Tweed 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.

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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

Tweed Shire Council (the council) has applied to IPART to increase its general income through a permanent special variation (SV) of 6.35% in 2023-24. This is a maximum of 2.35% above the council's approved rate peg of 4% in that year.

The council sought the special variation to maintain its budget position and existing service levels while dealing with new cost pressures. It has identified that the revenue from the SV will be used to fund increases in recurring and essential expenditure, including:

- upgrading core IT systems
- improving cyber security
- covering the cost of increased insurance premiums
- increasing staff resources to reduce long development application processing times due to recent growth in development applications.[1]

1.1 IPART's decision

We found that the council met the Office of Local Government's criteria for its proposed SV. We have approved the council's application. Our decision means the council can raise up to an additional $1.6 million in general income (above the rate peg) over the next year, and permanently retain this revenue in its rate base.

Some stakeholders told us that the SV is likely to create affordability challenges for some ratepayers – particularly when combined with other cost-of-living pressures, such as high inflation and the rental crisis.

We have considered these concerns as part of our assessment and acknowledge that affordability pressures have been increasing since the council consulted on and applied for its SV. On balance, we consider that the impact of the increase is reasonable.

The council has identified that it is facing new recurring costs and requires funding to maintain its current service levels. In 2022-23, the council was one of the minority of councils that did not apply for an 'additional special variation' to increase its rates by more than the rate peg.[a] It decided to fund a portion of the new recurring costs using existing unrestricted reserves. However, the council has indicated that the increases in these recurring costs are permanent. This means that it will not be sustainable to continue drawing down on its cash reserves to deliver the services and infrastructure the community depends on in the long-term.

[a] In 2022, IPART approved applications by 86 councils for additional special variations: see here

We found that the council's average residential rates in 2023-24 (including the SV) will be higher than those of neighbouring councils, but most of its average business and farmland rates will be lower. The level of disadvantage in the Tweed Shire is mostly lower than that of neighbouring councils and the council has a lower level of outstanding rates compared to neighbouring and comparable councils. The council also lowered the level of its proposed SV compared to what it had publicly consulted on due to additional revenue from supplementary valuations.

However, we acknowledge that there are some ratepayers that are more vulnerable to increases in rates under the SV. Ultimately, the council needs to balance the impacts on all ratepayers with its long-term financial sustainability and decide on what is in the best interests of the community.

Our determination sets the maximum amount by which the council can increase its general income for 2023-24. The council can choose to set its rates up to this maximum amount, for example by deferring any increase for up to 10 years. [2] Considering the increased cost of living pressures being faced by ratepayers since the council consulted on and applied for the SV, we encourage the council to engage further with its community to decide how best to implement the maximum increase.

To improve the council's accountability to the community in pursuing productivity improvements, one of the conditions of our approval of the SV is that the council is to provide detail in its annual report for the next 5 years on the productivity savings and cost containment measures the council has in place. This is to include the annual savings achieved through these measures, and what these savings equate to as a proportion of the council's total annual expenditure.

1.2 IPART's assessment of the council's application

To make our decision, we assessed the council's proposed special variation against the 6 criteria set by the Office of Local Government (OLG) in the *Guidelines for the preparation of an application for a special variation to general income* (OLG Guidelines). We found that its proposal meets these criteria. Our assessment against each criterion is summarised below.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to fund new recurring costs and maintain service levels. The council's IP&R documents detail the SV proposal and consider alternative sources of revenue to meet this need. The council will also be considering additional alternative funding options as part of its draft IP&R documents.
02	Demonstrated	**Community awareness** The council effectively consulted with ratepayers and the community is appropriately aware of the need for, and extent of, a rate rise.
03	Demonstrated	**Reasonable impact on ratepayers** The council demonstrated that the impact of the SV on ratepayers would be reasonable, having regard to current rate levels, the existing ratepayer base and the proposed purpose of the SV.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council appropriately exhibited, approved and adopted all necessary Integrated Planning and Reporting (IP&R) documents.
05	Demonstrated	**Productivity improvement and cost containment** The council outlined and quantified some productivity improvements achieved to date, and included and quantified an efficiency index for materials, contractors and consultants in its Long-Term Financial Plan. It also identified potential productivity measures in its application.
06		**Other matters IPART considers relevant** IPART approved a 1-year SV in 2021-22 for 4.35%. This SV was only levied on the Kings Forest development and had no impact on general ratepayers. We found that the council has complied with the conditions attached to this SV.

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the Integrated Planning and Reporting (IP&R) framework. We assess SV applications against OLG criteria, which require us to look at the consultation the council has undertaken with its community.

Tweed Shire Council consulted its community on the proposed SV using a variety of engagement methods. It received 64 email submissions, 71 survey responses and 11 questions, and its dedicated SV webpage had 970 visits.[3]

As a further input to our assessment, we published the council's application on our website where stakeholders could make submissions directly to IPART. Through this process we received 6 submissions on Tweed Shire Council's proposed SV. Stakeholders who made submissions to us raised concerns about the:

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

1.4 Next steps for the council

Our determination sets the maximum percentage by which the council's general income can increase over the next year. The council is responsible for deciding how it sets rates to implement this increase. We encourage the council to consult with its community to decide how best to do this, noting it can choose to increase its general income by less than this maximum percentage and defer all or part of any increase for up to 10 years[4].

The council's proposed increase in rates for each category is set out below. However, the council retains the discretion to change this, provided it does not exceed the approved general income increase.

Table 1.1 The council's proposed increase in rates

	2023-24
Residential	6.0%
Business	4.8%
Farmland	5.3%

Note: These are the council's proposed increases, and it retains the discretion to apply the general income across the rating categories.
Source: Tweed Shire Council, Application Part A

The council has outlined and quantified productivity and cost containment strategies that it has implemented to date. It also indicated that it will include several funding and service level options in its Draft IP&R documents when they are publicly exhibited. It should continue to pursue further productivity improvements over time, to minimise costs to ratepayers and improve its long-term financial sustainability.

The rest of this report provides more information on Tweed Shire Council's proposed SV and discusses our assessment and decision in more detail.

2 The council's special variation application

The council applied for a permanent SV of 6.35% (including the rate peg) for 2023-24. This is 2.35% above the council's approved rate peg of 4% for the year.

The council stated that it needs the SV to maintain existing services and service levels generally, while meeting special cost pressures associated with:

- upgrading its core IT business systems
- improving its cyber security
- covering the cost of increased insurance premiums
- increasing its staff to reduce long development application processing times due to recent growth in development applications[5].

2.1 Impact of the special variation on ratepayers

The council proposed rate increases for all rating categories for 2023-24. On average it proposed:

- residential rates would increase by $95 or 6.0% by 2023-24
- business rates would increase by $158 or 4.8% by 2023-24
- farmland rates would increase by $126 or 5.3% by 2023-24

The council told us the number of rate notices it issued in each category in 2022-23 (Table 2.1).

Table 2.1 Number of ratepayers per category in 2022-23

Ratepayer category	Number of rate notices
Residential	38,257
Business	1,941
Farmland	1,398

Source: Tweed Shire Council, Part A application Worksheet 2

The council indicated it will seek additional funding sources for the recurring expenses regardless of the SV application outcome. It told us that it has considered other alternatives to the SV and is now conducting further due diligence on other options for the ongoing expenses. The council has indicated the ongoing expenses are permanent and will require permanent additional funding.

2.2 Council's assessment of affordability and capacity to pay

The council's application demonstrated that it considered the impact of the proposed rate increases on ratepayers.

The council stated that during its community consultation period, it proposed a consistent 6.35% average rate increase across all 3 rating categories. However, in the period between the public consultation and the submission of the SV application, it obtained information about changes in the number of rateable properties and land valuations for the 2022-23 year.[6] As a result, it adjusted the average rate increases downwards in all rating categories (see section 2.1).

The council reported that in making these adjustments, it considered the combined impact on rates of the proposed SV and changes in land valuations to take effect on 1 July 2023. It modified its rating model and the average rate increases associated with the SV to ensure rates are equitable. It also maintained the minimum rate level to ensure that ratepayers whose properties with the lowest land values are not adversely impacted.[7]

The council also indicated that it does not have a formal hardship policy. However, the council has told us that it has processes in place for ratepayers to access payment plans if they apply.

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

The council estimated that the proposed SV would result in an increase in the council's permissible general income of $1.6 million above what the rate peg of 4% would deliver in 2023-24.

3 Stakeholders' submissions to IPART

The council is responsible for engaging with its community so that ratepayers are fully aware of any proposed special variation in rates and the full impact on them. This is one of the criteria we use to assess the council's application (see section 4.3).

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 6 submissions from stakeholders between 13 April 2023 and 5 May 2023. Out of the 6 submissions, 3 were confidential submissions and are not referred to in this report, however all submissions were considered as part of our assessment of the SV. There are approximately 38,000 ratepayers in the council's local government area. The key issues and concerns raised in the non-confidential submissions, and our response to them, are summarised below.

3.1.1 Affordability of proposed rate increases

All published submissions raised concerns about the impact of the council's proposed SV increase on the affordability of rates and suggested this would lead to financial hardship. Most noted the worsening financial circumstances and high inflationary environment, including the current rental crisis.

The council has does not have a hardship policy in place however it has payment plan options available for those experiencing financial hardship. See section 4.2.2 and 4.5.3 for more information.

3.1.2 The council's consultation with the community

Submissions on the proposed SV put the view that the council's consultation with the community was inadequate, and that community feedback was not considered in the council's decision-making.

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

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

Submissions said that the proposed SV was not necessary because the recent land valuation increases in the Tweed Shire would automatically 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.[b] 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.

[b] 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 to IPART. We assessed the council's SV application against the 6 criteria set out in the OLG Guidelines. We found that the council met all these criteria. Specifically, we found it had:

- demonstrated a financial need for the proposed SV to maintain existing services and service levels generally, while meeting special cost pressures
- consulted with its community and showed that it had informed the community about the need for and extent of the SV
- assessed the impact of the SV on ratepayers and showed that it is reasonable
- exhibited, approved and adopted its IP&R documentation appropriately
- demonstrated it has achieved some productivity improvements in past years and proposes to develop strategies for further improving productivity measures over the term of the SV
- previously been granted an SV for 2021-22 and met the conditions of this SV.

Our detailed assessment and the reasons for our decision are set out below.

4.1 OLG Criterion 1: The council demonstrated a financial need

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 OLG Assessment criteria in Appendix A for full details.

To assess whether the council met this criterion, we:

- considered stakeholders' comments on financial need in submissions to IPART
- reviewed the council's IP&R documents and the information in its application
- undertook our own analysis of the council's financial performance and position.

We did not audit council's finances, as this is not part of our delegated authority.

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

4.1.1 Stakeholder comments on financial need

Stakeholders have told us that:

- the council needs to prioritise its projects to not exceed the funds available to it
- the council has not considered alternatives to the SV.

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

4.1.2 Council's IP&R documents and application

We found that the council's IP&R documents, including its Long-Term Financial Plan and Delivery Program, identify and articulate the need for and purpose of the SV. The documents state that the proposed SV of 6.35% is needed to:

- maintain existing services and service levels generally
- meet special cost pressures faced by the council.

Its IP&R documents indicate that it canvassed alternatives to the SV to meet the financial need.

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 position. This involved calculating its 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 SV on key indicators of its financial performance and position – namely its operating performance ratio, net cash (or net debt) and infrastructure ratios.

Overall, we found that the council had demonstrated a financial need for the SV to fund new recurring costs and maintain service levels. The council acknowledged that it was in a good financial position at the start of 2022-23. However, it expects challenges in maintaining an operating surplus for upcoming loan repayments and capital expenditure while meeting increases in recurring costs for essential services.

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 0% is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[8] The OLG has set a benchmark for the OPR of greater than 0%. (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*.

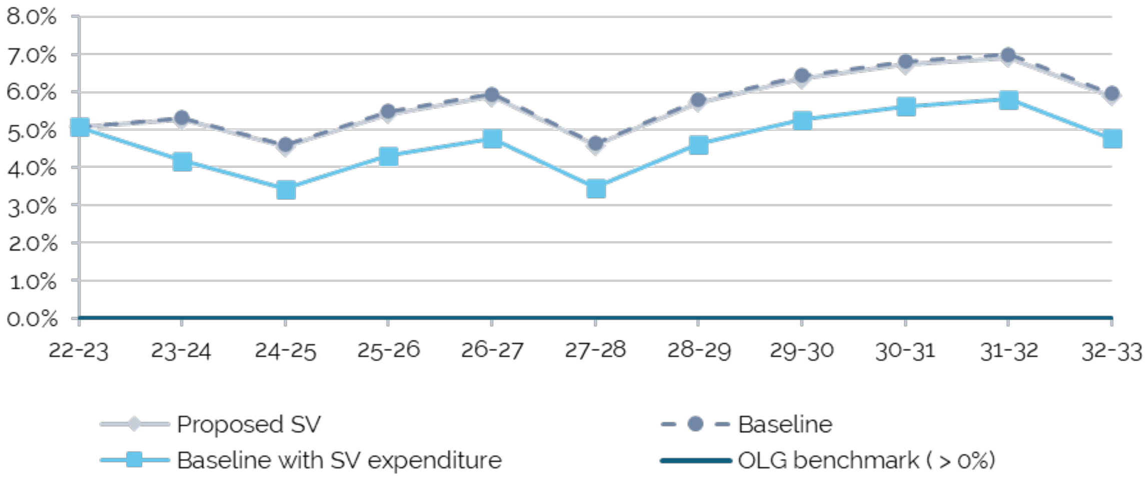
We calculated the council's forecast OPR over the next 10 years under the 3 scenarios (see Figure 4.1 and Table 4.1). We found that over the next 5 years[c]:

- **Under the Baseline with SV expenditure Scenario,** the council's OPR would initially decline, but still be in line with the OLG benchmark for greater than 0%. Its average OPR would be 4.0%.
- **Under the Baseline Scenario and Proposed SV Scenario**, the council's average OPR would be 5.2% and 5.1% respectively.

[c] We averaged the forecast OPR over a 5-year period rather than 10 years because we recognised forecasts over a longer period are subject to variability

While the council's OPR would still be in line with the OLG benchmark under the Baseline with SV expenditure Scenario, the council has applied for the SV to enable it to maintain its current sound financial position. The additional operating surplus generated by the SV above the OLG benchmark is to be used to meet non-operating cost demands such as loan repayments and capital expenditure projects. It also provides a buffer for unexpected expenses due to flooding or other natural disasters.

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



Note: OPR shown excludes capital grants and contributions. We averaged the forecast OPR over a 5-year period rather than 10 years because we recognised forecasts over a long period are subject to variability.
Source: Tweed Shire Council, Application Part A and IPART calculations.

Table 4.1 The council's projected OPR with proposed special variation, 2022-23 to 2032-33 (%)

	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
Proposed SV	5.1%	5.3%	4.5%	5.4%	5.9%	4.6%	5.7%	6.4%	6.7%	6.9%
Baseline	5.1%	5.3%	4.5%	5.4%	5.9%	4.6%	5.7%	6.4%	6.7%	6.9%
Baseline with SV expenditure	5.1%	4.2%	3.4%	4.3%	4.8%	3.5%	4.6%	5.3%	5.6%	5.8%

Source Tweed 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 $438.0 million in cash reserves. Of this:

- **$288.3 million was externally restricted** (i.e. subject to external legislative or contractual obligations such as funds for water and sewer and developer contributions)
- **$144.7 million was internally restricted** (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 plant operations, unexpended loans and employee leave entitlements, etc.)
- **$5.0 million was unrestricted** (i.e. can be used to fund the council's day to day operations).[9]

In 2022-23, the council was one of the few councils that did not increase its rates by more than the rate peg. Instead, it decided to fund a portion of the new recurring costs using existing unrestricted reserves. However, the council has indicated that the increases in these recurring costs are permanent. This means that it will not be sustainable to continue drawing down on its cash reserves to deliver the services and infrastructure the community needs in the long-term.

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 and infrastructure renewals 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%. (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%.

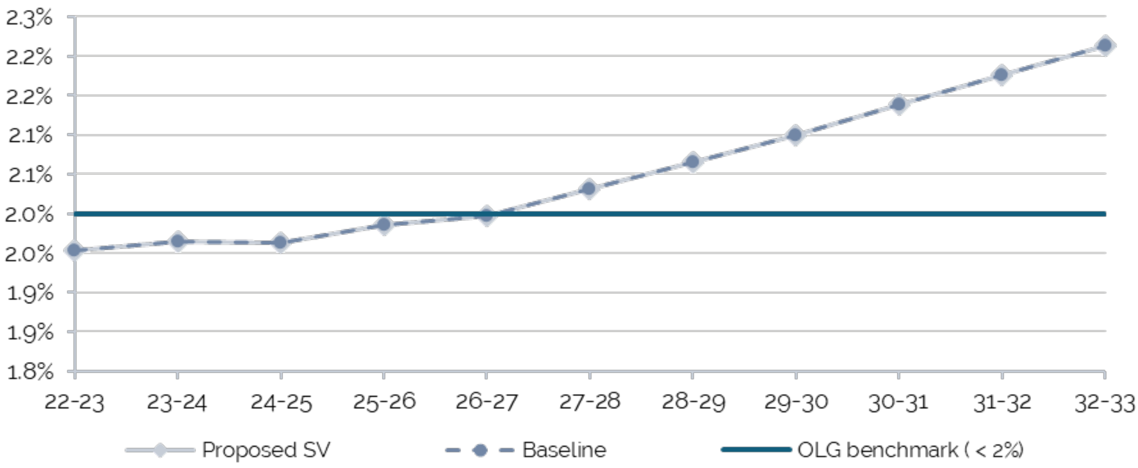
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

Impact on infrastructure backlog ratio

Our analysis found that over the next 10 years, the council's infrastructure backlog ratio would be the same with or without the proposed SV. This is because the purpose of the SV is not to increase infrastructure spending or renewals but rather to directly offset new recurring costs while maintaining the council's budget position and current service levels. However, we consider the council's capacity to support infrastructure projects will be weakened after accounting for operating expenses and loan repayments, in the absence of additional funds from the SV.

As Figure 4.2 shows, under both the Proposed SV Scenario and the Baseline Scenario, the council's infrastructure backlog ratio would initially be in line with the OLG benchmark of less than 2.0%, but would increase to above 2.0% by 2026-27.

Figure 4.2 The council's infrastructure backlog ratio 2022-23 to 2032-33

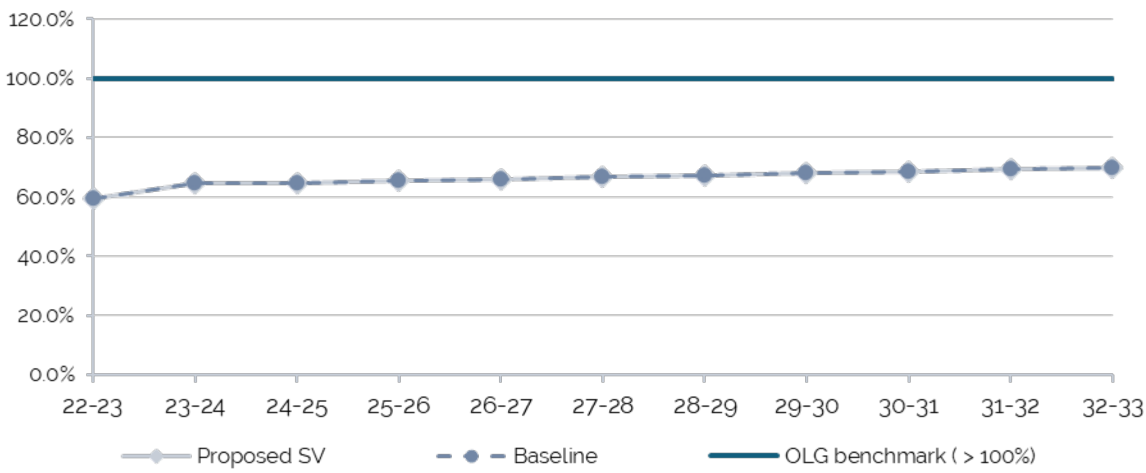


Source: Tweed Shire Council, Application Part A.

Impact on infrastructure renewals ratio

Under both the Baseline and Proposed SV Scenarios, we found that the council's infrastructure renewals ratio would remain below the OLG's benchmark of greater than 100% over the next 10 years (Figure 4.3).

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



Source: Tweed 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.

The council's application and the IP&R document considered alternatives to the rate rise, and noted that:

- It is currently funding one of its new costs, the core IT business system upgrade, using unrestricted reserves, but this is not sustainable.
- Prior to the SV application, it considered other alternatives and concluded the new recurring expenses could not be funded through existing sources.
- It is currently in the process of developing further options to reduce existing services and expenditure to potentially fund the ongoing expenses or reduce the rate increase needed to fund them.
- The draft updated IP&R documentation to be considered by the council will include several alternative funding and service options for public exhibition.[10]

In addition, the council stated that it will seek additional funding sources for the recurring expenses regardless of the SV application outcome. It also stated that it has considered other alternatives to the SV and is now conducting further due diligence on other sources to draw funds for the ongoing expenses. The council has indicated the ongoing expenses are permanent and will require permanent additional funding.

4.2 OLG Criterion 2: The council demonstrated community engagement and 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 OLG Assessment criteria in Appendix A for full details.

To assess this criterion, we:

- considered stakeholder comments about community awareness.
- analysed the council's community engagement on the proposed SV.

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

4.2.1 Stakeholder comments on community awareness

Submissions from ratepayers to IPART raised concerns that the council:

- did not respond to their concerns about the proposed SV
- did not include community's input in informing the council's strategic priorities.

We considered these concerns, alongside other available information.

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 to consult the community provided timely opportunities for ratepayers to provide input and feedback on the proposed SV
- 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 was sufficient given the size of the SV and was clear.

The council mainly relied on its website to provide relevant information and to obtain community feedback. We consider the higher cost of performing a more comprehensive engagement would not be proportionate, given the SV's impact on ratepayers.

The material the council prepared for ratepayers included the content needed to ensure ratepayers were informed of the proposed SV and that they were able to engage with the council during the consultation process.

The council's dedicated SV webpage[d] presented information on:

- estimated annual and cumulative increases for average residential, business and farmland ratepayers in dollar and percentage terms
- the need for the SV
- what would likely occur if there was no SV.

[d] Tweed Council, Proposed Special Rate Variation

The council also released media statements that included the above information on its proposed SV.

Engagement methods used

We consider the council used an appropriate range of engagement methods to promote awareness of and obtain community views on its proposed rate increase. Its engagement activities included:

- dedicated SV webpage
- social media posts
- e-newsletter
- online stakeholder forum
- media release.[11]

The council's dedicated SV webpage included:

- an overview of the SV application process
- an explanation of why council was applying for an SV
- a frequently asked questions section[12]
- an average rate tables showing annual and cumulative rates rises (in dollar and percentage terms) for each ratepayer category, both with and without the SV
- the council's delivery program 2022-2026
- the council's operational plan 2022-2023
- details for how residents or ratepayers could provide feedback.

Process for community consultation

The council consulted with the community on the proposed SV throughout January until the beginning of February 2023. This consultation period provided sufficient opportunity for ratepayers to be informed and provide feedback on the proposal.

Outcomes of community consultation

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

We found that the council did consider these submissions as part of its resolution to apply for the SV. For example, the council has provided evidence it received 64 written responses to its proposed SV from community members through email and analysed the results.[13]

Of the 64 people who provided email responses to the SV proposal, 61 were opposed to the rate increases. Two people were supportive of the SV and one said they understood the need for a SV but did not directly support it.

The council also received 71 responses to its community survey.

While noting the community's concern around rate increases, we assess that the council has considered the results of community consultation in preparing its application.

4.3 OLG Criterion 3: The council demonstrated the impact of the SV 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 OLG Assessment criteria in Appendix A for full details.

To assess this criterion, we:

- considered stakeholder comments on the SV's impact on ratepayers
- analysed the council's assessment of the impact of its proposed SV on ratepayers
- considered whether the council has a hardship policy in place.

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

4.3.1 Stakeholder comments on impact on ratepayers

All published submissions to IPART raised concerns around the affordability and the impact on ratepayers of the proposed SV. We note that this is in the context of approximately 38,000 ratepayer rating assessments for the council in 2022-23.

For example, these stakeholders said the proposed permanent SV would have:

- a significant impact on ratepayers due to rates rising continuously over time
- a large impact for the aging population.

We considered these concerns as part of our assessment of this criterion, alongside other available information (see section 4.3.2 below).

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 assessed the impact on ratepayers of the proposed SV and considered the community's capacity to pay. As Table 4.2 shows, it indicated that from 2022-23 to 2023-24:

- the average residential rate would increase $95 or 6.0%
- the average business rate would increase $158 or 4.8%
- the average farmland rate would increase $126 or 5.3%.

Table 4.2 Impact of the proposed special variation on average rates

Ratepayer Category	2022-23	2023-24
Residential average $ rates	1,580	1,675
$ increase		95
% increase		6.0
Business average $ rates	3,253	3,411
$ increase		158
% increase		4.8
Farmland average $ rates	2,367	2,493
$ increase		126
% increase		5.3

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

The impacts on average rates shown on Table 4.2 are lower than those council consulted the community on (a consistent 6.35% increase across all three categories). As section 2.2 discussed, in the period between the consultation period and submitting the SV application, the council obtained information about changes in the number of rateable properties and supplementary valuations for the 2022-23 year.[14] After considering the combined impact on rates of the SV and the changes in land valuations due to supplementary valuations that are to take effect from 1 July 2023, it modified its rating model and proposed rate increases to ensure rates are equitable.

Community's capacity to pay

The council considered the community's capacity to pay. It noted it had chosen not to apply for an Additional Special Variation to increase rates by more than the rate peg for 2022-23, in order to give the community some relief from rate increases. This meant rates increased on average by the rate peg of 1.7% for 2022-23. The council has also undertaken to further review its budget during the period up to the final adoption of 2023-24 rates to consider any possible areas which may be cut in order to reduce the increase required.

How the council's rates changed over time

Since 2017-18, the council's rates have increased at an average annual rate of between 2.8% and 3.5%, depending on the rating category. This compares to the average rate peg of 2.1% over the same period. In 2022-23, the council was one of the councils that did not increase its rates by more than the rate peg.

Table 4.3 Historical average rates in Tweed Shire Council, 2017-18-2022-23 ($)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average annual growth (%)
Residential	1,331	1,407	1,443	1,476	1,540	1,580	3.5
Business	2,769	2,834	2,867	2,883	3,008	3,253	3.3
Farmland	2,061	2,083	2,129	2,222	2,319	2,367	2.8

Note: FY22 is estimated based on FY21 escalated by the rate peg or the council's SV.
Source: Tweed Shire Council, Application Part A and IPART calculations

How the council's rates compare to other councils

The council's current average residential rates – that is, before the proposed SV – are relatively high compared to those of neighbouring councils and councils with comparable levels of socio-economic disadvantage and median household income. As Table 4.4 shows, in 2022-23, the council's:

- average residential rates were generally higher than those of its neighbouring councils, and comparable councils based on both SEIFA score and income, and higher than the average for other councils in its OLG Group
- average business rates were generally lower than those of its neighbouring councils and comparable councils by SEIFA score and income, and lower than the average for other councils in its OLG Group
- average farming rates were generally lower than those of its neighbouring councils and comparable councils by SEIFA score, and lower than the average for other councils in its OLG Group, but generally higher than those of comparable councils based on income
- outstanding rates ratio was lower than that of all neighbouring councils and comparable councils by SEIFA score, generally lower than comparable councils based on income, and lower than the average for other councils in its OLG Group.

Further information about our analysis is available in Box 4.3.

Box 4.3 Comparable councils

In our analysis, we have compared Tweed 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.
- Tweed Shire Council is in OLG Group 5 which is considered an urban regional town/city area and also includes 10 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.
- Tweed Shire Council has a SEIFA rank of 65 out of 130 councils in ABS 2016 which is average and does not indicate a highly advantaged or disadvantaged area.
- The 4 councils with closest SEIFA rank within the OLG group 5 are Shellharbour Council, Port Macquarie-Hastings Council, Coffs Harbour City Council, and City of Shoalhaven Council.

Median household income

- The councils can be ranked by the median household income.
- We compared Tweed Shire Council to the 4 councils within OLG group 5 with closest median income ranking. These are Coffs Harbour City Council, Port Stephens Council, Port Macquarie-Hastings Council, and Shoalhaven Council.

Neighbouring councils

- We compared Tweed Shire Council to the neighbouring councils of Byron Shire Council, Lismore City Council, and Kyogle Council.
- These councils are geographically close to Tweed Shire Council but do not necessarily share a common border.

Table 4.4 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 rates	Median annual household income[b] ($)	Average rates to median income ratio (%)	Outstand-ing rates ratio	SEIFA Index NSW[c] Ranking
Tweed (5)	1,580	3,253	2,367	67,392	2.3	4.3	65
Neighbouring councils							
Byron	1,525	3,788	2,775	83,304	1.8	8.5	98
Lismore	1,365	4,887	2,566	68,588	2.0	7.7	45
Kyogle	1,172	1,460	2,014	51,116	2.3	5.9	13
Average	**1,354**	**3,379**	**2,452**	**67,669**		**7.3**	**52**
Comparable councils (SEIFA)							
Shellharbour	1,631	5,182	3,941	85,644	1.9	5.2	66
Port Macquarie-Hastings	1,284	3,957	2,117	65,676	2.0	5.7	68
Coffs Harbour	1,334	4,288	2,201	70,876	1.9	6.8	61
Shoalhaven	1,338	2,215	2,715	65,000	2.1	6.9	50
Average	**1,397**	**3,910**	**2,744**	**71,799**		**6.2**	**61**
Comparable councils (Income)							
Coffs Harbour	1,334	4,288	2,201	70,876	1.9	6.8	61
Port Stephens	1,141	4,743	1,859	71,344	1.6	3.3	70
Port Macquarie-Hastings	1,284	3,957	2,117	65,676	2.0	5.7	68
Shoalhaven	1,338	2,215	2,715	65,000	2.1	6.9	50
Average	**1,274**	**3,801**	**2,223**	**68,224**		**5.7**	**62**
Group 5 average (excluding Tweed)	**1,469**	**6,268**	**2,554**	**76,887**	**1.9**	**5.6**	**69**

a. The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2018-19

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 6.35% SV, the council's average residential rates would be relatively higher, while its business and farming rates would remain relatively low. As Table 4.5 shows, in 2023-24, the council's average:

- residential rates would be expected to be above the average for the other councils in its OLG Group, comparable councils by SEIFA rating and income, and neighbouring councils
- business rates would be expected to be below the average for the other councils in its OLG Group, comparable councils by SEIFA rating and income, and neighbouring councils
- farmland rates would be expected to be generally below the average for the other councils in its OLG Group, comparable councils based on SEIFA rating and neighbouring councils, but above the average for comparable councils based on income.

Table 4.5 Comparison of the council's average rates with those of other councils for period of the SV ($)

Council (OLG Group)	2022-23	2023-34
Residential		
Tweed	1,580	1,675
OLG Group 5 (excluding Tweed)	1,469	1,531
Neighbouring councils (average)	1,354	1,410
Comparable councils (SEIFA) (average)	1,397	1,455
Comparable councils (Income) (average)	1,274	1,330
Business		
Tweed	3,253	3,411
OLG Group 5 (excluding Tweed)	6,268	6,529
Neighbouring councils (average)	3,379	3,517
Comparable councils (SEIFA) (average)	3,910	4,071
Comparable councils (Income) (average)	3,801	3,966
Farmland		
Tweed	2,367	2,493
OLG Group 5 (excluding Tweed)	2,554	2,662
Neighbouring councils (average)	2,452	2,553
Comparable councils (SEIFA) (average)	2,744	2,857
Comparable councils (Income) (average)	2,223	2,321

Source: IPART calculations.

4.3.3 The council's hardship policy

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. Tweed Shire Council told us that it does not have a formal hardship policy. However, it has processes in place for ratepayers to access payment plans if they apply. Considering the increased cost of living pressures being faced by ratepayers since the council consulted on and applied for the SV, we consider that it is particularly important that the council effectively communicates the processes it has in place to mitigate the impact of the SV.

The council has also modified its rating model following land valuation changes to ensure that rates are equitable and that the minimum rate is maintained at the same level.[15]

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 OLG Assessment criteria in Appendix A for full details.

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

- publicly exhibited its Community Strategic Plan, Delivery Program and Long-Term Financial Plan from 10 May 2022 to 6 June 2022
- adopted these IP&R documents on 16 June 2022
- adopted its transport and stormwater drainage Asset Management Plans on 16 June 2022
- submitted its SV application on 1 March 2023.

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 explained and quantified 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.

Note: See OLG Assessment criteria in Appendix A for full details.

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 met this criterion.

4.5.1 Stakeholder comments on productivity and cost containment

In relation to this criterion, stakeholders told us the council could take a more coordinated and long-term approach to identifying and implementing cost saving strategies.

We have considered this concern as part of our assessment of this criterion.

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

The council provided information on its past and current productivity and cost containment strategies and initiatives in its SV application and IP&R documents.

Past productivity and cost containment strategies to date

The council indicated that to date, it has implemented the following productivity and cost containment initiatives:

- reduced its service levels related to a tourism provider, resulting in cost reductions of approximately $215,000
- ceased funding the Tweed Civic Centre Café, resulting in cost reductions of $65,000 annually
- ceased funding the DownTown Gallery, resulting in cost reductions of $60,000 annually

- started reusing excavated waste rather than disposing at land fill
- modernised records management, leading to efficiency gains and cost savings
- implemented a new Business Paper Management System, leading to efficiency gains in the production of agendas and minute taking and streamlining livestreaming and audio-visual recordings of council meetings.[16]

Planned productivity and cost containment strategies over the SV period

The council told us that it proposes to undertake a business systems transformation, which is expected to deliver efficiencies through better system integration, improved cyber security, standardising user interfaces and allowing connection to the system from outside the premises.[17]

It also told us it is reviewing its budget to consider potential cuts to services, to reduce the additional income required. However, this review is ongoing, and the council did not provide details of further initiatives or their likely financial impact.

In addition, the council indicated that it proposes to include a number of alternative funding and service level options in its Draft IP&R documents, which will be available for public exhibition once completed.[18]

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 4.6 and Table 4.7.

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

- number of full time equivalent (FTE) staff increased by an average annual rate of about 0.5% per annum
- ratio of population to FTE has risen gradually from 2017-18 to 2020-21 suggesting that growth in the population in the LGA has risen faster than council staff numbers
- costs per employee have increased by an average of 2.4% per annum, and employee costs as a percentage of operating costs have increased by an average of 1.2% per annum

We also found that, compared to other councils in its OLG Group, the council has a lower population to FTE ratio, which suggests more staff per person in its LGA, but a lower average cost per FTE.

We note that these indicators only provide a high-level and partial 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 4.6 Trends in selected indicators for Tweed Shire Council, 2017-2021

Indicator	2017-18	2018-19	2019-20	2020-21	Average annual change (%)
FTE staff (number)	704.0	705.0	711.0	715.0	0.5
Ratio of population to FTE	134.7	136.3	136.4	137.6	0.7
Average cost per FTE ($)	79,241	80,306	84,300	85,053	2.4
Employee costs as % of operating expenditure (General Fund only) (%)	35.0	36.3	37.5	36.3	1.2

Source: IPART calculations.

Table 4.7 Select comparator indicators for Tweed Shire Council, 2020-21

	Tweed Shire Council	OLG Group 4 Average (excl the council)	NSW Average
General profile			
Area (km2)	1,308	2,239	5,563
Population	98,382	119,665	63,529
General Fund operating expenditure ($m)	132.1	197.4	94.1
General Fund operating revenue per capita ($)	1,689	1,919	
Rates revenue as % of General Fund income (%)	50.1	50.5	46.0
Own-source revenue ratio (%)	74.0	74.9	67.1
Productivity (labour input) indicators			
FTE staff	715.0	789.3	377.9
Ratio of population to FTE	137.6	151.6	168.1
Average cost per FTE ($)	85,053	95,060	99,124
Employee costs as % of operating expenditure (General Fund only) (%)	36.3	35.7	37.7
General Fund operating expenditure per capita ($)	1,343	1,650	1,482

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

4.6 Any other matter that IPART considers relevant

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

Note: See OLG Assessment criteria in Appendix A for full details.

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.

Tweed Shire Council was granted a permanent SV of 4.35% (including the rate peg) in 2021-22. The purpose of this SV was to fund maintenance of environmental protection lands within the Kings Forest development. The additional income permitted by the SV was recovered as a special rate on ratepayers in this development and had no impact on general rate payers.[19]

IPART's approval of this SV was subject to the following conditions:

- the council uses the additional income from the SV for the purposes of funding management and maintenance of environmental protection lands within the Kings Forest development as outlined in the council's application
- the council reports in its annual report for each year between 2021-22 and 2030-31 on:
  - the program of expenditure that was funded by the additional income
  - the actual revenues, expenses and operating balance against the projected revenues expenses and operating balance, as outlined in the Long-Term Financial Plan provided in the council's application
  - any significant variations from its proposed expenditure as forecast in the Long-Term Financial Plan and the reasons for such variation
  - expenditure consistent with the council's application, and the reasons for any significant differences from the proposed expenditure
  - the outcomes achieved as a result of the actual program of expenditure.[20]

To date, the council has met the conditions of this SV.

We also note that the Tweed Shire Council was one of the few councils that did not apply for an Additional Special Variation increase for 2022-23.

5 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 criteria and consideration of stakeholder submissions, we have approved the council's proposed permanent SV for 2023-24.

The approved increase to general income is set out in the table below.

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

	2023-24
Permanent increase above the rate peg	2.35
Rate peg	4.00
Total increase	6.35

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 ratepayers. Table 5.2 sets out the approved SV's expected impact on ratepayers, based on what the council told us in its application.

From 2022-23 to 2023-24, if the council chooses to increase rates so as to recover the maximum permitted general income and does so in the manner the council has indicated, the impact on ratepayers under the approved SV will be as follows:

- the average residential rate would increase by $95 or 6.0%, from 2022-23 to 2023-24
- the average business rate would increase by $158 or 4.8%, from 2022-23 to 2023-24
- the average farmland rate would increase by $126 or 5.3%, from 2022-23 to 2023-24

Table 5.2 Indicative annual increases in average rates under the approved SV (2022-23 to 2023-24)

Ratepayer Category	2022-23	2023-24
Residential average $ rates	1,580	1,675
$ increase		95
% increase		6.0
Business average $ rates	3,253	3,411
$ increase		158
% increase		4.8
Farmland average $ rates	2,367	2,493
$ increase		126
% increase		5.3

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

We consider that in line with best practice outlined in the OLG Debt Management and Hardship Guidelines,[e] the council should investigate developing a hardship policy.

5.2 Impact on the council

Our decision means the council may increase its general income by $1.6 million above the rate peg in 2023-24. This increase can remain in the rate base permanently.

Table 5.3 shows the percentage increases we have approved and estimates the annual increases in the council's permissible general income (PGI).

Table 5.3 Permissible general income of council for 2023-24 from the approved SV

	Increase approved (%)	Increase in PGI above rate peg ($'000)	Increase in PGI ($'000)	PGI ($'000)
2023-24	6.35	1,646.8	4,449.9	74,527.8
Total above rate peg		1,646.8		

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

We estimate that for 2023-24, the council will collect an additional $1.6 million in general income compared with an increase limited to the rate peg. This extra income will enable the council to meet new recurring costs and maintain its existing service levels.

With the SV, the council's projected:

- OPR will remain above the OLG benchmark of greater than 0% for 2023-24 – as shown in Figure 4.1 in section 4.1.3
- infrastructure backlog ratio will deteriorate outside of the OLG benchmark of less than 2% – as shown in Figure 4.2 in section 4.1.3
- infrastructure renewal ratio will remain below the OLG's benchmark of 100% throughout the next 10 years – as shown in Figure 4.3 in section 4.1.3.

[e] https://www.olg.nsw.gov.au/wp-content/uploads/OLG-Debt-Management-And-Hardship-Guidelines-2019_0.pdf

Appendices

A OLG 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 criteria for a special variation include:

- 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
- there must be evidence that the community is aware of the need for and extent of a proposed rate rise
- the impact on affected ratepayers must be reasonable
- the relevant IP&R documents must be exhibited (where required) approved and adopted by the council
- the IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies of the council
- 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 canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[f]:

- 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.

[f] 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 appropriate 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 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[g] 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.

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.

[g] 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 Tweed 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 Tweed 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
Total revenue	150,310	150,130	152,901	155,916	159,543	163,214	167,051	170,968	174,981	177,065
Total expenses	138,814	139,728	141,676	144,265	149,669	151,294	153,829	156,841	160,218	163,877
Operating result from continuing operations	11,496	10,402	11,225	11,651	9,874	11,920	13,222	14,127	14,763	13,188
Net operating result before capital grants and contributions	7,703	6,658	8,109	8,999	7,180	9,182	10,440	11,298	11,887	10,263
Cumulative net operating result before capital grants and contributions	7,703	14,361	22,470	31,469	38,649	47,831	58,271	69,569	81,456	91,719

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

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

	2023-24
Special Rate expenditure	44
Environmental Enforcement	289
Development Application Staff costs	360
Core IT Business System maintenance charges	534
Cyber Security costs	268
insurance Premiums	151

Note: Numbers may not add due to rounding.
Source: Tweed Shire Council, *Application Part A*, Worksheet 6 and IPART calculations.

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 or Permissible General Income (PGI)	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 (or LG 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 or SRV	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] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.20.
[2] *Local Government Act* 1993, Section 511
[3] Tweed Shire Council, Attachment – Community Feedback – Feedback Summary.
[4] *Local Government Act* 1993, Section 511
[5] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.20.
[6] Tweed Shire Council. Response to Request for Information dated 13 April 2023.
[7] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.34.
[8] Office of Local Government, Performance Benchmarks, May 2020.
[9] Tweed Shire Council, Special Variation Application Form Part A 2023-24 – Worksheet 7.
[10] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.9.
[11] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.30.
[12] Tweed Shire Council, Attachment – Community Engagement Materials – Frequently Asked Questions snapshot.
[13] Tweed Shire Council, Attachment – Community Feedback – Feedback Summary.
[14] Tweed Shire Council. Response to Request for Information dated 13 April 2023.
[15] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.34.
[16] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.46.
[17] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.44.
[18] Tweed Shire Council, Special Variation Application Form Part B 2023-24, p.47.
[19] Tweed Shire Council, Attachment – Other Attachment – Q6 GM Declaration No.2.
[20] IPART, Special Variation Application Tweed Shire Council from 2021-22, Final Report, May 2021, p 21.

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