

Newcastle City Council Additional Special Variation

20 June 2022

Our decision

Newcastle City Council applied for a permanent Additional Special Variation (ASV) for a percentage increase in its general income of 2.5% in 2022-23. The rate peg for Newcastle City Council in 2022-23 was set at 1.2%. 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 Newcastle City Council's ASV application fully met all assessment criteria.



We have approved Newcastle City Council's application for a permanent 2.5% Additional Special Variation in 2022-23 (including the rate peg). Our decision means the council can increase its general income by 2.5% in 2022-23 and permanently keep this additional income in its rate base.

Table 1 Approved ASV – Newcastle City Council

	2022-23
Increase above the rate peg – permanent	1.3%
Rate peg	1.2%
Total increase	2.5%

Our decision means the council can increase its income by 1.3% above the rate peg. We estimate this to be around \$2.21 million in additional income in 2022-23 which can keep in its rate base going forward. This allows the council an extra \$11.6 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.*

Newcastle City Council's 2021-22 Long Term Financial Plan (LTFP) as part of its IP&R documentation budgeted a 2022-23 rate peg of 2.5% which matches Newcastle City Council's ASV application for 2.5% in 2022-23.



The increase the council applied for matches 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.*

Newcastle City Council resolved on 24 May 2022 to apply for a permanent special variation under section 508(2) of the Act. The council estimated it would receive around \$2.20 million of additional income in 2022-23.^a The council stated that the special variation is required to ensure that Newcastle City Council can recover from COVID-19 induced budget deficits in 2019 (\$3.6 million), 2020-21 (\$32.5 million) and 2021-22 (forecast \$13.5 million) while continuing to ensure adequate maintenance of critical community infrastructure. 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 \$2.20 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.

Newcastle City Council's 2021-22 LTFP forecast an average OPR of 2.3% over 2022-23 to 2026-27. This forecast is above the 2.0% threshold in the ASV guidelines.

Table 2 Newcastle City Council's OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	2.4%	2.6%	2.4%	2.0%	2.3%	2.3%

Newcastle City Council has proposed an adjusted OPR for our assessment of financial need. We consider that it is reasonable to use an adjusted OPR for our assessment because the adjusted OPR reflects changes in costs since the initial forecasts were made in 2021-22.

In its application it stated that the 2021-22 LTFP was prepared in the first half of 2021 when the Australian economy was in recession and did not factor in the revenue reductions that came from COVID-19 or cost increases from high inflation growth. The council stated that its 2021-22 LTFP forecasts are no longer an accurate outlook for the council's finances.

It has provided financial forecasts from its 2022-23 LTFP that is on exhibition from 28 April 2022 to 26 May 2022 before planned formal adoption in June 2022.^c We accept that these updated forecasts more accurately reflect the council's financial position and current economic conditions.

Using the adjusted financial forecasts Newcastle City Council forecasts an average OPR of 1.6% over 2022-23 to 2026-27. An average at or OPR below 2.0% over the next 5 years demonstrates financial need. We note that in some years of the forecast period the council's OPR will be at or above 2.0%. The ASV guidelines identify the average OPR over the next 5 years as the threshold we are to assess against. On average the council's OPR is 1.6%.

Table 3 Newcastle City Council's Adjusted OPR – 2022-23 to 2026-27

	2022-23	2023-24	2024-25	2025-26	2026-27	5-year average
OPR	1.6%	0.5%	1.3%	2.7%	1.8%	1.6%

^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](#).



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

Newcastle City Council's ASV application did not receive any submissions.