

**20.6 ADDITIONAL SPECIAL VARIATION FOR 2022-23****Document ID: 602834****Author: Deputy General Manager Corporate and Community****Authoriser: Deputy General Manager Corporate and Community****Theme: Statutory and Compulsory Reporting – Financial / Audit****Attachments: Nil****RECOMMENDATION**

That Council:

1. Resolves that a special variation application under Section 508(2) be lodged with the Independent Pricing & Regulatory Tribunal for a permanent rate increase of two percent (2%) in the 2022-23 financial year.
2. Acknowledges that the variation if granted will yield additional income of \$67,600 in 2022-23 and, assuming a future peg of 2.5%, \$757,000 over the ten years of the LTFP.
3. Acknowledges that the special variation is required as the underlying inflation rate and wage increases exceed the proposed 2% increase in rate yield.
4. Acknowledges that the impact of the 2% increase has been considered for ratepayers in each of the rate categories and subcategories and determined that the additional rate levy on the community is reasonable.

**PURPOSE**

The purpose of this report is for Council to consider the submission of an application to the Independent Pricing and Regulatory Tribunal (IPART) under the one-off Additional Special Variation (ASV) available for the 2022-23 financial year.

**SUMMARY**

The Local Government Act, 1993 (The Act) in Section 506 provides for a limit of annual income from rates and charges. These provisions are more widely referred to as “rate pegging”.

The limit is determined by providing a maximum percentage increase that can be applied for the coming year to a council’s previous annual income from rates and charges. The percentage increase is calculated each year by the IPART for determination by the Minister.

The IPART would normally release its rate cap percentage early in the second quarter of the financial year (September/October) allowing councils an opportunity to indicate their intention to seek special rate variation for the next financial year.

For the 2022-23 financial year, the IPART did not release its determination until December 2021 which coincided with the local government elections where, in most cases, councils would not be in place until January 2022. In addition to the delay, the rate peg percentage was set at 0.7%, well below the rates set by councils in their financial forecasts. The delay

meant that only four councils were able to lodge a special rate variation with IPART within the normal timeframe.

In recognition of the above, the Office of Local Government (OLG) is providing an opportunity for councils to make an Additional Special Variation application to IPART. Should Narrandera Shire Council (NSC) be successful in an ASV application, the additional income from rates and charges available to the 2022-23 budget and added to the Council's ongoing rate base is estimated at \$67,600.

## BACKGROUND

On 7 March 2022 the OLG published Circular 22-03 advising that the IPART will accept an additional round of applications to increase annual income from rates and charges beyond the 2022-23 cap set by IPART.

This ASV is in response to two factors:

- IPART delaying the release of the rate-peg until December causing conflict with the local government elections and giving most councils insufficient time to meet the normal IPART application cut-off date. Only four councils had submitted SRV applications for the 2022-23 determination.
- IPART, in utilising its rate peg methodology, set the increase for 2022-23 at 0.7% excluding a population factor. Narrandera Shire, along with most small and rural councils, does not qualify for an allocation under the population factor. This peg is substantially lower than the rate that councils had forecast. NSC, in its long-term financial plan, had provided for a 2% peg in 2022-23.

The application process under the ASV is to be a simpler, more targeted application process than the normal SRV application. The IPART is to release the streamlined application forms and further information shortly.

While the ASV process is to be simplified, the increase that may be applied for has also been limited as follows:

*“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)”*

As NSC had assumed a 2022-23 rate peg of 2% in its 2021-22 LTFP, this is the cap which will apply to an ASV application from NSC. A projected 2% increase was reasonable when adopting the 2021-22 LTFP. Given that underlying inflation is now exceeds 3%, a 2% increase is warranted.

Applying a 2% cap in place of the IPART cap of 0.7% will provide additional revenue of \$67,600 to Council in the 2022-23 financial year.

Council's ASV would be made under Section 508(2) of the Act. Such an application can be on a permanent basis or temporary for a period of years. A permanent increase would be a one-off single year increase that remains permanently in the rate base. A temporary increase would only apply for a specified period and would not add permanently to the rate base.

It is essential that Council obtains a permanent increase to the rate base. If the rate base grows by 2% as forecast in the 2021-22 LTFP, 2022-23 revenue will increase by \$67,600. A permanent increase of this amount to the rate base, with an assumed average cap of 2.5% for the remaining nine years of the LTFP, would generate \$757,000 to the budget over the period of the LTFP.

The timeline for the ASV process is as follows:

- IPART will accept applications until 29 April 2022
- IPART will publish applications to enable community consultation for a period of at least three weeks; and
- IPART will notify councils of its decision no later than 21 June 2022.

Council is currently preparing its budget for adoption in May 2022 with implementation on 1 July. Given the potential for an IPART decision to be as late as 21 June, it is proposed that Council exhibits a LTFP based on a 2% rate increase, along with a pessimistic LTFP with an increase of 0.7% as prescribed under the cap. If this exhibition period is concluded in May, Council will be able to adopt its budget as the IPART decision on the ASV is known. A prompt submission to IPART may see the Council and IPART exhibition periods coincide.

For an AVS application under Section 508(2), Council needs to consider and state in a resolution the following:

- 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 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.

### **Temporary or Permanent Special Variation**

It is recommended that Council resolves to apply for a permanent variation under Section 508(2) so that the one-off special percentage increase remains permanently in the rate base.

Council's 2021-22 LTFP provided for a rate peg of 2% which is now clearly inadequate with underlying inflation exceeding 3% and rising.

### **Additional income that Council will receive if the Special Variation is approved**

Should Council increase its annual income from rates and charges by 2% rather than the 0.7% determined by IPART, the general fund will receive additional income of \$67,600 in 2022-23.

A permanent variation which adds an additional \$67,600 to the rate base with an assumed average cap of 2.5% for the remaining nine years of the LTFP would generate \$757,000 to the budget over the period of the LTFP.

### **Why the Special Variation is required**

The following expenses are now anticipated and not budgeted in the 2021-22 LTFP:

Lake Talbot Pool increased management contract and operating expenses	\$ 97,900
Internal audit expense in response to ARIC draft guidelines	\$ 25,000
Councillor superannuation contributions	\$ 14,800
Councillor training	\$ 9,500
Security increased contract expense	\$ 9,800
Engage school-based apprentices	\$ 26,900

Depreciation expenses new infrastructure	\$ 199,000
Employee expenses including super 10.5%	\$ 105,100
Green waste expenses	\$ 35,000

The following are items removed from the 2021-22 LTFP to maintain Council's financial position:

Reduce administration assistant hours by 40%	\$ 27,800
Remove Grant Officer position from operating budget	\$ 48,000
Remove contractor support from finance team	\$ 15,000
Reduce contributions to local organisations	\$ 6,000
Reduce FBT expense	\$ 10,000
Active transport plan – defer pending grant funding	\$ 40,000

The following income was budgeted in the 2021-22 LTFP and has been removed:

Financial Assistance Grant 2% increase	\$ 101,800
Dividend paid from water fund	\$ 60,000
Interest income	\$ 57,700

The following income was not budgeted in the 2021-22 LTFP and has been included:

Temporary transfer of water allocation	\$ 279,000
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### Impact on Ratepayers

Council has rate categories for Residential, Business and Farmland. The Residential and Business categories have sub-categories for the Narrandera Urban area.

The impact on ratepayers for each category and sub-category is set out below:

<b>Residential Ordinary</b>		% In category
Number of assessments	673	
Number of assessments at minimum rate	421	63
Average increase per assessment	\$25.25	
Average increase per instalment	\$6.31	
Assessments increasing < \$16.00	426	63
Assessments increasing \$16.00 to \$50.00	121	18
Assessments increasing \$50.00 to \$100.00	112	17
Assessments increasing > \$100.00	14	2

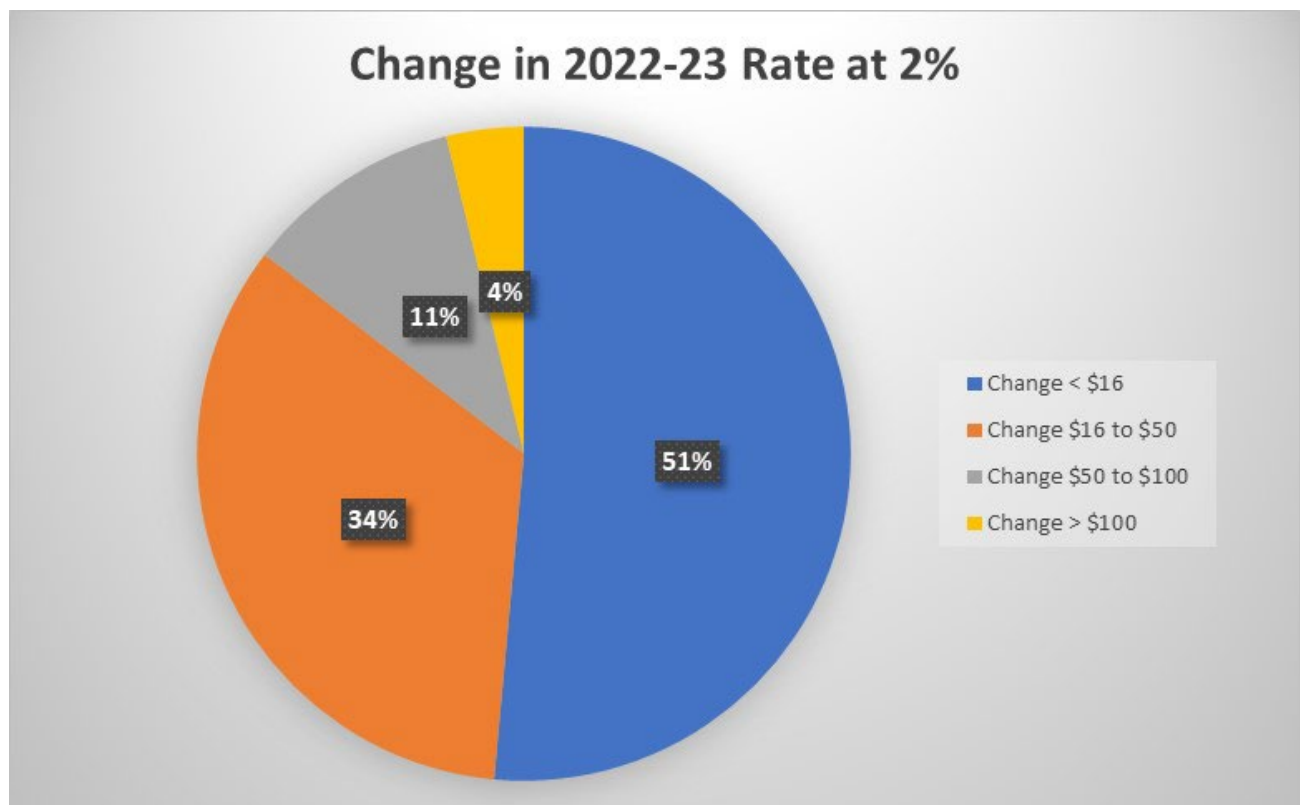
<b>Residential Narrandera</b>		% In category
Number of assessments	1740	
Number of assessments at minimum rate	382	22
Average increase per assessment	\$14.88	
Average increase per instalment	\$3.72	

Assessments increasing < \$16.00	1118	64
Assessments increasing \$16.00 to \$30.00	603	35
Assessments increasing > \$30.00	19	1

<b>Business Ordinary</b>		% In category
Number of assessments	152	
Number of assessments at minimum rate	93	61
Average increase per assessment	\$26.28	
Average increase per instalment	\$6.57	
Assessments increasing < \$16.00	102	67
Assessments increasing \$16.00 to \$50.00	<u>33</u>	22
Assessments increasing \$50.00 to \$100.00	10	7
Assessments increasing > \$100.00	7	4

<b>Business Narrandera</b>		% In category
Number of assessments	212	
Number of assessments at minimum rate	31	15
Average increase per assessment	\$26.93	
Average increase per instalment	\$6.73	
Assessments increasing < \$16.00	79	37
Assessments increasing \$16.00 to \$50.00	109	51
Assessments increasing \$50.00 to \$100.00	23	11
Assessments increasing > \$100.00	1	1

<b>Farmland</b>		% In category
Number of assessments	834	
Number of assessments at minimum rate	58	7
Average increase per assessment	\$62.05	
Average increase per instalment	\$15.51	
Assessments increasing < \$16.00	135	16
Assessments increasing \$16.00 to \$50.00	338	41
Assessments increasing \$50.00 to \$100.00	245	29
Assessments increasing > \$100.00	116	14



The tables and chart above allow Council to consider the impact on ratepayers across the Shire in each of the rate categories and sub-categories. Across the Shire, 51% of assessments will have a rate increase of less than (\$4) per instalment and 85% less than \$12.50 per instalment during 2022-23 should the special variation of 2% be approved.

A permanent variation will restore the rate base to the level projected in the 2021-22 LTFP meaning that the ongoing rate base for future years will be as provided in the 2021-22 LTFP.

Given the minimal increases disclosed in the tables above, it is considered that the impact of the special variation for ratepayers and the community for 2022-23 and future years is reasonable.

## **RELEVANCE TO COMMUNITY STRATEGIC PLAN AND OTHER STRATEGIES / MASTERPLANS / STUDIES**

### **Theme**

Our Civic Leadership

### **Strategy**

5.1 - To have a Council that demonstrates effective management consistently, also a Council that communicates and engages well with the community and works collaboratively

### **Action**

5.1.4 - Financial sustainability is critical with maximum rate revenue to be achieved and other income sources maximised

**ISSUES AND IMPLICATIONS****Policy**

- N/A

**Financial**

- A successful special variation to restore the rate cap to 2% as provided in the 2021-22 LTFP will provide additional rate revenue of \$67,600 in the 2022-23 financial year. A permanent variation will restore the rate base to the level provided in the 2021-22 LTFP as the basis for future years rating.

**Legal / Statutory**

- Application for a special variation will be lodged under Section 508(2) Local Government Act 1993

**Community Engagement / Communication**

- The proposed rate increase of 2% will be included in Council's 2022-23 LTFP and 2022-23 Revenue Policy which will be on exhibition for 28 days. Independent of Council, the IPART will publish applications to enable community consultation for a period of at least 21 days.

**Human Resources / Industrial Relations**

- Additional finance team resources will be required to complete the IPART variation application and process.

**RISKS**

The current IPART rate peg methodology will see Council exposed to a consistently inadequate rate peg in what appears to be an upcoming period of increasing inflation.

**OPTIONS**

1. Lodge a special variation for a permanent rate increase of 2%.
2. Lodge a special variation for a permanent increase of less than 2%.
3. Return the report to staff for review.

**CONCLUSION**

That Council makes an application to the IPART for a permanent rate variation of 2% in the 2022-23 financial year.

**RECOMMENDATION**

That Council:

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