

8.5. Proposed Additional Special Rate Variation for 2022/23

AUTHOR: Jenny Gleeson, Manager Corporate Planning & Engagement
Christian Menday, Manager Financial Services

ENDORSED BY: Margaret Palmer, Director Corporate Services

ATTACHMENTS: Nil

PURPOSE:

The purpose of this report is for Council to determine whether it will apply to the Independent Pricing and Regulatory Tribunal (IPART) for a one off, permanent Additional Special Variation (ASV) under section 508(2) of the *Local Government Act 1993*.

EXECUTIVE SUMMARY:

On 15 December 2021, IPART set the 2022/23 rate peg at a baseline of 0.7% plus the new population factor. This is the lowest rate peg cap in 20 years and less than half the second lowest cap of 1.5% allowed in 2017/18.

The permissible rate increase in 2022/23 for the North Sydney Council area is 0.9%, including the population factor. This is 1.1% lower than forecast in Council's adopted amended Long Term Financial Plan (LTFP), which has been modelled at 2% from 2022/23 onwards in accordance with prior advice provided to NSW councils by IPART.

On 10 March 2022, in response to sector lobbying, the Office of Local Government (OLG) issued *Circular 22-03* advising that councils could apply to IPART for a one off ASV, available for the 2022/23 financial year. ASVs are open to councils that can demonstrate the need for a special variation to meet the obligations set for 2022/23 in their 2021/22 Integrated Planning and Reporting (IP&R) documentation. North Sydney Council meets this criterion, as outlined in the Financial Implications section of this report.

OLG has advised that the ASV application process is a simpler, more targeted application process than a 'regular' special variation. IPART does not require councils to demonstrate community consultation outside of the IP&R process. ASV applications close on 29 April 2022.

IPART will publish all ASV applications received on its website enabling community consultation (i.e. submissions) for a period of at least three weeks. Councils will be notified whether their application is successful no later than 21 June 2022.

On 7 April 2022, OLG issued *Circular 22-07* (superseding *Circular 22-03*). Councils will need to demonstrate they budgeted for rates increases at a percentage above that of the announced peg. For a permanent increase councils will need to demonstrate they forecast an average

Operating Performance Ratio of less than 2% over five years. North Sydney Council meets both the criteria.

This proposal was discussed at Councillor Briefings held on 21 March 2022 and 12 April 2022.

FINANCIAL IMPLICATIONS:

The proposed ASV increase of 2% (including the rate peg) would raise approximately \$607,000 more than 0.9% rate peg as outlined in the following table:

Comparison of Rates Income Under 0.9% and 2.0% Scenarios				
	2021/22	2022/23 Income @0.9%	2022/23 Income @2.0%	ASV Increase
Ordinary Rates	50,450,000	50,904,050	51,459,000	554,950
Environmental Levy	2,210,000	2,229,890	2,254,200	24,310
Infrastructure Levy	2,480,000	2,502,320	2,529,600	27,280
Total	55,140,000	55,636,260	56,242,800	606,540

RECOMMENDATION:

1.THAT the Council resolves to apply for a permanent additional special variation under section 508(2) of the *Local Government Act 1993*, generating approximately \$607,000 additional rates income.

2.THAT the Council resolves the additional rates income is required to maintain Council's financial sustainability, service levels, asset renewal and financial sustainability commitments as identified in the Councils 2021/22 IP&R documentation.

3.THAT the Council has considered the impact on ratepayer and the community in 2022/23 and future years and considers that it is reasonable.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

2. Our Built Infrastructure

2.1 Infrastructure and assets meet community needs

5. Our Civic Leadership

5.1 Council leads the strategic direction of North Sydney

BACKGROUND

Current LTFP

In accordance with the IP&R Guidelines, Council's LTFP has been updated each year in conjunction with preparation of the annual Operational Plan & Budget. Prior to adoption the plan is publicly exhibited. The most recent amendment to the Long Term Financial Plan 2018/19 – 2027/2028 was adopted by the Council at its meeting of 26 July 2021. The public exhibition period was 26 May to 22 June 2021

LTFP Modelling

OLG *Circular 17-35* (November 2017) advised that councils should assume the rate peg at 2.5% for 2019/20 and future years. OLG and IPART continued to advise this 2.5% assumption until December 2020, when IPART advised councils applying for a special variation in 2021/22 to assume a rate peg of 2.0% for 2022/23 and future years.

Accordingly, the LTFP was originally modelled at 2.5% and retained that assumption until the 2021/22 update when the forecast assumption from 2022/23 onwards was reduced to 2%.

Subsequently, in December 2021, IPART advised councils applying for a special variation in 2022/23 to assume a rate peg of 2.5% for 2023/24 and in future years.

CONSULTATION REQUIREMENTS

Community engagement is not required (at this stage). Should the Council resolve to apply for an ASV, in addition to the engagement outlined above, our community will be informed via the public exhibition of the draft LTFP 2022/23-2031/32 (within the draft Resourcing Strategy) and draft new Delivery Program/Operational Plan. Public exhibition of the draft plans is scheduled to occur in May/June 2022; and the final LTFP and Delivery Program/Operational Plan (post exhibition) be reported to the June 2022 Council meeting. In accordance with legislative requirements, councils must adopt their new suite of IP&R plans by 30 June 2022.

DETAIL

Lowest Rate Cap in 20 Years

In 2020, in response to recommendations from the NSW Productivity Commission, it was announced that the methodology for determining the annual 'rate peg' (also known as rate cap, the annual permissible amount by which NSW councils can increase their general rates) would be adjusted to incorporate a 'population factor' for councils experiencing population growth. Following sector consultation in October 2021, IPART announced how this would be calculated according to the formula:

Rate peg = change in LGCI - productivity factor + other adjustments + population factor

IPART's rate peg calculations are backward looking; that is they refer to cost movements in the previous year.

In December 2021, IPART announced the 2022/23 rate peg at a baseline of 0.7% plus population factor. This is the lowest rate peg in 20 years and less than half the second lowest cap of 1.5% allowed in 2017/18.

Local Government NSW said the baseline rate cap was a devastating blow to councils already struggling to recover from droughts, bushfires, floods and the COVID pandemic.

IPART has applied the public service wage increase of 1.2% instead of the 2% guaranteed to council workers for 2022 under the Award. Additionally, Council has modelled inflation at 3% in accordance with the Australian Bureau of Statistics December Quarter Sydney All Groups CPI.

ASV Application Process

The ASV Guidelines apply where a 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 LTFP (including population factor). North Sydney Council meets this criterion.

Applying councils must demonstrate that:

- the 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;
- the 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, which for North Sydney Council is 2%;
- the 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 the 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 is a simpler more targeted application process than a ‘regular’ SRV. As noted above, IPART does 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.

ASV applications close on 29 April 2022. IPART will publish applications on its website to enable community consultation (i.e. submissions) for a period of at least three weeks; and IPART will notify councils whether their application is successful no later than 21 June 2022.

Rationale for ASV

As noted in the background to this report above, if only the 0.9% rate peg (plus population factor) is applied then Council will not have sufficient funds to meet its obligations in 2022/23, as identified in its 2021/22 LTFP. Furthermore, Council’s original LTFP was modelled on a special variation of five years duration, however IPART’s partial approval (of three not five years) has meant that Council has not been able to raise sufficient revenue to undertake the full program of works as was consulted on with the community.

The proposed ASV increase of 2% (including the rate peg) would raise approximately \$607,000 more than 0.9% rate peg. These extra funds will be applied to delivering commitments identified in the 2021/22 revision of the LTFP; maintaining financial sustainability, service levels and asset renewals. The following table compares expected increases in operating expenditure to the increased rates income in the two scenarios.

Comparison of Expected FY 2022/23 Cost Increases to Additional Rates Income	\$
Increased Employee Costs @ 2% Award Increase	940,000
Increase Materials and Services Costs @ 3%	1,453,000
Increased Employee and Materials Costs	2,393,000
Additional Rates Income @ 0.9% cap	496,260
Additional Rates Income @ 2.0% ASV	1,102,800
Increased Rates Income	1,599,060
Shortfall	793,940

The impact on ratepayers and the community in 2022/23 and beyond is considered reasonable, in context of the transparency of amendments to Council’s LTFP having been

publicly exhibited each year in conjunction with the draft Operational Plan & Budget, at which time the indicative future rate peg was stated as per OLG/IPART advice at the time.

As part of a its previous Special Rate Variation Application, Council assessed the community's capacity to pay and engaged in consultation based on 7% rate increase for five years commencing 2019/20. That is 7% increases per-annum until 2023/24. IPART issued a part approval for 7% over 3 years. That application noted that the North Sydney LGA:

- has average rates across all rating categories that are lower than most neighbouring councils and most councils within its OLG Group,
- has a high Socio-Economic Indexes for Areas (SEFIA) ranking within Australia, and
- had an outstanding rates and charges ratio has been consistently below the 5% industry benchmark.

In its decision IPART noted that North Sydney Council's Rates to income ratio (0.6%) was lower than neighbouring councils and lower than the OLG Group 3 average (1.0%). IPART also noted that according to the 2023/24 projections contained in the application:

- residential rate (\$1,097) would be \$86 (7.3%) lower than the estimated average residential rate for Group 3 councils (\$1,183); and
- business rate (\$6,691) would be \$838 (11.1%) lower than the estimated average business rate for Group 3 councils (7,529).