

ITEM NO. 5

**FILE NO: 22/82312
EDRMS NO: PSC2017-00180**

ADDITIONAL SPECIAL VARIATION APPLICATION 2022-2023

REPORT OF: TIM HAZELL - FINANCIAL SERVICES SECTION MANAGER
GROUP: CORPORATE SERVICES

RECOMMENDATION IS THAT COUNCIL:

- 1) Resolves to apply to the Independent Pricing and Regulatory Tribunal for a one-off Additional Special Variation (ASV) of 2.5% for the 2022-2023 financial year, and for this to be a permanent increase retained within the rate base.

**ORDINARY COUNCIL MEETING - 12 APRIL 2022
MOTION**

099	Councillor Chris Doohan Councillor Glen Dunkley It was resolved that Council apply to the Independent Pricing and Regulatory Tribunal for a one-off Additional Special Variation (ASV) of 2.5% for the 2022-2023 financial year, and for this to be a permanent increase retained within the rate base.
------------	---

Note: Council resolved at its meeting of 22 February 2022 to conduct a trial of recording a division on all items for a period 4 meetings.

Those for the Motion: Mayor Ryan Palmer, Crs Leah Anderson, Giacomo Arnott, Chris Doohan, Glen Dunkley, Peter Francis, Steve Tucker and Jason Wells.

Those against the Motion: Nil.

The motion was carried.

BACKGROUND

The purpose of this report is to seek approval to apply for a one-off Additional Special Variation (ASV) to the Independent Pricing and Regulatory Tribunal (IPART).

Council is subject to an annual rate pegging regime to be determined by IPART each year. For many years, local government authorities have argued that the methodology used by IPART was flawed and the rate pegging factor did not keep pace with the cost increases imposed on councils.

ITEM NO. 5

**FILE NO: 22/82312
EDRMS NO: PSC2017-00180**

ADDITIONAL SPECIAL VARIATION APPLICATION 2022-2023

REPORT OF: TIM HAZELL - FINANCIAL SERVICES SECTION MANAGER
GROUP: CORPORATE SERVICES

RECOMMENDATION IS THAT COUNCIL:

- 1) Resolves to apply to the Independent Pricing and Regulatory Tribunal for a one-off Additional Special Variation (ASV) of 2.5% for the 2022-2023 financial year, and for this to be a permanent increase retained within the rate base.

BACKGROUND

The purpose of this report is to seek approval to apply for a one-off Additional Special Variation (ASV) to the Independent Pricing and Regulatory Tribunal (IPART).

Council is subject to an annual rate pegging regime to be determined by IPART each year. For many years, local government authorities have argued that the methodology used by IPART was flawed and the rate pegging factor did not keep pace with the cost increases imposed on councils.

IPART instructs council's to assume a rate peg increase of 2.5% when preparing their Long Term Financial Plan (LTFP) and upcoming financial year budgets. On 13 December 2021, IPART announced the 2022-2023 rate peg of 0.7%, and Port Stephens Council was granted a new additional population growth factor of 0.6%. This total increase of 1.3% falls short of expectations, being 1.2% lower than anticipated. Such an announcement caused concern throughout the industry and Council made representations to various levels of government and to IPART directly.

On 7 March 2022, the Office of Local Government (OLG) issued a circular on IPART's announcement that they will accept a one-off additional round of 2022-2023 Special Variation Application under Section 508(2) of the Local Government Act 1993 (the Act).

The purpose of this one-off ASV round is that any council which can demonstrate that, in the absence of a special variation, it would not have sufficient funds to meet its obligations as identified in its 2021-2022 (LTFP), as and when they fall due in 2022-2023.

The percentage sought in the application will be the lower of either:

- 1) 2.5% (including population factor) or

2) The Council's assumed 2022-2023 rate peg as exhibited in its 2021-2022 LTFP.

Whilst official application forms are yet to be released, it is evident that this rate peg adjustment application process and guidelines are a simple, more targeted process in place of the standard guidelines established by the OLG.

ASV Guidelines

1. Demonstrable financial need for the 2022-2023 financial year.
2. Demonstrable financial need for the special variation to be retained in the rate base.
3. Council's 2021-2022 Integrated Planning & Reporting (IP&R) documentation budgeted for an income increase above the percentage specified for Council for 2022-2023 under section 506 of the Act.
4. Council resolution to apply for ASV clearly stating:
 - a) Temporary or permanent increase sought.
 - b) The additional income that Council will receive if the special variation is approved.
 - c) Why the special variation is required.
 - d) That Council has considered the impact on ratepayers and the community in 2022-2023 and, if permanent, it considers that the ongoing impact is reasonable.

Guideline 1 Response

Council, as part of the 2021-2022 IP&R Operational Plan, LTFP, and Budget cycle process identified that Councils projected result for 2022-2023 was a deficit of (\$364,670). The lower than expected rate peg of 1.3% will result in a larger deficit of \$923,406, this is without taking into consideration the current economic instability and the COVID-19 pandemic implications on the 2022-2023 result. A projected deficit result is a clear demonstration of the financial need for the additional income generated by the ASV.

Guideline 2 Response

Council's LTFP has, for several years, indicated that financial sustainability would be increasingly difficult to maintain, with the first critical year being 2021-2022. A lower than expected rate peg of 1.3% will have an accumulative impact on Councils rate base. Council's long term financial position has been further exasperated with the current economic instability due to the COVID-19 pandemic resulting in current and future expected increases to external and internal cost pressures, such as the current Consumer Price Index being reasonably predicted to be in excess of 3.5% per annum.

It is imperative that Council is able to access all available sources of funding and retain it in the rate base to be able to service the community needs as identified in the Community Strategic Plan (CSP), Delivery and Operational Plan (DP/OP), and the Strategic Asset Management Plan (SAMP).

Guideline 3 Response

Council as per IPART and the OLG’s instructions exhibited and adopted a LTFP in guidance with the IP&R documentation requirements, that included a rate peg increase of 2.5%, this was above the percentage of 1.3% specified for Port Stephens Council for the 2022-2023 determination under section 506 of the Act.

Guideline 4 Response

- a) Council is applying for a permanent increase.
- b) The additional income Council will receive if the application is approved would be approximately \$550,000.
- c) Council requires the special variation in order to have sufficient funds to meet its obligations as identified in its 2021-2022 (LTFP) as and when they fall due in 2022-2023 and to be able to deliver planned services for the community as identified in the Community Strategic Plan (CSP), Delivery and Operational Plan (DP/OP), and the Strategic Asset Management Plan (SAMP).
- d) Council has considered the impact of ratepayers and the community in 2022-2023 and the ongoing impact as it seeks the increase to be held in perpetuity. The impact of the ASV on the average rate per category is detailed in Table 2.

TABLE 2

2022-2023 Average Rates			
Rating Category	Sub-Category	1.3%	2.5%
Residential		\$1,136	\$1,149
Residential	Williamstown Primary	\$512	\$517
Residential	Williamstown Secondary	\$733	\$741
Residential	Williamstown Broader	\$896	\$907
Farmland		\$1,914	\$1,938
Farmland	Williamstown Primary	\$665	\$673
Farmland	Williamstown Secondary	\$1,104	\$1,117
Farmland	Williamstown Broader	\$1,359	\$1,376
Business		\$4,850	\$4,916

Assuming Council still wishes to support the reduced rating structure for Williamstown area. Council will follow its 2021-2022 IP&R documents and each rating category will be equally increased by the same percentage.

Whilst a small and appropriate increase is being sought, the rate increase will impact some ratepayers more than others. This is partially offset by the pensioner concession and rates relief, deferrals, and repayment arrangements included in Council’s Hardship Policy. Furthermore, Councils average residential rates are the lowest compared to other council’s in the OLG’s Category 5, and Councils outstanding rates ratio has continued to stay below both the OLG’s Metropolitan and Rural Benchmarks of 10% and 5% respectively, during the past 2 years.

COMMUNITY STRATEGIC PLAN

Strategic Direction	Delivery Program 2018-2022
Financial Management	Maintain strong financial sustainability.

FINANCIAL/RESOURCE IMPLICATIONS

The costs for Council to apply have been absorbed by Council’s operational budget.

Source of Funds	Yes/No	Funding (\$)	Comment
Existing budget	Yes		
Reserve Funds	No		
Developer Contributions (\$7.11)	No		
External Grants	No		
Other	No		

LEGAL, POLICY AND RISK IMPLICATIONS

Under the Local Government Act 1993, Councils may apply to IPART for a Special Rate Variation under s508 (2) of the Act. IPART will assess these applications against criteria laid out in the Office of Local Government Council Circular 22-03 Guidelines for Additional Special Variation (ASV) Process for 2022-2023.

Risk	<u>Risk Ranking</u>	Proposed Treatments	Within Existing Resources?
There is a risk that by not proceeding with this one-off ASV application and accepting the lower rate peg amount of 1.3%, Council would not have sufficient funds to meet its obligations as identified in its 2021-2022 (LTFP) as and when they fall due in 2022-2023.	High	Adopt the recommendation.	Yes

ORDINARY COUNCIL - 12 APRIL 2022

There is a risk that proceeding with an ASV application could be poorly received by the community.	Medium	Council has publicly exhibited and gained public submissions on the 2021-2022 IP&R documents including the rate peg of 2.5%. Council would clearly articulate 2 scenarios based on 1.3% and 2.5% rate increases in the upcoming 2022-2023 IP&R public exhibition phase.	Yes
--	--------	---	-----

SUSTAINABILITY IMPLICATIONS

Includes Social, Economic and Environmental Implications

The sustainability implications need to be carefully considered as part of the ASV application. A decision not to apply for the ASV would be of significant detriment to the financial sustainability of Council. The negative impact would be cumulative on Councils ability to fund and meet current and future community demands, as the additional income from this application is only accessible in this one-off ASV process. The cumulative loss, should Council not elect to proceed with the ASV application, would be unrecoverable.

CONSULTATION

Consultation with key stakeholders has been undertaken by the Financial Services Section.

Internal

- Executive Team.
- IP&R Project Control Group.
- Council staff in appropriate business units.
- Mayor and Councillors.

External

- The 2021-2022 IP&R documents were adopted by Council following a 28 day public exhibition period.
- IPART will conduct a 3 week engagement period.
- Through the 2022-2023 IP&R public exhibition process, Council will publicly exhibit the 2 rate increase scenarios, 1.3% and 2.5% within the Long Term Financial Plan for 28 days. Context of the 2 different scenarios will be given in the Operational Plan and Delivery Program.

OPTIONS

- 1) Accept the recommendation.
- 2) Amend the recommendation.
- 3) Reject the recommendation.

ATTACHMENTS

Nil.

COUNCILLORS ROOM

Nil.

TABLED DOCUMENTS

Nil.