Independent Pricing and Regulatory Tribunal | NSW

Tenterfield Shire Council

Special Variation Application for 2023-24

Final Report

June 2023

Local Government

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Deborah Cope
Sandra Gamble

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The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website.

Contents

Foreword from the Chair

The 128 councils in NSW are an important part of our democracy and significant providers of essential services. On average they raise about a third of their revenue through rates and the Independent Pricing and Regulatory Tribunal of NSW (IPART) determines how much each council's total rates revenue can increase each year through the rate peg.

IPART has recently consulted widely with ratepayers, councillors, council staff and other stakeholders across NSW about council rates. Our consultation has been an important part of IPART's current review of the rate peg methodology which is how we calculate the rate peg for each council each year.

When councillors decide they need total rates revenue to increase above the rate peg, they can apply to IPART for a special variation. We have also consulted about 17 council special variation applications, received in February and March 2023, seeking rates increases above the rate peg, including some very large proposed increases.

We want to thank every single person who has come forward and provided feedback. We have considered every issue raised in that consultation.

We have heard that some councils are experiencing financial sustainability problems, which they suggest are related to the current financial model for councils. This is requiring strong financial management and council action to either increase rates or cut services, at a time when many people are less able to afford higher rates or to do without essential council services.

We heard that ratepayers are indeed concerned about cost of living pressures and affordability of rates while they also depend on and value council services.

This has raised the question of whether the funding and financial model for councils is as good as it needs to be, at a time when NSW has faced drought, bushfires, floods, COVID, supply chain disruption, labour shortages, higher inflation and rising interest rates.

Feedback to IPART indicates communities want councils to demonstrate good financial management and provide services that are efficient and value for money, so they can be confident the rates they pay are well used. Councillors, as the representatives of the community, play a key role in holding council management to account, and need the tools and information to do so.

Ratepayers have told us they want to be better consulted about council priorities, so councils deliver good quality services that are needed by their local community. We also heard ratepayers would like more consultation about the way rates are set - so rates are fair, reasonable and affordable.

Some councils have stronger financial sustainability than others. A range of reasons have been suggested for why this is the case. We have heard that the capability, workforce shortages, resources and alternative sources of revenue available to councils are not the same across NSW. Populations, economies, distances and geography are quite varied. Councils are very diverse and we have heard that a 'one size fits all' financial model does not make sense.

Our proposed new rate peg methodology is designed to respond to many of the issues raised in the review so far, including being more forward looking and agile, while recognising the diversity of councils. But it cannot address all the issues people have identified.

The rate peg sets the appropriate movement in a council's existing cost base but does not address the cost base itself. Trying to fix the cost base through the rate peg could potentially lead to unwarranted increases for some councils that could do more to control costs, and insufficient increases for councils with genuine financial need.

In assessing special variation applications, in line with current laws and guidelines, the Tribunal has carefully considered the impact of any increases in rates on individual ratepayers and whether increases in total rates revenue are needed so council services can continue to be provided. We note that, within the total rates revenue approved by IPART, it remains the responsibility of councillors to set rates in a way that takes into account the circumstances of their constituents. Councillors also have the authority to provide hardship programs that lessen the impact on people who cannot afford increased rates.

The Tribunal also questions whether the large special variation applications lodged in February and March indicate the financial model needs closer investigation, if the only way a council is able to address financial sustainability is through seeking substantial rates revenue increases.

The Tribunal believes it would be timely for NSW Government to initiate an independent investigation into the financial model for councils in NSW, including the broader issues highlighted in our draft report on the rate peg methodology.

IPART stands ready to work with the NSW Government, councillors, ratepayers and communities to address the issues we have heard through our consultation over recent months.

Carmel Donnelly PSM
IPART Chairperson

1 Executive summary

Tenterfield Shire Council (the council) applied to IPART to increase its general income by a cumulative 104.49% through a permanent special variation (SV) of 43% per year (including the rate peg) for the next 2 years.

The council sought the special variation to address its operating deficit and create a platform that will enable the council's long-term financial sustainability.[1]

1.1 IPART's decision

We have not approved the council's application. This is because the council did not meet the Office of Local Government (OLG) criteria for its proposed SV. In particular:

- it did not demonstrate that the community is aware of the need for and extent of the rate rises associated with the proposed SV, primarily because its consultation materials had shortcomings
- the proposed SV of 104.49% over 2 years would have a significant impact on ratepayers, especially those who live in pockets of Tenterfield Shire with high levels of socio-economic disadvantage
- the council's Integrated Planning and Reporting (IP&R) documents and application did not clearly explain its plans to realise productivity improvements and contain costs over the proposed SV period.

Instead, we have approved a one-year permanent SV of 43%. The difference between the council's application and IPART's decision is summarised in Table 1.1.

Table 1.1 Comparison of the council's application and IPART's decision

	2023-24	2024-25	Cumulative increase over the SV period
Council's application	43%	43%	104.49%
IPART's decision	43%	Rate peg	43%

a. IPART's SV decision sets the council's permitted increases to general income for Year 2023-24 only. From 2024-25 the council's general income will be subject to the usual rate peg (or any future SV).

We have made this decision after balancing the council's clear financial need with the impacts on affected ratepayers. It will allow the council to move towards a more stable financial position, quantify and implement further cost containment strategies and better consult on the levels of service that the community needs. In doing this, the council will also need to consider impacts of further increases on affordability.

Our assessment found that without the SV, the council's financial position would continue to deteriorate. The council currently has minimal unrestricted cash in its general fund and forecasts that this will further decline to -$8.5 million over the next 5 years (see Table 4.2).[2] The council advised this would impact the maintenance of its Class C and D roads, which are core assets.[3]

On balance, we consider that the impact of the increases resulting from a one-year permanent SV of 43% is reasonable. With this increase, the council's average residential rates will still be lower than the average for its neighbouring councils, and broadly in line with the average for comparable councils. However, we acknowledge that there are some ratepayers that are more vulnerable to increases in rates under the approved SV (i.e. 43% over one year).

The council has a hardship policy in place to assist ratepayers who have difficulty paying their rates. The assistance may take the form of a payment plan or writing off any accrued interest.[4] The council also told us it works to identify all eligible pensioners to ensure they can receive a rebate of up to $250 per year on their ordinary rates.[5] We consider that the size of the increases in 2023-24 mean that it is particularly important that the council effectively communicates how its hardship policy would be applied to vulnerable ratepayers.

We also found that the council has demonstrated past achievements in delivering productivity improvements and implemented cost containment strategies that are proportionate to the size and resources of the council. However, these measures and the council's future plans were not specifically identified or quantified in its IP&R documents or application, which is a requirement of the Office of Local Government (OLG) Guidelines. In the future, the council should include this information in its IP&R documents or application.

1.2 IPART's assessment of the council's application

To make our decision, we assessed the council's proposed SV of 104.5% over 2 years against the 6 criteria set by the OLG in its *Guidelines for the preparation of an application for an SV to general income* (OLG Guidelines). We found that this proposed SV does not meet OLG's criteria. Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the proposed SV to address its operating deficits and maintain service levels. Without the SV, its financial position would deteriorate. It has limited cash reserves to draw upon.
02	Not demonstrated	**Community awareness** The council did not demonstrate that the community is aware of the need for and extent of the proposed SV and its impact on rates. In particular, some of the council's consultation materials did not accurately reflect the SV it had applied for.

Criteria	Grading	Assessment
03	Not demonstrated	**Reasonable impact on ratepayers** The council did not show that the impact of its proposed SV of 104.49% over 2 years on ratepayers was reasonable. In particular, the council's estimated average residential and business rates at the end of the SV period would be higher than those of neighbouring and comparable councils. The relatively high levels of disadvantage within the Tenterfield Shire local government area (LGA) may limit the community's capacity to pay these higher rates.
04	Demonstrated	**Integrated Planning and Reporting (IP&R) documentation** The council exhibited, approved and adopted all necessary documents.
05	Not demonstrated	**Productivity improvement and cost containment** The council's IP&R documents and application provided information on past and planned productivity and cost containment strategies. However, the documents did not clearly quantify the savings associated with the strategies.
06		**Other matters IPART considers relevant** The council has not had an SV in the last 5 years. The council submitted financial analysis done by OLG which showed the council's financial position has deteriorated. We have considered this in our assessment.

1.3 Stakeholders' feedback

We expect the council to engage and consult with its community so that ratepayers are fully aware of any proposed SV and the impact on them and have opportunities to provide feedback to the council. This is one of the criteria we use to assess the council's application.

The council consulted on its proposed SV with its community. Over the consultation period, the council told us its community forums attracted 361 attendees.[6]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. We received 72 submissions from stakeholders between 10 February 2023 and 3 March 2023.

However, on 24 March 2023 and 4 April 2023, the council provided revised and additional information to us that we considered was relevant and material to its application (see section 2.4). As a result, we re-opened our consultation from 13 April 2023 to 5 May 2023 to provide stakeholders an opportunity to comment on the revised materials. We received 17 submissions in this period.

In total, we received 89 submissions. These submissions raised concerns about:

- the affordability of the proposed rate increases
- the council's financial management
- the council's consultation with the community
- the council's service levels
- the impact of recent land valuations on the council's income.

We discuss stakeholder feedback to IPART in more detail in Chapter 3 and throughout this report where relevant.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the approved SV period. We encourage the council to consult with its community to decide how best to implement the increase to help manage the impact on ratepayers. The approved SV is the maximum permitted amount, and the council can choose to set its rates including deferring any increases for up to 10 years.[7]

As noted above, the one-year SV of 43% we have approved is consistent with the first year of the council's proposed 2-year SV of 104.49%. The council will still need to deliver on its proposed productivity improvements. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.2 sets out the council's proposed increase in rates in that first year. The council retains the discretion to revise how it raises its general income across the rating categories.

The council will still need to deliver on its proposed productivity improvements. Increasing rates as proposed will not be sufficient on its own to achieve long-term financial stability.

Table 1.2 The council's proposed increase in rates

	2023-24
Residential	42.3%
Business	42.7%
Farmland	42.8%
Mining	42.6%

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: IPART calculations

The rest of this report explains how and why we reached our decision on the council's proposed SV in more detail.

2 The council's special variation application

Tenterfield Shire Council applied to IPART to increase its general income through a permanent SV of 43% per year (including the rate peg) for 2 years from 2023-24 to 2024-25, which is a cumulative increase of 104.49%.

The council sought the SV to:

- address its operating deficit
- create a platform that will enable the council's long-term financial sustainability.[8]

2.1 Impact of the special variation on ratepayers

The council proposed that rates would increase for all rating categories over the 2-year SV period. On average, it proposed that:

- residential rates would increase by 103.5% or $654, in total, by 2024-25
- business rates would increase by 104.0% or $1,493, in total, by 2024-25
- farmland rates would increase by 104.2% or $1,684, in total, by 2024-25
- mining rates would increase by 103.9% or $1,058, in total, by 2024-25.

The council provided the number of ratepayers for each category in 2022-23 (Table 2.1).

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of ratepayers
Residential	3,395
Business	234
Farmland	1,463
Mining	10

Source: Tenterfield Shire Council, Part A application Worksheet 2.

2.2 Assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay. Its capacity to pay report examined the socio-economic characteristics of the Tenterfield LGA.[9] For example, these characteristics include the levels of employment, income and expenditure, housing costs, and the levels of home ownership and renting.[10]

The report noted that high home ownership within the LGA could be an indicator of a capacity to pay.[11] However, it also acknowledged that some pockets of the Tenterfield LGA have high levels of disadvantage.[12]

The council indicated that it has a hardship policy in place to assist ratepayers who have difficulty paying their rates. The assistance may take the form of a payment plan or writing off any accrued interest. The council also told us it works to ensure it identifies all eligible pensioners to ensure they can receive a concession of up to $250 per year on their ordinary rates.

2.3 Impact of the special variation on the council's general income

The council estimated that the proposed SV would result in a cumulative increase in its permissible general income of $6.6 million in total above what the assumed rate peg would deliver over 2 years.

2.4 Further information provided

After examining the council's application and IP&R documents, we identified that some figures in its Long-Term Financial Plan (LTFP) were inconsistent with the SV it had applied for. As a result, on 24 March and 4 April 2023, the council provided revised and additional information to us which we considered was relevant and material to its application. This included:

- revisions to its forecast income statements from 2022-23 to 2032-33[a]
- revisions to its forecast financial and infrastructure ratios from 2022-23 to 2032-33[b]
- revisions to its cash forecasts from 2022-23 to 2032-33
- additional commentary clarifying the materials provided above and responding to our questions about its SV application.

We have accounted for these additional materials in our assessment by:

- incorporating them into our assessment where relevant
- re-opening our consultation with the public to provide stakeholders an opportunity to comment on the revised materials from 14 April 2023 to 5 May 2023.

[a] See WK8 LTFP.
[b] See WK9 Ratios.

3 Stakeholders' submissions to IPART

We expect the council to engage with its community so that ratepayers are fully aware of any proposed special variation (SV) and the full impact on them. This is one of the OLG criteria we use to assess the council's application (see Appendix A).

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period, and stakeholders could make submissions directly to us. The Tribunal has taken all submissions into account in making its decision in accordance with our Submissions Policy, including any confidential submissions. In this section, we summarise the key issues raised in all published (non-confidential) submissions.

3.1 Summary of submissions we received

We received 72 submissions from stakeholders between 10 February 2023 and 3 March 2023. However, on 24 March 2023 and 4 April 2023, the council provided revised and additional information to us that we considered was relevant and material to its application (see section 2.4).

As a result, we re-opened our consultation from 14 April 2023 to 5 May 2023 to provide stakeholders an opportunity to comment on the revised materials. We received 17 submissions in this period.

There are approximately 5,100 ratepayers in the council's local government area (LGA).

In total, we received 89 submissions. The key issues and views raised in those submissions, and our responses to them, are summarised below.

3.1.1 Affordability of proposed rate increases

Around 70 of the 89 submissions raised concerns about the affordability of the proposed rate increases under the proposed SV of 104.5% over 2 years. Many said that doubling the rates in 2 years would lead to financial hardship, particularly for low-income households, pensioners, those faced with interest rate rises and rent increases. A few stakeholders said this could cause homelessness.

In support of these concerns, some stakeholders stated that there are few jobs in the region, and that ratepayers are facing hardships due to the current high levels of inflation. Some farmland ratepayers said they are already under financial strain, recovering from the recent natural disasters.

Our assessment of the impact of the proposed rate increases on ratepayers is in section 4.3. For ratepayers experiencing financial hardship, the council has hardship policies in place.

3.1.2 The council's financial management

Around 50 submissions raised concerns that the council has been inefficient in the past and that the proposed SV is a way to cover its financial mismanagement. Some stakeholders also said that to improve the existing services and infrastructure, the council requires a change in management or operating strategy.

Our assessment of the council's efficiency is discussed in Section 4.5. We do not audit council finances, as this is not part of our delegated authority.

3.1.3 The council's consultation with the community

Around 50 submissions put the view that the council's community consultation process was misleading and not transparent. Some said that community feedback was not considered. Others said that the council may not be acting in the best interests of ratepayers, that the council had not been transparent and that it did not consider community feedback.

Our assessment of the council's consultation with the community is in Section 4.2.

3.1.4 The council's service level

Around 20 stakeholders submitted that despite paying council rates, they do not receive certain services or they were dissatisfied with the services they receive. The types of services raised in the submissions were road repairs, rubbish disposal and stormwater management.

We do not assess council service level, as this is not part of our delegated authority. It is a matter for the council to set its service levels through its annual IP&R process.

3.1.5 Impact of recent land valuations on the council's income

Approximately 10 submissions said that an SV was unnecessary because the increases in land values from the recent valuation process would increase the council's income.

This is not the case. Routine changes in land valuations (those that occur when the Valuer-General values lands every 3 years as part of its general valuation cycle) do not increase (or decrease) the council's maximum permitted level of general income. As set out in Box 3.1 below, the council is required to adjust its rates following routine changes in land valuations to ensure the total amount of general income recovered from ratepayers does not exceed the maximum permitted amount.

Box 3.1 Effect of land valuation on rates

Routine changes to land valuations do not increase the total amount of general income the council can recover from ratepayers (also known as the 'permissible general income' or PGI). A council's PGI for each year is limited by the rate peg or a percentage determined by IPART in a special variation.[c] However, individual ratepayers may pay either higher or lower rates.

Individual rates depend on the combination of:

- the council's rating structure
- the relevant rating category
- the property's unimproved land value.

The variable component of rates, ad valorem, is determined by:

$$\textit{ad valorem component} = \textit{amount in the dollar} \times \textit{land value}$$

Generally, the council recalculates the 'amount in the dollar' rate every year to ensure the council does not collect rates above its PGI.

A routine increase in a ratepayer's land value by the Valuer-General does not mean that ratepayer's rates will automatically increase. The impact on rates depends on whether the land value has increased or decreased compared to others in the ratepayer's local government area.

[c] Councils' PGI may be affected by supplementary valuations of rateable land under the *Valuation of Land Act 1916* and estimates provided under section 513 of the *Local Government Act 1993*. Such supplementary valuations and estimates are made when land within a council area has changed outside the general valuation cycle (such as where land has been subdivided or rezoned). This is distinct from the routine changes in land value by the Valuer-General.

4 IPART's assessment of the council's application

The Minister for Local Government has delegated the power to grant special variations (SVs) to IPART.[d] As required, we assessed the council's SV application against the 6 criteria set out in the OLG Guidelines. We found that the council only met some of the OLG criteria for its proposed SV. Specifically, we found the council:

- demonstrated a financial need for the proposed SV to address its operating deficits and maintain service levels, despite shortcomings in its Integrated Planning and Reporting (IP&R) documents
- did not demonstrate that the community is aware of the need for and extent of the proposed SV and its impact on rates, as some of the financial figures set out in its Long-Term Financial Plan (LTFP) to support its proposed SV were inaccurate
- did not demonstrate that the impact of its proposed SV of 104.5% over 2 years on ratepayers was reasonable
- exhibited, approved and adopted its IP&R documentation appropriately
- explained the productivity improvements and cost containment strategies it has realised in past years and plans to realise over the SV period, but did not quantify them
- provided analysis from OLG that shows the council's finances are deteriorating.

Our assessment against each criterion is discussed below.

4.1 OLG Criterion 1: The council demonstrated a financial need for the SV

Criterion 1 requires the council to clearly articulate and identify the need for, and purpose of, the proposed SV in its IP&R documents. It also requires the council to demonstrate the financial need for the SV by assessing the impact of the SV on its financial performance and position, and to canvass alternatives to the SV to meet the financial need.

Note: See Appendix A for full details of criterion.

To assess whether the council met this criterion, we reviewed the council's IP&R documents and the information in its application. We sought further information from the council and used this to undertake our own analysis of the council's financial performance and position. We also considered stakeholders' comments on financial need in the submissions we received. We do not audit council finances, as this is not part of our delegated authority.

[d] By delegation dated 6 September 2010, the Minister for Local Government delegated to the Tribunal all her functions under sections 506, 507, 508(2), 508(6), 508(7), 508A, 548(3) and 548(8) of the *Local Government Act 1993* (NSW), pursuant to section 744 of that Act.

The sections below discuss our assessment, and why we found that the council met this criterion.

4.1.1 Stakeholder comments on financial need

In their submissions to us, stakeholders raised a range of concerns related to the financial need criterion. In particular, they:

- questioned whether the council needed the rate increase at all
- suggested that additional income could come from alternative funding sources
- considered the financial need for the SV resulted from poor financial management and oversight
- questioned how the council will be held to account going forward

We considered these concerns, taking account of all the information available to us.

4.1.2 Council's IP&R documents and application

OLG's Guidelines stipulate the Delivery Program and LTFP as the relevant IP&R documents for this criterion.

Our initial review of the council's IP&R documents and application indicated that some figures in its LTFP were inconsistent with its SV application. As a result, on 24 March 2023 and 4 April 2023 the council submitted additional information, including revisions to:

- its forecast income statements for its Baseline (no-SV) versus SV scenarios
- its forecast financial and infrastructure ratios for its Baseline versus SV scenarios
- its cash forecasts for its Baseline versus SV scenarios.

In analysing the impact of the proposed SV on the council's financial performance and financial position (section 4.1.3), we used these revised forecasts.

We found that some aspects of the LTFP did meet requirements of OLG's Guidelines, such as explaining the need for, and purpose of, the SV. For instance, the LTFP states that the purpose of the SV is to:

- address the forecast $5 million annual operating deficit
- enable the council to rely less on external loans from financial institutions.[13]

On the other hand, we found that the Delivery Program does not articulate the need for and purpose of the proposed SV. It only provides a 4-year forecast of operating results for a no-SV scenario.[14] Also its expenditure budgets do not incorporate the income from the proposed SV.[15]

The council's LTFP and Delivery Program also do not set out the alternatives to an SV the council canvassed. However, in its application, the council did provide evidence to us that it considered alternatives (see section 4.1.3).

4.1.3 Our analysis of the council's financial performance and position

We used information provided by the council in its application and IP&R documents to do our own analysis of the impact of the proposed SV on the council's financial performance and financial position. This involved calculating financial forecasts under 3 scenarios:

1. **Proposed SV Scenario** – which includes the council's proposed SV revenue and expenditure.
2. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
3. **Baseline with SV expenditure Scenario** – which includes the council's full expenditure from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application but could only increase general income by the rate peg.

We then used these forecasts to examine the impact of the proposed SV on key indicators of its financial performance and position – namely its Operating Performance Ratio (OPR), net cash (or net debt), general fund unrestricted cash position, and infrastructure ratios.

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than zero is considered to be financially sustainable, because the OPR measures a council's ability to contain operating expenditure within operating revenue.[16] The OLG has set a benchmark for the OPR of greater than zero (see Box 4.1 for more information).

Box 4.1 Operating Performance Ratio

The OPR measures whether a council's income will fund its costs and is defined as:

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

Where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.

The OLG has set a benchmark for the ratio of greater than 0%.

The ratio measures net operating results against operating revenue and does not include capital expenditure. That is, a positive ratio indicates that an operating surplus is available for capital expenditure.

Generally, IPART considers that a council's average OPR over the next 10 years should be 0% or greater, as this represents the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV.

However, we recognise that other factors, such as the level of borrowings or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the breakeven benchmark as set by OLG.

Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

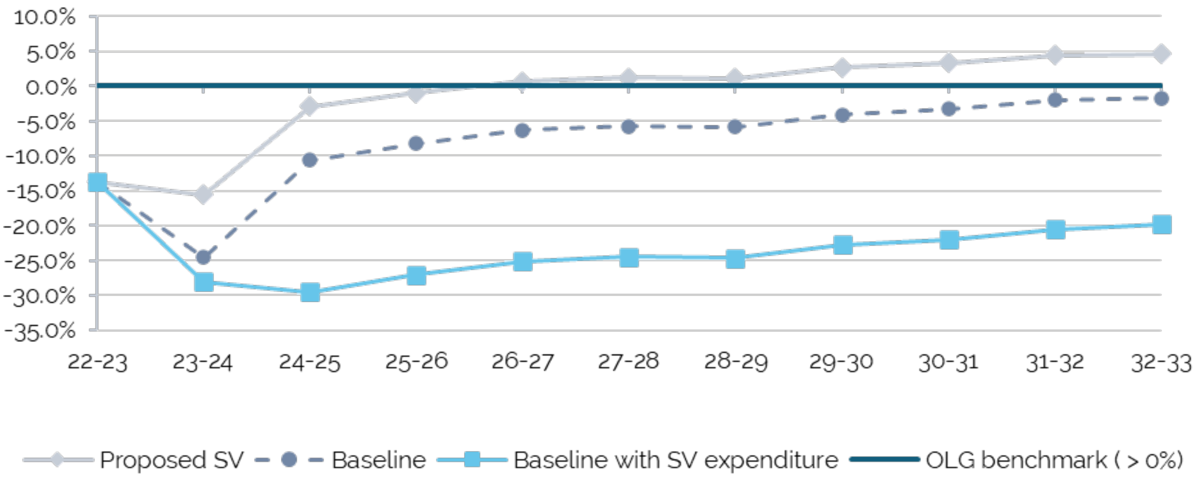
We calculated the council's forecast OPR over the next 10 years under the 3 scenarios (see Figure 4.1 and Table 4.1). We found that over the next 5 years: [e]

- **Under the Baseline and Baseline with SV expenditure Scenarios**, the council's average OPR would be -11.1% and -26.8%, respectively. Both these results are well below the OLG benchmark of greater than 0%.
- **Under the Proposed SV Scenario**, the council's OPR would gradually improve, although its average OPR would remain below the OLG benchmark at -3.5%.

This suggests that without the SV, the council may not be able to maintain its current service levels and expenditure. In this situation, the council will not be financially sustainable and may need to cut services or borrow additional funds from external banks to maintain current service levels.

[e] We averaged over a 5-year period rather than 10 years because we recognise forecasts are subject to variability.

Figure 4.1 The council's OPR from 2022-23 to 2032-33



Source: Tenterfield Shire Council, Application Part A.
Note: OPR shown excludes capital grants and contributions

Table 4.1 The council's projected OPR with proposed special variation, 2023-24 to 2032-33 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-15.6	-2.9	-0.9	0.7	1.2	1.1	2.6	3.3	4.4	4.6
Baseline	-24.5	-10.6	-8.2	-6.3	-5.7	-5.9	-4.1	-3.3	-2.0	-1.7
Baseline with SV expenditure	-28.1	-29.5	-27.0	-25.1	-24.5	-24.6	-22.7	-21.9	-20.6	-19.8

Source: Tenterfield Shire Council, Application Part A,

Impact on net cash

A council's net cash (or net debt) position is another indicator of its financial position. For example, it indicates whether a council has significant cash reserves that could be used to fund the purpose of the proposed SV.

On 30 June 2022, the council held a total of $37.1 million in cash reserves across its *consolidated funds* – which comprise the general, water and sewer funds. Of the $37.1 million:

- **$31.6 million were externally restricted funds** (i.e. subject to external legislative or contractual obligations such as funds for water and sewer and developer contributions)[17]
- **$5.0 million were internally restricted funds** (i.e. subject to a council resolution to cover commitments and obligations expected to arise in the future and where it is prudent to hold cash in restrictions to cover those obligations such as employee leave entitlements.) [18]
- **$0.5 million were unrestricted funds** (i.e., can be used to fund the council's day to day operations).

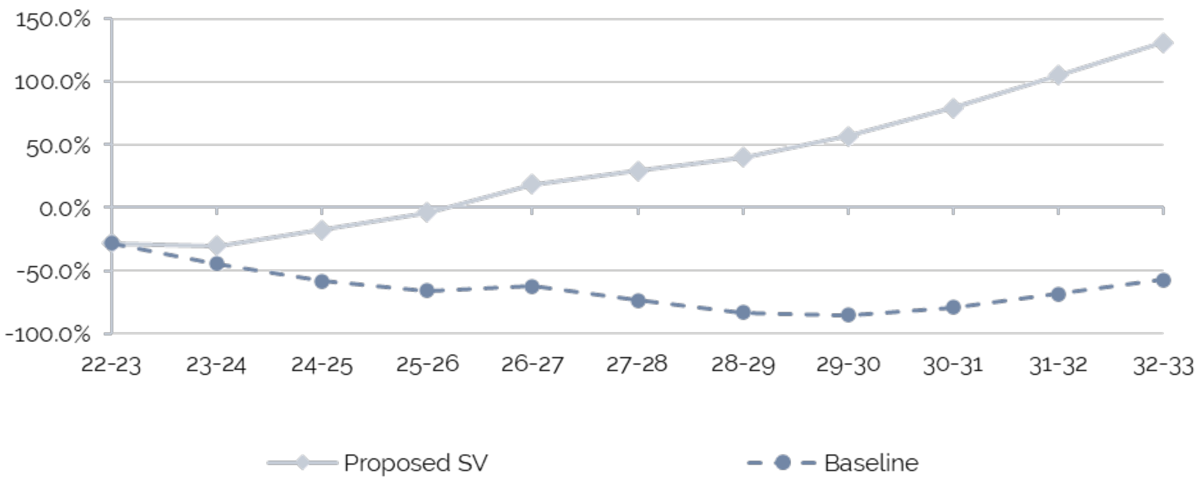
This suggests that the majority of the council's cash reserves are committed to other purposes and not available to fund the proposed SV expenditure.

We calculated that as at 30 June 2023, the council would have a net cash of -$8.1 million (or a net debt of $8.1 million). This also means its net cash (debt) to income ratio would be -44.5%. As Figure 4.2 shows, our analysis found that over the next 10 years:

- **under the Proposed SV Scenario**, it would move from -30.5% in 2023-24 to a net cash (debt) to income ratio of 131.1% by 2032-33
- **under the Baseline Scenario**, its net cash (debt) to income ratio would generally decline, and would be -57.2% by 2032-33.

This suggests that the council will have limited cash to fund its operations under a no-SV scenario.

Figure 4.2 The council's net cash (debt) to income ratio, 2022-23 to 2032-33 (%)



Source: Tenterfield Shire Council, Application Part A and IPART calculations.

The council stated that it had breached the *Local Government Act 1993* (NSW) for reporting a negative unrestricted cash position in 2020-21.[19] This was based on a consolidated basis – or the combination of its general, water and sewer funds. The council advised this was due to timing differences in the receipt of payments for infrastructure projects in the final quarter of 2020-21.[20] The unrestricted cash balance was restored in 2021-22.[21]

Impact on general fund's unrestricted cash position

We also assessed the council's unrestricted cash forecasts for the *general fund* only because most operational and capital expenditure that maintain the council's general services are funded through the *general fund*.

As Table 4.2 shows, these forecasts indicate that the council would report negative unrestricted cash for its *general fund* under both the Proposed SV and Baseline Scenarios for the next 10 years. This would impact the council's ability to fund *general fund* expenditure, including its transport infrastructure (roads and bridges) and community services.

The council also told us that without an SV, it would be in a position where it would have to reduce roads maintenance by $0.6 million, which would impact the maintenance of its Class C and D roads.[22]

Table 4.2 Unrestricted cash forecasts for the council's general fund, 2023-24 to 2032-33 ($'000)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Baseline	-4,284	-5,417	-6,301	-5,700	-8,512	-10,855	-13,854	-16,119	-18,360	-20,560
Proposed SV	-3,256	-3,503	-3,325	-1,615	-3,271	-4,429	-6,191	-7,177	-8,088	-9,188

Source: Tenterfield Shire Council, Revised General Fund Cash Forecasts.

Considering the council's OPR, net cash (debt) position and general fund unrestricted cash forecasts, we consider the council has a clear financial need for the proposed SV to ensure it can continue to provide services to its community.

Impact on infrastructure ratios

Managing infrastructure assets is an important council function. A council's ability to maintain and renew these assets as they depreciate is another indicator of its financial position. To measure this indicator, we used information provided by the council to assess its infrastructure backlog, infrastructure renewals and asset maintenance ratios, and compared them to OLG's benchmarks:

- **The infrastructure backlog ratio** indicates whether the council has a need for additional revenue to maintain its infrastructure assets. It shows the infrastructure backlog as a proportion of the total value of a council's infrastructure. OLG's benchmark for the infrastructure backlog ratio is less than 2.0%.
- **The infrastructure renewals ratio** measures the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. OLG's benchmark for the infrastructure renewals ratio is greater than 100%.
- **The asset maintenance ratio** compares actual versus required asset maintenance. The OLG's benchmark for this ratio is greater than 100%.

See Box 4.2 for more information on these ratios and how we interpret them.

Box 4.2 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its total written down value of its infrastructure and is defined as:

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets}$$

where the carrying value of infrastructure assets is the historical cost less accumulated depreciation.

OLG has set a benchmark for the ratio of less than 2%.

Infrastructure renewals ratio

Where relevant, we may also consider the council's infrastructure renewals ratio, which assesses the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals}{Depreciation, amortisation\ and\ impairment}$$

OLG has set a benchmark for the ratio of greater than 100%.

Asset maintenance ratio

Where, relevant we may also consider the council's asset maintenance ratio. This compares the actual versus required annual asset maintenance.

$$Asset\ maintenance\ ratio = \frac{Actual\ asset\ maintenance}{Required\ asset\ maintenance}$$

OLG has set a benchmark for the ratio of greater than 100%.

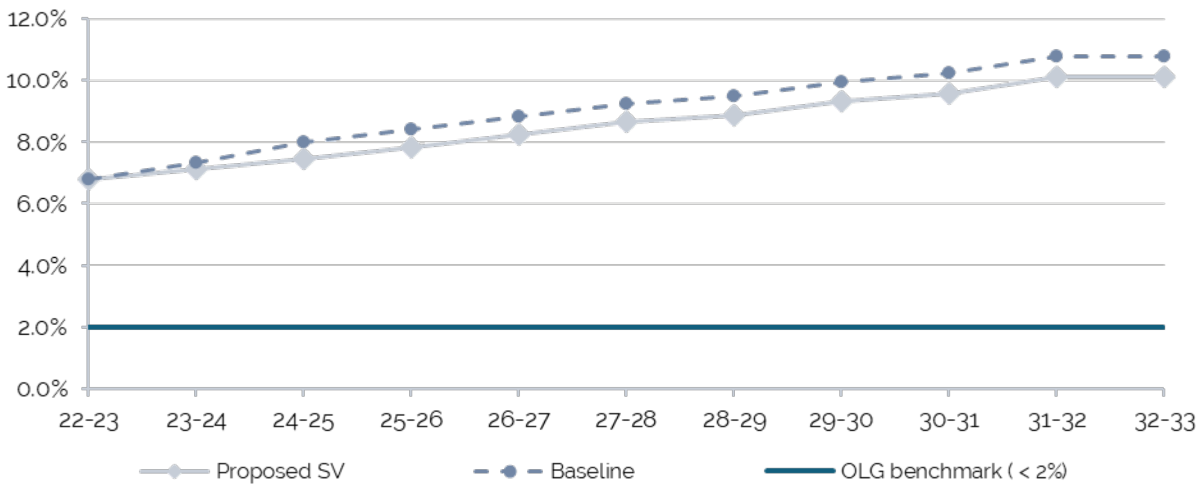
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

Impact on infrastructure backlog ratio

Figure 4.3 shows, under the Proposed SV Scenario the council's infrastructure backlog ratio would remain above the OLG benchmark of less than 2.0%, increasing to 10.1% in 2032-33, or a worsening backlog ratio. Under the Baseline Scenario, its ratio would increase by slightly more, reaching 10.8% by 2032-33, so a slightly worse-off position than the Proposed SV Scenario.

The council told us that even with its proposed SV approved, it will not have sufficient income to address its asset backlog.[23]

Figure 4.3 The council's infrastructure backlog ratio, 2022-23 to 2032-33 (%)



Source: Tenterfield Shire Council, Application Part A.

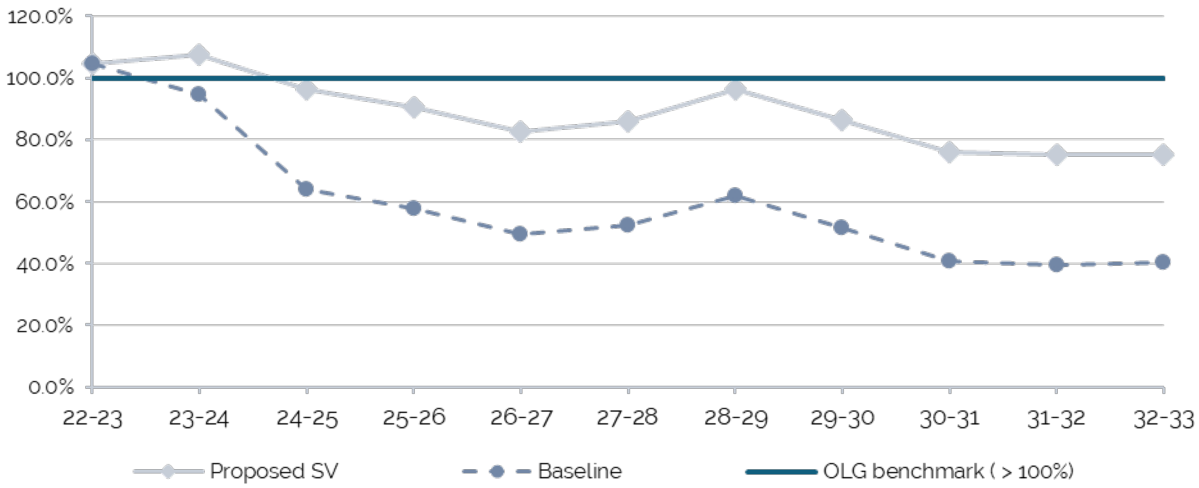
Impact on infrastructure renewals ratio

Figure 4.4 shows that:

- under the Proposed SV Scenario, the council's infrastructure renewal ratio would generally remain below the OLG benchmark of greater than 100.0% over the next 10 years, and decrease to 75.3% by 2032-33
- under the Baseline Scenario, its infrastructure renewals ratio would decrease at a faster rate and be 40.5% by 2032-33.

This suggests that the SV would enable the council to renew more assets. However, the council told us that, if approved for an SV, its asset renewals program would only return assets to its minimally acceptable condition.[24]

Figure 4.4 The council's infrastructure renewal ratio, 2022-23 to 2032-33 (%)



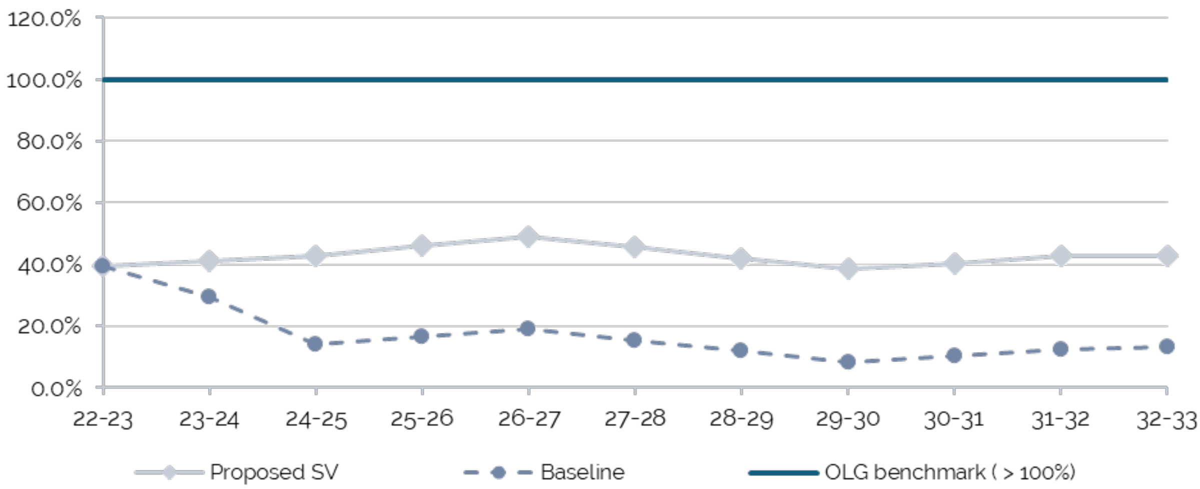
Source: Tenterfield Shire Council, Application Part A.

Impact on asset maintenance ratio

Figure 4.5 shows, under the Proposed SV Scenario the council's asset maintenance ratio would be below the OLG benchmark of 100.0% and be around 42.9% in 2032-33. Under the Baseline Scenario, this ratio would be much lower by 2032-33 at 13.0%.

This indicates that the proposed SV could assist the council to undertake more maintenance work. The council has also told us that, if approved for an SV, its asset maintenance program will target road maintenance.[25]

Figure 4.5 The council's asset maintenance ratio, 2022-23 to 2032-33 (%)



Source: Tenterfield Shire Council, Application Part A.

Alternatives to the rate rise

We assessed whether, in establishing the need for the SV, the council's relevant IP&R documents canvassed alternatives to the rate rise to meet the financial need.

As section 4.1.2 discussed, the council's LTFP and Delivery Program do not outline its consideration of alternatives to an SV to meet its financial need. However, the council provided evidence that it:

- is in the process of selling parcels of land
- has placed a moratorium on filling the 20 full-time equivalent (FTE) staff vacancies
- considered implementing a leaner organisational structure with lower levels of service.[26]

If the council applies for an SV in the future, it should outline the alternatives to an SV it canvassed in relevant IP&R documents such as the Delivery Program and LTFP.

4.2 OLG Criterion 2: The council did not provide evidence of community awareness

Criterion 2 requires the council to provide evidence that the community is aware of the need for and extent of the proposed rate increase. It requires the council to:

- communicate the full cumulative increase of the proposed SV in percentage terms and in dollar terms for the average ratepayer, by rating category
- outline its ongoing efficiency measures and performance
- use a variety of engagement methods to ensure community awareness and provide opportunities for community input.

The criterion does not require the council to demonstrate community support for the SV application.

Note: See Appendix A for full details.

To assess this criterion, we considered stakeholder comments about community awareness. We also analysed the council's community engagement on the proposed SV. The sections below discuss our assessment, and why we found that the council did not meet this criterion.

4.2.1 Stakeholder comments on community awareness

In submissions to IPART, stakeholders raised concerns that the council:

- was not transparent in its consultation on the proposed SV
- did not respond to their concerns about the proposed SV
- did not make the community aware of its IP&R documentation

- did not inform the community of the proposed rate increases
- was not clear about the reason for the rate increases or the alternative sources of funding that it had considered
- did not include the community's input in informing the council's strategic priorities.

We considered these concerns, alongside other available information. Our assessment is discussed in section 4.2.2.

4.2.2 Our assessment of council's engagement and consultation

To assess the effectiveness of the council's community engagement and consultation on the proposed SV, we considered whether:

- the information provided to ratepayers was sufficient and clear
- the variety of engagement methods used were effective
- the process used consult the community provided timely opportunities for ratepayers to provide input and feedback on the proposed SV, and
- the outcomes from the consultation were considered in preparing the SV application.

Information provided to ratepayers

We found that the information provided to ratepayers on the proposed SV and associated rate increases provided some of the details they needed to be well informed and engage with the council. For example, a council newsletter dated 29 August 2022[27] posted to ratepayers outlined:

- the need for the SV
- the average annual and weekly increases and cumulative percentage increases for residential, business, farmland and mining ratepayers with the SV over 2023-24 to 2024-25
- what council has done to avoid an SV such as considering selling/disposing of assets
- how to find out more information.

However, the IP&R documents the council consulted the community on presented key details inaccurately or did not include them. This compromised both the sufficiency and clarity of the materials. In particular:

- The additional information the council provided to IPART on 24 March 2023 and 4 April 2023 included revised financial forecasts (see section 2.4). This meant that the LTFP the council consulted the community on included inaccurate numbers.
- The Delivery Program did not set out the extent of the proposed rate rise of 104.49% over 2 years.
- The LTFP did set out the extent of the proposed rate rise over 2 years. However, in projecting the impact of this rise for future years, the council used an assumed rate peg of 7.5% for years 3 to 10. This is inconsistent with our advice to councils applying for an SV for 2023-24, which was to use an assumed rate peg of 2.5% for 2024-25 and future years (based on the OLG Guidelines).[28] As a result, the LTFP did not reflect the SV the council had applied for and overstated its forecast long-term financial position (or OPR).

We also found that the council could have more clearly communicated what the proposed SV would fund. The council's commentary to ratepayers on this was non-specific. For instance, it indicated the SV is needed to address its operating deficit, infrastructure renewals and asset maintenance. We acknowledge that its Asset Management Strategy does set out its renewals and maintenance expenditure plan,[29] but it was not clear whether this represents what the council would do if its proposed SV were approved, or if it intends to implement the plan even without an SV.

Engagement methods used

We found the council used an appropriate variety of engagement methods to promote awareness of and obtain community views on its proposed SV. For example, its engagement activities throughout the consultation period included:

- a newsletter on the SV which it mailed directly to ratepayers
- a feedback process, where it received submissions regarding the SV
- a media release to inform ratepayers they could book one-on-one sessions with senior council staff, which led to 17 ratepayers scheduling meetings
- a specific SV webpage on the council's website, including a calculator to estimate rates incorporating the proposed SV, and an SV FAQ webpage that received 486 views
- social media channels, where its Facebook post on the SV attracted 2,859 views
- posters on community noticeboards
- 16 face-to-face information sessions held in Jennings, Sunnyside, Bolivia, Torrington, Tenterfield, Drake, Mingoola, Urbenville, Legume and Liston.[30]

Process for community consultation

The council consulted with the community on the proposed SV in 2 formal phases, in April 2022 and then in September to October 2022.[31] These consultation periods provided enough opportunity for ratepayers to be informed and engaged in the proposal. However, as noted above, the errors and inadequacies in the information provided to ratepayers about the SV proposal undermined the council's consultation.

Outcomes of community consultation

As noted above, Criterion 2 does not require the council to demonstrate community support for the proposed SV. However, it does require the council to consider the results of community consultation in preparing its application.

We found that the council could have elaborated further on how it considered community feedback when preparing its SV application. The council's application summarised the community response to the proposed SV. It indicated this response was largely negative, and many stakeholders opposed the SV. Feedback from these stakeholders included that:

- the rates increase would be too high and unaffordable
- ratepayers should not have to pay for the council's financial mismanagement

- the council should not sell community assets, including the airfield or terminate the School of Arts and should reconsider renovating council buildings
- the council did not fully explain its financial position.[32]

The council did not conduct an SV-specific survey, but it did incorporate SV questions as part of a telephone survey conducted in September 2022 on community satisfaction. Around 80% of the 300 respondents to this survey did not support the SV, and 5% supported it.[33]

The council's application did not elaborate on how it incorporated the feedback in preparing its SV application other than noting that the council actively seeks to address concerns and lessen the potential impact on ratepayers.[34]

4.3 OLG Criterion 3: The council did not demonstrate that the proposed SV's impact on ratepayers is reasonable

Criterion 3 requires the council to show that the impact on ratepayers is reasonable considering current rates, the community's capacity to pay, and the proposed purpose of the special variation.

Note: See Appendix A for full details.

To assess this criterion, we considered stakeholder comments on the SV's impact on ratepayers, and whether the council has policies in place to mitigate impacts of rate rises, including whether there is a hardship policy in place. We also analysed the council's assessment of the impact of its proposed SV on ratepayers.

The sections below discuss our assessment, and why we found that the council did not meet this criterion. This is because the council did not demonstrate, for the purpose of its proposed SV, the increases would be reasonable for ratepayers. For instance, we found that the 104.49% over the 2 years would have a significant impact on residential and business ratepayers. In future, the council should consult with its community to work out an increase that is reasonable, given the purpose of an SV.

4.3.1 Stakeholder comments on impact on ratepayers

Around 66 of the 89 submissions we received raised concerns about the impact of the proposed SV on the affordability of rates, particularly for those experiencing financial hardship. We note that this is in the context of 3,395 residential rating assessments for the council in 2022-23. Some commented that the SV would have:

- a significant impact on ratepayers due to broader circumstances such as ongoing economic pressures of high inflation
- a large impact for ratepayers on fixed incomes.

We considered these concerns as part of our assessment of this criterion, alongside other available information.

4.3.2 Our analysis of the council's assessment of the SV's impact on ratepayers

We analysed the council's assessment of the impact of the proposed SV on ratepayers, and the community's financial capacity to pay the proposed increased rates. We also considered how the council's rates have changed over the past 5 years, and how its rates compare to those of other councils.

Impact on average rates

The council estimated the increase in average rates associated with its proposed SV for each main ratepayer category. As Table 4.3 shows, it estimated that over the 2-year period of the proposed SV, average residential rates would increase by 103.5%. Other rating categories would increase by a similar percentage.

Table 4.3 Impact of the proposed special variation on average rates

	2022-23	2023-24	2024-25	Cumulative increase $	Cumulative increase %
Residential average $ rates	631	899	1,285		
$ increase		267	386	654	
% increase		42.3	43.0		103.5
Business average $ rates	1,435	2,047	2,927		
$ increase		612	880	1,493	
% increase		42.7	43.0		104.0
Farmland average $ rates	1,616	2,308	3,300		
$ increase		692	992	1,684	
% increase		42.8	43.0		104.2
Mining average $ rates	1,018	1,452	2,076		
$ increase		433	624	1,058	
% increase		42.6	43.0		103.9

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: IPART calculations

Community's capacity to pay

The council's capacity to pay analysis[35] found that:

- 77% of the LGA's population were within the lowest 2 quartiles for equivalised household income.
- The LGA has a high proportion of retirees, with 44% of its population aged 60 or over.
- The council has also classified 20% of households as being eligible for the pensioner concession, which requires that a household resident receives an eligible Centrelink pension.

- The LGA also has a higher percentage of home ownership (50%) which is above the Regional NSW average of 36%.
- For households still paying off mortgages, the monthly loan repayment amounts were on the lower end nationally, with 83% having monthly loan repayment amounts in the bottom 50%.
- The council had low levels of outstanding rates compared to other councils in its OLG Group (4.4% in 2021 and 4.0% in 2022).

The report noted that high home ownership within the LGA could be an indicator of a capacity to pay.[36] It also acknowledged that the LGA has high levels of disadvantage but noted that with an appropriate hardship policy that this could be managed.[37] The council's current hardship policy gives extensions for payable rates and has provisions to write off the accrued interest.

How the council's rates changed over time

Over the past 5 years, the average annual increases in the council's rates for residential, business and farmland ratepayers have been only slightly higher than the rate peg. For example, as Table 4.4 shows, over this period residential rates have increased at an annual average of 2.4%. This compares to the average rate peg of 2.1% over the same period.

Table 4.4 Historical average rates in Tenterfield Shire Council, 2017-18 to 2022-23 ($)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Overall rate growth (%)
Residential	561	628	625	645	657	631	2.4
Business	1,157	1,193	1,280	1,256	1,281	1,435	4.4
Farmland	1,519	1,545	1,569	1,617	1,650	1,616	1.2
Mining	909	909	900	1,000	1,020	1,018	2.3

Note: FY22 and FY23 are estimated based on FY21 escalated by the rate peg or the council's SV.
Source: IPART calculations

How the council's rates compare to other councils

The council's current average rates – that is, before the proposed SV – are low compared to those of its neighbouring councils and comparable NSW councils in terms of their SEIFA (Socio-Economic Indexes for Areas) score (which measures their population's relative socio-economic disadvantage) and their population's median household income. These comparators are explained in Box 4.3.

Box 4.3 Comparable councils

In our analysis, we have compared Tenterfield Shire Council to other councils in several ways.

Office of Local Government (OLG) groups

- The Office of Local Government (OLG) groups similar councils together for comparison purposes.
- Tenterfield Shire Council is in OLG Group 10 which is considered a rural agricultural area and also includes 22 other councils.
- The OLG groupings are based on broad demographic variables such as total population, level of development, and typical land use. It should be noted that there can still be broad differences between councils within the same OLG group.

Socio-Economic Indexes for Areas (SEIFA) rank

- SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.
- Tenterfield Shire Council has a SEIFA rank of 10 out of 130 councils in ABS 2016 which is low and indicates significant relative disadvantage
- The 3 councils with closest SEIFA rank within the OLG group 10 are Kyogle Council, Liverpool Plains Shire Council, and Walgett Shire Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Tenterfield Shire Council to the 4 councils within OLG group 10 with closest median income ranking. These are Glen Innes Severn Shire Council, Kyogle Council, Walgett Shire Council, and Gwydir Shire Council.

Neighbouring councils

- We compared Tenterfield Shire Council to the neighbouring councils of Kyogle Council, Clarence Valley Council, Glen Innes Severn Shire Council, and Inverell Shire Council.
- We consider these councils are geographically close to Tenterfield Shire Council but do not necessarily share a common border.

As Table 4.5 shows, in 2022-23 the council's:

- average residential rates were lower than those of all of its neighbouring councils and the average for other councils in its OLG Group (Group 10), and generally lower than those of comparable councils based on SEIFA score and income
- average business rates were lower than those of all of its neighbouring councils and the average for other councils in its OLG Group, generally lower than those of comparable councils based on income, but higher than the 2 out of 3 comparable councils by SEIFA score
- average farmland rates were lower than all of its neighbouring councils, comparable councils by SEIFA, comparable councils by income and the average for other councils in its OLG Group
- outstanding rates ratio was lower than the average for other councils in its OLG Group, lower than 2 out of 4 of its neighbouring councils, higher than 2 out of 3 comparable councils by SEIFA and higher than 3 out of 4 comparable councils by income.

We note that mining rates are very difficult to compare across councils, as there is a range of factors that can determine the level of these rates.

Table 4.5 Comparison of the council's average rates and socio-economic indicators with those of other councils prior to the SV (2022-23)

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rate ($)	Average mining rate ($)	Median annual household income[b] ($)	Average rates to median income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Tenterfield (10)	631	1,435	1,616	1,018	46,020	1.4	6.4	10
Neighbouring councils								
Kyogle	1,172	1,460	2,014	-	51,116	2.3	5.9	13
Clarence Valley	1,269	3,161	1,722	-	58,396	2.1	7.1	16
Glen Innes Severn	905	1,817	3,257	-	48,568	9	6.7	18
Inverell	1,080	4,599	3,188	-	60,476	1.8	5.0	11
Average	**1,106**	**2,759**	**2,545**	**N/A**	**54,639**	2.0	**6.2**	**15**
Comparable councils (SEIFA)								
Kyogle	1,172	1,460	2,014	-	51,116	2.3	5.9	13
Liverpool Plains	884	1,308	5,123	128,304	60,580	1.5	10.1	15
Walgett	408	800	4,910	-	52,052	0.8	5.6	3
Average	**821**	**1,189**	**4,016**	**128,304**	**54,583**	1.5	**7.2**	**10**

Council (OLG Group)	Average residential rate[a] ($)	Average business rate ($)	Average farmland rate ($)	Average mining rate ($)	Median annual household income[b] ($)	Average rates to median income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Comparable council (Income)								
Glen Innes Severn	905	1,817	3,257	-	48,568	1.9	6.7	18
Kyogle	1,172	1,460	2,014	-	51,116	2.3	5.9	13
Walgett	408	800	4,910	-	52,052	0.8	5.6	3
Gwydir	778	1,729	5,849	-	53,508	1.5	5.4	38
Average	**816**	**1,451**	**4,007**	**N/A**	**51,311**	**1.6**	**5.9**	**18**
Group 10 average	**869**	**1,750**	**3,246**	**513,786**	**65,851**	**1.3**	**7.7**	**42**

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. Median annual household income is based on 2021 ABS Census data.
c. This is the SEIFA index of Relative Socio-economic Advantage and Disadvantage. The highest possible ranking is 130, which denotes a council that is least disadvantaged in NSW.
Source: OLG data; ABS, Socio-economic Indexes for Areas (SEIFA) 2016, March 2020; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

With the proposed 104.49% SV, the council's average rates would be relatively high by 2024-25. As Table 4.6 shows:

- the council's average residential rates are expected to be above the average for the other councils in its OLG group, and above the averages for comparable councils based on SEIFA score and income and neighbouring councils.
- the council's average business rates are expected to be above the average for the other councils in its OLG group, and above the averages for comparable councils based on SEIFA score and income, but below the average of its neighbouring councils.
- the council's average farmland rates are expected to be below the average for the other councils in its OLG group and comparable councils based on SEIFA score and income, but above the average of its neighbouring councils.

Based on these comparisons, we consider that the council's proposed SV would have a large impact on its residential and business ratepayers. The estimated average rates by 2024-25 for these rating categories generally exceed similar comparators. However, the impact would be less pronounced for farmland ratepayers, whose estimated average rates by 2024-25 are estimated to be below comparable councils by SEIFA, income and OLG Group.

Comparisons of mining rates are difficult. This is because few councils levy mining rates and there is a range of factors that can determine the rates.

There are limitations with this analysis, as it does not include the impact of other councils potentially receiving an SV from 2023-24 onwards. Therefore, it may overstate, for example, the extent to which the council's rates with its proposed SV would be higher than other councils.

Table 4.6 Comparison of the council's average rates with those of other councils for period of the proposed SV ($)

Council (OLG Group)	2022-23	2023-24	2024-25
Residential			
Tenterfield	**631**	**899**	**1,285**
OLG Group 10	869	906	929
Neighbouring councils (average)	1,106	1,154	1,183
Comparable councils (SEIFA) (average)	821	853	875
Comparable councils (Income) (average)	816	848	869
Business			
Tenterfield	**1,435**	**2,047**	**2,927**
OLG Group 10	1,750	1,820	1,866
Neighbouring councils (average)	2,759	2,876	2,948
Comparable councils (SEIFA) (average)	1,189	1,235	1,266
Comparable councils (Income) (average)	1,451	1,508	1,546
Farmland			
Tenterfield	**1,616**	**2,308**	**3,300**
OLG Group 10	3,246	3,380	3,464
Neighbouring councils (average)	2,545	2,649	2,715
Comparable councils (SEIFA) (average)	4,016	4,167	4,271
Comparable councils (Income) (average)	4,007	4,163	4,268
Mining			
Tenterfield	**1,018**	**1,452**	**2,076**
OLG Group 10	513,786	532,796	546,116
Neighbouring councils (average)	NA	NA	NA
Comparable councils (SEIFA) (average)	128,304	133,051	136,378
Comparable councils (Income) (average)	NA	NA	NA

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

4.3.3 The council's hardship policy

Based on our assessment of the hardship policy, we are satisfied that council has a hardship policy in place.

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We examined the council's hardship policy, which provides assistance to ratepayers who are experience genuine financial difficulties in paying their rates and charges. This assistance may take the form of:

- extending the period of time in which the outstanding rates may be repaid (i.e., an alternative payment arrangement or schedule)
- writing off any accrued interest. [38]

The council has also told us in its application it works to ensure all eligible pensioners can receive the concessions available to them.[39] If eligible, a rating assessment may have a rebate of up to $250 applied to it per year.

4.4 OLG Criterion 4: The council appropriately exhibited, approved and adopted its IP&R documents

Criterion 4 requires the council to exhibit, approve and adopt the relevant Integrated Planning and Reporting (IP&R) documents before applying for the proposed SV.

Note: See Appendix A for more details.

To assess whether the council met this criterion, we checked the information provided by the council. We found that it fully met the criterion. The council:

- publicly exhibited its current Community Strategic Plan, Delivery Program, LTFP and Asset Management Strategy from 24 March 2022 to 2 May 2022
- these documents were then adopted on 25 May 2022
- submitted its SV application on 13 December 2022.

Box 4.4 IP&R documents

The Integrated Planning and Reporting (IP&R) framework allows councils and the community to engage in important discussions about service levels and funding priorities and to plan for a sustainable future. This framework therefore underpins decisions on the revenue required by each council to meet the community's needs.

The relevant documents are the Community Strategic Plan, Delivery Program, Long-Term Financial Plan (LTFP) and, where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended) public exhibition for 28 days (and re exhibition if amended). The OLG Guidelines require that the LTFP be posted on the council's website.

Source: Office of Local Government Integrated Planning and Reporting Guidelines

4.5 OLG Criterion 5: The council did not quantify its productivity and cost containment strategies

Criterion 5 requires councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period.

Councils should present their productivity improvements and cost containing strategies in the context of ongoing efficiency measures, and indicate if the estimated financial impact of those measures have been incorporated in the council's Long Term Financial Plan.

To assess this criterion, we considered stakeholders' comments on the council's productivity and cost containment strategy, analysed the information provided by the council, and examined some key indicators of the council's efficiency. The sections below discuss our assessment, and why we found that the council did not meet this criterion.

4.5.1 Stakeholder comments on productivity and cost containment

Some submissions to IPART raised concerns relevant to this criterion. In particular, some stakeholders said:

- the council has not been efficient in the past
- an SV is a way for the council to cover its past financial mismanagement
- the council could do with a change in management or operating strategy.

We have considered these concerns as part of our assessment of this criterion.

4.5.2 Our analysis of the council's information productivity and cost containment strategies

The council's application outlined productivity and cost containment strategies implemented to date and outlined proposed strategies over the SV period. However, it did not quantify the savings associated with most of these strategies. In addition, the council's proposed productivity measures are not specifically identified or quantified in the LTFP. We therefore found that the council did not meet this criterion.

However, we have analysed the council's IP&R documents, its application and further information provided to us. Based on this analysis, we found that the council achieved productivity improvements and implemented cost containment strategies that are proportionate to the size and resources of the council. We acknowledge the council has implemented saving measures such as its 20 FTE hiring freeze. However, in the future the council should quantify its past cost-savings and productivity strategies in its IP&R documents or application, as this is a requirement of OLG's Guideline.

We also consider that there were shortcomings in how the council communicated its future cost-saving initiatives to us. It did not quantify or incorporate them into its LTFP, as required by the OLG Guidelines. However, we do recognise that dollar savings can be challenging for a smaller council. We recognise the council has considered significant cost-saving strategies such as its organisational restructure (lean village model). In future the council should quantify and incorporate planned savings into its LTFP as this is a requirement of OLG's Guideline.

Past productivity and cost containment strategies

The council's application stated that it has undertaken the following initiatives to contain costs and improve productivity over recent years.[40] These include:

- conducted asset reviews[41]
- decided to return grant funding to cease construction projects, including saleyards[42]
- made IT improvements[43]
- successfully applied to the Innovation Fund which provided $140,000 in grants to fund employee Capacity Development[44]
- resolved from February 2022 that councillors would forgo superannuation until the next election in September 2024[f, 45]
- reduced library services, including trialling a self-managed system, closure of Torrington Library and cancelling the lease agreements of assets held at the library and temporarily ceasing Saturday services at Tenterfield Library.[46]

The council also provided:

- A performance assessment letter from the OLG which noted that the council has the lowest number of FTEs in OLG Group 10, and the third highest *number of people to service per staff member* ratio in its OLG Group.[47]
- References to multiple Quarterly Budget Reviews where attendees resolved to make no additional operating or capital expenditure unless approved by the council, offset by other savings or grant funding.[48]

[f] The council resolved on 23 February 2022 not to make superannuation contributions to its councillors. A council has discretion on how it makes superannuation payments to its councillors. Further details are available here.

Planned productivity and cost containment strategies over the SV period

The council indicated that it is planning future efficiency measures, including:

- continuing service reviews
- asset rationalisation
- regular review of organisational structure
- seeking increased grants funds that can be used for operational expenses
- managing rural fire service assets on the council's financial statement
- resolution to no additional operating or capital expenditure unless approved by the council or offset by other savings or grant funding.[49]

The council did not provide additional evidence, including quantitative data to further contextualise these claims. The council also noted it was not able to incorporate these into its LTFP, as the measures could not be quantified.[50] The council told us it has limited additional opportunities to realise monetary gains from productivity and cost-containment strategies. The council told us on 24 March[51]:

- it intends to sell parcels of land with one sale currently underway as a one-off revenue opportunity
- it has considered a leaner organisation model, which would mean cuts to staff numbers and services.

4.5.3 Indicators of the council's efficiency

We examined a range of indicators of the efficiency of the council's operations and asset management, including looking at how these indicators have changed over time and how they compare with those of similar councils. This data is presented in Table 4.7 and Table 4.8 below.

We found that, over recent years, the council's:

- number of FTE staff increased by an average annual rate of about 11.4% per annum
- ratio of population to FTEs decreased by an average of 11.1% per annum from one FTE per 82.2 people in 2017-18 to one FTE per 57.8 people in 2020-21
- average costs per employee decreased by an average of 2.5% per annum, and employee costs as a percentage of operating costs decreased since 2018-19 to 30.3% in 2020-21.

We also found that, compared to other councils in its OLG Group, the council has less FTEs, a similar population to FTE ratio, a lower average cost per FTE, and higher operating expenditure per capita. We noted that these performance indicators only provide a high-level overview of the council's productivity at a point in time. Additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings.

Table 4.7 Trends in selected performance indicators for Tenterfield Shire Council, 2017-18 to 2020-21

Performance indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	81.0	103.0	112.0	112.0	11.4
Ratio of population to FTE	82.2	64.4	58.9	57.8	-11.1
Average cost per FTE ($)	81,531	80,039	78,134	75,652	-2.5
Employee costs as % of operating expenditure (General Fund only) (%)	34.2	37.1	33.7	30.3	-4.0

Source: IPART calculations.

Table 4.8 Select comparator indicators for Tenterfield Shire Council

	Tenterfield Shire Council	OLG Group 10 Average	NSW Average
General profile			
Area (km^2)	7,323	9,139	5,515
Population	6,470	7,233	64,253
General Fund operating expenditure ($m)	25.2	24.8	95.0
General Fund operating revenue per capita ($)	6,158	4,271	
Rates revenue as % of General Fund income (%)	18.0	25.2	46.1
Own-source revenue ratio (%)	24.6	45.2	67.3
Productivity (labour input) indicators			
FTE staff	112.0	120.0	382.6
Ratio of population to FTE	57.8	60.3	167.9
Average cost per FTE ($)	75,652	78,223	98,971
Employee costs as % of operating expenditure (General Fund only) (%)	30.3	35.1	37.7
General Fund operating expenditure per capita ($)	3,902	3,424	1,478

Source: OLG, Time Series Data 2020-21 and IPART calculations.

4.6 OLG Criterion 6: Any other matter that IPART considers relevant

IPART may take into account any other matter that it considers relevant.

We consider that a relevant matter is whether the council has been granted an SV over the past 5 years, and if so, whether the council has complied with any conditions.

The council has not had an SV in the last 5 years.

Another relevant matter is that the council submitted correspondence from OLG dated 18 November 2022, which outlines the OLG's financial analysis of the council based on 2016-17 to 2020-21 data. OLG's analysis was performed on the council's consolidated funds, and the relevant findings for us are:

- the council's consolidated cash balance has declined since 2017-18 to a negative unrestricted cash position in 2021-22
- the council's cash position has been restored in 2021-22
- the trend of declining cash is not in line with other councils, which have generally increased their cash position.[52]

We have considered OLG's analysis of the council in our assessment.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the OLG Guidelines and consideration of stakeholder submissions, we have not approved the council's proposed permanent special variation (SV) to general income for 2023-24 to 2024-25.

Our decision is to approve a 1-year permanent SV of 43% instead. This means the council can raise up to an additional $1.9 million in rates revenue (above the actual rate peg of 4.2%) in 2023-24. The council will permanently retain this increased income in its rate base.

The approved increase to general income is set out in Table 5.1 below.

Table 5.1 IPART's decision on the special variation to general income (%)

	2023-24
Permanent increase above the rate peg	38.80
Rate peg	4.20
Total increase	43

Note: The 2023-24 rate peg is the actual rate peg issued by IPART.

The special variation is subject to the following conditions:

- The council uses the additional income for the purpose of funding the proposed program.
- The council report in its annual report for each year from 2023-24 to 2027-28 (inclusive):
  - the program of expenditure that was actually funded by the additional income, and any differences between this program and the proposed program;
  - any significant differences between the council's actual revenues, expenses and operating balance and the projected revenues, expenses and operating balance as outlined in the Long-Term Financial Plan, and the reasons for those differences;
  - the outcomes achieved as a result of the additional income;
  - the productivity savings and cost containment measures the council has in place, the annual savings achieved through these measures, and what these savings equate to as a proportion of the council's total annual expenditure; and
  - whether or not the productivity improvements identified in its application have been implemented, and if not, the rationale for not implementing them.

5.1 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council has told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 5.2 below.

This shows that, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate for 2023-24 would increase by $267 or 42.3%
- the average business rate for 2023-24 would increase by $612 or 42.7%
- the average farmland rate for 2023-24 would increase by $692 or 42.8%
- the average mining rate for 2023-24 would increase by $433 or 42.6%.

Table 5.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2023-24)

	2022-23	2023-24
Residential average $ rates	631	899
$ increase		267
% increase		42.3
Business average $ rates	1,435	2,047
$ increase		612
% increase		42.7
Farmland average $ rates	1,616	2,308
$ increase		692
% increase		42.8
Mining average $ rates	1,018	1,452
$ increase		433
% increase		42.6

Note: These figures have been rounded in calculation and therefore summations on a whole may not appear to be correct.
Source: Tenterfield Shire Council, Application Part A and IPART calculations.

We acknowledge our decision to approve 1-year increase of 43% would still have a large impact on some ratepayers. However, this should be contextualised against comparable councils (see Table 5.3).

We found that the council's:

- estimated residential average rates at the end of the 1-year SV, 2023-24, would be below the average estimated rates of OLG Group 10 and neighbouring councils and slightly above (within $51 annually) compared to the average estimated rates of comparable councils by income and SEIFA
- estimated farmland average rates at the end of the 1-year SV, 2023-24, would be below the average estimated rates of similar councils (OLG Group 10, neighbouring councils, and comparable councils by income and SEIFA
- estimated business average rates at the end of the 1-year SV, 2023-24, would be above the average estimated rates of similar councils such as OLG Group 10 and comparable councils by income and SEIFA, but below the average rates of its neighbouring councils.

On balance, we assess that the council's estimated average rates at the end of the proposed SV period, is generally in line with similar councils. This shows that the estimated average rates after the 1-year SV is generally reasonable. However, we acknowledge that there are some ratepayers that are more vulnerable to increases in rates under our approved SV. As a result, we consider that it is particularly important for the council to effectively communicate how its hardship policy would be applied to such ratepayers.

Table 5.3 Comparison of the council's average rates with those of other councils for period of the approved SV ($)

Council (OLG Group)	2022-23	2023-24
Residential		
Tenterfield	**631**	**899**
OLG Group 10	869	906
Neighbouring councils (average)	1,106	1,154
Comparable councils (SEIFA) (average)	821	853
Comparable councils (Income) (average)	816	848
Business		
Tenterfield	**1,435**	**2,047**
OLG Group 10	1,750	1,820
Neighbouring councils (average)	2,759	2,876
Comparable councils (SEIFA) (average)	1,189	1,235
Comparable councils (Income) (average)	1,451	1,508
Farmland		
Tenterfield	**1,616**	**2,308**
OLG Group 10	3,246	3,380
Neighbouring councils (average)	2,545	2,649
Comparable councils (SEIFA) (average)	4,016	4,167
Comparable councils (Income) (average)	4,007	4,163
Mining		
Tenterfield	**1,018**	**1,452**
OLG Group 10	513,786	532,796
Neighbouring councils (average)	NA	NA
Comparable councils (SEIFA) (average)	128,304	133,051
Comparable councils (Income) (average)	NA	NA

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

We did not approve a lower SV because our assessment showed that the council was in clear financial need. For, instance:

- the council has minimal unrestricted cash in the general fund which is forecasted to decline to -$8.5 million in the next 5 years
- its declining reserves means that it may not be able to maintain core assets like its Class C and D roads

- the council is currently funding capital project gaps with external bank loans
- its most viable future funding option is to continue borrowing from banks, which is unsustainable for an organisation with existing financial problems.

We also acknowledge that the council has implemented and considered cost-saving strategies such as:

- putting a moratorium on filling 20 full-time equivalent (FTE) vacancies (the council's FTE in 2022 was 105)
- considering a leaner organisational structure to make future savings; however, the council advised that this would significantly impair its ability to provide core services to the community, including road maintenance.

As a result, our decision to approve a 43% SV over 1-year best balances the impact on ratepayers whilst acknowledging the council's clear financial need.

5.2 Impact on the council

Our decision means that the council may increase its general income by $1.9 million above the rate peg in 2023-24. This increase can remain in the rate base permanently.

Table 5.4 shows the percentage increases we have approved and estimates the annual increases in the council's general income.

Table 5.4 Permissible general income (PGI) of council for 2023-24 from the approved SV

	Increase approved (%)	Increase in PGI above rate ($'000)	Increase in PGI ($'000)	PGI ($'000)
2023-24	43	1,883	2,075	6,929

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

We estimate that over the 10 years from 2023-24 to 2032-33, the council will collect an additional $47 million in total general income, compared with an increase limited to the assumed rate peg.

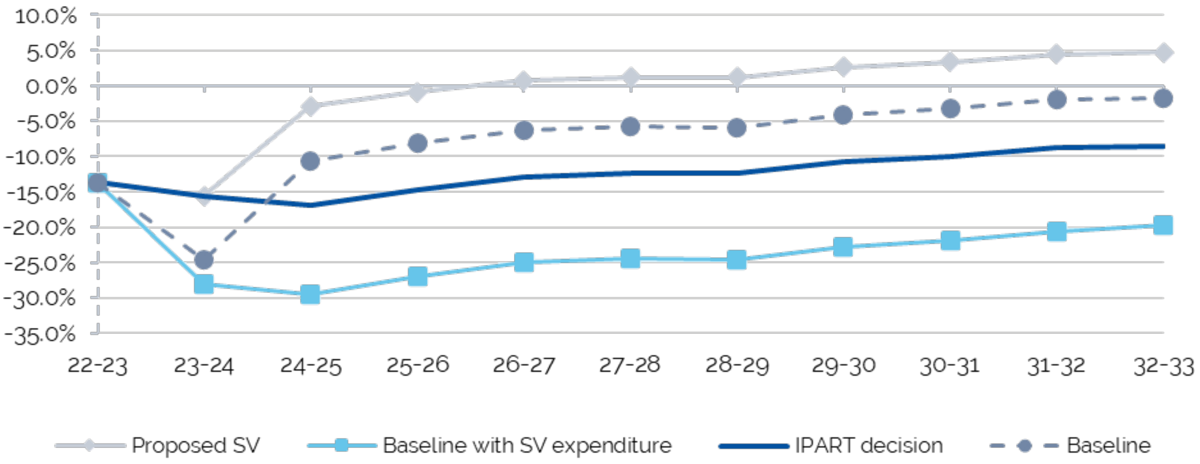
This extra income will enable the council to:

- improve its operating deficit
- assist creating a platform that will to the council's long-term financial sustainability.

We have projected the council's Operating Performance Ratio (OPR) and net cash (debt) to income ratio and note under our one-year 43% SV decision (IPART decision):

- The council's OPR will not meet the OLG benchmark of 0% or higher for the next 10 years. However, the OPR projections will still be better than the Baseline with SV Expenditure scenario (see Figure 5.1 and Table 5.5).
- The council's net cash to income ratio is projected to increase over the next 10 years and provide higher projections than under the Baseline with SV Expenditure scenario (see Figure 5.2).

Figure 5.1 The council's projected OPR with IPART's decision, 2022-23 to 2032-33



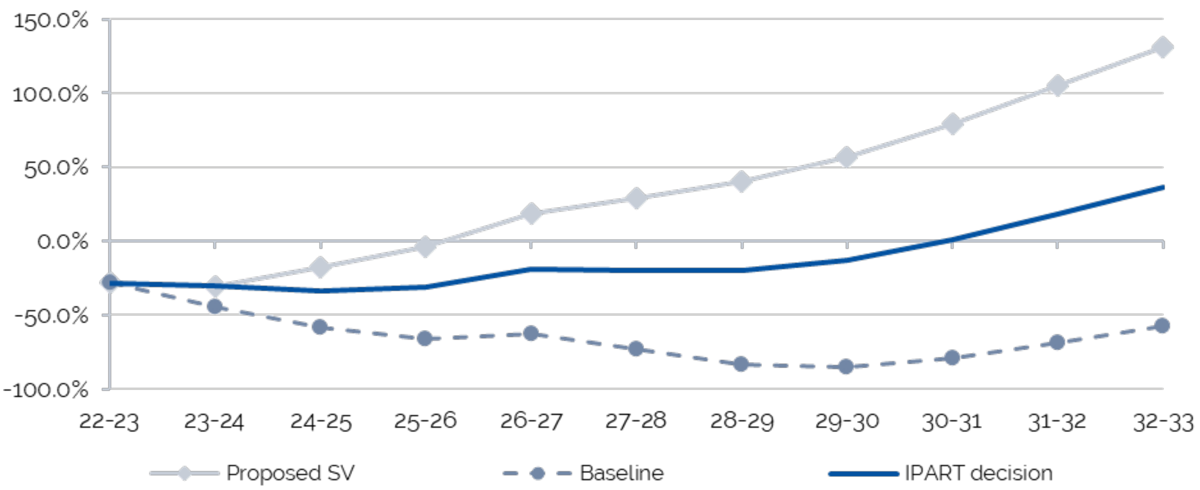
Note: OPR shown excludes capital grants and contributions. The IPART decision model assumes the council will pursue its SV expenditure plans for the next 10 years i.e. to 2032-33.
Source: Tenterfield Shire Council, Application Part A and IPART calculations.

Table 5.5 The council's projected OPR with approved SV and proposed SV expenditure, 2023-24 to 2032-33 (%)

	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Proposed SV	-15.6	-2.9	-0.9	0.7	1.2	1.1	2.6	3.3	4.4	4.6
Baseline	-24.5	-10.6	-8.2	-6.3	-5.7	-5.9	-4.1	-3.3	-2.0	-1.7
Baseline with SV expenditure	-28.1	-29.5	-27.0	-25.1	-24.5	-24.6	-22.7	-21.9	-20.6	-19.8
IPART decision[a]	-15.6	-16.9	-14.7	-12.9	-12.3	-12.4	-10.7	-10.0	-8.7	-8.5

a. The IPART decision model assumes the council will pursue its SV expenditure plans for the next 10 years i.e. to 2032-33.

Figure 5.2 The council's projected net cash (debt) to income ratio with IPART's decision, 2022-23 to 2032-33 (%)



Note: Baseline Scenario includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV.
Source: Tenterfield Shire Council, Application Part A and IPART calculations.

If the council were to apply for another SV in the future, we would expect the council to:

- consult more accurately with the community to ensure the effect of the SV it is applying for is well understood
- consult on and consider the impact of the proposed SV on ratepayers
- quantify its past and future productivity and cost-containment strategies, including incorporating such savings into the LTFP.

Appendices

A OLG's Assessment criteria

The Office of Local Government (OLG) sets the criteria for assessing special variation applications in its special variation guidelines. The guidelines help councils prepare an application to increase general income by means of a special variation.

A special variation allows a council to increase its general income above the rate peg. Special variations can be for a single year or over multiple years and can be temporary or permanent.

IPART applies the criteria in the guidelines to assess councils' applications. In brief, the 6 OLG criteria for a special variation include:

1. the need for, and purpose of a different revenue path for the council's General Fund must be clearly set out and explained in the council's IP&R documents
2. there must be evidence that the community is aware of the need for and extent of a proposed rate rise
3. the impact on affected ratepayers must be reasonable
4. the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
5. the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
6. any other matter that IPART considers relevant.

We also provide comprehensive guidance on our approach to assessing special variation applications in fact sheets and information papers available on our website. Additionally, we publish information for councils on our expectations of how to engage with their community on any proposed rate increases above the rate peg.

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 canvass 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[7]:

- 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.

[7] Page 71, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013

The IP&R documents and the council's application should provide evidence to establish the 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.

In assessing this criterion, IPART will also consider whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

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. 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. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. 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.

Criterion 3: Impact on ratepayers is reasonable

The impact on affected ratepayers must be reasonable, having regard to the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's 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.

In assessing the impact, IPART may also consider:

- Socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- Whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

Criterion 4: IP&R documents are exhibited

The relevant IP&R documents[8] 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. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures have been incorporated in the council's Long-Term Financial Plan.

Criterion 6: Any other matter that IPART considers relevant

The criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the criteria is a matter for IPART.

8 The relevant documents are the Community Strategic Plan, Delivery Program, and Long-Term Financial Plan and where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended), public exhibition for 28 days. It would also be expected that the Long-Term Financial Plan (General Fund) be posted on the council's web site.

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

As a condition of IPART's approval, the council is to report over the next 5 years against its proposed SV expenditure and its projected revenue, expenses and operating balance as set out in its LTFP (see Table B.1 and Table B.2).

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 B.1 Summary of projected operating statement for Tenterfield Shire Council under its approved SV 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	20,466	20,952	21,482	21,950	22,452	22,955	23,494	24,036	24,614	25,077
Total expenses	23,549	24,395	24,541	24,693	25,141	25,736	25,954	26,386	26,721	27,187
Operating result from continuing operations	-3,083	-3,443	-3,060	-2,744	-2,689	-2,781	-2,460	-2,350	-2,107	-2,111
Net operating result before capital grants and contributions	-3,418	-3,779	-3,395	-3,079	-3,025	-3,117	-2,797	-2,687	-2,444	-2,448
Cumulative net operating result before capital grants and contributions	-3,418	-7,197	-10,592	-13,672	-16,697	-19,814	-22,611	-25,298	-27,742	-30,190

Note: Numbers may not add due to rounding.
Source: Tenterfield Shire Council, Application Part A, Worksheet 8 and IPART calculations.

Table B.2 Summary of projected expenditure plan for Tenterfield Shire Council under its proposed SV application 2023-24 to 2032-33 ($'000)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
SV revenue above assumed rate peg	1,883	4,737	4,855	4,976	5,101	5,228	5,359	5,493	5,630	5,771
Roads, Transport, Stormwater and Drainage (Operating expenses)	706	1,776	1,821	1,866	1,913	1,961	2,010	2,060	2,111	2,164
Buildings renewal and maintenance (Operating expenses)	141	355	364	373	383	392	402	412	422	433
Aquatics, Parks and Open Space (Operating expenses)	94	237	243	249	255	261	268	275	282	289
Roads, Transport, Stormwater and Drainage (Capital expenditure)	706	1,776	1,821	1,866	1,913	1,961	2,010	2,060	2,111	2,164
Buildings renewal and maintenance (Capital expenditure)	141	355	364	373	383	392	402	412	422	433
Aquatics, Parks and Open Space (Capital expenditure)	94	237	243	249	255	261	268	275	282	289

Note: Numbers may not add due to rounding.
Source: Tenterfield Shire Council, Application Part A, Worksheet 6

Glossary

ABS	Australian Bureau of Statistics
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning and Reporting framework
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OPR	The Operating Performance Ratio (OPR) measures whether a council's income will fund its costs, where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must

	make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
Proposed SV Scenario	Includes the council's proposed SV revenue and expenditure.
Rate peg	The term 'rate peg' refers to the annual order published by IPART (under delegation from the Minister) in the gazette under s 506 of the *Local Government Act 1993*.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV	Special Variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.

[1] Tenterfield Shire Council, Part B Application, December 2022, p 9.
[2] Tenterfield Shire Council, Updated - Tenterfield Shire Council - Revised General Fund Cash Forecasts - no-SV versus SV scenarios, April 2023, cell G8.
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