

Lake Macquarie City Council Additional Special Variation

20 June 2022

Our decision

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



We have approved Lake Macquarie City Council's application for a permanent 2.5% Additional Special Variation in 2022-23. 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 – Lake Macquarie 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 its income by 1.8% above the rate peg. We estimate this to be around \$2.68 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$14.1 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.*

Lake Macquarie 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 Lake Macquarie 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.*

Lake Macquarie City 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 \$2.70 million of additional income in 2022-23.^a The council stated that the special variation is required to ensure that Lake Macquarie City Council can provide adequate maintenance of critical community infrastructure and meet the obligations set for 2022-23 in the city's 2021-22 IP&R documentation. The council stated 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 \$2.70 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 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.^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.

Lake Macquarie City Council's 2021-22 LTFP forecast an average OPR of 0.5% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5-years demonstrates financial need.

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

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	-0.4%	0.3%	0.4%	0.5%	1.5%	0.5%



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

Summary of submissions

Lake Macquarie City Council's ASV application received 1 submission. The stakeholder raised concerns about affordability given the increase in the cost of living. We note that when resolving to apply for the ASV Lake Macquarie City Council considered the impact on ratepayers and the community and considered it to be reasonable. The ASV is also consistent with the planned rate increases the council consulted with its community on as part of the 2021-22 IP&R process.

The stakeholder also raised concerns about the council's reason for applying for the ASV. The council noted that the ASV was needed to ensure adequate maintenance of infrastructure and meet the obligations set out in its IP&R documentation. The stakeholder stated that in its draft 2022-23 delivery program the council indicates its long-term asset funding needs are planned for.^c We note that this document assumes a 2.5% rate increase in 2022-23.^d

^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 Anonymous, Submission to Lake Macquarie City Council ASV application, 15 May 2022, p1.

^d Lake Macquarie City Council, Draft Delivery Program 2022-2026 and Operational Plan 2022-2023, March 2022, p. 130.

The submission also raised concerns that the council has not shown how it will ensure any ASV revenue will be used. We note that as a condition of being granted the ASV the council will be required to report on its financial performance against the projections in the LTFP that underpins this application and the reasons for any significant differences. This aims to provide transparency for ratepayers on how the council has used the additional revenue from this ASV.