

Cessnock City Council Additional Special Variation

20 June 2022

Our decision

Cessnock City 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 Cessnock City 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 Cessnock City Council's ASV application fully met all assessment criteria.



We have approved Cessnock City 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 – Cessnock City 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 income by 1.8% above the rate peg. We estimate this to be around \$0.78 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$4.0 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 council's assumed 2022-23 rate peg (including population factor) in its 2021-22 Integrated Planning and Reporting (IP&R) documentation.*

Cessnock City 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 Cessnock City 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 criteria 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.*

Cessnock City Council resolved on 20 April 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.76 million of additional income in 2022-23.^a The council stated that the special variation is required to ensure that Cessnock City Council maintains its assets and financial sustainability considering the rising cost of materials and fuel. The council stated that it considered the impact on ratepayers and the community to be reasonable.



The council resolved to apply to increase its income by 1.8% above the rate peg or by \$0.76 million in 2022-23. It explained the reasons why the ASV is required, and the council considers the impact on ratepayers to be reasonable.

^a 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 criteria 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.^b 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.

Cessnock City Council's 2021-22 LTFP forecast an average OPR of 4.1 % over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

Table 2 Cessnock City Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	3.9%	4.0%	4.1%	4.2%	4.3%	4.1%

Cessnock City Council has proposed an adjusted OPR for our assessment of financial need. We consider that it is reasonable to use an adjusted OPR for our assessment because the adjusted OPR reflects changes in costs since the initial forecasts were made in 2021-22.

In its application Cessnock City Council noted that since its 2021-22 LTFP was prepared it has become aware of some changes to its forecast cost assumptions. It stated that there has been an increase in materials and contracts costs of 5% in 2022-23. This increase is based on updated forecasts of CPI and recent 10% to 12% increases in the cost of fuels. It also reflects cost increases of 2.5% in materials passed on by suppliers.

The council also proposed including the 0.7% assumed rate peg in its adjusted forecasts to show the impact of not receiving this ASV. We do not consider the adjustment to show the council's financial position without the ASV to be reasonable. The adjusted forecasts should present a more accurate picture of the council's financial outlook.^c We consider that including a rate peg forecast inconsistent with the one applied for in this ASV does not do that. We have removed the adjustment for the lower rate peg from the council's proposed OPR forecasts.

The adjusted financial forecasts we are assessing are based on the updated assumptions relating to materials and contracts costs. Using the adjusted OPR Cessnock City Council forecasts an average OPR of 1.2% 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 some years 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 1.2%.

^b 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.

^c These updated forecasts and the council's proposal to consider an adjusted OPR are available on IPART's website [here](#).

Table 3 Cessnock City Council's Adjusted OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	2.4%	1.8%	1.1%	0.5%	0.3%	1.2%

The council noted in its application that recent customer survey data indicated that maintaining infrastructure is a key priority for the community. The council said that without this ASV it would need to reduce expenditure on infrastructure maintenance such as roads and parks.



The council's application shows that, when considering updated forecasts, it has a forecast average OPR of below 2.0%. This demonstrates a financial need for the additional income.

Summary of submissions

Cessnock City Council's ASV application did not receive any submissions.