

Lockhart Shire Council Additional Special Variation

20 June 2022

Our decision

Lockhart Shire Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.0% in 2022-23. The rate peg for Lockhart Shire Council in 2022-23 was set at 0.7%. The council budgeted for a 2022-23 increase of 2.5%.

We have assessed this application against the three criteria set by the Office of Local Government (OLG). We found that Lockhart Shire Council's ASV application fully met all assessment criteria.



We have approved Lockhart Shire Council's application for a permanent 2.0% ASV in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 2.0% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Lockhart Shire Council

	2022-23
Increase above the rate peg – permanent	1.3%
Rate peg	0.7%
Total increase	2.0%

Our decision means the council can increase income by 1.3% above the rate peg. We estimate this to be around \$0.03 million in additional income in 2022-23 which it can keep in its rate base going forward. This allows the council an extra \$0.2 million over the next 5 years. The impact on rates from this ASV may be different for individual ratepayers and across different ratepayer categories. The ASV represents an allowed increase in general permissible income, the council decides how it collects that income from ratepayers.

The ASV process

On 6 April 2022 the OLG announced guidelines for the Additional Special Variations (ASV) process for 2022-23 under [circular 22-07](#) (ASV guidelines). IPART has assessed applications from NSW councils for an ASV against the ASV guidelines.

The council planned for a 2.5% increase in income

Assessment criterion 1: *The application amount is not higher than the lesser of 2.5% or the council's assumed 2022-23 rate peg (including population factor) in its 2021-22 Integrated Planning and Reporting (IP&R) documentation.*

Lockhart Shire Council's 2017-18 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.5% which is higher than Lockhart Shire Council's ASV application for 2.0% in 2022-23. Lockhart Shire Council's most recent set of IP&R documents were adopted in 2017-18. As 2021-22 IP&R documents are not available, we have used the council's preceding documentation to assess this criterion.



The increase the council applied for is lower than the increase in income it budgeted in its planning documents.

Council supports the proposed increase in income

Assessment criterion 2: *The council must have made a resolution which clearly states:*

- *that the council has resolved to apply for the special variation under section 508(2) of the Local Government Act 1993 (the Act)*
- *whether the resolution is for a temporary or permanent special variation under section 508(2) of the Act*
- *the additional income that council will receive if the special variation is approved, and*
- *why the special variation is required*
- *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.*

Lockhart Shire Council resolved on 21 March 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$0.05 million of additional income in 2022-23.^a The council stated that the special variation is required to ensure that Lockhart Shire Council is financially sustainable and able to maintain the levels of service provided to the community. The council stated that it considered the impact on ratepayers and the community to be reasonable.



The council resolved to apply to increase its income by 1.3% above the rate peg or by \$0.05 million in 2022-23. It explained the reasons why the ASV is required, and the council considers the impact on ratepayers to be reasonable.

^a The council has estimated the amount of additional income it can collect, and this estimate may be different to the actual amount collected.

The council demonstrated financial need

Assessment criterion 3: *The council's 2021-22 IP&R documentation forecast an average Operating Performance Ratio (OPR) of 2.0% or lower over 2022-23 to 2026-27 or it has provided other evidence of need. For example, but not limited to that the council needs to maintain a higher OPR so it can meet its capital funding requirement*

The OLG describes the OPR as measuring how well local councils contain expenses within revenue.^b The OPR represents what portion of a council's revenue is remaining after expenses. A positive OPR represents a surplus in income and a negative OPR represents a shortfall in income.

Lockhart Shire Council's 2017-18 LTFP forecast an average OPR of 3.3% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

Table 2 Lockhart Shire Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	5.1%	4.1%	3.3%	2.5%	1.7%	3.3%

Lockhart Shire Council has proposed the use of an adjusted OPR for our assessment of financial need. We consider that it is reasonable to use an adjusted OPR for our assessment to take into consideration the particular situation of Lockhart Shire Council.

In its application Lockhart Shire Council noted that in its LTFP the Roads to Recovery (R2R) grant income is listed as operating income. It stated that this grant is required to be treated as operating income in its financial statements although the funds are used for capital expenditure. The council has excluded the R2R grant income from its adjusted financial forecasts, noting that the capital expenditure it funds is not included in its operating expenses and including one and not the other distorts the council's financial position.^c

The ASV guidelines state that a council needing to maintain a higher OPR in order to meet capital funding requirements is an example of how an applicant may demonstrate financial need despite a forecast average OPR of greater than 2.0%. The adjustments the council made to its financial forecasts quantify the surplus the council needs to maintain in order to fund its capital works program. It models the council's operating position after the impacts of this particular works program. The adjustment shows that it needs to maintain an OPR above 2.0% to adequately fund capital expenses. We consider it reasonable to assess this criterion using the council's adjusted forecasts that quantify this capital funding need and its impact on the OPR.

Using the adjusted OPR Lockhart Shire Council forecasts an average OPR of -3.4% over 2022-23 to 2026-27. An average OPR at or below 2.0% over the next 5 years demonstrates financial need.

^b NSW Auditor-General, *Report to Parliament | Report on Local Government 2018 | Appendix 9 – OLG's performance indicators from the audited financial statement – Descriptions*, February 2019, p 78.

^c These updated forecasts and the council's proposal to consider an adjusted OPR are available on IPART's website [here](#).

Table 3 Lockhart Shire Council's Adjusted OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	-1.8%	-2.8%	-3.4%	-4.3%	-5.0%	-3.4%



The council's application shows that, when considering updated forecasts, it has a forecast average OPR of below 2.0%. This demonstrates a financial need for the additional income.

Summary of submissions

Lockhart Shire Council's ASV application did not receive any submissions.