Independent Pricing and Regulatory Tribunal
New South Wales

Ballina Shire Council's application for a special variation for 2017-18

under section 508(2) of *Local Government Act 1993*

Determination
Local Government

May 2017

ISBN 978-1-76049-066-9

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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (s508(2)) or for successive years up to seven years (s508A).

IPART assesses these applications against criteria in the Guidelines set by the Office of Local Government (OLG).[1] Box 1.1 explains the Guidelines for 2017-18.

Ballina Shire Council (Ballina Council) applied for a multi-year special variation under section 508A. The council requested increases of 4.9% for 2017-18, 5.9% in 2018-19 and 5.9% in 2019-20, a cumulative increase of 17.64% over three years. It applied for the increase to remain permanently in the rate base.[2]

After assessing the council's application, we decided to allow the special variation in part, on a one year temporary basis. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2017-18

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

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

1 Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, December 2016 (the Guidelines).

2 Ballina Shire Council, *Special Variation Application Form Part A 2017-18 (*Ballina Council, *Application Part A)*, Worksheet 1.

The council sought the special variation for a general rate increase to fund infrastructure asset renewal, the 'Health of Our Waterways' (Healthy Waterways program) and to improve its financial sustainability.

The council did not update its IP&R documents to include the special variation increase sought prior to applying to IPART. Therefore, we have not approved a permanent increase in general income. However, the council did demonstrate a clear need for the special variation (SV) to fund infrastructure asset renewal, the Healthy Waterways program and improve its financial sustainability.

Our decision is to allow, on a temporary basis, the first year of the council's special variation request. This decision allows the council to fund its Healthy Waterways program, undertake initial funding of the council's infrastructure asset renewal in 2017-18 and improve its financial sustainability.

Our decision will allow the council to continue to execute its expenditure program under its Long Term Financial Plan (LTFP) while updating its IP&R documentation. The council could reapply to IPART in future years if it wishes for a rate increase to be permanently incorporated in its general income base.

1.1 Our decision

We determined that Ballina Council may increase its general income in 2017-18 by 4.9%, including the rate peg of 1.5% that is available to all councils (see Table 1.1). The special variation can be retained in the council's general income base for one year and is to be removed from the council's rate base in 2018-19.

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

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

Table 1.1 IPART's decision on Ballina Shire Council's application for a special variation in 2017-18

Component	%
Percentage increase above the rate peg	3.4
Rate peg	1.5
Total increase	4.9

Source: Ballina Council, *Application Part A*, Worksheet 1 and IPART calculations.

Box 1.2 Conditions attached to Ballina Shire Council's approved special variation

IPART's approval of Ballina Shire Council's application for a special variation in 2017-18 is subject to the following conditions:

- The council uses the additional income from the special variation for the purposes of increasing expenditure on infrastructure asset renewal, funding its Healthy Waterways program and improving its financial sustainability as outlined in the council's application and listed in Appendix A.
- The council reports in its annual report for 2017-18 on:
  - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
  - expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure, and
  - the outcomes achieved as a result of the actual program of expenditure.
- On 1 July 2018, the council is to reduce its general income to what it would have been without the special variation.

2 What did the council request and why?

Ballina Council applied to increase its general income by a cumulative 17.64% over a 3 year period from 2017-18 to 2019-20, and to permanently incorporate this increase into its general income base.[3] This increase is 11.0% more than the assumed rate peg over the period (6.6%).

This increase is consistent with the council's Fit for the Future (FFTF) proposal and assessment completed in 2015. At that time, the council proposed a cumulative increase of 17.0% over the 3-year period from 2017-18 to 2019-20, including the rate peg.[4]

The additional revenue from the special variation under the FFTF proposal would be used to fund asset renewals and improve its financial sustainability.[5] The increased revenue was considered necessary to meet the Operating Performance Ratio and assist in achieving the Building and Asset Renewal Ratio.

The council's current proposal also responds to findings made by NSW Treasury Corporation (TCorp) to improve its operating result and to increase spending on asset renewal.[6]

Ballina Council notes after the council elections in September 2016, the newly elected council decided to include an additional component to its special variation application to fund its Healthy Waterways program.[7]

The council estimates if the requested special variation (SV) is approved, its permissible general income would increase from $20.5 million in 2016-17 to $24.1 million in 2019-20. Over the 3-year period of the special variation to 2019-20, this would generate additional revenue of $4.4 million compared to rate increases at the assumed rate peg. This figure would increase to $21.8 million over a 10-year period, as the special variation was proposed to remain permanently in the council's rate base.

The council intends to use the additional revenue from the special variation to fund infrastructure asset renewals, the Healthy Waterways program and improve its financial sustainability.[8]

More detail on the council's proposed program of expenditure to 2026-27 is provided in Appendices A and B.

3 Ballina Council, *Application Part A*, Worksheet 1.
4 Ballina Council, *Fit For the Future Council Improvement Proposal,* June 2015, p 20.
5 Ballina Council, *Fit For the Future Council Improvement Proposal,* June 2015, p 20.
6 Ballina Council, *Application Part B*, p 17.
7 Ballina Council, *Application Part B*, p 36.
8 Ballina Council, *Application Part B*, pp 12-13.

3 How did we reach our decision?

We assessed Ballina Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix C.[9]

Ballina Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2013-2023* (Community Strategic Plan), *Delivery Program and Operational Plan 2016/17 to 2019/20* (Delivery Program), *Long Term Financial Plan 2016/17* (LTFP) and its *Asset Management Plan 2016* (Asset Management Plan).

The rate increases for which the council has applied are moderate, and we considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

We found Ballina Council's application did not meet all the criteria. In particular, we found:

1. The council has demonstrated the **need for the proposed revenue** in its LTFP and its community consultation. The proposal responds to TCorp's recommendations for improving financial sustainability, implements the council's FFTF proposal for meeting the financial sustainability criteria, and reflects community priorities. However, the IP&R documents, specifically the Delivery Program, did not sufficiently address the council's special variation application.
2. On balance, the council has demonstrated it has made **the community aware** of the need for and extent of the rate increase through its direct consultation with its community. However, it did not always clearly consult on the cumulative increase over three years. In addition, the council's IP&R documentation, specifically the Delivery Program, did not fully meet the requirements in detailing the extent of the general fund rate rise under the special variation.
3. The **impact of the proposed rate rises on ratepayers** is moderate but reasonable given the council's existing rate levels, the purpose of the special variation and indicators of the community's capacity to pay.
4. The council's relevant **IP&R documents did not explain the special variation.** While the IP&R documents had been exhibited and adopted, the Delivery Program did not clearly explain the requested special variation consistent with the requirements under the special variation guidelines.
5. The council demonstrated **productivity savings and cost containment strategies** in past years, and has indicated its intention to realise further savings.

9 See Appendix C. Ballina Council is in OLG Group 4, which is classified as Urban Small/Medium Regional Town/City. The group comprises 30 councils, including councils such as Byron Shire, Lismore City and Richmond Valley Shire.

Table 3.1 below summarises our assessment against the criteria. Sections 3.1 to 3.5 discuss our findings against the criteria in more detail.

Table 3.1 Summary of IPART's assessment of Ballina Shire Council's application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
1. The need for and purpose of a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan by including scenarios both with and without the special variation.	The council has demonstrated a financial need for the requested special variation, which is to fund the renewal of assets, the healthy waterways program and improve its financial sustainability. This is consistent with community priorities. The council's financial data shows the operating performance ratio will be negative to 2024-25 without the SV. The council's FFTF assessment included an assumed special variation of 17% over three years from 2017-18 to meet the operating performance and asset renewal benchmarks by 2019-20. However, the IP&R documents, specifically the Delivery Program did not clearly set out the need for, and purpose of the requested special variation. The Delivery Program only refers to the council's objective to improve financial sustainability through the FFTF program, but makes no specific reference to the council's special variation application (see criterion 4). The council considered alternatives to a rate rise, such as cost savings and fee increases, but concluded these would not generate sufficient funds to meet the required additional renewal expenditure.
2. Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur.	On balance, the council has demonstrated it has made the community aware of the need for and extent of the rate increase through its direct consultation with its community. However the council's IP&R documentation, specifically its Delivery Program, did not fully meet the requirements in detailing the extent of the general fund rate rise under the special variation (see criterion 4). The council provided evidence the community is aware of the **need** for the rate increase by a variety of methods. However, the **extent** of the rate increase (the cumulative increase) was not always clearly communicated. The council issued media releases, a letter and fact sheet to all residents, held public meetings, conducted surveys of its residents and advertised the SV in the local newspaper. The council reported that its feedback from submissions and an online survey shows most residents oppose the SV. However a phone survey conducted by Micromex research suggested support for the special variation. IPART received 79 submissions opposing the application. Key concerns raised in submissions include: the rate increases are unaffordable, the council should become more efficient, and the funding of the waterways program is not a council responsibility.

Criterion	IPART findings
3. The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Program and Long Term Financial Plan should: ▼ clearly show the impact of any rises upon the community ▼ include the council's consideration of the community's capacity and willingness to pay rates, and ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay	The impact on ratepayers is moderate, but reasonable given: ▼ the need and purpose of the special variation, and ▼ the average residential, business and farmland rates in 2016-17 are below comparable councils such as Coffs Harbour and Lismore. The council concluded the rate rise was affordable based on: ▼ a SEIFA ranking of 99/153, which indicates less disadvantage compared with neighbouring councils such as Lismore (66/153) and Tweed (68/153) ▼ a higher average income compared to neighbouring councils (eg, Byron, Lismore) ▼ a lower unemployment rate compared to neighbouring councils (eg, Lismore, Tweed), and ▼ its outstanding rates ratio improving from 12.2% in 2009-10 to 4.5% in 2015-16. We note the council's Delivery Program did not make specific reference to the council's special variation application (see criterion 4).
4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.	**This criterion is not satisfied.** The council adopted the Community Strategic Plan in 2012, with the Delivery Program and LTFP adopted on 23 June 2016. The LTFP was revised in December 2016 to reflect the latest forecast including the 1.5% rate peg for 2017-18. While the LTFP modelled the SV scenario it did not clearly explain the council's special variation application. The Delivery Program did not clearly set out: ▼ the need for, and purpose of the requested special variation (criterion 1) ▼ the extent of the rate rise under the special variation (criterion 2), and ▼ the impact on affected ratepayers of the special variation (criterion 3). Therefore, the council has not satisfied this criterion.
5. The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.	The council has implemented a number of cost savings initiatives in the past, and forecasts future savings measures. It estimates its cost savings initiatives would generate savings of around $1.4 million per year. Some of the examples provided include: ▼ revising its road resurfacing strategy, saving around $529,000 per year ▼ using electronic forms for workplace health and safety assessments, saving $237,000 per year, and ▼ implementing new software for the management of development application approvals, saving $62,000 per year. Over the next 10 years the council's real operating expenditure per capita is forecast to decline by 12%. The council's ratio of population to FTE's is about 21% higher than the OLG Group 4 average (see Appendix C).

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix C, Table C.2.

Sources: Ballina Shire Council, *Application Part A* and *Application Part B*; OLG, Unpublished data; Ballina Council, *Delivery Program and Operational Plan 2016/17 to 2019/20,* June 2016, Ballina Council, *Long Term Financial Plan 2016/17,* December 2016.

3.1 Need for and purpose of the special variation

We consider the council has met this criterion.

Ballina Council has demonstrated a financial **need** for the requested special variation, which is to:

- fund asset renewal of core infrastructure assets such as roads, stormwater, playgrounds, sports fields and open spaces
- fund the Healthy Waterways Program to improve the health and amenity of local water bodies, and
- improve its financial sustainability.

The community feedback to the council indicates the community's priorities are to improve the:

- health of local waterways, and
- service levels of key infrastructure assets such as roads.[10]

However, the council's IP&R documents, specifically the Delivery Program did not clearly set out the need for, and purpose of the requested special variation. While the council's LTFP provides some discussion about the need for a special variation, the Delivery Program[11] does not make specific reference to the council's special variation application. The Delivery Program only refers to the objective to improve financial sustainability through meeting the FFTF benchmarks. See section 3.4 for a detailed discussion of this issue.

Financial sustainability, including infrastructure backlogs

The impact of the proposed special variation on the council's financial sustainability is shown in Figure 3.1 and Table 3.2.

The council is forecasting operating deficits (before capital grants and contributions) of between $1.5 million and $0.5 million over the next eight years without the special variation. The cumulative deficit to 2026-27 without the special variation is $8.5 million.

By contrast, the requested special variation would have enabled the council to generate operating surpluses (before capital grants and contributions) from 2018-19 based on planned spending. The cumulative surplus to 2026-27 with the requested special variation would have been $13.8 million.

The requested special variation would have allowed the council to provide the necessary additional funding to renew its key infrastructure assets such as roads, whilst continuing to maintaining services to a growing population.[12] Over 10 years, $18.4 million of capital expenditure would have been spent on renewing roads, stormwater, community buildings and open spaces.

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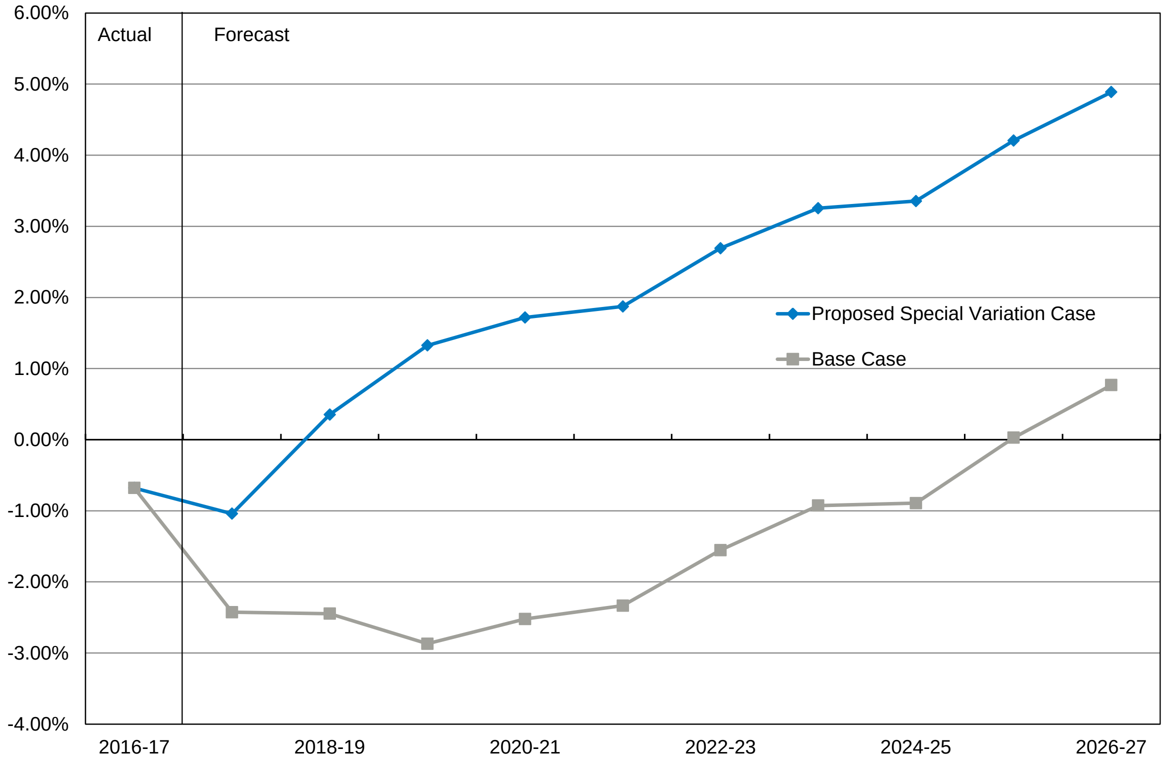
10 Ballina Council, *Application Part B*, p 11.
11 Ballina Council, *2016/17 to 2019/20 Delivery Program and Operational Plan*, adopted 23 June 2016.
12 Ballina Council, *Application Part A*, Worksheet 7.

Figure 3.1 Ballina Council's Operating Performance Ratio (%) excluding Capital Grants and Contributions (2016-17 to 2026-27)



Source: Ballina Council, *Application Part A, Worksheet 7* and IPART calculations.

Table 3.2 Projected operating performance ratio (%) for Ballina Council's special variation application

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Application including SV	-1.0	0.4	1.3	1.7	1.9	2.7	3.3	3.4	4.2	4.9
Excluding SV	-2.4	-2.4	-2.9	-2.5	-2.3	-1.6	-0.9	-0.9	0	0.8

Source: Ballina Council, *Application Part A,* Worksheet 7.

Box 3.1 summarises Ballina Council's FFTF assessment.

Box 3.1 Ballina Council's Fit for the Future (FFTF) Assessment

In 2015, our Fit for the Future (FFTF) assessment found the council:

- Met the criterion for sustainability as it was forecast to meet the **operating performance benchmark** from 2019-20 based on successfully applying for a 17% special variation from 2017-18 to 2019-20.
- Met the criterion for infrastructure and service management as it was forecast to meet the **infrastructure backlog**, the **asset maintenance** and **debt service benchmarks** by 2019-20.
- Met the criterion for efficiency based on a forecast decline in **real operating expenditure per capita** over the period to 2019-20.

TCorp observed in 2013 the council's financial position was 'moderate', and considered its outlook was 'neutral'. The assessment found the council was financially sound, with its assets in reasonable condition. However TCorp had longer term concerns with the operating result and the council providing insufficient funding for asset renewal. The special variation application addresses these concerns.

Table 3.3 compares Ballina Council's projected operating performance ratio under its special variation application with its FFTF proposal in 2015. The table shows a small variation between the council's forecasts in FFTF and its current special variation proposal. This partly relates to the council's Roads to Recovery funding which was initially recognised in the budget as capital; however it has been reclassified as operating revenue to be consistent with the financial reporting guidelines.[a]

Table 3.3 Projected operating performance ratio (%) for Ballina Shire Council's special variation application compared with its FFTF proposal

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
FFTF – including SV	-3.4	-1.4	0.5	1.3	1.2	1.9	2.2	2.4	2.2	NA	NA
Current SV	-0.7	-1.0	0.4	1.3	1.7	1.9	2.7	3.3	3.4	4.2	4.9

[a] The council's 2015-16 financial statement reports its Roads to Recovery funding as capital, however this has been reclassified to operating revenue for the current special variation application.

Note: The FFTF Operating Performance Ratio is reported on annual basis, not the 3 year rolling average.

Source: IPART, *Assessment of Council Fit for the Future* Proposals, October 2015, and New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, TCorp, *Ballina Shire Council Financial Assessment and Benchmarking Report*, August 2012, Ballina Council, *Application Part A,* Worksheet 7, and IPART's fit for the future assessment for Ballina Council.

Alternative funding options

As part of the council's FFTF proposal to improve its financial sustainability, it considered a number of options including:

- asset sales
- increasing user fees and charges
- reducing expenses, and

- loan funding.[13]

The council concluded that asset sales, increasing user fees and charges and reducing expenses would not generate sufficient funds to meet the required additional renewal expenditure. The council also states that loans are an inappropriate funding source for recurrent asset renewal expenditure.

3.2 Community engagement and awareness

On balance, we consider the council has met this criterion.

Ballina Council has demonstrated the community is aware of the need for and extent of a rate rise through its direct consultation with its community. However the council's IP&R documentation, specifically its Delivery Program did not fully meet the requirements in detailing the extent of the general fund rate rise under the special variation (see section 3.4 below).

The council's community consultation on this special variation application clearly explained the **need** for a rate increase and provided reasonable opportunities for community feedback. However, with regard to the **extent** of the rate increase, the council did not always clearly consult on the cumulative increase of 17.6% over the three years inclusive of the rate peg.

The media releases show the special variation increases on an annual basis, but do not discuss the cumulative impact over three years. The letter to all residents and fact sheet shows (with and without the special variation):

- the annual and cumulative percentage increase
- the cumulative dollar increase over three years, and
- the average residential, business and farmland rate on an annual basis over the three years.

The annual dollar increase is not shown, but it can be calculated based on the average rates.

Overall, we consider the council has made the community aware of the need and extent of the rate increase.

Community consultation

As part of the special variation application, Ballina Council used a variety of methods to engage with its community including:

- media releases
- a newsletter sent to every resident (including fact sheet)
- a Fact sheet displayed on the Council's website
- public meetings held in Alstonville, Ballina, Lennox Head and Wardell
- advertising in the local newspaper, the Ballina Shire Advocate

13 Ballina Council, *Application Part B*, p 5.

- an on-line survey, and
- an independent survey conducted by Micromex Research Pty Ltd.[14]

Outcome of consultation on rate increases

Although this criterion does not require councils to demonstrate community support for the special variation, we require that councils consider the results of their community consultation in preparing their application.

Ballina Council consulted widely as part of its special variation application. The council received 118 written submissions and conducted an online survey of 501 residents. The outcomes of this consultation show most residents oppose the special variation application. The main reasons for opposing the special variation include:

- the rate increases are unaffordable
- the council should become more efficient, and
- the funding for the waterways program is not a council responsibility.[15]

In addition, Ballina Council engaged Micromex Research Pty Ltd to conduct a survey of 403 residents. The survey canvassed support for four options:

1. no special variation
2. rate peg plus 1.5% to fund the Healthy Waterways program only
3. rate peg plus 2.9% to fund asset renewals only, and
4. rate peg plus 4.9% to fund the Healthy Waterways program and asset renewals.

The Micromex research found option four had the most support, with 74% of respondents indicating they were 'somewhat supportive, supportive or very supportive' of this option.[16]

Based on these outcomes the council decided to apply for the special variation.

Submissions

We received 79 submissions opposing the application. Opposition to the rise was broadly similar to the feedback received by the council.

3.3 Reasonable impact on ratepayers

We consider the impact of the special variation will be moderate but reasonable given:

- the need for and purpose of the special variation, and
- the average residential, business and farmland rates in 2016-17 are on average 20% below comparable councils such as Coffs Harbour and Lismore, according to data provided by Ballina Council.

14 Ballina Council, *Application Part B*, p 23.
15 Ballina Council, *Application Part B*, Attachment 13.5, pp 2-7.
16 Ballina Council, *Application Part B*, pp 25-26.

The council's consideration of impact on ratepayers

The council considers the existing community has an ability to pay the increase in rates being proposed.[17] The council examined socio-economic indicators such as the:

- unemployment rate
- percentage of pensioners paying rates
- average taxable income, and
- SEIFA index.

Based on these indicators, the council found Ballina has a higher income level, a lower unemployment rate and the highest SEIFA ranking in the Northern Rivers region. Hence Ballina Council concluded it had a stronger economy than neighbouring areas.[18]

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

We found average annual growth in rates over the last 10 years was:

- 5.1% pa, or 64.6% cumulative, for residential rates
- 11.1% pa, or 187.1% cumulative, for business rates, and
- 5.4% pa, or 69.2% cumulative, for farmland rates.

This compares to an average increase in the rate peg of 2.9% per annum, or a 33.1% cumulative rise, over this period.

17 Ballina Council, *Application Part B*, p 61.
18 Ballina Council, *Application Part B*, p 32.

Table 3.4 compares rates and socio economic indicators within Ballina Council to neighbouring councils and peer Group 4 councils.

Table 3.4 Ballina Council - comparison of rates and socio-economic indicators with surrounding councils and Group 4 averages (2014-15)

Council (OLG Group)	Average residential rate ($)[a]	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%)[b]	SEIFA Index NSW Rank[c]
Ballina (4)[d]	**815**	**40,734**	**2.0**	**4.4**	**99**
Byron (4)	1,036	37,689	2.7	3.7	98
Coffs Harbour (5)	977	39,207	2.4	6.5	70
Lismore (4)[d]	1,082	38,784	2.8	9.2	66
Richmond Valley (4)	735	35,020	2.1	9.4	7
Tweed (5)[d]	1,231	39,594	3.1	5.2	68
Group 4	**956**	**44,245**	**2.2**	**4.8**	

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

b The outstanding rates ratio includes water and sewer.

c The highest possible ranking is 153 which denotes a council that is least disadvantaged in NSW.

d Ballina was granted a 2 year special variation in 2015-16 of 5.41% and 5.34%. Lismore Council was granted a 1 year special variation of 3.6% in 2016-17. Tweed Shire was granted a 1 year special variation of 2.8% in 2016-17. These increases are not reflected in the data.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia,* August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

We found that:

- the average residential rate in Ballina Council in 2014-15 is below the Group 4 average.[19] Ballina Council provided data for 2016-17 which shows its average residential, business and farmland rates are on average about 20% lower than other Northern Rivers councils.
- Ballina Council's socio-economic indicators compare favourably relative to its neighbouring councils. It has the highest SEIFA ranking, a lower ratio of average rates to average income, and a higher average taxable income.

Ballina Council has a hardship policy that is available to ratepayers.

Taking all these factors into account, we consider the impact of the increase would be reasonable given:

- the council's existing rate levels
- the socio economic indicators in the Local Government Area (LGA), and
- the purpose of the application to address financial sustainability and asset renewals.

19 Ballina Council has been granted three 508(2) permanent special variations in 2006-07, 2007-08 and 2008-09, and two section 508A permanent special variation from 2010-11 to 2013-14, and 2015-16 to 2016-17.

3.4 IP&R documents must be exhibited

We consider the council has not satisfied this criterion.

Under the IP&R framework the Delivery Program is the key document which details the principal activities the council will undertake to achieve the objectives of the Community Strategic Plan. The Delivery Program is required to be on public exhibition for 28 days prior to adoption. Given the importance of the Delivery Program under the IP&R documents, Criterion 4 of the special variation guidelines published by OLG in December 2016 requires:

> The relevant IP&R documents[20] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.

Also, criteria 1 to 3 in the OLG Guidelines make specific reference to requirements of the Delivery Program:

- "The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, **in particular its Delivery Program**, Long Term Financial Plan and Asset Management Plan where appropriate" (Criterion 1).
- "Evidence that the community is aware of the need for and extent of a rate rise. The **Delivery Program** and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation" (Criterion 2).
- "The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The **Delivery Program** and Long Term Financial Plan should:
  - clearly show the impact of any rate rises upon the community,
  - include the council's consideration of the community's capacity and willingness to pay, and
  - establish that the proposed rate increases are affordable having regard to the community's capacity to pay" (Criterion 3).[21]

We note the council adopted the Community Strategic Plan in 2012, with the Delivery Program and LTFP adopted on 23 June 2016. The LTFP was revised in December 2016 to reflect the latest forecasts including the 1.5% rate peg for 2017-18. While the LTFP modelled the special variation scenario it did not clearly explain the council's special variation application.

The Delivery Program did not discuss the council's special variation application. The Delivery Program only refers to the council's objective to improve financial sustainability through the FFTF program. Based on this document alone, the council's intention to apply for the special variation is not clearly identified.

Specifically, the Delivery Program did not clearly set out:

- the need for, and purpose of the requested special variation (criterion 1)

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20 The relevant documents are the Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan. It would also be expected that the Long Term Financial Plan be posted on the council's website.

21 Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2017/2018*, December 2016 (the Guidelines), p 16.

- the extent of the rate rise under the special variation (criterion 2), and
- the impact on affected ratepayers of the special variation (criterion 3).

For these reasons we consider the council has not satisfied this criterion.

3.5 Productivity and cost savings

The council's application sets out the cost containment and productivity improvement initiatives it has undertaken in recent years and plans to implement in the future.

The council estimates its cost savings initiatives would generate savings of around $1.4 million per year. Some of the examples provided include:

- A road resurfacing strategy to use bitumen rather than asphalt resulting in cost savings of about $529,000 per year.
- The council has continued to improve its operations through its use of electronic forms. The council estimates its electronic forms component of its Workplace Health and Safety management system saves around $237,000 per year.
- New software for the management of development application approvals, saving around $62,000 per year.
- Entering into an agreement with Essential Energy to replace street lights with LED lights reducing long-term maintenance and energy costs. The council estimates cost savings of at least $40,000 per year.[22]

22 Email received from Ballina Shire Council, 13 April 2017.

4 What does our decision mean for the council?

Our decision means Ballina Council may increase its general income in 2017-18 by 4.9%, an estimated $988,788, as indicated in Table 4.1.[23] The portion of this increase that is above the 1.5% rate peg (approximately $697,160) is to be removed from the council's rate base after 2017-18. After 2017-18, the council's general income can increase up to the annual rate peg unless we approve further special variations.[24]

Table 4.1 Permissible general income of Ballina Shire Council in 2017-18 arising from the special variation approved by IPART

Notional general income 2017-18 ($)	Increase approved (%)	Annual increase in general income ($)	Adjustments: Catch-ups, valuations[a] ($)	Permissible general income 2017-18 ($)
20,504,694	4.9	988,788	15,942	21,493,482

[a] Council has a prior catch-up amount of $15,942 added into Permissible income in 2017-18.

Note: The above information is correct at the time of the council's application (February 2017).

Source: Ballina Council, *Part A*, Worksheets 1 and 4 and IPART calculations.

This extra income is the amount the council requested in year one of its special application to enable it to fund its Healthy Waterways program, undertake initial funding of infrastructure asset renewal and improve its financial sustainability. It gives the council the necessary time to update and adopt its IP&R documentation and apply to IPART for a permanent increase in rates in future years if it so chooses.

If the council does not successfully apply for a special variation in future years, the council may need to review its financial and asset planning and consider whether there is a need to adjust spending on assets and services. It may also need to re-engage with the community on service levels.

23 Ballina Council, *Application Part A*, Worksheets 1 and 4.

24 General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

5 What does our decision mean for ratepayers?

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

In its application, Ballina Council indicated it intended to increase rates revenue by 4.9% for each category. The council has calculated the average increase in 2017-18 across all categories will be different to 4.9% because of the impact of the 2017-18 land revaluations.

The council has calculated, taking into account **both** the 4.9% increase and the impact of land revaluations, that:

- the average residential rate will increase by 4.7%, or $45
- the average business rate will increase by 5.8%, or $184, and
- the average farmland rate will increase by 4.7%, or $68.

Table 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

Table 5.1 Indicative increases in average rates under Ballina Shire Council's approved special variation for 2017-18

Category	Average rate 2016-17 ($)	Increase (%)	Increase ($)	Average rate 2017-18 ($)
Average residential rate	941	4.7	45	986
Average business rate	3,194	5.8	184	3,378
Average farmland rate	1,447	4.7	68	1,515

Notes: 2016-17 is included for comparison.

The average rate is calculated by Ballina Council, and includes the ordinary rate and any special rates applying to the rating category.

Some numbers may not add due to rounding.

Source: Ballina Council, *Application Part A*, Worksheet 5a.

Appendices

A Expenditure to be funded from the special variation

Table A.1 shows Ballina Council's proposed expenditure of the special variation funds over the next 10 years.

The council will use the additional special variation revenue, above the rate peg, of $21.8 million over 10 years to fund:

- its Healthy Waterways programs
- infrastructure asset renewal, including the council's roads, stormwater, community buildings and open spaces, and
- improve its financial sustainability (see Table A.1).

As a condition of IPART's approval, the council is to indicate in its Annual Reports how its actual expenditure compares with this proposed program of expenditure.

Table A.1 Ballina Shire Council – Income and proposed expenditure over 10 years related to the proposed special variation ($000)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Special variation income above assumed rate peg	**697**	**1,445**	**2,255**	**2,312**	**2,370**	**2,429**	**2,490**	**2,552**	**2,616**	**2,681**	**21,845**
Funding for increased operating expenditures	308	315	323	331	340	348	3576	366	375	384	3,446
Funding to reduce operating deficits or (increase surpluses)	390	1,130	1,932	1,981	2,030	2,081	2,133	2,186	2,241	2,297	18,400
Funding for capital expenditure	390	1,130	1,932	1,981	2,030	2,081	2,133	2,186	2,241	2,297	18,400
Proposed increased expenditure	**697**	**1,445**	**2,255**	**2,312**	**2,370**	**2,429**	**2,490**	**2,552**	**2,616**	**2,681**	**21,846**

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure. Funding for improving the operating balance generates cash flow that is available for funding capital expenditure.

Source: Ballina Council, *Application Part A*, Worksheet 6.

B Ballina Shire Council's projected revenue, expenses and operating balance

As a condition of IPART's approval, Ballina Council is to report annually against its projected revenue, expenses and operating balance as set out in its LTFP (shown in Table B.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excludes capital grants and contributions.

Table B.1 Summary of projected operating statement for Ballina Shire Council, 2017-18 to 2026-27 ($000)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Total revenue	68,881	63,081	63,583	70,477	72,792	63,834	66,267	67,167	69,616	72,096
Total expenses	51,937	52,776	54,917	55,559	57,470	57,728	59,662	60,381	62,107	63,933
Operating result from continuing operations	16,944	10,304	8,665	14,917	15,322	6,105	6,603	6,785	7,508	8,163
Net operating result before capital grants and contributions	-535	187	737	971	1,097	1,596	2,006	2,096	2,726	3,286

Note: Numbers may not add due to rounding.

Source: Ballina Council, *Application Part A*, Worksheet 7 and IPART calculations.

C Comparative indicators

Performance indicators

Indicators of council performance may be considered across time, either for one council or across similar councils, or by comparing similar councils at a point in time.

Table C.1 shows how selected performance indicators for Ballina Council have changed over the four years to 2014-15.

Table C.1 Trends in selected performance indicators for Ballina Shire Council, 2011-12 to 2014-15

Performance indicator	2011-12	2012-13	2013-14	2014-15	Average annual change (%)
FTE staff (number)	269	265	270	274	0.6
Ratio of population to FTE	151	155	152	150	-0.4
Average cost per FTE ($)	70,721	70,981	73,004	74,580	1.8
Employee costs as % operating expenditure (General Fund only) (%)	29.2	24.1	26.9	30.2	1.2
Consultancy/contractor expenses ($m)	0.2	0.2	0.3	0.2	4.0
Consultancy/contractor expenses as % operating expenditure (%)	0.3	0.2	0.3	0.2	-2.7

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

Overall, the table shows Ballina Council's performance over the period has been relatively stable. While employee costs as a percentage of operating expenditure has increased on average by 1.2% per year over the period, the ratio of population to FTE has decreased on average by -0.4% per year.

General comparative indicators

Table C.2 compares selected published and unpublished data about Ballina Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As noted in section 3, Ballina Council is in OLG Group 4. Unless specified otherwise, the data refers to the 2014-15 financial year.

Table C.2 Select comparative indicators for Ballina Shire Council, 2014-15

	Ballina Shire Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	485	-	-
Population	41,006	-	-
General Fund operating expenditure ($m)	50.2	-	-
General Fund operating revenue per capita ($)	1,172	1,534	2,029
Rates revenue as % General Fund income (%)	40.7	41.5	45.1
Own-source revenue ratio (%)	66.1	66.3	69.0
Average rate indicators[a]			
Average rate – residential ($)	815	956	790
Average rate – business ($)	2,677	3,393	2,949
Average rate – farmland ($)	1,321	2,053	2,490
Socio-economic/capacity to pay indicators[b]			
Average annual income for individuals, 2011 ($)	40,734	44,245	49,070
Growth in average annual income, 2006-2011 (% pa)	3.9	4.5	5.2
Average residential rates 2013-14 to average annual income, 2011 (%)	2.0	2.2	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	99		
Outstanding rates and annual charges ratio (General Fund only) (%)	4.4	4.8	4.6
Productivity (labour input) indicators[c]			
FTE staff (number)	274	316	295
Ratio of population to FTE	150	121	127
Average cost per FTE ($)	74,580	79,763	80,173
Employee costs as % operating expenditure (General Fund only) (%)	30.2	38.4	38.6
Consultancy/contractor expenses ($m)	0.2	6.7	8.8
Consultancy/contractor expenses as % operating expenditure (%)	0.2	8.2	10.9

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.

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

c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia,* August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.