

Corporate Services

***ADDITIONAL SPECIAL VARIATION (ASV) PROCESS FOR
2022-2023***

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PURPOSE

To obtain approval from Council to review the criteria and submit an Additional Special Variation (ASV) for Council's general rate income for the 2022/2023 financial year.

RECOMMENDATION

That Council under section 508(2) of the Local Government Act 1993 resolves to apply for an Additional Special Variation. The criteria of this variation will be:

-) Apply an additional rate peg of 1.3% to IPARTs recommended rate peg of 0.70% resulting in Council rate peg to increase to 2.0%
-) Additional rate peg to be a permanent single year variation
-) Additional revenue generated from the rate peg increase will be \$151,563.
-) Additional rate peg is required to continue to deliver satisfactory services to the community
-) Council has considered the impact on ratepayers and the community both in the 2022/2023 and the future years and it is considered that it is reasonable.

BACKGROUND

The Independent Pricing and Regulatory Tribunal (IPART) undertook a review of the rate peg methodology for Council's general rating income with the inclusion of population growth into the matrix.

The timeline for the process was:

-) December 2020 Term of Reference completed
-) 25 March 2021 – Issues Paper published
-) 3 May 2021 – Submissions Closed from consultation
-) 29 June 2021 – Draft Report issued
-) 20 July 2021 – Online Public Hearing
-) 10 September 2021 – Final Report delivered to the Minister
-) 5 October 2021 – Final Report issued

Council provided a submission on-line within this timeline.

Resulting from the methodology within the report IPART issued late in the 2021 year the rate peg for Council's 2022/2023 year, which was included in a table due to the varying rate peg % for each Council that spanned between 0.70% and 5.0%.

For information purposes a Fact Sheet and Final Report produced by IPART on the review of the rate peg is included with this report.

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REPORT/PROPOSAL

The Office of Local Government informed councils of their recommended rate peg percentage which indicated that based on the Upper Hunter Shire Council's profile and population growth it appears that only the minimum rate peg level of 0.70% was recommended to apply to Council's notional general rate revenue for the 2022/2023.

In comparison, the previous year's rate peg percentages have been:

)	2019/2020	2.7%
)	2020/2021	2.6%
)	2021/2022	2.0%

From the above it can be seen that there has been a notable decline over the three (3) year period, even before the current 2022/2023 year decline.

The financial effect on Council with this reduction from last year's IPART rate peg of 2.0% to the 2022/2023 rate peg of 0.70% is \$151,563.

Council does recognise the impost on ratepayers with the additional increase of 1.3% in the general rate, however this reduction does diminish Council's ability to delivery services to the community.

To provide some context around the financial impact on ratepayers the examples of the monetary effect to ratepayers using an average land value for the Council's primary rating categories is as follows:

Score Residential Property

Land Value	200,000
General Rate calculation @	
IPART 0.70% increase	1,700
Proposed ASV 2.0% increase	1,723
Variation Increase	23

Farmland

Land Value	1,500,000
General Rate calculation @	
IPART 0.70% increase	6,115
Proposed ASV 2.0% increase	6,195
Variation Increase	80

The Office of Local Government 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 applications within the normal timeframe.

This may result in some councils not having sufficient funds to pay for required infrastructure and services.

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-) As such the NSW Government and IPART have agreed to a one-off ASV 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.
-) This one-off ASV round 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.
-) 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.

What this will mean for Council is:

-) The ASV guidelines are set by the Office of Local Government where council is applying for:
 - o a temporary or permanent single year special variation for 2022-23 under section 508(2) of the *Local Government Act 1993* (the Act),AND
 - o 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 Councils will need to demonstrate that:
 - o 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
 - o 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
 - o Council's 2021-22 IP&R documentation budgeted for an income increase above the percentage specified for the council for 2022-23 under section 506 of the Act; and
 - o 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

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- 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 the resolution to apply for a ASV meets the requirements outlined above.

Due to Council's limited revenue streams the application for the ASV is recommended to assist in delivering infrastructure and services to the community.

OPTIONS

1. Resolve to make application for an Additional Special Rate variation to increase the IPART recommended rate peg from 0.70% to 2.0%
2. Resolve to not make application for an Additional Special Rate variation to increase the IPART recommended rate peg from 0.70% to 2.0% leaving the rate peg at the IPART recommended level of 0.70%

CONSULTATION

-) General manager
-) Director Corporate Services
-) Manager Finance

STRATEGIC LINKS

a. Community Strategic Plan 2032

This report links to the Community Strategic Plan 2032 as follows:

ECONOMY & INFRASTRUCTURE

- Goal 6 Increase, enhance and maintain civil infrastructure, Community assets and open spaces to meet the needs of current and future generations
- Goal 7 Enhance and improve the road network and bridges to meet the needs of current and future generations and communicate priorities and progress to Increase, enhance and maintain civil infrastructure, Community assets and open spaces to meet the needs of current and future generations.

LEADERSHIP

- Goal 8 Provide Community Leadership
- CS37 Ensure long-term financial sustainability through short, medium and long term planning.

We are working to achieve the following Community Priorities:

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Well maintained, safe, reliable and additional infrastructure, including sporting fields, parks, family and cultural facilities.



Upper Hunter Shire Council demonstrates it is Fit for the Future and can meet all State Government indicators for financial stability.



Upper Hunter Shire has improved and well maintained roads and bridges.



Reliable and safe water supply.

b. Delivery Program

The “Financial Services” activity includes:

-) Ensure “Fit for the Future” benchmarks and any improvement program instigated is maintained for Council’s financial sustainability.

The full overall Delivery Program is reliant upon generating funds to assist in the delivery of required infrastructure and services to the community

c. Other Plans

N/A

IMPLICATIONS

a. Policy and Procedural Implications

N/A

b. Financial Implications

With the IPART recommended rate peg of 0.70% being below what Council had anticipated, being last year’s rate peg of 2.0%, there has been a reduction in Council’s general rating revenue of \$151,563 resulting in a deficit budget for the 2022/2023 year.

Given this reduction to the IPART recommended rate peg, which is considerably below that of the 2.0% employment award rise and the CPI % running between 2.5% to 3.0% for the current year, Council has struggled to deliver a budget that meets the needs of the Community even without this further decline in revenue.

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c. Legislative Implications

Under section 508(2) of the Local Government Act 1993 Council may resolve to apply for a special rate variation.

d. Risk Implications

N/A

e. Sustainability Implications

N/A

f. Other Implications

N/A

CONCLUSION

It is recommended that Council make an application under section 508(2) of the Local Government Act 1993 for an additional special rate variation of 1.3% which increases the IPART recommended rate of 0.70% to 2.0%.

It is also recommended that this additional special rate variation be made permanent as reverting back to the IPART recommended rate peg will have a continued ongoing financial effect on Council's ability to deliver infrastructure and services to the community.

ATTACHMENTS

- 1 IPART Fact Sheet - modelling review of the rate peg to include population growth
- 2 IPART Final Report - Review of the rate peg to include population growth