



Independent Pricing and Regulatory Tribunal

Tenterfield Shire Council's application for a special variation for 2014/15

under section 508A of *Local Government Act 1993*

Local Government — Determination
June 2014

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ISBN 978-1-925193-10-7

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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

Councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. We are required to assess these applications against criteria in the Guidelines set by the Office of Local Government (OLG),¹ and may allow special variations under either section 508A or 508(2) of the *Local Government Act 1993* (the Act).

Tenterfield Shire Council applied for a multi-year special variation from 2014/15, under section 508A. The council requested an annual increase of 15% in 2014/15 followed by annual increases of 10% each year for the next 3 years. This is a cumulative increase of 53.07% by 2017/18.

After assessing its application, we decided to approve the variation as requested. We made this decision under section 508A of the Act.

Box 1.1 The Guidelines for 2014/15

We assess applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income*, issued by the Office of Local Government.

The Guidelines adopt the same criteria for applications for a special variation under either section 508A or 508(2) of the *Local Government Act 1993*.

The Guidelines emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents to the special variation process. Councils are expected to engage with the community about service levels and funding when preparing their strategic planning documents. As a result, for most criteria, the IP&R documents (eg, Delivery Program and Long Term Financial Plan) must contain evidence that supports a council's application for a special variation.

¹ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective February 2014 the Division of Local Government became the Office of Local Government.

Our decision enables the council to pursue a program of asset renewal and improvement and help improve its financial sustainability, which it discussed during consultation on its Integrated Planning and Reporting (IP&R) documents and the proposed special variation.

1.1 Our decision

We determined that Tenterfield Shire Council may increase its general income by the annual percentages shown in Table 1.1. The annual increases incorporate the rate peg to which the council would otherwise be entitled (2.30% in 2014/15 and an assumed 3.00% in each of the following years). The cumulative increase of 53.07% is 41.28% more than the rate peg over these years.

After the last year of the special variation, the increases will remain permanently in the council's rate base.

The annual increases in the dollar amounts reflect the percentage increases we have approved and a catch-up adjustment of \$47,567 to the council's general income in 2014/15.

Table 1.1 IPART's determination on Tenterfield Shire Council's special variation for 2014/15 to 2017/18

Year	Increase approved (%)	Cumulative increase approved (%)	Annual increase in general income (\$)	Permissible general income (\$)
Adjusted notional income 30 June 2014				2,798,608
2014/15	15.00	15.00	467,358 ^a	3,265,967
2015/16	10.00	26.50	326,597	3,592,563
2016/17	10.00	39.15	359,256	3,951,820
2017/18	10.00	53.07	395,182	4,347,002

^a Including adjustments of \$47,567.

Source: Tenterfield Shire Council, *Section 508A Application Form – Part A*, Worksheets 1 and 6, and IPART calculations.

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

Box 1.2 Conditions attached to the approved special variation

IPART's approval of Tenterfield Shire Council's application for a special variation over the period from 2014/15 to 2017/18 is subject to the following conditions:

- ▼ The council uses the additional income from the special variation for the purposes of funding the program of expenditure outlined in the council's application and listed in Appendix A.
 - ▼ The council reports in its annual report for each year from 2014/15 to 2023/24 on:
 - the actual revenues, expenses and operating balance against the projected revenues, expenses and operating balance, as outlined in the Long Term Financial Plan provided in the council's application, and summarised in Appendix B
 - any significant variations from its proposed expenditure as forecast in the current Long Term Financial Plan and any corrective action taken or to be taken to address any such variation
 - expenditure consistent with the council's application and listed in Appendix A, and the reasons for any significant differences from the proposed expenditure
 - the outcomes achieved as a result of the actual program of expenditure.
 - ▼ The council reports to the Office of Local Government by 30 November each year on its compliance with these conditions.
-

2 What did the council request and why?

Tenterfield Shire Council applied to increase its general income by a cumulative 53.07% over the 4-year period from 2014/15 to 2017/18, and to permanently incorporate the increases into its general income base.

The council estimated that if the requested special variation is approved, its permissible general income will increase from \$2.8m in 2013/14 to \$4.3m in 2017/18. This will generate additional revenue of \$4.0m, or \$3.0m above the rate peg increase, over 4 years. Over 10 years the additional revenue will be \$10.0m.²

The council intends to use the additional special variation revenue over the 10 years to fund:

- ▼ \$0.4m of extra operating expenditure
- ▼ a \$9.6m program of capital works.³

The proposed program of capital expenditure is set out in Appendix A, Table A.2.

² Tenterfield Shire Council, *Section 508A Application Form – Part A*, 24 February 2014, (Tenterfield Shire Council Application Part A), Worksheets 1 and 6, and IPART calculations.

³ Tenterfield Shire Council Application Part A, Worksheet 6. The program comprises \$8.5m in capital works and \$1.1m in loan repayments relating to Main Street renewal projects.

3 How did we reach our decision?

We assessed Tenterfield Shire Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, as well as a range of comparative data about the council, set out in Appendix C.

Tenterfield Shire Council has applied on the basis of its adopted IP&R documents, in particular its Delivery Program, Long Term Financial Plan (LTFP) and Asset Management Plan (AMP).

The proposed rate increases are significant and we carefully considered, among other things, the council's need for the increase, its consideration of the community's priorities and capacity and willingness to pay, and the impact of the rate increase on ratepayers.

On balance, we found that the application met the criteria. In particular, we found that:

1. the need for the proposed revenue is demonstrated in the council's IP&R documents, and reflects community priorities
2. the council provided evidence that the community is aware of the need for, and extent of, the rates rises, and that it had considered the community's capacity and willingness to pay the proposed rates rises
3. the impact of the proposed rates rises on ratepayers is significant, but not unreasonable, given the current low level of rates, the purpose of the special variation and that the council has taken account of ratepayers' willingness and capacity to pay
4. the council made realistic assumptions concerning its projected service delivery and budget
5. the council reported productivity savings in past years, but has not detailed initiatives for the future.

Table 3.1 summarises our assessment against the criteria.

Table 3.1 Summary of IPART’s assessment against criteria in the Guidelines

Criterion	IPART findings
1. Need for and purpose of the special variation must be clearly articulated in the council’s IP&R documents. Evidence could include community need/desire for service levels/projects and limited council resourcing alternatives, and the assessment of the council’s financial sustainability made by the NSW Treasury Corporation (TCorp). The LTFP must include scenarios both with and without the special variation.	<ul style="list-style-type: none"> ▼ The Delivery Program and Long Term Financial Plan indicate a special variation is needed to improve financial sustainability and fund renewal of roads and other infrastructure. ▼ TCorp observed that the council “needs to find a way to increase their overall operating position”.
2. Evidence that the community is aware of the need for, and the extent of, the proposed rate rises. The IP&R documents should clearly explain the rate rise, canvas alternatives to the rate rise, the impact of any rises on the community, and the council’s consideration of community capacity and willingness to pay higher rates. The council should demonstrate use of an appropriate variety of engagement methods to raise community awareness and provide opportunities for input.	<ul style="list-style-type: none"> ▼ The council used a variety of engagement methods to make the community aware of the need for, extent of, and alternatives to the rates increases. The council also considered the community’s capacity and willingness to pay. ▼ Although requirements regarding alternatives to the rate increase and the community’s capacity or willingness to pay were not met in the IP&R documentation, the council considered these in subsequent special variation related community consultation.
3. Impact on affected ratepayers must be reasonable, having regard to current rate levels, existing ratepayer base and the proposed purpose of the variation. The council’s IP&R process should establish that proposed rate rises are affordable, having regard to the community’s capacity to pay.	<ul style="list-style-type: none"> ▼ The impact on ratepayers is large. However, Tenterfield’s ratepayers are paying relatively lower rates in comparison with surrounding councils with similar social characteristics. ▼ We judge the increases from the special variation to be reasonable given the current low level of rates and the dollar value of the increases.
4. Delivery Program and LTFP must show evidence of realistic assumptions.	We consider the council’s forecasting assumptions are realistic and meet the criterion.
5. Productivity improvements and cost containment strategies realised in past years must be explained, as well as plans to realise savings over the proposed special variation period.	The council has undertaken initiatives to improve productivity, as well as align activities with its strategic plan, but has not detailed initiatives for the future.
6. IPART’s assessment of the size and resources of the council, the size of the increase, current rate levels and previous increases, the purpose of the special variation and other relevant matters.	No relevant matters.

Source: Tenterfield Shire Council, *Special Variation Application Form – Part A*, Tenterfield Shire Council, *Special Variation Application Form – Part B*, Tenterfield Shire Council Application Part B, Attachment 8, *Long Term Financial Plan 2013 to 2023*, Tenterfield Shire Council Application Part B, Attachment 3, *Four Year Delivery Program 2013-2017*, adopted 26 June 2013.

The sections below discuss our findings for some criteria in more detail.

3.1 Need for and purpose of the special variation

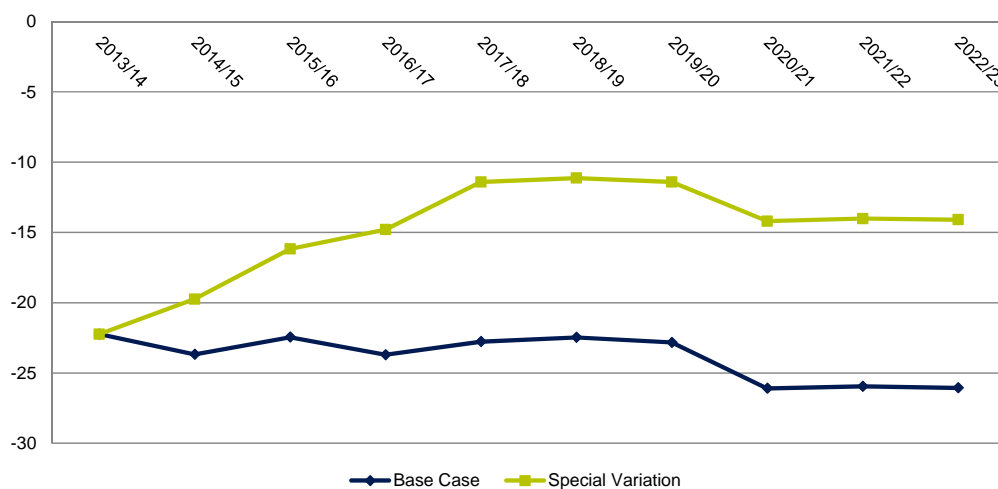
The need for and purpose of the requested special variation is set out in the council’s IP&R documents. The special variation will help improve the long term financial sustainability of the council and at the same time fund a program of infrastructure renewal.⁴ The council estimates the special variation will raise \$10.0m over 10 years, of which \$9.6m will be spent on asset renewal and \$0.4m on operating expenditure (interest expenditure).

Improved financial sustainability

The council has ongoing operating deficits that will be larger without the special variation. The LTFP forecasts that if the special variation is approved the council’s operating deficits will be less by \$9.1m over 9 years.⁵ Even with the special variation the operating deficit will remain close to \$2.0m a year, or 14% of operating income.

Figure 3.1 below illustrates the improvement in the council’s operating deficits resulting from the special variation increase.

Figure 3.1 Tenterfield Shire Council – operating ratio (excluding capital) (%)



Data source: Tenterfield Shire Council Application Part B, Attachment 8, *Long Term Financial Plan 2013 to 2023*, and IPART calculations.

⁴ Tenterfield Shire Council, *Special Variation Application Form – Part B*, 24 February 2014, (Tenterfield Shire Council Application Part B), pp 20-21.

⁵ Tenterfield Shire Council Application Part B, Attachment 8, *Long Term Financial Plan 2013 to 2023*, and IPART calculations.

The council indicated in its Delivery Program that it needs a special variation to assist in achieving financial sustainability and for road infrastructure, including the Main Street Masterplan.⁶ The council also indicated in its LTFP that:

- ▼ it would apply to IPART for an increase
- ▼ it had discussed asset service levels required with the community
- ▼ an increase in funding to support asset service levels was supported by the council's asset management planning.⁷

Asset renewal

Most of the special variation related renewal spending relates to roads and bridges (83%), but includes smaller amounts for buildings, saleyards, drainage and cemeteries (Appendix A).⁸ This will partly address the council's infrastructure backlog which was \$51.0m in 2012/13 (excluding water, sewer and other funds). Almost the entire backlog relates to roads, footpaths, bridges and causeways.⁹

In 2013, NSW Treasury Corporation (TCorp) observed that the council's financial position was 'Weak', and considered its outlook to be 'Negative'.¹⁰ TCorp noted that the council's LTFP forecast continuing operating deficits for the next 10 years. TCorp also highlighted the council's reliance on external funding from grants and contributions.¹¹

TCorp noted that after 2011/12, the council would be spending less than required to maintain assets in a satisfactory condition.¹² The report specifically mentioned the poor state of Mt Lindesay Road and the council's 62 timber bridges.¹³

⁶ Tenterfield Shire Council Application Part B, Attachment 3, *Four Year Delivery Program 2013-2017*, adopted 26 June 2013, p 5.

⁷ Tenterfield Shire Council Application Part B, p 23.

⁸ Tenterfield Shire Council Application Part B, p 21.

⁹ Tenterfield Shire Council, *Special Schedules for year ended 30 June 2013*, Special Schedule 7, pp 16-17 (Published in the same document as Tenterfield Shire Council, *General Purpose Financial Statements for the year ended 30 June 2013*).

¹⁰ New South Wales Treasury Corporation, *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

¹¹ New South Wales Treasury Corporation, *Tenterfield Shire Council, Financial Assessment, Sustainability and Benchmarking Report*, 11 March 2013 (TCorp Report), p 5.

¹² TCorp Report, p 16.

¹³ TCorp Report, p 19.

TCorp concluded that Tenterfield Shire Council needed to:

...source additional funds and reduce expenses...to return it to a breakeven position... [and] is very reliant on grants as a core source of revenue and for future capital expenditure. [The] council needs to find a way to increase their overall operating position either through increased revenue by way of a [special rate variation] or reduce spending through cost cutting.¹⁴

The council application describes recently undertaken cost cutting measures including, a corporate review and restructure, prioritising maintenance and renewal works over new infrastructure, requiring a business case for all new infrastructure, redeploying staff to frontline duties and passing more responsibility and multiple activities to senior staff.¹⁵

The council's Delivery Program and Long Term Financial Plan indicated that a special variation will help reduce the council's ongoing operating deficits (and improve financial sustainability), as well as fund asset renewal to help address the council's infrastructure backlog. We conclude that the need for, and the purpose of, the special variation has been demonstrated through the council's IP&R documents.

3.2 Community engagement and awareness

Community engagement

The council has clearly spelt out the need, extent and impact of the special variation in its IP&R documents, but the documents did not canvass alternatives to the increase nor consider the community's capacity and willingness to pay. However, alternatives to the increase and the community's capacity and willingness to pay were discussed extensively during community consultation that occurred after the adoption of the IP&R documents. The council also considered the results of the community meetings and community submissions.

The council engaged with its community using a variety of methods, including:

- ▼ media releases
- ▼ community meetings
- ▼ a letter from the General Manager to all ratepayers
- ▼ a newsletter to all ratepayers.¹⁶

¹⁴ TCorp Report, p 34.

¹⁵ Tenterfield Shire Council Application Part B, pp 51-52.

¹⁶ Tenterfield Shire Council Application Part B, Attachment 18, *Media Releases*, dated 8 November 2012, 30 May 2013, 15 November 2013, 3 December 2013, and 28 January 2014; Tenterfield Shire Council Application Part B, Attachment 16, *Council Communications Newsletter*, February 2014; Attachment 17, *Council Mailout to Ratepayers*, 25 September 2014; Attachment 19, *Community Consultation - Financial Sustainability*; and Attachment 21, *Community Consultation - Our Infrastructure Presentation*.

A letter to ratepayers sent on 25 September 2013 examined alternatives to the rate increase including:

- ▼ further reductions in operating costs
- ▼ a management restructure that would improve productivity
- ▼ selling assets
- ▼ increasing lease fee revenue.¹⁷

The alternatives were then discussed at community meetings. The council also discussed productivity improvements already achieved, including changes to the organisation structure, new staff performance measures and changes to property management policies.¹⁸

Consultation outcomes

The council held a round of community meetings in 2013. These were attended by 325 people, and 37 submissions were subsequently received by the council. Feedback from the meetings and summaries of the submissions were considered by councillors in November 2013.

Issues raised in the 37 submissions variously argued for:

- ▼ a lower rate increase
- ▼ greater council efficiency
- ▼ reduced services
- ▼ greater grants income
- ▼ incapacity of the community to pay.¹⁹

In response, the Council amended its proposed application. Previously the council had considered increases of a cumulative 77.8% over 7 years.²⁰

¹⁷ Tenterfield Shire Council Application Part B, Attachment 17, *Council Mailout to Ratepayers*, 25 September 2013.

¹⁸ Tenterfield Shire Council Application Part B, Attachment 19, *Community Consultation – Financial Sustainability*, pp 7-8.

¹⁹ Tenterfield Shire Council Application Part B, Attachment 13, *Council Report regarding the special variation application*, 27 November 2013. Some submissions also supported the proposed increase, others generally opposed it and others raised unrelated local issues.

²⁰ Tenterfield Shire Council Application Part B, Attachment 14, *Council Minute Resolution*, 27 November 2013.

Submissions to IPART

IPART received 81 written submissions comprising 66 form letters and 15 individual submissions. All opposed the rate increase. We reviewed the submissions including any additional comments that were added to the form letters. Issues raised were:

- ▼ increase is unaffordable (81)
- ▼ the council is inefficient or provides poor service (81)
- ▼ the council already has sufficient income (70)
- ▼ maladministration by councillors or council staff (12)
- ▼ reduced land values should mean reduced rates (8)
- ▼ special variation consultation was insufficient (8)
- ▼ community meetings were conducted unfairly (7)
- ▼ increase amount is excessive (3)
- ▼ outstanding rates are relatively high (2)
- ▼ surrounding councils are not comparable (eg, soil types, commodities farmed) (2)
- ▼ other charges (water and sewer) are already high and are used to subsidise general fund (2)
- ▼ hardship policy too narrow in application (1).

We have considered these submissions when making our assessment of Tenterfield Shire Council's special variation application. The first 3 issues reflect the content of the 66 form letters. Not all issues were relevant to the application. For example, a general land revaluation may affect individual rate assessments, but it does not affect the total amount of rates income the council is permitted to raise.

We conclude that although requirements to canvass alternatives to the rate increase and the community's capacity or willingness to pay were not met in IP&R documentation, the council's community consultation materials did meet this aspect. In particular, the council has shown that it took reasonable steps to make the community aware of the alternatives and considered feedback from the community when deciding to apply.

3.3 Reasonable impact on ratepayers

We consider that the impact of the special variation on ratepayers, although large, is reasonable given the current low level of rates.

Our assessment of impact on ratepayers

The impact of the increases on ratepayers is large however Tenterfield's ratepayers are paying relatively lower rates in comparison with surrounding councils with similar social characteristics.

Tenterfield has the lowest average residential and farmland rates (and the third lowest average business rates) of other councils in the region. While the council has the lowest average taxable income amongst a group of surrounding councils, and the second lowest in NSW, we calculated average rates as a percentage of average income to assess affordability.²¹ We found Tenterfield has the lowest ratio of average rates to average income of council's in the region.²²

The Tenterfield LGA has a SEIFA ranking of 14 indicating it is relatively disadvantaged however this is comparable with all councils in the region (except Uralla Shire Council).²³

Table 3.2 compares socio-economic measures for Tenterfield Shire Council with surrounding councils.

Table 3.2 Tenterfield Shire Council - socio-economic and rates affordability statistics compared with surrounding councils

Council	Average income ^a (\$)	SEIFA ranking	Average residential rates/average income ^b (%)
Inverell Shire Council	32,736	18	2.5
Clarence Valley Council	33,467	13	2.3
Kyogle Council	29,920	11	2.2
Richmond Valley Council	32,991	7	1.8
Glen Innes Severn Council	30,315	20	1.8
Uralla Shire Council	34,503	94	1.4
Guyra Shire Council	32,068	27	1.3
Tenterfield Shire Council	28,733	14	1.1

a Average annual income is for 2010 and includes income from all sources excluding government pensions and allowances.

b Average residential rates are for 2011/12 and equal total ordinary residential rates revenue divided by the number of residential assessments. Excludes mining rates.

Source: OLG, unpublished data; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013, ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

²¹ ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013.

²² Table 3.2.

²³ SEIFA (Socio Economic Indexes for Areas) is published by the Australian Bureau of Statistics and measures relative disadvantage. LGAs (Local Government Areas) are ranked from 1 to 153, with 153 being the least disadvantaged, and Table 3.2.

Table 3.3 compares the council's 2011/12 average rates for each ratepayer category against a group of surrounding councils. Tenterfield Shire Council has:

- ▼ the lowest average residential and farmland rates of the group
- ▼ the second lowest average business rates
- ▼ average rates that are below the average and median of the group in all 3 ratepayer categories.²⁴

The low rates for Tenterfield Shire Council are not surprising, given that in the last 10 years the council has only received 1 small and temporary special variation of 4.97% (1.47% above the rate peg) that expired after 1-year. In addition the council reduced rates in the business rates category once in the past 10 years, and farmland rates in 3 of the past 10 years.²⁵

We estimate that even after the proposed increases the council's rates will still be relatively low.²⁶

Table 3.3 Average Rates for Tenterfield Shire Council and surrounding councils 2011/12 (\$)

Council	Residential	Business	Farmland
Inverell Shire Council	822	3,009	2,254
Clarence Valley Council	784	2,045	1,133
Kyogle Council	648	966	1,229
Richmond Valley Council ^a	604	1,648	1,034
Glen Innes Severn Council ^a	546	1,247	1,876
Uralla Shire Council	473	472	3,405
Guyra Shire Council ^a	409	612	2,103
Tenterfield Shire Council	318	722	1,006
Average	576	1,340	1,755

^a Richmond Valley Council, Glen Innes Severn Council, and Guyra Shire Council have applied for a special variation in 2014/15.

Source: OLG, *Comparative Information on NSW Local Government*, October 2013, pp 93, 127, 147, 167, 181, 255, 279 and 291, and IPART calculations.

The council's consideration of impact on ratepayers

The council has discussed the impact of the rate increase on ratepayers in its LTFP.²⁷ The application documents also outline the relative levels of socio-economic disadvantage and average level of rates compared to similar councils.²⁸

²⁴ We also note that the council has average rates well below the OLG Group 10 and NSW averages in all ratepayer categories (Table C.2).

²⁵ OLG annual comparative data publications and IPART calculations.

²⁶ IPART calculations.

²⁷ Tenterfield Shire Council Application Part B, Attachment 8, *Long Term Financial Plan 2013 to 2023*, p 11.

²⁸ Tenterfield Shire Council Application Part B, pp 36-38 and 44.

A report was considered by councillors during a Council meeting on 27 November 2013, and the proposed application amount was reduced.²⁹

Although the criterion does not require councils to demonstrate community support for the special variation, the council's application states the community broadly supports the application. This assertion is based on the fact a low number of submissions were received (37), and the council's analysis that 25% of the submissions supported the application either partially or in full.³⁰ We also reviewed the submissions and found a similar number supported the increase.³¹ In addition IPART received 81 submissions, of which 66 were a form letter, none of which supported the application. From our analysis we conclude that broad support for the special variation cannot be proven.

We note the council has a hardship policy that includes provision to defer rates and write off accumulated interest on rates.³²

Tenterfield is comparable with other council areas in its region and its ratepayers are paying lower than average rates both in absolute terms and relative to incomes. We therefore conclude that the increases from the special variation, although significant, are reasonable given current rates are low and the dollar amount of the increases.

4 What does our decision mean for the council?

Our decision means that Tenterfield Shire Council may increase its general income over the 4 year period from \$2.8m in 2013/14 to \$4.3m in 2017/18 (see Table 1.1). After 2017/18, all other things being equal, the council's permissible general income will increase by the annual rate peg unless we approve a further special variation.³³

The council estimates that over these 4 years, the additional rates revenue will accumulate to \$4.0m, or \$3.0m above the rate peg.³⁴ This extra income allows the council to improve financial sustainability by reducing forecast operating deficits and enables the council to undertake capital spending of \$9.6m over 10 years.³⁵

²⁹ Tenterfield Shire Council Application Part B, Attachment 14, *Council Minute Resolution*, 17 November 2013.

³⁰ Tenterfield Shire Council Application Part B, pp 29 and 38.

³¹ IPART calculations.

³² Tenterfield Shire Council Application Part B, Attachment 23, *Hardship Policy*.

³³ General income in future years cannot be determined with precision because it will be influenced by several factors apart from the rate peg. Those factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The OLG is responsible for monitoring and ensuring compliance.

³⁴ Tenterfield Shire Council Application Part A, Worksheet 1 and IPART calculations.

³⁵ Tenterfield Shire Council Application Part A, Worksheet 6.

5 What does our decision mean for ratepayers?

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

In its application, Tenterfield Shire Council indicated that it intended to increase rates over the 4 years differently for each category.

- ▼ Average residential rates will increase by a cumulative 57.7%, or \$71 in the first year, and \$221 over 4 years.
- ▼ Average business rates will increase by a cumulative 50.1%, or \$106 in the first year, and \$387 over 4 years.
- ▼ Average farmland rates will increase by a cumulative 52.5%, or \$122 in the first year, and \$438 over 4 years.
- ▼ Average mining rates will increase by a cumulative 54.2%, or \$90 in the first year, and \$309 over 4 years.
- ▼ Minimum rates will increase by between a cumulative 53.3% to 77.9%, or between \$135 and \$257 over 4 years.³⁶

Table 5.1 shows how much average rates are expected to increase in each main ratepayer category.

³⁶ Tenterfield Shire Council Application Part A, Worksheet 5a, and IPART calculations.

Table 5.1 Annual increases in average rates as a result of the determination (\$)

Ratepayer category – sub-category	2014/15^a	2015/16	2016/17	2017/18	Cum. total
Residential – Tenterfield	71	47	52	57	227
Residential - Tenterfield Urban ^a	562	131	144	159	996
Residential - Other	72	45	49	54	220
Residential - Urbanville	53	38	42	46	178
Residential - Jennings	50	38	42	46	176
Residential - Drake	50	38	42	46	176
Business - Tenterfield	122	95	105	116	438
Business - Other	20	42	46	51	159
Business - Urbanville	51	39	43	47	180
Business - Jennings	51	39	43	47	180
Business - Drake	52	39	43	47	182
Farmland	155	122	134	148	558
Mining	90	66	73	80	309

a The 9 assessments in the Residential – Tenterfield Urban sub-category are currently rated at a significantly lower rate than surrounding properties. To prepare for the removal of the Residential – Tenterfield Urban sub-category, following subdivision and sale of the properties it includes, the council will bring this sub-category in-line with surrounding properties. The increases for this category are 75.0% in 2014/15, and 10.0% in the following 3 years. The cumulative increase by 2017/18 is 133.0%.

Source: Tenterfield Shire Council Application Part A, Worksheet 5a and IPART calculations.



Appendices

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

Tables A.1 and A.2 show Tenterfield Shire Council's proposed expenditure of the special variation funds over the next 10 years.

The council intends to use the additional special variation revenue to fund:

- ▼ \$0.4m of extra operating expenditure
- ▼ \$9.6m to carry out a program of capital works.

The council will use the extra \$9.6m over 10 years to carry out the program of capital expenditure (Table A.2), as well as fund principal repayments for loans relating to the Main Street Renewal program (\$1.1m).

The council will indicate in its Annual Reports how its actual expenditure has evolved relative to its proposed program of expenditure.

Table A.1 Income and proposed expenditure related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Special variation income above rate peg	355	595	864	1,167	1,167	1,167	1,167	1,167	1,167	1,167	9,983
Funding for increased operating expenditures (interest expense)	36	68	62	56	50	43	36	28	20	11	410
Funding for Capital Expenditure	319	527	802	1,111	1,117	1,124	1,131	1,139	1,147	1,156	9,573

Note: Amounts are not indexed after 2017/18. Funding for capital expenditure includes repayments of \$1.1m of borrowing for Main Street renewal works.

Source: Tenterfield Shire Council Application Part A, Worksheet 6.

Table A.2 Proposed capital program related to the special variation (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Buildings renewal	132	232	140			80					584
Road construction				70							70
Road re-sheeting	245	405				149	531	476		225	2,032
Road resealing				327	327					225	879
Drainage improvements					40	40	40				120
Bridge renewal program			440	640	670	710	140	330	430	380	3,740
Saleyards renewal	15	17	33	20		24			72		180
Recreation facilities renewal		195									195
Cemeteries improvements		58	255	220	142	12					687
Total Capital Expenditure	392	907	868	1,277	1,179	1,016	711	806	502	830	8,487

Note: Amounts are not indexed after 2017/18. Totals subject to rounding.

Source: Tenterfield Shire Council Application Part A, Worksheet 6.

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

The council will also report annually against its projected revenue, expenses and operating result as classified in its Annual Financial Statements and shown in Table B.1.

Revenues and the operating result in the annual accounts are reported inclusive of capital grants and contributions and asset sales.

In order to isolate ongoing trends in operating revenues and expenses, our analysis of the council's operating account in the body of this report excluded all items of a capital nature. When they are included in the council's public reports, total revenue will be higher and the operating deficit lower (or the operating surplus higher).

Table B.1 Summary of projected operating statement for Tenterfield Shire Council, 2014/15 to 2023/24 (\$000)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	16,265	16,497	16,868	17,491	17,917	14,954	15,228	15,549	16,244
Total expenses	12,613	12,943	13,337	13,651	14,027	14,414	14,987	15,354	15,789
Operating result from continuing operations	3,652	3,555	3,531	3,840	3,890	540	241	195	455

Source: Tenterfield Shire Council, *Long Term Financial Plan 2013 to 2023*, Appendix A – SRV 15% + 10% x 3 years Scenario 1, Income Statement - General Fund.

C Comparative indicators

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

In Table C.1 we show how selected indicators for Tenterfield Shire Council have changed over the 3 years to 2011/12.

Table C.1 Trends in selected indicators for Tenterfield Shire Council, 2009/10 to 2011/12

Productivity (labour input) indicators^a	2009/10	2010/11	2011/12	Average Change (%)
FTE staff (number)	100	93	95	-2.5
Ratio of population to FTE	70	76	74	2.6
Average cost per FTE (\$)	49,690	60,161	61,895	11.6
Employee costs as % operating expenditure (General Fund only) (%)	35.4	40.7	32.2	
Consultancy/contractor expenses (\$m)	0.5	0.4	0.6	9.1
Consultancy/contractor expenses as % operating expenditure (%)	3.5	3.0	3.1	

^a Based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

In Table C.2 we compare selected data on Tenterfield Shire Council with the average of the councils in the OLG Group and with NSW councils as a whole.

Table C.2 Select comparative indicators for Tenterfield Shire Council, 2011/12

	Council	OLG Group 10 average^a	NSW average
General profile			
Area (km ²)	7,134		
Population	7,024		
General Fund operating expenditure (\$m)	15.2		
General Fund operating revenue per capita (\$)	1,680	2,580	2,011
Rates revenue as % General Fund income (%)	21.4	24.6	45.7
Average ordinary rate indicators^b			
Average rate – residential (\$)	318	492	685
Average rate – business (\$)	722	1,077	2,552
Average rate – farmland (\$)	1,006	2,192	2,123
Socio-economic/capacity to pay indicators^c			
Average annual income for individuals, 2010 (\$)	28,733	35,157	44,140
Growth in average annual income, 2006-2010 (% pa)	2.6	2.6	3.0
Average residential rates 2011/12/ average annual income, 2010 (%)	1.1	1.4	1.6
SEIFA, 2011 (NSW rank; 153 is least disadvantaged)	14		
Outstanding rates & annual charges ratio (incl water & sewerage charges) (%)	9.8	9.2	7.0
Productivity (labour input) indicators^d			
FTE staff (number)	95	105	293
Ratio of population to FTE	74	70	126
Average cost per FTE (\$)	61,895	65,736	74,438
Employee costs as % operating expenditure (General Fund only) (%)	32.2	35.5	36.8
Consultancy/contractor expenses (\$m)	0.6	1.6	6.9
Consultancy/contractor expenses as % operating expenditure (%)	3.1	7.4	9.3

a OLG Group 10 is classified 'Rural Large Agricultural' with a population of between 5,000 and 10,000. The group comprises 25 comparable councils including: Glen Innes Severn Council, Gwydir Shire Council and Uralla Shire Council.

b Average rate equals total ordinary rates revenue divided by the number of assessments in each category.

c Average annual income includes income from all sources excluding government pensions and allowances.

d Based upon total council operations. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, unpublished data; ABS, *National Regional Profiles, NSW*, November 2011; ABS, *Regional Population Growth*, July 2012; ABS, *Estimates of Personal Income for Small Areas, 2005-06 to 2009-10*, February 2013, ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013.

