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Our Ref: 2022/196465-05
File No: X085498

The Independent Pricing and Regulatory Tribunal
Level 16, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Tribunal,

Application for Additional Special Variation for 2022/23

In accordance with its Council Resolution of 11 April 2022, the City hereby submits its application in this additional round, to vary its general rate income by a permanent special variation for 2022/23 of 2.5%, including the completed application form and a copy of the relevant resolution.

The City's Long Term Financial Plan demonstrates a balanced budget and forward estimates, incorporating all income sources and operational expenditure requirements, to achieve the net surpluses required to fund our capital expenditure program over the next ten years. In developing these financial budget estimates, there are many assumptions and variables, however the overriding commitment is to plan within our financial constraints to deliver the services and infrastructure required by our community.

A key funding source within the Long Term Financial Plan is the City's general rate income, which represents around 50% of our total annual revenue. The 2021/22 plan forecast the City's general rate income for the 2022/23 period to increase by 2.5 per cent using the previous five-year's average rate peg, preceding any decision to incorporate an additional factor to reflect population growth within each local government area.

The City's long term financial sustainability, and capacity to appropriately service its community over the short and long term, is significantly dependent upon general rates income increasing in 'real' terms over the life of the LTFP. IPART's determination of a 0.7% general increase for 2022/23, and a further 0.7% population growth factor, is clearly insufficient given the current economic environment and pricing pressures prevalent for both general expenses and in the construction field.

While acknowledging the slowdown in prices growth during much of the pandemic, the annual CPI increase just published to March 2022 for Sydney reflects general price increases of 4.4%. These price increases follow on top of an extended period of economic downturn for the City, which has also dramatically impacted our other non-rate revenue sources (including property rents, parking activity, venue hire, etc), and at a time when the City has increased its grants and other programs to support the increased needs of our community.

The City requires the additional rating revenue to support its operations, services and capital works program, to satisfactorily maintain our existing assets and introduce new infrastructure for our community over the life of our long term financial plans.

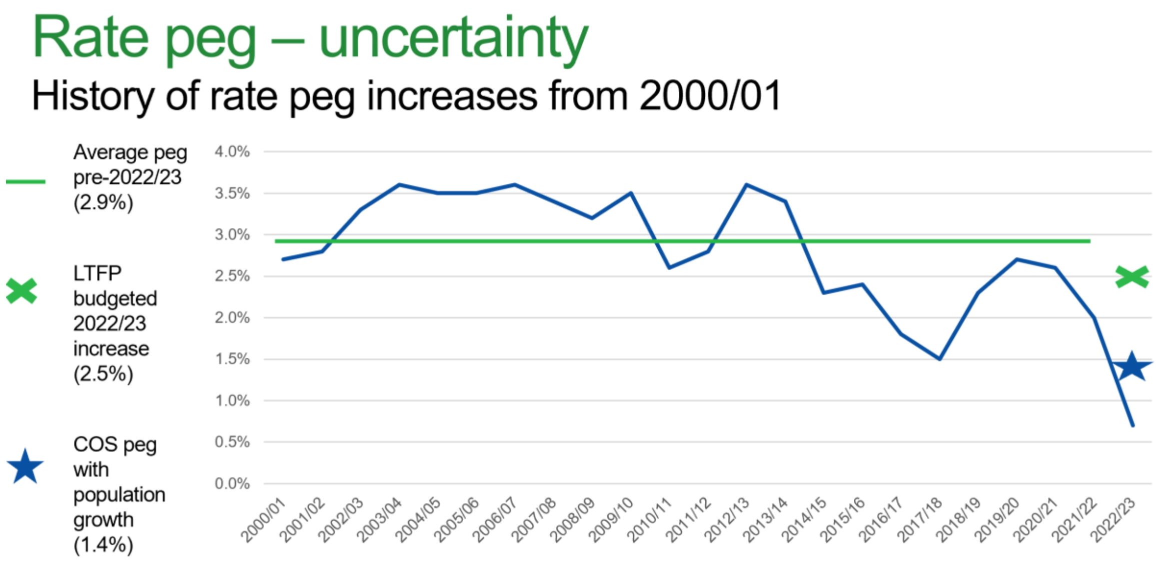
Demonstration of financial need

The City budgeted for a 2.5% general rate increase for 2022/23 within its 2021/22 LTFP, which can be found within the *Resourcing Strategy 2021* at https://www.cityofsydney.nsw.gov.au/strategies-action-plans/resourcing-strategy.

As noted above, the Long Term Financial Plan (LTFP) 2021 demonstrated a balanced budget and forward estimates. The plan incorporates all income sources and operational expenditure requirements, to achieve the surpluses required by the City to fund our capital expenditure program over the next ten years. While the delivery of the capital works program may fluctuate on an annual basis, reflecting economic, resourcing and supply chain conditions, funding and completion of the infrastructure projects and rolling renewal programs to maintain a $12B asset base is absolutely critical to our community, and our success as global city.

While the financial budget estimates factor in many assumptions and variables, the reliance on general rates income to grow in real terms over time, is critical to our capacity to fund the ongoing services and operations for our community, and ultimately the short and long term financial sustainability of the City.

The Long Term Financial Plan 2021 incorporated a permanent 2.5% rate increase for 2022/23, prior to the additional population growth factor, and this was not an unrealistic or overly ambitious assessment given the history of the rate increases over the past 5 years (refer graph below). In fact the City has previously raised the issue that a general increase for all NSW councils, does not cater for the price increases we actually experience as a capital city.



The City notes that the initial IPART Information Paper on the Additional Special Variations stated that:

> *"IPART will apply OLG's unrestricted current ratio (UCR) indicator to determine if the council has enough funds to meet its obligations. OLG's UCR benchmark is 1.5 for all councils."*

The City's Long Term Financial Plan 2021 shows the Unrestricted Current Ratio (UCR) for every third year commencing 2021/22 when the UCR was expected to be 1.53. While the specific figure of 1.44 for 2022/23 is not shown explicitly in that document, it was calculated and is inherent within the plan, reflecting the significant utilisation of cash anticipated to be used for the planned delivery of that year's capital works program.

The ratio of 1.44 is arrived at by dividing the 'Current assets less all external restrictions' of $237.1M, by the 'Current liabilities less specific-purpose liabilities' of $164.4M, which met IPART's initial demonstration requirement of having a UCR of less than 1.5.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Unrestricted Current Ratio	1.53	1.44	1.72	1.64	1.55	1.41

Temporary vs permanent additional special variation

The Office of Local Government (OLG) Council Circular 22-07 - *Guidelines for Additional Special Variation (ASV) Process for 2022-23* state:

> *"Where councils are applying for a permanent special variation, in addition to the above information, 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."*

The City is applying for the 2.5% rate increase to be a permanent increase, as presumed in preparing its Long Term Financial Plan 2021. A reduced increase in general rate income from 2.5% to just 1.4% (including population growth), would result in a revenue shortfall of $3.5M from 2022/23, and cumulatively, almost $40M over the ten years of the long term financial plan.

The City's plan included an average Operating Performance Ratio (OPR) of 2.7% over the 5 years from 2022/23. As general rates income represents over 50% of the City's operating income (excluding capital contributions and interest), any change to the allowable increase of the rates peg, dramatically reduces its planned OPR.

In framing its LTFP, the City assumed a level of rates income that would allow it to continue to deliver the level of services, and maintain infrastructure expected of a global city. An OPR of greater than 2% indicates that the City is planning to achieve an operating surplus, which is critical as this surplus predominantly funds our capital works commitments including both asset enhancement and required renewal works.

The City's assets are valued at more than $12 billion with an annual depreciation expense of approximately $116M. The City's Asset Renewal Ratio (shown on page 56 of the LTFP) highlighted that the City aims to remain above the benchmark. To satisfy this benchmark, the City must plan to fund its commitment to meet the asset service standards agreed with its community.

It is important to note that this version of the LTFP was framed in April to June 2021, at a time when the City was showing significant signs of post pandemic recovery, and while there were ongoing pressures particularly on our property rental revenue, there was evidence that parking related and general economic activity had become to return towards pre-pandemic levels. However subsequent to the adoption of the City's LTFP 2021, extensive COVID related lockdowns unfortunately eventuated in 2020/21 leading to a significant deterioration of economic conditions and the City's own financial position.

In November 2021, the City was forced to approve a $45M increase in its budget, with a subsequent reduction to its planned Operating Surplus, in order for it to continue to provide the operations and services required to support its community. This financial recovery imperative, adversely impacted the OPR for 2021/22, and changed the budgeted negative 1.63 per cent as published in the LTFP 2021, to a projected negative 8.8 per cent for the current 2021/22 financial year (as shown in the table below).

Operating Performance Ratio	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Single Year (LTFP June 2021)	-1.63%	1.90%	2.23%	2.40%	3.14%	3.71%
3 year average (LTFP June 2021)	1.78%	2.30%	0.88%	2.18%	2.60%	3.09%
Single Year (Nov 2021 and forecast)	-8.80%					

The City is currently preparing the latest iteration of the Long Term Financial Plan (2022) for consideration of Council in May 2022, prior to formal adoption in June 2022. While still in draft form, the plan is again being developed in an uncertain economic climate. At this stage, subject to Council's review and input from the community, the draft LTFP is projecting a five-year average Operating Performance Ratio (2022/23 to 2026/27) of just 1.15%, well below the 2% benchmark noted above.

If the 2.5% permanent special variation is not approved, the loss of income associated with a 1.4% increase in rates rather than the expected 2.5%, will further exacerbate this declining Operating Performance Ratio. This would in turn risk the City's ability to deliver on all of its operational, service delivery and infrastructure commitments to its community, or impact its long term financial sustainability.

Impact on the community

The City has considered the impact of the 2.5% permanent rate increase on its ratepayers and considers it reasonable, as resolved by Council. The proposal will benefit the community by enabling the City to deliver on its LTFP and maintain its financial sustainability while delivering outcomes required by the community. Further, the 2.5% increase is in line with the previously exhibited plan and considered to be within community expectations.

For 93,000 ratepayers, being the 72% of ratepayers across the residential and business categories that paying the City's minimum rates, the financial impact of a 2.5% rate increase will be between $15 and $19 per year, which includes an additional $7 to $8 per year if the special variation is approved. The average residential ratepayer will pay $750 per year, an extra $18 per year, which includes an additional $8 per year if the special variation is approved.

The average CBD business property will pay $22,270 per year, with a $500 increase on their 2021/22 rates, which includes an additional $196 per year if the special variation is approved. The average business property, outside of the CBD, will pay $6,281 per year, with a $153 increase on their 2021-22 rates, which includes an additional $67 per year if the special variation is approved.

Pensioners are provided a 100 per cent rebate and will therefore not be impacted by the rate increase.

The City, as always, will continue to help ratepayers in financial hardship through payment arrangements and deferrals if necessary, retaining the ability to waive interest charges for compliance with the agreement.

We look forward to the Tribunal's favourable reply.

Regards,

[redacted]

Bill Carter
Chief Financial Officer