Independent Pricing and Regulatory Tribunal
New South Wales

Special variation increase

Tamworth Regional Council 2019-20

Final Report
Local Government

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The Independent Pricing and Regulatory Tribunal (IPART)

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Tribunal Members

The Tribunal members for this review are:

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Mr Ed Willett

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1 Executive summary

Tamworth Regional Council (the Council) applied to IPART for a special variation (SV)[1] to increase its general income above the rate peg[2] of 2.7% for 2019-20. It has applied for a **4-year** SV to:

- Increase its general income by 2.70% in 2019-20, 2.84% in 2020-21, 2.88% in 2021-22 and 2.88% in 2022-23, **a cumulative increase of 11.79%**.
- Retain this increase in its rate base **permanently**.[3]

The Council intends to use the proposed SV funds to implement an Event Attraction and Management Strategy. The Council has proposed that the funds are raised exclusively from business ratepayers, of which there are forecast to be 1,827 in 2019-20.[4]

The Council's proposed SV would generate an additional increase in its permissible general income (PGI) of $0.83 million (0.54% of total income) over the four years of the SV (see Table 1.1). As the proposed SV is permanent, this would mean a cumulative increase in its PGI revenue of $3.63 million above the assumed rate peg over 10 years (see Table 2.1).

IPART has assessed the Council's application against the criteria in the Office of Local Government's *Guidelines for the preparation of an application for a special variation to general income* (The OLG Guidelines).

This report sets out our decision (Section 1.1) and explains how and why we reached that decision.

1 In this context, the term 'special variation' refers to an instrument in writing given to the Council by IPART (under delegation from the Minister) under s 508A of the Local Government Act 1993 (NSW).

2 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 (NSW).

3 Tamworth Regional Council, *Special Variation Application Form Part A 2019-20 (Application Part A)*, Worksheet 1.

4 Tamworth Regional Council, *Special Variation Application Form Part B 2019-20 (Application Part B)*, p 5; and Tamworth Regional Council, *Application Part A*, Worksheet 3.

Table 1.1 Permissible general income (PGI) of Tamworth Regional Council from 2019-20 to 2022-23 arising from the proposed SV

Year	Increase approved (%)	Cumulative increase approved (%)	Increase in PGI above rate peg ($)	Cumulative increase in PGI ($)	PGI ($)
Adjusted notional income 1 July 2019					35,880,594
2019-20	2.70	2.70	-	990,548[a]	36,871,142
2020-21	2.84	5.62	125,362	2,037,688	37,918,283
2021-22	2.88	8.66	272,585	3,129,735	39,010,329
2022-23	2.88	11.79	427,639	4,253,232	40,133,827
Total cumulative increase approved				10,411,204	
Total above rate peg			**825,587**		

a Includes an adjustment of a prior catch-up of $21,772 ($35,880,594 x 0.027 + $21,772 = $990,548) that had not been recouped by the time the application was submitted to IPART, which is to be recouped in 2019-20.

Note: The above information is correct at the time of the Council's application (February 2019).

Source: Tamworth Regional Council, Application Part A, Worksheets 1 and 4 and IPART calculations.

1.1 We have not approved Tamworth Regional Council's application for a Special Variation

We decided not to approve the proposed SV.

Our decision means that the Council may only raise its general income by the rate peg of 2.7% in 2019-20 (see Box 1.1). This does not prevent the Council from making a new application for an SV next year or in subsequent years.

Box 1.1 IPART Decision – Tamworth Regional Council

Indicative percentage increase to general income from 2019-20 to 2022-23

	2019-20	2020-21	2021-22	2022-23
Rate peg	2.7	2.5	2.5	2.5

Rate peg increases only, unless a new SV proposal is approved in the future.

The rate peg of 2.5% for future years is assumed and may vary with the setting of the rate peg by IPART in September each year.

1.2 Reasons for our decision

Our decision reflects our finding that the Council's application does not meet the criteria in the OLG Guidelines, in particular, the Council did not demonstrate a strong financial need, or consult with its community sufficiently. In addition, it did not update its Integrated Planning and Reporting (IP&R) documentation with sufficient detail.

The Council's Operating Performance Ratio (OPR) would average above the OLG benchmark of greater than or equal to 0% over five years with the proposed SV.[5] We found that the proposed SV has a minimal impact on its financial position and performance and the Council's forecasts show that it could fund the proposed expenditure program without the SV.

We note that the proposed SV is targeted at business ratepayers, who we found were not satisfactorily consulted about the proposed SV and its impact. The Council did not provide information about the proposed SV directly to all business ratepayers.

The Council's engagement materials describe an SV starting in 2019-20 for 3.0% above the rate peg for three years. In contrast, the Council's application proposed an increase of 0.0% above the rate peg from 2019-20, and then increases of 0.34%, 0.38% and 0.38% above the rate peg annually thereafter, a total of four years. The Council has only partly updated the dedicated SV website for the proposed SV to reflect this change.

We found that the impact of the proposed SV on affected ratepayers would be reasonable, given rates of similar councils, the small proposed increase above the assumed rate peg, and the community's capacity to pay. In addition, the average business rate would still be lower than the estimated Group 4 average in the final year of the proposed SV.

The Council's IP&R documentation does not contain sufficient information relating to the proposed SV and only the Keychange 2017-2027, 4-Year Delivery Program (Delivery Program), has been appropriately exhibited, approved and adopted by the Council.

The Council has partly outlined and quantified its productivity improvements and cost containment strategies.

Table 1.2 below provides more detail about our assessment and key considerations in making our decision.

5 Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.

Table 1.2 Assessment of Tamworth Regional Council's proposed SV application

1. Financial Need	
Partly Demonstrated	The Council partly demonstrated the financial need for the proposed SV. Its: ▼ OPR (average 2019-2020 to 2023-24) is: – 0.5% under both the Proposed SV Scenario and the Baseline Scenario (ie, without SV revenue and without SV expenditure). – 0.3% without SV revenue and with the proposed SV expenditure (the Baseline with SV expenditure Scenario). These meet the OLG's benchmark of greater than or equal to 0%. ▼ Projected net cash is $14.5 million (16.4% of income) in 2018-19, with only $2.2 million of total cash and investments unrestricted as at 30 June 2018. We found the financial need for the proposed SV is not strong, given its size and impact on the Council's financial sustainability. We note that the Council did not indicate that financial sustainability was a key driver of its proposed SV and the SV was highly targeted.
2. Community awareness	
Did not demonstrate	The Council did not demonstrate the community is sufficiently aware of the proposed rate rise. It: ▼ Did not engage directly with all of the business ratepayers. ▼ Did not communicate that the actual impact on business ratepayers would be greater than the proposed SV as no other ratepayer categories would be affected. ▼ Though the Council did conduct a process for community feedback, the community was not fully aware of the process including its timing.
3. Reasonable Impact on ratepayers	
Demonstrated	The Council examined the impact of the proposed SV on business ratepayers and found it would be reasonable. It considered: ▼ The average business category rate is 15% below the group average for other similar sized councils including Albury, Armidale, Bathurst, Dubbo, Orange and Wagga Wagga. IPART considered information on the Council's business ratepayers from 2016-17 and found the: ▼ Average business rates of $3,128 were 16.5% lower than the average for Group 4 councils and 44.4% lower than the weighted average for similar councils. ▼ Average rates to income ratio was 0.1 percentage points lower than the average for Group 4 councils and in the middle range of similar councils. ▼ Outstanding rates ratio was 0.1 percentage points lower than the average for Group 4 councils and towards the higher range for similar councils. ▼ The Council area's SEIFA ranking[6] (53) indicates relative disadvantage compared to similar local government areas (LGAs). IPART also considered the comparison of the Council's average rate levels with the proposed SV against the OLG Group 4[7] average rate levels over the 4-year proposed SV period to 2022-23 and found that the Council's: ▼ Average business rates in the final year of the proposed SV of $4,013 would be 6.7% lower than the estimated Group 4 average of $4,302. We consider the impact would be reasonable, given the small increase above the rate peg.

6 The Socio-Economic Indexes for Areas (SEIFA) is a measure that ranks areas based on their socio-economic conditions. The Australian Bureau of Statistics (ABS) ranks the NSW Local Government Areas in order of their score, from lowest to highest, with rank 1 representing the most disadvantaged area and 130 being the least disadvantaged area. IPART has referred to the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) for our assessment, one of the component indexes making up SEIFA.

7 See Appendix C. Tamworth Regional Council is in OLG Group 4, which is classified as part of an Urban Centre, Small/Medium Regional Town/City (population up to 70,000). The group comprises 26 councils, including Bathurst, Broken Hill, Dubbo, Orange, Richmond Valley and Wagga Wagga.

4. IP&R documents exhibition	
Did not demonstrate	The Council adopted its Community Strategic Plan in June 2017. It: ▼ Exhibited its Delivery Program during May 2018 and June 2018 and adopted it on 26 June 2018. The Delivery Program did not provide a detailed description of the proposed SV. ▼ Adopted the Long Term Financial Plan (LTFP) in June 2017. However, the Council did not appropriately update its IP&R documentation: ▼ The LTFP did not reflect the proposed SV application. ▼ The Delivery Program did not identify the impact and extent of the proposed SV. ▼ The IP&R documents did not discuss the community's capacity and willingness to pay.
5. Productivity improvements and cost containment	
Partly Demonstrated	Over the last eight years, the Council has realised savings from initiatives including: ▼ Service review process ($2 million in savings per year). ▼ Review of grading crews ($350,000 in savings per year). ▼ Review of IT services and implementation of shared and managed service arrangements ($250,000 in savings per year). The Council has also planned for savings to be realised in the future from the following initiatives: ▼ Further review of IT services. ▼ Review of development engineering.

1.3 Structure of this report

The rest of this report explains our decision and assessment of the Council's application in more detail:

- Chapter 2 outlines the Council's application for the proposed SV
- Chapter 3 summarises the submissions received by IPART
- Chapter 4 explains our assessment of the Council's application against each criterion in the OLG Guidelines
- Chapter 5 discusses how our decision will impact the Council.

2 Tamworth Regional Council's application

The Council has applied for its proposed SV to increase its general income by a cumulative 11.79% over four years from 2019-20 to 2022-23, with an increase of 2.70% in 2019-20, 2.84% in 2020-21, and 2.88% each year in 2021-22 and 2022-23. This means an increase above the rate peg of 0.00% in 2019-20, 0.34% in 2020-21, and 0.38% each year in 2021-22 and 2022-23.

The application is for an increase that remains permanently in the rate base. The Council has stated it would be applied to business rate categories only.[8]

2.1 Purpose

The purpose of the proposed SV is to deliver economic growth to the region via the attraction and hosting of new events. The focus is to bring money from outside the region to drive economic stimulus. The Council believes that economic stimulus would be beneficial given the impact of the current drought on the economy.[9]

2.2 Need

The Council identified that the proposed SV is needed for economic stimulus to the region due to the impact of drought. The community has indicated a desire to maintain existing services – which, according to the Council, would be negatively impacted if the proposed SV is not approved and the Council proceeds with its event attraction program. The Council has not identified enhanced financial sustainability as a driver of the proposed SV application.[10]

2.3 Significance of proposal

The Council's application would mean a cumulative increase in its PGI of $3.63 million above what the assumed rate peg would deliver over 10 years. This represents 0.87% of the Council's total cumulative PGI over the 10 year period (see Table 2.1).

Assuming a rate peg of 2.5% per annum from 2020-21 to 2028-29, the proposed SV would result in a PGI that is 1.08% higher in 2028-29 than if the Council increased its rates by the rate peg alone.

8 Tamworth Regional Council, *Application Part B*, p 5.
9 Tamworth Regional Council, *Application Part B*, pp 4; and 8.
10 Tamworth Regional Council, *Application Part B*, pp 4; and 8.

Table 2.1 Permissible general income (PGI) of Tamworth Regional Council from 2019-20 to 2028-29 under the proposed SV

Cumulative increase in PGI above rate peg ($m)	Total PGI over 10 years ($m)	SV revenue as a percentage of total PGI (%)
3.63	416.71	0.87

Note: The above information is correct at the time of the Council's application (February 2019).

Source: Tamworth Regional Council, Application Part A, Worksheets 1 and 4 and IPART calculations.

The Council would fund this by increasing business rates. The Council has stated rates are currently 15% below the group average and would continue to remain below assuming all councils increase their rates by the rate peg value (see Section 4.3.1).

2.4 Resolution by the Council to apply for a Special Variation

The Council resolved to apply for the proposed SV on 5 February 2019. Six councillors were in favour of the application and one was opposed.[11]

[11] Tamworth Regional Council, *Extraordinary Council Minutes, 5 February 2019*, pp 2-3.

3 Submissions to IPART

IPART received 12 submissions during the consultation period from 11 February 2019 to 14 March 2019. Key issues raised were:

- The community is suffering under drought and depression.
- The affected community was not satisfactorily consulted.
- The proposed SV would not benefit all the ratepayers who pay for it, particularly those outside of Tamworth City and not in the hospitality industry.
- The Council should look at its own financial management and work with developers.
- The purpose of the proposed SV is not appropriate for the Council to be involved in and would create a bidding war for events with other councils.
- Concerns around independence and conflict of interest regarding the Business Review panel.
- The proposed SV would be unfair on pensioners who own businesses.

We considered all the submissions as part of our assessment of the Council's application against the criteria in the OLG Guidelines, which is discussed in the next chapter.

Two key themes arising from the submissions were concerns surrounding inadequate community consultation and the capacity of the business community to pay, given the drought.

Eight of the submissions raised issues around the Council's consultation process with the business community, who would be directly affected by the rate increase. These included a lack of awareness of the proposed SV and the SV information sessions within the business community. We examined the specific steps the Council undertook to communicate with businesses when examining its consultation process and materials (see Section 4.2.1).

We note that the Council received 10 written submissions in relation to its proposed SV during its consultation period, all opposing the proposed SV and raising similar issues to the above. This is discussed further in Section 4.2.2.

4 IPART's assessment

To make our decision, we assessed the Council's application against the criteria in the OLG Guidelines.

The five criteria in the OLG Guidelines are:

- **Criterion 1 – Financial need:** The need for, and purpose of, a different revenue path for the Council's General Fund is clearly articulated and identified in the Council's IP&R documents.
- **Criterion 2 – Community awareness:** Evidence that the community is aware of the need for, and extent of, a rate rise.
- **Criterion 3 – Reasonable impact:** The impact on affected ratepayers must be reasonable.
- **Criterion 4 – Integrated Planning and Reporting (IP&R):** The relevant IP&R documents must be exhibited (where required), approved and adopted by the Council.
- **Criterion 5 – Productivity:** The Council must explain its productivity improvements and cost containment strategies.

While the criteria for all types of SVs are the same, the OLG Guidelines state that the extent of evidence required for assessment of the criteria can alter with the scale and permanence of the proposed SV.

Our Assessment

We have assessed the Council's application as not meeting the criteria in the OLG Guidelines.

The Council's OPR averages 0.5% over five years under the Proposed SV Scenario, 0.5% under the Baseline Scenario (no SV revenue or expenditure) and 0.3% under the Baseline with SV expenditure Scenario (no SV revenue but assuming SV expenditure), which are all above the OLG benchmark of greater than or equal to 0%. We found that the proposed SV has minimal impact on the Council's financial position and performance and the Council's forecasts show that it could fund the proposed expenditure program without the SV.

We note that the proposed SV is targeted at business ratepayers, who we found were not satisfactorily consulted about the proposed SV and its impact. The Council did not provide information about the proposed SV directly to all business ratepayers.

The Council's engagement materials describe an SV starting in 2019-20 for 3.0% above the rate peg for three years. In contrast, the Council's application proposed an increase of 0.0% above the rate peg from 2019-20, and then increases of 0.34%, 0.38% and 0.38% above the rate peg annually thereafter, a total of four years. The Council has only partly updated the dedicated SV website for the proposed SV to reflect this change.

We found that the impact of the proposed SV on affected ratepayers would be reasonable, given rates of similar councils, the small proposed increase above the assumed rate peg, and the community's capacity to pay. In addition, the average business rate would still be lower than the estimated Group 4 average in the final year of the proposed SV.

The Council's IP&R documentation does not contain sufficient information relating to the proposed SV and only the Delivery Program has been appropriately exhibited, approved and adopted by the Council.

The Council has partly outlined and quantified its productivity improvements and cost containment strategies.

Our assessment of the Council's application against each criterion is discussed in more detail in the sections below.

4.1 Financial need for the proposed Special Variation

This criterion examines the Council's financial need for the proposed SV. The OLG Guidelines require the Council to clearly articulate and identify the need for, and purpose of, a different revenue path for its General Fund. This includes that:

- The Council sets out the need for, and purpose of, the proposed SV in its IP&R documents, including its Delivery Program, Long-Term Financial Plan (LTFP) and Asset Management Plan, where appropriate.
- Relevant IP&R documents should canvas alternatives to the rate rise.
- The Council may include evidence of community need/desire for service levels or projects.

IPART uses information provided by the Council in its application to assess the impact of the proposed SV on the Council's financial performance and financial position, namely the Council's forecast:

- Operating performance
- Net cash (debt).

Where relevant, IPART also uses information provided by the Council to assess its need for the proposed SV to reduce its infrastructure backlog and/or increase its infrastructure renewals, by assessing the Council's:

- Infrastructure backlog ratio
- Infrastructure renewals ratio.

Generally, we would consider a council with a consistent operating surplus to be financially sustainable. The Council's forecast operating result shows whether the income it receives covers its operating expenses each year. We consider that the most appropriate indicator of operating performance is the operating performance ratio (OPR).

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

$$OPR^{12} = \frac{Total\ operating\ revenue - operating\ expenses}{Total\ operating\ revenue}$$

Based on the Council's application and LTFP (where appropriate), we calculate forecasts under three scenarios:

1. **The Proposed SV Scenario** – which includes the Council's proposed SV revenue and expenditure.
2. **The Baseline Scenario** - which shows the impact on the Council's operating and infrastructure assets' performance without the proposed SV revenue and expenditure.
3. **Baseline with SV expenditure Scenario** - which 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.

We consider that a council's average OPR over the next 10 years should be 0% or greater, as this is typically the minimum level needed to demonstrate financial sustainability. An OPR consistently well above 0% would bring into question the financial need for an SV. We note that other factors, such as the level of borrowings and/or investment in infrastructure, may affect the need for a council to have a higher or lower operating result than the OLG breakeven benchmark.

While the OPR is a good guide to a council's ongoing *financial performance* (or sustainability), we may also have reference to a council's *financial position*, and in particular its net cash (or net debt).[13] This may inform us as to whether the Council has significant cash reserves that could be used to fund the purpose of the proposed SV. We examined the Council's net cash position in 2018-19 and as a percentage of income to gauge its financial position.

We note the OPR is a measure of the Council's financial performance, measuring how well a council contains its operating expenditure within its operating income. As the ratio measures net operating results against operating revenue, it does not include capital expenditure. That is, a positive ratio indicates operating surplus available for capital expenditure. Therefore, we also further consider the impact of the proposed SV on the Council's infrastructure ratios, where relevant to the Council's application, given the management of infrastructure assets is an important component of the Council's function.

12 Expenditure and revenue in the OPR measure are exclusive of capital grants and contributions, and net of gain/loss on sales of assets.

13 Net debt is the book value of the Council's gross debt less any cash and cash-like assets on the balance sheet. Net debt shows how much debt the Council has on its balance sheet if it pays all its debt obligations within its existing cash balances. Over time, a change in net debt is an indicator of the Council's financial performance and sustainability on a cash basis.

Where relevant, we consider the Council's infrastructure backlog ratio, which measures the Council's backlog of assets against its total written down value of its infrastructure. The benchmark set by OLG for the ratio is less than 2%.[14] It is defined as:

$$Infrastructure\ backlog\ ratio = \frac{Estimated\ cost\ to\ bring\ assets\ to\ a\ satisfactory\ standard}{Carrying\ value\ of\ infrastructure\ assets^{15}}$$

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. The benchmark set by OLG for the ratio is greater than 100%.[16] It is defined as:

$$Infrastructure\ renewals\ ratio = \frac{Infrastructure\ asset\ renewals^{17}}{Depreciation, amortisation\ and\ impairment}$$

These infrastructure ratios were not relevant to the Council's application.

4.1.1 Assessment of the Council's IP&R documents and alternatives to the proposed SV

The Council's Delivery Program set out the purpose of the proposed SV – for Event Management and Attraction.[18] However, there is no discussion on the need for, or alternatives to, the rate rise.

The Council's LTFP does not discuss need, purpose or alternatives.

The Council has informed IPART that it explored and rejected alternative funding strategies for Event Management and Attraction, including:[19]

- Sponsorship was considered but it is limited to where a business can receive significant brand exposure to justify its investment and it often only attracts local visitors.
- Grants could not be relied on to cover all of the costs.
- A tourism accommodation levy to raise revenue from visitors was not considered as it cannot be introduced under Local Government legislation.
- Existing revenue streams are not able to be used unless they are directed away from other services and facilities due to legislative restrictions on some streams. Previous community surveys and engagement has the Council committed to maintaining infrastructure and community services at existing service levels.
- Higher charges, loans and partnerships were considered, but found not to be appropriate due to the impact on existing services and the competitive nature of the events market.

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14 Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.
15 Historical cost less accumulated depreciation.
16 Office of Local Government, *Improvement Proposal Reassessment Report Round 3, June 2018*, p 10.
17 Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or refurbishment of old assets) that increases capacity/performance.
18 Tamworth Regional Council, *Keychange 2017-2027, 4 Year Delivery Program*, p 34.
19 Tamworth Regional Council, *Ordinary Council Agenda, 27 March 2018*, pp 71-72.

Ultimately, the Council decided that the proposed SV is the most appropriate option as it is currently running a balanced budget and has no excess funds for its Event Management and Attraction Strategy. The Council believes that additional funding is required to fund the attraction of special events while still being able to maintain infrastructure and community services at current levels.[20]

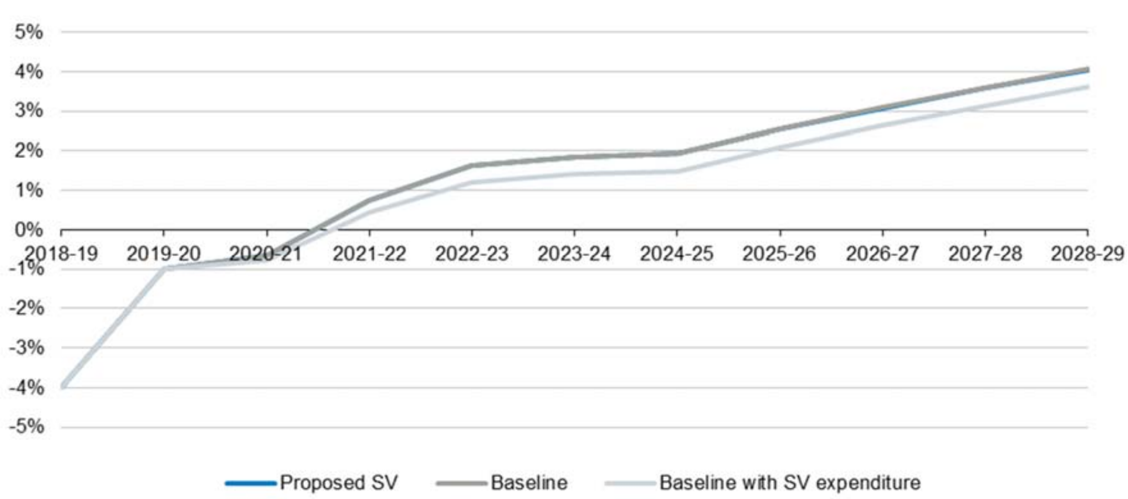
4.1.2 Assessment of the impact of the proposed SV on the Council's financial performance and position

The Council's forecast operating result

Under the Proposed SV Scenario, the Council forecasts increasing operating surpluses, growing to 4.1% by 2028-29. The cumulative value of the forecast operating results (before capital grants and contributions) is $18.4 million to 2028-29. This would allow the Council to deliver its proposed Event Management and Attraction Strategy. The Council forecasts similar results with no SV revenue and no SV expenditure (Baseline Scenario).

Without the proposed SV and assuming the Council's expenditure is the same as under the Proposed SV Scenario (the Baseline with SV expenditure Scenario), it forecasts lower operating surpluses, as shown by the Baseline with SV expenditure Scenario in Figure 4.1 and Table 4.1. The cumulative value of these forecast operating results (before capital grants and contributions) is $14.8 million to 2028-29 under this scenario.

Figure 4.1 Tamworth Regional Council's Operating Performance Ratio (%) excluding capital grants and contributions (2018-19 to 2028-29)



Data source: Tamworth Regional Council, *Application Part A,* Worksheet 8 and IPART calculations.

Note: In this case, the 'Baseline' line covers the 'Proposed SV' line – ie, both scenarios are essentially represented by the 'Baseline' line in this figure.

20 Tamworth Regional Council, *Application Part B*, p 8.

Table 4.1 Projected operating performance ratio (%) for Tamworth Regional Council's proposed SV application (2019-20 to 2028-29)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Proposed SV	-1.0	-0.6	0.7	1.6	1.8	1.9	2.5	3.1	3.6	4.1
Baseline	-1.0	-0.6	0.7	1.6	1.9	1.9	2.6	3.1	3.6	4.1
Baseline with SV expenditure	-1.0	-0.8	0.5	1.2	1.4	1.5	2.1	2.6	3.1	3.6

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

Our analysis indicates that over the next five years, the Council's financial performance under each scenario results in an average OPR of:

- 0.5% under the Proposed SV Scenario
- 0.5% under the Baseline Scenario.
- 0.3% under the Baseline with SV expenditure Scenario.

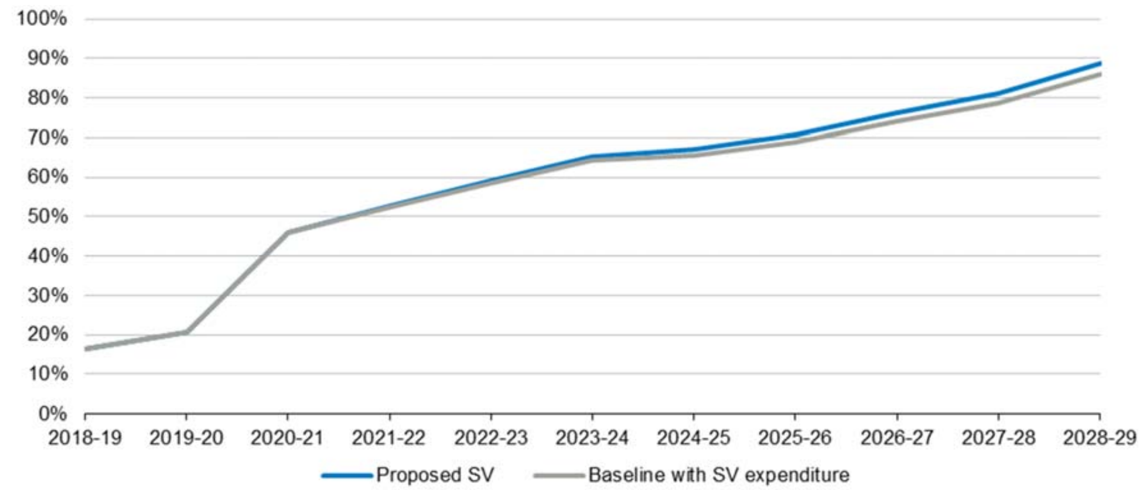
Impact on the Council's net cash (debt)

We calculate the Council's net cash is $14.5 million or 16.4% of income in 2018-19. Over the longer term, with the proposed SV revenue, net cash would increase.

Without the proposed SV, and assuming the Council's expenditure is the same as under the Proposed SV Scenario, we estimate that net cash would still increase by 2028-29. As at 2028-29, the net cash to income ratio would be 88.9% under the Proposed SV Scenario and 85.9% under the Baseline with SV expenditure Scenario.

The Council's forecast net cash (debt) position over the next 10 years is shown in Figure 4.2.

Figure 4.2 Tamworth Regional Council's net cash (debt) to income ratio (%) (2018-19 to 2028-29)



Data source: Tamworth Regional Council, *Application Part A*, Worksheet 8 and IPART calculations.

Our analysis indicates that over the next five years, the Council's financial performance under each scenario results in an average net cash to income ratio of:

- 49.1% under the Proposed SV Scenario
- 48.6% under the Baseline with SV expenditure Scenario.

Submissions from the community to IPART

IPART received 12 submissions during the consultation period from 11 February 2019 to 14 March 2019. In relation to financial need, the submissions raised concerns about the Council's financial management and spending and suggested the Council should work more collaboratively with developers to raise revenue. One submission also expressed that "The Council is in a sound financial position."[21]

We have considered the Council's cost containment and productivity improvements in Section 4.5

4.1.3 Overall assessment of the Council's financial need

The Council's average OPR over five years under both the Proposed SV Scenario and the Baseline Scenario is 0.5%, and 0.3% under the Baseline with SV expenditure Scenario, which are all above the 0% benchmark considered by OLG as a key measure of financial sustainability that all councils should meet.

The Council had only $2.2 million of unrestricted cash available at 30 June 2018.[22] This suggests the majority of the Council's cash and investments are committed to other purposes and are not available for discretionary use to fund part of the Council's proposed SV expenditure.

21 E. Leyden, submission to IPART Special Variation Application, March 2019, p 5.
22 Tamworth Regional Council, *Application Part A*, Worksheet 7.

The Council's forecasts show that it could fund the proposed expenditure program without the SV, and that the proposed SV would not have a significant impact on the Council's financial performance and position. We note, however, that the proposed expenditure is targeted and financial sustainability was not a key driver of the proposed SV application.

We conclude that the Council has not shown a strong financial need for the proposed SV to improve its financial performance and position.

4.2 Community engagement and awareness

The OLG Guidelines outline consultation requirements for councils when proposing an SV application. Specifically:

- The Council's Delivery Program and LTFP should clearly set out the extent of the General Fund rate rise under the proposed SV. 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 (see Section 4.4 for this assessment).
- The Council's community engagement strategy for the proposed SV must demonstrate an appropriate variety of engagement methods to ensure community awareness and that input occurred.

Ultimately, we consider evidence that the community is aware of the need for, and extent of, a rate rise. That is, whether the consultation conducted by the Council with ratepayers has been effective.

In this section, we assess the consultation process, including the clarity of the consultation, the timeliness of the consultation and whether an effective variety of engagement methods were used to reach as many ratepayers as possible across all relevant rating categories.

We also examine the effectiveness of any direct community engagement and any council response to community feedback.

4.2.1 Assessment of consultation with the community

Process and Content

The material the Council prepared for ratepayers on its proposed SV contained few of the elements needed to ensure ratepayers were well informed and able to engage with the Council during the consultation process.

We found that the business community who would be affected by the proposed SV were not directly provided the required information and, therefore, were not sufficiently aware of the proposal and its impact.

We note that the Council originally communicated an increase above the rate peg of 3.00% each year for three years, starting in 2019-20.[23] However, this did not match the Council's

23 Tamworth Regional Council, *Application Part B*, p 5.

application, which is for 2.70% (including rate peg) in 2019-20, 2.84% in 2020-21, 2.88% in 2021-22 and 2.88% in 2022-23. The Council has since updated its dedicated SV website and stated the cumulative percentage impact over the 4-years of the proposed SV. However, the cumulative impact the Council has stated is incorrect, relative to its SV application.[24]

Specifically, the Council:

- In its breakfast and community information sessions, communicated the full impact of the original proposed rate increase, which was for 3.00% above the rate peg for three years, including the cumulative percentage of the proposed SV and the rate increase across various categories of ratepayers. The Council has not communicated the full impact of its proposed SV (ie, the proposed SV in its application to IPART).
- Communicated what the proposed SV would fund.

This information was posted on the Council's dedicated SV portal and discussed at SV meetings held by the Council. However, it was not provided directly to affected ratepayers.

Clarity

The Council's consultation material was not clear in its presentation of the proposed SV and may have confused ratepayers about the need for, or impact of, the proposed rate increase. In a video posted on the Council's dedicated SV website there was no mention of the rate peg also being added to the 3.00% increase each year, under the Council's original proposal which was for a rate increase of 5.70% including the rate peg in 2019-20.

In addition, the actual impact on business ratepayers would be greater than communicated, as it is the only ratepayer category affected. Therefore, the increase applied to business rates would be greater than the proposed SV percentage in order to generate the entire increase in general income. Per the Council's application, the increase in average business rates would be 2.70% in 2019-20, 4.50% in 2020-21, 4.50% in 2021-22 and 4.50% in 2022-23.[25]

Timeliness

The Council carried out community consultation on its SV proposal from 9 May 2018 to 5 February 2019.[26] This consultation period provided opportunity for ratepayers to be informed and engaged on the proposed SV.

However, the Council did not advertise the closing date for submissions in its engagement material.

Engagement methods used

The Council used a variety of methods to engage with its community under its original proposal for 3.00% above the rate peg for three years starting in 2019-20, including:

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24 Tamworth Regional Council, Proposed Special Event Levy (SRV) – New Events, https://yourvoice.tamworth.nsw.gov.au/special-rate-variation-new-events, accessed 4 March 2019.
25 Tamworth Regional Council, *Application Part A*, Worksheet 5a.
26 Tamworth Regional Council, *Application Part B*, pp 14, 18; and 26.

- Breakfast and community information sessions for businesses, key stakeholders and ratepayers – comprising 26 events, attended by 225 people, which outlined the full percentage and cumulative increase including the rate peg.[27] These sessions were advertised in the local paper, on social media and emailed to the Economic and Development list.[28]
- A factsheet emailed to the Economic and Development List, which consists of approximately 450 ratepayers.[29] This factsheet outlined what the proposed SV would be for, how to provide feedback and other options explored to raise revenue.[30]
- A dedicated SV portal.[31] This has been partly updated for the application and has communicated the cumulative percentage impact over the 4-years of the proposed SV. However, these numbers actually match the percentage increase each year in the Council's application, rather than the cumulative impact.
- Print media in local newspapers.[32] These advertised the dates of the Breakfast and Community Information sessions and provided a link to the SV portal.
- Social media posts (Facebook) reaching 7,365 people, which advertised links to decisions made in the Council's meetings and the breakfast and community information sessions.[33]
- A Community satisfaction survey. However, this only discussed the satisfaction of the community with the Council's performance and did not mention the proposed SV.[34]
- Coverage provided by 14 Radio and three TV segments.[35]
- Requesting feedback online – no deadline was given as to the closing of the submissions.

On balance, we do not consider these were reasonable to communicate the proposed SV as only a portion of the 1,827[36] business ratepayers were directly made aware of the breakfast and community information sessions from the Economic and Development List invitation. In addition, the proposed SV communicated to ratepayers does not match what has been applied for and business ratepayers were not told what the actual impact to the average business rate would be (which is significant, as no other ratepayer category would be affected under the proposed SV).

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27 Tamworth Regional Council, *Community Engagement Report*, pp 11; and 37.
28 Email to IPART, Tamworth Regional Council, 4 March 2019.
29 Email to IPART, Tamworth Regional Council, 4 March 2019.
30 Tamworth Regional Council, *Community Engagement Report*, p 5.
31 The portal had 1,205 views with 19 people participating in the public forum. Tamworth Regional Council, *Community Engagement Report*, p 14.
32 Advertisements were placed in the Manilla Express (circulation 1,000), Barraba Gazette (circulation 1,000) and Northern Daily Leader (47,550 circulation on weekdays). Tamworth Regional Council, *Community Engagement Report*, p 7.
33 Tamworth Regional Council, *Application Part B*, p 14; and Tamworth Regional Council, *Community Engagement Report*, p 8.
34 A bi-annual survey found 76% believe the region should have more events and conferences but did not mention the proposed SV. Tamworth Regional Council, *Community Engagement Report*, p 13.
35 Tamworth Regional Council, *Application Part B*, pp 14-15.
36 Tamworth Regional Council, *Application Part A*, Worksheet 2.

4.2.2 Assessment of outcomes of consultation with the community

Although this criterion does not require councils to demonstrate community support for the proposed SV, councils are required to consider the results of community consultation in preparing applications.

The Council received 10 written submissions in relation to its proposed SV, all opposing the application. The main reasons for opposition were:[37]

- Not all businesses benefit from events
- Information sessions were not advertised to all business ratepayers
- The community is already in hardship due to drought
- The revenue should be obtained from other budgets
- The proposal is not a good use of money.

The Council has considered its community's feedback by providing specific answers to comments provided on the dedicated SV portal.[38]

Based on this outcome, the Council decided to delay the start date of the proposed SV by one year and reduce its proposed amount.

Submissions from the community to IPART

IPART received 12 submissions during our consultation period from 11 February 2019 to 14 March 2019.

Eight of these submissions questioned the effectiveness of the Council's community consultation. Some of these statements and comments include:

- [The] "Council's method of communication left a lot to be desired", "ratepayers had no published input portal" and "There was no information on how to submit a formal objection."[39]
- "TRC [Tamworth Regional Council] did not consult with affected ratepayers", and "No invitations [To the Breakfast and Community Information Sessions] were distributed to ratepayers."[40]
- "The 1,828 business ratepayers directly affected…could have been directly contacted by mail with a description of the proposal and a survey response," and "TRC is unable to provide numbers for attendees at those sessions [Breakfast and Community Information Sessions] of persons who were actual business ratepayers."[41]
- The Council has not properly informed ratepayers of the implications of the proposed SV.[42]

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37 Tamworth Regional Council, *Application Part B*, pp 15-16.
38 Tamworth Regional Council, Proposed Special Event Levy (SRV) – New Events, FAQ, https://yourvoice.tamworth.nsw.gov.au/special-rate-variation-new-events, accessed 4 March 2019.
39 K. Weatherall, submission to IPART Special Variation Application, February 2019, p 1.
40 S. Kelleher, submission to IPART Special Variation Application, March 2019, pp 1-2.
41 Tamworth Regional Residents and Ratepayers Association, submission to IPART Special Variation Application, March 2019, p 1.
42 Anonymous and Confidential, submission to IPART Special Variation Application, March 2019, p 1.

- The consultation has been hurried and there was confusion surrounding the amendment to reduce the size of the SV and delay the start date by one year.[43]
- "Very few businesses were even aware of the meetings [Community and Information Sessions] or [the SV] proposal."[44]

4.2.3 Overall assessment of community engagement and awareness

We found that the Council did not demonstrate that the community is sufficiently aware of the need for, and extent of, the proposed rate increase.

4.3 Impact on affected ratepayers

The OLG Guidelines require that the impact of the proposed SV on affected ratepayers must be reasonable, having regard to the current rate levels, the existing ratepayer base and the purpose of the proposed SV. Specifically, the Delivery Program and LTFP 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
- Establish that the proposed rate increases are affordable, having regard to the community's capacity to pay.

Section 4.4 of this report considers the Council's Delivery Program and LTFP.

The focus of this criterion is to examine the impact the proposed SV would have on ratepayers, and in particular consider the reasonableness of the rate increase in the context of the purpose of the proposed SV.

In this section, we consider how the Council has informed ratepayers of the impact of the proposed SV on their rates and addressed affordability concerns.

We also undertake our own analysis of the reasonableness of the proposed rate increase by considering the average growth in the Council's rates in recent years, how the Council's average rates compare to similar councils and other socio-economic indicators such as median household income and SEIFA ranking.

In its application, the Council indicated it intended the SV would only apply to business ratepayers.[45]

The Council has calculated that:

- The average residential rate would increase by 10.6% or $110 over four years, or by $29 in the first year.
- The average business rate would increase by 17.2% or $590 over four years, or by $94 in the first year.

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43 Anonymous and Confidential, submission to IPART Special Variation Application, March 2019, p 1.
44 Anonymous, submission to IPART Special Variation Application, March 2019, p 1.
45 Tamworth Regional Council, *Application Part B*, p 19.

- The average farmland rate would increase by 10.7% or $204 over four years, or by $54 in the first year.
- The average mining rate would increase by 10.6% or $955 over four years, or by $244 in the first year.

Table 4.2 sets out Tamworth Regional Council's estimates of the expected increase in average rates in the main ratepayer categories.

Table 4.2 Indicative annual increases in average rates under Tamworth Regional Council's proposed SV (2018-19 to 2022-23)

Ratepayer Category	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative Increase
Residential rate $	**1,038**	**1,066**	**1,093**	**1,120**	**1,148**	
$ increase		29	27	27	28	110
% increase		2.8	2.5	2.5	2.5	10.6
Business rate $	**3,423**	**3,517**	**3,675**	**3,841**	**4,013**	
$ increase		94	158	165	173	590
% increase		2.7	4.5	4.5	4.5	17.2
Farmland rate $	**1,901**	**1,955**	**2,003**	**2,054**	**2,105**	
$ increase		54	49	50	51	204
% increase		2.8	2.5	2.5	2.5	10.7
Mining rate $	**9,000**	**9,244**	**9,475**	**9,712**	**9,955**	
$ increase		244	231	237	243	955
% increase		2.7	2.5	2.5	2.5	10.6

Note: 2018-19 is included for comparison. The average rate is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category, and includes the ordinary rate and any special rates applying to the rating category.

Source: Tamworth Regional, Application Part A, Worksheet 5a.

4.3.1 Assessment of the Council's consideration of impact on ratepayers

In its application, the Council explained the impact of the proposed SV would be on all sub-categories of business rates. Business rates would increase by 2.7% in 2019-20 and 4.5% each year for 2020-21 to 2022-23.[46] There are no other planned changes to the rating structure.

The Council compared its business rates to other similar sized councils. On the basis that its business rates are 15% below the group average, it concluded that business ratepayers have the capacity to pay.[47]

Regarding willingness to pay, the Council has stated that feedback was supportive of anything that increased economic activity even if it came at a cost, while noting that there were a number of people at the breakfast and community information sessions who did not agree with the proposed SV.[48]

46 Tamworth Regional Council, *Application Part A*, Worksheet 5a.
47 These councils included Albury, Armidale, Bathurst, Dubbo, Orange and Wagga Wagga. Tamworth Regional Council, *Application Part B*, p 21.
48 Email to IPART, Tamworth Regional Council, 27 February 2019.

The Council submitted that it also has a hardship policy and it will continue to manage hardship applications as they arise and seek to work towards practical outcomes with those who find themselves in a difficult situation.[49]

4.3.2 IPART's consideration of impact on ratepayers

To assess the reasonableness of the impact of the proposed SV on ratepayers, we examined the Council's SV history and the average annual growth of rates in various rating categories. We found that since 2008-09:

- The Council has applied for, and been partially granted, one SV, which was used for additional infrastructure maintenance and renewal work. This was a permanent increase of 14.6% in 2012-13.
- The average annual growth has been 5.3% for business rates, which compares with the average annual growth in the rate peg of 2.6% over the same period.[50]

We also compared 2016-17 rates and socio-economic indicators in the LGA with those of OLG Group 4 and similar councils, as shown in Table 4.3.

Table 4.3 Tamworth Regional Council – comparison of rates and socio-economic indicators with similar councils and Group 4 averages (2016-17)

Council (OLG Group)	Average residential rate ($)[a]	Average business rate ($)	Median annual household income ($)[b]	Ratio of average rates to median income (%)	Outstanding rates ratio (%)	SEIFA Index NSW Rank[c]
Gunnedah (11)	830	4,343	65,156	1.3	3.8	46
Albury (4)	1,243	5,828	61,620	2.0	0.9	64
Wagga Wagga (4)	1,006	5,669	70,408	1.4	4.8	88
Orange (4)	1,278	5,767	67,340	1.9	4.7	77
Tamworth (4)	**952**	**3,128**	**61,360**	**1.6**	**4.2**	**53**
Group 4 average	1,032	3,746	62,430	1.7	4.3	-

a The average residential rate (ordinary and special) is calculated by dividing total Ordinary Rates revenue by the number of assessments in the category. The table does not capture the increases from any SVs granted to councils in 2017-18 or 2018-19.

b Median annual household income is based on 2016 ABS Census data.

c The highest possible ranking is 130 which denotes a council that is least disadvantaged in NSW.

Source: OLG, Time Series Data 2016-2017; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018; ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

Based on 2016-17 data, we found that the Council's:

- Average business rates of $3,128 were 16.5% lower than the average for Group 4 councils and 44.4% lower than the weighted average for similar councils.
- Average rates to income ratio was 0.1 percentage points lower than the average for Group 4 councils and in the middle range of similar councils.

49 Tamworth Regional Council, *Application Part B*, p 24.
50 IPART calculations based on OLG data.

- Outstanding rates ratio was 0.1 percentage points lower than the average for Group 4 councils and towards the higher range for similar councils.
- SEIFA ranking indicates the LGA is relatively disadvantaged compared to similar LGAs.

We also compared the Council's average rate levels with the proposed SV to the OLG Group 4 average[51] rate levels over the proposed 4-year SV period.

- We found that the Council's average business rate in 2022-23 with the proposed SV would be $4,013, which would be 6.7% lower than the estimated average business rates of $4,302 for OLG Group 4 in 2022-23.

Submissions from the community to IPART

IPART received 12 submissions during the consultation period from 11 February 2019 to 14 March 2019. The submissions raised concerns surrounding the affordability of the proposed SV, particularly on pensioners during the drought that the area is experiencing.

4.3.3 Overall assessment of the impact on affected ratepayers

We found that the Council's average business rates with the proposed SV would be lower than the estimated average rate for OLG Group 4 councils over the proposed SV period.

We consider that the impact of the proposed SV on affected ratepayers of the Council would be reasonable, given the small increase above the rate peg under the proposed SV.

4.4 Integrated Planning and Reporting documents

The IP&R framework provides a mechanism for councils and the community to engage in important discussions about service levels and funding priorities and to plan in partnership for a sustainable future. The IP&R framework therefore underpins decisions on the revenue required by each council to meet the community's needs and demands.

The OLG Guidelines require the Council to exhibit, approve and adopt the relevant IP&R documents before submitting an application for an SV, to demonstrate adequate planning.

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

In this section, we assess whether the Council has included the proposed SV in its IP&R framework as outlined in Criterion 1 to 3 of the OLG Guidelines and exhibited, approved and adopted its IP&R documents.

51 Based on the 2016-17 data obtained from OLG, IPART has performed calculations to increase the OLG Group 4 average rate levels by the rate peg each year from 2017-18 to 2022-23 to allow for the comparison of Tamworth Regional Council's proposed average rate levels with the SV over the proposed SV period. We note that Kiama, Lithgow and Richmond Valley have applied to IPART for proposed SVs in 2019-20.

According to the OLG Guidelines, the elements that should be included in the IP&R documentation are:

- The need for, and purpose, of the proposed SV
- The extent of the general fund rate rise under the proposed SV
- The impact of any rate rises upon the community.

4.4.1 Assessment of content of IP&R documents

The need for, and purpose of, the proposed SV

The Council presented the purpose of the proposed SV for Event Management and Attraction in its Delivery Program only.[52] The Delivery Program does not discuss alternatives to the rate rise nor present the need for the proposed SV.

The adopted LTFP does not indicate the financial impact of the proposed SV by presenting both a Baseline Scenario reflecting the business as usual model excluding the proposed SV and the Proposed SV Scenario reflecting the additional revenues and expenditures expected with the proposed SV in place.

The Council has provided a LTFP with this information as part of its application, however, it has not been publicly exhibited or adopted.[53]

The extent of the general fund rate rise under the proposed SV

The Delivery Program does not present the extent of the rate rise including the full cumulative increase of the proposed SV in percentage terms, nor the total increase in dollar terms for the average ratepayer, by rating category.

This information is also not contained in the adopted LTFP, nor the one included in the Council's application.

The impact of any rate rises upon the community

It is not evident from the Delivery Program nor LTFP that the Council considered the community's capacity and willingness to pay the rates under the proposed SV (although it did outline its consideration of this in its application, see Section 4.3.1).

52 Tamworth Regional Council, *Keychange 2017-2027*, *4-Year Delivery Program*, p 34.
53 Email to IPART, Tamworth Regional Council, 27 February 2019.

4.4.2 Assessment of the exhibition, approval and adoption of IP&R documents

The Council publicly exhibited its Community Strategic Plan from 9 May 2017 for 28 days and adopted it on 27 June 2017.[54] It exhibited its Delivery Program from 9 May 2018 for 28 days and adopted it on 26 June 2018.[55] The LTFP is not required to be exhibited, but the adopted version, which does not contain the proposed SV, was posted on the Council's website.[56]

The Council advertised the availability of these documents for public comment and placed copies on the Council's website and at the Council's Customer Service Office.[57]

4.4.3 Overall assessment of the IP&R documents

We consider that the Council's IP&R documents do not contain sufficient information relating to the proposed SV and have not been appropriately exhibited, approved and adopted by the Council.

4.5 Productivity improvements and cost containment strategies

The OLG Guidelines require councils to explain the productivity improvements and cost containment strategies that have been realised in past years and are expected to be realised over the proposed SV period.

Achieving cost savings through improved productivity can reduce the need for, or extent of, the increase to general income needed through a proposed SV.

4.5.1 Assessment of efficiency gains achieved

The Council's application sets out the productivity improvement and cost containment initiatives it has undertaken in recent years. In particular, it submitted that from 2011-12 it had:

- $2.0 million in savings per year from a significant service review process that was put towards asset renewals.[58]
- $350,000 savings per year from the review of grading crews, which was reallocated towards asset renewals.
- Reviewed aged care services.
- Reviewed tree management processes.
- $250,000 saved per year from the review of IT services and implementation of shared and managed service arrangements.

54 Tamworth Regional Council, *Ordinary Council Minutes*, 9 May 2017, p 22; and Tamworth Regional Council, *Ordinary Council Minutes*, 27 June 2017, p 9.

55 Tamworth Regional Council, *Application Part B*, p 26; and Tamworth Regional Council, *Ordinary Meeting Minutes*, 26 June 2018, p 22.

56 Tamworth Regional Council, Keychange 2017-2027 Community Strategic Plan, http://www.tamworth.nsw.gov.au/Council/Keychange-2017-2027-Community-Strategic-Plan/Keychange-2017-2027-Community-Strategic-Plan, accessed 9 April 2019.

57 Tamworth Regional Council, Have your Say, https://yourvoice.tamworth.nsw.gov.au/, accessed 9 April 2019.

58 Tamworth Regional Council, *Application Part B*, p 27.

- Significant improvements to waste management processes.
- Increased use of bore water on sporting fields to reduce use of potable water.
- Introduced Integrated Management System accreditation for the Council's civil construction division.[59]

4.5.2 Assessment of strategies in place for future productivity improvements

The Council has stated it will continue to run service reviews and efficiency programs, including opportunities for the review of IT services, but it is expected these savings will be directed back into core council functions. The Council also expects to realise efficiencies from a review of development engineering in the next 12-18 months.[60]

4.5.3 Overall assessment of productivity improvements and cost containment strategies

We found that the Council has explained its productivity improvements and cost containment strategies. It has also partly quantified the cost savings resulting from these efficiency measures.

59 Email to IPART, Tamworth Regional Council, 27 February 2019.

60 Tamworth Regional Council, *Application Part B*, p 27; and email to IPART, Tamworth Regional Council, 8 March 2019.

5 Our Decision

Our decision means that the Council may not increase its general income by more than the rate peg (2.7%) in 2019-20. The Council is to determine how the rate peg increase will be distributed among ratepayer categories.

If the Council wishes to use additional rates revenue provided by an SV to fund future projects, it can apply to IPART for an SV in future years.

Appendices

A Assessment criteria for Special Variation applications

Table A.1 Assessment criteria for special variation applications

Assessment criteria
Criterion 1 – Financial need The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvas alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios: ▼ 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 this criterion. This could include evidence of 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.
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. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.
Criterion 3 – Impact on ratepayers is reasonable The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The Delivery Plan 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.
Criterion 4 – IP&R documents are exhibited The relevant IP&R documents 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.
Criterion 5 – Productivity improvements and cost containment strategies The IP&R documents or the council's application must explain the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation period.

Additional matters

In assessing an application against the assessment criteria, IPART considers the size and resources of the council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.

Source: Office of Local Government, Guidelines for the preparation of an application for a special variation to general income, October 2018, pp 8-9.

B Expenditures to be funded from the Special Variation above the rate peg

Table B.1 shows the Council's proposed expenditure of the SV funds over the next 10 years.

The Council proposed to use the additional SV revenue above the rate peg, of $3.6 million over 10 years, to fund:

- Event Management and Attraction.[61]

61 Tamworth Regional Council, *Application Part A*, Worksheet 6; and Tamworth Regional Council, *Application Part B*, p 4.

Table B.1 Tamworth Regional Council – Revenue and expenditure over 10 years related to the proposed SV (2019-20 to 2028-29) ($000)

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	Total
SV revenue above assumed rate peg	**-**	**125**	**273**	**428**	**438**	**449**	**461**	**472**	**484**	**496**	**3,626**
Funding for increased operating expenditures (including loan interest costs)	-	125	273	428	438	449	461	472	484	496	3,626
Funding for capital expenditure	-	-	-	-	-	-	-	-	-	-	-
Total expenditure	**-**	**125**	**273**	**428**	**438**	**449**	**461**	**472**	**484**	**496**	**3,626**

Note: Numbers may not add due to rounding. Total SV expenditure equals funding for increased operating expenditures plus funding for capital expenditure. The Council proposed to use all the additional revenue raised from the SV for operating expenditure.

Source: Tamworth Regional Council, Application Part A, Worksheet 6.

C Comparative indicators

Performance indicators

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

Table C.1 shows how selected performance indicators for the Council have changed over the four years to 2016-17. Table C.2 compares selected published and unpublished data about the Council with the averages for councils in its OLG Group, and for NSW councils as a whole.

Table C.1 Trends in selected performance indicators for Tamworth Regional Council (2013-14 to 2016-17)

Performance indicator	2013-14	2014-15	2015-16	2016-17	Average annual change (%)
FTE staff (number)	520	496	522	541	1.3
Ratio of population to FTE	114	121	117	113	-0.4
Average cost per FTE ($)	75,848	81,121	78,667	82,115	2.7
Employee costs as % operating expenditure (General Fund only) (%)	39.7	27.5	40.5	42.8	-

Note: Except as noted, data is based upon total council operations that include General Fund, Water & Sewer and other funds, if applicable.

Source: OLG, unpublished data.

Table C.2 Select comparative indicators for Tamworth Regional Council (2016-17)

	Tamworth Regional Council	OLG Group 4 average	NSW average
General profile			
Area (km^2)	9,884	-	-
Population (2016)	60,998	-	
General Fund operating expenditure ($m)	94.3	66.2	76.3
General Fund operating revenue per capita ($)	1,965	-	-
Rates revenue as % General Fund income (%)	34.4	36.5	42.5
Own-source revenue ratio (%)	62.4	60.4	66.0
Average rate indicators[a]			
Average rate – residential ($)	952	1,032	1,053
Average rate – business ($)	3,128	3,746	5,738
Average rate – farmland ($)	1,841	2,026	2,500
Socio-economic/capacity to pay indicators			
Median annual household income, 2016 ($)[b]	61,360	62,430	77,272
Average residential rates to median income, 2016 (%)	1.6	1.7	1.4
SEIFA, 2016 (NSW rank: 130 is least disadvantaged)	53	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	4.2	4.3	3.5
Productivity (labour input) indicators[c]			
FTE staff (number)	541	341	356
Ratio of population to FTE	112.8	-	-
Average cost per FTE ($)	82,115	83,678	91,762
Employee costs as % operating expenditure (General Fund only) (%)	42.8	37.6	38.8

a Average rates equal total ordinary rates revenue divided by the number of assessments in each category.

b Median annual household income is based on 2016 ABS Census data.

c Except as noted, data is based upon total council operations, including General Fund, Water & Sewer and other funds, if applicable. There are difficulties in comparing councils using this data because councils' activities differ widely in scope and they may be defined and measured differently between councils.

Source: OLG, *Time Series Data 2016-2017*, OLG, unpublished data; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2016*, March 2018, ABS, 2016 Census DataPacks, General Community Profile, Local Government Areas, NSW, *Median Weekly Household Income* and IPART calculations.

D Glossary

ABS	Australian Bureau of Statistics
Ad valorem rate	A rate based on the value of real estate.
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
Local Government Act	*Local Government Act 1993* (NSW)
OLG	Office of Local Government
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.
SEIFA	Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. The indexes are based on information from the five-yearly Census. It consists of four indexes, the Index of Relative Socio-economic Disadvantage (IRSD), the Index

	of Relative Socio-economic Advantage and Disadvantage (IRSAD), the Index of Economic Resources (IER), and the Index of Education and Occupation (IEO).
SV	Special variation is the percentage by which a council's general income for a specified year may be varied as determined by IPART under delegation from the Minister.