Independent Pricing and Regulatory Tribunal | NSW

Tamworth Regional Council
Special Variation Application 2024-25

Final Report

May 2024

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
Jonathan Coppel
Mike Smart

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The Independent Pricing and Regulatory Tribunal

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

Contents

1 Executive summary

Tamworth Regional Council applied to IPART to permanently increase its general income by 36.3% over a 2-year period from 2024-25 to 2025-26 inclusive.

We have approved the application.

Tamworth Regional Council (the council) applied to IPART[a] to increase its general income through a permanent special variation (SV) of 36.3% over a 2-year period from 2024-25 to 2025-26 (Table 1.1). The council told us that it intends to apply this increase across all rating categories.

Table 1.1 sets out the percentage increases that the council applied for.

Table 1.1 Annual increases under the council's application

	2024-25	2025-26
Annual increase (%)	18.50	15.00
Cumulative increase (%)		36.3
Additional annual income ($'000)	7,907.0	7,597.2

The council sought the SV to[1]:

- achieve financial sustainability
- deliver current services and maintain assets
- maintain fit for purpose infrastructure
- address backlogs in key asset categories such as roads, buildings and open space.

a The Minister for Local Government delegated the power to grant SVs to IPART. By delegation dated 6 September 2010, the then Minister for Local Government delegated to the Tribunal all functions under sections 506, 507, 508(2), 508(6), 508(7), 508A, 548(3) and 548(8) of the Local Government Act 1993 (NSW), pursuant to section 744 of that Act.

1.1 IPART's decision

We have approved the council's application, as set out in Table 1.1.

Our approval is subject to certain conditions, including that the council:

- use the additional income for the purpose outlined in its application
- report in its annual report for 2024-25 until 2030-31 the actual program of expenditure funded by the additional income and the outcomes achieved.
- The full conditions are set out in **Chapter 10**.

Our *Instrument Under Section 508A of the Local Government Act 1993 - Special Variation for Tamworth Regional Council for 2024-25* gives legal effect to this decision and sets out the conditions of approval.

1.2 IPART's assessment of the council's application

To make our decision, we assessed the council's SV application and supporting materials against the 6 criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for an SV to general income* (OLG Guidelines). Our assessment found that the council met all 6 of the Office of Local Government (OLG) criteria for its proposed SV.

Without the SV, the council's operating expenses would continue to exceed its revenue for the next several years. This is unsustainable if the council is to continue to deliver the services and infrastructure it has planned to meet community needs. The council has stated a significant portion of the additional income will be used for capital works and maintenance of roads that are important to the Tamworth community.

The council demonstrated the impact on ratepayers is reasonable, considering its differing rates per locality and the community's capacity to pay. The localities with more disadvantage within the LGA generally pay lower rates. The council's current average rates are generally lower than those of similar councils. With the approved SV, its average rates are expected to be in line with similar councils.

In response to concerns from the community about the potential impact of the SV, the council has committed to reviewing its financial hardship policy. This policy assists ratepayers who have difficulty paying their rates. The council has also resolved to provide an additional concession of $100 for eligible pensioners over the 2-year SV period. This is on top of the concession councils must provide to eligible pensioners under the *Local Government Act 1993*[2], which is half of the total ordinary rates and domestic waste management service charge, up to a maximum of $250.[3] The council's application suggests the additional concession will remain at least until 2033-34.

We also heard concerns around how well the council manages its budget and how efficiently it operates. As part of our assessment, we considered whether the council had pursued productivity savings. We found the council has quantified productivity improvement and cost containment initiatives of approximately $7.9 million per year.

We have attached reporting conditions to this SV approval and we expect the council to fully comply. IPART will consider whether a council has complied with its SV conditions in assessing future SV applications. The OLG is the body responsible for enforcing compliance with the conditions attached to SVs.

Summary of our assessment against OLG criteria

Our assessment against each criterion is summarised below. Chapters 4 – 9 provide our complete assessment, and the full criteria are set out in Appendix A.

Criteria	Grading	Assessment
01	Demonstrated	**Financial need** The council demonstrated a financial need for the SV to improve its financial sustainability, maintain existing services and service levels, reduce infrastructure backlogs and implement new initiatives in line with its Community Strategic Plan.
02	Demonstrated	**Community awareness** The council engaged with and consulted its community and provided sufficient information about the need for and extent of the proposed SV, as well as opportunities for the community to provide feedback.
03	Demonstrated	**Reasonable impact on ratepayers** We found the impact on ratepayers is reasonable. With the SV, its average rates will be comparable to similar councils. The council will have different rates across the Local Government Area (LGA), with rates generally lower in areas with greater levels of disadvantage in the community.
04	Demonstrated	**Integrated Planning and Reporting documentation** The council exhibited and adopted all necessary Integrated Planning and Reporting (IP&R) documents before applying for the proposed SV.
05	Demonstrated	**Productivity improvement and cost containment** The council quantified productivity improvement and cost containment initiatives, over the last few years, of approximately $7.9 million per year. Its Long-Term Financial Plan (LTFP) identified and quantified its planned efficiency strategies over the proposed SV period. Although there were some shortcomings with the council's planned initiatives, based on our assessment of the council's savings to date, we found it has met this criterion.
06	Demonstrated	**Other matters IPART considers relevant** The council was granted one SV – a permanent additional special variation (ASV) of 2% in 2022-23.[4] The council was also granted a 14.6% SV in 2012-13. The council has complied with the conditions of both SVs.

1.3 Stakeholders' feedback

Councils are required to consult with their communities as part of the IP&R framework. The OLG criteria that we assess SV applications against requires us to look at the consultation the council has undertaken as part of our assessment.

Tamworth Regional Council consulted on its proposed SV with its community using a variety of engagement methods. The council received 114 written submissions, recorded 872 survey responses, held public meetings, published website content that had 6,613 views and reached 9,904 visitors through a social media campaign.[5]

The council has about 29,000 rateable properties.

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period and invited stakeholders to provide feedback directly to IPART.

Through this process, we received 1421 responses to our feedback form, and 388 additional submissions on Tamworth Regional Council's proposed SV. These submissions and responses raised several concerns including:

- affordability of the proposed rate increases
- the council's financial management
- poor general service levels and infrastructure.
- the council's consultation with the community
- the community's willingness to pay for an SV
- impact of recent land valuations on the council's income.

We consider stakeholder feedback in more detail in Chapter 3 and throughout this report as relevant to our assessment.

1.4 Next steps for the council

Our determination sets the maximum amount by which the council can increase its general income over the 2-year period from 2024-25. The council can defer rate increases up to this maximum amount for up to 10 years.[6] It retains the discretion to revise how it raises its general income across the rating categories. We encourage the council to consult with its community to decide how best to implement the increase and any changes to the rating structure. The council has proposed to increase rates as set out in Table 1.2.

We expect the council to continue to pursue productivity improvements, to minimise costs to ratepayers and ensure its financial stability over the long term.

Table 1.2 Average rate increases under the approved SV

	2024-25	2025-26	Cumulative increase
Residential	18.5%	15.0%	36.3%
Business	18.5%	15.0%	36.3%
Farmland	18.5%	15.0%	36.3%
Mining	18.5%	15.0%	36.3%

Note: These figures have been rounded in calculation. These are the council's proposed increases, but it retains the discretion to determine the structure of its rates.
Source: IPART calculations.

The rest of this report explains how and why we reached our decision on Tamworth Regional Council's special variation application in more detail.

2 The council's special variation application

This section of our report sets out the council's proposal and summarises the information that the council provided to support its application. The full application and all non-confidential supporting documents are available on our website.

The council applied for a multi-year SV with a cumulative increase of 36.3% over the 2 years from 2024-25 to 2025-26. Table 2.1 sets out the percentage by which the council proposed to increase its general income, and the expected annual revenue this would raise.

Table 2.1 Proposed SV

	2024-25	2025-26
Annual increase (%)	18.50	15.00
Cumulative increase		36.3
Additional annual income	7,907	7,597

Source: Tamworth Regional Council, Application Part A, WS 2 and WS 6

The proposed SV is permanent. This means that the increases would remain in the rate base permanently. The council's general income would not be reduced at the end of 2025-26.

The council sought the special variation to[7]:

- achieve financial sustainability
- deliver current services and maintain assets
- maintain fit for purpose infrastructure
- address backlogs in key asset categories such as roads, buildings and open space.

2.1 Impact of the proposed special variation on ratepayers

The council proposed that rates would increase for all categories over the 2 years of the SV.[8] It proposed that, on average:

- **residential rates** by 2025-26 would increase by $434.3 or 36.3%
- **business rates** by 2025-26 would increase by $1,506.9 or 36.3%
- **farmland rates** by 2025-26 would increase by $779.2 or 36.3%
- **mining rates** by 2025-26 would increase by $3,654.1 or 36.3%.

The council provided the number of rate notices it expects to issue for 2024-25. See Table 2.2.

Table 2.2 Number of notices per category in 2024-25

Ratepayer category	Number of rate notices
Residential	24,073
Business	1,778
Farmland	3,032
Mining	2
Total	28,885

Source: Tamworth Regional Council, Part A application Worksheet 4.

2.2 The council's assessment of affordability and capacity to pay

The council assessed the affordability of the proposed rate increases, including the community's capacity to pay.

The council's analysis considered the levels of social disadvantage, vulnerable groups and household expenditure in the Tamworth Regional local government area (LGA) relative to other areas.[9] It found that the LGA generally has higher levels of advantage and lower levels of disadvantage compared to Greater Sydney, NSW and Australia.[10] The findings concluded that ratepayers do have a capacity to pay, particularly if supported by appropriate hardship policies.[11]

The council indicated that it has a financial hardship policy to assist ratepayers who have difficulty paying their rates. The policy allows residents to enter different types of payment plans, and the council to write-off accrued interest and defer amounts owing against estates.[12]

The council also noted it has resolved to provide an additional concession of $100, in consideration of the proposed SV's impact.[13] This is on top of the concession councils must provide to eligible pensioners under the *Local Government Act 1993*, which is half of the total ordinary rates and domestic waste management service charge, up to a maximum of $250.

2.3 Impact of the proposed SV on the council's general income

The council estimated with its proposed SV, of a cumulative increase of 36.3%, would increase its permissible general income from $42.7 million to $58.2 million after the 2 years, which would remain permanently.[14]

2.4 Further information provided

Following our preliminary assessment of the council's application, we asked the council to provide further clarification on:

- its forecast of the SV expenditure
- the accuracy of the backlog ratio and cash and cash equivalents in the LTFP
- the incorporation of present and future savings into its LTFP.

The council provided correspondence to clarify the items above. We considered this additional information in our assessment.

3 Stakeholders' feedback to IPART

We expect the council to engage with its community so that ratepayers are fully aware of any proposed special variation and the full impact on them. This is one of the criteria we use to assess the council's application (see Chapter 5 for our assessment, and Appendix A for the full criterion).

As a further input to our assessment, we published the council's application on our website for a 3-week consultation period from 27 February 2024 to 18 March 2024, inclusive. Stakeholders could complete a survey-style feedback form and make submissions directly to us.

The Tribunal has taken all stakeholder feedback into account in making its decision in accordance with our Submissions Policy, including the responses to our feedback form and any confidential submissions. In this section, we summarise the key issues raised in the feedback form and all published (non-confidential) submissions.

3.1 Summary of feedback we received

We received 1,421 responses to our feedback form, and 212 additional public submissions from stakeholders. We also received 176 confidential submissions from stakeholders.

There are approximately 29,000 rateable properties in the council's local government area. There are 24,073 residential assessments, 1,778 business assessments, 3,032 farming assessments, 2 mining assessments.[15]

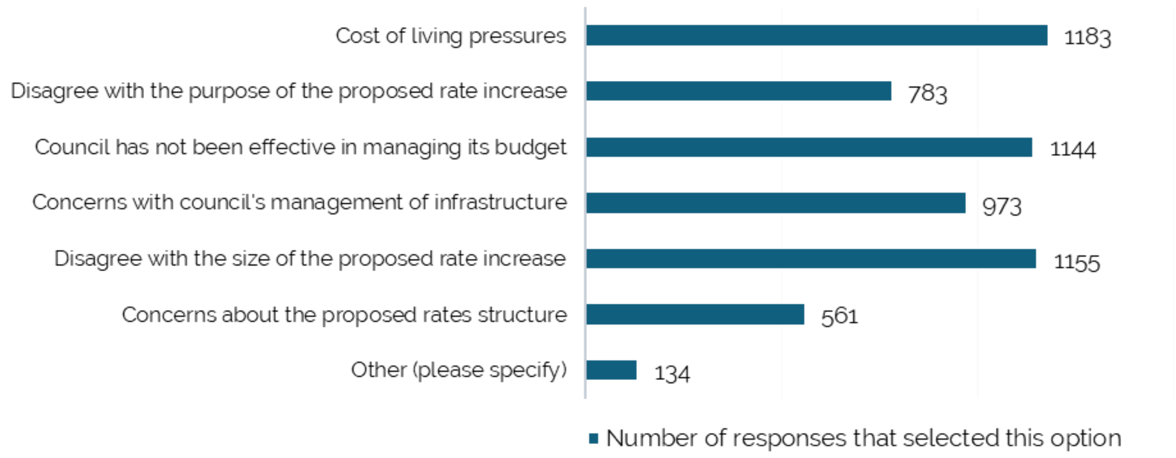
3.1.1 Response to the feedback form

We published a feedback form to assist stakeholders to provide information to IPART. This sought stakeholders' sentiments on the proposed SV generally, and specifically on the topics of affordability, the council's consultation, and council financial management. We note that while this was a survey-style feedback form, it was not a statistically representative survey and participants self-selected to provide feedback.

Through this feedback form, 1334 respondents were opposed to the proposed SV, 76 partly supported it, and 11 supported it.

Figure 3.1 and Figure 3.2 show the main reasons that stakeholders said they would or would not support the proposed rate increase.

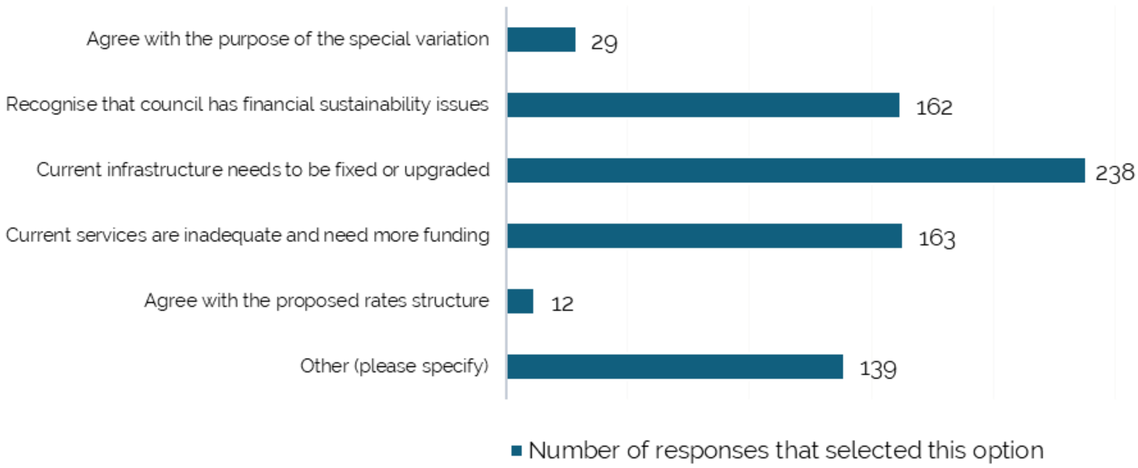
Figure 3.1 Reasons that respondents said they oppose the proposed SV



Note: We received 186 responses. For this question, respondents could select more than one option. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.

Source: IPART

Figure 3.2 Reasons that respondents said they support the proposed SV



Note: We received 186 responses. For this question, respondents could select more than one option. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.

Source: IPART

The other responses to the feedback are considered in Chapters 5, 6 and 8. The full results are available in Appendix C.

3.2 Summary of issues raised

The key issues and views raised in these submissions and the feedback form, and our responses to them, are summarised below.

3.2.1 Affordability of proposed rates increases

More than half of the submissions we received raised concerns about the impact of the council's proposed SV on the affordability of rates. Many of these said that the timing of the SV was poor in the current economic climate. They cited increasing costs of living noting that any increases in rates would have a detrimental effect. Some submissions by ratepayers on fixed incomes were concerned the increase will be unaffordable and cause them to move.

We have considered these concerns and outlined our conclusion in Chapter 6.

3.2.2 The council's financial management

Approximately one-third of submissions raised concerns that the council has not used its resources efficiently and that the proposed SV is a way for the council to mitigate the impacts of its financial mismanagement. Many of these submissions noted the council's discretionary projects and questioned the relevance of these plans given the council's aim of improving its financial sustainability. Some noted that the council used its funds for a councillor to go on an overseas trip.

As the council is responsible for managing its finances, IPART's ability to assess the council's financial decisions outside of the SV assessment is limited. We have considered these concerns and outlined our conclusion in Chapter 4.

3.2.3 The council's current services and infrastructure

Around a quarter of the submissions we received put forward the view that the council's current services and infrastructure are unsatisfactory. Several stated that transport infrastructure was in disrepair, and services such as mowing grass were inadequate. One said the council is more concerned about expanding the city to 100,000 residents than providing the services it is supposed to.

We have considered these concerns and outlined our conclusion in Chapter 4.

3.2.4 The council's consultation with the community

Some submissions to IPART put the view that the council's community consultation on the proposed SV was poor. Some said the council had not taken on stakeholders' feedback, noting that the council had pursued an SV even though the majority of the submissions to the council were opposed to this. Some submissions we received noted the community meetings were only available at short notice. Another said there was no clear communication regarding the purpose of the substantial increase.

We have considered these concerns and outlined our conclusion in Chapter 5.

3.2.5 The community's willingness to pay for a special variation

Around a quarter of stakeholders who made submissions to IPART indicated they were unwilling to pay for some of the council's proposed projects. For example, some expressed the view that the council should spend on essential services and infrastructure rather than pursuing a 'wish-list'. They put the view that the council would use the SV to fund non-essential projects, including an aquatic centre, lookout, plaza and others.

We have considered these concerns and outlined our conclusion in Chapter 6.

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

Some submissions said that rates would already increase considerably due to the recent land valuations. They noted that an SV on top of revised valuations would lead to a significant rate rise.

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] Changes in land valuations can mean 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 (or sub-category)
- the property's unimproved land value.

The variable component of rates, 'ad valorem', is determined as:

ad valorem component = amount in the dollar × 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. For example, if overall land values increase, it may need to reduce the 'amount in the dollar' charged.

A routine increase in a ratepayer's land value by the Valuer-General does not mean that a 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 Our assessment: OLG Criterion 1 – Financial need

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

For this criterion, we found that the council has demonstrated a financial need for the SV.

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

Note: See Appendix A for the full criterion.

To assess whether the council met this criterion, we reviewed the council's IP&R documents and the information in its application. We undertook our own analysis of the council's financial performance and position. We also considered stakeholders' comments on financial need received via our feedback form and submissions. We do not audit council 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 Stakeholder comments on financial need

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

- non-essential projects should be deferred to avoid an SV
- the need for rate increases results from poor financial management and oversight
- additional funds could come from efficiency savings, including cutting the council's staff numbers and reducing its reliance on consultants.

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

4.2 The council's IP&R documents

We found that the council's IP&R documents, including its Long-Term Financial Plan (LTFP), Delivery Program and Asset Management Strategy, identify and articulate the need for and purpose of the SV.

The documents state that the proposed SV of 36.3% over 2 years is needed to:

- achieve financial sustainability

- deliver current services and maintain assets
- maintain fit for purpose infrastructure
- address backlogs in key asset categories such as roads, buildings and open space.

The Community Strategic Plan also states the council has a strategy to grow Tamworth to a city of 100,000 by 2041. Stakeholders have told us this could be another possible driver of the SV. The strategy includes the following discretionary projects[16]:

- Tamworth Regional Skywalk
- Remediation of asbestos containing materials in Ray Walsh House
- Develop sports and recreation in Victoria Park, Bicentennial Park and Chaffey Park
- Upgrade transport in Jewry Street, Moore Creek Road and CBD
- Aquatic facilities (renewing old facilities and building a new facility)
- Animal rehoming pound.

However, the council has also deferred a number of projects such as the redesign of Ray Walsh House, construction of a Performing Arts Centre and additional car parks for Tamworth CBD until economic conditions improve. The council has stated it has made a decision to focus on seeking only sufficient revenue needed to renew current assets and remain financially sustainable. It is looking at completing studies on the best options to procure and fund these discretionary projects at a later time.[17]

We also found the IP&R documents clearly communicate the canvassing of alternatives to the SV. The Delivery Program reviewed options to improve its unrestricted cash reserves instead of the SV. For example, it notes the council is considering opportunities to raise additional income from possible sale of real estate assets, review of grant funding opportunities and possible service level decline. The LTFP already incorporates the sale of some real estate assets in its forecasts, averaging approximately $5 million dollars from 2023-24 to 2025-26 in real estate asset sales per year.[18]

4.3 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 analyse the council's financial performance and financial position and the impact the proposed SV would have on these. This involved calculating financial forecasts under 3 scenarios:

1. **Baseline Scenario** – which does not include the council's proposed SV revenue or expenditure.
2. **Proposed SV Scenario** – which includes the council's proposed SV revenue and 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.

Impact on Operating Performance Ratio

The Operating Performance Ratio (OPR) is a measure of a council's ongoing financial performance or sustainability. In general, a council with an OPR consistently greater than zero is considered to be financially sustainable because the OPR measures a council's ability to contain operating expenditure within operating revenue.[19] The OLG has set a benchmark for the OPR of greater than zero (see Box 4.1 for more information).

Box 4.1 Operating Performance Ratio

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

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

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

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

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

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

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

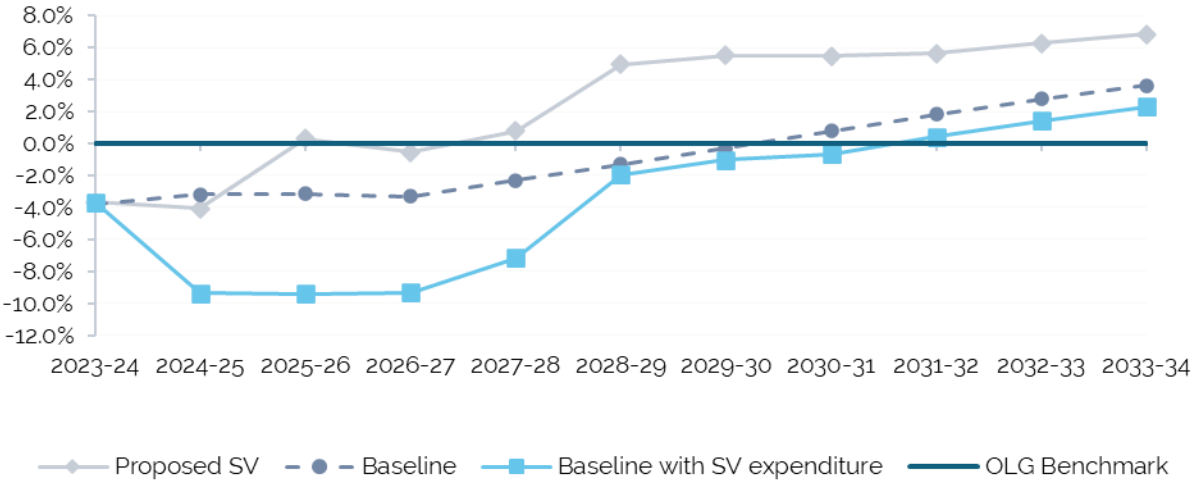
Source: Office of Local Government, *Performance Benchmarks* and *Assets*.

As set out in Figure 4.1 and Table 4.1, we found that, over the next 5 years:

- **Under the Proposed SV Scenario**, the council's OPR would meet the OLG benchmark after 2 years. Its average OPR over the five-year period would be 0.3%.
- **Under the Baseline Scenario**, the council's OPR would meet the OLG benchmark after 7 years. Its average OPR over this five-year period would be -2.6%.
- **Under the Baseline with SV Expenditure Scenario**, the council's OPR would fall further below zero percent in 2024-25. Its average OPR over this five-year period would be -7.5%.

This suggests that without the SV, the council's operating expenses would exceed its operating revenue and its finances would continue to stay below the OLG benchmark for at least 7 years.

Figure 4.1 The council's projected OPR



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

Table 4.1 The council's projected OPR under 3 scenarios (%)

	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34
Proposed SV	-4.1	0.3	-0.5	0.8	5.0	5.5	5.5	5.6	6.3	6.8
Baseline	-3.2	-3.2	-3.3	-2.3	-1.3	-0.3	0.8	1.8	2.8	3.6
Baseline with SV expenditure	-9.4	-9.4	-9.3	-7.2	-2.0	-1.0	-0.7	0.4	1.4	2.3

Source: Tamworth Regional Council, Application Part A.

Impact on net cash

A council's net cash (or net debt) position is an 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. In this section, we consider the council's cash and investments, and its net cash (debt) to income ratio. Box 4.2 explains these further.

Box 4.2 Cash and investments and Net cash (debt) to income ratio

Cash and investments

Councils hold cash and investments for a variety of purposes, but the use of these can be restricted in one of 2 ways:

Externally restricted

These funds are subject to external legislative or contractual obligations.

Internally restricted

These are 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.

Unrestricted funds can be used to fund the council's day to day operations and may be able to be used for the same purpose as the SV. In some cases, this may be enough to avoid, delay or reduce the magnitude of an SV. However, this metric does not account for any borrowings or payables that need to be settled.

Net cash (debt) to income ratio

The net cash (debt) to income ratio can show whether a council has sufficient cash reserves left over that could be used to fund the purpose of the proposed SV, *after* taking out its payables and borrowing obligations.

$$Net\ cash\ (debt)\ to\ income\ ratio\ = \frac{(Cash + Investments + Receivables) - (Payables + Borrowings)}{Total\ operating\ revenue\ (excluding\ capital\ grants)}$$

The cash and investments in this formula includes *external* and *internal* restrictions.

A positive ratio shows that a council may have access to cash reserves to help address its financial need. A negative ratio shows that a council may not have reserves to rely on to address financial sustainability issues.

For instance, a ratio of 10% means that an entity has 10 cents of net cash per $1 of operating revenue. Conversely, a ratio of -10% means that an organisation has 10 cents of net debt (i.e. -10 cents net cash) per $1 of operating revenue.

Cash and investments

On 30 June 2023, the council held a total of $80.2 million in cash and investments with[20]:

- **$50.7 million externally restricted funds.** These funds are subject to external legislative or contractual obligations. For Tamworth Regional Council, examples include developer contributions, waste management and deposits, retentions and bonds.[21]
- **$28.7 million internally restricted funds.** These are 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. For Tamworth Regional Council, examples include internal loans, cultural facilities and employee provisions.[22]
- **$0.8 million unrestricted funds.** These funds can be used to fund the council's day to day operations.

This suggests that the majority of the council's cash reserves are committed to other purposes, except for the $0.8 million that is unrestricted.

We calculated that as at 30 June 2024, the council would have net cash of $4.35 million. The council would have a net cash (debt) to income ratio of 3.8%.

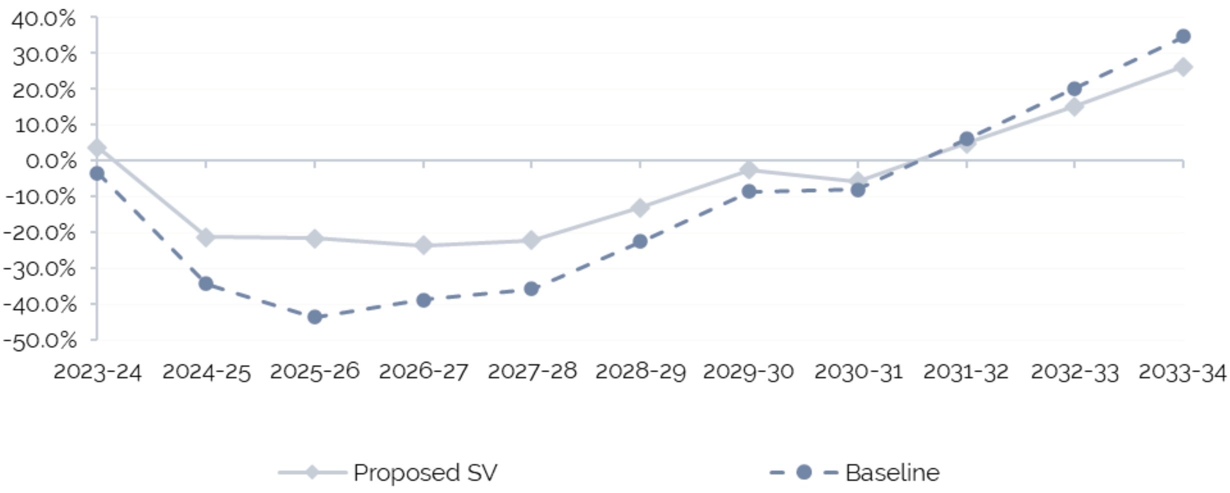
As Figure 4.2 shows, over the next 10 years:

- **under the Baseline Scenario**, the council's net cash (debt) to income ratio would decrease to -43.6% in 2025-26 before increasing to 34.6% in 2033-34
- **under the Proposed SV Scenario**, the council's net cash to income ratio would decrease to -23.5% in 2026-27 before increasing to 26.4% in 2033-34.

Taking into account the council's OPR and net cash position, we found that the council would need to raise revenue above the rate peg. The council's application suggests it has a sizeable debt balance where the net cash (debt) to income ratio decreases to -23.5% in 2026-27 under the Proposed SV Scenario. The OPR does not consider any principal repayments the council needs to repay on its loans.

The OPR also does not consider any capital expenditure planned by the council. More than half of the additional income from the proposed SV will be used for asset renewals which are capital expenses. The council has also deferred major projects which have not yet been costed or included in its forecasts. These deferred projects may have a negative impact on the council's OPR once they have been costed. The council's unrestricted cash reserve of $0.8 million is low considering the council's expenses are expected to exceed $125 million in 2024-25.[23]

Figure 4.2 The council's net cash (debt) to income ratio (%)



Source: Tamworth Regional Council, Application Part A, Worksheet 9.

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 an indicator of its financial position, and its capacity to provide services to the community. 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%.
- **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 4.3 for more information on these ratios.

Box 4.3 Infrastructure ratios for councils

Infrastructure backlog ratio

The infrastructure backlog ratio measures the council's backlog of assets against its the 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:

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

The 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

As set out in Figure 4.3, we found that over the next 5 years[c], the council's infrastructure backlog ratio would be:

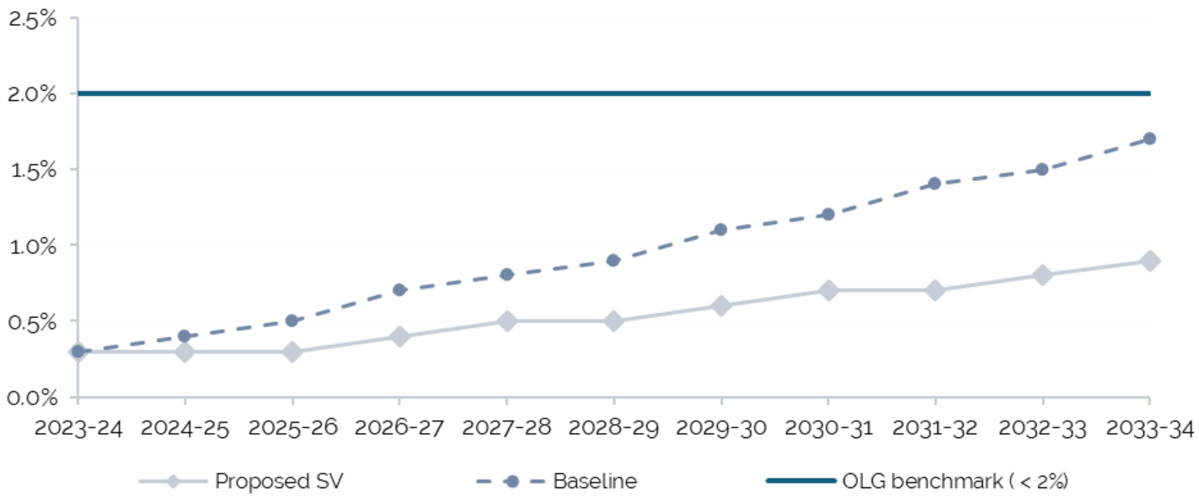
- 0.66% under the Baseline Scenario
- 0.40% under the Proposed SV Scenario.

Under the proposed SV, the council's application suggests the backlog would still increase from $3.8 million in 2023-24 to $16.0 million by 2033-34. This is less than the Baseline Scenario, in which the backlog would increase to $28.4 million by 2033-34.[24]

[c] We considered the 5-year average to smooth annual variability. Data beyond 5 years is subject to greater variability.

Our analysis shows that both with and without the proposed SV, the council's infrastructure backlog ratio would remain within the OLG benchmark of less than 2.0% for the next 10 years (Figure 4.3). However, this ratio would be slightly lower (i.e. better) with the proposed SV.

Figure 4.3 The council's infrastructure backlog ratio



Source: Tamworth Regional Council, Application Part A.

Impact on infrastructure renewals ratio

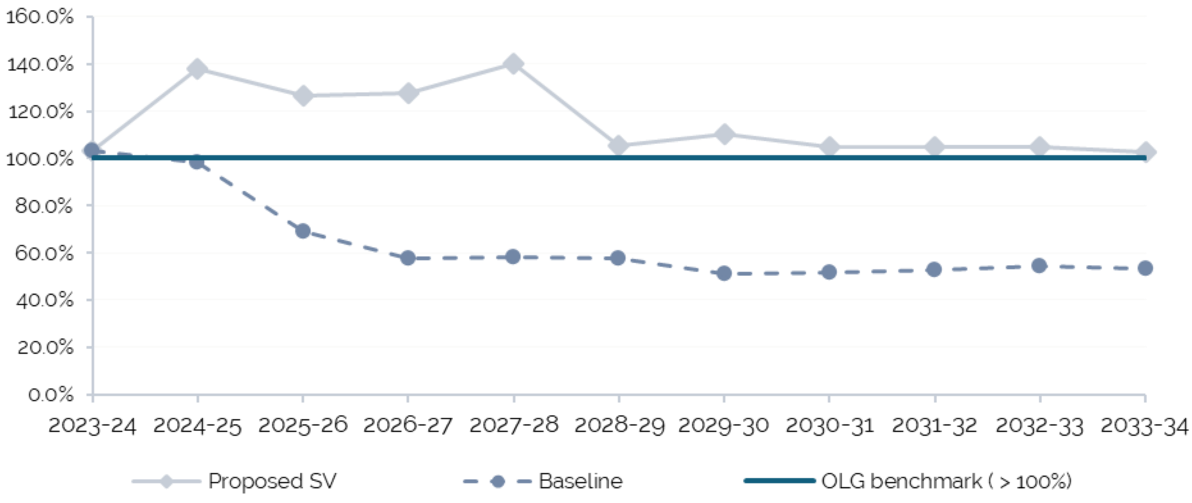
As set out in Figure 4.4, we found that over the next 5 years[d], the council's infrastructure renewals ratio would be:

- 127.6% under the Proposed SV Scenario
- 68.2% under the Baseline Scenario.

As Figure 4.4 shows, the council's infrastructure renewals ratio would exceed the OLG benchmark of greater than 100% under the Proposed SV Scenario. In comparison, the council's infrastructure renewal ratio would not meet the OLG benchmark under the Baseline Scenario.

[d] We considered the 5-year average to smooth annual variability. Data beyond 5 years is subject to greater variability.

Figure 4.4 The council's infrastructure renewal ratio (%)



Source: Tamworth Regional Council, Application Part A.

4.4 Alternatives to the rate rise

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

We found these documents do clearly show that the council adequately canvassed alternatives. For example, the Delivery Program notes that the council should explore opportunities to raise additional income from the possible sale of real estate assets, review of grant funding opportunities and possible service level decline.[25] The LTFP incorporates the sale of real estate assets in its forecasts, averaging approximately $5 million dollars from 2023-24 to 2025-26 in real estate asset sales per year.[26]

The council also considered reducing the size and impact of the SV. It has deferred a number of discretionary projects in the Community Strategic Plan until economic times are better, reducing the size of the SV.[27] The council also considered both a 1-year and a 2-year SV. It chose the latter to reduce the impact on ratepayers.[28] We also note the council's survey indicated 55% of respondents were supportive of increasing rates to invest in new facilities and develop infrastructure and 63% of respondents were supportive of increasing rates to improve and drive economic outcomes.[29]

The council's Organisation Sustainability and Improvement Plan also looked at alternative revenue sources to find cost savings and efficiency gains.[30] For example, some potential improvements include exploring a review of the development contributions scheme, decreasing community service obligations on sports fields to increase revenue and ongoing review of the pricing matrix and fees for services such as planning proposals.[31]

We also investigated whether and to what extent the council has any available deferred rate increases. We found that it does not have any available deferred rate increases.

5 Our assessment: OLG Criterion 2 - Community awareness

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

For this criterion, we found that the council demonstrated it had engaged with ratepayers on its SV application and that its community is aware of the need for and purpose of the SV.

> Criterion 2 requires the council to provide evidence that the community is aware of the need for and extent of the proposed rate increase. It requires the council to:
>
> - communicate the full cumulative increase of the proposed SV in percentage terms and in dollar terms for the average ratepayer, by rating category
> - outline its ongoing efficiency measures and performance
> - use a variety of engagement methods to ensure community awareness and provide opportunities for community input.
>
> The criterion does not require the council to demonstrate community support for the SV application.

Note: See Appendix A for the full criterion.

To assess this criterion, we considered stakeholder comments about community awareness that we received through our feedback form and submissions, and we 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.

5.1 Stakeholder comments on community awareness

In submissions to IPART and responses to our feedback form, some stakeholders raised concerns related to the council's community consultation, including that the council:

- did not respond to their concerns about the proposed SV
- was not transparent on all information related to the SV
- provided short notice to attend community meetings
- ignored community feedback by pursuing an SV, despite strong community opposition.

Further, in our feedback form, we asked respondents how much they agree or disagree with 4 statements about the community's awareness and understanding of the rate increase proposed by council.

We received 1,421 responses. There were mixed views about whether the council had adequately communicated and provided opportunity for feedback, but the majority did not agree that the council considered the community feedback in its decision making. The full results are presented in Figure C.2 in Appendix C.

We considered this feedback taking account of all the information available to us. Our assessment is discussed below.

5.2 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 generally 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 materials the council provided to ratepayers about the proposed SV were generally clear and contained the information they needed to be aware of the need for the rate increases.

The council's consultation materials set out:

- the full cumulative percentage increase of the proposed SV and the projected average rates in dollar terms for residential and business rating categories and locality
- comparison between the council's average rates (Baseline and Proposed SV scenarios) against comparable councils showing the total increase in dollar terms for all rating categories (except mining)[32]
- the need for the SV, including a brief outline of efficiency measures
- what the additional income from the proposed SV would fund
- how to find out more information.[33]

However, the council's

- Delivery Program did not set out the extent of the rate rise
- consultation materials did not set out the projected average rates in dollar terms for farming rating category.

Despite this deficiency, we found that the council provided sufficient information in its consultation materials and Long-Term Financial Plan to its community about its SV application.

Engagement methods used

We found the council used an appropriate variety of engagement methods to promote awareness of its proposed rate increase and provided opportunities for ratepayers to provide feedback. For example, its engagement activities throughout the consultation period included[34]:

- media release and alerts before and after the council meeting in which the councillors voted on the consultation for the SV
- newspaper prints from three media channels during a 6-week campaign
- various radio channels including 88.9FM, 92.9FM and 2TM
- TV advertisement in the month of October
- digital channels including social media, website, property owner newsletter and videos
- posters displayed at shops, town and village notice boards including a QR code linking to MyTRC Online Community to find out more
- targeted letterbox drop for areas such as Hanging Rock and Nundle, which had potential connectivity challenges and poor internet service
- postcards left at businesses and handed out at community meetings
- community meetings hosted across the LGA. The meetings were advertised on social media, print publications and radio.

Process for community consultation

We found the process the council used to engage with and consult the community about the proposed SV was effective. The council consulted with the community from 13 September to 31 October 2023. This consultation period provided enough opportunity for ratepayers to be informed and provide feedback on the proposal.

Outcomes of community consultation

As noted above, 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.

The council was provided a summary of the feedback it received during its SV community consultation at its meeting of 28 November 2023.[35]

We found that Tamworth Regional Council did consider these results. It engaged consultants to prepare a Community Awareness and Engagement Strategy Outcomes Report. This report indicates that during the consultation period:

- the council's online survey received 872 responses
- the council received 114 written feedback through letters, emails and online enquiries
- the council received a petition signed by 1,006 people opposing the SV[36]
- the MyTRC Online community consultation platform had 6,613 views from 3,850 unique visitors. The SV Rates calculator was downloaded 944 times

- the Facebook campaign had a reach of 9,904 visitors.[37]

The report assessed that the community's response to the proposed SV was largely negative, with many stakeholders arguing against the SV. However, it noted that many of the survey respondents understood why an SV was under consideration.

The report found that of the 872 responses to the council's online survey:[38]

- A significant majority (97%) did not support the proposed SV while 3% supported the proposed SV.
- A significant majority (89%) said they understood why the council needs to apply for the SV, while 11% did not understand.
- All respondents opposed to an SV understood that, in the absence of an SV, the council will need to review and potentially reduce services, service levels and asset conditions.

Of those who opposed the SV, feedback included:

- The proposed SV is unaffordable and excessive. Some stated they would result in financial hardship. Some of these respondents identified as pensioners.
- The council needs to achieve further operational efficiencies, productivity improvements and cost savings prior to seeking an SV. Many indicated that council should prioritise achieve further internal cost containment opportunities including reducing staffing levels, reviewing staff remuneration and achieving business process improvements.
- The council has not effectively communicated the need or purpose of the proposed SV. Several respondents suggested the council needs to undertake further community consultation. They have stated the council needs to provide more detail on the specific services, projects and programs that will be funded by the proposed SV.
- The proposed SV will only benefit Tamworth CBD rather than other localities. Some indicated these other localities' existing services are already poor and do not believe the proposed SV will result in any improvements.

In response to the outcomes of community consultation, the council resolved to:

- provide an additional concession of $50, bringing the typical concession rate[e] to $300 per annum for 2024-25 and a further $50, to $350 for 2025-26 (subject to the approval of the SV application).[39] This increase has been factored across the next 10 years in the council's application.[40]
- undertake a review of its ratepayers' hardship policies including its Financial Hardship Policy, Ratepayers Pensioners Policy, and Debt Recovery for Property Debts. These policies were placed on public exhibition from 12 December 2023 to 10 January 2024, and adopted on 27 February 2024.[41]

[e] Under the *Local Government Act 1993*, eligible pensioners are entitled to a concession of half of the total ordinary rates and domestic waste management service charge, up to a maximum of $250.

6 Our assessment: OLG Criterion 3 - Impact on ratepayers

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

For this criterion, we found that the council has demonstrated that the impact of its proposed special variation on ratepayers is reasonable.

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

Note: See Appendix A for the full criterion.

To assess this criterion, we considered stakeholder comments on the SV's impact on ratepayers received through the feedback form and submissions and analysed the council's assessment of the impact of its proposed SV on ratepayers.

We then compared the current and proposed rate levels to similar councils along with the community socio-economic indicators, and balanced this with any measures the council has in place to mitigate impacts.

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

6.1 Impact of the proposed SV on average rates

The council calculated the average impact on ratepayers. Table 6.1 sets out its expected increase in average rates in each main ratepayer category under the proposed 2-year permanent SV. It shows that from 2024-25 to 2026-27:

- the average residential rate would increase by $434 or 36.3% in total
- the average business rate would increase by $1,507 or 36.3% in total
- the average farmland rate would increase by $779 or 36.3% in total
- the average mining rate would increase by $3,654 or 36.3% in total.

Table 6.1 Impact of the proposed special variation on average rates

	2023-24	2024-25	2025-26	Cumulative increase
Residential average rates ($)	1,197	1,419	1,632	
$ increase		221	213	434
% increase		18.5	15.0	36.3
Business average rates ($)	4,154	4,923	5,661	
$ increase		768	738	1,507
% increase		18.5	15.0	36.3
Farmland average rates ($)	2,148	2,545	2,927	
$ increase		397	382	779
% increase		18.5	15.0	36.3
Mining average rates ($)	10,073	11,937	13,728	
$ increase		1,864	1,791	3,654
% increase		18.5	15.0	36.3

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

6.2 Stakeholder comments on impact on ratepayers

More than half of the submissions we received raised concerns about the impact of the proposed SV on the affordability of rates, particularly for those experiencing financial hardship. We note that there were around 24,000 residential ratepayers in the council in 2022-23. Some commented that the SV would have:

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

In our feedback form, we asked respondents how much they agree or disagree with 4 statements about the affordability of the rate increase proposed by council.

We received 1,421 responses. The majority of responses did not agree that the rate increase was affordable (disagreed or strongly disagreed). A similar proportion did not agree that the application considers financial constraints of ratepayers, considers different options to reduce the financial impact on ratepayers, or balances the community's need for services and its impact on ratepayers. The full results are presented in Figure C.3 in Appendix C.

We have considered these concerns as part of our assessment of this criterion, alongside other available information. We acknowledge that ratepayers are experiencing cost-of-living pressures, and the rate increases associated with the SV will add to those. However, on balance, we consider the impact of the increases is reasonable, given the council's proposed increase to the pensioner concession, and its hardship policy (see section 6.5) and that its average rates would be in line with comparable councils, even with the SV (see section 6.4).

6.3 The council's assessment of the proposed SV's impact on ratepayers

The criterion requires that the Delivery Program and LTFP show the impact of any rate rises upon the community, demonstrate 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.

The council's IP&R documents

We found that the council's LTFP clearly communicates the average rates per category, if the 2-year SV of 36.3% (18.5% in year 1 then 15.0% in year 2) was implemented. The LTFP also clearly shows the total (cumulative) dollar increase per rating category, after the SV.

The council's Delivery Program considers the possibility of an SV but does not specifically outline the extent of the rate rise.

The council's consideration of capacity to pay

The council's capacity to pay report provides an analysis and evaluation of relative wealth and financial capacity to pay the proposed rate increase within the Tamworth Regional local government area (LGA). It also examines the financial vulnerability and exposure of different community groups within the LGA.

The report concluded[42]:

- The LGA has pockets of disadvantage which the council should take into account with its proposed SV.
- Despite the above, the impact of the proposed SV should be proportionate to an area's disadvantage, for example average land values tend to be higher in the more advantages areas of the LGA. For instance:
  - in the more advantaged Tamworth CBD-Hallsville-Hills Plain area by 2025-26, the average residential rates could increase by up to $496 above the Baseline Scenario.
  - in the less advantaged Manilla-Barraba-Rural North area by 2025-26, the average residential rates could increase by up to $190 above the Baseline Scenario.
- The council should provide appropriate support for vulnerable ratepayers.
- Average residential, business and farmland rates based on the OLG's 2021-22 dataset shows that the council's rates for these categories are below the average of 25 comparable OLG Group 4 councils. The proposed SV would, however, move the council's average rates into the top ten amongst these 25 councils.
- There is some willingness to pay amongst the community where in a March 2022 survey 63% of respondents were somewhat supportive of increasing rates to improve economic outcomes, community services and infrastructure.

- Most localities will have a capacity to pay due to lower average increase under the proposed SV or joint lowest proportion of vulnerable households. The report singled out the locality of Tamworth-Oxley Vale-Westdale where there may be a restricted capacity. The report notes, it is particularly important the council considers vulnerable ratepayers within this locality.

6.4 Our analysis of the proposed SV's impact on ratepayers

To assess the reasonableness of the impact on ratepayers, we considered:

- how the council's rates have changed over time
- how current and proposed rates compare to councils in similar circumstances
- the community's capacity to pay based on census data and hardship data from the council
- what hardship provisions the council has in place to mitigate the impact.

We have found that the impact on ratepayers is reasonable. The council has a separate rating structure for certain localities which happens to roughly corresponds to the locality's level of disadvantage. The most disadvantaged localities also generally have lower land values resulting in lower rates. The separate rating structure and the lower land values mean although the SV will increase by the same percentage across the LGA, the SV will have a smaller dollar impact in the more disadvantaged localities. The council's current average rates are generally lower than those of similar councils. With the approved SV, its average rates for the next 4 years are expected to be in line with the average of similar councils. Median household incomes in the Tamworth Regional council area are relatively high compared to neighbouring or similar councils by SEIFA.

In response to concerns from the community about the potential impact of the SV, the council has committed to reviewing its financial hardship policy, which assists ratepayers who have difficulty paying their rates. The council has resolved to provide an additional concession of $100 to eligible pensioners, bringing the typical eligible pensioner concession from $250 to $350 in 2025-26.[43]

How the council's rates have changed over time

Over the past 5 years, the average annual growth in the council's residential rates has been higher than the rate peg. This may be due to the ASV of 2% for 2022-23. As Table 6.2 shows, residential rates have increased at an annual average rate of 3.12%, compared to the average rate peg of 2.44% over the same period.

Table 6.2 Historical average rates in Tamworth Regional Council ($nominal)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Average annual growth (%)
Residential	1,027	1,050	1,084	1,119	1,142	1,197	3.12
Business	3,109	3,175	3,306	3,693	3,767	4,154	5.97
Farmland	1,872	1,918	1,961	2,042	2,083	2,148	2.79
Mining	9,000	9,000	9,500	10,000	10,200	10,073	2.3

Note: 2022-23 rates are an estimate based on 2021-22 rates escalated by the rate peg or the council's SV. The business rate in 2020-21 is calculated by the total business rate revenue (OLG) over the number of business rate notices in Application part A, WS12
Source: OLG, Time Series Data 2021-22, Tamworth Regional Council, application Part A, IPART calculations

The council also have different residential and business rates based on the location of the rateable property. The council forecasts that ratepayers in Tamworth CBD, the most advantaged locality, will pay more than double that of ratepayer in other regions within the LGA.

Table 6.3 Average rates forecasts within Tamworth Regional Council ($)

Sub-category for Residential rates ($)	Current Average Rate 2023-24	Average Rate Year 1 2024-25	Average Rate Year 2 2025-26
Residential - Section 516 (LGA)[f]	924.41	1,095.43	1,259.74
Residential - Tamworth	1,337.61	1,585.06	1,822.82
Residential - Barraba	627.14	743.16	854.64
Residential - Manilla	617.45	731.68	841.43
Residential - Kootingal/Moonbil	515.76	611.17	702.85
Residential – Village	603.14	714.72	821.93

Source: Tamworth Regional Council, application Part A

How the council's rates compare to other councils

We compared the council's average rates currently, and what they would be with the SV, with those of similar and nearby councils. We have considered this together with the socio-economic data comparisons set out below to help us assess the reasonableness of the proposed rate increase.

Box 6.1 provides more information about how we compared councils.

[f] This sub-category is rural residential land. Section 516 of the *Local Government Act 1993* requires certain types of land (including rural residential land), or land used or designated for residential purposes, to be categorised as 'residential land'.

Box 6.1 Comparable councils

In our analysis of rate level and capacity to pay indicators, we have compared Tamworth Regional Council to other councils in several ways.

Other councils with similar Socio-Economic Indexes for Areas (SEIFA) rank

SEIFA ranks areas in Australia according to relative socio-economic factors. It is developed by the Australian Bureau of Statistics using 2021 census results. We considered the 'Index of Relative Socio-economic Advantage and Disadvantage' which includes 23 variables covering income, household make-up, housing, education levels and employment.

Tamworth Regional Council has a SEIFA rank of 39 out of 128 NSW councils. A lower number means more relative disadvantage.

We have compared the council's average rates with those of other regional councils with a similar SEIFA rank to help us assess how reasonable they are. The 4 regional councils with the closest SEIFA rank are Goulburn Mulwaree, Lismore City, Lithgow City and Midcoast councils.

Office of Local Government (OLG) groups

The OLG groups similar councils together for comparison purposes. This is based on broad measures such as level of development, typical land use and population.

Councils in each group may have some similarities in service levels and costs, although there can be some broad differences within each OLG Group.

Tamworth Regional Council is in OLG Group 4 which is considered a 'regional town/city area with population of less than 70,000', Group 4 has 26 councils in total, including Armidale Regional, Dubbo Regional, Lithgow City and Lismore City councils.[44]

Neighbouring councils

Comparing to neighbouring and nearby council areas can help ratepayers assess the level of rates they pay as they may be better able to also see differing service levels across councils.

The councils we have used for this comparison are Armidale Regional, Gunnedah Shire, Gwydir Shire, Liverpool Plains Shire, Narrabri Shire, Upper Hunter Shire, Uralla Shire and Walcha councils. We consider these councils are geographically close to, but do not necessarily share a common border.

As Table 6.4 and Table 6.5 show, in 2023-24 the council's:

- average residential rates are currently higher than its neighbouring councils but lower than its comparable councils based on SEIFA and the OLG Group.
- average business rates are currently higher than most neighbouring councils, lower than 4 of its comparable councils based on SEIFA score, and lower than the average of other Group 4 councils. The business rates are more variable amongst the comparator councils than residential rates.
- average farmland rates are low compared to most comparable councils. They are significantly lower than its neighbouring councils and lower than the average of its OLG group. By the final year of the SV, they will remain lower than neighbouring councils and be more in line with comparable councils by SEIFA and OLG group.

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

Table 6.4 Comparison of the council's average residential rates under the proposed SV

Council	Average residential rate ($)		
	Current	2024-25 (1st SV year)	2025-26
Tamworth Regional Council (OLG Group 4)	**1,197**	**1,419**	**1,632**
Neighbouring councils			
Armidale Regional	1,274	1,487	1,734
Gunnedah	1,021	1,078	1,105
Gwydir	806	842	863
Liverpool Plains	1,044	1,095	1,122
Narrabri	1,047	1,094	1,121
Upper Hunter Shire	929	971	995
Uralla	759	794	814
Walcha	730	788	843
Average	**1,058**	**1,167**	**1,276**
Comparable councils (SEIFA)			
Lismore	1,421	1,488	1,525
Goulburn Mulwaree	1,124	1,377	1,597
Mid-Coast	1,484	1,561	1,601
Lithgow	1,255	1,312	1,345
Average	**1,388**	**1,490**	**1,557**
Group 4 average (excl. Tamworth Regional Council)	**1,329**	**1,430**	**1,508**

a. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. To derive the 2023-24 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23 and 2023-24 rate peg, or if applicable, its approved SV.
c. To derive the 2024-25 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2024-25 for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2021-22; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

Table 6.5 Comparison of the council's average business and farmland rates under the proposed SV

Council	Average business rate ($)			Average farming rate ($)		
	Current	2024-25	2025-26	Current	2024-25	2025-26
Tamworth Regional Council (OLG Group 4)	**4,154**	**4,923**	**5,661**	**2,148**	**2,545**	**2,927**
Neighbouring councils						
Armidale Regional	4,637	5,410	6,311	4,050	4,725	5,512
Gunnedah	5,064	5,348	5,481	5,046	5,329	5,462
Gwydir	1,784	1,864	1,911	6,050	6,322	6,480
Liverpool Plains	1,828	1,916	1,964	6,089	6,381	6,541
Narrabri	2,621	2,739	2,807	4,204	4,394	4,503
Upper Hunter Shire	945	988	1,012	3,997	4,177	4,282
Uralla	723	755	774	4,281	4,473	4,585
Walcha	1,187	1,282	1,371	5,644	6,096	6,523
Average	**2,855**	**3,147**	**3,432**	**4,924**	**5,270**	**5,556**
Comparable councils (SEIFA)						
Lismore	4,774	4,999	5,124	2,673	2,799	2,869
Goulburn Mulwaree	5,627	6,893	7,996	1,946	2,384	2,765
Mid-Coast	4,270	4,492	4,604	1,607	1,690	1,732
Lithgow	7,246	7,573	7,762	2,484	2,596	2,660
Average	**4,883**	**5,292**	**5,583**	**1,939**	**2,077**	**2,168**
Group 4 average (excl. Tamworth Regional Council)	**4,376**	**4,713**	**4,974**	**2,727**	**2,943**	**3,113**

a. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category.
b. To derive the 2023-24 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23 and 2023-24 rate peg, or if applicable, its approved SV.
c. To derive the 2024-25 average rates for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg, or if applicable, its approved SV.
d. To derive the average rates beyond 2024-25 for comparable councils, we used OLG's time series data as at 2021-22 (latest available) and escalated this by its 2022-23, 2023-24, 2024-25 rate peg then an assumed rate peg of 2.5%, or if applicable, its approved SV.

Source: OLG, Time Series Data 2021-22; ABS, 2021 Census DataPacks, General Community Profile, Local Government Areas, NSW and IPART calculations.

Socio-economic indicators, hardship, and outstanding rates data

We considered some socio-economic indicators to understand the community's capacity to pay and levels of vulnerability in the community. We considered these together with the average rate levels set out above, and the hardship assistance available to vulnerable ratepayers.

This assessment focusses on residential rates. Residential ratepayers represent the majority of ratepayers.[g]

[g] Note that our assessment looks at the community as a whole and does not distinguish between those that directly pay rates and those that may indirectly be impacted.

Our approach is explained in Box 6.2 and our analysis is presented below.

Box 6.2 How we assessed capacity to pay

To help us understand the impact on residential ratepayers, we have considered select socio-economic indicators and compared these to the councils outlined in Box 6.1. We also collected historical hardship and outstanding rates data from the council. These provide an indication of the ability to pay additional increases and are useful to consider together with the rate comparison.

Socio-economic indicators from 2021 census

We considered:

- The median income levels, and the ratio of average residential rates to median household income, which are indicators of capacity to absorb cost increases
- the proportion of people on select Government payments[h], which could be an indicator of levels of vulnerability as recipients may generally be on lower and fixed incomes
- the level of outright home ownership, where higher home ownership may indicate that a household may have more capacity to pay, as mortgage or rent payments do not need to be covered
- the proportion of occupied private dwellings where 30% or more of the household's imputed income is put towards housing costs can be an indicator of cost-of-living pressures. However, putting 30% or more of a household's imputed income towards housing may not always be a sign of financial stress. A household may choose to make more mortgage repayments or reside in a more expensive area and have a sufficiently high income.

We also note that interest rates and cost of living have increased since this data was collected in the 2021 census.

Hardship applications and outstanding rates

We collected 5 years of historical data related to ability to pay rates to understand trends in the area. This was:

- how many hardship applications were made
- how many ratepayers were on a hardship policy
- the value of rates ($) that were outstanding as at 30 June.

We note these indicators can apply to very small proportions of the population.

[h] These are the Age Pension, Disability Support Pension, and JobSeeker Payment.

Table 6.6 below shows that, socio-economically, the residents of Tamworth Regional council is in a similar position to those in comparable councils, with some indicators suggesting a slightly better ability to pay rates and some suggesting additional hardship. In particular:

- Median income is higher than in neighbouring areas and comparable councils by SEIFA, and slightly lower than the Group 4 average.
- The typical household in Tamworth Regional would spend around 1.6% of the household income towards residential rates. This is more than the average of what those in neighbouring councils would do (1.4%), but less than that of comparable councils by SEIFA (2.1%) and OLG Group 4 councils (1.7%).
- 6.8% of the council's rates were outstanding, which is lower than the neighbouring councils and in line with comparable councils by SEIFA and OLG Group. The number of council's rates outstanding is within the OLG benchmark of 10%.
- 13.5% of households pay more than 30% of income towards housing costs. This is more than the average proportion of housing costs recorded in neighbouring councils (11.6%) but is in line with comparable councils by SEIFA (14.2%) and OLG Group 4 councils (13.4%).
- 33.6% of dwellings in the council are owned outright, which is lower than other comparable councils.

Table 6.6 Comparison of the council's socio-economic indicators

	Median annual household income ($)[a]	Current average residential rates to median household income ratio (%)[b]	Outstanding rates and annual charges ratio (%)[c]	Proportion of population in receipt of select Government payments (%)[d]	Proportion of households that pay more than 30% of income towards housing costs[e]	Dwelling owned outright (%)[f]
Tamworth Regional Council (OLG Group 4)	**73,632**	**1.6**	**6.8**	**20.4**	**13.5%**	**33.6**
Neighbouring councils						
Armidale Regional	73,008	1.7	5.4	18.4	15.1%	34.6
Gunnedah	80,964	1.3	3.8	18.5	11.7%	33.7
Gwydir	53,508	1.5	6.3	28.1	7.6%	51.2
Liverpool Plains	60,580	1.7	7.3	25.5	9.9%	44.0
Narrabri	77,896	1.3	14.2	20.0	10.1%	34.9
Upper Hunter Shire	74,308	1.3	11.3	18.5	10.0%	36.7
Uralla	69,992	1.1	9.3	20.7	8.7%	42.5
Walcha	63,648	1.1	4.6	21.0	8.7%	47.9
Average	**69,238**	**1.4**	**7.8**	**20.0**	**11.6%**	**40.7**
Comparable councils (SEIFA)						
Lismore	68,588	2.1	9.0	25.6	15.6%	37.6
Goulburn Mulwaree	76,232	1.5	2.8	20.2	13.9%	35.3
Mid-Coast	55,120	2.7	9.0	31.9	14.1%	48.1
Lithgow	62,192	2.0	6.5	25.7	12.2%	41.9
Average	**65,533**	**2.1**	**6.8**	**27.8**	**14.2%**	**40.7**
Group 4 average (excl. Tamworth Regional Council)	**77,676**	**1.7**	**6.7**	**20.1**	**13.4%**	**38.0**

a. Median annual household income is based on 2021 ABS Census data.
b. The 2023-24 average rates for comparable councils are calculated based on the OLG's time series data as at 2021-22 (latest available data) escalated by a Council's 2022-23 and 2023-24 rate pe or approved SV, as relevant.
c. The Outstanding rates ratio (%) is derived from the OLG's Rates & Annual Charges Outstanding Percentage for the General Fund as at 2021-22 (latest available data). The formula is 'rates and annual charges outstanding ($) divided by 'rates and annual charges collectible' ($).
d. Proportion of population in receipt of select Government payments (%) is based on the total number of Age Pension, Disability Support Pension and the JobSeeker Payments divided by the estimated regional population from the 2021 ABS Data by Region.
e. Proportion of occupied private dwellings where 30% or more of the household's imputed income is put towards housing costs payments is calculated by the following formula = [households where mortgage repayments are more than 30% of the imputed household income (no.) + households where rent repayments are more than 30% of the imputed household income (no.)] / total occupied private dwellings (no.). These measures are from the 2021 ABS Data by Region.
f. Dwelling owned outright (%) is from the 2021 ABS Data by Region.

Source: OLG, Time Series Data 221-22; ABS, Socio-economic Indexes for Areas (SEIFA) 2021, March 2023; ABS, 2021 Data by Region, Local Government Areas, NSW, Median Weekly Household Income and IPART calculations.

Historical hardship and outstanding rates data

We collected historical data on outstanding rates and ratepayers accessing hardship provisions. Recent trends give an indication of ratepayers' ability to pay current rate levels and potentially the impact of other costs increases. We note that these remain very small proportions of all ratepayers. The OLG benchmark for outstanding rates is that it should be below 10% for rural and regional councils.

Over the last 5 years, the number of hardship applications have been volatile and most recently increased from around 30 to above 70 applications. On the other hand, the average amount owing per ratepayer on a hardship provision have steadily decreased from around $6,000 to around $4,000 over the same period. The proportion of overdue rates[i] and the amount owing has generally increased except for the last year where there was a drop in both numbers.

6.5 The council's hardship policy and availability of concessions

A hardship policy can play an important role in mitigating the impact of an SV on vulnerable ratepayers. We are satisfied that the council has a hardship policy in place to assist vulnerable ratepayers, and it has appropriate strategies to make its community aware about how to access this.

The hardship policy provides assistances, such as:

- deferral of rates
- deferral of rates against the estate
- the writing-off of accrued interest for late payments
- payment plans.

Under the *Local Government Act 1993,* councils must provide concessions to eligible pensioners which is half of the total ordinary rates and domestic waste management service charge, up to a maximum of $250. The council has also resolved to provide an additional concession of $50 in 2024-25, and a further $50 in 2025-26, bringing the total typical pensioner concession to $350, should the SV application be approved.[45] The 2023-34 Long Term Financial Plan includes this cost in its forecasts.

The council told us this policy will replace the one currently on the council's website. The council has also told us it will communicate the availability of measures in individual communications with affected property owners. We recommend, if the council does not already do this, to include this information as part of the rate notices.

[i] This is different to the outstanding rates and annual charges ratio (%) mentioned in Table 6.5, which is based on dollar values (see note c of Table 6.5). The overdue rates percentage is calculated by dividing the total number of overdue rates (count) over the total number of issued rates (count).

7 Our assessment: OLG Criterion 4 - IP&R documents

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

For this criterion, we found that the council exhibited (where required), approved and adopted its Integrated Planning & Reporting (IP&R) documentation appropriately.

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

Note: See Appendix A for the full criterion.

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

The relevant IP&R documents are described in Box 7.1.

The adopted Long Term Financial Plan (LTFP) is available on the council's website.[46]

The council:

- exhibited its current Community Strategic Plan from 11 May to 7 June 2022 and adopted it on 28 June 2022[47]
- exhibited its current Delivery Program from 10 May to 7 June 2023 and adopted it on 29 June 2023[48]
- exhibited its current LTFP from 13 September to 31 October 2023 and adopted it on 28 November 2023[49]
- adopted its Asset Management Strategy on 28 November 2023[50]
- submitted its SV application on 5 February 2024.

Box 7.1 Integrated Planning & Reporting (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 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

8 Our assessment: OLG Criterion 5 - Productivity and cost containment strategies

We assess the council's SV application against the 6 criteria set out in the OLG Special Variations Guidelines.

For this criterion, we found that the council explained and quantified the productivity improvements and cost containment strategies it has realised and plans to realise from 2024-25 to 2026-27.

> Criterion 5 requires councils to explain and quantify the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the years of the proposed 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 Appendix A for the full criterion.

To assess this criterion, we considered stakeholders' comments on the council's productivity and cost containment strategies that we received through the feedback form and submissions, 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.

8.1 Stakeholder comments on productivity and cost containment

Some submissions to IPART expressed that the council should:

- improve its own efficiency to cover the revenue shortfall
- improve its labour productivity
- reduce the amount spent on consultants and discretionary projects.

Further, in our feedback form, we asked respondents how much they agree or disagree with 3 statements about the council's efficiency and communication of cost-saving strategies.

We received 1,421 responses. Of these, around 70% disagreed that the council is effective in providing infrastructure and services for the community while about 10% agreed, and the remainder neither agreed nor disagreed. Around 85% disagreed that the council had explained past, or future cost-saving strategies (1,199 and 1,231 responses respectively). The full results are presented in Figure C.4 in Appendix C.

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

8.2 The council's realised and proposed savings

During 2023, the council stated it undertook an organisational sustainability review to identify financial and operational opportunities. It has made 189 past productivity and cost containment achievements, delivering an average of $7.9 million in annual savings and $3.2 million in one-off cost savings.[51] The sustainability review sought to focus on cost containment strategies and productivity improvements that have been used in the past and present, as well as opportunities for improvement in the future. Some of the key objectives of this review were the following:

- Long term financial and operational sustainability and viability across the organisation with a collaborative approach to solutions.
- Utilising the combined knowledge of the organisation to create a range of productivity improvements.
- Providing an improvement plan for future decision-making that embeds 'sustainability' principles in decisions at all levels.
- Enable engagement with the community on the alternative options and choices to an SV.
- Cost savings, revenue increases and productivity improvements as a means of reducing the amount of any SV.[52]

The council also stated it has a technology strategy and roadmap (Technology Blueprint Program) that will upgrade its digital, information and technology capabilities, and deliver cost and efficiency gains. This program is expected to deliver the following benefits:

- Improving efficiency by removal of paper based and duplicative processes, and automation of, manual, administrative and non-value adding activities.
- Increasing convenience through remote and mobile access to systems.
- Creating a seamless experience across the end-to-end customer journey including appropriate self service capabilities.
- Cost savings through sunsetting existing platforms that are no longer in use and rationalising of licences and systems that are in use.
- Reducing revenue loss and improving revenue generation through new and easier payment methods improving efficiency by automation of manual, administrative and non-value adding activities.[53]

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

We consider the council:

- demonstrated it has achieved productivity improvements and cost containment.
- outlined strategies and activities for further improving its productivity and efficiency and quantified them in its application. It has also quantified the present improvements in the LTFP which the council will implement in the next three to four years but years beyond that have yet to be captured.

Although there were some minor shortcomings with its planned initiatives, when assessed with the council's savings to date, we assess that the council has demonstrated this criterion.

Productivity and cost containment strategies to date

The council has stated it made 189 past productivity and cost containment gains to date. Of these past improvements, 55 have increased cost savings, 111 encouraged productivity and efficiency gains, 18 increased revenue generation and 34 improved operational sustainability[54]. In its SV application, it estimates that, over the last few years, it has delivered an average of $7.9 million of annual ongoing costs savings and revenue improvements, with a further $3.2 million in one-off cost savings.[55]

The application indicates that the savings are result of the initiatives including:

- Review of plant and fleet to improve utilisation of assets which will yield a yearly net financial benefit of $1,161,000.
- Implementation of pooled plant, assumed to be increased revenue generation, which will yield a yearly net financial benefit of $500,000.
- Review of energy contracts which will yield a yearly net financial benefit of $250,000.
- Upgrading of streetlight to LED which will yield a yearly net financial benefit of $250,000.
- Reduction of reliance on potable water for parks and sports fields which will yield a yearly net financial benefit of $200,000.
- New weighbridge at waste management facility, an identified operational sustainability improvement, which will yield a yearly net financial benefit of $200,000.
- IT managed services to neighbouring councils which will yield a yearly net financial benefit of $200,000.
- Reconfiguration of haulage freight which will yield a yearly net financial benefit of $350,000.
- Reconfiguration of street sweeping and litter control which will yield a yearly net financial benefit of $650,000.
- Streamline of IP&R documents to reduce administrative burden and improve communication quality with the community. This is identified as both an efficiency and/or productivity gain and an operational sustainability improvement This will yield a yearly net financial benefit of $20,000.[56]

Planned productivity and cost containment strategies

We found that the council identified 55 improvements, which the council will be implementing over the next three to four financial years. These are estimated to produce $1.6 million in annual benefits and a further $2.2 million in one-off savings. Some of these improvements include:

- implementation of solar power at TRECC which will yield a yearly net financial benefit of $120,000
- open space reinvestment via selling of unused/unrequired land and assets which will yield a one-off net financial benefit of $4 million over two years
- review of development contributions scheme which will yield a yearly net financial benefit of $200,000
- internal resource recovery process which will yield a yearly net financial benefit of $650,000.[57]

The council has stated it has incorporated its present efficiency strategies in its LTFP. We note a further 14 initiatives were identified the council, but further work is being done to determine their feasibility, costs and benefits. These have yet to be incorporated into the council's LTFP. The Audit Risk and Improvement Committee should be incorporated into the council's ongoing productivity and cost savings framework going forward.

8.4 Indicators of the council's efficiency

We examined indicators of the efficiency of the council's operations and asset management processes, including how its efficiency has changed over time and how its performance compares with that of similar councils. This data is presented in Table 8.1 and Table 8.2 below.

We found that between 2017-18 and 2021-22, the council's:

- number of full time equivalent (FTE) staff, on average, has grown by 2.2% each year
- average annual cost per FTE increased by an average of 1.1% per annum
- employee costs as a percentage of operating expenditure have increased by an average of 1.3% per annum.

We also found that the council's:

- ratio of FTE staff per population is in line with the Group 4 average – it has one FTE for every 109 residents, whereas the Group 4 average is one FTE for every 107 residents
- operating expenditure per capita is lower than the Group 4 average.

These performance indicators only provide a high-level overview of the council's productivity at a point in time. Additional information would be required to accurately assess the council's efficiency and its scope for future productivity gains and cost savings.

Table 8.1 Trends in selected indicators for Tamworth Regional Council

Performance indicator	2017-18	2018-19	2019-20	2020-21	2021-22	Average annual change (%)
FTE staff (number)	537	540	557	560	585	2.2
Ratio of population to FTE	114.7	115.1	112.3	111.7	108.8	-1.3
Average cost per FTE ($)	85,812	89,091	87,178	88,707	89,795	1.1
Employee costs as % of operating expenditure (General Fund only) (%)	40.6	42.3	44.6	41.7	42.8	1.3

Source: OLG, Time Series Data 2021-22, IPART calculations.

Table 8.2 Select comparator indicators

	Tamworth Regional	OLG Group 4 Average	NSW Average
General profile			
Area (km2)	9,884	4,082	5,494
Population	63,652	39,212	63,222
General Fund operating expenditure ($m)	111	82	95
General Fund operating revenue per capita ($)	2,385	2,683	na
Rates revenue as % of General Fund income (%)	33	35	45
Own-source revenue ratio (%)	49	54	64
Productivity (labour input) indicators			
FTE staff	585	366	383
Ratio of population to FTE	109	107	165
Average cost per FTE ($)	89,795	89,084	98,084
Employee costs as % of operating expenditure (General Fund only) (%)	43	35	37
General Fund operating expenditure per capita ($)	1,739	2,096	1,499

Source: OLG, Time Series Data 2021-22 and IPART calculations.

9 Our assessment: OLG Criterion 6 - Any other matter that IPART considers relevant

Criterion 6 provides that IPART may take into account any other matter that it considers relevant.

We consider that a relevant matter is whether the council has been granted an SV in recent years, and if so, whether the council has complied with any conditions attached to that SV.

IPART approved a permanent Additional Special Variation (ASV) for the council of 2%, for 2022-23.

The condition of the approval is that the council in its 2022-23 annual report must outline:

- its actual revenues, expenses, operating results against projections provided in its ASV application
- any significant differences between the actual and projected revenues, expenses, operating results
- the additional income raised by the ASV.

The council indicated in its current SV application that it has complied with this condition. We have reviewed the council's 2022-23 annual report and have assessed that the council has complied with this condition.[58]

IPART approved another SV for the council of 14.6% in 2012-13. We have reviewed the council's annual report extracts from 2012-13 to 2021-22 and have assessed that the council has complied with the attached conditions.[59]

10 IPART's decision on the special variation

Based on our assessment of the council's application against the 6 OLG criteria and consideration of stakeholder feedback, we have approved the council's proposed permanent SV to general income from 2024-25 to 2025-26.

The approved increase to general income is set out in Table 10.1 below.

Table 10.1 IPART's decision on the special variation to general income (%)

	2024-25	2025-26
Annual percentage increase (%)	18.50	15.00
Cumulative increase (%)		36.28

Source: IPART calculations.

Our *Instrument Under Section 508A of the Local Government Act 1993 - Special Variation for Tamworth Regional Council for 2024-25* gives legal effect to this decision and sets out the conditions of approval.

10.1 Reasons for our decision

To make our decision, we assessed the council's SV application and supporting materials against the 6 criteria set by the Office of Local Government (OLG) in its *Guidelines for the preparation of an application for an SV to general income* (OLG Guidelines). Our assessment found that the council met all 6 of the Office of Local Government (OLG) criteria for its proposed SV.

Without the SV, the council's operating expenses would continue to exceed its revenue for the next several years. This is unsustainable if the council is to continue to deliver the services and infrastructure it has planned to meet community needs. The council has stated a significant portion of the additional income will be used for capital works and maintenance of roads that are important to the Tamworth community.

The council demonstrated the impact on ratepayers is reasonable, considering its differing rates per locality and the community's capacity to pay. The localities with more disadvantage within the LGA generally pay lower rates. The council's current average rates are generally lower than those of similar councils. With the approved SV, its average rates are expected to be in line with similar councils.

In response to concerns from the community about the potential impact of the SV, the council has committed to reviewing its financial hardship policy. This policy assists ratepayers who have difficulty paying their rates. The council has also resolved to provide an additional concession of $100 for eligible pensioners over the 2-year SV period. This is on top of the concession councils must provide to eligible pensioners under the *Local Government Act 1993*[60], which is half of the total ordinary rates and domestic waste management service charge, up to a maximum of $250.[61] The council's application suggests the additional concession will remain at least until 2033-34.

We also heard concerns around how well the council manages its budget and how efficiently it operates. As part of our assessment, we considered whether the council had pursued productivity savings. We found the council has quantified productivity improvement and cost containment initiatives of approximately $7.9 million per year.

10.2 We have put conditions on the special variation

The approved special variation is subject to the following conditions:

- The council use the additional income for the purpose of funding the proposed program.
- The council report in its annual report for each year from 2024-25 to 2030-31 (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;
  - whether or not the council has implemented the productivity improvements, and
    - i if so, the annual savings achieved through these measures, and what these equate to as a proportion of the council's total annual expenditure; and
    - ii if not, the rationale for not implementing them; and
  - any other productivity 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.

10.3 Impact on ratepayers

IPART sets the maximum allowable increase in the council's general income, but the council determines how it allocates any increase across different categories of ratepayer. Based on what the council has told us in its application, the expected impacts on ratepayers under the approved SV are shown in Table 10.2 below.

This shows that from 2024-25 to 2025-26, if the council chooses to increase rates so as to recover the maximum permitted general income under the approved SV:

- the average residential rate would increase by $434 or 36.3%
- the average business rate would increase by $1,507 or 36.3%
- the average farmland rate would increase by $779 or 36.3%
- the average mining rate would increase by $3,654 or 36.3%.

Table 10.2 Indicative annual increases in average rates under the approved SV (2023-24 to 2025-26)

	2023-24	2024-25	2025-26	Cumulative increase
Residential average rates ($)	1,197	1,419	1,632	
$ increase		221	213	434
% increase		18.5	15.0	36.3
Business average rates ($)	4,154	4,923	5,661	
$ increase		768	738	1,507
% increase		18.5	15.0	36.3
Farmland average rates ($)	2,148	2,545	2,927	
$ increase		397	382	779
% increase		18.5	15.0	36.3
Mining average rates ($)	10,073	11,937	13,728	
$ increase		1,864	1,791	3,654
% increase		18.5	15.0	36.3

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

10.4 Impact on the council

Our decision means that the council may increase its general income by $7.9 million in 2024-25 and $7.6 million in 2025-26. These increases can remain in the rate base permanently.

Table 10.3 shows the percentage increases we have approved and estimates of the annual increases in the council's permissible general income.

Table 10.3 Permissible general income of council from 2024-25 to 2025-26 from the approved SV

	2024-25	2025-26
Increase approved (%)	18.50	15.00
Cumulative increase approved (%)		36.28
Increase in PGI ($'000)	7,907	7,597
Cumulative increase in PGI ($'000)		15,504
PGI ($'000)	50,648	58,245

Source: IPART calculations.

The additional income from the SV will enable the council to:

- achieve financial sustainability
- deliver current services and maintain assets
- maintain fit for purpose infrastructure
- address backlogs in key asset categories such as roads, buildings and open space.[62]

With the SV, the council's projected:

- OPR will improve and reach around 0.3% in 2025-26, in line with OLG benchmark of greater than 0% – as shown in Figure 4.1 in Chapter 4.
- Net cash to income ratio, which is currently projected to decline with the SV expenditure, will increase above 0% by 2031-32 – as shown in Figure 4.2 in Chapter 4. Taking into account the council's OPR and net cash position, we found that the council would need to raise revenue above the rate peg. The council's application suggests it has a sizeable debt balance where the net cash (debt) to income ratio decreases to -23.5% in 2026-27 under the Proposed SV Scenario. The OPR does not consider any principal repayments the council needs to repay on its loans.

The OPR also does not consider any capital expenditure planned by the council. More than half of the additional income from the proposed SV will be used for asset renewals which are capital expenses. The council has also deferred projects that may have a negative impact on the council's OPR once they have been costed. The council's unrestricted cash reserve of $0.8 million is low considering the council's expenses are expected to exceed $125 million in 2024-25.

Appendices

A Assessment criteria

A.1 Special Variations assessment materials

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:

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

We also provide comprehensive guidance on our approach to assessing special variation applications. This includes information for councils on our expectations of how to engage with their community on any proposed rate increases (see our guidance booklet).

Criterion 1: Financial need

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long-Term Financial Plan and Asset Management Plan where appropriate.

In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long-Term Financial Plan applying the following two scenarios[j]:

[j] OLG, IP&R Manual for Local Government "Planning a Sustainable Future", March 2013, p 71

- 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.

The IP&R documents and the council's application should provide evidence to establish the community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

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

Criterion 2: Community awareness

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long-Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the **full cumulative increase** of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART guidance booklet 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[k] must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. We expect that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

Criterion 5: Productivity improvements and cost containment strategies

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

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

Criterion 6: Any other matter that IPART considers relevant

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.

[k] 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 Tamworth Regional Council projected revenue, expenses and operating balance

Our analysis of the council's productivity and cost containment can be found in Chapter 8 of this report.

As a condition of IPART's approval, the council is to report until 2030-31 against its proposed SV expenditure and projected revenue, expenses and operating balance as set out in its LTFP (see Table B.1 and Table B.2) It also needs to report on its progress against productivity improvements and cost containment strategies that it set out in its application and are summarised below.

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.

Productivity improvements and cost containment strategies

As set out in the council's response in section 7.3(a) of its SV Part B application to us, the council has told us it identified 55 present improvements, which it will be implementing over the next three to four financial years. These are estimated to produce $1.6 million in annual benefits and a further $2.2 million in one-off savings. Some of these improvements include:

- implementation of solar power at TRECC which will yield a yearly net financial benefit of $120,000
- open space reinvestment via selling of unused/unrequired land and assets which will yield a one-off net financial benefit of $4 million over two years
- review of development contributions scheme which will yield a yearly net financial benefit of $200,000
- internal resource recovery process which will yield a yearly net financial benefit of $650,000.[63]

The council has stated it has incorporated its present efficiency strategies in its LTFP.

The council is also considering a further 14 initiatives, but further work is being done to determine their feasibility, costs, and benefits. These have yet to be incorporated into the council's LTFP.[64]

Table B.1 Long-Term Financial Plan - Summary of projected operating statement for Tamworth Regional Council under its proposed SV application ($'000)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Total revenue	149,224	159,528	142,943	146,000	148,730	153,946	159,430	163,158	168,589
Total expenses	126,560	131,243	136,459	138,834	137,269	141,241	146,352	150,463	154,697
Operating result from continuing operations	22,664	28,285	6,483	7,166	11,461	12,705	13,078	12,695	13,892
Net operating result before capital grants and contributions	-65	5,160	2,331	2,508	8,583	9,671	9,881	9,329	10,351
Cumulative net operating result before capital grants and contributions	-65	5,096	7,427	9,935	18,518	28,188	38,069	47,398	57,749

Note: Numbers may not add due to rounding.

Source: Tamworth Regional Council, Application Part A, Worksheet 10 and IPART calculations.

Table B.2 Proposed Program - Summary of projected expenditure plan for Tamworth Regional council under its proposed SV application ($)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Operating Expenditure										
Asset Management Funding Gap	1,590,743	3,292,000	3,292,000	3,292,000	3,292,000	3,292,000	3,292,000	3,292,000	3,292,000	3,292,000
Fund additional pensioner rate rebates (to address community feedback on SRV)	222,000	443,200	443,200	443,200	443,200	443,200	443,200	443,200	443,200	443,200
Roads Maintenance Gap	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Capital Expenditure (Asset Renewals)										
Roads capital works		4,500,000	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000	4,700,000
Asset management funding gap		53,837	161,063	475,970	798,749	1,129,598	1,468,718	1,816,316	2,172,603	2,537,799

Note: Numbers may not add due to rounding.

Source: Tamworth Regional Council, Application Part A, Worksheet 8 and IPART calculations.

C Results of IPART's public consultation feedback form

As part of our stakeholder engagement, we published a survey that asked respondents 15 questions relating to:

- their support or opposition to the council's SV application
- their views on the affordability of the proposed SV
- their awareness of the proposed SV, and
- their views on council's past and proposed cost management strategies.

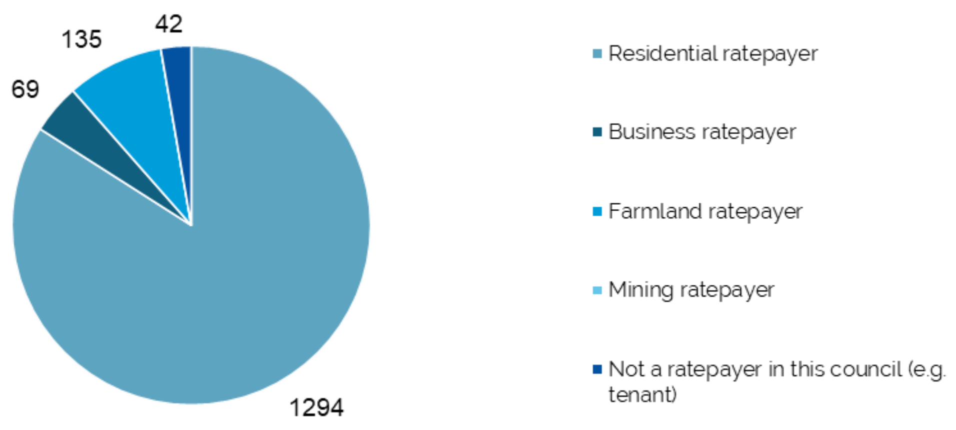
This survey was open for 3 weeks from 27 February 2024 to 18 March 2024.

We received 1,421 survey responses on Tamworth Regional Council's SV application.

Some results are presented in Chapter 3 of this report and throughout our assessment in Chapters 3 – 8, as relevant. This appendix provides the results for questions about affordability, awareness of the SV, and council's past and proposed cost management strategies. It also provides the breakdown of ratepayer type the responded.

We note that respondents were able to self-select for the survey and the results may not be representative of the whole community's views.

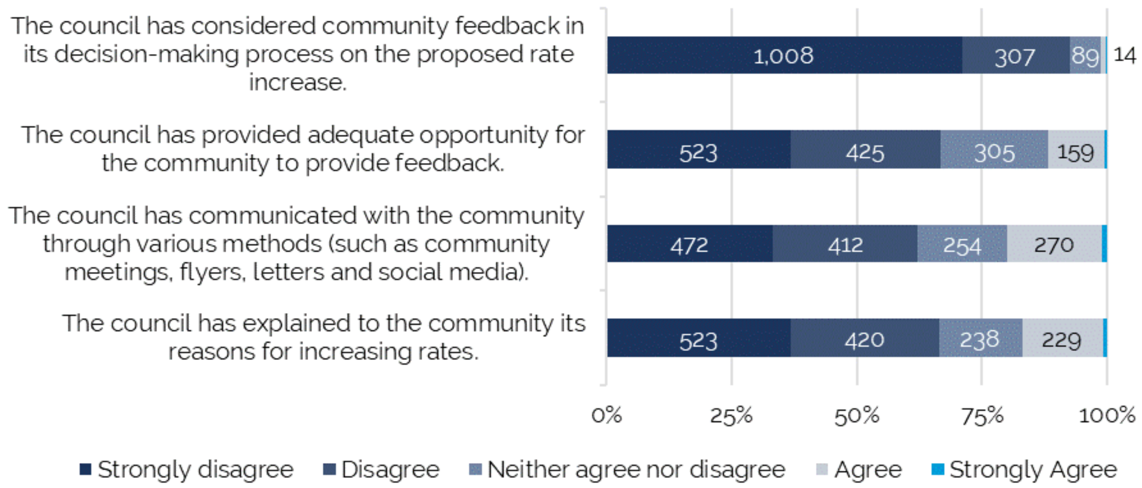
Figure C.1 Respondent ratepayer types



a. The total number of responses for each question was 1,421. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not represent the distribution of ratepayer types in the council area.

Source: IPART

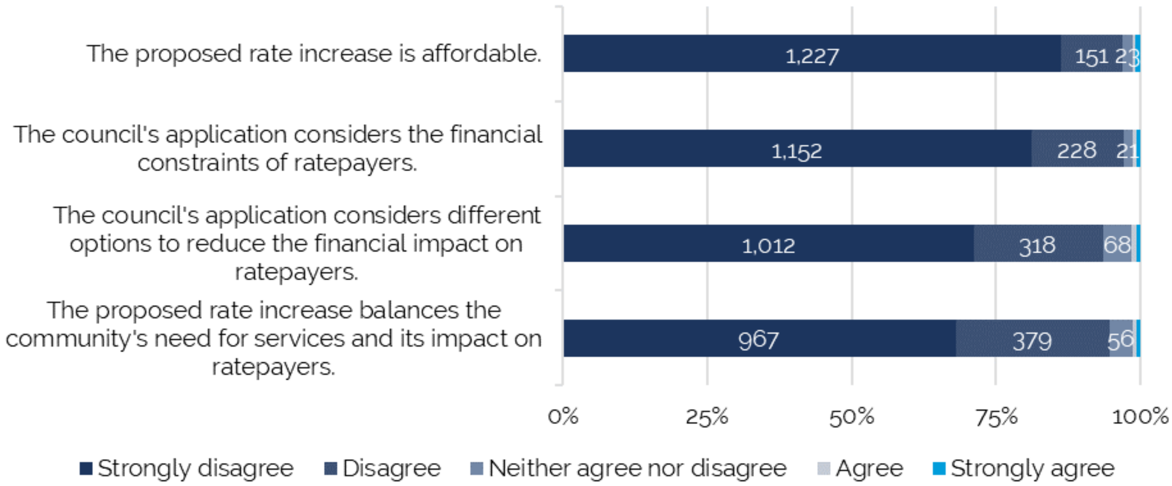
Figure C.2 Responses to questions about awareness and understanding of the proposal



a. The total number of responses for each question was 1,421. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.

Source: IPART

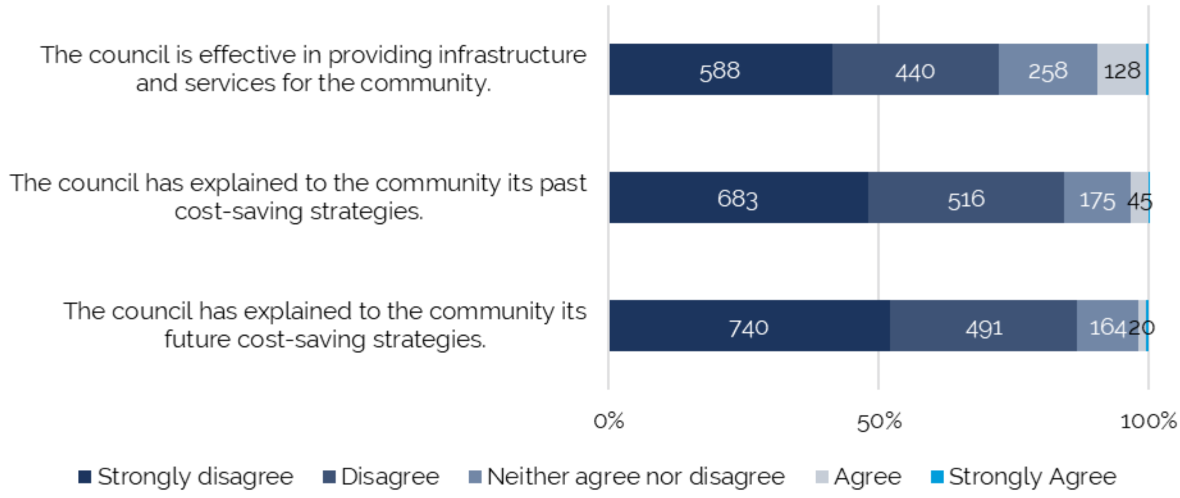
Figure C.3 Responses to questions about affordability



a. The total number of responses for each question was 1,421. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.

Source: IPART

Figure C.4 Responses to questions about the council's cost-saving strategies



a. The total number of responses for each question was 1,421. The numbers in the chart show the number of respondents that selected that response. This was a self-selected survey and we cannot guarantee that each response was a unique user. These results may not be representative of the whole community's views.

Source: IPART

D Glossary

Term	Meaning
ABS	Australian Bureau of Statistics
ASV	Additional Special Variation. This was a one-off round of special variations of up to 2.5% available to councils in 2022-23 in response to a rate peg that was lower than councils expected in a high inflation environment. Applications were assessed against a special set of criteria developed by the OLG.
Baseline Scenario	Shows the impact on the council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
Baseline with SV expenditure Scenario	Includes the council's full expenses from its proposed SV, without the additional revenue from the proposed SV. This scenario is a guide to the council's financial sustainability if it still went ahead with its full expenditure program included in its application, but could only increase general income by the rate peg percentage.
General income	Income from ordinary rates, special rates and annual charges, other than income from other sources such as special rates and charges for water supply services, sewerage services, waste management services, annual charges for stormwater management services, and annual charges for coastal protection services.
IPART	The Independent Pricing and Regulatory Tribunal of NSW
IP&R	Integrated Planning & Reporting
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
OLG SV Guidelines	Guidelines for the preparation of an application for a special variation to general income.
OPR	The Operating Performance Ratio (OPR) measures whether a council's income will fund its costs, where expenses and revenue are exclusive of capital grants and contributions, and net of gains/losses on the sale of assets.
PGI	Permissible General Income is the notional general income of a council for the previous year as varied by the percentage (if any) applicable to the council. A council must make rates and charges for a year so as to produce general income of an amount that is lower that the PGI.
Proposed SV Scenario	Includes the council's proposed SV revenue and expenditure.
Rate peg	The term 'rate peg' refers to the annual order published by IPART (under delegation from the Minister) in the gazette under s 506 of the *Local Government Act 1993*.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV 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] Tamworth Regional Council, Application form part B, p. 5.
[2] *Local Government Act 1993* (NSW), section 575.
[3]. Tamworth Regional Council, Application form part B, p. 22.
[4] Tamworth Regional Council, Application form part B, p. 10.
[5]. Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, pp. 1-10
[6] *Local Government Act 1993* (NSW), Section 511.
[7]. Tamworth Regional Council, Application form part B, p. 5.
[8] Tamworth Regional Council, Application form part A, WK5a – Impact on Rates.
[9] Tamworth Regional Council, Capacity to pay report, August 2023, p. 1.
[10]. Tamworth Regional Council, Capacity to pay report, August 2023, p. 38.
[11]. Tamworth Regional Council, Application form part B, p. 21.
[12]. Tamworth Regional Council, Ratepayers Hardship Policy, pp. 3-4.
[13]. Tamworth Regional Council, Application form part B, p. 22.
[14] Tamworth Regional Council, Application form part A, WK3 – Notional General Income, cell L163; Tamworth Regional Council, Application form part A, WK5 – Yrs 2-7 Yield, cell L170.
[15] Tamworth Regional Council, Application form part A, WK4 – Year 1 Yield, Column D.
[16] Tamworth Regional Council, Long Term Financial Plan 2023-2033, p. 32.
[17] Tamworth Regional Council, SRV Background Paper, p. 5.
[18] Tamworth Regional Council, Long Term Financial Plan 2023-2033, p. 29.
[19] Office of Local Government, Performance Benchmarks, May 2020.
[20] Tamworth Regional Council, Application Part A WK7 – Financials.
[21]Tamworth Regional Council, Annual Financial Statements for the year ended 30 June 2023, p. 30.
[22]Tamworth Regional Council, Annual Financial Statements for the year ended 30 June 2023, p. 31.
[23] Tamworth Regional Council, Application Part A WK10 – LTFP, Cell: K58.
[24] Tamworth Regional Council, Application Part A WK11 – Ratios, Cells: J89 to T89, Cells: J91 to T91.
[25] Tamworth Regional Council, Delivery Program 2023-2025, p. 70.
[26] Tamworth Regional Council, Long Term Financial Plan 2023-2033, p. 29.
[27] Tamworth Regional Council, SRV Background Paper, p. 5.
[28] Tamworth Regional Council, Application form part B, p. 13.
[29] Tamworth Regional Council, Application form part B, p. 6.
[30] Tamworth Regional Council, Application form part B, p. 13.
[31] Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, p. 17.
[32] Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, pp. 55-60.
[33]Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, pp. 73-75.
[34].Tamworth Regional Council, Annexures, 12 September 2023, pp. 229-230.
[35] Tamworth Regional Council, Business Paper Ordinary Council Meeting 28 November 2023, November 2023, p. 78.
[36]. Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, p. 1.
[37] Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, pp. 9-10.
[38]. Tamworth Regional Council, Community Awareness and Engagement Strategy Outcomes Report, Nov. 2023, p. 1.
[39]. Tamworth Regional Council, Application form part B, p. 22.
[40] Tamworth Regional Council, Application Part A WK8 – Expenditure Program.
[41]. Tamworth Regional Council, Application form part B, p. 22.
[42] Tamworth Regional Council, Capacity to pay report, August 2023, pp. 41-42.
[43]. Tamworth Regional Council, Application form part B, p. 22.
[44] Office of Local Government, Australian Classification of Local Governments and OLG group numbers.
[45] Tamworth Regional Council, Application form part B, p. 22.
[46] https://www.tamworth.nsw.gov.au/about/policies-plans-and-regulations/community-strategic-plan.
[47] Tamworth Regional Council, Council Meeting Minutes, 28 June 2022, p. 7.
[48] Tamworth Regional Council, Council Meeting Minutes, 29 June 2023, p. 8.
[49] Tamworth Regional Council, Council Meeting Minutes, 28 November 2023, p. 23.
[50] Tamworth Regional Council, Council Meeting Minutes, 28 November 2023, p. 23.
[51] Tamworth Regional Council, Application form part B, p. 26.
[52] Tamworth Regional Council, Application form part B, pp. 26-27.
[53] Tamworth Regional Council, Application form part B, p. 27.
[54] Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, p. 7.
[55]. Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, p. 8.
[56]. Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, pp. 13-16.
[57] Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, pp. 17-18.
[58] Tamworth Regional Council, Application form part B, p. 10.
[59] Tamworth Regional Council, Annual report extracts for 2012-13 to 2021-22.
[60] *Local Government Act 1993* (NSW), section 575.
[61]. Tamworth Regional Council, Application form part B, p. 22.
[62] Tamworth Regional Council, Application form part B, p. 5.
[63] Tamworth Regional Council, Organisational Sustainability Review and Improvement Plan, August 2023, pp. 17-18.
[64] Tamworth Regional Council, Application form part B, p. 29.

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