

**Subject:** Rates - Additional Special Variation for 2022-23  
**Record No:** SU8618 - 12531/22  
**Division:** Corporate Services Division  
**Author(s):** Steven Kludass

---

### **Executive Summary**

The Office of Local Government (OLG) released a circular on 7 March 2022 in relation to the Independent Pricing and Regulatory Tribunal (IPART) accepting an additional round of Special Variation applications from Councils with respect to 2022/23 Rates. The closing date for applications is 29 April 2022.

The purpose of this report is to outline the process for making application for a Special Variation to rates for the 2022/23 financial year and to seek Council's endorsement to pursue such a Special Variation.

### **Background**

Council was advised of its proposed rate increase for 2022/23 in late 2021. IPART determined that Council was eligible for a rate increase of only 0.7%. In its determination, IPART also advised that Council would not be receiving an additional rate increase for population growth for 2022/23. The announcement of a 0.7% rate increase came as a major surprise to Councils throughout NSW as it was one of the lowest rate increases announced since rate pegging was first introduced in 1977.

Since the announcement, there has been significant concerns about the impacts of the low rate increase raised by councils, particularly given the increasing costs associated with providing essential services to the community. The OLG and IPART recognise that, due to the delayed council elections and the determination of the 2022-23 rate peg at a lower rate than councils had forecast, councils may not have had sufficient time to prepare special variation application within the normal timeframe. This may result in some councils not having sufficient funds to pay for required infrastructure and services. As such, the NSW Government and IPART have agreed to a one-off Special Variation to Rates round for the 2022-23 financial year only.

This process is not intended to address applications from councils that require a special variation (above 2.5%) to achieve long term financial sustainability for reasons other than those set out in the criteria above, which should be addressed through the standard special variation process.

### **Discussion**

The OLG Circular (03-22, dated 7 March 2022) provides an insight into the process by which Councils can make application for the Special Variation to rates for 2022/23. The Circular is provided as an attachment to this report (**AT-1**). A summary of the process and eligibility follows:-

- The Independent Pricing and Regulatory Tribunal (IPART) will accept and process an additional round of 2022-23 Special Variation (ASV) applications from councils.
- For applications made under the ASV process, the ASV Guidelines set out in the circular apply in place of the 'normal' Guidelines for the Preparation of an Application for a Special Rate Variation to General Income issued by the OLG in 2020.
- This is a 'one-off' ASV round and is available for the 2022-23 financial year only.
- This 'one-off' ASV round is for councils that can demonstrate the need for a special variation to meet the obligations they set for 2022-23 in their 2021-22 Integrated Planning and Reporting (IP&R) documentation.

**Ordinary Council Meeting 21 March 2022**  
**RATES - ADDITIONAL SPECIAL VARIATION FOR 2022-23**

- Councils seeking a permanent special variation will also need to demonstrate the financial need for the special variation to be included in their rate base on an ongoing basis.
- Separately, IPART has also agreed to undertake a broader review of its rate peg methodology, including the Local Government Cost Index, with outcomes from the review expected to shape rate peg determinations in future years.
- The ASV Guidelines set out in the Circular apply where council is applying for:
  - a temporary or permanent single year special variation for 2022-23 under section 508(2) of the Local Government Act 1993 (the Act), AND
  - the percentage sought in the application is the lower of:
    - 2.5% (including population factor) or
    - the council's assumed 2022-23 rate peg as exhibited in its 2021-22 Long Term Financial Plan (LTFP) (including population factor)
- For ASV applications made under the Guidelines set out in this Circular, councils will need to demonstrate that:
  - Council has demonstrable financial need such that, in the absence of a special variation, council would not have sufficient funds to meet its obligations as identified in its 2021-22 LTFP as and when they fall due in 2022-23; and
  - Where councils are applying for a permanent special variation, in addition to the above criterion, the council has demonstrable financial need for the special variation to be retained in its rate base on an ongoing basis; and
  - Council's 2021-22 IP&R documentation budgeted for an income increase above the percentage specified for the council for 2022-23; and
  - Council has resolved to apply for the special variation under section 508(2) of the Act and that the resolution clearly states:
    - whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act; and
    - the additional income that council will receive if the special variation is approved; and
    - why the special variation is required; and 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.
- The ASV application process will be a simpler more targeted application process.
- IPART will not require councils to demonstrate community consultation outside of the processes outlined above. To demonstrate community consultation, IPART will consider the consultation undertaken through the IP&R process and consider whether the resolution to apply for a ASV meets the requirements outlined above.
- IPART will release streamlined application forms and further information shortly.
- Under this ASV round of applications
  - IPART will accept applications until 29 April 2022;
  - IPART will publish applications to enable community consultation for a period of at least three (3) weeks; and
  - IPART will notify councils of its decision no later than 21 June 2022.

### Integrated Planning and Reporting - Long Term Financial Plan

Council's adopted Long Term Financial Plan includes an estimated rate increase of 2.0% for 2022/23. The difference between 0.7% and 2.0% is approximately \$350,000 in additional rates revenue. Council is currently finalising its financial estimates as part of the 2022/23 Budget process and the additional rates revenue will go a long way towards council balancing its budget.

Whilst the adopted Long-Term Financial Plan indicates a small budget surplus for 2022/23, it was predicated on a 2.0% rate increase and was prepared almost 12 months ago prior to the finalisation of Council's 2020/21 annual financial statements. Since that time, additional depreciation has been brought to account as an expense which requires additional funding to ensure our infrastructure renewal spend is such that our key infrastructure renewal and backlog ratios remain above 'fit for the future' standards.

Importantly, a rate increase of only 0.7% will also have a long term cumulative impact on council's ability to not only balance budgets in the future but may also compromise Council's ability to provide services and service levels the community has come to expect. From a financial perspective, an additional 1.3% in rate revenue (difference between a 2.0% increase and a 0.7% increase in rates) amounts to more than \$4m in foregone revenue over the next 10 years.

The financial impacts of Covid-19 continue to adversely impact Council's income and expenditure estimates. There is no provision in the 2022/23 Budget for covid-19 related impacts. By way of example, the financial impact of Covid-19 in 2020/21 was \$1.6m and in the current 2021/22 Budget, it is forecast to be \$1.0m.

### Impact on Average Rates

Council's average residential rate is approximately \$1,300 per annum. A 0.7% rate increase equates to a \$9.10 per annum increase (or 18 cents per week). A 2.0% rate increase equates to a \$26 per annum increase (or 50 cents per week). The incremental increase in residential rates from 0.7% to 2.0% is considered relatively minor.

Council's average business rate is \$4,800 per annum. A 0.7% rate increase equates to a \$33.60 per annum increase (or 65 cents per week). A 2.0% rate increase equates to a \$96 per annum increase (or \$1.85 per week). The incremental increase in business rates from 0.7% to 2.0% is considered relatively minor.

### **Consultation**

Council will include commentary of the proposed application for a Special Variation to Rates during its public exhibition of the Delivery Program and Operational Plan (including Budget) which will commence in late April 2022. The Revenue Policy section of the Operational Plan will specifically include commentary regarding the proposal to increase rates from 0.7% to 2.0%. It should be noted that IPART will separately be consulting with the community for a period of 3 weeks with respect to those councils that have sought application to increase rates.

### **Conclusion**

The NSW State Government has announced that the IPART will accept and process an additional round of 2022-23 Special Variation (ASV) applications from councils before 29 April 2022. The OLG and IPART recognise that, due to the delayed council elections and the determination of the 2022-23 rate peg at a lower rate than councils had forecast, councils may not have had sufficient time to prepare a special variation application within the normal timeframe.

**Ordinary Council Meeting 21 March 2022**  
**RATES - ADDITIONAL SPECIAL VARIATION FOR 2022-23**

It is recommended that Council make application for a special variation to 2022/23 rates of 2.0% to reflect the rate increase modelled in its adopted long-term financial plan.

**RECOMMENDATION**

That Council endorse making application to the Independent Pricing and Regulatory Tribunal, under Section 508(2) of the Local Government Act, 1993, for a permanent single year Special Rate Variation of 2.0% (including the rate peg of 0.7%) for the 2022/23 financial year.

Steven Kludass

**Executive Manager - Corporate Services**  
**Corporate Services Division**

**ATTACHMENTS:**

AT-1 [View](#) OLG Circular - Additional Special Variation to Rates for  
2022-23