increase its general income for the year 2012/2013 is 10.4%.
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 operating expenses and road infrastructure works. The road infrastructure works are 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 road infrastructure works 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. The council reduces its general income for the 2022/2023 rating year by:
 - a) \$473,161 (Initial Reduction Amount); and
 - b) the cumulative additional income derived for the 2013/2014 to 2021/2022 rating years on the application of:
 - 1) any special variation percentage approved under section 508(2) or 508A of the Act for the council for each rating year during the period 2013/2014 to 2021/2022; and
 - 2) any general variation percentage approved under section 506 of the Act for the council for each rating year during the period 2013/2014 to 2021/2022, to the Reduction Amount.

Reduction Amount means:

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

[Note: the purpose of this clause is to reduce the council's general income to the amount of general income that the council would have had in the 2022/2023 rating year without this special variation.]

Dated this

15th

day of

June

, 2012



Peter J. Boxall AO

Chairman, Independent Pricing and Regulatory Tribunal



Independent Pricing and Regulatory Tribunal



Hunters Hill Council's application for a special variation 2012/13

Local Government — Determination
June 2012



Hunters Hill Council's application for a special variation 2012/13

Local Government — Determination
June 2012

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The Tribunal members for this assessment are:

Dr Peter J Boxall AO, Chairman

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

Ms Sibylle Krieger, Part Time Member

Inquiries regarding this document should be directed to a staff member:

Dennis Mahoney (02) 9290 8494

Tony Camenzuli (02) 9113 7706

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box Q290, QVB Post Office NSW 1230

Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

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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 (DLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Hunters Hill Council (HHC) applied for a special variation in 2012/13, comprising 10.4% for 10 years. After assessing the council's application, we decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

1.1 Our decision

IPART decided that HHC can increase its general income by 10.4% in 2012/13, including the rate peg of 3.6% that is available to all councils. The increase above the rate peg can be retained in the council's general income base for a fixed term of 10 years. We have attached conditions to this decision, including that the council uses the income raised from the special variation for the purposes set out in its application.

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

¹ *Guidelines on 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.

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

Component	Amount
Increase to fund roads capital expenditure (in place of an expiring levy)	4.8
Increase to partly address funding gap for operating expenses	2.0
Rate peg increase	3.6
Total increase	10.4

Box 1.2 Conditions attached to the approved special variation for Hunters Hill Council

IPART's approval of Hunters Hill 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 purposes of funding the expenditures outlined in the council's application, and listed in Appendix A.
- ▼ The council reports in its annual report for each rating year over the period from 2012/13 to 2021/22 on:
 - the program of roads capital expenditure listed in Appendix A
 - operating expenses funded through the 2.0% special variation
 - 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 Long Term Financial Plan and any corrective action taken or to be taken.
- ▼ On 1 July 2012, the council reduces its general income by \$316,416 (the value of the expiring levy). This reduction in the council's general income shall take place before the council's general income is increased (by \$723,658) in rating year 2012/13 in accordance with IPART's determination and allowable adjustments (\$828 in prior year catch-ups).
- ▼ On 1 July 2022, the council reduces its general income to what it would have been without the special variation.

1.2 What did the council request and why?

HHC requested a special variation of 10.4% in 2012/13.² The requested special variation included 3 components:

- ▼ a 4.8% increase for a roads infrastructure levy (to replace a similar special variation expiring on 30 June 2012) for a fixed term of 10 years
- ▼ a 2.0% increase to partly address a funding gap for operating expenses for a fixed term of 10 years, and
- ▼ the rate peg of 3.6%.

Table 1.2 shows the components of the requested special variation.

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

Component	Amount
Increase to fund roads capital expenditure (in place of an expiring levy)	4.8
Increase to partly address funding gap for operating expenses	2.0
Rate peg increase	3.6
Total increase	10.4

Source: Hunters Hill Application Part A (4 April 2012), Worksheets 4 and 6.

HHC estimated that a 6.8% increase above the rate peg would generate \$0.47m in additional revenue in 2012/13, and \$5.4m over 10 years. The increase to fund roads capital expenditure will replace, from 1 July 2012, an existing special variation for an equivalent amount that will expire on 30 June 2012.³

The council indicated that over the 10 years to 2021/22, it would use \$3.6m of this additional revenue to help fund its proposed \$5.6m program of renewal works (resurfacing) for local roads. It would use the remaining \$1.8m to partly address its funding gap for operating expenses to assist it improve its financial sustainability.⁴ The council's proposed program of capital expenditure is set out in Appendix A.

² Hunters Hill Council, *Section 508(2) Special Variation Application 2012/13 Part A, 4 April 2012*, (Hunters Hill Council Application Part A), Worksheet 1. 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 number of rateable properties and adjustments for previous under-collection or over-collection of rates made by councils. The DLG is responsible for monitoring and ensuring compliance.

³ Hunters Hill Council Application Part A, Worksheet 4.

⁴ The 2.0% special variation to partly cover a funding gap for operating expenses will be used to fund expenses for superannuation, depreciation, street lighting and electricity charges and the fire brigades levy.

1.3 How did we reach our decision?

We assessed HHC's application against criteria included in the Guidelines, and found that the application satisfactorily meets these criteria.

However, we noted that while the 2.0% increase to partly address the funding gap for operating expenses will help improve the council's financial performance, its application did not completely address underlying issues related to its financial sustainability. Even with this increase, the council is projecting operating deficits (excluding capital) for the General Fund in each of the next 10 years. Table 1.3 summarises our findings against each of the criteria.

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 has demonstrated the need for the special variation funds. It has assessed the condition of the area's roads, community priorities and alternative funding options.</p> <p>However, even with this application, the council is projecting operating deficits over each of the next 10 years.</p>
2. Adequate community consultation regarding the special variation	<p>The council has undertaken adequate community consultation. Publicity and general awareness of the requested rate increase is apparent. The council's application is consistent with community feedback it obtained – 72% of respondents preferred an increase in rates to reduced standards of infrastructure.</p> <p>However, the online survey was subject to self-selection bias. Also, the results of the telephone survey were difficult to interpret because respondents were able to select multiple options.</p>
3. Reasonable impact on ratepayers	<p>The special variation will have a reasonable impact on ratepayers given that:</p> <ul style="list-style-type: none"> ▼ average residential rates will rise by \$74 per annum and business rates will rise by \$53 per annum and the LGA's high SEIFA ranking indicates that, on average, the community has capacity to pay ▼ the council has a hardship policy in place to assist those in financial hardship.
4. Sustainable financing strategy consistent with the principles of intergenerational equity	<p>The council's financing strategy for its roads program and for overcoming its funding gap for some of its operating expenses is soundly based and is consistent with intergenerational equity. It has also considered other methods of financing including the use of debt.</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 has achieved productivity savings in the past and aims to do so in the future. We encourage it to continue exploring opportunities for further productivity improvements, in particular its use of contractors.</p> <p>We suggest that the council clearly communicates to its residents the nature and value of productivity improvements made.</p>

Note: The Guidelines enable IPART to consider any other matters it considers relevant in assessing a council's application for a special variation. In the case of Hunters Hill Council's application, no other matters were identified.

1.4 What does our decision mean for the council?

Our decision means that HHC can increase its general income by around \$0.72m in 2012/13.⁵ In the following 9 years, all other things being equal, this income will increase by the annual rate peg unless we approve another special variation.⁶ However, on 30 June 2022, the special variation will expire, and the council must reduce its general income to the level it would have been without the special variation.

1.5 What does our decision mean for ratepayers?

In its application, HHC indicated it intended to apply the requested 10.4% rates increase uniformly across its ratepayer base. If it does so, we estimate that in 2012/13:

- ▼ average residential rates will increase by \$74 (compared to a \$12 decrease due to an expiring special variation, if the council's application were not approved)
- ▼ average business rates will increase by \$53 (compared a decrease of \$9 if the application were not approved).⁷

1.6 What does the rest of this report cover?

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

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

The appendices provide the proposed program of expenditure and summaries of comparative data we considered in our assessment – such as average local government area (LGA) income levels and council labour costs.

⁵ Hunters Hill Council Application Part A, Worksheet 1.

⁶ As stated in footnote 2, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

⁷ Hunters Hill Council Application Part A, Worksheet 5.

2 Hunters Hill Council's application

Hunters Hill Council applied to increase its general income by 10.4% in 2012/13, and to retain the portion of this increase above the rate peg of 3.6% for a fixed term of 10 years.⁸

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 necessary rate increases would affect different ratepayers.

2.1 About the council

HHC serves a small area (6 km²) situated 7km northwest of Sydney CBD.⁹ The council is in DLG Group 2, which indicates it is an "urban, small to medium-sized metropolitan council".¹⁰ IPART considers that this group is the most suitable peer grouping for the purpose of comparing it with other councils.

The Hunters Hill LGA encompasses 6 suburbs: Hunters Hill, Gladesville, Henley, Huntleys Cove, Huntleys Point and Woolwich.¹¹ It has a SEIFA ranking of 146, which means it is in the top 5% of NSW LGAs in terms of relative advantage.¹²

HHC's average residential rates are relatively higher than in comparable councils, and it raises almost three-quarters of its General Fund revenue from rates and annual charges. In 2010/11, its average residential rates were \$1,267, compared to an

⁸ Hunters Hill Council Application Part A, Worksheet 1.

⁹ DLG, unpublished comparative data, 2010/11 and http://www.huntershill.nsw.gov.au/Page/page.asp?Page_Id=56&h=1.

¹⁰ DLG, *Snapshot of NSW Councils: Comparative Information on NSW Local Government Councils 2008/09*, pp 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 15 councils in DLG Group 2 including, for example, Woollahra Council and Mosman Council.

¹¹ http://www.huntershill.nsw.gov.au/Page/Page.asp?Page_Id=615.

¹² 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.

average of \$905 for DLG Group 2 and \$659 for all NSW councils.¹³ Rates and annual charges accounted for 72.6% of revenue compared with an average of 54.0% for DLG Group 2 and 46.7% for all NSW councils in NSW.

HHC's relatively high reliance on rates means it is less reliant than many other councils on external sources of funding, such as grants from other levels of government, for council services.¹⁴ It is also relatively less reliant on user charges and fees. In 2010/11, user charges and fees accounted for only 5.4% of its General Fund revenue, compared with an average of 18.0% for DLG Group 2 and 14.9% for all NSW councils.¹⁵

Appendix B provides a range of comparative data on Hunters Hill Council.

2.2 History of special variations

HHC has applied for and obtained approval for 3 special variations over the past 10 years:¹⁶

- ▼ In 2002/03, the Minister for Local Government approved an increase of 4.9% above the rate peg under section 508(2) for a fixed term of 10 years. The purpose of the increase was to fund the acquisition of foreshore land and the repair of a collapsing seawall. This special variation will expire on 30 June 2012.
- ▼ In 2003/04, the Minister approved an increase of 5.9% above the rate peg under section 508(2), also for 10 years. This was to fund the acquisition of land, improvements to reserves, and environmental and stormwater capital works. This special variation will expire on 30 June 2013.
- ▼ In 2007/08, the Minister approved an increase of 4.1% above the rate peg under section 508(2) for 10 years, to fund infrastructure works and asset maintenance. This special variation will expire on 30 June 2017.¹⁷

¹³ DLG, unpublished comparative data, 2010/11.

¹⁴ DLG, unpublished comparative data, 2010/11. General Fund refers to all council activities except Water and Sewer. In some cases, a council's General Fund may also exclude its other separate business activities eg, waste services or airports, but these General Fund data do not exclude this type of service revenue.

¹⁵ DLG, unpublished comparative data, 2010/11.

¹⁶ Hunters Hill Council Application, Part B Section 6.2.

¹⁷ DLG, unpublished comparative data, 2010/11.

2.3 Requested special variation in 2012/13

HHC applied for a special variation of 10.4% in 2012/13. If approved, the council estimates that this special variation would increase its total permissible general income for 2012/13 by around \$723,658 (Table 2.1). This estimate has been verified by the DLG.¹⁸

Table 2.1 Estimated impact of Hunters Hill Council's requested special variation on its general income in 2012/13

Adjusted notional general income 2011/12	Annual increase in general income (%)	Annual increase in general income (\$)	Permissible general income 2012/13 (\$) ^a
6,958,246	10.40	723,658	7,682,732

^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. Hunters Hill Council's proposed permissible general income in 2012/13 includes the requested special variation of 10.4% (\$723,658), as well as an addition amount for prior year catch-up of \$828.

Source: Hunters Hill Council, s508(2) Special Variation Application – Part A, 4 April 2012, Worksheet 4.

The requested special variation consists of 3 components:

- ▼ a 4.8% increase for a roads infrastructure levy (to replace a similar special variation expiring on 30 June 2012) for a fixed term of 10 years
- ▼ a 2% increase to partly cover a funding gap for operating expenses for a fixed term of 10 years, and
- ▼ the rate peg of 3.6% 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 2012.¹⁹

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

¹⁸ DLG, *Assessment of Hunters Hill Council's s508(2) Special Variation Application – Part A, 4 April 2012, Worksheet 4*. As stated in footnote 2, the actual general income in future years will be influenced by a range of factors apart from the rate peg.

¹⁹ 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*, Local Government – Information paper, December 2011 for more information.

Table 2.2 Summary of Hunters Hill Council's application for a special variation (%)

Component	2012/13
Road infrastructure levy (replacing an expiring levy) – 10 years	4.8
Additional increase to fund operating expenses – 10 years	2.0
Rate peg increase	3.6
Total increase	10.4

Source: Hunters Hill Application Part A, Worksheets 4 and 6.

2.4 How the council proposes to use the income raised

The council plans to use the income raised by this special variation to:

- ▼ contribute \$3.6m towards its \$5.6m capital works program to renew local roads infrastructure, and
- ▼ contribute \$1.8m towards closing a funding gap for its operating expenses which cannot be funded from other sources.²⁰

The council indicated that the roads renewal works program will improve the condition of its local road assets. As a result, it expects its asset renewals ratio will improve from 24% in 2011/12 to an average of 37% over the requested 10-year term of the special variation. Without the special variation, its assets renewals ratio is expected to average 23% over the same period. This compares to a benchmark asset renewals ratio of about 100%.²¹

It indicated that the contribution towards closing the funding gap for operating expenses will be used to mitigate increasing expenses for superannuation, depreciation expenses, street lighting, electricity charges and the fire brigades levy.²²

Appendix A sets out the details of Hunters Hill Council's proposed program of expenditure for roads renewals 2012/13 to 2021/22.

²⁰ Hunters Hill Council Application, Part A, Worksheet 6.

²¹ Calculated from the Hunters Hill Council Application, Long Term Financial Plan, Scenario 1 Base case and Scenario 2 Special Variation. The asset renewals ratio measures the rate of capital renewal against the rate of asset deterioration. An assets renewals ratio of 100% indicates asset deterioration is being matched by the renewal of assets. A ratio of less than 100% indicates a net deterioration in asset condition and growing infrastructure backlogs. An asset renewals ratio of more than 100% indicates the net condition of fixed assets is improving.

²² Hunters Hill Council Application, Part B, Sections 1, 2.2.1 and 2.2.

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

The council proposes to allocate the rate increases arising from the requested special variation uniformly across its ratepayer categories in 2012/13. It indicated that the increase in average rate levels relative to those in 2011/12 will be 5.6% (Table 2.3). This is less than the full 10.4% it requested because around half the full increase is already incorporated in rates (the component that will replace an expiring levy). We estimate that on average:

- ▼ average residential rates will increase by \$74 (compared to a \$12 decrease due to an expiring special variation, if the council's application were not approved)
- ▼ average business rates will increase by \$53 (compared a decrease of \$9 if the application were not approved).²³

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

	2011/12	2012/13
Residential (\$)	1,320	1,394
Increase (\$)		74
Increase (%)		5.6
Business (\$)	945	998
Increase (\$)		53
Increase (%)		5.6

Source: IPART calculation of weighted average rates for each rates category based on Hunters Hill Council Application Part A, Worksheet 5. Average residential and business rates include ordinary rates and special rates that are applicable to ratepayers.

²³ Hunters Hill Council Application Part A, Worksheet 5.

3 | IPART's assessment

To make our decision on HHC'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 satisfactorily meets these criteria.

In assessing the council's application, we noted the council's Long Term Financial Plan anticipates large and recurring operating deficits (before capital) for each of the next 10 years. The financial result is not significantly improved by the special variation.

Table 1.3 (in Chapter 1) summarised our findings in relation to each of the criteria. 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.

As Chapter 2 noted, HHC requested the special variation in part to help fund a \$5.6m capital works program for the renewal (resealing) of local roads over the next 10 years.²⁴ In addition to the \$3.6m income to be raised through the special variation over this period, the council will contribute \$2.0m to fund this program.²⁵ (Appendix A sets out the council's proposed program of expenditure for roads renewals 2012/13 to 2021/22.)

²⁴ Hunters Hill Council Application Part A, Worksheet 6.

²⁵ Hunters Hill Council Application Part A, Worksheet 6.

In addition, the council requested the special variation to help address a funding gap for operating expenses over the next 10 years. This will support the council in restraining its operating deficits over this period.

Overall, we are satisfied that the council has demonstrated the need for the special variation funds. It has shown that the purpose of the special variation is consistent with the community's objectives and priorities, as identified through its strategic planning and reflected in the Delivery Program 2012-2016. It has also shown that it considered and will utilise alternative revenue sources.

While we have not undertaken a detailed evaluation of the council's program of works, the information provided on the indicative costs for these projects suggest they are reasonable. We note these indicative costs are in-house engineering estimates based on the extrapolation of staff costs and material costs from the council's experience with similar projects in the past.²⁶

In relation to the impact of the special variation on the council's financial sustainability, we note that the council is projecting growing operating deficits and this special variation will not fully address these deficits. HHC faces some fundamental, structural challenges in achieving financial sustainability. This is because it has:

- ▼ a very small number of rate assessments (less than 5,000 ratepayers)
- ▼ very low user fees and charges (5% of revenue as compared to the average of 18% for its DLG Group and 15% for all NSW councils) – with little flexibility to modify these due to the high level of local business competition with neighbouring LGAs
- ▼ a low level of capital grants and contributions (3% of revenue compared with the average of 6% its DLG Group and 12% for NSW).²⁷

These factors make it difficult for the council to supplement its rates revenue with user fees and charges or grants to help it reduce its operating deficits. Therefore the council has a rating structure that features very high residential rates (the highest within its DLG Group, which includes North Sydney, Mosman and Woollahra councils), combined with low business rates (less than half the NSW average).²⁸

Further, HHC has recently recorded a sharp rise in depreciation expenses (impacting on its operating balance). Depreciation almost doubled to \$2.9m in 2010/11 from \$1.5m in 2009/10. This included a rise in depreciation for its road assets from \$0.5m in 2009/10 to \$1.7m in 2010/11.²⁹

²⁶ Hunters Hill Council, advice by email dated 3 April 2012.

²⁷ DLG, unpublished comparative data, 2010/11.

²⁸ DLG, *Snapshot of NSW Local Government – Comparative Information 2009/10*, Table 1.1.

²⁹ Hunters Hill Council *Financial Statements 2010/11*, Note 4(d).

The council's infrastructure renewals ratio is 18% and maintenance levels are below adequate with current maintenance spend being 74% of that required. A significant 32.9% of roads are in a 'worn' or worse condition requiring significant renewal and upgrading.³⁰

Over time, sustained low levels of asset renewals will increase infrastructure backlogs. In 2010/11, infrastructure backlogs were estimated at \$9.2m, or about 70% of the council's operating expenditure. This is comparable with the average for DLG Group 2, but lower than the average for all NSW councils (96%).³¹

The council anticipates it will record operating deficits (before capital) each year over the period to 2021/22. Even with the special variation, its operating deficits will rise from 12% of revenues in 2011/12 (\$1.5m) to 17% of revenues in 2021/22 (\$2.6m). Without the special variation, these deficits would rise to 26% of revenues by 2021/22 (\$3.8m).³²

These deficits exceed, by a wide margin, our minimum benchmark for operating deficits, of not more than minus 10% of revenues (before capital). Further, over the medium term, councils should aim for an average operating balance ratio of close to zero if they are to be considered to be financially sustainable.³³

The requested 2.0% increase to partly address a funding gap for operating expenses will assist, but not resolve the council's operating deficits over the period to 2021/22.

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 it should explain what the rate increase will be used for and its impact on ratepayers.

We found that HHC engaged extensively with the community to determine expenditure priorities and to assess whether there is support for, and obtain feedback on, the requested rate increase.

³⁰ Hunters Hill Council, *Financial Statements 2010/11*, Note 13a(i), maintenance required ratio calculated for all assets sourced from Special Schedule No. 7. Road condition sourced from Hunters Hill Council Application, Part B, Section 1, p 3.

³¹ DLG, unpublished comparative data, 2010/11.

³² Hunters Hill Council Application, LTFP Scenario 1 Base case and Scenario 2 Special variation and Operating Balance Ratio Submission 29 March 2012.

³³ IPART, *Revenue Framework for Local Government – December 2009*, p 83.

The council's community consultation strategy was comprehensive, and included 3 elements which provided an indication of the level of community support for the requested special variation – an online survey, a random telephone survey, and submissions from the public. Of the 149 respondents to the online survey:

- ▼ 31.5% supported only the 3.6% rate peg increase (option 1)
- ▼ 24.8% supported a 8.4% special variation (the rate peg increase of 3.6% and an increase of 4.8% to replace the expiring special variation, option 2)
- ▼ 41.6% supported the requested 10.4% special variation (the rate peg increase of 3.6%, an increase of 4.8% to replace the expiring special variation, and a further increase 2.0% to assist with a funding gap for operating expenses, option 3).³⁴

The results of the telephone survey were similar to those of the online survey.³⁵ In addition, the telephone survey found that 72% of respondents preferred higher rates to reduced standards of infrastructure.³⁶

Of 34 submissions the council received from the public, almost half were opposed to any rate increase above the rate peg. Around a quarter supported option 2 and just under a third supported option 3.³⁷

IPART received 2 direct representations, which opposed the special variation. These submissions reflected concerns reported by the council in its application.

Overall, we assessed that the council's application demonstrated that that it had undertaken adequate community consultation. Further, the council's requested special variation of 10.4% was consistent with community feedback, in that it reflected the preference of the largest proportion of respondents to the online and telephone surveys.

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 the council's application meets the criterion, we considered 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 (as discussed above).

³⁴ Note that the sum of these responses is 97.9% as some surveys were submitted incomplete; Hunters Hill Council, advice to IPART by telephone (17 April 2012) and Application Part B, Section 2.6 and Attachment *Web site information presented online includ(ing) Rates Calculator*.

³⁵ The telephone survey's results required adjustment to avoid double counting. The rating options put to the community were not mutually exclusive. As a result, some respondents selected more than one option (ie, 19% of the respondents who selected Option 2 also selected Option 3. Hunters Hill Council 2012 Hunters Hill Council *Rating Options Survey*, February 2012, p 12.

³⁶ Hunters Hill Council Application – *Rating Options Survey*, February 2012, p 9.

³⁷ IPART calculation based on email dated 5 March 2012 from Hunters Hill Council.

As Chapter 2 noted, HHC proposes to increase average rates in both its rates categories by 5.6% in 2012/13. This translates to increases of \$74 for residential ratepayers and \$53 for business ratepayers.³⁸ If the special variation application were not approved, average rates would have decreased by 0.9% in 2012/13 due to the expiry of an existing special variation. This translates to a decrease of \$12 for residential ratepayers and \$9 for business ratepayers.³⁹

The council also intends to increase the minimum residential rate by 5.6% in 2012/13.⁴⁰ This will mean that those paying the minimum rate will continue to carry the same proportionate rates burden as they do now. Currently, 22.8% of residential ratepayers pay minimum rates (within the DLG's suggested benchmark of no more than 50%⁴¹ of ratepayers paying minimum rates within a rates category or subcategory).⁴²

We consider that the above impacts on ratepayers are reasonable in light of capacity to pay indicators for the LGA, such as its SEIFA index ranking and average income levels. The Hunters Hill LGA is considered advantaged with a SEIFA ranking that places it among the top 5% of councils. It also has average income levels of more than twice the NSW average.⁴³ (Appendix B provides a range of comparative data on the council.)

The council has also recently (October 2011) adopted a hardship policy to assist individuals having difficulty making residential rate payments. This policy provides the opportunity for individuals to enter into a mutually agreed payment option although interest charges are not able to be written off for overdue rates and charges.⁴⁴

Overall, we assessed that HHC's application demonstrated that the impact of the requested special variation increase on most ratepayers is reasonable. However, we note that the council's average residential rates are high in comparison to similar councils and the NSW average. The council should monitor the impact of the special variation increase and, if necessary, review its hardship policy if the level of outstanding rates increases significantly.

³⁸ Hunters Hill Council Application Part A, Worksheet 5.

³⁹ Hunters Hill Council Application Part A, Worksheet 5.

⁴⁰ There are no minimum rates for business ratepayers.

⁴¹ DLG, *Council Rating and Revenue Raising Manual – 2007*, p 36.

⁴² Hunters Hill Council Application Part B, Section 3.1.1 *Minimum Rates*.

⁴³ DLG, unpublished comparative data, 2010/11. SEIFA is the Socio-Economic Index for Areas published by the Australian Bureau of Statistics and incorporates a number of individual indexes and can be used to determine the level of social and economic well-being in regions relative to one another. One of the indexes is the Index of Relative Socio-economic Advantage and Disadvantage for NSW in 2006. The SEIFA used in this report ranks Local Government Areas from 1 to 153 (includes 1 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 least disadvantaged relative to all the other councils in NSW.

⁴⁴ Hunters Hill Council Application Part B, *Rates and Charges Hardship Policy*.

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 (like infrastructure) are shared between current and future users, based on their share of the use of these assets over their life. For example, this may be achieved by council borrowings, which spread the financing costs of infrastructure over a long period, rather than meeting these costs through large rate increases in the short to medium term.

In assessing HHC's application against this criterion, we considered the components of the requested special variation (other than the rate peg) individually.

The first of these components is the 4.8% increase to fund road renewal works. The council's road renewals program will involve capital works (roads resealing) with a relatively short life of between 10 and 15 years. These works will rebuild components (resurfacing) of roads to restore their functionality. Generally, it will involve repairing roads so that they can deliver their planned level of service and operational life. This will avoid the council resorting to significant road upgrading through reconstruction, realignment or replacement of roadway for the targeted roads over the next 10 years.

The council will supplement the special variation funds for this road renewal program with other available funds.⁴⁵ We consider the reliance on rates revenue for the funding of these works is a reasonable financing strategy, as the local road renewals program will not result in new long-lived assets that could be partly funded through debt.

The second component is the 2.0% increase to reduce the council's funding gap for operating expenses. We consider the use of recurrent rates revenues for the purpose of funding operating expenses a reasonable financing strategy.

The council's application also indicated that it plans to restrict and eliminate use of debt financing over the next 10 years.⁴⁶ In light of the council's deteriorating financial performance, we support this strategy. As discussed in section 3.1, we do not consider the use of debt financing an affordable option for HHC.

⁴⁵ The council's contribution to the roads renewal program will include revenues from parking fees and rental income from mobile phone towers. Hunters Hill Council Application Part B, Section 2.2.2 *Mobile Phone Tower Revenue*.

⁴⁶ The council's application indicates that the debt servicing ratio of 3.93% in 2010/11 will reduce to nil by 2018/19, without the special variation. The DLG's accepted benchmark for the debt service ratio has an upper range of 20% although high growth coastal councils may have a higher debt service ratio. Hunters Hill Council Application, LTFP, Scenario 1 Base case.

Overall, we are satisfied that HHC's application demonstrated that the council has a financing strategy that is consistent with intergenerational equity. The council has also considered other methods of financing its proposed expenditure program as part of its long-term financial plan.

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.

In its application, HHC indicated that it has achieved productivity savings in the past and has plans in place to do so in the future. Past productivity savings were achieved through:⁴⁷

- ▼ **The introduction of 'smart forms'** (2007/08), which enabled it to use a range of standard forms in its procedures and delivered benefits of \$10.50 for every dollar invested. For example, these benefits came from the streamlining of processes, more rapid processing times and less rework through fewer errors.
- ▼ **New contract arrangements** (2007), which produced annual savings in photocopying of over \$7,000.
- ▼ **Changes in its fleet vehicles** (2011), particularly the general replacement of tip trucks with Toyota Hilux utilities, which reduced running costs and depreciation (due to lower capital costs), and increased labour force flexibility through drivers no longer requiring a truck or heavy vehicle licence.
- ▼ **Improvements in energy efficiency plan implementation** (2011), which resulted in savings of over \$16,000 annually in energy costs and reductions of approximately 100 tonnes in greenhouse gas emissions per year.
- ▼ **Improvements in information technology**, including:
 - the introduction of on-line DA tracking (2007) with cumulative savings of almost \$50,000
 - improved processing within the payroll system (2007) with cumulative savings of over \$8,000
 - a wireless ISP link (2010) that has provided cumulative savings of almost \$5,500, and
 - VOIP (voice over internet protocol) for council's telephone system with estimated annual savings of \$26,000.

⁴⁷ Hunters Hill Council Application, Part B, Section 5.

Future productivity savings are expected to be achieved through:

- ▼ **new contract plans** (2012-2013) for mobile telephones with estimated cost savings of up to \$6,000 per year
- ▼ an **electronic document management** system (2012-2013), providing additional on-line forms
- ▼ **Microsoft Office 2010 desktop platform** (2012-2013) for day-to-day work functions resulting in a reduction in email storage costs
- ▼ **online payments** (2012-2013) to allow ratepayers and customers the opportunity to lodge applications and make payments online
- ▼ revised **works staff operating procedures** (2012-2013) including establishing performance measures and benchmarks for each work area and the equipment utilised by these areas, and
- ▼ improved **library services** (at Gladesville) through an arrangement with Ryde Council (which is contracted to deliver the service) so as to achieve:
 - reduced expenses for HHC
 - enhanced service levels
 - 'refreshed' facilities, and
 - HHC taking more ownership for the management, services and events provided through the library.

As part of our assessment, we examined comparative data on productivity from the DLG for 2010/11 (see Appendix B). These data favourably indicated that in addition to HHC having a lower number of staff for its population (relative to other DLG Group 2 councils), it also had lower average employee costs. The council's employee costs also constitute a lower percentage of the council's expenditure. However, possibly reflecting in-house resource gaps, its expenditure on contractors were a greater proportion of the council's expenditures than the average for Group 2 and NSW.

Other data from the DLG also supports the view that HHC does not have, in relative terms, a high level of expenditure. For example, it's spending on services (as distinct from capital works):

- ▼ per annum account for 70% of its annual expenditure, which is lower than the average for DLG Group 2 councils (76%)
- ▼ per assessment (\$1,899) is 24% lower than the average for DLG Group 2 (\$2,487)
- ▼ per capita (\$636) is 38% lower than the average for DLG Group 2 (\$1,018).⁴⁸

⁴⁸ DLG, unpublished comparative data, 2010/11.

We note the council indicated that its financial plan is consistent with no net increases in staffing numbers over the coming 10 years.⁴⁹ We encourage the council to manage its functions over the coming decade without significantly increasing its staffing or consultancy costs.

Overall, we assessed that HHC's application demonstrated that the council has achieved productivity gains and cost savings in the past 2 or more years. A significant portion of these improvements have the potential to produce further resource savings in the future.

⁴⁹ Hunters Hill Council Application, Part B, Financial Plan, Wages and Salary Growth (projections), p 7.



Appendices

A Hunters Hill Council's Proposed Program of Expenditure for Roads Renewals

IPART accepts that the following program of works is indicative and the council may need to re-schedule and re-prioritise planned expenditure on individual projects over the 10 years. The council will report against expenditure on the program in its annual report

CAPITAL WORKS PROGRAM FOR ROADS (2012 dollars)

	1	2	3	4	5	6	7	8	9	10	TOTAL
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Total Scheduled Works	492,400	508,200	502,500	500,140	493,650	500,190	508,350	491,600	504,600	511,050	5,012,680¹
Massey St	88,500										
Mary St	170,700										
Campbell St	21,000										
Browns Lane	9,000										
Venus St (Massey-Pittwater)	51,600										
Venus St (Cowell-Bateman's)	51,600										
Woolwich Rd	100,000										492,400
Huntley's Point Rd		260,700									
Augustine St		144,000									
Manning Rd		82,500									
Keeyuga Rd		21,000									508,200
Ferry St			33,000								
Futuna St			31,500								
Park Rd			91,500								
Sherwin St			54,600								
William St			73,950								
Crown St			127,050								
High St			81,000								
Madeline St			9,900								502,500

¹ Note the figures in this table are in real (ie, 2012) dollars which, when adjusted for expected inflation (assumed at 3% per annum), equate to the figures referred to in the council's special variation application. For instance, total expenditure for the council's roads capital program over 10 years of \$5.0m, in 2012 dollars, equates to the total value of \$5.6m in future dollars referred to within the council's application. The special variation will fund \$3.6m of this total with the council to contribute the remainder from other funding sources.

	1	2	3	4	5	6	7	8	9	10	TOTAL
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Mars St				40,500							
Everard St				60,000							
Blaxland St				21,450							
Wybalena Rd				53,000							
Leo St				26,400							
Toocooya Lane				27,900							
Toocooya Rd				25,200							
Mark St				50,000							
Gladstone Ave				99,000							
Prince Edward Pde				56,250							
Elgin St				21,540							
Prince George Pde				18,900							500,140
Martin St					71,000						
Figtree Rd					63,000						
The Point Rd					107,250						
Pittwater Rd					84,000						
Joly Pde					34,200						
Milling St					64,200						
Woolwich Rd					70,000						493,650
Ady St						37,500					
Blaxland St						81,000					
Farnell St						86,100					
Paul St						34,200					
Park Rd						93,000					
Garrick Ave						18,600					
D'Aram St						18,150					

	1	2	3	4	5	6	7	8	9	10	TOTAL
Year 6: 2017-18 (cont'd)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
Hunter St						24,900					
Kokera St						19,440					
Glenview Cr						52,500					
Glenview Rd						7,500					
Martha St						17,250					
McBride Ave						10,050					500,190
Viret St							108,000				
Mary St							97,650				
Hillcrest Ave							130,500				
High St							83,100				
High St							89,100				508,350
Figtree Rd								63,000			
Martin St								71,000			
Abigail St								121,500			
Ferdinand St								36,000			
Joubert St South								49,500			
Howard PL								15,000			
Kareela Ave								15,600			
Moorefield Ave								99,000			
Pitt St								21,000			491,600
Downing St									4,500		
Manning Rd									90,000		
Prince Edward St									77,400		
Tarban St									23,850		
Gray St									19,500		
Kelly St									45,000		
Bayview Cr									9,750		
King St									27,000		
Pittwater Rd									114,000		

	1	2	3	4	5	6	7	8	9	10	TOTAL
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
The Point Rd									63,750		
Werambie St									29,850		504,600
Short St										24,000	
Matthew St										25,500	
Luke St										44,550	
Rooke Lne										13,200	
Passey Ave										43,800	
Ambrose St										37,350	
Everard St										78,000	
Gaza Ave										37,800	
Ramleh St										39,750	
Nelson Pde										48,600	
Yerton Ave										11,700	
The Avenue										62,400	
Ernest St										44,400	511,050

Priorities have been determined using the data collected for the PMS (Pavement Management System), measuring the condition of the road and the likely funding pool available each year.

If the funding pool decreases or increases adjustments to the program will be made accordingly.

IPART accepts that this program of works is indicative and the council may need to re-schedule and re-prioritise planned expenditure on individual projects over the 10 years. The council will report against expenditure on the program in its annual report.

B Comparative indicators

Table B.1 Select comparative indicators for Hunters Hill Council, 2010/11

	Hunters Hill Council	DLG Group 2 average	NSW average
General profile indicators			
Area (km ²)	5.7	-	-
Population (no.)	14,467	-	-
Annual operating expenditure (\$)	13.05m	-	-
Council revenue per capita (\$)	810	1,143	2,006
Rates revenue % of total General Fund revenue	73	54	47
Average rate indicators^a			
Average rate level – residential (\$)	1,267	905	659
Average rate level – business (\$)	860	3,735	2,450
Average rate level – farmland (\$)	0	2,000	2,121
Local government area (LGA) socio-economic/capacity to pay indicators			
Average annual income, 2009 (\$)	98,791	72,011	41,376
Growth in average annual income, 2006-2009 (%)	0.7	4.0	4.4
Ratio of average residential rates (2010/11) to average annual income, 2009	0.02	0.01	0.02
SEIFA, 2006 (NSW rank) ^b	146	-	-
Outstanding rates ratio (%) ^c	2.6	4.1	7.3
Productivity indicators			
FTE staff (no) ^{cd}	59	295	294
Ratio of population to FTEs ^{c,e}	245	174	126
Average cost per FTE (\$) ^c	75,831	77,085	71,155
Employee costs as % ordinary expenditure – General Fund only	34	40	37
Contractor expenses (\$) ^c	2,586,000	6,933,396	6,238,288
Contractor expenses as % ordinary expenditure ^c	20	12	8

^a Average rate levels equal the total rates revenue collected from a given rate category (eg, ordinary residential) divided by the number of assessments in that category.

^b See footnote 12 for SEIFA index.

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

^d Based upon the total number of FTEs as at 30 June 2010, which was reported in council's consolidated financial reports.

^e This 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 population whereas a lower ratio indicates that there are more council staff.

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

Note: General Fund refers to all council activities except Water and Sewer.

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