

# Wingecarribee Shire Council Additional Special Variation

20 June 2022

## Our decision

Wingecarribee Shire Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.0% in 2022-23. The rate peg for Wingecarribee Shire Council in 2022-23 was set at 1.2%. 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 Wingecarribee Shire Council's ASV application fully met all assessment criteria.



We have approved Wingecarribee Shire Council's application for a permanent 2.0% Additional Special Variation in 2022-23 (including the rate peg). 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 – Wingecarribee Shire Council

|   | 2022-23 |
|---|---------|
| Increase above the rate peg – permanent | 0.8%    |
| Rate peg                                | 1.2%    |
| Total increase                          | 2.0%    |

Our decision means the council can increase income by 0.8% above the rate peg. We estimate this to be around \$0.43 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$2.3 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 council's assumed 2022-23 rate peg (including population factor) in its 2021-22 Integrated Planning and Reporting (IP&R) documentation.*

Wingecarribee Shire Council's 2020-21 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.0% which matches Wingecarribee Shire Council's ASV application for 2.0% in 2022-23. Wingecarribee Shire Council's most recent set of IP&R documents were adopted in 2020-21. 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.*

Wingecarribee Shire Council resolved on 16 March 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.43 million of additional income in 2022-23. The council stated that the special variation is required for Wingecarribee Shire Council's future financial sustainability and so that services are not adversely affected. The council stated that it considered the impact on ratepayers to be reasonable.



The council resolved to apply to increase its income by 0.8% above the rate peg or by \$0.43 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.

Wingecarribee Shire Council's 2020-21 LTFP forecast an average OPR of 2.5% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

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

|     | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5-year average |
|-----|---------|---------|---------|---------|---------|----------------|
| OPR | 2.3%    | 2.4%    | 2.4%    | 2.5%    | 2.6%    | 2.5%           |

Wingecarribee 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 2020-21.

The council stated that since adopting its LTFP in July of 2020 increases in employee costs, materials and fuel have outstripped its forecasts, placing pressure on the council's financial position. It notes that the council suffered under inclement weather events since February of 2022.<sup>b</sup> These adverse weather events have impacted the council's infrastructure network and increased maintenance costs. The 2020-21 adopted LTFP does not reflect these new costs and the council has not quantified these impacts in its application.

In its application Wingecarribee Shire Council prepared an adjusted set of financial forecasts which show its financial position if it were to only increase rates by 1.2% in 2022-23 as allowed under its rate peg for 2022-23. Using the adjusted financial forecasts, Wingecarribee Shire Council forecasts an average OPR of 2.0% over 2022-23 to 2026-27.

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

|     | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 5-year average |
|-----|---------|---------|---------|---------|---------|----------------|
| OPR | 1.9%    | 2.0%    | 1.9%    | 2.0%    | 2.2%    | 2.0%           |

<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> Wingecarribee Shire Council was included in a natural disaster declaration in February 2022. See disaster declaration Australian Government reference number 1012 [here](#).

In its application the council stated that allowing its OPR to fall to 2.0% will adversely impact capital works to the community and its ability to maintain financial sustainability. It noted that surplus funds generated from the council's positive OPR have been allocated to fund services and capital works. It identified \$312 million of capital works over the 2022-23 to 2025-26 period. The council told us additional revenue from the ASV will be allocated towards these works.<sup>c</sup> The council calculated that if it does not receive the ASV its infrastructure backlog would grow by around \$4.8 million over the life of the LTFP.<sup>d</sup>

The ASV guidelines state that if a council's 2021-22 IP&R documentation forecast an average OPR over the next 5 years of 2.0% or lower, this demonstrates financial need. They also state that a council can provide alternative evidence of need. Citing the example of a council needing to maintain a higher OPR so that it can meet its capital funding requirements as an acceptable demonstration of need.

We consider that Wingecarribee Shire Council has demonstrated the need to maintain a higher OPR in order to meet its capital funding requirements. It demonstrated that without the ASV its 5 year average OPR would be at or below 2.0%. This indicates that without the ASV, the council would struggle to meet its capital commitments. We consider that Wingecarribee Shire Council has demonstrated the need to maintain a higher OPR in order to meet its capital funding requirements.



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

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

<sup>c</sup> Wingecarribee Shire Council's capital works program is outlined in its IP&R documentation, see Wingecarribee Shire Council, *Delivery Program 2017-2022 Operational Plan 2021/22 – Appendix 1*, June 2021, pp 74-89.

<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](#).