

Penrith City Council Application for Additional Special Variation for 2022-23

In the 2021-22 Long Term Financial Plan, Penrith City Council had forecast a rates increase of a combined rate peg and growth factor of 3.1% for 2022-23.

In December Penrith City Council was notified that the rate peg and population factor for 2022-23 would be 1.4%. Whilst the rate peg announced for Penrith City Council was considerably lower than our expectations, Penrith City Council was not in a position to apply for a Special Variation (SV) under the usual process due to only having a newly elected Council from the delayed council elections, and we had not declared with our ratepayers any intention to apply for an SV in our strategic planning documents.

In March the Office of Local Government and IPART announced that due to the lower than forecast rate peg for NSW councils that they would accept additional special variation applications from councils for up to a 2.5% increase for 2022-23, under a condensed application process.

On reviewing the application form and fact sheets, Penrith City Council decided to submit an application for an SV under the Additional Special Variation process. Our application is for an additional 1.1% above our 1.4% rate peg (2.5% in total) and equates to around an additional \$1.6 million in funding in 2022-23, that will be used to help fund Council's Asset Management programs. We propose for the increase to remain permanently in the rates base.

If approved, Council believes that the impact to our community will be reasonable as our application will return our rates increases and our financial trajectory to that presented to our community in our long term plan presented in 2021-22.

Purpose of Special Variation

Penrith City Council is applying for an additional 1.1% increase above our 1.4% rate peg for a total of 2.5% increase for 2022-23. We are applying to have this increase be a permanent addition to the rates base under 508(2) of the NSW Local Government Act.

The purpose of our application is for the additional rates raised by the SV to be used to help fund our Asset Management Programs. If approved, the additional funding would deliver approximately \$1.57 million towards these management programs in 2022-23 and around \$8.3 million in total over the next five years (assuming a 2.5% rate peg from 2023-24):

	Additional Funding for Asset Management Programs (\$)
2022-23	1,573,000
2023-24	1,612,325
2024-25	1,652,633
2025-26	1,693,949
2026-27	1,736,298
Total over 5 years	8,268,205

Council has a significant asset portfolio, primarily consisting of roads, paths, bridges, community buildings, drainage, land, fleet, parks and sportsgrounds. Smaller asset categories include books, IT equipment and office furniture.

Council's assets are a critical part of what we do; we cannot deliver services to our community without them. Some of Council's assets provide a service in themselves, as is the case with roads, footpaths, drains and parks; others, like our fleet, are used to help provide a service. Different categories present different challenges in terms of maintenance, risks and life cycle management. All assets, however, are managed according to Council's overarching asset management policy. Council is responsible for managing its assets to deliver the level of service required by our community in a cost effective manner for present and future residents and customers.

The key elements of our asset management policy are:

- To ensure adequate provision is made for the long-term replacement of major assets by: ensuring that Council's services and infrastructure are provided in a sustainable manner, with the appropriate levels of service to residents and visitors.
- Safeguarding Council assets including physical assets and employees by implementing appropriate asset management strategies and appropriate financial resources for those assets
- Creating an environment where all Council employees take an integral part in overall management of Council assets by creating and sustaining an asset management awareness throughout the organisation by training and development
- Meeting legislative requirements for asset management
- Ensuring resources and operational capabilities are identified and responsibility for asset management is allocated
- Demonstrating transparent and responsible asset management processes that align with demonstrated best practice we are committed to monitoring how much our assets are used and what they are used for, to ensure we are buying the right assets and using them in the right way to get value for money.

Impact of SV on Ratepayers

Note about Council's changing rate structure: Council embarked on a changed rate structure from 2021-22 where a majority of properties were to increase by 4% per year over four years to fund a phased in discount to Rural Residential properties over the same four year period. Council plans to continue this rate structure change in 2022-23. What this means is that for the next three years a majority of properties will increase by 4% irrespective of whether or not the SV application is approved. The properties that will be impacted by an approved SV in the next three years would therefore be:

1. Properties on the Minimum Rate will increase by a higher amount under the SV
2. Rural properties will still receive a rates discount each year however the planned discount in 2022-23 will be lower under the SV.

Background about the changing rates structure and impact of the proposed SV: In 2021-22 Penrith City Council commenced a rate structure change to bring in a lower rate for rural property owners in residential areas to reflect the service costs and access differences between urban and rural areas. Prior to the commencement of the rate structure change, residential property owners in rural areas contributed around 15% of rates income but only represent 6% of properties, due to the ever increasing land values in those areas. Over a number of years Council faced mounting pressure from rural owners to do something about their rates increases, however due to limitations of the old legislation Council could not find a fairer way to alter the rates structure. Also, Council was previously directed by IPART in a previous Special Variation application process to try to find a fairer

structure for rural properties due to the level of representations IPART had received from rural owners during the community consultation process. With recent changes to the rating legislation Penrith City Council identified a plan for a new rating structure that would allow a lower rate for rural residential property owners

The plan for the rate structure change through the use of sub-categories for Residential properties was for a gradual decrease for rural residential property owners over four years via a gradual increase for other property owners over the same four years. The aim is for the rural Residential rate to be 30% lower than the General Residential rate by year 4.

For 2022-23 the plan for the second year of the 4 year phased in rural reduction is for a 4% increase for non-rural residential properties to offset the reduction to the rural owners. For these other properties the increase will be 4% whether or not the SV is approved so these property owners will pay a 4% increase in 2022-23 regardless.

The table below shows how the rates increases and decreases will differ between a 1.4% rate peg increase and a 2.5% SV increase for 2022-23 (if approved).

	Rates Increase/ Decrease under 1.4% Rate Peg with continuation of rural discount (%)	Rates Increase/ Decrease under 2.5% SV with continuation of rural discount (%)
Minimum Rates	1.4	2.5
Rural Residential Properties	-8	-2.5
All other urban properties (non-minimums)	4	4

The table below shows the impact on proposed rates for 2022-23 and the number of properties that will be impacted by a 2.5% SRV. In summary there will be 40,538 urban (non-minimum) properties (52% of properties) who will pay the same amount whether or not the SV application for a 2.5% increase is approved. The property owners who will be impacted by the change will be the 32,856 (42% of properties) properties on the minimum rate who will pay a 2.5% increase instead of a 1.4% increase. The other impacted properties will be the 4,671 rural residential properties (6% of properties) which will still receive a rates discount however it will be a smaller discount of 2.5% if the SV is approved, compared to an estimated 8% discount under a 1.4% rate peg increase:

Rate Category	Average Rates 2021-22 (\$)	1.4% Increase (with Rural Residential Discount continuing)		2.5% SV Increase (with Rural Residential Discount continuing)		Difference Between 1.4% Rate Peg and 2.5% SV (\$)	No. of Properties	% of Properties
		Average Rates 2022-23 (\$)	Average Rates Increase/Decrease (\$)	Average Rates 2022-23 (\$)	Average Rates Increase/Decrease (\$)			
Properties with rates increases the same under a 1.4% or 2.5% SV Increase								
Residential	1,389.42	1,444.48	55.06	1,444.48	55.06	-	38,152	
Farmland	10,338.87	10,752.41	413.54	10,752.41	413.54	-	313	
Business	13,344.97	13,878.69	533.72	13,878.69	533.72	-	1,762	
Business - Penrith CBD	12,136.50	12,621.60	485.10	12,621.60	485.10	-	254	
Business - St Marys Town Centre	5,423.48	5,640.20	216.72	5,640.20	216.72	-	57	
SUB TOTAL PROPERTIES							40,538	52
Properties with rates increases higher under a 1.4% than 2.5% SV Increase								
Residential (Minimum)	1,155.65	1,171.80	16.15	1,184.50	28.85	12.70	31,072	
Rural Residential (Minimum)	1,155.65	1,171.80	16.15	1,184.50	28.85	12.70	262	
Farmland (Minimum)	1,155.65	1,171.80	16.15	1,184.50	28.85	12.70	4	
Business (Minimum)	1,408.80	1,428.50	19.70	1,444.00	35.20	15.50	1,197	
Penrith CBD (Minimum)	1,408.80	1,428.50	19.70	1,444.00	35.20	15.50	150	
St Marys Town Centre (Minimum)	1,408.80	1,428.50	19.70	1,444.00	35.20	15.50	171	
SUB TOTAL PROPERTIES							32,856	42
Properties receiving rates discount but discount lower under a 2.5% SV compared to 1.4%								
Rural Residential	4,381.18	4,026.91	(354)	4,273.78	(107)	246.87*	4,671	
* Note that these properties will still receive a rates discount but the discount will be \$246.87 lower on average with a 2.5% SV								
SUB TOTAL PROPERTIES							4,671	6
TOTAL PROPERTIES							78,065	100

The table below shows the projected minimum rates for the next five years from 2021-22. Residential and Farmland properties on the minimum rate will pay an additional \$67 in total over five years if the SV is approved. Business properties on the minimum rate will pay an additional \$81 in total over five years if the SV is approved.

% Increase	Rate Category	Minimum Rates						Extra amount payable over next 5 years
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	
Rate Peg 1.4%	Residential, Rural	1,155.65	1,171.80	1,201.10	1,231.12	1,261.90	1,293.45	
SV 2.5%	Residential & Farmland	1,155.65	1,184.50	1,214.11	1,244.47	1,275.58	1,307.47	
Difference			12.70	13.02	13.34	13.68	14.02	66.76
Rate Peg 1.4%	Business, Business - Penrith CBD & Business - St Marys Town Centre	1,408.80	1,428.50	1,464.21	1,500.82	1,538.34	1,576.80	
SV 2.5%		1,408.80	1,444.00	1,480.10	1,517.10	1,555.03	1,593.91	
Difference			15.50	15.89	16.28	16.69	17.11	81.47

Conclusion

Penrith City Council is mindful of the economic pressures facing our community and take our financial responsibilities to our community seriously. Council itself has not been immune to these pressures either considering the challenges to our operations with the ongoing Covid-19 pandemic and recent floods.

We make this application believing that the community will benefit from the programs that will be funded by the moderate increases that will result should our application for this SV be approved.

We appreciate that the Office of Local Government and IPART have given Penrith City Council the opportunity to apply for this special variations at such a late stage.

Council resolution

Note: Council gave their verbal approval to apply for this special variation at an Internal Budget Briefing on Monday 4 April 2022. Penrith City Council did not have any Ordinary Meetings scheduled between the release of the application forms and the deadline for the application and were unable to secure a formal resolution prior to the application deadline.

The formal approval for an application to apply for the special variation will be publicly endorsed by Council at the Ordinary Meeting on Monday 2 May 2022 and Council will forward a copy of the formal resolution to IPART as soon as possible on Tuesday 3 May 2022 to complete the application.

Council Resolution (Draft) – to be adopted at Ordinary Meeting Monday 2 May 2022:

Resolution of Penrith City Council

Ordinary Council Meeting - Monday 2 May 2022

Outcome 7/Item 8/Recommendation 5:

In relation to the Business Report:**Exhibition of Draft Community Strategic Plan 2036, Draft 2022 Resource Strategy, Draft 2022-26 Delivery Program, Draft 2022-23 Operational plan and Draft 2022-23 Fees and Charges, Council resolved as follows:**

Recommendation 5: In relation to an application for a Special Rate Variation, Council resolves to (1) apply under the Additional Special Variation process for a special variation under section 508(2) of the Local Government Act 1993 (the Act) for 2022-23, and (2) that the application for a special variation be a permanent special variation under section 508(2) of the Act, and (3) that the additional income that the council will receive in 2022-23 if the special variation is approved is approximately \$1.6 million, and (4) that the additional funding is required to ensure that Council's Asset Management Programs remain funded and (5) that the council has considered the impact on ratepayers and the community in 2022-23 and future years if the special variation is approved, and considers that it is reasonable.