

# Edward River Council Additional Special Variation

20 June 2022

## Our decision

Edward River 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 Edward River Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 2.0%.

We have assessed this application against the three criteria set by the Office of Local Government (OLG). We found that Edward River Council's ASV application partially met criterion 1 and fully met all other assessment criteria. The council applied for an ASV percentage amount that is higher than the maximum allowable under the ASV Guidelines. We have approved an ASV consistent with the maximum allowable for Edward River Council under the ASV Guidelines.



Edward River Council applied for a permanent 2.5% Additional Special Variation in 2022-23. We have approved a 2.0% ASV in 2022-23. Our decision means the council can increase its general income by 2.0% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Edward River Council

	<b>2022-23</b>
Increase above the rate peg – permanent	1.3%
Rate peg	0.7%
Total increase	2.0%

Our decision means the council can increase income by 1.3% above the rate peg. We estimate this to be around \$0.10 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$0.5 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 2.0% 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.*

Edward River Council's 2021-22 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted for a 2022-23 rate peg of 2.0%. This is lower than Edward River Council's ASV application for 2.5% in 2022-23.

Edward River Council has told us it applied for a percentage amount higher than its assumed 2022-23 rate peg to address its ongoing projected deficits. It stated that not approving the higher ASV would disadvantage the council.

This one-off ASV round is for councils that can show the ASV will enable them to meet the obligations they set for 2022-23 in their 2021-22 IP&R documentation. The ASV Guidelines state that, to demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process. Edward River Council's ratepayers were informed of an assumed 2022-23 rate peg of 2.0% in the council's adopted 2021-22 IP&R documentation. The council's ratepayers and community have not been consulted about an increase in general income above 2.0%.

We do not consider that it would be appropriate to approve an ASV for Edward River Council of a percentage that exceeds the assumed rate peg the council communicated to its ratepayers in its 2021-22 IP&R documentation. To do so would be inconsistent with the ASV Guidelines. This position is consistent with our approach for other councils that have made ASV applications for 2022-23.



The percentage increase the council applied for is higher than 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.

Edward River Council resolved on 17 May 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.14 million of additional income in 2022-23.<sup>a</sup> The council stated that the special variation is required to ensure that Edward River Council has the funds to address net operating deficit results from continuing operations. The council stated that it considered the impact on ratepayers to be reasonable. We note that in making the resolution the council considered the impact of a 2.5% increase, not the 2.0% increase we are approving.



The council resolved to apply to increase its income by 1.8% above the rate peg or by \$0.14 million in 2022-23. It has explained the reasons why the ASV is required, and the council considers the impact on ratepayers to be reasonable.

## 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.

Edward River Council's 2021-22 LTFP forecast an average OPR of -7.1% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need.

Table 2 Edward River Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	-7.1%	-7.0%	-7.6%	-6.9%	-6.9%	-7.1%



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

<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.

<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.

## Summary of submissions

Edward River Council's ASV application did not receive any submissions.