



Independent Pricing and Regulatory Tribunal

Tweed Shire Council's application for a special variation for 2016-17

under section 508(2) of *Local Government Act 1993*

Local Government — Determination
May 2016



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Contents

1	Determination	1
1.1	Our decision	2
2	What did the council request and why?	3
3	How did we reach our decision?	4
3.1	Need for and purpose of the special variation	8
3.2	Reasonable impact on ratepayers	11
4	What does our decision mean for the council?	13
5	What does our decision mean for ratepayers?	14
	Appendices	17
A	Expenditure to be funded from the special variation	19
B	Comparative indicators	22

1 Determination

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

Under the *Local Government Act 1993* (the Act) councils may apply to us for a special variation that allows them to increase their general income by more than the rate peg. These increases may be either for a single year (section 508(2)) or for successive years up to seven years (section 508A).

IPART assesses these applications against criteria in the Guidelines set by the Office of Local Government (OLG).¹ Box 1.1 explains the Guidelines for 2016-17.

Tweed Shire Council (Tweed Council) applied for a special variation for 2016-17 of 2.77%, to remain permanently in the rate base.²

After assessing the council's application, we have decided to allow the special variation as requested. We have made this decision under section 508(2) of the Act.

Box 1.1 The Guidelines for 2016-17

IPART assesses applications for special variations using criteria in the *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, issued by the Office of Local Government. Refer to Table 3.1 for more details on the criteria in the Guidelines.

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

¹ Office of Local Government (OLG), *Guidelines for the preparation of an application for a special variation to general income for 2016/2017*, January 2016 (the Guidelines).

² Tweed Shire Council, *Special Variation Application Form Part A 2016-17* (Tweed Council, *Application Part A*), Worksheet 1.

Our decision enables the council to fund the long term maintenance and management of environmental protection lands, and ongoing minor restoration works within a development at Cobaki Lakes. This will include ongoing monitoring and reporting (fauna and water) and management actions which include pest control, animal control and fencing. The council is to forward the additional funds to the developer for these purposes for the first five years (estimated) of the project, after which these activities and funding are expected to revert to the council.³

The special variation will not impact existing ratepayers. It will only apply, as a special rate, to future ratepayers within Cobaki Lakes which is yet to be developed.

The council made the existing community aware of these issues both in reviewing its Integrated Planning and Reporting (IP&R) documents and in preparing its special variation application.

1.1 Our decision

We determined that Tweed Council may increase its general income in 2016-17 by 2.77%, including the rate peg of 1.80% that is available to all councils (see Table 1.1). The special variation can be retained in the council’s general income base permanently.

We note that in its application, the council has committed to define and agree to the acceptable ecological condition of the environmental protection lands with the developer prior to work commencing at the Cobaki site.⁴

We have attached conditions to this decision, including that the council uses the income raised from the special variation for purposes consistent with those set out in its application and communicated to the community.

Table 1.1 sets out our decision and Box 1.2 summarises these conditions.

Table 1.1 IPART’s decision on Tweed Shire Council’s application for a special variation in 2016-17

Component	%
Fund maintenance/management of environmental lands at Cobaki Lakes	0.97
Rate peg	1.80
Total increase	2.77

³ Email from Tweed Shire Council, 22 February 2016.

⁴ Tweed Council, *Application Part B*, pp 4-5.

Box 1.2 Conditions attached to Tweed Shire Council's approved special variation

IPART's approval of Tweed Shire Council's application for a special variation in 2016-17 is subject to the following conditions:

- ▼ The council (and through its proposed agreement with the developer), use the additional income from the special variation for the purposes of maintenance and management of environmental protection lands within the Cobaki Lakes development as outlined in the council's application and listed in Appendix A. Any variations must be communicated to the community.
 - ▼ The council reports in its annual report for each year from 2016-17 to 2025-26 on:
 - the scope of the proposed improvements, maintenance and management activities for the environmental lands agreed to between the council and the developer
 - expenditure for environmental improvement works and maintenance/management activities carried out at Cobaki Lakes, consistent with the council's application, and the reasons for any significant differences from the proposed expenditure, and
 - the outcomes achieved as a result of the actual program of expenditure.
 - ▼ The council amends rates notices for Cobaki residential and business ratepayers to itemise the impact of the special rate, effective 1 July 2016.
-

2 What did the council request and why?

Tweed Council applied to increase its general income by 2.77% in 2016-17, consisting of:

- ▼ a 0.97% increase to fund maintenance and management of environmental protection lands within the Cobaki development, and
- ▼ the rate peg of 1.80%.⁵

In 2015, the council presented its proposal for the Fit for the Future (FFTF) assessment which did not include a special variation scenario for 2016-17. The operating performance ratio was projected as remaining in deficit over the period to 2019-20.

Under the proposed special variation, the council's permissible general income would increase from \$56.8 million in 2015-16 to \$58.4 million in 2016-17. The council applied to permanently incorporate this increase into its general income base.

⁵ Tweed Council, *Application Part A*, Worksheet 4 and Tweed Council, *Application Part B*, p 4.

The council estimates that its requested increase of 0.97% above the rate peg would generate \$0.55 million in additional revenue in 2016-17 and \$6.18 million over 10 years.

The Cobaki Lakes development covers an area of approximately 600 ha with 200 ha identified as an environmental protection area. The special variation increase will fund, in perpetuity, maintenance and management of this environmental land. This will be achieved by introducing a special rate to apply exclusively to Cobaki ratepayers.⁶

The council indicated that, during the 10 years of its Long Term Financial Plan (LTFP), it proposes to spend \$6.18 million on additional operational expenditure for environmental management and protection at Cobaki Lakes.⁷

See Table A.1 for the council's proposed program for income and expenditure over the 10 years to 2025-26.

3 How did we reach our decision?

We assessed Tweed Council's application against the criteria in the Guidelines. In making our assessment we also considered the council's most recent IP&R documents, which support its application, as well as its FFTF proposal and a range of comparative data about the council, set out in Appendix B.⁸

Tweed Council has applied on the basis of its adopted IP&R documents, in particular the *Community Strategic Plan 2013/2023, Operational Plan and Delivery Program 2013/2017 and Long Term Financial Plan 2015/16-2024/25*.

The average special rate proposed for future ratepayers of the Cobaki development, estimated at a \$100 increase (above the rate peg) is moderate. We considered, among other things, the council's need for the special rate, its consideration of the anticipated community's priorities, capacity and willingness to pay, and the impact of the special rate on future ratepayers.⁹

⁶ Email from Tweed Shire Council, 22 February 2016. The developer will receive the funds from the special variation and responsibility for maintenance and management of the land for the first five years of the project. Once an acceptable ecological condition has been achieved, the funds and maintenance/management responsibility will revert to the council.

⁷ Tweed Council, *Application Part A*, Worksheet 6.

⁸ See Appendix B. Tweed Council is within the OLG's Group 5 category of councils, which is classified as urban large/very large regional town or city with a population of over 70,000. The group comprises eight councils, including the Cities of Coffs Harbour, Newcastle, Shoalhaven and Wollongong.

⁹ We note that the council's current application (2.77%) requests a slightly higher percentage increase than that on which it consulted its community (2.70%) and originally notified us it would require. The corresponding dollar variance amount is immaterial.

We found Tweed Council's application met the criteria. In particular, we found:

1. The **need for the proposed revenue** reflects community priorities as were demonstrated in the IP&R documents and is supported by IPART's FFTF assessment of the council's financial sustainability.
2. The council provided **evidence that the existing community is aware** of the need for, and (percentage) extent of, the special rate.
3. The **impact of the proposed special rate** on future ratepayers of the Cobaki development is moderate and will enable maintenance and management of the environmental lands in perpetuity. As the development is yet to be commenced, the council's assessment of anticipated ratepayers' willingness and capacity to pay was based on the success of the comparable development at Koala Beach. The council considers the protection of these environmental lands will benefit the owners of the properties. Ratepayers will demonstrate their willingness and capacity to pay if they choose to buy at the Cobaki development.
4. The council provided evidence that the **relevant IP&R documents have been exhibited and adopted**. We note that the Delivery Program amended in December 2015 is not available on the council's website (IP&R webpage).
5. The council did not report explicit **productivity savings** for past years. However, the council did reduce the environmental maintenance and management costs for Cobaki Lakes from \$0.75 million to \$0.55 million per annum. It also indicated its intention to further realise service delivery process improvements.

Table 3.1 summarises our assessment against the criteria. Sections 3.1 and 3.2 discuss our findings against criteria 1 and 3 in more detail.

Table 3.1 Summary of IPART’s assessment of Tweed Shire Council’s application for a special variation against the criteria in the Guidelines

Criterion	IPART findings
<p>1. 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 by including scenarios both with and without the special variation.</p>	<p>The council’s IP&R documents state the need for and purpose of the special variation which:</p> <ul style="list-style-type: none"> ▼ is consistent with community priorities, and ▼ will address environmental protection at the Cobaki development. <p>Our assessment observed that the special variation will not impact on the council's projected operating performance ratio. This is because the additional funds will be spent in the year they are received (as operational expenditure).</p>
<p>2. 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. 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.</p>	<p>The council demonstrated that it had made the existing community aware of the need for and the (%) extent of the special rate for the Cobaki development which will be applicable to all residential and commercial properties. We note that the dollar impact of the special rate was not communicated. As the special variation will not impact current ratepayers, future ratepayers of the Cobaki site will need to be made aware of its impact.</p> <p>Given this context, the council used an appropriate variety of tools to inform the community on the special variation, LTFP and Operational and Delivery Plan, including placing notification in a newspaper advertisement, the council's newsletter which was distributed to every household and on the council website.</p> <p>The council advised that the levy will be permanently placed on rates notices as a cost item as has occurred for a similar previous development ie, the Koala Beach special rate. This has been included as a condition of approval.</p> <p>Feedback from the community, including two written submissions (one from the developer), indicated support for the special variation. IPART did not receive any submissions.</p>

Criterion	IPART findings
<p>3. 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:</p> <ul style="list-style-type: none"> ▼ clearly show the impact of any 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. 	<p>The impact on future ratepayers will be moderate, but reasonable given:</p> <ul style="list-style-type: none"> ▼ the special rate is limited to future ratepayers of the Cobaki development ▼ prospective ratepayers have a choice over whether to buy in the Cobaki development ▼ the affected ratepayers will receive the full benefit of the special variation, and ▼ the council considers the protection of these environmental lands will benefit the owners of the properties (likely to occur through improved amenity and future resale values). <p>Our assessment finds:</p> <ul style="list-style-type: none"> ▼ existing average residential rate levels for Tweed Council were higher than the average for councils in OLG Group 5 by \$170 (17%) ▼ average incomes (\$39,594) were lower than Group 5 and NSW averages by \$5,663 (13%) and \$9,476 (19%) respectively, and ▼ Tweed Council's SEIFA index ranking (68 out of 153) indicates it is not relatively disadvantaged in socioeconomic terms. <p>The council considers the future Cobaki community has the capacity and willingness to pay the proposed special rate based largely on the success of the comparable Koala Beach special rate.</p>
<p>4. 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 revenue.</p>	<p>The council exhibited its amended Delivery Program and LTFP between December 2015 and January 2016 and adopted these plans on 4 February 2016; however, we note that the Delivery Program amended in December 2015 is not currently available on the council website (IP&R webpage).</p>
<p>5. 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.</p>	<p>The council received independent advice on the annual cost for maintenance/management of the environmental lands at \$0.75 million per annum but was advised by the developer who will implement the project, that the cost would be closer to \$0.55 million. The council decided to proceed with these cost savings.</p>

Note: SEIFA is the Socio-Economic Indexes for Areas: refer to Appendix B, Table B.2.

Sources: Tweed Council, *Application Part A and Application Part B*; OLG, Unpublished data; NSW Treasury Corporation (TCorp); *Tweed Shire Council Financial Assessment and Benchmarking Report*, 4 October 2012; Tweed Council, *Delivery Program 2013-17*, p 7; Tweed Council, *Long Term Financial Plan 2015-2025*, p 5; Email from Tweed Shire Council, 25 February 2016 & 8 March 2016; Information provided to IPART, Tweed Shire Council, 12, 15 and 18 February 2016.

3.1 Need for and purpose of the special variation

We consider that the council has met this criterion.

The council has clearly articulated the community's priorities and identified the need for and purpose of the requested special variation in its IP&R documents. The Community Strategic Plan lists 'Caring for the Environment' as one of the LGA's highest priorities between 2013 and 2023.¹⁰

Tweed Council proposes that a special rate will be levied on all ratepayers within the Cobaki development which will be collected by the council and forwarded to the developer for the estimated first five years of the development. These funds will be used for works relating to maintenance and management of environmental protection lands. In addition to special variation funded activities, the developer will fund improvement activities to bring the area up to an acceptable ecological standard. The council estimates that it would cost \$14.3 million over five years to bring the land up to this condition. The project will require a combination of land improvement and maintenance/management works. The environmental improvement works are estimated to cost \$10.4 million, while the management and maintenance activities are estimated at \$4.0 million (\$2.9 million which will be funded by the special variation).

Once the improvement and maintenance/management works have been completed, the protected lands will be dedicated to the council for ongoing maintenance/management. From that time, funds generated from the special variation will be retained by the council. We have identified a small number of risks which may arise in response to this scenario:¹¹

- ▼ The council has advised that there is no set timeframe for commencing or completing environmental improvement works. This may present a situation where ratepayers paying the special rate (estimated at \$100 above the rate peg) may not be given a guide as to the nature of and when these environmental improvement outcomes are to be realised.
- ▼ The council has advised IPART that the special rate will be applicable from 1 July 2016 with funds generated forwarded to the developer. There is a potential risk that the special variation income may partly fund the \$10.4 million for environmental improvement works rather than maintenance and management activities as advised to the community.¹² This could occur until the transfer of management responsibility to the council. This highlights the need for future community awareness on the purpose of the special variation.

¹⁰ Tweed Council, *Application Part B, Attachment 1, Community Strategic Plan 2013/23*, p 6.

¹¹ Email from Tweed Shire Council, 22 February 2016.

¹² Tweed Council, *Application Part B, Attachment 5, Community Engagement Materials – Advertisement*.

- ▼ The council has advised that no agreement with the developer has been, as yet, determined as to what is defined as an acceptable ecological standard that the environmental improvement works are intended to achieve. This standard is to be the basis for enabling the environmental lands to be improved and handed to council for ongoing environmental maintenance and management.¹³

The conditions defined in Box 1.2 address these concerns. Additionally, we note that in its application, the council has committed to define and agree to the acceptable ecological condition of the environmental protection lands with the developer prior to work commencing at the Cobaki site.

Alternative funding options

The council has explored alternative revenue options such as, increasing council loan borrowings, introducing new or increasing user charges and joint ventures. It concluded that these options would reduce services levels and asset maintenance and provision for ratepayers that would not benefit from the protection of the Cobaki environmental land. Given the council's previous success with a similar special rate for a development at Koala Beach, a special variation was deemed the best option. The Koala Beach special rate commenced in 1997-98 based on a special variation increase of 5% above the rate peg.¹⁴

Financial sustainability

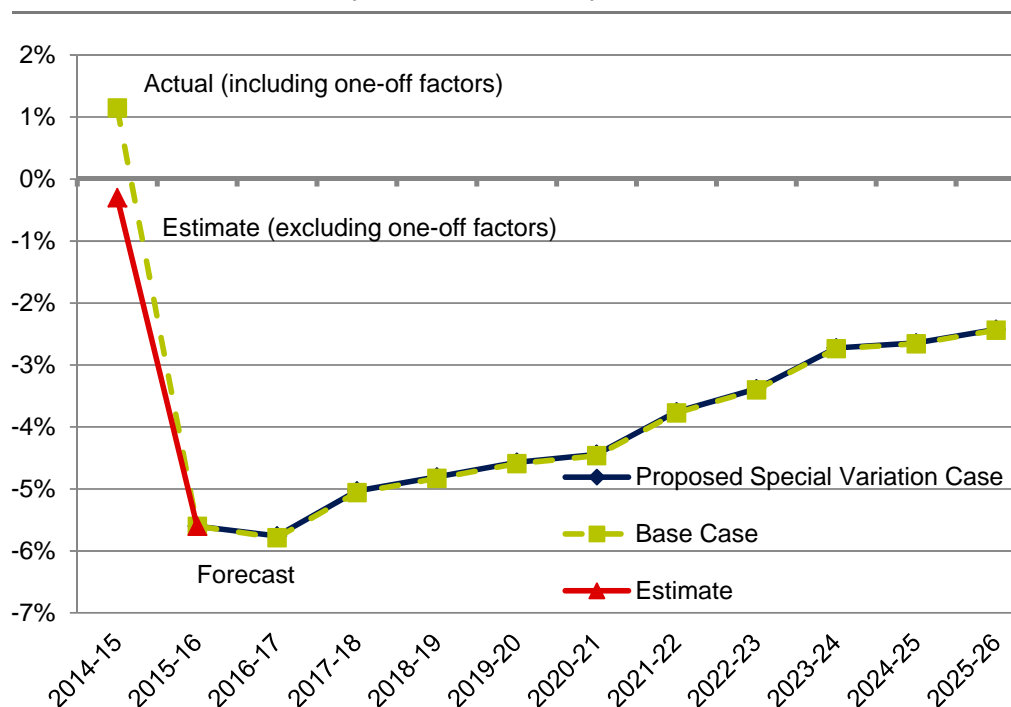
It is not the intent of this special variation to improve the council's financial sustainability. The purpose of the special variation is to fund the maintenance and management of environmental lands at Cobaki Lakes without adversely impacting the council's operating performance ratio. The council is projecting operating deficits of approximately \$6.0 million which will improve over the next 10 years to a deficit of \$3.6 million with or without the special variation.¹⁵

¹³ Email from Tweed Shire Council, 25 & 29 February 2016.

¹⁴ Email from Tweed Shire Council, 25 February 2016.

¹⁵ Tweed Council, *Application Part A*, Worksheet 7.

Figure 3.1 Tweed Council's Operating Ratio excluding Capital Grants and Contributions (2010-11 to 2025-26)



Note: The 2014-15 actual operating performance ratio of a 1.1% surplus compares with the estimate for that year of a 0.3% deficit. This difference reflects one-off factors of increases in other revenue (due to a legal settlement) and grants & contributions and a decrease in material expenses. The steep decline in 2015-16 is a correction following those one-off factors occurring in 2014-15.

Source: Tweed Council *Annual Financial Statements*, various, Tweed Council, *Application Part A, Worksheet 7* and IPART calculations.

In 2015, our Fit for the Future (FFTF) assessment found the council 'Not Fit' as it did not satisfy the financial criteria. The council:

- ▼ Did not meet the criterion for sustainability as it was not projected to meet the **operating performance benchmark**, but maintain operating deficits to 2019-20 (4.9%). It is expected to have a relatively low building and asset renewals ratio of 52.2% by 2019-20.
- ▼ Did not meet the criterion for infrastructure and service management as the 2014-15 infrastructure backlog (7.3%) and **asset maintenance** (78.5%) ratios did not reach the benchmark and were projected to deteriorate by 2019-20 (8.9% and 71.3% respectively). The debt service ratio remains in benchmark range through to 2019-20 (9%).
- ▼ Met the criterion for efficiency based on its operating expenditure per capita declining over the period to 2019-20.

The FFTF assessment aligns with the improving trend projection in Figure 3.1 with the exception that the council's special variation application shows a much smaller deficit for 2015-16. This is due to the FFTF figure being a 3-year average which includes an 18% deficit in 2013-14. The actual result for 2015-16 was a 5.6% deficit which is in line with the special variation projection.¹⁶

We also note that the council did not include a special variation scenario in the Fit for the Future assessment.

NSW Treasury Corporation (TCorp) observed in 2013 that the council's financial position was 'moderate', and considered its outlook to be 'neutral'.¹⁷ The council was projected to improve its operating result as increases in revenue exceeded increases in expenditure, mainly due to a fast growing population. It was also noted that the council was not reaching asset renewal benchmarks and this was likely to deteriorate.¹⁸

3.2 Reasonable impact on ratepayers

We consider the impact of the special variation will be moderate on the future ratepayers within the Cobaki development, but reasonable given the likely benefits of the application.

The council's consideration of impact on ratepayers

The council considers the existing community has the capacity and willingness to pay. Potential purchasers of land within the Cobaki development will be alerted to the existence of the special rate and will take this cost into account should they purchase the property.¹⁹

In assessing the reasonableness of the impact of the special variation on ratepayers, we examined the council's special variation history and the average annual growth of rates in various rating categories. We also compared current rates and socioeconomic indicators within the LGA as shown in Table 3.2.

¹⁶ Tweed Council, *Application Part A*, Worksheet 7.

¹⁷ New South Wales Treasury Corporation (TCorp), *Financial Sustainability of the New South Wales Local Government Sector*, April 2013, p 18.

¹⁸ New South Wales Treasury Corporation (TCorp); *Tweed Shire Council Financial Assessment and Benchmarking Report*, October 2012, pp 4 & 13.

¹⁹ Tweed Council, *Application Part B*, p 14.

Table 3.2 Tweed Council - comparison of rates and socioeconomic indicators with surrounding councils and Group 5 averages (2013-14)

Council (OLG Group)	Average residential rate (\$) ^a	Average taxable income (2011)	Ratio of average rates to average income (%)	Outstanding rates ratio (%) ^b	SEIFA Index NSW Rank ^c
Surrounding Councils					
Tweed Shire (5)	1,199	39,594	3.0	6.1	68
Lismore City (4)	1,057	38,784	2.7	9.9	66
Byron Shire (4)	1,020	37,689	2.7	4.5	98
Ballina Shire ^d (4)	796	40,734	2.0	5.6	99
Kyogle ^d (10)	708	32,640	2.2	14.1	11
Group 5	1,037	45,257	2.3	4.7	-

^a The average residential rate (ordinary and special) is calculated by dividing total Ordinary and Special Rates revenue by the number of assessments in the category.

^b The outstanding rates ratio includes water and sewer.

^c The highest possible ranking is 153 which denotes a council that is least disadvantaged in NSW.

^d Councils Kyogle and Ballina Shire were both granted rate increases above the rate peg in 2015-16. The data in this table does not capture the increases from these special variations.

Source: OLG, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.

We found that since 2004-05:

- ▼ The council's residential rate levels were above those of its comparators and will remain the case with the special variation. The average residential rate of \$1,199 (based on 2013-14 data) was higher than those of comparable Group 5 councils, Shoalhaven City (\$882) and Coffs Harbour City (\$897) and the Group 5 average of \$1,037.
- ▼ The council has applied for and been granted three special variations that were used for road maintenance and infrastructure programs.
- ▼ The council's outstanding rates ratio (6.1% for 2013-14) was higher than the Group 5 (4.7%) and NSW (5.5%) average and the accepted benchmark (of 5%), however it has been on a downward trend, at 5.2% for 2014-15.²⁰
- ▼ There is no formal hardship policy in place to assist ratepayers experiencing financial difficulties, however, the council does provide options such as payment plans.
- ▼ Average income (\$39,594) was lower than Group 5 and NSW averages by \$6,050 (13%) and \$9,863 (20%) respectively.
- ▼ Tweed Council's SEIFA index ranking (68 out of 153) indicates it is not relatively disadvantaged in socioeconomic terms.

²⁰ Tweed Shire Council, General Purpose Financial Statements, 2014-15, p 58.

The special rate is proposed to be based on a 100% ad valorem rate, with an estimated increase of \$100 per rate assessment (above the rate peg), and will initially be levied on the land owned by LEDA Manorstead Pty Ltd. It will gradually be distributed across the planned 5,500 lots to be created within the subdivision. This ad valorem levy will have a progressive impact in that it will have a lower impact upon relatively low value properties and, it is assumed, low income earners.²¹

Taking all these factors into account, we consider that the impact of the special rate is moderate, but reasonable given it is a one-off estimated increase of \$100 (above the rate peg) then only rising by the rate peg amount. The affected ratepayers will receive the full benefit from the special variation and there is a long-term benefit in the preservation of the environmental lands which is likely also to improve land values.

4 What does our decision mean for the council?

Our decision means that Tweed Council may increase its general income in 2016-17 by an estimated \$1.6 million as indicated in Table 4.1.²² This increase will be permanently incorporated into the council's revenue base. After 2016-17, the council's general income can increase by the annual rate peg. The council can apply for future increases above the rate peg.²³

Table 4.1 Permissible general income of Tweed Council in 2016-17 arising from the special variation approved by IPART

Notional general income 2015-16 (\$)	Adjustment: expiring special variation (\$)	Increase approved (%)	Annual increase in general income (\$)	Adjustments: Catch-ups, valuations ^a (\$)	Permissible general income 2016-17 (\$)
56,837,680	-	2.77	1,574,404	964	58,413,048

^a A prior catch-up of \$964 to be recouped in 2016-17 that had not been recouped by the time of the application was submitted to IPART.

Note: The above information is correct at the time of the council's application (February 2016).

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

This extra income is the amount the council requested to enable it to undertake additional operating expenditure to provide long term maintenance and management of environmental lands at the Cobaki development.

²¹ Tweed Council, *Application Part B*, p 13.

²² Tweed Council, *Application Part A*, Worksheets 1 and 4.

²³ General income in future years cannot be determined with precision, as it will be influenced by several factors in addition to the rate peg. These factors include changes in the number of rateable properties and adjustments for previous under- or over-collection of rates. The Office of Local Government is responsible for monitoring and ensuring compliance.

The council may consider reviewing its financial planning and adjust and implement other strategies to improve its financial ratios.

5 What does our decision mean for ratepayers?

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

Tweed Council has advised that it will levy the special rate across the 5,500 lots proposed to be developed at Cobaki Lakes.²⁴

The total increase in the council's general income will be 2.77%. IPART has estimated the special rate impact across rating categories:

- ▼ the indicative average residential rate in 2016-17 for the Cobaki development will increase by 9.3%, or \$124 including the rate peg (or \$100 more than other residential properties)
- ▼ the indicative average business rate in 2016-17 for the Cobaki development will increase by 5.2%, or \$152 including the rate peg (or \$100 more than other business properties), and
- ▼ the average rate for all other ratepayers (including the existing Koala Beach special rate) will increase by the rate peg, 1.8%.²⁵

Table 5.1 sets out the proposed impact of rate increases on all affected ratepayer categories.

²⁴ Tweed Council, *Application Part B*, p 13.

²⁵ Tweed Council, *Application Part A*, Worksheet 5a & IPART calculations. We have assumed that the special rate is applicable to all future ratepayers of the Cobaki development and that the rate levels for future ratepayers are similar to existing rate levels across all categories, within the local government area.

Table 5.1 Indicative increases in average rates for Cobaki Lakes under Tweed Council's approved special variation for 2016-17

Category ^a	Average rate 2015-16 (\$)	Increase (%)	Increase (\$)	Average rate 2016-17 (\$)
Average residential rate				
Cobaki Site	1,337 ^b	9.3	124	1,461
Other residential (incl. Koala Beach special rate)	1,337	1.8	27	1,364
Average business rate				
Cobaki Site	2,906 ^b	5.2	152	3,058
Other business	2,906	1.8	52	2,958
Average farmland rate				
Cobaki Site	na	na	na	na
Other farmland	2,017	1.8	36	2,053

^a 2015-16 is included for comparison.

^b Included as an indicative estimate under the assumption that rate levels for future affected ratepayers will be similar to existing rate levels across all categories, within the local government area.

Notes: Average rates are calculated by IPART, and assume that the special rate is applicable to residential and business categories at the Cobaki site. Some numbers may not add due to rounding.

Source: Tweed Council, *Application Part A*, Worksheet 5a and IPART calculations.



Appendices

A Expenditure to be funded from the special variation

Table A.1 shows Tweed Council's proposed expenditure of the special variation funds over the next 10 years.

The council will generate additional special variation revenue above the rate peg, which it has estimated at \$6.18 million over 10 years. This will primarily fund maintenance and management of environmental protection lands at the Cobaki site, with possible minor restoration works after year 5 (estimated). It is estimated that over the first five years, the developer will use \$2.90 million of the special variation funds for maintenance and management of the environmental protection lands.

Once an acceptable ecological condition has been achieved (expected to occur in year 6), the special variation funds and responsibility for maintenance and management of the environmental lands will revert to the council on a perpetual basis. It is estimated that the council will spend \$3.28 million on these activities from year 6 to year 10.²⁶

In total, it is estimated that it will cost the developer \$14.32 million for environmental improvement and maintenance/management works over the first five years of the project. This will include improvement works to the value of \$10.35 million which include:

- ▼ site restoration and rubbish removal (\$5.67 million), and
- ▼ revegetation (\$4.68 million).

The developer will undertake maintenance/management activities (totalling \$3.97 million of which \$2.90 million will be funded by the special variation) such as:

- ▼ management actions (pest/animal control and fencing) (\$0.96 million)
- ▼ management actions on Crown Land (\$0.19 million)
- ▼ reactive management provision (\$1.38 million), and
- ▼ monitoring and reporting of flora, fauna and water (\$1.43 million).²⁷

As the anticipated special variation income above the rate peg will be spent, there will be no effect on the operating performance or financial sustainability of the council.²⁸

²⁶ Tweed Council, *Application Part A*, Worksheet 6.

²⁷ Email from Tweed Shire Council, 22 February 2016. The special variation will not fund the environmental improvement works. These works will be funded by the developer.

²⁸ Tweed Council, *Application Part A*, Worksheet 6, and Tweed Council, *Application Part B*, pp 8-9.

As a condition of IPART's approval, the council is to indicate in its Annual Reports how its, and the developer's, actual expenditure on these environmental maintenance and management activities compare with this proposed program of expenditure.

Table A.1 Tweed Council – Income and proposed expenditure over 10 years related to the special variation (\$000)

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Special variation income above assumed rate peg	551	565	579	594	609	624	639	655	672	689	6,177
Funding for increased operating expenditures ^a	551	565	579	594	609	624	639	655	672	689	6,177
Funding to reduce operating deficits or (increase surpluses)	0	0	0	0	0	0	0	0	0	0	0
Funding for capital expenditure	0	0	0	0	0	0	0	0	0	0	0
Additional expenditure	551	565	579	594	609	624	639	655	672	689	6,177

^a These include maintenance and management of environmental protection lands at Cobaki Lakes. These activities include pest and animal control, fencing and monitoring and reporting of flora, fauna and water. It is estimated that over the first five years, this expenditure will occur through the developer. After this time, the special variation revenue is to be retained and spent by the council for ongoing minor restoration works and maintenance and management.

Note: Numbers may not add due to rounding. Total special variation expenditure equals funding for increased operating expenditures with no funding made available to improve the operating result.

Source: Tweed Council, *Application Part A*, Worksheet 6.

Table A.2 Proposed 5-year capital expenditure program related to the special variation (\$000) - to be funded by the developer

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Restoration and rubbish removal	4,340	503	331	274	221	0	0	0	0	0	5,669
Revegetation (includes mulch)	4,685	0	0	0	0	0	0	0	0	0	4,685
Total Capital Expenditure	9,024	503	331	274	221	0	0	0	0	0	10,354

Note: Numbers may not add due to rounding.

Source: Email from Tweed Shire Council, 22 February 2016.

B Comparative indicators

Performance indicators

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

Table B.1 shows how selected performance indicators for Tweed Council have changed over the four years to 2013-14.

Table B.1 Trends in selected performance indicators for Tweed Shire Council, 2010-11 to 2013-14

Performance indicator	2010-11	2011-12	2012-13	2013-14	Average change (%)
FTE staff (number)	655	659	672	677	1.1
Ratio of population to FTE	136	134	132	131	-1.1
Average cost per FTE (\$)	68,252	65,420	68,513	69,162	0.4
Employee costs as % operating expenditure (General Fund only) (%)	35.3	32.5	32.3	29.6	-5.7
Consultancy/contractor expenses (\$m)	-	-	-	-	-
Consultancy/contractor expenses as % operating expenditure (%)	-	-	-	-	-

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.

The above table shows that:

- ▼ The number of full time staff increased by 3.4% from 2010-11 (655) to 2013-14 (677) or an annual average increase of 1.1%. This growth exceeded the impact of population growth as the ratio of population to FTE fell from 136 in 2010-11 to 131 in 2013-14.
- ▼ Average costs per FTE have only increased by 1.3% from \$68,252 (2010-11) to \$69,162 (2013-14) or an average annual increase of 0.4%. Average employee expenses of \$69,162 remain significantly lower than comparator councils of Shoalhaven City (\$83,285) and Coffs Harbour City (\$77,789).
- ▼ Employee expenses, as a percentage of operating expenditure have declined from 35.3% (2010-11) to 29.6% (2013-14). This compares favourably with an average of 34.9% in 2013-14 for Group 5.

The Independent Local Government Review Panel (ILGRP) report identified options for a Joint Organisation with the surrounding councils of Ballina Shire, Byron Shire, Kyogle, Lismore City and Richmond Valley.²⁹

Our 2015 FFTF review found:

- ▼ The council met the criterion for efficiency based on projected improvements in its real opex per capita ratio. Real opex per capita was \$1,010 in 2014-15 and is forecast to be \$960 in 2019-20.
- ▼ The council plans to introduce a framework for service delivery process improvement in 2016 to promote continuous gains in efficiency.

General comparative indicators

Table B.2 compares selected published and unpublished data about Tweed Council with the averages for the councils in its OLG Group, and for NSW councils as a whole.

As noted in section 3, Tweed Council is in OLG Group 5. Unless specified otherwise, the data refers to the 2013-14 financial year.

²⁹ Independent Local Government Review Panel, *Revitalising Local Government - Final Report*, October 2013.

Table B.2 Select comparative indicators for Tweed Shire Council, 2013-14

	Tweed Council	OLG Group 5 average	NSW average
General profile			
Area (km ²)	1,309	-	-
Population	88,866	-	-
General Fund operating expenditure (\$m)	120.4	-	-
General Fund operating revenue per capita (\$)	1,179	1,239	1,857
Rates revenue as % General Fund income (%)	47.9	52.7	48.9
Own-source revenue ratio (%)	68.0	77.7	73.8
Average rate indicators^a			
Average rate – residential (\$)	1,197	1,027	743
Average rate – business (\$)	2,724	5,093	2,781
Average rate – farmland (\$)	1,944	1,901	2,293
Socio-economic/capacity to pay indicators^b			
Average annual income for individuals, 2011 (\$)	39,594	45,257	49,070
Growth in average annual income, 2006-2011 (% pa)	4.7	4.6	5.2
Ratio of average residential rates 2013-14, to average annual income, 2011 (%)	3.0	2.3	1.6
SEIFA, 2011 (NSW rank: 153 is least disadvantaged)	68	-	-
Outstanding rates and annual charges ratio (General Fund only) (%)	6.1	4.7	5.5
Productivity (labour input) indicators^c			
FTE staff (number)	677	817	294
Ratio of population to FTE	131	161	127
Average cost per FTE (\$)	69,162	82,246	78,374
Employee costs as % operating expenditure (General Fund only) (%)	29.6	34.9	38.1
Consultancy/contractor expenses (\$m)	-	30.2	8.3
Consultancy/contractor expenses as % operating expenditure (%)	-	14.4	10.5

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

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

^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, unpublished data; ABS, *Regional Population Growth, Australia*, August 2013; ABS, *Estimates of Personal Income for Small Areas, 2005/06 to 2010/11*, October 2013; ABS, *Socio-Economic Indexes for Areas (SEIFA) 2011*, March 2013 and IPART calculations.