

5.8 IPART RATE PEG DETERMINATION 2022-23**Author:** General Manager**Authoriser:** General Manager**Attachments:**

1. **IPART Rate Peg Determination 2022-2023 (under separate cover)**
2. **IPART 2022-23 Special Rate Variation Information (under separate cover)**

SUMMARY / PURPOSE

This report is to provide Council with information relating to the recent determination by IPART of the Rate Peg for the 2022-23 financial year and the options available to Council in response.

RECOMMENDATION

That Council:

1. Receives and notes the report on the IPART Rate Peg determination for 2022-23;
2. Authorises the application for a Special Rate Variation to provide for the 2.5% increase in General Rates Revenue assumed in the revised Long term Financial Plan included in the Kyogle Council Operational Plan 2021/2022 and Delivery Program 2021/2025.

BACKGROUND INFORMATION

IPART has sent a wave of shock and outrage through local government with the announcement of a rate peg determination of 0.7% for 2022-23. This is the lowest increase in the rate peg in 20 years and is less than half of the 1.5% peg in 2017-18. The peg is far below reasonable expectations, particularly with IPART publishing a recommendation for councils applying for Special Rate Variations to assume a rate peg of 2.5% for 2022-23 and beyond, but then delivering what, by their own admission, they know is an insufficient increase for 2022/23. This is due to the limitations of the model they use to account for the current global economic downturn, and the additional expenditure needed to deliver the economic stimulus currently being implemented as part of the government led recovery.

The low increase has resulted from a number of factors including:

- IPART's continued failure to recognise real wage cost increases, as represented by the Local Government Award increases;
- Abnormally low increases in the LGCI during 2020-21 as a result of the Covid-induced slump in economic activity in Australia and globally;
- The excessive lag in the figures used to develop the LGCI each year upon which the peg is based.

2020-21 was an aberration and the 2020-21 cost data does not provide a reliable basis for determining the peg for 2022-23. There is already evidence of a significant uptick in inflation during the first six months of 2021-22, most noticeably fuel costs have nearly doubled and building and construction materials are rapidly escalating as the result of increased activity and major shortages. It is certain that Council will face much higher costs across the board in 2022-23.

For Kyogle Council this decision means a loss of **\$136k** from next year's budget, and a reduction in total income of **\$2.13 million** over the 12 years remaining in the Long Term Financial Plan (LTFP), due to the compounding effect of the loss of the income from next year. This potentially puts jobs and services at risk, and even the economic stimulus projects and programs supported by other levels of government, such as the Fixing Country Bridges Program, for which Council has had to borrow in order to fund its share.

The timing around this announcement is of major concern, coming at a time after the polls had closed, but before there was a Council in place, and with the published deadline for Council notifying of its intent to apply for a Special Variation already in the past (26 November, 2021). The final date for applications to be lodged is 7 February, 2022.

There could be an alternative option for Council to address this revenue shortfall through the amendments to S495 of the Local Government Act that will introduce Special Rates for Intergovernmental Projects, which would allow for revenue to be raised to support the Council contribution towards programs and projects jointly funded with other tiers of government, such as the Fixing Country Bridges Program mentioned above. Unfortunately, these changes that were included in the Local Government Amendment Bill 2021 are yet to be proclaimed, and as such, are not yet available despite passing through parliament back in May 2021.

While the Minister has delegated authority to IPART to set the rate peg each year, the Minister also has powers under the Local Government Act 1993 to issue a Ministerial Order specifying the percentage by which councils' general income may be varied. As such, it is still possible for the Minister to intervene and make her own determination/s in relation to the 2022-23 rate peg. However, it is prudent that Council be given an opportunity to consider this situation and the impact on the LTFFP, at its earliest convenience, in case there is no intervention from the Minister.

PREVIOUS COUNCIL CONSIDERATION

Council adopted its Long term Financial Plan 2021/2034 in June 2020. This plan included an assumed rate peg for 2020/21 of 2.6% and then 2.3% each year after that. Council adopted the Operational Plan 2021/2022 and Delivery Program 2021/2025 in June 2021, and this included the revised LTFFP with the IPART rate peg of 2.0% for 2021/2022 and 2.5% each year after that based on IPARTS own recommendations at the time.

BUDGET AND FINANCIAL IMPLICATIONS

The application of the 0.7% rate peg in 2022/23 would result in a reduction in income in 2022/23 of **\$136,000**, and a reduction in total income of **\$2.13 million** over the 12 years remaining in the Long Term Financial Plan, due to the compounding effect of the loss of the income from next year. An impact of this magnitude has the potential to undermine the foundations for the current LTFFP and associated levels of service that Council provides to its communities.