

## Special Rate Variation for 2022/23

File No: X086740

### Summary

This report recommends that Council apply to the Independent Pricing and Regulatory Tribunal (IPART), for a special rate variation of 2.5 per cent for 2022/23, to achieve the general rate income as budgeted within the 2021/22 Long Term Financial Plan.

The Minister for Local Government has the power to specify a percentage by which councils' can vary their general rate income each year, known as the 'rate peg'. The rate peg is intended to allow councils' general rate revenue to increase in line with its cost of operations, while controlling the increase to the ratepayer. The process of determination has been delegated to IPART, who calculate the rate peg using a formula based largely on the Local Government Cost Index (price movements over the past year), and generally publish it in September to enable council's to develop their financial plans for the following financial year.

For 2022/23, the Minister also requested IPART to determine a methodology that would further adjust the base rate peg, to recognise the population growth experienced by each individual council. This growth, which naturally impacts service delivery and infrastructure asset needs, has not been accounted for in the past, resulting in an ongoing degradation of financial sustainability, particularly in high growth local government areas.

In December 2021, the Independent Pricing and Regulatory Tribunal (IPART) announced an extraordinarily low 'base' rate peg of 0.7 per cent for all NSW councils for 2022/23. The City of Sydney also received a population factor increase of 0.7 per cent, resulting in a total rate peg increase for 2022/23 of just 1.4 per cent.

This is of particular concern given the increased cost pressures that the City experiences, the Reserve Bank's forecast for underlying inflation to increase to 3.25 per cent by mid-2022, and the ABS have advised the latest annual CPI increase to December 2021 is 3.5 per cent (Sydney 3.1 per cent). For context, this low general rate increase also follows an extended period of economic downturn for the City, which has significantly impacted our other non-rate revenue sources while we are working to support increased needs within our community.

The Minister for Local Government has subsequently recognised the inadequacy of both the announced 2022/23 rate peg, and the underlying methodology. In response the Minister announced on 7 March 2022 a new special rates variation opportunity for the 2022/23 financial year, to support councils that had budgeted for a larger income increase than their allowed by the published rate peg, up to a maximum of 2.5 per cent where the council can demonstrate the need for a special variation to meet the obligations they set for 2022/23 in their 2021/22 Integrated Planning and Reporting (IPR) documentation.

In its last annual review of the Integrated Planning and Reporting documents, the City's Long Term Financial Plan outlined the expected income, expenditure and financial position for the next ten year period. In this 2021/22 plan, the City had forecast its general rate income for the 2022/23 period to increase by 2.5 per cent, using the last five-year average rate peg.

These funds are required to support the City's operations, services and our capital works program to ensure the satisfactory maintenance of our existing assets, and the introduction of new assets for the community over the life of the financial plan.

As the City's future expenditure is forecast to increase far in excess of the approved 1.4 per cent, and with many of our other income streams remaining at risk in the current environment, it is recommended that the City make the application to increase its general rates by the maximum allowed 2.5 per cent in line with our Long Term Financial Plan.

## Recommendation

It is resolved that Council:

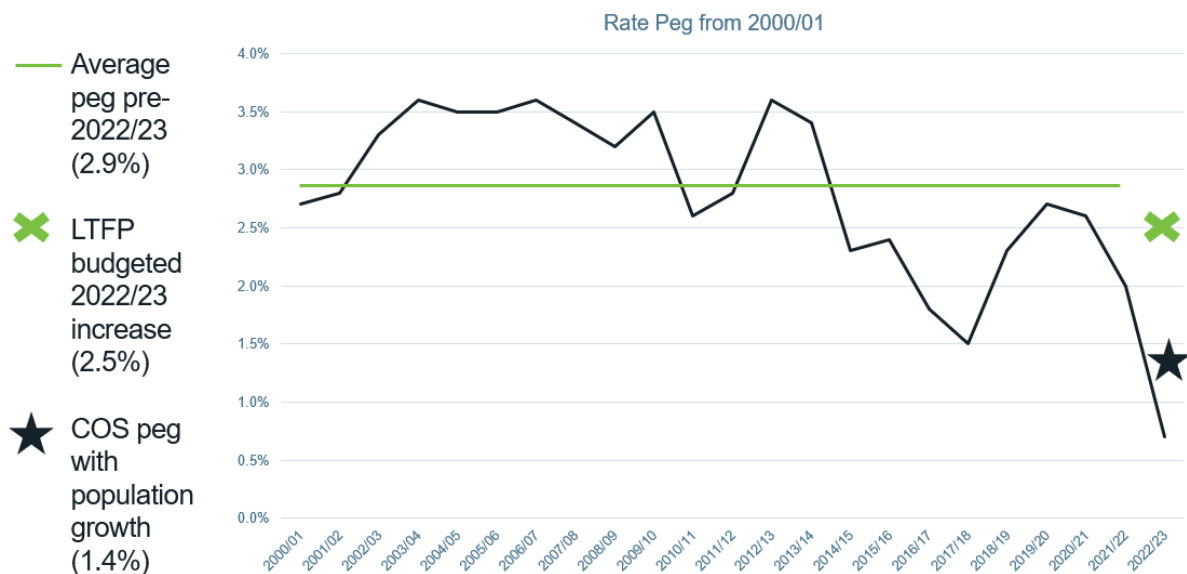
- (A) apply to the Minister for Local Government, through her delegate the Independent Pricing and Regulatory Tribunal, to vary its general rate income by a permanent special variation for 2022/23 of 2.5 per cent, as allowed under section 508(2) of the Local Government Act 1993;
- (B) note that a 2.5 per cent rate variation will generate a total of approximately \$8 million in additional rate income each year, an additional \$3.5 million (1.1 per cent) each year above the \$4.5 million (1.4 per cent) increase already approved by the Independent Pricing and Regulatory Tribunal;
- (C) note the special variation is required for the City to meet its obligations set for 2022/23, and in future years within the 2021/22 Integrated Planning and Reporting documents; and
- (D) has considered that the impact on ratepayers and the community, if the special variation is approved in 2022/23 and for future years, is reasonable.

## Attachments

Nil.

## Background

1. The Minister for Local Government (Minister) has the power to specify a percentage by which a council can vary its general rate income each year, known as the 'rate peg'. The Minister has delegated this process of determination to the Independent Pricing and Regulatory Tribunal (IPART). IPART calculate the rate peg using a formula based largely on the Local Government Cost Index and generally publish the rate peg each September to be applied in the following financial year.
2. The Local Government Act 1993 allows for the Minister to vary the rate peg for individual councils, to achieve either a temporary or permanent increase to rates to fund the needs of the local government area. This is known as a 'special variation'. Councils were required to indicate their intention to apply for a special variation for the 2022/23 year by 26 November 2021 and submit their final applications by 7 February 2022.
3. Over the last two decades the rate peg has averaged 2.9 per cent and the average of the last five years is 2.5 per cent. The City prepared its 2021/22 Long Term Financial Plan on the assumption of a 2.5 per cent rate increase each year.
4. This year, IPART announced the rate peg unusually late due to the delayed council elections. On 13 December 2022, IPART announced the 2022/23 rate peg that, for the first time, included a population factor for each council. The minimum rate peg based on the Local Government Cost Index was announced at 0.7 per cent, making it the lowest rate peg in decades. To this, the City is entitled to a population growth factor of 0.7 per cent, making the City's 2022/23 rate peg a total of 1.4 per cent.



5. This extraordinarily low rate peg highlighted the inadequacy of using retrospective cost indices to establish future funding requirements. IPART relied on abnormally low increases to the LGCI that reflected an economic slump resulting from the pandemic. There has been no attempt to incorporate forecast inflation, known local government wage increases or other anticipated major cost increases such as building and construction prices.

6. The City, together with Local Government NSW, NSW Revenue Professionals and other NSW councils, called on the IPART and the Minister to remedy the insufficient rate peg.
7. On 7 March 2022, the NSW Office of Local Government released Circular 22-03 advising it had asked IPART to undertake a broader review of the rate peg methodology used to determine the general 'base' component of the rate peg, including the Local Government Cost Index, with outcomes from the review expected to shape rate peg determinations in future years.
8. The Circular also advised that IPART will accept and process an additional round of 2022/23 Special Variation (ASV) applications from councils. The Circular states: "The Office of Local Government and IPART recognise that, due to the delayed council elections and the determination of the 2022/23 rate peg at a lower rate than councils had forecast, councils may not have had sufficient time to prepare special variation application within the normal timeframe. This may result in some councils not having sufficient funds to pay for required infrastructure and services."
9. This application process will be a simpler more targeted application process. IPART will release streamlined application forms and further information shortly. IPART will accept applications until 29 April 2022.
10. Councils seeking a special variation need to:
  - (a) demonstrate the need for a special variation to meet the obligations they set for 2022/23 in their 2021/22 Integrated Planning and Reporting (IPR) documentation; and  
  
if applying for a permanent increase, need to
  - (b) demonstrate the financial need for the special variation to be included in their rate base on an ongoing basis.
11. NSW Government's Treasury Corporation (TCorp) has stated that "A local government will be financially sustainable over the long term when it is able to generate sufficient funds to provide the levels of service and infrastructure agreed with its community". The City of Sydney's current Long Term Financial Plan (LTFP), published in June 2021, reaffirmed its commitment to operating within a financially sustainable framework in line with the definition set out by TCorp.
12. Rates income is the single largest income stream for the City and therefore central to our short and long term financial sustainability. Rates represents approximately 50 per cent of Operating Income and underpins the capacity of the City to fund its ongoing operations. The current Long Term Financial Plan assumed rates income of \$323.1M for 2022/23, an increase of 2.5 per cent from the budgeted amount for 2021/22.
13. In framing the current Long Term Financial Plan, the City assumed a level of rates income that would allow it to deliver the level of services expected of a global city. It is also utilised to ensure an appropriate amount of funding is available to deliver on its capital works commitments including renewal works, required to maintain assets of more than \$12 billion, and the delivery of additional facilities to support the needs of its community.

14. Rates income is not tied to specific operations, new initiatives or capital programs within the current Long Term Financial Plan. However a lower rate peg of 1.4 per cent will inevitably require the City to reduce its level of service provision and/or support to the community.
15. The City is recommending that the special variation be permanently incorporated into the rates base, as it will therefore be included in calculating future year's general rates income. The compounding effect of this recommendation, over the ten year life of the long term financial plan, is estimated to be around \$40M.
16. IPART will publish applications to enable community consultation for a period of at least three weeks and will notify councils of its decision no later than 21 June 2022.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030

17. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress.
18. As general rates is an underlying source of funding for all operations, the implications of not gaining approval for the special rates variation, may impact many of the City's strategic directions and objectives.

### Organisational Impact

19. Any organisational impact will not be known until the application has been determined.

### Risks

20. Without the full 2.5 per cent rate increase, as budgeted in its Long Term Financial Plan, the City is at significant risk of failing the Operating Performance Ratio, a key performance indicator of a council's financial sustainability.
21. A shortfall of \$3.5 million every year from 2022-23 would accumulate to a shortfall of \$40 million in the next ten years, putting many significant community services and the City's capital works program of asset renewal and enhancement at risk.

### Social / Cultural / Community

22. The proposal will benefit the community by enabling the City to deliver on its Long Term Financial Plan and maintain its financial sustainability while delivering outcomes required by the community.
23. For 93,000 ratepayers, being the 72 per cent of ratepayers across the residential and business categories that paying the City's minimum rates, the financial impact of a 2.5 per cent 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.
24. 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.
25. 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.

26. 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.
27. Pensioners are provided a 100 per cent rebate and will therefore will not be impacted by the rate increase.
28. The City, as always, will continue to provide assistance to ratepayers in financial hardship through payment arrangements and deferrals if necessary, retaining the ability to waive interest charges for compliance with the agreement.

### **Financial Implications**

29. The City's current Long Term Financial Plan assumed an allowed increase in general rates via the rate peg of 2.5 per cent for 2022/23.
30. If the special rate variation is not approved by IPART this would reduce rates income for 2022/23 by \$3.5M, and \$40M over the ten year of the long term financial plan, resulting in reduced funding for the City to fund its operations and capital works commitments.

### **Relevant Legislation**

31. Sections 506, 508 and 509 of the Local Government Act 1993.

**Critical Dates / Time Frames**

|               |  |
|---------------|--|
| 29 April 2022 | Submit application to IPART  |
| 30 April 2022 | IPART community consultation – minimum 3 weeks   |
| 16 May 2022   | Council resolution to exhibit draft rates for 2022-23<br><br>Operation Plan, all IPR documents<br><br>Will exhibit two rating options:<br><br>With 2.5 per cent increase – if approved<br><br>With 1.4 per cent increase – if not approved |
| 21 June 2022  | IPART determination on application   |
| 27 June 2022  | Council adoption of IPR documents and rating structure   |

**Options**

32. The City could opt to not apply for a special rate variation, only increase its general rates to the 1.4 per cent already approved, however this would have a detrimental effect on the City's financial sustainability and capacity to meet the commitments made to the community in its Delivery Program and Operational Plan.

**Public Consultation**

33. IPART will undertake community consultation for a minimum period of three weeks.
34. The draft Integrated Planning and Reporting documents, including the draft Operational Plan and draft Long Term Financial Plan, will contain the rates proposed both if the special variation is approved and if it is not. The draft Integrated Planning and Reporting documents will be on display and open for comment for a minimum 28-day period across May and June 2022.

**BILL CARTER**

Chief Financial Officer

Suzi Flynn, Revenue Manager