



Independent Pricing and Regulatory Tribunal  
New South Wales

Special variation increase  
Bellingen Shire Council 2018-19

Determination  
Local Government

May 2018

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# 1 Executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) has set the rate peg for 2018-19 at 2.3%. Councils may apply to increase their general income above the rate peg. For most councils, general income consists entirely of rates revenue.

Bellingen Shire Council (Bellingen Council) applied for a multi-year special variation to:

- ▼ increase its general income by 6% each year in 2018-19, 2019-20, and 2020-21, a cumulative increase of 19.1% over 3-years, and
- ▼ retain this increase in its rate base permanently.<sup>1</sup>

IPART has assessed the council's application against the criteria in the Office of Local Government (OLG) Guidelines. This report sets out our decision, and explains how and why we reached that decision. Box 1.1 below outlines the context for this process.

## 1.1 We have approved Bellingen Shire Council's application for a special variation

We decided to allow the special variation as requested.

Our decision means that Bellingen Council may increase its general income between 2018-19 and 2020-21 by the annual percentages shown in Table 1.1. This will allow the council to fund its road resurfacing and bridge renewals program, reduce the infrastructure backlog and enhance financial sustainability.<sup>2</sup>

The annual increases include the rate peg of 2.3% in 2018-19, and an assumed rate peg of 2.5% in future years.<sup>3</sup>

The cumulative increase that we have approved of 19.1% is 11.6% more than the assumed cumulative rate peg for these years. This increase may be retained in the council's general income base permanently.

**Table 1.1 IPART's decision on Bellingen Shire Council's application for a special variation in 2018-19**

	2018-19	2019-20	2020-21
Percentage increase approved	6.0	6.0	6.0

<sup>1</sup> Bellingen Council, *Special Variation Application Form Part A 2018-19* (Bellingen Council, *Application Part A*), Worksheet 1.

<sup>2</sup> Bellingen Council, *Application Part A*, Worksheet 6 and *Application Part B*, p 4.

<sup>3</sup> The special variation percentage approved will not change to reflect the actual rate peg in future years.

### **Box 1.1 Context for IPART's decision**

Each year, IPART sets the rate peg, which is the maximum amount by which councils can increase their general income in that year.

Councils may apply for a special variation that allows them to increase their general income by more than the rate peg. For a single year increase, they apply under section 508(2) of the *Local Government Act 1993* (the Act). For successive year increases (up to a maximum of seven years), they apply under section 508A of the Act.

IPART assesses these applications against the criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for a special variation to general income* (OLG Guidelines).

The OLG Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) processes and documents to the special variation process. 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.

The criteria for assessing applications for special variations are listed in Appendix A.






## **1.2 The council's application meets the criteria**

Our decision reflects our finding that the council's application meets the requirements in the OLG criteria.

Our assessment against each criterion is summarised in Table 1.2.



**Table 1.2 Assessment of Bellingen Shire Council's special variation application**

1. Financial Need	
	<p>The council demonstrated the financial need for the special variation (SV):</p> <ul style="list-style-type: none"> <li>▼ Operating Performance Ratio (average 2018-19 to 2027-28) is               <ul style="list-style-type: none"> <li>- 0.24% with SV, and</li> <li>- -2.97% without SV and assuming SV expenditure.</li> </ul> </li> <li>▼ Infrastructure backlog of \$32.6 million or 15.6% of assets in 2017-18, would improve to \$5.6 million or 2.7% of assets in 2027-28 with SV.</li> <li>▼ Spending to improve infrastructure assets is consistent with community priorities.</li> </ul>
2. Community awareness	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> <li>▼ used a range of engagement methods to make the community aware of the need for and extent of rate increase</li> <li>▼ provided detailed explanations about the purpose and impact of the SV and sought feedback, and</li> <li>▼ satisfactorily considered community feedback on the rate increase.</li> </ul>
3. Impact on ratepayers	
	<p>Impact on ratepayers will be substantial but reasonable:</p> <ul style="list-style-type: none"> <li>▼ residential rates are comparable with neighbouring councils</li> <li>▼ business rates are substantially lower than Group 11 and neighbouring councils</li> <li>▼ the rates to income ratio is similar to neighbouring councils, and</li> <li>▼ the outstanding rates ratio is low relative to neighbouring councils.</li> </ul>
4. IP&R documents exhibited	
	<p>The council adopted its Community Strategic Plan in 2017. It:</p> <ul style="list-style-type: none"> <li>▼ exhibited its Delivery Plan during December 2017 and adopted it on 8 February 2018, and</li> <li>▼ adopted the Long Term Financial Plan setting out the SV scenario in 2018.</li> </ul>
5. Productivity improvements and cost containment	
	<p>Over the past two years, the council has realised annual savings in operating expenditure. This includes:</p> <ul style="list-style-type: none"> <li>▼ Human Resources initiatives resulting in a reduction in workers compensation insurance, leave liability and recruitment costs (\$260,000)</li> <li>▼ administrative efficiencies through a review of electricity and heating costs, and printing services (\$135,000), and</li> <li>▼ other efficiencies (\$109,000).</li> </ul>

### 1.3 We have attached conditions on how the council can spend its extra revenue

We have attached conditions to this decision, including that the council uses the income raised from the special variation for purposes consistent with those set out in its application. Box 1.2 summarises these conditions.

### **Box 1.2 Conditions attached to Bellingen Shire Council's approved special variation**

IPART's approval of Bellingen Council's application for a special variation over the period 2018-19 to 2020-21 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of improving financial sustainability, funding capital expenditure and reducing its infrastructure backlog as outlined in the council's application and listed in Appendix B.
- ▼ The council reports in its annual report for each year from 2018-19 to 2027-28 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 C
  - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and the reasons for such variation
  - expenditure consistent with the council's application and listed in Appendix B, and the reasons for any significant differences from the proposed expenditure, and
  - the outcomes achieved as a result of the actual program of expenditure.

## **1.4 Structure of this report**

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

- ▼ Chapter 2 outlines the council's application for the special variation.
- ▼ Chapter 3 explains our assessment of the council's application against each criterion.
- ▼ Chapters 4 and 5 discuss how our decision will impact the council and its ratepayers.

## 2 Bellingen Shire Council's application

Bellingen Council applied for a special variation to increase its general income by 6% per year, a cumulative increase of 19.1% over the 3-year period from 2018-19 to 2020-21 and to permanently retain this increase in its general income base.<sup>4</sup> As required under the OLG Guidelines,<sup>5</sup> the council applied for the special variation on the basis of its most recent, adopted Integrated Planning and Reporting (IP&R) documents, in particular the:

- ▼ Community Strategic Plan – Shire of Bellingen 2030 (Community Strategic Plan)
- ▼ Delivery Program 2017-21 and Operational Plan 2017-18 (Delivery Program)
- ▼ Long Term Financial Plan 2017-27 (Long Term Financial Plan), and
- ▼ Asset Management Policy and Strategy.

The council estimates its permissible general income would increase from \$7.3 million in 2017-18 to \$8.7 million in 2020-21 if the requested special variation is approved. Over the 3-year period of the special variation to 2020-21, this would generate additional revenue of \$1.7 million compared to rate increases at the assumed rate peg. This figure would increase to \$8.3 million over a 10-year period, as the additional revenue raised would remain permanently in the council's rate base.

The council indicated it intends to use the additional revenue to fund infrastructure renewal works as part of its sealed roads resurfacing and bridge renewal program, reduce its infrastructure backlog and to improve its financial sustainability.<sup>6</sup>

The council's application is broadly consistent with its Fit for the Future (FFTF) proposal that we assessed in 2015. In its FFTF proposal, the council proposed a 6% increase per year (including the rate peg) for nine years from 2016-17 to 2024-25, a cumulative increase of 69%.<sup>7</sup> In a resubmission to OLG in 2016, the council proposed a special variation with a 6% increase per year (including the rate peg) for seven years from 2017-18, a cumulative increase of 50%, instead.<sup>8</sup> A strong focus of the FFTF program was financial sustainability and addressing the issues around the long term maintenance and improvement of the council's infrastructure.<sup>9</sup>

Due to operational improvements, the council has revised its forecast to only require a 6% per year increase over a 4-year period (a 26% cumulative increase including the rate peg). The council applied for a single year permanent increase of 6% for 2017-18 which IPART approved. The council has applied for the remaining balance over the next three years with this application.<sup>10</sup>

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<sup>4</sup> Bellingen Council, *Application Part A*, Worksheet 1.

<sup>5</sup> OLG Guidelines, p 6.

<sup>6</sup> Bellingen Council, *Application Part A*, Worksheet 6 and *Application Part B*, pp 4-11.

<sup>7</sup> Bellingen Council, *Council Improvement Proposal 2015*, p 27.

<sup>8</sup> Bellingen Council, *Application Part B*, p 7.

<sup>9</sup> Bellingen Council, *Application Part B*, p 4.

<sup>10</sup> Bellingen Council, *Application Part B*, p 7.

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Over the 3-year period of the special variation, the council expects to spend \$7.4 million on its sealed roads resurfacing and bridge renewal program. The council indicates that over the 10-year period from 2018-19 to 2027-28 it proposes to spend the additional special variation income of \$8.3 million on this program.<sup>11</sup>

The council's Long Term Financial Plan<sup>12</sup> indicates that over 10 years it proposes to spend:

- ▼ \$20 million on a bridge renewal program, and
- ▼ \$8 million on a roads reseal program.<sup>13</sup>

More detail on the council's proposed program of expenditure to 2027-28 is provided in Appendices B and C.

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<sup>11</sup> Bellinghen Council, *Application Part A*, Worksheet 6.

<sup>12</sup> This includes the planned total capital expenditure for the council's sealed roads resurfacing and bridge renewal program which would be funded by the special variation income, by the \$4.5 million of loans and through additional income through productivity improvements and cost containment strategies.

<sup>13</sup> Bellinghen Council, *Application Part B*, p 7 and *Long Term Financial Plan* p 53.

## 3 IPART's assessment

To make our decision, we assessed Bellingen Council's application against the criteria in the OLG Guidelines. We also considered the council's most recent IP&R documents, its FFTF proposal, and a range of comparative data about the council set out in Appendix D.<sup>14</sup>

We found that Bellingen Council's application met the requirements of the criteria.

Our assessment of the council's application against the criteria is summarised in Table 1.2 and discussed in more detail in the sections below.

### 3.1 The council demonstrated financial need for the special variation

We found that Bellingen Council's IP&R documents clearly set out the need for, and purpose of the requested special variation, which is to:

- ▼ fund infrastructure renewal works as part of its sealed roads resurfacing and bridge renewals program
- ▼ reduce its infrastructure backlog, and
- ▼ improve financial sustainability.

The council's IP&R documents clearly indicate that the community's priorities are to address the backlog in relation to transport (road and bridge) infrastructure.

The council has also analysed the financial impact of the special variation on its operating performance and infrastructure backlog, and canvassed alternative funding strategies.

#### 3.1.1 Impact on council's operating performance

The operating performance ratio (OPR) measures whether a council's revenues fund its costs. The OPR is defined as:

$$OPR^{15} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

Under the special variation scenario, the council forecasts moving from deficit to an operating surplus of 1.8% by 2027-28. The cumulative value of these forecast surpluses is \$1 million to 2027-28.<sup>16</sup> These surpluses would allow the council to fund its roads surfacing and bridge renewal program and reduce its infrastructure backlog.

<sup>14</sup> See Appendix D. Bellingen Council is in OLG Group 11, which is classified as Rural Very Large Agricultural (with population between 10,001 and 20,000). The group comprises 19 councils, including Muswellbrook Shire and Upper Hunter Shire councils.

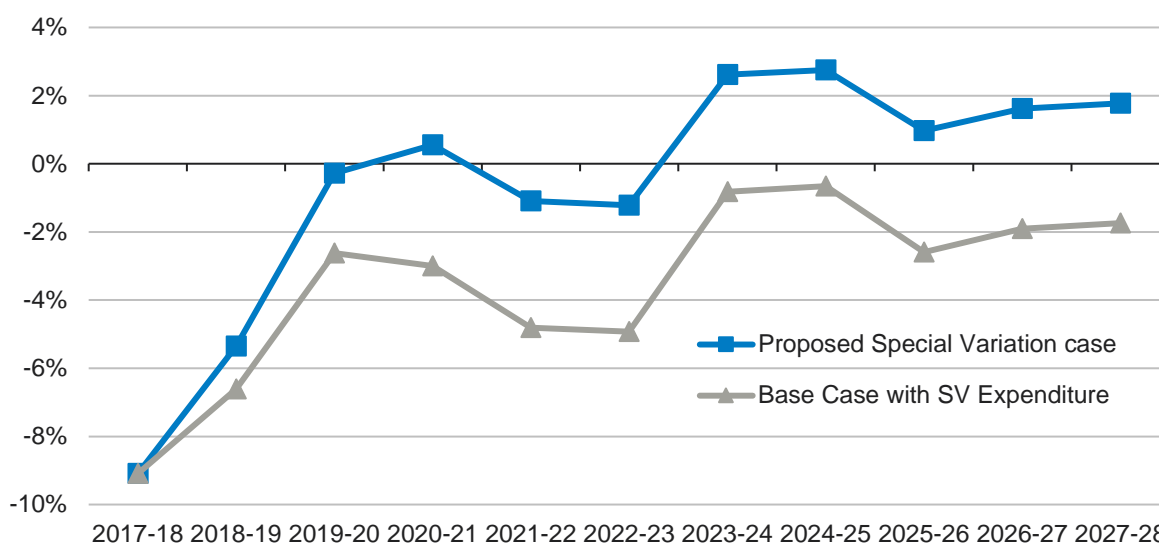
<sup>15</sup> Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions and net gain/loss of assets.

<sup>16</sup> Bellingen Council, *Application Part A*, Worksheet 7.

Without the special variation, and assuming the council's expenditure is the same as under the special variation scenario, the council forecasts consistent operating deficits, as shown by the 'Base Case with SV expenditure' scenario in Figure 3.1 and Table 3.1. The cumulative value of these forecast deficits (before capital grants and contributions) is \$7.1 million to 2027-28.<sup>17</sup>

Hence, without the special variation, the council's financial sustainability would deteriorate. It would not generate sufficient revenue to fund its roads surfacing and bridge renewal program and fully address the \$32.6 million infrastructure backlog.<sup>18</sup>

**Figure 3.1 Bellingen Shire Council's Operating Performance Ratio (%) excluding capital grants and contributions (2017-18 to 2027-28)**



**Note:** The base case with SV expenditure scenario shows the impact on the council's operating position if the special variation projects were to go ahead without the special variation revenue.

**Source:** Bellingen Council, *Annual Financial Statements*, various; Bellingen Council, *Application Part A, Worksheet 7* and IPART calculations.

**Table 3.1 Projected operating performance ratio (%) for Bellingen Shire Council's special variation application**

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Application - including SV	-5.4	-0.3	0.6	-1.1	-1.2	2.6	2.8	1.0	1.6	1.8
Base case with SV expenditure	-6.6	-2.6	-3.0	-4.8	-4.9	-0.8	-0.7	-2.6	-1.9	-1.7

**Source:** IPART calculations based on Bellingen Council, *Application Part A, Worksheet 7*.

<sup>17</sup> Bellingen Council, *Application Part A, Worksheet 7*.

<sup>18</sup> Bellingen Council, *Infrastructure Backlog Ratio Forecast provided to IPART on 27 February 2018*.

### 3.1.2 Impact on council's infrastructure backlog

The council estimates its infrastructure backlog to be \$32.6 million in 2017-18.<sup>19</sup> Measured as a percentage of the written down value of infrastructure assets,<sup>20</sup> the infrastructure backlog ratio is 15.6%.<sup>21</sup> This is substantially higher than the FFTF benchmark of less than 2%. It estimates it would need to spend \$8 million on sealed pavement resurfacing and \$20 million to rehabilitate or renew bridges to reduce the infrastructure backlog ratio below 2%.<sup>22</sup>

Table 3.2 shows the projected infrastructure backlog ratio including and excluding the special variation. The council forecasts its infrastructure backlog will decrease, but by a larger amount with the special variation expenditure. With the special variation expenditure, it forecasts the backlog will reduce to \$5.6 million or 2.7% of assets in 2027-28. Without the special variation expenditure, it forecasts an infrastructure backlog of \$10.9 million in 2027-28, or 5.2% of assets.<sup>23</sup> This is still considerably above the 2% FFTF benchmark.

By spending an extra \$5.3 million reducing the infrastructure backlog with the special variation expenditure, Bellingén also estimates it will reduce the 'whole of life' costs of its infrastructure assets – by moving from a reactive maintenance strategy to proactive and preventative asset management. This cost efficiency would further improve the council's financial and infrastructure sustainability.<sup>24</sup>

**Table 3.2 Projected infrastructure backlog ratio (%) for Bellingén Shire Council's special variation application**

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Application including SV	13.6	11.5	9.2	7.9	6.7	5.2	3.8	3.2	3.0	2.7
Excluding SV	13.7	11.9	9.9	8.9	7.9	6.7	5.5	5.2	5.3	5.2

**Source:** Bellingén Council, *Infrastructure Backlog Ratio Forecast provided to IPART on 27 February 2018*.

The need for the special variation was identified in the council's FFTF submissions which is summarised in Box 3.1. The 6% rate increase per year has been consistent in Bellingén's submissions; however, the duration and the cumulative amount of the special variation has been reduced.

Box 3.1 summarises IPART's FFTF assessment of Bellingén Council.

<sup>19</sup> Bellingén Council, *Infrastructure Backlog Ratio Forecast provided to IPART on 27 February 2018*.

<sup>20</sup> Historical cost less accumulated depreciation.

<sup>21</sup> Bellingén Council, *Infrastructure Backlog Ratio Forecast provided to IPART on 27 February 2018*.

<sup>22</sup> Bellingén Council, *Application Part B*, pp 6-7.

<sup>23</sup> Bellingén Council, *Infrastructure Backlog Ratio Forecast provided to IPART on 27 February 2018*.

<sup>24</sup> Bellingén Council, *Application Part B*, p 8.

### Box 3.1 FTF Assessment

IPART's FTF assessment in 2015 found that Bellingen Council:

- ▼ Did not meet the criterion for financial sustainability. The council was forecast to not meet the operating performance benchmark by 2024-25, despite its then proposed special variation with a 69% cumulative increase in rates over nine years.
- ▼ Met the own source revenue benchmark in all forecast years, but did not meet the asset renewal benchmark, although showing improvement by 2019-20.
- ▼ Met the criterion for infrastructure and service management, as it was forecast to improve the infrastructure backlog ratio in all forecast years,<sup>a</sup> and to improve the asset maintenance ratio. The council met the debt service benchmark in all forecast years.
- ▼ Met the efficiency criterion based on implementing organisational service reviews to deliver increased efficiencies, which would contribute to the improvement in this ratio from 2014-15 to 2019-20.

The council submitted a revised FTF proposal to OLG in 2016 to meet the benchmarks set out in the 2015 FTF assessment. The OLG assessed the council as Fit for the Future based on adjusted revenue and expenditure targets and confirmation of the need for a 6% increase per year (including the rate peg) special variation for seven years from 2017-18.

TCorp observed in 2013 the council's financial position was 'moderate' and its outlook was 'negative'. This assessment was made largely because of operating deficits of 30% per annum, reliance on grants, and flood events which had negatively affected the council's capacity to invest in capital expenditure.

<sup>a</sup> Our FTF assessment found Bellingen Council met the infrastructure backlog benchmark. It has since revised its infrastructure backlog forecasts, and at the time of the application for this special variation it no longer meets the benchmark.

**Source:** IPART, *Assessment of Council Fit for the Future Proposals*, October 2015, pp 133-134, Office of Local Government, *Fit For The Future Reassessment Report; Annexure B – Assessment Summaries by Council*, December 2016, p 10 and NSW Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, March 2013, p 5

### 3.1.3 Alternative funding strategies

In recent years, the council has implemented a number of alternative revenue raising strategies to improve financial sustainability. The council has generated additional income streams by introducing new fees for town planning and building regulation which has increased its income by over \$100,000 since 2014-15.<sup>25</sup>

Bellingen Council has also made cost efficiencies, including the achievement of the FTF expenditure reduction commitments, a review and reduction in staff overtime and leave liabilities, energy efficiency and shared service alliance initiatives, and implementing a program of service reviews.<sup>26</sup>

Refer to Section 3.5 for a more detailed discussion on the council's productivity improvements and cost containment strategies.

<sup>25</sup> Bellingen Council, *Application Part B*, p 65.

<sup>26</sup> Bellingen Council, *Application Part B*, pp 6-7.



Bellingen Council is also reviewing its operations and management activities on a continuing basis to achieve further operational and service delivery efficiencies. Future initiatives include participation in the Mid North Coast Region of Councils (MIDROC) and a new corporate IT system.<sup>27</sup>

The council has concluded it still needs a special variation to achieve long term financial sustainability; however, the above strategies have allowed it to reduce the size of the special variation: from a 69% cumulative increase over nine years (proposed in its 2015 FFTF submission) to a 26% cumulative increase over the 4-year period from 2017-18 to 2020-21.

### **3.2 The council demonstrated community engagement and awareness**

We found that Bellingen Council demonstrated that its community is aware of the need for and extent of the proposed rate increase.

In 2017, the council reviewed its IP&R documents in consultation with the community. It clearly explained the need for, purpose, and extent of the proposed special variation. In particular, it communicated the full cumulative increase of the special variation in percentage terms, and the total increase in dollar terms for the average ratepayer by rate category.

The council also provided reasonable opportunities for community feedback, and used a variety of methods to engage with its community including:

- ▼ a 'Special Variation Information Centre' via 'Create' website
- ▼ community drop in forums in three locations which featured a rates calculator and digital kiosk, and
- ▼ media releases, newspaper advertisements, community newsletters, fact sheets, banners, and letterbox drops.<sup>28</sup>

The council has undertaken community engagement in three phases. Phases one and two included engagement through the various mediums outlined above. Phase three consisted of internal and external engagement on the feedback received in phases one and two, and assessment of the feedback received in all three phases.<sup>29</sup>

#### **3.2.1 Outcome of consultation with community**

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

Bellingen Council's consultation indicated its community was strongly opposed to the special variation. However, feedback also indicated that work on roads and bridges should be a priority.<sup>30</sup>

<sup>27</sup> Bellingen Council, *Application Part B*, pp 22 and 68-71.

<sup>28</sup> Bellingen Council, *Application Part B*, pp 36 and 45.

<sup>29</sup> Bellingen Council, *Application Part B*, p 37.

<sup>30</sup> Bellingen Council, *Application Part B*, p 48.

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Based on this outcome, the council decided to continue to progress its plan to invest in local infrastructure and specifically on its road resurfacing and bridge renewal program through funds from the special variation.<sup>31</sup>

### 3.2.2 Submissions from the community

The council received 101 written submissions on the proposed special variation, all opposing it. The main reasons for opposition were:

- ▼ council inefficiencies from high administrative costs, a high number of council staff and high wage costs
- ▼ the impact on pensioners as a result of the increase, and
- ▼ factors outside the control of the council (eg, land values issued by the NSW Valuer General, the need to rate State Forests, more federal government support, etc).

The council considered the community's feedback but concluded the submissions did not warrant amendments to the special variation application or IP&R documents.

IPART received 105 submissions<sup>32</sup> on the special variation. All submissions, except one, opposed the special variation. The main reasons for opposition mirror the concerns outlined in the council's application above. Another concern was the form and timing of the consultation made by the council. Some residents considered they were not able to provide feedback and have their say on the special variation during the council's community engagement.

### 3.3 The impact on ratepayers is reasonable

As Chapter 2 discussed, Bellingen Council requested a 3-year cumulative increase of 19.1% that will remain permanently in the rate base: 6% per annum for each year from 2018-19 to 2020-21.

We found that the impact of these increases on ratepayers will be substantial but reasonable, given:

- ▼ the community's capacity to pay, based on a rates to income ratio that is comparable to or below neighbouring councils
- ▼ the council's outstanding rates is lower than neighbouring councils, and
- ▼ the council's financial sustainability and the estimated infrastructure backlog.

#### 3.3.1 Council's consideration of impact on ratepayers

The council considered the community's capacity to pay based on the SEIFA Index of Advantage and Disadvantaged, the level of the proposed increase and other cost indices.

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<sup>31</sup> Bellingen Council, *Application Part B*, p 44.

<sup>32</sup> IPART also received some submissions outside the consultation period.

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On the basis of the council's SEIFA index rating, the council considers the community has a higher capacity to pay compared to other neighbouring councils. The council's outstanding rates and annual charges ratio for general fund is well below the rural council benchmark of 10% and neighbouring councils. The council considers this indicates the community is experiencing less difficulty in paying rates.

In the 2016 Customer Survey<sup>33</sup>, the council has identified community dissatisfaction with key infrastructure assets, particularly the sealed roads.

The council says it also has a hardship policy that assists ratepayers who are experiencing genuine difficulties with the payment of rates and charges.

### **3.3.2 IPART's assessment of impact on ratepayers**

To assess 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 that since 2007-08:

- ▼ The council has applied for and been granted two special variations
  - a) 2014-15: an 11.8% single year permanent increase to service a loan to address the transport infrastructure backlog and additional maintenance expenditure, and
  - b) 2016-17: a 6% single year permanent increase to fund a sealed roads renewal program, reduce the infrastructure backlog and improve the council's financial sustainability.
- ▼ The average annual growth in residential ordinary and special rates was 4.72%, which compares with the average annual growth in the rate peg of 2.71% over the same period.

We also compared current rates and socio-economic indicators in Bellingen Council with neighbouring councils and OLG Group 11 councils as shown in Table 3.3.

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<sup>33</sup> The 2016 Customer Survey was a random and representative telephone survey of 400 local residents to measure resident dissatisfaction with council service levels. Bellingen Council, *Application Part B*, p 42.

**Table 3.3 Bellingen Shire Council - comparison of rates and socio-economic indicators with neighbouring (or similar) councils and Group 11 averages (2015-16)**

Council (OLG Group)	Average residential rate (\$) <sup>a</sup>	Average business rate (\$)	Annual Median household income (2016) (\$) <sup>b</sup>	Average rate to median income ratio (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank <sup>c</sup>
Clarence Valley (4)	878	2,310	47,320	1.9	6.7	16
Coffs Harbour City (5)	1,070	4,327	57,564	1.9	6.2	61
Kempsey Shire (4)	938	2,132	46,488	2.0	5.5	4
Nambucca Shire (11)	912	1,782	43,420	2.1	5.6	9
<b>Bellingen Shire (11)</b>	<b>986</b>	<b>927</b>	<b>51,844</b>	<b>1.9</b>	<b>2.5</b>	<b>63</b>
Group 11 average	720	1,863	60,274	1.2	4.7	-

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

<sup>b</sup> Median annual household income is based on 2016 ABS Census data.

<sup>c</sup> The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

**Source:** OLG, Time Series Data 2015-2016; ABS, Socio-Economic Indexes for Areas (SEIFA) 2016, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

Based on 2015-16 data, we found that Bellingen Council's:

- ▼ average residential rate (\$986) was 37% higher than the average for Group 11 councils but comparable to neighbouring councils
- ▼ average business rate (\$927) was substantially lower than the average for Group 11 councils and neighbouring councils
- ▼ average rate to income ratio was higher than the average for Group 11 councils but comparable to or below neighbouring councils
- ▼ outstanding rates ratio was substantially lower than neighbouring councils, and
- ▼ SEIFA ranking of 63 indicates lower levels of disadvantage compared to most neighbouring councils and a higher capacity to pay.

Section 3.1.2 discussed the council's need for the special variation to reduce the infrastructure backlog and improve financial sustainability. Therefore, taking all these factors into account, we consider the impact of the rate increase is substantial but reasonable.

### 3.4 The council's IP&R documents were exhibited

The council adopted its Community Strategic Plan in June 2017.

It exhibited its Delivery Program and Long Term Financial Plan between 14 December 2017 and 26 January 2018. The documents were adopted on 8 February 2018.

The adopted Delivery Program and Long Term Financial Plan clearly sets out the special variation application, the cumulative increase in rates in percentage terms, the total increase in dollar terms, and the average impact on rate payers.

### **3.5 The council explained its productivity improvements and cost containment strategies**

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

The council has achieved past savings and cost containment including:

- ▼ Human Resources monitoring and training initiatives, resulting in a reduction in workers compensation insurance claims, leave liability and recruitment costs, with annual savings of approximately \$260,000 in the past two years
- ▼ administrative efficiencies through a review of electricity and heating costs, and printing services, with annual savings of \$135,000 in the past three years, and
- ▼ other efficiencies, such as reduced banking, training and travel costs, with continuing annual savings of \$109,000.<sup>34</sup>

The council also has plans for future efficiency initiatives through:

- ▼ installation of additional solar panels in 12 additional sites resulting in further annual savings of \$103,000<sup>35</sup>
- ▼ continuing service reviews as reported in the council's Financial Sustainability Program with estimated annual savings of \$100,000<sup>36</sup>
- ▼ implementation of new Corporate IT software with a focus on digital transformation estimated to provide recurrent savings well over \$150,000-\$200,000<sup>37</sup>, and
- ▼ shared services to be undertaken with the MIDROC joint organisations initiative.<sup>38</sup>

The above forecasts are consistent with the planned efficiency savings stated in Bellingen's 2017-18 special variation application.

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<sup>34</sup> Bellingen Council, *Application Part B*, pp 68-70.

<sup>35</sup> Bellingen Council, *Application Part B*, p 70.

<sup>36</sup> Bellingen Council, *Service Review Process provided to IPART on 7 March 2018*, p 2.

<sup>37</sup> Bellingen Council, *Service Review Process provided to IPART on 7 March 2018*, p 3.

<sup>38</sup> Bellingen Council, *Application Part B*, pp 70-71.

## 4 Our decision's impact on the council

Our decision means Bellingén Council may increase its general income over the 3-year special variation period from \$7.3 million in 2017-18 to \$8.7 million in 2020-21. Table 4.1 shows the percentage increases we have approved, and estimates the annual increases in the dollar amounts to the council's general income, incorporating adjustments that will occur as a result of various catch-up and valuation adjustments.

These increases will be permanently incorporated into the council's revenue base. After 2020-21, the council's permissible general income can increase up to the annual rate peg unless we approve a further special variation.<sup>39</sup>

**Table 4.1 Permissible general income of Bellingén Shire Council from 2018-19 to 2020-21 arising from the special variation approved by IPART**

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
2017-18				7,325,372
2018-19	6.0	6.0	443,708 <sup>a</sup>	7,769,080
2019-20	6.0	12.4	466,145	8,235,225
2020-21	6.0	19.1	494,113	8,729,338
<b>Total increase approved</b>			<b>1,403,966</b>	

<sup>a</sup> A prior year catch-up of \$4,186 that had not been recouped by the time of the application was submitted to IPART is to be recouped in 2018-19.

**Note:** The above information is correct at the time of the council's application (February 2018).

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

The council estimates that over the 3-years to 2020-21 it will collect, in total, an additional \$1.7 million<sup>40</sup> of rate revenue compared to rate increases that are limited to the assumed rate peg.<sup>41</sup>

This extra income is the amount the council requested to enable it to fund its sealed roads resurfacing and bridge renewals program, reduce its infrastructure backlog and improve financial sustainability.

<sup>39</sup> 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.

<sup>40</sup> As noted in Table 4.1, the sum of annual increases under the special variation is \$1.4 million. Over the 3-year period, the council will collect a cumulative \$1.7 million in additional revenue from the special variation compared to the amount that would otherwise be collected if increases were limited to the rate peg.

<sup>41</sup> Bellingén Council, *Application Part A*, Worksheet 6.

## 5 Our decision's impact on ratepayers

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

In its application, Bellinghen Council indicated it intended to increase rates reasonably evenly across each ratepayer category.

The council has calculated that:

- ▼ the average residential rate would increase by 19.1% or \$212 over 3-years, or by \$66 in the first year
- ▼ the average business rate would increase by 18.8% or \$235 over 3-years, or by \$72 in the first year, and
- ▼ the average farmland rate would increase by 19.9% or \$503 over 3-years, or by \$170 in the first year.

Table 5.1 sets out Bellinghen Council's estimates of the expected increase in the average rate in each ratepayer categories.

**Table 5.1 Indicative annual increases in average rates under Bellinghen Shire Council's approved special variation 2018-19 to 2021-22**

Year	2017-18	2018-19	2019-20	2020-21	Cumulative Increase 2017-22
<b>Residential rate \$</b>	<b>1,109</b>	<b>1,175</b>	<b>1,245</b>	<b>1,320</b>	
\$ increase		66	70	75	212
% increase		6.0	6.0	6.0	19.1
<b>Business rate \$</b>	<b>1,253</b>	<b>1,325</b>	<b>1,404</b>	<b>1,488</b>	
\$ increase		72	79	84	235
% increase		5.7	6.0	6.0	18.8
<b>Farmland rate \$</b>	<b>2,528</b>	<b>2,698</b>	<b>2,860</b>	<b>3,031</b>	
\$ increase		170	162	171	503
% increase		6.7	6.0	6.0	19.9

**Note:** 2017-18 is included for comparison. Numbers may not add due to rounding. The average rates equal total ordinary rates revenue divided by the number of assessments in each category.

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







## Appendices



## A Assessment criteria for special variation applications

**Table A.1 Assessment criteria for special variation applications**

Assessment criteria
<p><b>Criterion 1 – Financial need</b></p> <p>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&amp;R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate.</p> <p>In establishing need for the special variation, the relevant IP&amp;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 applying the following two scenarios:</p> <ul style="list-style-type: none"><li>▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and</li><li>▼ Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.</li></ul> <p>Evidence to establish this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.</p>
<p><b>Criterion 2 – Community awareness</b></p> <p>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. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations. In particular, councils need to communicate the full cumulative increase of the proposed special variation in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.</p>
<p><b>Criterion 3 – Impact on ratepayers is reasonable</b></p> <p>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 Plan and Long Term Financial Plan should:</p> <ul style="list-style-type: none"><li>▼ clearly show the impact of any rate rises upon the community</li><li>▼ include the council's consideration of the community's capacity and willingness to pay rates, and</li><li>▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.</li></ul>
<p><b>Criterion 4 – IP&amp;R documents are exhibited</b></p> <p>The relevant IP&amp;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 income.</p>
<p><b>Criterion 5 – Productivity improvements and cost containment strategies</b></p> <p>The IP&amp;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.</p>
<p><b>Criterion 6 – Additional matters</b></p> <p>IPART's assessment of the size and resources of the council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.</p>

Source: OLG Guidelines, November 2017, pp 7-9.

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## B Expenditures to be funded from the special variation above the rate peg

Table B.1 and Table B.2 show Bellingen 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 \$8.3 million over 10 years to fund the infrastructure renewal works as part of its sealed roads resurfacing and bridge renewals program, reduce infrastructure backlog and improve financial sustainability.<sup>42</sup>

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

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<sup>42</sup> Bellingen Council, *Application Part A*, Worksheet 6 and *Application Part B*, p 4.

**Table B.1 Bellingen Shire Council – Income and proposed expenditure over 10-years related to the special variation (\$000)**

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
<b>Special variation income above assumed rate peg</b>	<b>271</b>	<b>550</b>	<b>852</b>	<b>873</b>	<b>895</b>	<b>917</b>	<b>940</b>	<b>964</b>	<b>988</b>	<b>1,012</b>	<b>8,261</b>
Funding for increased operating expenditures	-	-	-	-	-	-	-	-	-	-	-
Funding for capital expenditure	271	550	852	873	895	917	940	964	988	1,012	8,261
<b>Total expenditure</b>	<b>271</b>	<b>550</b>	<b>852</b>	<b>873</b>	<b>895</b>	<b>917</b>	<b>940</b>	<b>964</b>	<b>988</b>	<b>1,012</b>	<b>8,261</b>

**Note:** Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures plus funding for capital expenditure.

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

**Table B.2 Bellingen Shire Council – Proposed 10-year capital expenditure program related to the special variation (\$000)**

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Roads and bridges	271	550	852	873	895	917	940	964	988	1,012	8,261
<b>Total Capital Expenditure</b>	<b>271</b>	<b>550</b>	<b>852</b>	<b>873</b>	<b>895</b>	<b>917</b>	<b>940</b>	<b>964</b>	<b>988</b>	<b>1,012</b>	<b>8,261</b>

**Note:** Numbers may not add due to rounding.

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

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## C Bellingen Shire Council's projected revenue, expenses and operating result

As a condition of IPART's approval, Bellingen Council is to report annually against its projected revenue, expenses and operating balance as set out in its Long Term Financial Plan (shown in Table C.1).

Revenues and operating results in the annual accounts are reported both inclusive and exclusive of capital grants and contributions. To isolate continuing 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 C.1 Summary of projected operating statement for Bellingin Shire Council, 2017-18 to 2027-28 (\$000)**

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-2024	2024-25	2025-26	2026-27	2027-28
Total revenue	24,747	23,035	24,116	25,051	24,975	25,699	27,319	28,155	28,151	29,003	29,728
Total expenses	22,895	22,896	23,461	24,178	24,483	25,229	25,833	26,590	27,054	27,696	28,342
Operating result from continuing operations	1,852	139	655	873	492	470	1,486	1,565	1,097	1,307	1,386
Net operating result before capital grants and contributions	-1,908	-1,163	-64	136	-263	-304	694	753	265	456	513

**Note:** Numbers may not add due to rounding.

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

## D Comparative indicators

### Performance indicators

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

Table D.1 shows how selected performance indicators for Bellingen Council have changed over the four years to 2015-16. Table D.2 compares selected published and unpublished data about Bellingen Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

Overall, the above table shows that:

- ▼ Total employee numbers have declined by 3.4% per year, and the ratio of population to each Full Time Equivalent (FTE) staff has correspondingly increased by 3.5% per year. Average cost per FTE has increased by 4.7% per year to 2015-16.
- ▼ Employee costs as a percentage of operating expenditure has increased from 28.6% in 2012-13 to 33.9% in 2015-16, but still compares favourably with the Group 11 average of 38% and NSW average of 39.7% in 2015-16.

**Table D.1 Trends in selected performance indicators for Bellingen Shire Council, 2012-13 to 2015-16**

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	142	124	135	124	-3.4
Ratio of population to FTE	90	104	96	104	3.5
Average cost per FTE (\$)	69,380	78,726	72,400	83,215	4.7
Employee costs as % operating expenditure (General Fund only)	28.6	28.0	29.0	33.9	N/A

**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.



**Table D.2 Select comparative indicators for Bellingen Shire Council, 2015-16**

	Bellingen Council	OLG Group 11 average	NSW average
<b>General profile</b>			
Area (km <sup>2</sup> )	1,600	-	-
Population	12,893	-	-
General Fund operating expenditure (\$m)	24.0	28.0	70.2
General Fund operating revenue per capita (\$)	2,093	-	-
Rates revenue as % of General Fund income	34.4	33.7	43.6
Own-source revenue ratio (%)	61.1	57.2	67.3
<b>Average rate indicators<sup>a</sup></b>			
Average rate – residential (\$)	986	720	1,017
Average rate – business (\$)	927	1,863	5,118
Average rate – farmland (\$)	2,328	2,871	2,366
<b>Socio-economic/capacity to pay indicators</b>			
Median annual household income, 2016 (\$) <sup>b</sup>	51,844	60,274	77,272
Average residential rate to median income ratio (%)	1.9	1.2	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	63	-	-
Outstanding rates and annual charges ratio (%)	2.5	4.8	3.6
<b>Productivity (labour input) indicators<sup>c</sup></b>			
FTE staff (number)	123.8	165	354
Ratio of population to FTE	104.1	-	-
Average cost per FTE (\$)	83,215	74,013	83,193
Employee costs as % of operating expenditure (General Fund only)	33.9	38.0	39.7

<sup>a</sup> Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

<sup>b</sup> Median annual household income is based on 2016 ABS Census data.

<sup>c</sup> Data includes General Fund, Water & Sewer and other funds, if applicable (unless noted otherwise). 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.

**Note:** Except as noted, data is based upon total council operations for General Fund only.

**Source:** OLG, *Time Series Data 2015-2016*, OLG, unpublished data; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.