[redacted]

Subject: CM: Email 1 - IPART Additional Submission - Public
Date: Friday, 24 March 2023 10:54:40 AM

[redacted]

Dear IPART Team,

As requested please see attached Worksheet (Excel) with revised figures which have been approved by executive.

Also attached is a word documents which answers questions raised on meeting held on 15 March.

In addition to the documents please see public comments:

Public comments

1. This SV is designed as a catch-up SV. The intent is to have one difficult process and then put the Shire in a position where such a large increase is never required for operational matters,
2. Due to how Councils revenue has been raised in recent years, and noting Council has exhausted its reserves and is reaching its reasonable borrowing limits, any SV increase less than the recent annual borrowings will lead to a reduction in Councils overall revenue base which will result in direct service and expenditure cuts,
3. Council wants to be able to maintain its assets in a manner that is safe and does not stop economic growth in the region. For example, a significant reduction in revenue will impact Councils ability to maintain its roads. As an agricultural heavy region, this will impact the ability for farmers to get their product to market,
4. Any reduction in the Shires' economy will have a multiplier effect and impact broader employment in the region,
5. TSC considered altering our rating categories and structure to apply the SV differently across the different categories. It was determined not do this as part of the SV process due to:
    a. The Farmland category already makes up approximately 50% of Councils total rates revenue so the increases is expected to impact this category proportionally more in real dollar terms than other categories,
    b. With the updated valuer general (VG) numbers also occurring leading into the new rating cycle, it is expected that Farmland is likely to increase at a higher proportional rate than residential which will have another impact how the rates revenue is distribution.

   It was determined, that to have a consistent conversation with the community, the increase would be applied evenly by category noting there will already be an impact from the VG numbers. Once these values are known a further conversation can be had with the community in future years re any redistribution of revenue by category.
6. With these conversations commencing with the community in February 2022, not wanting to change the core of the conversation (to avoid confusion), we do now have more current information than we did when the application was prepared, and
7. Council does not want to remove the social aspects of its services that improve the quality of life for the residents and visitors.

[redacted]

If you have any questions please let me know.

Kind Regards

Roy

Roy Jones
Manager Finance & Technology
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PO Box 214
Tenterfield, NSW, 2372

Invites Volunteers
to work in the
School of Arts and
Visitors' Information Centre
Contact: [redacted]

W: www.tenterfield.nsw.gov.au
F: facebook.com/TenterfieldShireCouncil

#	Item raised	TSC Response
1	Could you please re-complete parts of WK8 – LTFP? - Please re-do **Scenario 1: Proposed additional SV income and expenditure – Income from continuing operations.** The forecasts from Year 3 2025-26 onwards should assume a 2.5% rate peg and not 7.5%. - Please reconsider whether the **Expenses from continuing operations** line items should be different between **Scenario 1: Proposed additional SV income and expenditure – Income from continuing operations** versus **Scenario 2: Base case – no SV income or expenditure.**	Completed in the attached version. Please note, and as previously mentioned, this approach was raised with IPART in earlier discussions. Had the recent discussions been had at that time we would have provided this as part of the original submission. The logic behind this approach has been that this SV is essentially a catch-up SV and Council does not want to ever have to put forward a large SV again for standard operational matters. Ideally, any future SVs would be for a special project (e.g., new swimming pool). Council has amended the expenditure items in both scenarios to reflect current inflation and increase in cost of conducting business. This inflation is true to Tenterfield due to aspects of regional inflation being much higher than the national annualised average and in some cases as much as 50% higher for contractor services the wages market is even more problematic, and Tenterfield is struggling to compete for experienced or qualified staff. None of this is captured in the cost of doing business projections so any numbers documented are probably well below reality. As evident from both scenarios - The operating result is significantly different under the different scenarios.
	Could you please re-complete parts of WK9 – Ratios? - Please reconsider whether the forecast ratios (columns L to V) for the **Infrastructure Renewals Ratio, Infrastructure Backlog Ratio and Asset Maintenance Ratio** should be different for **Scenario 1: Proposed (with SV)** versus **Scenario 2: Base case (no SV).**	Completed in the attached version. Please note, and as previously mentioned, this approach was raised with IPART and approved in earlier discussions. Had the recent discussions been had at that time we would have provided this as part of the original submission.

		The infrastructure renewals ratio is significantly different under the different scenarios and a similar trend can be evident in the Asset Maintenance Ratio and other ratios such as Own Source revenue ratio. There is no large change in the Infrastructure Backlog Ratio which is consistent with this SV as it does not address any of the backlog.
	Please provide more context as to why TSC's forecasted OPR continues to increase to 23% in 2031-32 - Perhaps it would be helpful framing an answer to the hypothetical stakeholder who may ask 'why does council need to accumulate all these funds over time'? - For instance, is it because the majority of the SV monies will be spent on asset replacement? If my understanding is correct, the impact of writing-off and replacing assets is not something that materially impacts income statement line items, which is why it may not be reflected in the OPR, which is a ratio ultimately driven by income statement items. If so, it would be especially helpful to action point 2 above.	With the revised rates increase values having changed from 7.5% to 2.5%, and incorporating inflation at true cost of conducting business the 23.2% value is now 4.6%. This 4.6% is based on forecast expense increases, If expenses continue to rise as they have the past two years the forecast expenses will be much higher and the 4.6% will effectively get much lower. Also important to note is the employee benefit has been increased by 2.5% to be consistent with Local Government State Award however Council is aware of a possibility to increase Wage % increase to 4.5-5.5% and this if accepted with result in a higher employee cost as well. Council had used a 2.5% CPI increase in forecasting expenditure at time of adopting the LTFP. However, it can be suggested that 2.5% is a fantasy and does not reflect the true inflationary affect , which is higher that the current annualised inflation rate due to regional pressures such as floods. The true cost of inflation has eroded councils' operational revenue at a much faster rate and high inflation has resulted in materials cost to increase by 7-9% per annum. This is also consistent with higher consultant and contract costs increasing by 7-9% across the shire. In response to the hypothetical stakeholder example, this would look along the lines of: Many assets Council look after have maintenance costs through their life and when they come towards their end-of-life Council will spend larger sums of money to renew and/or replace the asset depending on its condition. For Council to have the funds to do this at the appropriate time, it needs to set aside money, (a sinking fund) to be dedicated for that purpose.

		Based on current service levels, Council should be putting aside an additional \$5m per year to maintain its assets without requiring additional loans that Council has used for the past two years and that is not financially sustainable into the future. Without additional income, or efficiency gains, this is not possible, and the result is that service levels will go down and transport assets will fail at some time in the not-to-distant future.
	Following on from the point above, it would be helpful if council could provide a spreadsheet on how it intends to allocate the SV monies towards renewals, ideally for the same period of time as the Asset Management Plan and LTFP i.e. next 10 years. More detail is preferred, but we would be happy to see something like: <table><tr><td></td><td>2023-24</td><td>2024-25</td><td>Up to 2031-32</td></tr><tr><td>Bridges</td><td>300k</td><td>400k</td><td></td></tr></table>	This SV is slightly different to some other SVs in that it is designed to allow Council to continue delivering existing service levels. (There are no shiny new things or services its primarily based on a maintenance budget no more no less. It is also a catch-up number due to previous SRVs being eroded or denied. For many Councils, if they don't get an SV, they will spend the same funds in a service area but as costs go up, they will do less. If the SV is not approved for TSC, rather than a traditional application as mentioned above, it will be a situation of where we will be reducing expenditure (and by default maintenance/ service levels). For example, the first thing that would happen is we would reduce our rural roads maintenance by \$600,000 per annum this would have serious flow on effects such as the loss of the ability to secure grants. A significant reduction in income would also lead to the requirement of an even leaner organisational structure and reduced service levels. When compared to other group 10 Councils, Councils rating revenue is one of the lowest and the FTE count versus residents is also one of the lowest, as noted in the independent report from the OLG. Initial works undertaken in this area, if no SV is approved, have also demonstrated significant redundancy costs that would severely impact Councils cash position whilst the change is implemented.

		As noted above, Council has been using loans for the past two years to avoid service level reductions and that is not financially sustainable into the future. Regarding where Council intends to spend the funds, it is shown in Council's asset management plans and roads maintenance program. An example of the costs impacts includes that Council had two roads foisted on them by the state government (Mt Lindsay Rd and Bruxner Way). These two roads added approximately $1.2m in annual depreciation on Councils books. This automatically negatively impacted Councils OPR. Council is in discussions with the state government to hand these assets back but is not confident of this happening anytime soon.
	We would also appreciate some commentary on why council should be granted a permanent SV if the main purpose of the SV is asset renewals. Is there anything else that needs to be funded?	The main purpose of this SRV in the short term is renewals. The key for TSC is not to end up in this position again in 7 to 10 years' time. The management of core assets such as roads, bridges and swimming pools take place over many years and has multiple lifecycle components. With Councils assets being in their current condition the focus in the short term is to renew and maintain current assets. As the assets are renewed Council will be looking to improve the maintenance of them and the funds over time will move to a different balance of renewals v maintenance. This will happen over a period of 10,20 and in some cases 50 years. With the IPART documents only looking at the next ten years, it is difficult to represent this Clearly or show the strategic importance of the actions we take today. Councils focus has been on addressing the OPR result to move back to a balanced operating position. If a temporary SV was approved, it wouldn't solve any of the fundamental issues at best it would stave off another SRV for a short period. Like most band aid solutions, it's akin to moving the deck chairs on the Titanic and we all know how that ended. This is noted by the 2015 IPART report referenced

		in our submission where a 99% SV has been applied for previously, however it was denied by IPART and suggested a 99% was not reasonable for the community. Fast forward several years and evidence clearly shows that this was a false economy and that in fact if that increase was granted we would not be where we are today in financial terms. As Council is an asset/ Infrastructure centric shire rather than a service delivery council, it is vital that assets are maintained at a service level of satisfactory and above. The permanent SRV assists Council to deliver those services to the community. The flow on effect of not be able to afford to maintain critical infrastructure, would mean that the local economy would be at risk as it relies on Agribusiness and the ability of primary producers to get their products to market. It should be noted that v even something as seemingly innocuous as a load limit on a wooden bridge would be problematic. History has already proven that because previous SRV applications were eroded, and the recommended rates increases being denied at the time, we are now dealing with the consequences approximately 10 years later. In fact it can be posited that the current financial situation is a result of a poor decision caused by the previous SRV applications being eroded, at the very least it is certainly complicit. The fact is that council is not building new shiny things, its not introducing a new service, it simply wants to maintain its current position, and its very basic services provision and importantly its transport assets. This point is supported even further by Councils current cash position, noting Council had a negative unrestricted cash position as at 30 June 2021 and has very limited general fund reserves. At risk of sounding repetitive, the requested SV will simply ensure that Council is able to maintain its assets in current condition and ensure that no

		further deterioration takes place. A number of grant funding is dependent on Council's asset being maintained at a certain level. Without maintenance funds Council is at a higher risk of not receiving those grants and this will further impact condition of the assets. This also possess a high risk to community to use unsatisfactory condition-based asset and risk injury or accident and may lead to loss of life. Further, our economy relies on growers getting produce to market and this will put this at risk if not impossible. It should also be noted that funding associated with Natural Disasters is becoming more technical and governance required is increasing meaning we must hire technical skilled staff to manage the increasingly complex grants application and acquittals.
	Please provide some evidence of the steps council has taken to address its financial problems - The relevant QBR that shows parcels of land have been sold and/or council resolution that shows council intends to put certain properties for sale - Council documents (e.g. resolutions or internal minutes) that show council has considered reframing its organisational structure to save money e.g. consideration of handing back School of Arts and moratorium on filling the 20FTE vacancy	Council has very limited opportunities for ongoing increases to annual revenue. In relation to one-off revenue opportunities Council has: 1. Commenced the sale of commercial land to raise revenue (currently in negotiations) – Eg December Quarterly budget Review Page 127 – available online at Link: https://www.tenterfield.nsw.gov.au/content/uploads/2023/02/Agenda-Ordinary-Council-Meeting-Wednesday-22-February-2023-Attachments.pdf 2 . Council also conducted an Auction for sale of another parcel of land and is currently in negotiations with real estate to finalize a deal. If successful, Council can provide relevant documents to IPART. Otherwise, for Council, it is more about reducing costs. In this area, Council has looked at: 1. A village model with lower levels of services and a leaner organisational structure, (It should noted that this would be disastrous in the medium term as D class and many C class roads would need to be removed from

		the RMP and it is highly unlikely council could ever come back from that as the transport assets would quickly fall into disrepair and even negate council from applying for grants to repair any future flood damage. 2. Reducing commercial building costs. Unfortunately, the reality of Councils situation is that most of its expenditure is made on (Transport) assets and large a reduction in expenses would have a significant impact on the management and maintenance of its assets. Even items like putting a moratorium on filling the 20FTE vacancy is only a short-term solution whilst long term income and service levels are resolved. All resolutions of Council related to efficiency gains were included in section five of Part B of the application. It should be noted that council has reached the point where there are very little if any efficiency gains to be made, the tank is empty, it will still practice continuous improvement practices however any gains will be incremental at best. [redacted]
	Any other relevant information that would help Tribunal contextualise Tenterfield Shire Council's application e.g. the fact that Tenterfield only has 1 engineer who works 2 days per week etc.	To provide some insight into this: 1. When Councils LTFP was originally drafted Council had one management accountant who was the Acting Finance Manager as well. The shortfall in council resources was managed by several staff members contributing to the best of their ability to manage the statutory obligations. 2. TSC considered altering our rating categories and structure to apply the SV differently across the different categories. It was determined not do this as part of the SV process due to: a. The Farmland category already makes up approximately 50% of Councils total rates revenue so the increases is expected to

		impact this category proportionally more in real dollar terms than other categories, b. With the updated valuer general (VG) numbers also occurring leading into the new rating cycle, it is expected that Farmland is likely to increase at a higher proportional rate than residential which will have another impact how the rates revenue is distribution. c. It was determined, that to have a consistent conversation with the community, the increase would be applied evenly by category noting there will already be an impact from the VG numbers. Once these values are known a further conversation can be had with the community in future years re any redistribution of revenue by category. 3. Council only has one qualified engineer who works two days per week, 4. The significant operational impacts of droughts, bushfires, floods and special purpose grants severely limited the time operational staff could spend on asset management related works, 5. Local government struggles to match the rates of pay staff can get in jobs with the state government and the private sector, 6. Being a border region, Queensland is not impacted by the limitations of rate pegging and Council struggles to match the rates of pay staff can get in like-for-like Council jobs in Queensland. 7. Similar to point above Council cannot compete with Queensland councils ability to pay a higher contractor rate. 8. Council does not want to remove the social aspects of its services that improve the quality of life for the residents and visitors. 9. Council is currently borrowing from external banks to fund gap in funding capital projects from general fund and this increase in debt borrowing will consume operating revenue into the future and add additional pressure on the future of Shire ratepayers. The SV requested as a result of yearly by year basis will ensure that Council does not borrow or minimize its borrowing for general fund capital works.