

# Clarence Valley Council Additional Special Variation

20 June 2022

## Our decision

Clarence Valley 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 Clarence Valley 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 Clarence Valley Council's ASV application fully met all assessment criteria.



We have approved Clarence Valley 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 – Clarence Valley 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 \$0.68 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$3.6 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 rate payers.

## 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.*

Clarence Valley 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 Clarence Valley 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.*

Clarence Valley Council resolved on 26 April 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.67 million of additional income in 2022-23.<sup>a</sup> The council stated that the special variation is required to fund previously planned infrastructure and community services. The council 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 \$0.67 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.

Clarence Valley Council's 2021-22 LTFP forecast an average OPR of 2.6% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

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

|     | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5-year average |
|-----|---------|---------|---------|---------|---------|----------------|
| OPR | 0.1%    | 1.3%    | 2.5%    | 3.8%    | 5.0%    | 2.6%           |

Clarence Valley 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 Clarence Valley Council noted that its 2021-22 LTFP was prepared at a time when inflation was steady and low, and this is reflected in the assumptions of growth in costs in the 2021-22 forecasts. It stated that it has updated its assumed annual growth in materials and contracts costs from 2.0% to 3.5% to reflect current economic conditions. The adjusted financial forecasts it has provided are based on this updated assumption.<sup>c</sup>

Using the adjusted OPR Clarence Valley 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%.

Table 3 Clarence Valley Council's Adjusted OPR – 2022-23 to 2026-27

|     | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5-year average |
|-----|---------|---------|---------|---------|---------|----------------|
| OPR | -0.4%   | 0.4%    | 1.2%    | 2.0%    | 2.8%    | 1.2%           |

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

Clarence Valley Council also stated in its application that it expects a further deterioration from this adjusted OPR forecast that it is not yet quantified. For example, it expects recent movements in inflation to cause increases in employee costs. It identified that increases in Government capital grants in 2021-22 have had significant impacts on its asset renewal programs and asset lifecycle costs. These grants fund capital works to create new assets but do not fund the ongoing maintenance costs of these assets.

The council also noted the impact of natural disasters and that these events are costly. It stated that these events hamper its ability to manage its assets, lower its rate revenue and increase its infrastructure costs. They also challenge its ability to produce accurate long-term forecasts of infrastructure costs. The council expects when taking these additional factors into account that its 5 year average OPR is likely to be between 0.0% and 1.2%.



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

Clarence Valley Council's ASV application did not receive any submissions.