

# Cumberland City Council Additional Special Variation

20 June 2022

## Our decision

Cumberland 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 Cumberland City Council in 2022-23 was set at 1.2%. 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 Cumberland City Council's ASV application fully met all assessment criteria.



We have approved Cumberland City Council's application for a permanent 2.5% ASV 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 – Cumberland City Council

	2022-23
Increase above the rate peg – permanent	1.3%
Rate peg	1.2%
Total increase	2.5%

Our decision means the council can increase income by 1.3% above the rate peg. We estimate this to be around \$1.33 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$7.0 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 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.*

Cumberland 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%. This matches Cumberland 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 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.*

Cumberland City Council resolved on 6 April 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$1.35 million of additional income in 2022-23.<sup>a</sup> The council stated that the special variation is required to ensure that Cumberland City Council has the financial capability to maintain council services and infrastructure. The council stated that it considered the impact on ratepayers to be reasonable.



The council resolved to apply to increase its income by 1.3% above the rate peg or by around \$1.35 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.

Cumberland City Council's 2021-22 LTFP forecast an average OPR of 2.8% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

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

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	2.1%	2.7%	3.3%	3.1%	2.9%	2.8%

In its application Cumberland City Council stated that since its 2021-22 LTFP was adopted, inflation relating to employee costs, fuel costs, construction materials and other costs have outstripped the assumed increases. It stated that COVID-19 has compounded these cost pressures by limiting the council's ability to raise non-rate revenue. The council told us recent weather events have increased asset maintenance costs and increased capital investment. We consider that these are reasonable adjustments to make to the council's forecasts in assessing this criterion.

The council has not provided a quantification of these costs, nor quantified their impact on its OPR forecasts. Given this, we have been unable to determine whether the council's OPR would be 2.0% or lower taking into account the adjusted financial forecasts.

In its application Cumberland City Council stated that its infrastructure backlog ratio is at 4.7% and that it will face at least \$46 million in costs to bring that ratio down to the OLG benchmark of 2.0%.<sup>c</sup> It stated that it needs to maintain a higher OPR to fund this expense.<sup>d</sup> The council's accumulated forecasted surpluses from 2022-23 to 2026-27 amount to around \$25.6 million. This surplus will not exceed the expected capital expense. Given this, we consider that Cumberland City Council has demonstrated a need to maintain an OPR higher than 2.0% to meet its capital funding requirements.

<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> Cumberland City Council's capital works program is outlined in its IP&R documentation, see Cumberland City Council, *2017-2027 Resourcing Strategy Long Term Financial Plan - Appendix 6 Capital Works*, May 2017, p 21.

<sup>d</sup> The council's application explaining why it needs to maintain a higher than 2.0% OPR to meet its capital funding requirements is available on IPART's website [here](#).



The council's application shows that it needs to maintain a higher OPR so it can meet its capital funding requirements. This demonstrates a financial need for the additional income.

## Summary of submissions

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