



Berrigan Shire Council

Application for Additional Special Variation 2022-2023

April 2022

Executive Summary

Berrigan Shire Council ("Council") hereby makes application for an Additional Special Variation ("ASV") for the 2022-23 financial year, in accordance with OLG Circular 22-07 and IPART Additional Special Variations 2022-23 Information Paper, 7 April 2022.

Council has completed the required worksheet which is included with this application, and has provided additional information to support the application.

In summary, Council is seeking a permanent ASV of 1.1% commencing FY 2022-23, having been granted a baseline Rate Peg increase of 0.9% (including Population Factor) for 2022-23, taking the total proposed rate increase for 2022-23 to 2%. The ASV will generate an additional approximately \$61,000 in FY 2022-23.

A copy of Council's resolution of 20 April 2022, confirming the application is attached for information, along with a copy of the 2021-31 Long Term Financial Plan ("LTFP") on which the application is based. Council has also taken into consideration the excess levy of \$1,384 as reported in Council's Permissible Income Return for 2021-22 FY.

Additional Supporting Information

The application is based on the need to secure additional funding to address a declining revenue base, in the light of added pressure on Council's finances resulting from increasing inflationary pressures and reduced opportunities for raising alternative income streams.

All councils and organisations across the local government sector have faced an erosion of operating revenue, exacerbated in the past 2 years with the impacts of the Corona Virus Pandemic, severe and unpredicted weather events and more recently with steep increases in the cost of fuel and other materials.

Council supports a community that has a large investment in tourism and leisure industries and this has been adversely impacted by the Pandemic, with continuing lockdowns and business closures throughout the area. Council's direct revenue from tourism and leisure has declined by more than \$100,000 over the past 2 years, through a reduction in fees and charges for recreation and sporting events, entry fees and other revenue from various Council facilities. There has not been a corresponding reduction in the cost of maintenance and staffing for these activities and therefore Council has suffered a net negative impact on its operating result over that period.

Further Inflationary pressures are now becoming very evident with headline annual CPI reported just this week of 5.1% and expected to continue to rise in the coming financial year. This has had a marked affect already on the cost of fuel and other materials necessary to maintain Council's

operations, resulting in further negative impacts on Council's operating performance in the coming years.

Wages growth is also predicted to increase as inflationary pressures bight, and although the Federal Government has provided some measures for short term relief, such measures do not flow directly to Council. In fact, an outcome of the Federal Government's actions to reduce the cost of fuel through excise tax reductions, has been to reduce the Diesel Fuel Rebate available to Council by about 50%. This will result in an estimated loss of revenue of more than \$25,000 per annum in the coming years which now has to be absorbed into the budget with no prior notice.

To a large extent, these impacts were not predicted to have such a profound effect when Council adopted its Operating Plan, Revenue Policy, and LTFP in June 2021. To illustrate the original assumptions embodied in the 10 year forecasts, a copy of the global % indices for Revenue and Expenditure from the 2021-2031 LTFP are reproduced below.

Table 1 Projected % Change in Global Income Berrigan Shire Council 2021 – 2031 (Base Scenario)

Operating Income	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Rates - Ordinary	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Annual Charges	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
User Charges - Specific	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Fees & Charges - Statutory & Regulatory	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Fees & Charges - Other	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Interest & Investment Revenues - o/s Rates & Annual Charges	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Interest & Investment Revenues	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Other Revenues	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Operating Grants - General Purpose (Untied)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Operating Grants - Specific Purpose	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Operating Contributions - General Purpose (Untied)	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

Table 2 Berrigan Shire Council Projected % Change in Global Expenses 2021 – 2031 (Base Scenario)

Operating Expenditure	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Employee Costs - Salaries	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Employee Costs - Superannuation	2.50%	2.50%	2.75%	3.00%	3.50%	4.00%	4.00%	4.00%	4.00%	4.00%
Employee Costs - Workers Comp	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Employee Costs - Other	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Materials & Contracts - Raw Materials & Consumables	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Materials & Contracts - Contracts	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Materials & Contracts - Legal Expenses	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Materials & Contracts - Other	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Depreciation - IPP&E	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Other Expenses - Insurance	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Expenses - Utilities	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Expenses - Other	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

On the revenue side, forecast increases have been set for the range of between 1.5 and 2.5% over the 10-year period. Notably, the index for Ordinary Rates was set at 2.00%. This ASV application is simply to maintain Rates Income at the original forecast level.

In contrast, on the expenditure side, the key indices for Wages are set between 2.00 and 4.00% (Superannuation only). Council faces an Award Wage increase of expected 2.5%, on top of salary structure increments due to existing employees which will push wage costs closer to 5%. The original forecasts are now considered unlikely to be realistic, given the emerging push for wages growth to keep parity with increasing inflation going forward.

Materials (including fuels) are set at 1.5%. This is far lower than what has actually occurred in the past 12 months with increased inflation and it is expected inflation will continue to rise as there is no indicator to suggest that prices will decrease to previous levels, resulting in continuing adverse impact on Council's operating result.

Both of these major expenditure categories have a marked effect on Council's overall expenditure, representing collectively more than 53% of Council's total expenses annually.

Operating Performance

Predicting expected Operating Performance going forward is becoming very difficult, however on the evidence of recent actual performance, coupled with expected immediate/short term predictable impacts, the Council's operating result is expected to be in decline, and in fact in a negative position for the next 2-3 years at least.

In the attached Excel Application Worksheet (WK8 – LTFP Tab), Council has provided an adjusted view of the LTFP (General Fund only) Income and Expenditure Statement for the next 10 year period, taking into consideration expected global indices for the major cost drivers as per below:

- **Revenue:**
 - Rates and annual charges additional 1.1% increase in Y1 (2022-23) and then 2% thereafter (assuming annual base Rate peg remains at 2.% per annum)
 - Interest revenue Y1 is based on 10M in investments at a ROI of 2.2% and then increasing the average ROI by .1% per annum (to account for potential interest rate increases)
 - Other revenues and User charges & Fees increasing by 3.5% (to account for returning to post Pandemic patronage)
 - No changes in grants.
- **Expenditure:**
 - Increasing all inputs by 3.5% (excluding depreciation and borrowing costs). This provides a baseline to review the marginal impact on Council's Operating Performance Ratio.

The following table summarises the effect of the above changes to global indices for those key inputs and demonstrates that Council is trending towards a concerning decline in Operating Performance in the short to medium term.

Analysis of Operating Performance Ratio (General Fund) – 2018-19 to 2026-27 Financial Years

Scenario	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Actual	Actual	Expected	Forecast	Forecast	Forecast	Forecast	Forecast
Original Adopted LTFP 2021-31	1.04%	1.56%	-2.61%	-3.10%	2.40%	3.40%	3.40%	3.50%	3.50%
Adjusted LTFP 2021-31	1.04%	1.56%	-2.61%	-3.10%	-5.50%	-5.90%	-6.70%	-7.50%	-8.40%

As a result, Council is faced with some significant challenges to address this decline and to ensure its revenue is increased, while reducing expenditure in the years ahead.

While the amount of additional revenue of \$61,000 generated by this proposed ASV is not, on its own, sufficient to make much of an impact on the declining Operating Performance, it is nevertheless an important component in the overall strategy to address the decline.

As a permanent increase, it serves to boost the underling revenue base in the coming years on which future Rate Peg increases are calculated. As a rural council (population <9000) on the NSW/VIC border the Council and its community has very limited options to increase revenue from other streams therefore, limited capacity to with stand external shocks imposed by COVID-19, natural disaster and inflationary pressures. Council must use all means available to it to ensure sustainability.

This application is now submitted for the consideration of IPART and Council looks forward to a favourable result. If further information is required please do not hesitate to contact Council at any time.



Tahlia Fry

Finance Manager (on behalf of Chief Executive Officer)

28 April 2022