

# Northern Beaches Council Additional Special Variation

20 June 2022

## Our decision

Northern Beaches Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.4% in 2022-23. The rate peg for Northern Beaches Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 2.4%.

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



We have approved Northern Beaches Council's application for a permanent 2.4% Additional Special Variation in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 2.4% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Northern Beaches Council

	2022-23
Increase above the rate peg – permanent	1.7%
Rate peg	0.7%
Total increase	2.4%

Our decision means the council can increase income by 1.7% above the rate peg. We estimate this to be around \$3.01 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$15.8 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 2.4% 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.*

Northern Beaches Council's 2021-22 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.4% which matches Northern Beaches Council's ASV application for 2.4% 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.*

Northern Beaches 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 \$3.01 million of additional income in 2022-23. The council stated that the special variation is required to ensure that Northern Beaches Council's provision of services and renewal of assets is financially sustainable. 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 1.7% above the rate peg or by \$3.01 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 requirement*

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.

Northern Beaches Council's 2021-22 LTFP forecast an average OPR of 4.1 % over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

Table 2 Northern Beaches Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	4.1%	4.2%	4.0%	3.8%	4.2%	4.1%

Northern Beaches 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 the council proposed that we assess this criterion using adjusted financial forecasts based on its draft 2022-2032 LTFP exhibited during May 2022. The 2022-2032 LTFP represents the council's most up to date financial forecasts. It stated that this includes changes from the 2021-22 LTFP required under accounting standards and the impacts of asset revaluations.<sup>b</sup> We consider it reasonable to use the more recent financial forecasts from its 2022-2032 LTFP in assessing this criterion.

The council also proposed modifying the 2022-23 LTFP forecasts to exclude the income and expenses of Kimbriki Environmental Enterprises Pty Ltd (Kimbriki), a resource recovery centre. The council stated that as a majority shareholder of Kimbriki, Kimbriki's financial performance is consolidated within the council's financial position. Kimbriki generates a surplus of around \$3 million each year. The council stated that these funds are governed by an independent board and are not available to the council. It further clarified to IPART that it does receive lease income and may receive dividends from Kimbriki. The council stated that it has not removed lease income or expected dividends received from Kimbriki from its income forecasts. It did note that it expects dividends over the forecast period to be nil, consistent with recent dividend payments and Kimbriki's planned capital works program. We consider that including a surplus generated by Kimbriki in the council's forecasts overstates its OPR and accept the proposed adjustment made by the council.


<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](#).

Using the adjusted OPR Northern Beaches Council forecasts an average OPR of 1.7% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need.

Table 4 Northern Beaches Council's Adjusted OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	1.8%	1.6%	1.3%	1.9%	1.8%	1.7%



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

Northern Beaches Council's ASV application did not receive any submissions.