



## 14 CIVIC LEADERSHIP

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**Item** 14.14  
**Subject** Additional Special Variation 2022-2023  
**Presented by** Chris Hodge, Chief Financial Officer

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### EXECUTIVE SUMMARY

The Office of Local Government issued Circular 22-07 (attached) on 6 April 2022 advising that the Independent Pricing and Regulatory Tribunal (IPART) will accept and process an additional round of 2022-23 special variation applications (ASV) from Councils. This process allows Council to apply for a variation to the rate-peg determination of 0.7% for FY2022-23 (1.3% inclusive of population growth rate for Bellingen) to be commensurate with the 2.5% increase modelled in our adopted 2021-22 Long Term Financial Plan.

The timing associated with the process as outlined in the circular is as follows:

- IPART will accept applications until 29 April 2022;
- IPART will publish applications to enable community consultation for a period of at least three weeks; and
- IPART will notify councils of its decision no later than 21 June 2022

### RECOMMENDATION

That:

1. The report on the Additional Special Variation be received and noted.
2. Council make application to the NSW Independent Regulatory and Pricing Tribunal for a single year permanent 2.5% Additional Special Variation (inclusive of rate peg and population growth), under S. 508(2) of the NSW Local Government Act 1993, for the 2022/23 Financial Year for the specific purpose of ensuring that Council has sufficient funds to meet its obligations as identified in its LTFP for 2022/23 and future years.
3. Council note the additional income generated from the 2.5% Additional Special Variation of \$220,359.
4. In adopting the above positions:
  - Council has considered the impact on ratepayers and the community in 2022/23 and in future years if the Additional Special Variation is approved and this is set out in the Long Term Financial Plan.
  - It is estimated that the average expected increase per rate assessment will be \$35.88 in the 2022/23 financial year.
  - Council considers this yearly increase to be reasonable given the inflationary environment.

### ATTACHMENTS

1. OLG Circular - 22-07 Additional Special Rate Variation Guidelines

## **PURPOSE**

The purpose of this report is to seek approval to make application to the NSW Independent Regulatory and Pricing Tribunal for a single year permanent 2.5% Additional Special Variation, under S. 508(2) of the NSW Local Government Act 1993, for the 2022/23 Financial Year for the specific purpose of ensuring that Council has sufficient funds to meet its obligations as identified in its LTFP for 2022/23 and future years.

## **DISCUSSION**

### 2022/23 Rate Peg

IPART has specified a permissible increase in revenue from ordinary rates of 0.7% for 2022/23, which is the lowest rate cap increase in 20 years. The rate pegging percentage of 0.7% is determined by IPART and is the maximum general increase in income Council can collect for 2022/23.

The rate peg for 2022/23 was based on the change in the Local Government Cost Index (LGCI) and an adjustment to remove the costs of the 2021 local government elections that were included in the 2021/22 rate peg. The LGCI is backward looking and reflects the change in the LGCI over the year to June 2021 of 0.9%. By comparison to the LGCI quoted above, the December quarter 2021 headline Consumer Price Index (CPI) was 3.5% and there have been recent significant increases in the cost of resources required by Council to deliver services and maintain / renew assets, including but not limited to materials, wages and fuel.

In 2021, IPART undertook a review of the local government rate peg methodology to include population growth. On 10 September 2021 IPART provided the Final Report on this review to the (then) Minister for Local Government, the Hon. Shelley Hancock MP. The Minister endorsed the new rate peg methodology and has asked IPART to give effect to it in setting the rate peg from the 2022/23 financial year. For 2022/23 year onwards a different rate peg will be applied to each council to permit council to increase its notional general income by a population factor.

For Bellingen Shire Council IPART have added in a population factor of 0.6%. This brings the rate peg for Bellingen to 1.3% for 2022/23. This is due to a population increase of 1.1% from 12,993 to 13,141.

### Advocacy to Change the 2022/23 Rate Peg

Bellingen Shire Council joined with other Councils and Local Government NSW (LGNSW) to advocate for a more realistic 2022/23 rate peg. LGNSW argued that the financial sustainability of regional and rural Councils across NSW would be put at risk by the low rate peg increase. In a high inflationary environment this low rate peg would put further pressure on Councils already constrained budgets.

In response to the advocacy efforts, the NSW Office of Local Government (OLG) recently announced a 2022/23 Additional Special Variation (ASV) process. The ASV application process will be a simpler more targeted application procedure, compared with the Special Rate Variation process. Councils may apply for a total special variation of up to 2.5% for 2022/23.

IPART has also been requested by the OLG to undertake a broader review of its rate peg methodology, including the Local Government Cost Index, with outcomes from the review expected to

shape rate peg determinations in future years.

### Additional Special Variation (ASV) Process for 2022/23

The OLG Circular 22-07 Guidelines for ASV Process provide guidance to Councils on the ASV process:

- Councils may apply for a temporary or permanent single year special variation for 2022/23 under section 508(2) of the Local Government Act 1993 (the Act), and
- the percentage sought in the application is the lower of:
  - 2.5% (including population factor) or,
  - the Council's assumed 2022-23 rate peg as exhibited in its 2021/22 IP&R documentation.

Councils will need to demonstrate that:

- Council has demonstrable financial need such that, in the absence of a special variation, Council would not have sufficient funds to meet its obligations as identified in its LTFP as and when they fall due in 2022/23; and
- Where councils are applying for a permanent special variation, the council's 2021-22 IP&R documentation identifying that the council forecast an average Operating Performance Ratio (OPR) of 2% or lower over the next 5 years or, alternatively, evidence of need, for example, but not limited to, that the council needs to maintain a higher OPR so it can meet its capital funding requirements; and
- Council's IP&R documentation budgeted for an income increase above the percentage specified for the Council for 2022-23 under section 506 of the Act; and
- Council has resolved to apply for the special variation under section 508(2) of the Act and that the resolution clearly states:
  - whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act; and
  - the additional income that Council will receive if the special variation is approved; and
  - why the special variation is required; and that the Council has considered the impact on ratepayers and the community in 2022/23 and, if permanent, in future years if the special variation is approved and considers that it is reasonable.

IPART will not require Councils to demonstrate community consultation outside of the processes outlined above. To demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process and consider that the resolution to apply for a ASV meets the requirements outlined above.

### Additional Special Variation (ASV) Application

It is recommended that Council apply for a permanent ASV of 2.5% in total ie inclusive of the IPART applied rate peg which is the requirement of this particular process. The adopted Long Term Financial Plan assumed a rate peg of 2.5% in the 2022/23 year and Council's 2022/23 service commitments and asset maintenance / renewal program are based on this LTFP assumption.

In addition to the above, Australia has been affected by global inflationary pressures such as elevated oil prices and supply chain disruptions. Headline inflation in Australia picked up in 2021 to be 3.5 per cent to the December quarter. The ongoing pandemic, Russian invasion of Ukraine, strained supply chains and rising international inflation all present risks to the global and domestic outlooks. As a result of this, Australia's inflation is expected to increase significantly over the next 6 to 12 months. This is expected to put further strain on Councils budgets throughout 2022/23 and beyond.

Councils OPR average for the next 5 years in its general fund is forecast at -1.4%, demonstrating Councils need for the additional revenue from the ASV.

**Table 6.1: Operating Performance Ratio Forecast**

	2021/22	2022/23	2023/24	2024/25	2025/26
<b>General Fund</b>	-6%	-2%	-1%	1%	1%
<b>Water Fund</b>	-3%	-8%	1%	8%	11%
<b>Sewer Fund</b>	7%	5%	8%	11%	13%
<b>Consolidated</b>	-4%	-1%	1%	3%	3%

In adopting the above positions, Council has considered the impact on ratepayers and the community in 2022/23 and in future years if the ASV is approved. It is estimated that the average expected increase per rate assessment will be \$35.88 in the 2022/23 financial year. Council considers this yearly increase to be reasonable.

Details of ordinary rates income is provided below:

- 2021/22 Notional Yield of Ordinary Rate Income = \$9,007,824.
- 2021/22 Notional Yield plus 0.7% rate peg increase plus 0.6% Growth Factor = \$9,120,145 (increase of \$112,321).
- 2021/22 Notional Yield plus 2.5% ASV increase = \$9,228,183 (increase of \$220,359).

The additional income that Council will receive if the Additional Special Variation is approved would be \$220,359. The additional income has been included in the draft 2022/23 budget.

## **Community Engagement**

Under the ASV guidelines, IPART does not require Councils to demonstrate community consultation outside of the processes outlined above. To demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process during 2021. As part of last years LTFP, Council forecast a 2.5% increase to rates that was subject to a 28 day public exhibition period.

The Long Term Financial Plan is subject to a separate report to this meeting of Council inclusive of a recommendation to publicly exhibit the proposed ASV in the draft 2022/23 IP&R Documents for 28 days.

In addition, the IPART determination, ASV process and IP&R documents were the subject of a councillor workshop on 6 April 2022.

## **STRATEGIC ALIGNMENT**

(CL) CIVIC LEADERSHIP

(CL.1) Council is an organisation that embraces business excellence

(CL.1.1) Financial sustainability is maintained through effective short and long term financial management

(CL.1.1.0) Financial sustainability is maintained through effective short and long term financial management - Other Activities

## **RESOURCING STRATEGY IMPLICATIONS**

The Delivery Plan and Operational Plan outline a range of activities and programs which are underpinned by rate forecast assumptions. These plans, along with the Community Vision, are linked to the objectives of sustainability for the Shire.

The additional income that Council will receive if the Additional Special Variation is approved would be a \$220,359 increase on the 2021/22 Notional Yield. The additional income has been included in the draft 2022/23 budget and reflects the assumptions made in the previous years LTFP that was subject to a 28 day public exhibition and consultation period during May/June 2021.

There are no environmental or social implications to this report. Economic implications are discussed within the report.

## **CONCLUSION**

The Independent Pricing and Regulatory Tribunal (IPART) will accept and process an additional round of 2022-23 special variation applications (ASV) from Councils. This process allows Council to apply for a variation to the rate-peg determination of 0.7% for FY2022-23 (1.3% inclusive of population growth rate for Bellingen) to be commensurate with the 2.5% increase modelled in our adopted 2021-22 Long Term Financial Plan.