

# Bega Valley Shire Council Additional Special Variation

20 June 2022

## Our decision

Bega Valley Shire Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.5% in 2022-23. The rate peg for Bega Valley Shire Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 2.5%.

We have assessed this application against the three criteria set by the Office of Local Government (OLG). We found that Bega Valley Shire Council's ASV application fully met all assessment criteria.



We have approved Bega Valley Shire Council's application for a permanent 2.5% Additional Special Variation in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 2.5% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Bega Valley Shire Council

	2022-23
Increase above the rate peg – permanent	1.8%
Rate peg	0.7%
Total increase	2.5%

Our decision means the council can increase its income by 1.8% above the rate peg. We estimate this to be around \$0.47 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council to collect an extra \$2.4 million over the next 5 years. The impact on rates from this ASV may be different for individual ratepayers and across different ratepayer categories. The ASV represents an allowed increase in general permissible income, the council decides how it collects that income from ratepayers.

## The ASV process

On 6 April 2022 the OLG announced guidelines for the Additional Special Variations (ASV) process for 2022-23 under [circular 22-07](#) (ASV guidelines). IPART has assessed applications from NSW councils for an ASV against the ASV guidelines.

## The council planned for a 2.5% increase in income

**Assessment criterion 1:** *The application amount is not higher than the lesser of 2.5% or the councils assumed 2022-23 rate peg (including population factor) in its 2021-22 Integrated Planning and Reporting (IP&R) documentation.*

Bega Valley Shire Council's 2021-22 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.5% which matches Bega Valley Shire Council's ASV application for 2.5% in 2022-23.



The increase the council applied for matches the increase in income it budgeted in its planning documents.

## Council supports the proposed increase in income

**Assessment criterion 2:** *The council must have made a resolution which clearly states:*

- *that the council has resolved to apply for the special variation under section 508(2) of the Local Government Act 1993 (the Act)*
- *whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act*
- *the additional income that council will receive if the special variation is approved, and*
- *why the special variation is required*
- *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.*

Bega Valley Shire Council resolved on 16 March 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.32 million of additional income in 2022-23.<sup>a</sup> The council stated that the special variation is required for Bega Valley Shire Council's future financial sustainability and so that services are not adversely affected. On 18 May 2022 the council provided a clarifying resolution stating that it considered the impact on ratepayers to be reasonable.



The council resolved to apply to increase its income by 1.8% above the rate peg or by \$0.32 million in 2022-23. It explained the reasons why the ASV is required, and the council considers the impact on ratepayers to be reasonable.

<sup>a</sup> The council has estimated the amount of additional income it can collect, and this estimate may be different to the actual amount collected.

## The council demonstrated financial need

**Assessment criterion 3:** *The council's 2021-22 IP&R documentation forecast an average Operating Performance Ratio (OPR) of 2.0% or lower over 2022-23 to 2026-27 or it has provided other 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 OLG describes the OPR as measuring how well local councils contain expenses within revenue.<sup>b</sup> The OPR represents what portion of a council's revenue is remaining after expenses. A positive OPR represents a surplus in income and a negative OPR represents a shortfall in income.

Bega Valley Shire Council's 2021-22 LTFP forecast an average OPR of -3.2% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need. We note that in one year of the forecast period the council's OPR will be at or above 2.0%. The ASV guidelines identify the average OPR over the next 5 years as the threshold we are to assess against. On average the council's OPR is -3.2%.

Table 2 Bega Valley Shire Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	-7.4%	-6.8%	-2.9%	-0.9%	2.1%	-3.2%



The council's application shows it has a forecast average OPR of 2.0% or below. This demonstrates a financial need for the additional income.

## Summary of submissions

Bega Valley Shire Council's ASV application received 1 submission. The ratepayer expressed concerns over affordability, noting the impacts of COVID-19 and natural disasters on the community in recent years. The submission focuses on a proposed 35% rate increase that Bega Valley Shire Council is currently consulting on for 2023-24.<sup>c</sup> While targeted at the wrong process these affordability concerns still apply to this ASV decision. We note that in resolving to apply for the ASV the council considered the impact on ratepayers and the community and considers that it is reasonable. This ASV is also consistent with the planned rate increase the council consulted with its community on as part of the 2021-22 IP&R process.

<sup>b</sup> NSW Auditor-General, *Report to Parliament | Report on Local Government 2018 | Appendix 9 – OLG's performance indicators from the audited financial statement – Descriptions*, February 2019, p 78.

<sup>c</sup> Confidential, Submission to Bega Valley Shire Council ASV application, 12 May 2022, p 1.