

15.4 ADDITIONAL SPECIAL VARIATION

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- Attachments:**
1. **Circular 22-03 - Guidelines for Additional Special Variation (ASV) Process for 2022-23**
 2. **IPART Information Paper - FY22-23 Rate Peg**
 3. **Rate Peg Impact Analysis**

Link to Community Strategic Plan:	25. Our Civic Leadership CL1 Effect resourceful and respectful leadership and attentive representation of the community.
Cost to Council:	Current rate peg of 0.7% results in a shortfall in rating revenue of approximately \$300k per annum in years 2 to 4 of the current adopted 4 year budget due to the estimates assuming a 2.5% rate peg limit in each of these years.
Use of Reserve Funds:	Not Applicable

RECOMMENDATION

That

1. The report from the Acting General Manager on the Additional Special Variation be received
2. Council makes an immediate application under the Additional Special Variation (ASV) one-off process for the 2022-23 financial year to ensure the percentage increase in rating revenue is 2.5%, applied permanently to the rate base as specified in the modelling and adopted in the 2021/22 Operational Plan

BACKGROUND

The Office of Local Government issued Circular 22-03 (attached) on 7 March 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. In essence this process allows Council to apply for a variation to the rate-peg determination of 0.7% for FY2022-23 to be commensurate with the 2.5% increase modelled in our adopted 2021/22 Operational 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.

REPORT

In adopting its 2021/22 Operational Plan and the four-year budget contained within that document, Council assumed an annual increase to its General Rates income of 4%, comprising of:

- Rate peg 2.5%
- Growth (new properties) 1.5%

This has been consistently applied since Council adopted its most recent Delivery Program 2017-2021 and the LTFP adopted at the same time. The LTFP took a conservative approach to growth and assumed a reduction in the growth to 1% from 2021/22 however this level of growth has been consistent over the past 5 years, enabling the growth assumption to remain at 1.5%

On the 13 December 2021 IPART advised that the traditional cost component of the rate peg for 2022-23 would be 0.7%. For the first year ever a “growth” component was to also be available in addition to the rate peg amount. Unfortunately for Goulburn Mulwaree Council, IPART’s calculation for the population growth factor was negligible providing no further increase to the 0.7% traditional cost component (see attachments for further detail). This is the lowest rate peg in two decades and less than half the previous record low of 1.5%, applied in 2017/18.

The previous ten years of rate peg limits are set down below:

Year	Rate Peg
2021-22	2.0%
2020/21	2.6%
2019/20	2.7%
2018/19	2.3%
2017/18	1.5%
2016/17	1.8%
2015/16	2.4%
2014/15	2.3%
2013/14	3.4%
2012/13	3.6%

The average rate peg amount over the past 10 years has been 2.46%. Following the December announcement by IPART there was significant advocacy across the Local Government sector with the Minister for Local Government and relevant State Government agencies. This ASV process is a positive outcome from that advocacy. Perhaps more importantly it is the commitment by IPART, as advised in the circular, to undertake a broader review of its rate peg methodology. Considering the Local Government Cost Index in the review is expected to shape rate peg determinations for future years.

Council do have the option to not apply for the ASV and maintain a 0.7% increase only. It is important if supporting this option that Councillors note that the annual application of a rate peg has much longer-term cumulative impacts on Council’s Long Term Financial Plan. Should Council not seek to apply for the ASV this will have long-term impacts on Council operations and will see the need for a reduction in services. An analysis of the rate pegging is included in the attachments. The analysis shows that the 0.7% decreases Council’s originally projected General Rate revenue by \$322k in 2022-23. Assuming the rate peg returns to 2.5% in 2023-24 the cumulative impact of the reduced peg amount is a reduction in General Rates revenue of \$1.36 Million over the life of the upcoming Delivery Program and \$3.868 Million over the next ten-year period.

Council also needs to consider the increasing costs of construction that we are currently facing as well as the higher than anticipated costs in relation to technology, cyber security and insurances. At present we are factoring into the current draft budget the following approximate additional (and ongoing costs on top of what was previously estimated:

- Technology One SaaS - \$200,000
- Cyber Security Measures - \$50,000
- Insurances - \$70,000

These increases alone see an additional (and largely unexpected) annual cost of \$320k. Added to this are the additional expenses currently being experienced through the sourcing of materials (including fuel) and contractors which are impacting our daily operations and our ability to deliver the capital works contained within the current budget. The additional rate revenue generated by the 0.7% rate peg increase is only \$150K. Therefore, without the additional 1.8% of the ASV there is a gap in our funding which will require Council to review its budget over the next 12 months in terms of both its proposed capital works and its service levels in all areas.