

# Leeton Shire Council Additional Special Variation

20 June 2022

## Our decision

Leeton Shire Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 1.8% in 2022-23. The rate peg for Leeton Shire Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 1.8%.

We have assessed this application against the three criteria set by the Office of Local Government (OLG). We found that Leeton Shire Council's ASV application fully met all assessment criteria.



We have approved Leeton Shire Council's application for a permanent 1.8% Additional Special Variation in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 1.8% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Leeton Shire Council

	2022-23
Increase above the rate peg – permanent	1.1%
Rate peg	0.7%
Total increase	1.8%

Our decision means the council can increase income by 1.1% above the rate peg. We estimate this to be around \$0.09 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$0.4 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 1.8% 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.*

Leeton Shire Council's 2017-18 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 1.8% which matches Leeton Shire Council's ASV application for 1.8% in 2022-23. Leeton Shire Council's most recent set of IP&R documents were adopted in 2017-18. As 2021-22 IP&R documents are not available, we have used the council's preceding documentation to assess this criterion.



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.*

Leeton Shire Council resolved on 27 April 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.09 million of additional income in 2022-23. The council stated that the special variation is required to ensure that Leeton Shire Council does not operate at a loss in 2022-23. 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 1.1% above the rate peg or by \$0.09 million in 2022-23. It 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>a</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.

Leeton Shire Council's 2017-18 LTFP forecast an average OPR of 3.5% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

Table 2 Leeton Shire Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	3.7%	2.9%	3.3%	4.5%	3.2%	3.5%

Leeton Shire 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 2017-18.

In its application Leeton Shire Council noted that its most recent adopted LTFP was prepared in 2017-18. The council told us that since then it has increased service levels in line with community priorities. It noted that it had received substantial grant funding which increased the levels of service offered while adding to depreciation and ongoing operating expenses. Increases in landfill rehabilitation provisions and decreases in interest and water revenue were also identified in its 2022-23 LTFP. It stated that these factors have all impacted its forecast financial position.

The council has provided financial forecasts from its 2022-23 LTFP that was on exhibition in May of 2022 before planned formal adoption in June 2022.<sup>b</sup> We accept that these more recent LTFP forecasts more accurately reflect the council's financial position and current economic conditions.

Leeton Shire Council's 2022-23 LTFP forecasts an average OPR of -17.1% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need.

Table 3 Leeton Shire Council's Adjusted OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	-16.7%	-17.1%	-17.4%	-17.2%	-17.2%	-17.1%

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



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

Leeton Shire Council's ASV application did not receive any submissions.