

**APPLICATION FOR ADDITIONAL SPECIAL VARIATION TO GENERAL INCOME**

**2022-2023**

**Application Documents**

1. IPART Application Form – Additional Special Variations for 2022-23
2. Council Resolution to Apply for Additional Special Variation
3. Application Supporting Information (this document)
4. Council Resolutions to Adopt 2021-22 IP&R Documents
5. Final Operational Plan and Budget 2021-2022, incorporating the 2021-2022 Long Term Financial Plan (pages 82-89)
6. 2021-22 Long Term Financial Plan – General Fund

**Introduction**

Council is applying for a permanent Additional Special Variation of 1.8% plus 0.7% rate peg (total 2.5%) commencing in 2022-23 under section 508(2) of the *Local Government Act 1993* in accordance with the following Council resolution adopted 28 April 2022 (minute 86/22):

That Council make application to the NSW Independent Pricing and Regulatory Tribunal for an Additional Special Variation on the following basis:

- a. The Special Variation is 1.8% plus 0.7% rate peg (total 2.5%) commencing in 2022-23;
- b. The Special Variation is permanent under section 508(2) of the *Local Government Act 1993*;
- c. Council will receive additional income of \$356,319 if the Special Variation is approved;
- d. The Special Variation is required because:
  - Council included the assumption of a 2.5% rate peg in the 2021-22 long term financial plan included in the adopted 2021-22 Operational Plan;
  - The assumed 2.5% rate peg is required for the continued delivery of services to the community; and
  - In the absence of the Special Variation, Council will not have sufficient capacity to meet all its obligations as and when they fall due in 2022-23 and in future years.
- e. Council has considered the impact of the Special Variation on ratepayers and the community in 2022-23 and in future years and considers that it is reasonable noting that assistance is available by way of Council's Hardship Policy for ratepayers experiencing financial hardship.

The key purpose of the requested Additional Special Variation is to provide revenue and funding in order to:

- Reduce the unfavourable gap between operating income and expenditure thereby helping the Council to improve its financial sustainability;
- Provide funding for asset renewal to assist with managing Council's asset backlog thereby avoiding the asset backlog increasing to unsustainable levels;
- Assist Council to continue to deliver existing services without the need to introduce reductions in service delivery that would otherwise be associated with a drop in revenue and funding; and
- Assist Council to manage a range of negative impacts to its budgeted financial position caused by external factors.

## Background

Council had assumed a 2.5% rate revenue (rate peg) increase in the adopted 2021-2022 Long Term Financial Plan (LTFP). The 2021-2022 LTFP was updated and incorporated into the 2021-2022 Operational Plan, which was publicly exhibited from 27 May 2021 in accordance with the following Council resolution adopted 26 May 2021 (minute 203/21):

That Council:

- Approve the inclusion of the 10.5% permanent Special Rate Variation determined by IPART in the Draft Operational Plan and Budget 2021-2022 and associated documents;
- Endorse the following draft documents for public exhibition for a minimum period of 28 days pursuant to the requirements of the NSW Local Government Act 1993:
  1. Draft Operational Plan and Budget 2021-2022;
  2. Draft Revenue Policy 2021-2022; and
  3. Draft Fees and Charges 2021-2022.
- Note that the community engagement will also cover the proposed four year rates harmonisation implementation framework effective 1 July 2021;
- Note that the Draft Operational Plan and Budget 2021-2022 public exhibition period will run from Friday, 28 May to Thursday, 24 June 2021; and
- Following the exhibition period a report be presented to Council, which outlines community submissions received, along with the final 2021-2022 Integrated Planning and Reporting documents.

Following the public exhibition period, Council adopted the 2021-2022 Operational Plan, incorporating the 2021-2022 LTFP, on 29 June 2021 (minute 274/21).

In 2021 Council applied for a Special Rate Variation (SRV) of a permanent 8.5% plus 2.0% rate peg (total 10.5%) commencing in 2021-2022. This SRV made permanent a previous seven year temporary rate increase that expired 30 June 2021. This funding is critical for Council to continue a program of asset renewal works to manage existing assets across the region. Council's 2021 SRV application was made on the assumption of an ongoing 2.5% rate peg.

Key general fund ratios reported in Council's 2021-2022 LTFP are:

	Bench- mark	Projected Years									
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Operating Performance Ratio	>0%	0.17%	1.17%	0.75%	0.89%	1.01%	0.64%	-1.01%	-1.01%	-1.01%	-1.05%
Own Source Operating Revenue	>60%	53.03%	77.39%	77.51%	77.20%	77.23%	77.69%	77.60%	75.48%	77.31%	78.18%
Unrestricted Current Ratio	>1.5x	1.08	1.33	1.39	1.39	1.59	1.79	1.76	2.10	2.29	2.56
Debt Service Cover Ratio	>2x	3.76	1.88	4.11	4.56	5.10	13.40	15.10	18.99	25.14	70.78

	Bench- mark	Projected Years									
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Cash Expense Cover Ratio (including restricted cash)	>3 months	6.72	6.69	7.69	7.87	8.43	9.72	9.65	11.26	11.96	13.21
Cash Expense Cover Ratio (unrestricted cash)	>3 months	0.66	0.68	0.74	0.54	0.66	1.17	0.84	1.81	2.10	2.80
Buildings & Infrastructure Renewals Ratio	>100%	79.75%	47.41%	48.75%	58.97%	59.96%	57.57%	80.04%	45.25%	60.55%	45.87%
Infrastructure Backlog Ratio	<2%	2.30%	2.53%	2.76%	2.95%	3.15%	3.37%	3.47%	3.77%	3.99%	4.42%
Asset Maintenance Ratio	>100%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
Real Operating Expenditure per capita	N/A	\$1,675	\$1,644	\$1,611	\$1,582	\$1,594	\$1,579	\$1,565	\$1,551	\$1,537	\$1,524

### Financial Need

The 0.7% rate peg handed down by IPART for Armidale Regional Council would only raise approximately \$130,000 in additional revenue in 2022-23.

Factors that make this an unsustainable position for Council include:

- The mandatory 2% staff award increase is estimated to increase costs by approximately \$500,000 for General Fund only.
- The Superannuation Guarantee Contribution amount is expected to increase from 10% to 10.5% in 2022-23 resulting in increased costs of approximately \$120,000 per annum.
- Insurance costs are forecast to increase by approximately \$330,000.

In the current inflationary environment, Council is also experiencing cost increases in a range of areas, including materials, transport and contractor costs. The existence of a large amount of government stimulus funding has also contributed to a shortage of contractors and has pushed up prices for capital projects.

Without an increase of at least 2.5% in rate revenue, Council will have insufficient capacity to meet its obligations as and when they fall due in 2022-23 and in future years.

Council's poor outlook for:

- Operating performance ratio;
- Unrestricted cash; and
- Building and infrastructure renewals and infrastructure backlog ratio.

As evidenced in the 2021-2022 LTFP make alternatives such as drawing down on internal reserves, redirection of funding and borrowings unacceptable alternatives to the Additional Special Variation.

The Additional Special Variation is required on a permanent basis for the following reasons:

- In the 2021-2022 LTFP, the general fund operating performance ratio remains above the recommended minimum benchmark of 0% until 2026/27 but falls below this from 2027/28 onwards;
- The building and infrastructure renewals ratio remains below the minimum recommended benchmark of greater than 100% in all years; and
- As a result, the infrastructure backlog ratio worsens over the term of the 2021-2022 LTFP.

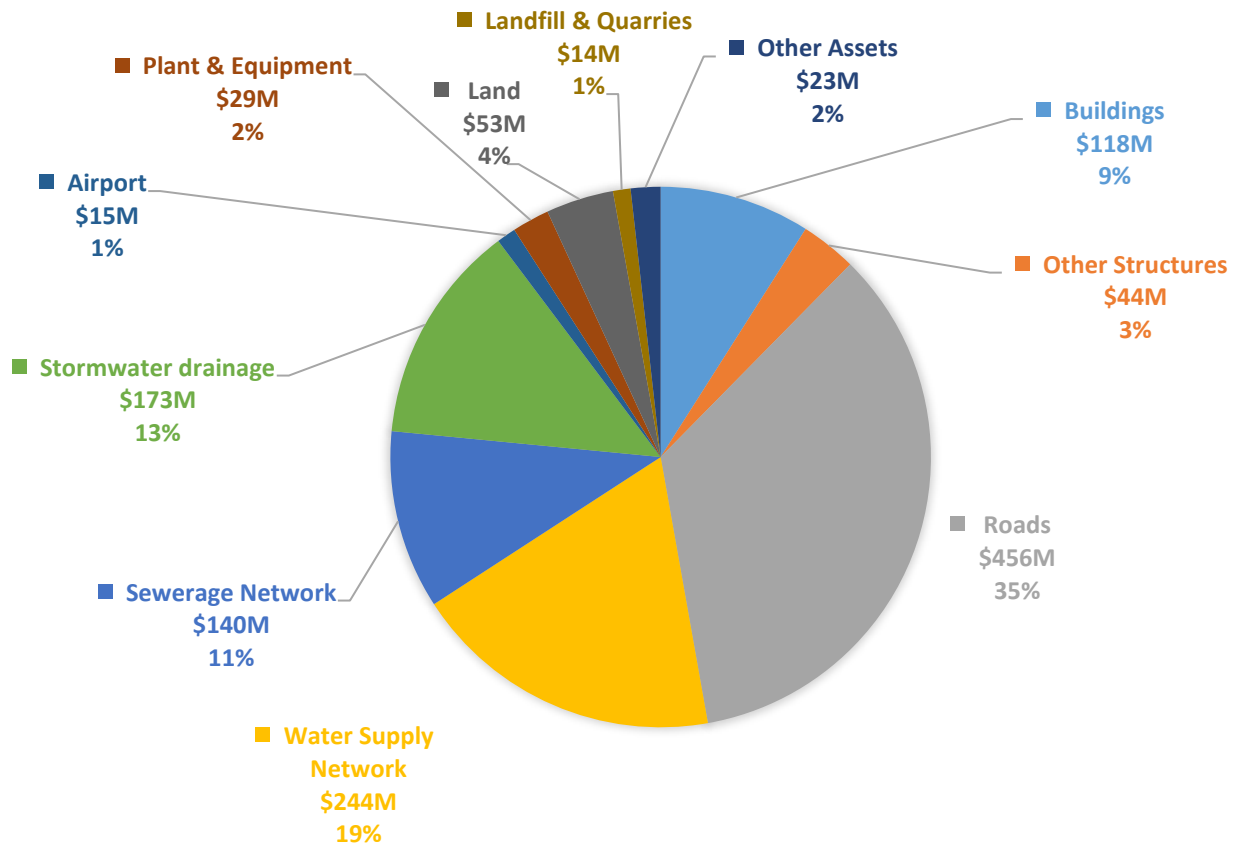
Council's cash ratios also do not support a permanent reduction in funding from the assumed 2.5% rate peg increase. In the 2021-2022 LTFP, the unrestricted current ratio is below the recommended minimum of 1.5 until 2025-26 and the cash expense cover ratio based on unrestricted cash only does not reach a level above 3 months.

### **Asset Renewal**

Armidale Regional Council is located in the New England Region of New South Wales and covers an area of 8,621km<sup>2</sup>. With a population of 29,704 this results in a population density of 0.03 persons per hectare. Council's infrastructure is extensive. Council maintains roads, buildings, bridges, drainage, footpaths, waste infrastructure as well as parks, ovals, sporting grounds and community halls. In addition to the management of these assets, Council also provides essential water and sewerage services to the communities of Armidale and Guyra.

Within the Armidale Regional Council local government area there are 779 kilometres of sealed roads, 1,078 kilometres of unsealed roads and 130 kilometres of regional roads, all of which are maintained by Council. Council is responsible for managing \$1.2 billion in infrastructure assets (roads, bridges, stormwater, footpaths, buildings, water, sewer) and total assets of \$1.3 billion (including land, landfills, plant & equipment).

**GROSS ASSET VALUE 30 JUNE 2021 - \$1.3 BILLION**



**Asset Volumes**

Roads	1,858km	Stormwater	119km
Bridges	112	Land	342 properties
Footpaths	130km	Buildings	264
Kerb and Gutter	271km	Other Structures	300
Water Network	30,627 assets	Plant & Equipment	480 assets
Sewer Network	22,159 assets		

In the 2021-2022 LTFP the general fund building and infrastructure renewals ratio is an average of 58.41% across the ten year term, which is lower than the minimum recommended benchmark of 100%. The infrastructure backlog ratio for general fund is also forecast to increase to 4.42% over the term of the 2021-2022 LTFP, which is higher than the recommended benchmark of less than 2%.

A further reduction of available funding will worsen the already poor outlook for the general fund infrastructure ratios.

### Ratepayer Impact

The impact of the Additional Special Variation is reasonable with the increase proposed to be spread evenly over the rate base. Council has 16 rating sub categories and the annual and weekly increases under the Additional Special Variation are as follows:

Category	Sub Category	No Assessments	Estimated Average Rates 2021-22 \$	Increase 0.7% Rate Peg	Increase 1.8% ASV	Total Increase 2.5% \$	Total Increase %	Weekly Increase
Residential	Guyra	956	551.05	7.30	10.18	17.48	3.17%	0.34
Residential	Village*	146	382.02	4.92	7.09	12.00	3.14%	0.23
Residential	Non-Urban*	153	627.59	28.18	11.91	40.09	6.39%	0.77
Business	Guyra	96	934.93	(1.50)	17.08	15.59	1.67%	0.30
Business	Village*	15	312.62	12.05	5.93	17.98	5.75%	0.35
Farmland	Guyra*	664	3,213.46	145.45	61.93	207.38	6.45%	3.99
Farmland	Guyra Intensive	2	6,417.88	400.65	124.40	525.05	8.18%	10.10
Residential	Armidale	8,285	1,147.48	4.71	20.97	25.68	2.24%	0.49
Residential	Armidale (Non Urban)*	1,084	1,157.81	10.30	21.26	31.56	2.73%	0.61
Residential	Wollomombi*	16	519.42	(32.39)	8.89	(23.50)	-4.52%	(0.45)
Residential	Ebor*	16	427.64	(1.51)	7.81	6.30	1.47%	0.12
Residential	Hillgrove*	102	583.11	(10.15)	13.82	3.67	0.63%	0.07
Business	Armidale	551	4,787.36	(14.42)	87.28	72.86	1.52%	1.40
Business	Non-Urban*	58	1,155.26	(97.17)	19.22	(77.95)	-6.75%	(1.50)
Mining	Armidale	12	5,199.24	157.96	97.92	255.88	4.92%	4.92
Farmland	Armidale*	822	3,508.58	(89.18)	63.02	(26.16)	-0.75%	(0.50)
<b>Total</b>		<b>12,978</b>	<b>1,494.10</b>	<b>6.94</b>	<b>27.46</b>	<b>34.40</b>	<b>2.30%</b>	<b>0.66</b>

\*Note these sub categories are undergoing rates harmonisation over four years. The 2022-23 financial year will be year 2 of rates harmonisation.