

Bland Shire Council

Business Paper

Council Meeting

22 March 2022

EXTRACT - REPORT ON FINANCIAL CONSIDERATIONS FOR INCLUSION IN BUDGET FOR 2022/23



8.4 Financial Considerations for Inclusion in the Budget 2022/2023



Our Leadership - A well run Council acting as the voice of the community

DP10.4 The long term financial sustainability of Council is supported through effective and prudent financial management.

Author: Director Corporate and Community Services

Introduction

This report is to provide Council with information relating to the impact of the recent determination by Independent Pricing and Regulatory Tribunal (IPART) of the Rate Peg for the 2022-23 financial year and the options available to Council in response to that. The report will also outline opportunities for Council to pursue to maintain the organisation's financial position ahead of its adoption of the 2022-2023 Budget. Councillors have also requested that information in relation to applying a storm water levy be prepared for consideration.

Financial Implications

In December 2021, IPART announced that it had set the 2022/23 rate peg at 0.7%, a move that would result in Bland Shire Council receiving a reduction in income of \$126,306. Council would also see a reduction in total income of \$968,875 over the remaining term of the Long Term Financial Plan, due to the compounding effect of the loss of the income from next year. This significant reduction in Council revenue will severely impact the organisation's ability to meet community expectations for service delivery and infrastructure maintenance, let alone support any future capital projects designed to benefit the communities within Bland Shire.

Should the recommendation be supported by Council, there is the potential for the organisation to increase its own-source revenue through application of levies as well as maintaining a reasonable trajectory of rating income.

Summary

On 13 December 2021, IPART made the announcement of a rate peg determination of 0.7% for 2022-23 for Bland Shire Council. This is the lowest increase in the rate peg in many years and is far below reasonable expectations. This is due to the limitations of the model IPART used to account for the current global economic downturn, and the additional expenditure needed to deliver the economic stimulus currently being implemented as part of the government-led recovery.

The low increase has resulted from a number of factors including:

- IPART's failure to recognise real wage cost increases, as represented by the Local Government Award increases of 2%, well above the 0.7% rate peg;
- Abnormally low increases in the Local Government Cost Index (LGCI) during 2020-21 as a result of the Covid-induced slump in economic activity in Australia and globally;
- The excessive lag in the figures used to develop the LGCI each year upon which the peg is based.

The lag indicators used by IPART do not provide a reliable basis for determining the peg for 2022-23. There is already evidence of a significant movement in inflation figures, most noticeably with huge increases in fuel costs and building and construction materials rapidly escalating as the result of increased activity and major shortages. It is certain that Council will face much higher costs across the board in 2022-23. For many Councils, the only option to sure up revenue streams would be through application for a Special Rate Variation for 2022-2023. However, the timing of IPART's rate peg announcement being prior to a Council being in place, limited this Council's ability to even consider such action.

For Bland Shire Council this decision by IPART means a loss of \$126,306 from next year's budget, and an estimated reduction in income of up to \$968,875 over the 7 years remaining in the Long Term Financial Plan (LTFP). This potentially puts jobs and service delivery within the local community at risk.

When preparing its Long Term Financial Plan 2019-2029 (LTFP) as part of the Integrated Planning and Reporting Process, Bland Shire Council adopted a conservative approach to its revenue forecasting to ensure it did not overstate its income. In the five years preceding the adoption of the LTFP, the average rate peg was in the vicinity of 2.3%. Since the 2018-19 rate peg was set, the average increase had been 2.4% until the announcement in December of 0.7%. In comparison, Council's calculations for the LTFP were based on an average 2.4% increase per annum.

On 8 March, 2022, information was forwarded from the Office of Local Government (OLG) advising IPART would receive an additional round of 2022-23 Special Variation (ASV) applications from councils for the upcoming financial year (**Attachment One**). This one-off ASV round is for councils that can demonstrate the need for a special variation to meet the obligations they set for 2022-23 in their Integrated Planning and Reporting (IP&R) documentation.

Councils seeking a permanent special variation will also need to demonstrate the financial need for the special variation to be included in their rate base on an ongoing basis. Should Council resolve to pursue an ASV in accordance with this month's advice from the OLG, it would be the recommendation of staff that any increase become permanent. The reason for this is that the increase would allow Council to meet its commitments as already established through the IP&R process several years ago.

Chapter 15 of the Local Government Act 1993 stipulates mechanisms for local Council's to raise revenue to meet its service obligations to the community and among those mechanisms is the ability for a Council to set levies on certain rateable properties. Councillors have indicated during informal discussions a desire for a stormwater levy to be considered as part of the budget process.

While the Act states such an annual levy can be made for the provision of stormwater management services for each parcel of rateable land for which the service is available, the amount of such a levy is governed by the Local Government (General) Regulations 2021. The Regulations Section 125AA sets the maximum amount a Council can charge for the service:

The maximum annual charge for stormwater management services that may be levied in respect of a parcel of rateable land is--

- (a) for land categorised as residential (other than land referred to in paragraph (b))--\$25, and*
- (b) for a lot in a strata scheme that is categorised as residential--\$12.50, and*

- (c) for land categorised as business (other than land referred to in paragraph (d))-- \$25, plus an additional \$25 for each 350 square metres or part of 350 square metres by which the area of the parcel of land exceeds 350 square metres, and*
- (d) for a lot in a strata scheme that is categorised as business--the greater of the following--*
- (i) \$5,*
 - (ii) the relevant proportion of the maximum annual charge that would apply to the land subject to the strata scheme if it were a parcel of land subject to paragraph (c).*

A review of Council's rateable properties would indicate that there would be an estimated 1,462 residential properties and a further 85 business properties which could be charged a stormwater levy. Should Council elect to pursue this option, the resultant revenue would be in the vicinity of \$38,675 at a minimum.

Recommendation:

That Council:

- 1. Receives and notes the report on the IPART additional round of 2022-23 Special Variation process;**
- 2. Authorises the application by Bland Shire Council for a Special Rate Variation in accordance with Section 508(2) of the Local Government Act under the additional 2022-23 Special Variation process to provide for a 2.4% increase in General Rates Revenue assumed in the Long Term Financial Plan 2019-2029 included as part of the Bland Shire Council Integrated Planning and Reporting process with such increase to be made permanent.**
- 3. Endorse the implementation of a levy for Storm Water Management Services for commencement in the 2022/23 financial year in accordance with Sections 496A of the Local Government Act and Section 125A of the Local Government Regulation with such levy to be made on an annual basis.**

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8.2 Strengthening Communities – Weethalle Country Music Muster

Recommendation:

04032022 RESOLVED on the motion of Cr McGlynn seconded Cr Keatley that Council provide a Strengthening Communities grant of \$2781 to the Weethalle Country Music Muster for the hire of a shower trailer.

CARRIED Unanimously

Section 2 – Corporate & Community Services

8.3 Finance and Investment Report for February 2022

At this stage 6.41pm, Cr Crowe arrived.

Recommendation:

05032022 RESOLVED on the motion of Cr Lord seconded Cr Moore:

1. That Council receive and note the information contained within the Finance and Investment Report for the month of February 2022
2. That Council confirms the payment of accounts, for the period 01 February to 28 February 2022, summarised in the accounts summary totalling \$3,658,233.72

CARRIED Unanimously

8.4 Financial Considerations for Inclusion in the Budget 2022/2023

Recommendation:

06032022 RESOLVED on the motion of Cr Keatley seconded Cr McGlynn Council receives and notes the report on the IPART additional round of 2022-23 Special Variation process.

CARRIED Unanimously

Recommendation:

07032022 RESOLVED on the motion of Cr Lord seconded Cr McGlynn that Council authorises the application by Bland Shire Council for a Special Rate Variation in accordance with Section 508(2) of the Local Government Act under the additional 2022-23 Special Variation process to provide for a 2.4% increase in General Rates Revenue assumed in the Long Term Financial Plan 2019-2029 included as part of the Bland Shire Council Integrated Planning and Reporting process with such increase to be made permanent.

CARRIED Unanimously

Recommendation:

08032022 RESOLVED on the motion of Cr Lord seconded Cr McGlynn that Council endorse the implementation of a levy for Storm Water Management Services for commencement in the 2022/23 financial year in accordance with Sections 496A of the Local Government Act and Section 125A of the Local Government Regulation with such levy to be made on an annual basis.

CARRIED 6/2 (Crs Clark, Funnell, Keatley, Lord, McGlynn and Monaghan voting for and Crs Crowe and Moore voting against)

8.5 Adoption of Draft Budget for 2022/2023

Recommendation:

09032022 RESOLVED on the motion of Cr Crowe seconded Cr Moore that the 2022/2023 Draft Budget documentation be endorsed and placed on public exhibition for a period of 28 days, commencing 23 March 2022, in accordance with the legislative requirements of the Local Government Act 1993.

CARRIED 7/1 (Crs Clark, Crowe, Funnell, Keatley, Lord, Moore and Monaghan voting for and Cr McGlynn voting against)

8.6 Adoption of Draft Revenue Policy for 2022/2023

Recommendation:

10032022 RESOLVED on the motion of Cr Crowe seconded Cr McGlynn that the Draft Revenue Policy (including Draft Fees and Charges 2022/2023) documentation be endorsed and placed on public exhibition for a period of 28 days, commencing 23 March 2022, in accordance with the legislative requirements of the Local Government Act 1993.

CARRIED Unanimously

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EXTRACT - REPORT ON CONFIRMATION OF SPECIAL VARIATION COMMENCING IN 22/23



8.4 Confirmation of Additional Special Variation Commencing in 2022/2023



Our Leadership - A well run Council acting as the voice of the community

DP10.4 The long term financial sustainability of Council is supported through effective and prudent financial management.

Authors: Director Corporate and Community Services
Manager Customer and Financial Services

Introduction

This report is to provide Council with further information relating to the Independent Pricing and Regulatory Tribunal (IPART) determination of the Rate Peg for the 2022-23 financial year and announcement of an Additional Special Variation Application Process.

Financial Implications

In December 2021, IPART announced that it had set the 2022/23 rate peg at 0.7%, a move that would result in Bland Shire Council receiving a reduction in income of **\$119,408**. Council would also see a reduction in total income of **\$750,000** over the remaining term of the Long Term Financial Plan (LTFP), due to the compounding effect of the loss of the income from next year. This significant reduction in Council revenue will severely impact the organisation's ability to meet community expectations for service delivery and infrastructure maintenance, let alone support any future capital projects designed to benefit the communities within Bland Shire.

Should the recommendation be supported by Council, the expected income from rates in 2022-2023 would be \$7,185,421.

Summary

On 13 December 2021, IPART made the announcement of a rate peg determination of 0.7% for 2022-23 for Bland Shire Council. The increase was well below expectations across the Local Government sector and is the lowest rate peg in many years.

On 8 March, 2022, information was forwarded from the Office of Local Government (OLG) advising IPART would receive an additional round of 2022-23 Special Variation (ASV) applications from councils for the upcoming financial year. At its 22 March meeting, Council resolved to authorise the application by Bland Shire Council for a Special Rate Variation to provide for a 2.4% increase in General Rates Revenue.

Revised information (**Attachment One**) from the Office of Local Government (OLG) and IPART was received on 6 April along with the Application form template. The guidance notes that

A council can apply for either a temporary or permanent ASV which is capped at the lower of:

- 2.5% (including population factor), or
- the council's assumed 2022-23 rate peg in its 2021-22 Integrated Planning and Reporting (IP&R) documentation (including population factor).

Council's LTFP, which was adopted in 2019, had projected an increase in rates of 2.4% for the 2022/23 Financial year. As this amount is "the lower" of the two limits, Bland Shire would be seeking an increase of 1.7% above the already announce rate peg of 0.7%.

This one-off ASV round is for councils that can demonstrate the need for a special variation to meet the obligations they set for 2022-23 in their Integrated Planning and Reporting (IP&R) documentation.

As Council is seeking a permanent special variation, it will also need to demonstrate the financial need for the special variation to be included in their rate base on an ongoing basis. The reason for this is that the increase would allow Council to meet its commitments as already established through the IP&R process several years ago.

Recommendation:

That Bland Shire Council:

- 1. Submit, under section 508(2) of the *Local Government Act 1993* (the Act), an application for a Special Variation of its rates to provide a 2.4% increase in the General Rates Revenue assumed in the Long Term Financial Plan 2019-2029 included as part of the Bland Shire Council Integrated Planning and Reporting process**
- 2. Request that such increase be made permanent.**
- 3. Notes that should the application be successful that an additional income amount of \$119,408 would be received above the initial \$49,119 afforded from a 0.7% increase and that the collective increase in income from a permanent variation of 2.4% would equate to \$168,408 in the first year.**
- 4. Seeks the special variation as it is required to maintain current services provided to ratepayers and residents of Bland Shire and in so doing, council has taken into consideration the impact on ratepayers and the community in 2022-23 and in future years and considers that such an increase is reasonable.**

Additional special variations 2022-23

7 April 2022

This Information Paper explains the process for applying for an Additional Special Variation (ASV) for 2022-23 and the information that IPART will require to process a council's application, based on the Office of Local Government's updated ASV Guidelines (22-07).^a

What type of special variation can a council apply for?

A council can apply for either a temporary or permanent ASV which is capped at the lower of:

- 2.5% (including population factor), or
- the council's assumed 2022-23 rate peg in its 2021-22 Integrated Planning and Reporting (IP&R) documentation (including population factor).

If IPART gives an ASV instrument, the amount specified in that instrument will replace the 2022-23 rate peg. No additional population factor will be added.

What will councils need to provide to IPART for all ASV applications?

Councils will need to provide their 2021-22 IP&R documentation which identifies a budgeted increase in general income above the percentage specified for the council for 2022-23 under section 506 of the Act.

Councils must provide a council resolution that states that the council has resolved to apply for the special variation under section 508(2) of the *Local Government Act 1993* (the Act), and:

- whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act, and
- the additional income that the 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.

^a The updated ASV Guidelines set out in Circular 22-07 apply in place of, and supersede, the ASV Guidelines issued in Circular 22-03.

What will councils need to demonstrate to IPART for a permanent ASV?

Where a council is applying for a permanent special variation, in addition to providing the above information, the council must demonstrate that it has, in its 2021-22 IP&R documentation, forecast an average Operating Performance Ratio (OPR) of 2% or lower over 2022-23 to 2026-27.

If a council has forecast an average OPR of higher than 2% over the next 5-years it will need to provide other evidence of need.

How can councils provide other evidence of need?

Councils applying for a permanent ASV that need to provide additional evidence of need can demonstrate that the 2% OPR benchmark is too low for that council's circumstances. For example, a council may demonstrate that it needs to maintain a higher OPR to meet its capital funding requirements.

Alternatively, or additionally, a council may submit justifications as to why specific revenue and/or expenses should be included/excluded in the calculation of the OPR. These adjustments can be items that were not included in the council's 2021-22 IP&R documentation due to unforeseen events or changes in circumstance since the adoption of the IP&R documentation.

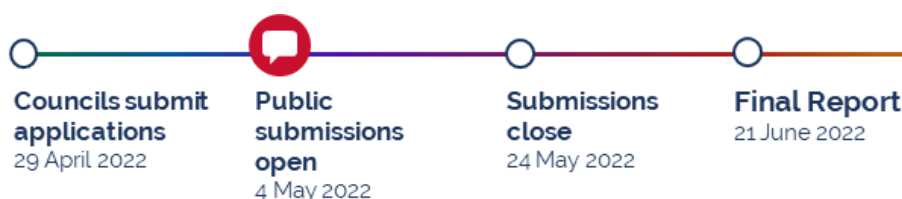
We will consider the evidence provided by councils that they need to maintain a higher OPR.

IPART has published an updated ASV application form to capture these adjustments. We will also accept applications using the original ASV application form. However, this form does not capture the information required to assess an application proposing that we use an adjusted OPR in our analysis. The original application form also asks for additional information that is no longer necessary. We recommend that applicants use the updated application form to ensure that all information needed to assess against the updated guidelines can be incorporated into IPART's analysis.

How to apply for an ASV

Councils can complete the application form and submit via IPART's Local Government Portal ([here](#)). Councils will also be required to provide evidence, such as the LTFP and council resolution, to support their application.

1.1 Timing



Contact person

If you have any questions about this process or the information required, please contact:

Edward Jenkins

Edward_jenkins@ipart.nsw.gov.au

(02) 9113 7774

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8.4 Confirmation of Additional Special Variation Commencing in 2022/2023

Recommendation:

07042022 RESOLVED on the motion of Cr Lord seconded Cr McGlynn that Bland Shire Council:

1. **Submit, under section 508(2) of the *Local Government Act 1993* (the Act), an application for a Special Variation of its rates to provide a 2.4% increase in the General Rates Revenue assumed in the Long Term Financial Plan 2019-2029 included as part of the Bland Shire Council Integrated Planning and Reporting process**
2. **Request that such increase be made permanent.**
3. **Notes that should the application be successful that an additional income amount of \$119,408 would be received above the initial \$49,119 afforded from a 0.7% increase and that the collective increase in income from a permanent variation of 2.4% would equate to \$168,408 in the first year.**
4. **Seeks the special variation as it is required to maintain current services provided to ratepayers and residents of Bland Shire and in so doing, council has taken into consideration the impact on ratepayers and the community in 2022-23 and in future years and considers that such an increase is reasonable.**

CARRIED Unanimously