

Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase
Ballina Shire Council 2018-19

Determination
Local Government

May 2018

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Tribunal Members

The Tribunal members for this review are:

Dr Peter J Boxall AO, Chair

Mr Ed Willett

Ms Deborah Cope

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

Lucy Garnier (02) 9290 8488

Joyce Tapper (02) 9290 8464



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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.

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

- ▼ increase its general income by 9.1% in 2018-19 and 5.9% in 2019-20, a cumulative increase of 15.5%, and
- ▼ retain this increase in its rate base permanently.¹

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 Ballina Shire Council's application for a special variation

We decided to allow the special variation as requested.

Our decision means that Ballina Council may increase its general income between 2018-19 and 2019-20 by the annual percentages shown in Table 1.1. This will allow the council to fund infrastructure asset renewal, the Healthy Waterways Program and to improve its financial sustainability.²

The annual increases include the rate peg of 2.3% in 2018-19, and an assumed rate peg of 2.5% in 2019-20.³

The cumulative increase of 15.5% that we have approved is 10.7% 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 Ballina Shire Council's application for a special variation in 2018-19

	2018-19	2019-20
Percentage increase approved	9.1	5.9

¹ Ballina Shire Council, *Special Variation Application Form – Part A 2018-19* (Ballina Council, *Application Part A*), Worksheet 1.

² Ballina Shire Council, *Special Variation Application Part B*, pp 4-5.

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

Ballina Council has an existing special variation that will expire at the end of 2017-18, reducing the council's general income by 3.2%. The net increase in general income over the 2 years is 11.8% after accounting for the expiring special variation.

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 (LTFP), 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 Ballina 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"> ▼ Operating Performance Ratio (average 2018-19 to 2027-28) is <ul style="list-style-type: none"> – 1.8% with SV – -2.3% without SV revenue and assuming SV expenditure. ▼ Asset renewal ratio in 2027-28 is: <ul style="list-style-type: none"> – 102% with the SV – 86% without the SV (below the 100% benchmark).
2. Community awareness	
	<p>The council demonstrated the community is aware of the rate rise. It:</p> <ul style="list-style-type: none"> ▼ provided a detailed explanation about the purpose and impact of the SV in its IP&R documentation and sought feedback. ▼ used a range of engagement methods to make the community aware of the need for and extent of the rate increase eg, mail out, media, public meetings, on-line feedback and a community survey. ▼ the council reported that its feedback from submissions shows most residents oppose the SV. However, a phone survey conducted by Micromex Research in the lead up to its 2017-18 SV application suggested support for a special variation. ▼ IPART received seven submissions opposing the special variation.
3. Impact on ratepayers	
	<p>Impact on ratepayers will be moderate but reasonable given:</p> <ul style="list-style-type: none"> ▼ the cumulative increase in rates is 11.8% over 2 years, after accounting for the expiring SV, and ▼ the average residential rate will move to around the OLG Group 4 average residential rate. <p>The council concluded the rate rise was affordable based on:</p> <ul style="list-style-type: none"> ▼ the average residential rate (in 2017-18) being below comparable councils such as Coffs Harbour City Council and Lismore City Council ▼ a higher average household income compared to neighbouring councils (eg, Byron Shire Council, Lismore City Council) ▼ its outstanding rates ratio improving from 12.2% in 2009-10 to 3.6% in 2016-17.
4. IP&R documents exhibited	
	<p>The council adopted its Community Strategic Plan in June 2017. It:</p> <ul style="list-style-type: none"> ▼ exhibited its Delivery Program during September/October 2017 and adopted it on 23 November 2017 ▼ adopted the revised Delivery Program and Long Term Financial Plan on 25 January 2018 to reflect the 2.3% rate peg for 2018-19.
5. Productivity improvements and cost containment	
	<p>The council has implemented a number of cost savings initiatives in the past, and forecasts future savings measures. Existing cost initiatives would generate savings of around \$3.0 million per year. Some of the examples provided include:</p> <ul style="list-style-type: none"> ▼ revising its road resurfacing strategy (saving around \$529,000 per year) ▼ the use of electronic forms to improve its operations (saving around \$237,000), and ▼ new software for the management of development application approvals (saving around \$62,000 per year). <p>Additional savings measures include reusing materials from capital works – reducing disposal costs and purchasing materials by around \$247,000 per year, new machinery (saving \$300,000 per year) and procurement efficiencies (saving around \$105,600 per year). The council's population to staffing ratio is higher than the OLG Group 4 average, which may suggest the council is more efficient than other OLG Group 4 councils.</p>

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 Ballina Shire Council's approved special variation

IPART's approval of Ballina Shire Council's application for a special variation over the period 2018-19 to 2019-20 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 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.

The council is to reduce its general income for 2018-19 by \$697,160 (the value of the expiring special variation) before its general income is increased in 2018-19 in accordance with IPART's determination.

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 Ballina Shire Council's application

Ballina Council applied for a special variation to increase its general income by a cumulative 15.5% over the 2-year period from 2018-19 to 2019-20, and to permanently retain this increase in its general income base.⁴ As required under the OLG Guidelines,⁵ 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 2017-2027
- ▼ Delivery Program and Operational Plan 2017/18 to 2020/21
- ▼ Long Term Financial Plan 2017/18- 2027/28, and
- ▼ Asset Management Plan.

The increase in 2018-19 includes the replacement of an existing special variation that is due to expire on 30 June 2018.

In 2017-18 the council applied for a permanent special variation with a cumulative increase of 17.6% over three years. However, we only approved a temporary increase of 4.9% for one year because the council did not update its IP&R documents to include the special variation increase prior to applying to IPART. The council's application in 2018-19 is consistent with its 2017-18 proposal for a permanent increase in general income to fund infrastructure asset renewal, the 'Health of Our Waterways' (Healthy Waterways Program), and to improve its financial sustainability.⁶

The expiring special variation reduces the council's general income by 3.2% at the end of 2017-18.⁷ Applying the proposed special variation of 9.1% in 2018-19 to this reduced base provides a net increase to general income of 5.6% between 2017-18 and 2018-19. In 2019-20 the council's general income will increase by 5.9%. The net increase over the two years is 11.8%.

The council estimates if the requested special variation is approved, its permissible general income would increase from \$21.6 million in 2017-18 to \$24.1 million in 2019-20. Over the 2-year period of the special variation to 2019-20, this would generate additional revenue of \$3.7 million compared to rate increases at the assumed rate peg. This figure would increase to \$23.6 million over a 10-year period, as the additional revenue raised would remain permanently in the council's rate base.

⁴ Ballina Shire Council, *Application Part A*, Worksheet 1. The council has a temporary special variation which will expire 30 June 2018, reducing the council's general income by \$697,160 (3.2%). As a result, the net increase in the council's general income is estimated to be 11.8% over the 2 years: see *Application Part A*, Worksheet 1.

⁵ OLG Guidelines, p 6. The Guidelines emphasise the importance of the council's IP&R processes and documents for the special variation process. The documents, in particular the Delivery Program and Long Term Financial Plan, must contain evidence that supports a council's application for a special variation.

⁶ IPART, *Ballina Shire Council's application for a special variation for 2017-18*, Determination, May 2017, p 1.

⁷ The council has a special variation for 3.4% above the rate peg which will expire 30 June 2018, reducing the council's general income by \$697,160. As a result, the actual increase in the council's general income is estimated to be 11.8% over the 2 years: see *Application Part A*, Worksheet 1.

The council indicates over the period 2018-19 to 2027-28 it proposes to spend the additional special variation as follows:

- ▼ \$3.5 million on the Healthy Waterways program, and
- ▼ \$20.1 million on infrastructure renewals as follows:
 - \$9.3 million on roads
 - \$2.9 million on stormwater
 - \$2.9 million on community buildings, and
 - \$5.0 million on open space.⁸

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

The council's application is consistent with its Fit for the Future (FFTF) proposal in 2015. At that time, the council proposed a cumulative increase of 17% over the 3-year period from 2017-18 to 2019-20, including the rate peg, and indicated that the additional funds raised would be applied to asset renewals and improving its financial sustainability.⁹

⁸ Ballina Shire Council, *Application Part A*, Worksheet 6 and *Application Part B*, pp 5-6.

⁹ Ballina Shire Council, *Council Improvement Proposal*, June 2015.

3 IPART's assessment

To make our decision, we assessed Ballina 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.¹⁰

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

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

Feedback from the council's consultation indicates the community's priorities are to improve the:

- ▼ health of local waterways, and
- ▼ service levels of key infrastructure assets such as roads.¹¹

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:

$$OPR^{12} = \frac{\text{Total operating revenue} - \text{operating expenses}}{\text{Total operating revenue}}$$

¹⁰ See Appendix D. Ballina Council is in OLG Group 4, which is classified as Urban Small/Medium Regional Town/City. The group comprises 28 councils, including councils such as Byron Shire, Lismore City and Richmond Valley Shire.

¹¹ Ballina Council, *Application Part B*, pp 38-39.

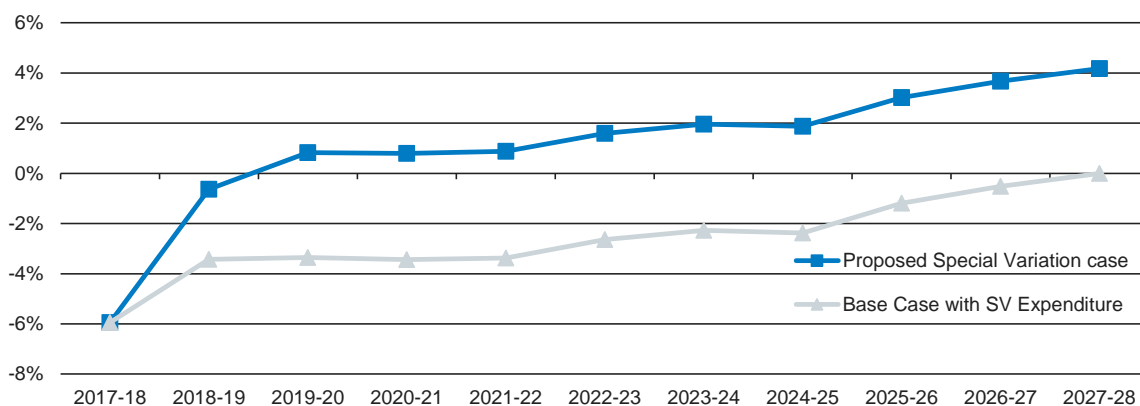
¹² Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net gain/loss on sale of assets.

Under the special variation scenario, the council forecasts consistent operating surpluses from 2019-20, growing to 4.2% by 2027-28. The cumulative value of these forecast surpluses is \$11.9 million to 2027-28.

Without the special variation and assuming the council’s expenditure is the same as under the special variation scenario, Ballina 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 \$12.9 million to 2027-28.

Hence, without the special variation, the council’s sustainability would deteriorate, and it would not generate sufficient funds to renew its core infrastructure assets and service a growing community. With the special variation, the council would generate sufficient funds to renew its key infrastructure assets such as roads, while continuing to maintain services to a growing community.

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



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

Table 3.1 Projected operating performance ratio (%) for Ballina 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	-0.6	0.8	0.8	0.9	1.6	2.0	1.9	3.0	3.7	4.2
Base Case with SV expenditure	-3.4	-3.4	-3.4	-3.4	-2.6	-2.3	-2.4	-1.2	-0.5	0.0

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

3.1.2 Impact on council’s infrastructure asset renewal ratio

The council’s Long Term Financial Plan (LTFP), TCorp financial assessment and FFTF indicators confirmed the council’s financial position is sound, and its assets are in a reasonable condition. However, there were long-term concerns with meeting the benchmarks for the asset renewal ratio and the operating performance ratio within its existing budget. So the

council has applied for additional funds for infrastructure asset renewal, and to improve its operating result.¹³

Table 3.2 shows the projected asset renewal ratio including and excluding the special variation. The asset renewal ratio is uneven over the forecast period.¹⁴ With the special variation, while the ratio is below the benchmark in 2024-25 and 2025-26, it meets the benchmark of greater than 100% from 2026-27 and is 101.5% in 2027-28.

Without the special variation, the asset renewal ratio falls below the benchmark from 2023-24 onwards and is 85.5% in 2027-28.

Table 3.2 Projected infrastructure asset renewal ratio (%) for Ballina 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	151.7	118.7	117.1	144.3	150.8	111.0	92.6	97.3	103.0	101.5
Excluding SV ^a	148.7	110.6	104.0	129.1	135.5	95.6	77.2	81.8	87.4	85.5

^a This is Ballina Council’s base case (ie, excludes the special variation expenditure)

Note: These ratios are based on 3 year averages as defined by FFTF.

Source: Ballina Council, *Application Part B*, p 22.

Our analysis on financial need is consistent with our FFTF assessment of Ballina Council in Box 3.1.

¹³ Ballina Council, *Application Part B*, pp 20-22.

¹⁴ The asset renewal ratio is defined as spending on asset renewals divided by depreciation, amortisation and impairment.

Box 3.1 FTF Assessment

IPART's Fit for the Future assessment in 2015 found that Ballina Council:

- ▼ Met the criterion for financial sustainability. The council was forecast to meet the **operating performance benchmark** from 2019-20, based on successfully applying for a special variation with a 17% increase in rates 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 efficiency criterion 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 its outlook was 'neutral'. This 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.

Source: Ballina Council, *Council Improvement Proposal*, June 2015; IPART, *Assessment of Council Fit for the Future Proposals*, October 2015; 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; and Ballina Council, *Application Part A, Worksheet 7 and Application Part B*.

3.1.3 Alternative funding strategies

Ballina Council's long term financial modelling identified that additional expenditure of around \$2 million to \$3 million per year was required to meet increased investment in asset renewal. The council found that based on its existing rate base it was not possible to generate this level of extra expenditure from either cost savings or fee increases, or a combination of both. Given that additional expenditure is required for asset renewal on an ongoing basis, the council considered the special variation application to be the most appropriate long term funding option.¹⁵

3.2 The council demonstrated community engagement and awareness

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

In 2017, the council revised 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, including the impact of the expiring special variation.

¹⁵ Ballina Council, *Application Part B*, p 16.

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

- ▼ media releases
- ▼ a newsletter sent to every resident (including a fact sheet)
- ▼ information published in the council's quarterly magazine
- ▼ public meetings held in Alstonville, Ballina, Lennox Head and Wardell
- ▼ an on-line survey
- ▼ a dedicated website to explain the special variation application, including fact sheets and frequently asked questions
- ▼ advertising in the local newspaper, the Ballina Shire Advocate, and
- ▼ an independent survey conducted by Micromex Research Pty Ltd in 2016.¹⁶

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.

Ballina Council consulted widely as part of its special variation application. The council received 41 written submissions and received 143 responses to its online survey. This was lower than the responses the council received as part of its 2017-18 special variation application. Consistent with the feedback it received last year, the consultation shows most respondents do not support the special variation application.¹⁷ The main reasons for opposing the special variation include:

- ▼ rate increases are unaffordable, and
- ▼ the council should become more efficient.¹⁸

The council's submission notes that it is continuing to review service levels and other fees and charges to ensure investment in asset renewal is at efficient levels to maintain assets.

In addition, Ballina Council engaged Micromex Research Pty Ltd to conduct a survey of 403 residents in 2016. 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.

¹⁶ Ballina Council, *Application Part B*, pp 26-27.

¹⁷ Ballina Council, *Application Part B*, pp 37-39.

¹⁸ Ballina Council, *Application Part B*, pp 39-40.

The Micromex research found option four had the most support, with 74% of residents indicating they were 'somewhat supportive, supportive or very supportive' of this option.¹⁹ The council decided to apply for a special variation in 2017-18 based on this outcome.

3.2.2 Submissions from the community

We received seven submissions opposing the application.²⁰ Opposition to the rise was broadly similar to the feedback received by the council.

3.3 The impact on ratepayers is reasonable

As Chapter 2 discussed, Ballina Council requested a 2-year cumulative increase of 15.5% that will remain permanently in the rate base, 9.1% in 2018-19 and 5.9% in 2019-20. After accounting for the expiring special variation, the cumulative net increase is 11.8% over the 2-year period.

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

- ▼ the need for and purpose of the special variation, and
- ▼ the average residential, business and farmland rates in 2017-18 are, on average, 15% below comparable councils such as Coffs Harbour City and Lismore City, according to data provided by Ballina Council.²¹

3.3.1 Council's consideration of impact on ratepayers

The council considers the existing community has the ability to pay the increase in rates proposed.

Ballina Council compared average residential, business and farmland rates with its neighbouring councils in 2017-18 (eg, Byron, Lismore and Tweed). It also compared total residential rates and charges (including water and waste charges).

The council concludes that with the proposed special variation, the total rates and charges bill for the average residential assessment in Ballina Shire will be well below most of its neighbouring councils.²²

The council also examined socio-economic indicators such as the:

- ▼ unemployment rate
- ▼ percentage of pensioners paying rates
- ▼ average taxable income, and
- ▼ SEIFA (2011) index.

¹⁹ Ballina Council, *Application Part B*, p 39.

²⁰ We also received some submissions outside our consultation period.

²¹ Ballina Council, *Application Part B*, p 46.

²² Ballina Council, *Application Part B*, pp 46-47.

Based on these indicators, the council found Ballina Shire has a higher income level, a lower unemployment rate and the highest SEIFA ranking in the Northern Rivers region.²³

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:

- ▼ Ballina Council has successfully applied for five special variations since 2007-08. Ballina was granted a 2-year special variation in 2015-16 and 2016-17 of 5.41% and 5.34% to fund the redevelopment of the Ballina and Alstonville swimming pool complexes. In 2017-18 Ballina received a temporary increase of 4.90% for infrastructure renewal and its healthy waterways program.
- ▼ Since 2007-08 the average annual growth in residential rates was 5.1% and 10.1% for business rates, which compares with the average annual growth in the rate peg of 2.7% over the same period.²⁴

We also compared current rates and socio economic indicators in Ballina with its OLG Group 4 councils and neighbouring councils as shown in Table 3.3.

²³ Ballina Council, *Application Part B*, p 47.

²⁴ In 2017-18, Ballina applied for a permanent cumulative increase of 17.64% over 3 years. We only approved the first year of the application. This application is to make the 1-year temporary special variation permanent and to apply for the remaining 2 years of its initial 3-year application.

Table 3.3 Ballina Shire Council - comparison of rates and socio-economic indicators with neighbouring councils and Group 4 averages (2015-16)

Council (OLG Group)	Average residential rate (\$) ^a	Average business rate (\$)	Median annual household income (2016) ^b	Average rate to median income ratio (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank ^c
Byron Shire ^d (4)	1,070	2,477	59,748	1.8%	3.9%	98
Coffs Harbour City ^d (5)	1,070	4,327	57,564	1.9%	6.2%	61
Lismore City ^d (4)	1,106	4,389	55,484	2.0%	8.0%	45
Richmond Valley (4)	756	2,027	49,556	1.5%	10.3%	6
Tweed Shire ^d (5)	1,276	2,739	55,328	2.3%	4.6%	65
Ballina Shire ^d (4)	853	2,819	60,112	1.4%	4.2%	92
OLG Group 4 average	1,013	3,619	62,656	1.6%	4.5%	

^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 Based on 2016 Census data on median household income.

^c The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

^d Ballina Shire was granted a 2-year special variation in 2015-16 and 2016-17 of 5.41% and 5.34%. Byron Shire was granted a 4-year special variation of 7.5% pa from 2017-18 to 2020-21, Coffs Harbour was granted a 2-year special variation in 2015-16 and 2016-17 of 8.14% and 7.75%. Lismore Shire 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. The data in this table does not capture the increases from these special variations.

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.

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

- ▼ average residential rate (\$853) was 16% lower than the average for Group 4 councils and 19% lower than neighbouring councils
- ▼ average business rate (\$2,819) was below the average for Group 4 councils and some neighbouring councils
- ▼ average rate to income ratio was lower than the average for Group 4 councils and neighbouring councils
- ▼ outstanding rates ratio was lower than most neighbouring councils, and
- ▼ SEIFA ranking is higher than most councils in the Northern Rivers region indicating less disadvantage compared with other Northern Rivers councils.

Also, Ballina Council provided data for 2017-18 which shows its average residential, business and farmland rates are on average about 15% lower than other Northern River councils.

Taking all these factors into account, and the financial need of the council we consider the impact of the rate increase is reasonable.

3.4 The council's IP&R documents were exhibited

The council adopted its Community Strategic Plan in June 2017. The Delivery Program and Long Term Financial Plan were exhibited between September and October 2017 and adopted by the Council on 23 November 2017. The Delivery Program and Long Term Financial Plan were updated for the 2018-19 rate peg decision and adopted by the council on 25 January 2018.

The adopted Delivery Program and Long Term Financial Plan clearly set out the special variation option, the cumulative increase in rates in percentage and dollar terms, and the average impact on ratepayers. The Delivery Program also includes the impact of the expiring special variation.

3.5 The council explained its productivity improvements and cost containment strategies

Ballina 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 estimates its cost savings initiatives would generate savings of around \$3.0 million per year. Some of the past 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 saves around \$237,000 per year.
- ▼ New software for the management of development application approvals, saving around \$62,000 per year.²⁵

In addition, it has identified some additional cost savings including:

- ▼ reusing materials from capital works, reducing disposal costs and purchasing materials by around \$247,000 per year
- ▼ purchasing a new machine to assist with the management of asbestos waste, saving around \$300,000 per year, and
- ▼ centralising procurement saving around \$105,600 per year.²⁶

²⁵ IPART, *Ballina Shire Council's application for a special variation for 2017-18*, Determination, May 2017.

²⁶ Ballina Council, *Application Part B*, pp 63-68.

4 Our decision's impact on the council

Our decision means Ballina Council may increase its general income over the 2-year special variation period from \$21.6 million in 2017-18 to \$24.1 million in 2019-20. Table 4.1 shows the percentage increases we have approved, and estimates the annual increases in the council's general income. These amounts reflect the percentage increases we have approved and, in 2018-19, adjustments that occur as a result of various catch-up, valuation adjustments and the replacement of an expiring special variation.

These increases will be permanently incorporated into the council's revenue base. After 2019-20, the council's permissible general income can increase up to the annual rate peg unless we approve a further special variation.²⁷

Table 4.1 Permissible general income of Ballina Shire Council from 2018-19 to 2019-20 arising from the special variation approved by IPART

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
2017-18 permissible general income				21,585,571
Adjusted notional income 1 July 2018 ^a				20,888,411
2018-19 ^b	9.1%	9.1%	1,902,103	22,790,515
2019-20	5.9%	15.5%	1,344,640	24,135,155
Total increase approved			3,246,744	

a Includes a reduction of \$697,160 for a special variation that expires on 30 June 2018.

b There is also an adjustment that has not been recouped of \$1,258 to reflect prior year catch-ups and valuation objections claimed in a prior year.

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

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

The council estimates that over the two years to 2019-20 it will collect, in total, an additional \$3.7 million²⁸ of rate revenue compared to rate increases that are limited to the assumed rate peg.

This extra income is the amount the council requested to enable it to fund its infrastructure asset renewals, the Healthy Waterways program and improve its financial sustainability.

²⁷ 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.

²⁸ As noted in Table 4.1, the sum of annual increases under the special variation is \$3.2 million. Over the two year period, the council will collect a cumulative \$3.7 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.

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 categories of ratepayer, consistent with our determination.

In its application, Ballina Council indicated it intended to increase rates reasonably evenly for each rating category.

The council has calculated, after accounting for the expiring special variation:

- ▼ the average residential rate would increase by 11.7% or \$116 over 2 years, or by \$54 in the first year
- ▼ the average business rate would increase by 11.9% or \$403 over 2 years, or by \$192 in the first year, and
- ▼ the average farmland rate would increase by 11.9% or \$179 over 2 years, or by \$85 in the first year.

Table 5.1 sets out Ballina Council's estimates of the expected increase in average rates in each of the main ratepayer categories.

Table 5.1 Indicative annual increases in average rates under Ballina Shire Council's approved special variation 2018-19 to 2019-20

Year	2017-18	2018-19	2019-20	Cumulative Increase 2018-20
Residential rate \$	985	1,039	1,101	
\$ increase		54	61	116
% increase		5.5	5.9	11.7
Business rate \$	3,382	3,574	3,785	
\$ increase		192	211	403
% increase		5.7	5.9	11.9
Farmland rate \$	1,512	1,597	1,691	
\$ increase		85	94	179
% increase		5.6	5.9	11.9

Note: 2017-18 is included for comparison.

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

The increase in average rates in 2018-19 is less than the rise in general income of 9.1%. This is because rates are first decreased by \$697,160, the value of the expiring special variation, and then increased by 9.1%. The net increase in permissible income for 2018-19 is approximately 5.6% for Ballina Council.



Appendices



A Assessment criteria for special variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria

Criterion 1 – Financial need

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 applying the following two scenarios:

- ▼ Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
- ▼ 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.

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.

Criterion 2 – Community awareness

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 SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.

Criterion 3 – Impact on ratepayers is reasonable

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 rates, and
- ▼ establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

Criterion 4 – IP&R documents are exhibited

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 income.

Criterion 5 – Productivity improvements and cost containment strategies

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.

Criterion 6 – Additional matters

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.

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

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

Table B.1 and Table B.2 show 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 \$23.6 million over 10 years, to fund:

- ▼ its Health Waterways programs
- ▼ infrastructure asset renewal, including the council's roads, stormwater, community buildings and open spaces, and
- ▼ improve its financial sustainability.²⁹

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.

²⁹ Ballina Shire Council, *Application Part A*, Worksheet 6 and *Application Part B*, pp 5-6.

Table B.1 Ballina 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
Special variation income above assumed rate peg	1,420	2,231	2,287	2,344	2,402	2,462	2,524	2,587	2,652	2,718	23,627
Funding for increased operating expenditures	313	321	329	337	346	354	363	372	382	391	3,510
Funding for capital expenditure	1,107	1,910	1,957	2,006	2,056	2,108	2,161	2,215	2,270	2,327	20,117
Total expenditure	1,420	2,231	2,287	2,344	2,402	2,462	2,524	2,587	2,652	2,718	23,627

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.*

Table B.2 Ballina 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
Renewals											
Roads	696	889	889	911	934	957	981	1,006	1,030	1,056	9,349
Stormwater	0	271	300	307	315	323	331	339	347	356	2,888
Community Buildings	147	276	283	290	297	305	313	321	329	337	2,899
Open Spaces	264	474	486	498	510	523	536	550	564	577	4,982
Total Capital Expenditure	1,107	1,910	1,957	2,006	2,056	2,108	2,161	2,215	2,270	2,327	20,117

Note: Numbers may not add due to rounding.

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

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

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 *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 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 C.1 Summary of projected operating statement for Ballina 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	68,708	66,197	65,411	72,681	74,444	68,316	70,230	72,014	74,008	76,033	78,086
Total expenses	55,834	54,570	56,190	57,250	58,580	59,622	61,088	62,702	63,710	65,031	66,455
Operating result from continuing operations	12,874	11,627	9,221	15,432	15,863	8,694	9,142	9,312	10,298	11,002	11,631
Net operating result before capital grants and contributions	-3,136	-342	466	460	519	968	1,224	1,199	1,984	2,482	2,900

Note: Numbers may not add due to rounding.

Source: Ballina 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 Ballina Council have changed over the four years to 2015-16. Table D.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.

Overall, the tables below show Ballina Council's performance over the period has been relatively stable. Employee costs as a percentage of operating expenditure has increased and the ratio of population to Full-Time Equivalent (FTE) staff has decreased on average by 0.7% per year. Ballina's population to FTE ratio at 152 is higher than the OLG Group average (127), (see Table D.2 below). This may suggest Ballina is more efficient than other OLG Group 4 councils.

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

Performance indicator	2012-13	2013-14	2014-15	2015-16	Average annual change (%)
FTE staff (number)	265	270	274	281	2.0
Ratio of population to FTE	155	153	152	152	-0.7
Average cost per FTE (\$)	70,981	73,004	74,580	77,189	2.8
Employee costs as % operating expenditure (General Fund only) (%)	24.1	26.9	30.2	30.6	N/A

Note: The 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 Ballina Shire Council, 2015-16

	Ballina Council	OLG Group 4 average	NSW average
General profile			
Area (km ²)	485		
Population	42,626		
General Fund operating expenditure (\$m)	52.8	63.1	70.2
General Fund operating revenue per capita (\$)	1,445		
Rates revenue as % General Fund income	42.3	39.5	43.6
Own-source revenue ratio (%)	68.5	65.8	67.3
Average rate indicators^a			
Average rate – residential (\$)	853	1,013	1,017
Average rate – business (\$)	2,819	3,619	5,118
Average rate – farmland (\$)	1,381	2,029	2,366
Socio-economic/capacity to pay indicators			
Median annual household income (\$) ^b	60,112	62,656	77,272
Average residential rate to median income ratio (%)	1.4	1.6	1.3
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	92	-	-
Outstanding rates and annual charges ratio (%)	4.2	4.4	3.6
Productivity (labour input) indicators^c			
FTE staff (number)	281	343	354
Ratio of population to FTE	152	118	127
Average cost per FTE (\$)	77,189	79,862	83,193
Employee costs as % operating expenditure (General Fund only)	30.6	38.4	39.7

^a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

^b Median annual household income is based on 2016 ABS Census data.

^c 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.