

## General Manager's Report

<b>ITEM 1</b>	<b>Additional Special Variation</b>
<b>MEETING</b>	Ordinary Meeting – 20 April 2022
<b>DIRECTORATE</b>	Business and Finance
<b>AUTHOR</b>	Revenue Accountant
<b>POLICY</b>	Revenue Policy
<b>LEGAL</b>	Local Government Act, 1993
<b>FINANCIAL</b>	As detailed in the report
<b>STRATEGIC LINK</b>	Community Strategic Plan 1.2.4 Maintain Council's financially sustainable position, delivering value for money services to the community. Operational Plan 1.2.4.9 Rates are levied in compliance with all regulatory requirements.
<b>ATTACHMENTS</b>	1. Local Government Circular 22-07 Guidelines for Additional Special Variation (ASV) Process for 2022/23 2. IPART Information Paper Additional Special Variation 2022/23

### OFFICER'S RECOMMENDATIONS:

1. That Council makes a permanent Additional Special Variation Application of 2.50% under section 508(2) of the Local Government Act 1993, being 1.70% higher than the IPART approved increase of 0.80%, which will generate an additional \$236,441 general rate income in the first year.
2. That Council acknowledges the 2021/22 Delivery Program and Operational Plan and subsequent budget adjustments demonstrates financial need such that, in the absence of a special variation, Council will not have sufficient capacity to meet all its obligations as and when they fall due in Financial Year 2022/23, and maintain a positive Operating Performance Ratio to meet capital works funding requirements.
3. Council has considered the impact on ratepayers and the community and will provide assistance via Council's Hardship Policy to ratepayers if required and that the amount of the increase is reasonable to ensure Council's long term financial viability.

### PURPOSE

The purpose of this report is to advise of the recently released guidelines on an Additional Special Variation (ASV) process for 2022/23 and to obtain a Council resolution to apply for an Additional Special Variation under section 508(2) of the Local Government Act, 1993.

### BACKGROUND

On 8 March 2022 the Office of Local Government (OLG) released Council Circular "22-03 Guidelines for Additional Special Variation Process for 2022/23". This circular contained detail on the guidelines for an ASV Process for 2022/23 which was superseded by Council Circular 22-07 issued 6 April 2022 which is enclosed as Attachment 1 to this report. Subsequently on 29 March 2022 the Independent Pricing and Regulatory Tribunal (IPART) published an information paper and an application form for the ASV process. The information paper contains details about how IPART will be assessing the applications, information requirements from councils and the timeline for the ASV process and is included as Attachment 2.

**COMMENTARY***Issues*

All NSW councils are subject to rate pegging which sets the maximum allowable increase on rates each year as determined by IPART. In late 2021, IPART announced the rate peg for the 2022/23 financial year for Gunnedah Shire Council was 0.80%, which was significantly lower than the 2.50% Council was anticipating and had used in the preparation of the 2021/22 Delivery Program and Operational Plan. Approximately, 21.25% of Council's revenue comes from general rates. A decrease from 2.50% to 0.80% equates to \$236k lost revenue per year than was previously forecast for 2022/23. The estimated impact across the next 10 years is \$2.65 million in lost rates revenue.

IPART has advised that it will accept and process an additional round of 2022/23 ASV applications from councils via Council circular 22-07.

The once off 2022/23 ASV is a mechanism to allow councils that received a rate peg of less than 2.50% to apply for the difference between the rate peg they have been advised and a maximum rate peg of 2.50% for the 2022/23 financial year. The application can be made on the basis of a once off or permanent increase.

The use of 2.50% is due to this being the recommended rate peg value that IPART recommend councils use for long term financial modelling. Councils that have applied for a special rate variation in the past, including Gunnedah Shire Council, have used 2.50% for the rate peg to determine the level of funding that will be available in future years of their forecasts. As councils apply for special rate variations on the basis of financial need and/or asset renewal, a rate peg lower than 2.50% will reduce the level of funding available for the maintenance of essential assets and the provision of community services.

Council's requesting an ASV will need to demonstrate that:

- Council has demonstrated financial need such that, in the absence of a special variation, council would not have sufficient funds to meet its obligations as determined in its 2021/22 IP&R documentation as and when they fall due in 2022/23; and
- Where councils are applying for a permanent special variation, in addition to the above criterion, the council has demonstrable financial need for the special variation to be retained in its rate base on an ongoing; and
- Council's 2021/22 IP&R documentation budgeted for an income increase above the percentage specified for the council for 2022/23 under section 506 of the Act; and
- Council has resolved to apply for the special variation under section 508(2) of the Act and that the resolution clearly states:
  - a) whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act; and
  - b) the additional income that council will receive if the special variation is approved; and
  - c) why the special variation is required; and that 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.

To demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process and consider the resolution to apply for an ASV meets the application requirements.

Under this ASV round of applications:

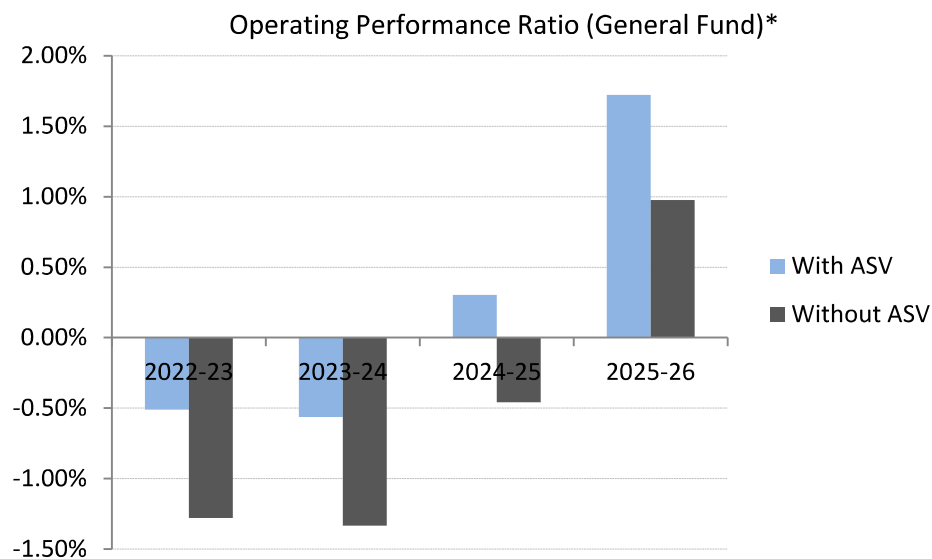
- IPART will accept applications until 29 April 2022;
- IPART will publish applications to enable community consultation for a period of at least three weeks; and
- IPART will notify council's of its decision no later than 21 June 2022.

### Assessment

The risk of not considering applying for the ASV includes missing the opportunity to keep funding for rate revenue at the level determined in Council's adopted Delivery Program and Operational Plan, and the subsequent impact on Council's key financial indicators such as the General Fund Operating Performance Ratio.

Council's 2021/22 Delivery Program and Operational Plan forecasted an operating deficit for General Fund in FY 2022/23 and FY 2023/24, which is expected to be an operating surplus in FY 2024/25 and beyond. However, the approved rate increase of 0.8% for FY 2022/23 is significantly lower than the assumption of 2.5% used in 2021/22 IP&R documentation, and will result in an additional Financial Year arriving at an operating surplus for General Fund as shown in Figure 1 below. A negative Operating Performance Ratio for an extended period of time means Council is not being able to adequately meet capital renewal and upgrade work funding requirements, equal or greater than the rate of depreciation for current asset portfolio. It's noteworthy that the reason for improved operating surplus in FY 2025/26 is due to assumptions used for comparatively lower operating expenditure such as not being an election year and lower borrowing expenses.

*Figure 1: Comparison of Operating Performance Ratio (OPR) before and after ASV*



*\*IPART requirement for permanent ASV application is <2% over next 5 years and OLG benchmark is > 0%*

As indicated earlier, an ASV of 2.50% will generate an additional \$236k in rate revenue compared with the approved rate peg increase of 0.80%. The impact of the ASV on the average rate per category/sub category is shown in the table below:

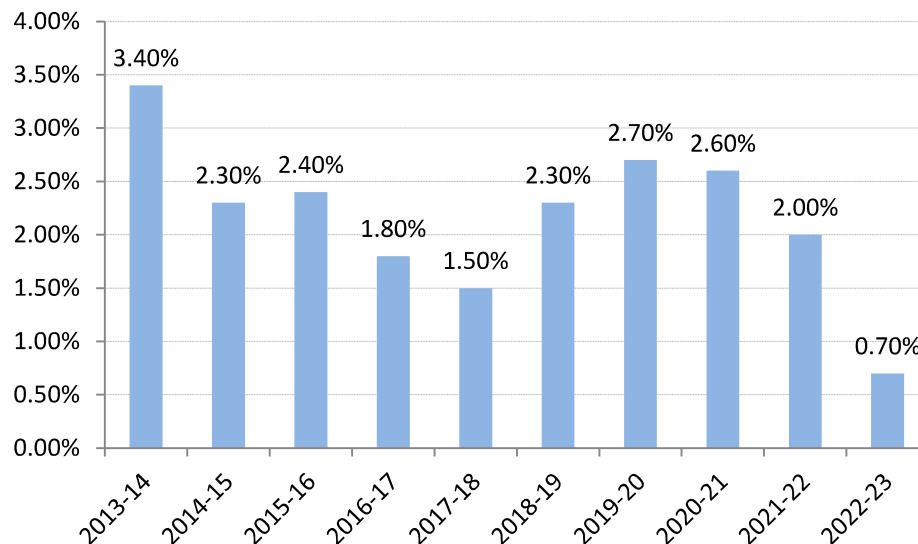
*Table 1: average rate increases by rate category if Council's ASV application is approved*

Rate Category	Sub-Category	Average Rate with a 2.50% increase	Increase in Average rate above the Approved 0.80% Increase	Additional Cost per week
Residential	Ordinary	\$859.45	\$14.27	\$0.27
	Rural	\$1,099.21	\$18.22	\$0.35
	Gunnedah	\$1,083.59	\$17.96	\$0.35
	Village	\$541.31	\$9.03	\$0.17
Business	Ordinary	\$1,096.57	\$18.26	\$0.35
	Gunnedah	\$6,190.87	\$102.66	\$1.97
Farmland		\$4,895.15	\$81.19	\$1.56
Mining		\$345,187.50	\$5,725.25	\$110.10

Should ratepayers have difficulties in meeting their financial commitments to Council due to the additional increase, Council has in place a Hardship Policy. This policy offers assistance to ratepayers suffering genuine hardship.

#### *Other Comments*

Part 2 of Chapter 15 of the Local Government Act 1993 allows the relevant Minister to impose limits inter alia, on a council's 'general income' which is known as rate-pegging. It's noteworthy that the change in rate-peg methodology in 2021 to incorporate a Local Government Cost Index (LGCI) has resulted in a historical low rate-peg of 0.7% for NSW Councils, before population factor as shown in Figure 2 below. Total rate peg for the Council is 0.8% including 0.1% population factor.

*Figure 2: Comparison of historical rate-pegs vs FY 2023 rate peg*

This historical low rate-peg imposes challenges to maintain Council's service levels and fund infrastructure renewal work due to the assumptions used in methodology and outlined in following table.

*Table 2: List of assumptions used in rate-peg methodology by IPART and practical implications to Council's service delivery*

<b>Cost component</b>	<b>IPART assumption</b>	<b>Practical implications to Council's service delivery</b>
Employee benefits and on-cost	An increase of 1.2%, measured by the ABS Wage Price Index for the NSW public sector.	2020 NSW Local Government (State) Award includes 2.0% wage increase for FY 2023 together with a 0.5% increase in Superannuation Guarantee Levy from 10.0% to 10.5%.
Construction works - roads, drains, footpaths, kerbing, bridges costs,	An increase of 1.1% measured by the ABS Producer Price Index for roads and bridge construction – NSW.	ABS Producer Price Index (mining, manufacturing, construction and services industries) has increased by 3.7% in December 2021* compared to December 2020.
Other business expenses	An increase of 1.5%, measured by the ABS Producer Price Index for other administrative services, not elsewhere classified.	ABS Producer Price Index (mining, manufacturing, construction and services industries) has increased by 3.7% in December 2021 compared to December 2020. Insurance, a main item included in this category has increased by 11% for FY 2023 due to natural disasters occurred in FY 2022.
Electricity, water and sewerage and automotive fuel	Decreases of between 6.6% and 2.4%.	NSW recorded quarterly wholesale price increases of 130.5 per cent Q1 2022 compared to same quarter last year <sup>#</sup> Council's FY2023 LTFP will include an annual electricity cost increase 22%, due to closing of significant power sites in QLD and market volatility.

\* Australian Bureau of Statistics

<sup>#</sup> The Australian Financial Review

Council is in the process of finalising it's 2022/23 IP&R documentation including Long Term Financial Plan (LTFP) which will be considered by Council at the May Ordinary Council meeting. This LTFP will include budget adjustments that were not part of 2021/22 adopted Operational Plan, such as an increased non-current asset base from extensive grant funded capital works program in the current financial year, and associated on-going maintenance costs, in addition to implications outlined in Table 2 above. Should Council decides to proceed with the ASV application, a level of funding warranted by the rate increase will be provided to affected services and infrastructure renewal work as outlined in the Table 2 in the draft Operational Plan and LTFP for FY 2022/23.

## ITEM 2

### MEETING

### DIRECTORATE

### AUTHOR

### POLICY

### LEGAL

### FINANCIAL

### STRATEGIC LINK

## Investments

### Ordinary Meeting – 20 March 2022

### Business and Finance

### Coordinator – Accounting and Treasury

### Interest and Investments Policy

### Local Government Act 1993, Local Government (General) Regulation 2021

### Nil

### Community Strategic Plan

### 1.2.4 Maintain Council's financially sustainable position, delivering value for money services to the community.

### Operational Plan

### 1.2.4.3 Ensure effective and efficient delivery of financial management services across the organisation, including providing systems and processes to effectively communicate and manage Council's financial performance.

<b>Circular Details</b>	22-07/6 April 2022/A815377
<b>Previous Circular</b>	22-03 Guidelines for Additional Special Variation (ASV) Process for 2022-23
<b>Who should read this</b>	Councillors / General Managers / Rating and Finance Staff
<b>Contact</b>	Policy Team / 02 4428 4100 / <a href="mailto:olg@olg.nsw.gov.au">olg@olg.nsw.gov.au</a>
<b>Action required</b>	Information

**Subject****Guidelines for Additional Special Variation (ASV) Process for 2022-23**

**\*\*\* The ASV Guidelines set out in this circular apply in place of, and supersede, the ASV Guidelines issued in Circular 22-03 \*\*\***

**What's new or changing**

- The Independent Pricing and Regulatory Tribunal (IPART) will accept and process an additional round of 2022-23 Special Variation (ASV) applications from councils.
- For applications made under the ASV process, the ASV Guidelines set out in this circular apply in place of the [Guidelines for the preparation of an application for a special variation to general income](#) issued by the Office of Local Government in 2020.
- The ASV Guidelines set out in this circular apply in place of, and supersede, the ASV Guidelines issued in Circular 22-03.
- For more information on when these ASV Guidelines apply, please see 'What this will mean for your council' below.
- This one-off ASV round is available for the 2022-23 financial year only.
- This one-off ASV round is for councils that can show that the special variation will enable them to meet the obligations they set for 2022-23 in their 2021-22 Integrated Planning and Reporting (IP&R) documentation.
- Councils seeking a permanent special variation will also need to demonstrate the need for the special variation to be included in their rate base on an ongoing basis.
- Separately, IPART has also agreed to undertake a broader review of its rate peg methodology, including the Local Government Cost Index, with outcomes from the review expected to shape rate peg determinations in future years.

**What this will mean for your council**

- The ASV Guidelines set out in this Circular apply where council is applying for:
  - a temporary or permanent single year special variation for 2022-23 under section 508(2) of the *Local Government Act 1993* (the Act), AND
  - the percentage sought in the application is the lower of:
    - 2.5% (including population factor) or

- the council's assumed 2022-23 rate peg as set out in its 2021-22 IP&R documentation (including population factor)
- For ASV applications made under the Guidelines set out in this Circular, councils will need to provide IPART with the following information:
  - Council's 2021-22 IP&R documentation identifying that council budgeted for an income increase above the percentage specified for the council for 2022-23 under section 506 of the Act; and
  - 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; and
  - Council has resolved to apply for the special variation under section 508(2) of the Act and that the resolution clearly states:
    - whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act; and
    - the additional income that 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.
- The ASV application process is a simpler more targeted application process.
- IPART will not require councils to demonstrate community consultation or criteria outside of the processes outlined above. To demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process and consider the resolution to apply for a ASV meets the requirements outlined above.
- Revised application forms and further information will be released by IPART shortly.
- Under this ASV round of applications:
  - 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.

### Key points

- In late 2021, IPART announced the rate peg for the 2022-23 financial year was set at an increase of between 0.7% and 5.0%.
- Special variations provide an opportunity for councils to vary general income by an amount greater than the annual rate peg. However IPART's normal period for special variation applications in relation to the 2022-23 rate peg has now passed.
- 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.

- As such the NSW Government and IPART have agreed to a one-off ASV round for the 2022-23 financial year only.
- This process is not intended to address applications from councils that require a special variation (above 2.5%) to achieve long term financial sustainability for reasons other than those set out in the criteria above, which should be addressed through the standard special variation process.
- [IPART's website](#) will be updated with revised application forms and information papers shortly.

#### **Where to go for further information**

- For further information please contact IPART on 02 9290 8400 or by email to [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au).

**Melanie Hawyes**

**Group Deputy Secretary, Crown Lands and Local Government**



# Additional Special Variations

28 March 2022

## Additional Special Variations for 2022-23

IPART will be accepting and assessing a one-off round of special variation applications for 2022-23. The additional round is only for councils that can demonstrate a financial need i.e. without the additional special variation (ASV) the council will not meet their 2021-22 Long Term Financial Plan (LTFP) obligations in 2022-23. The ASV would be the *lower* of 2.5% or the council's assumed 2022-23 rate peg as exhibited in its LTFP (both including population factor).

IPART announced the 2022-23 rate peg as 0.7% (with a population factor of zero), which is lower than many councils had expected based on the historic average of the rate peg. With the delayed council elections, councils may not have had enough time to respond to the 2022-23 rate peg with a special variation application within the usual time frame.

The ASV process will not assess applications that need a special variation above 2.5% to achieve long-term financial sustainability. This should be addressed through the standard special variation process.

IPART will assess ASV applications with reference to ratios established by the Office of Local Government (OLG) to ensure consistency across councils.

The Local Government Minister has requested IPART to review the rate peg methodology to reduce volatility in the rate peg.

### 1.1 The size of the additional special variation

The size of the ASV is capped at the lower of:

- 2.5% (including population factor), or
- the council's assumed 2022-23 rate peg as exhibited in its 2021-22 LTFP (including population factor).

For councils with an approved ASV application, the ASV will replace the 2022-23 rate peg. No additional population factor will be added.

### 1.2 How does the council demonstrate financial need

Councils must have a demonstrable financial need. This means without the ASV the council does not have enough funds to meet its 2021-22 LTFP obligations as they fall due in 2022-23. 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. If the council has a UCR above 1.5 it will need to include supporting documentation to justify its financial need.

### 1.2.1 Temporary vs permanent additional special variation

A temporary ASV means the extra general revenue from the ASV is available for 2022-23 only. This means the impact on ratepayers will be for one year only.

A permanent ASV means the ASV is retained in the council's rate base moving forward. Councils applying for a permanent ASV will have to also demonstrate the need to retain the ASV in their rate base. IPART will apply OLG's operating performance ratio (OPR) indicator to determine if the council needs a permanent ASV. OLG's OPR benchmark is 0% for all councils. If the council has average OPRs above 2% over the next 5 years, it must include supporting documentation to justify its need for a permanent ASV on an ongoing basis.

## 1.3 How to apply for an ASV

Councils can complete the application form on [Additional Special Variation \(ASV\) for 2022-23 | IPART \(nsw.gov.au\)](#) and submit via IPART's Local Government Portal [IPART - Council Portal \(nsw.gov.au\)](#). Councils will also be required to provide evidence, such as the LTFP and council resolution, to support their application.

We expect councils to hold an extraordinary council meeting if required to meet the application date.

## 1.4 Timing



## 1.5 Contact Person

Edward Jenkins  
[Edward\\_Jenkins@ipart.nsw.gov.au](mailto:Edward_Jenkins@ipart.nsw.gov.au)  
(02) 9113 7774