



Information paper – Special variations in 2023-24

29 September 2022

The Office of Local Government (OLG) publishes guidelines for councils preparing an application to increase general income by means of a special variation (SV) or minimum rate (MR) increase (the SV guidelines and the MR guidelines). A SV allows a council to increase its general income above the rate peg to provide the services and infrastructure desired by their communities. SVs can be either for a single year or over multiple years and can be permanent or temporary.

It is IPART's role to apply the criteria in these guidelines to assess that councils' applications for an SV or MR increase are required. The most recent guidelines were published in November 2020, and are available on [OLG's website](#) and [IPART's website](#). Councils should review the application part B available on IPART's website for further detail on how they can address the assessment criteria.

See IPART's Information Paper, [Minimum Rates in 2023-24](#) for further details on the application process for MR applications.

1 Our approach to assessment

This section highlights the areas of our approach that have been refined in recent years' assessments, and it also directs councils to examples of SV reports that provide further information. Refinements include:

- retention of qualitative ratings based on how well applications meet each of the criteria
- further guidance on the interaction of financial need and ratepayer willingness to pay
- consideration of whether the approval of an SV beyond 5 years is appropriate
- focus on productivity improvements.

1.1 Qualitative assessment ratings

In our assessment of 2019-20 SV applications, we introduced a qualitative rating system which provides councils and ratepayers with an indication of how well the council's application satisfied each of the five main criteria in the SV guidelines. We determine if the criterion is:

- demonstrated
- largely demonstrated
- partly demonstrated
- not demonstrated

We then make an overall assessment of the application, taking into consideration other relevant factors provided for in the SV guidelines. Factors include the size and resources of a council, and whether the council has complied with conditions attached to SVs approved by IPART in the past 5 years.

For examples of how we have applied this rating system, please refer to the SV determination reports published from 2019-20 onwards, which are available on our [website](#). We encourage councils to review our assessment of past applications when they are updating their Integrated Planning and Reporting (IP&R) documents, undertaking community consultation and preparing their applications. The assessment ratings system is designed, in part, to guide councils on the adequacy of past applications against each of the criteria.

1.2 Interaction of financial need and willingness to pay

Demonstrating financial need remains a key component of the SV application process. However, we recognise there are circumstances where a council may propose an SV to fund expenditure to meet the particular needs or preferences of its community, rather than needing the SV to fund core infrastructure or services.

It is important that any process carried out to demonstrate willingness to pay is comprehensive. This includes appropriately describing the context of proposed projects (i.e. funding breakdown and community demand) and that feedback is sought from a representative group of ratepayers who will fund the SV.

From past applications, examples included environmental programs, community sporting developments and town beautification projects. In such cases, we encourage councils to demonstrate ratepayer support through a willingness to pay study. We will examine the alignment of the council's proposed projects with the characteristics and conditions the council described to ratepayers when consulting with them on their willingness to pay for these types of projects.

For examples of past applications which included willingness to pay studies, please see the 2022-23 SV assessment report for Snowy Valleys Council or the 2019-20 SV assessment reports for Ku-ring-gai, Randwick and Port Stephens councils. Note that each SV will face different challenges in demonstrating willingness to pay.

1.3 SVs longer than 5 years

The LG Act allows for s508A SVs for up to 7 years. OLG's SV guidelines indicate a general expectation that SVs should be for up to 4 years (to align with a council's Delivery Program and avoid committing future councils to rate rises) but recognise in some circumstances a longer period may be appropriate.

IPART assesses each application on its merits and determines the period over which a multi-year increase will apply (up to the statutory maximum of 7 years). Where the council seeks an s508A SV applying for more than 5 years, we will take into account circumstances such as the magnitude of the impact on rate levels and how affordable the cumulative increase would be for the council's ratepayers. We also consider that longer term forecasts for expenditure and operating performance can be uncertain. If appropriate, we may limit approval of multi-year SV applications to a shorter period of time. In this case, the council can then consider whether to apply for a further SV to take effect after the shorter time period. For an example of this, please refer to the 2019-20 Dungog Shire Council SV assessment report.

1.4 Productivity improvements

Drawing on our experience in past years, we will be placing an emphasis on councils' applications demonstrating how they satisfy criterion 5: productivity improvements and cost containment strategies. To demonstrate that a council has met this criterion, it is not sufficient to list a series of cost-saving or revenue-raising initiatives.

IPART is looking for evidence of strategies and activities the council has adopted in the past, and robust data quantifying the efficiency gains achieved. When considering future productivity improvements and cost containment activities, we expect councils would be able to explain their strategy, estimate the financial impact of planned initiatives, and indicate whether the impact has been incorporated in the council's Long Term Financial Plan.

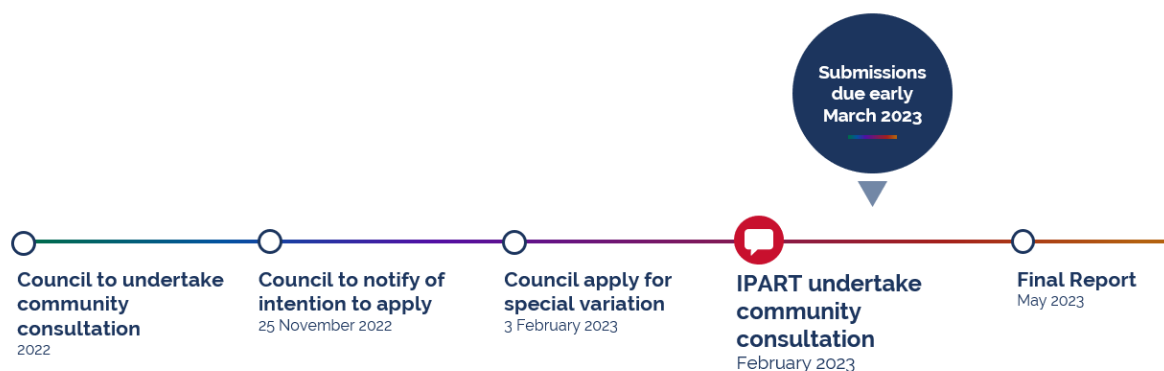
2 Process for SV applications

This section provides information about the application process for councils seeking an increase to general income under sections 508(2) or 508A of the LG Act for 2023-24.

All councils considering applying for an SV should contact IPART **as early as possible** to discuss their proposal, and what they need to do to be able to demonstrate they have satisfied the criteria in the SV guidelines.

Councils intending to submit an application under either s 508(2) or s 508A are urged to notify us of their intention to apply by Friday 25 November 2022. In the interests of transparency and good governance, it is preferable that the council has resolved to notify IPART that it intends to apply for an SV, but this is not a formal requirement. To notify your intentions and lodge your SV applications please use IPART's [Council Portal](#).

Timetable for SVs



2.1 Councils must submit their application by 3 February 2023

Councils are encouraged to submit their applications as early as possible. We will generally not accept late applications unless the council has received an extension.

2.1.1 Councils should adopt all relevant IP&R documents before applying

OLG's SV guidelines provide that councils must adopt the relevant IP&R documents before applying for an SV (section 2). It is expected that a council will hold an extraordinary general meeting if necessary to meet this requirement.

The SV guidelines allow IPART to consider and approve an SV other than on the basis of adopted IP&R documents if there are exceptional circumstances (SV guidelines, section 3.2). Councils should contact us as soon as possible if they have not adopted the relevant IP&R documents, but believe exceptional circumstances exist which warrant applying for an SV.

2.1.2 Council's must resolve to submit an application before applying

OLG's SV guidelines require the council to have resolved to apply for an SV. A copy of the council's resolution must be submitted with the application form. IPART will not commence an assessment of the application unless a copy of the resolution is provided.

It is expected that a council will hold an extraordinary general meeting if necessary to meet this requirement.

2.1.3 Revised application form Part B

To streamline the process, we have revised the SV application form Part B. The application form consists of questions for each criterion, tailored to our evidence-based assessment approach.

2.1.4 Submissions from ratepayers

IPART considers the main avenue for community consultation on proposed SVs is through the council's consultation on its proposed SV and the council's IP&R process.

We do not hold public hearings as part of our assessment of council applications. IPART will accept submissions from interested groups or individual ratepayers regarding SVs after councils have submitted their SV applications.

3 Assessment Criteria for special variation applications

The SV guidelines set out the criteria IPART will use to assess each application for an SV in 2023-24.

3.1 Criterion 1 – Need for the special variation

Criterion 1 in the SV guidelines is:

The need for, and purpose of, a different revenue path for the council's General Fund (as requested through the special variation) is clearly articulated and identified in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing need for the special variation, the relevant IP&R documents should canvass alternatives to the rate rise. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:

- Baseline scenario – General Fund revenue and expenditure forecasts which reflect the business-as-usual model, and exclude the special variation, and
- Special variation scenario – the result of implementing the special variation in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the special variation.

The IP&R documents and the council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/projects and limited council resourcing alternatives.

Evidence could also include the analysis of the council's financial sustainability conducted by Government agencies.

In assessing this criterion, IPART will also take into account whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act. If a council has a large amount of revenue yet to be caught up over the next several years, it should explain in its application how that impacts on its need for the special variation.

3.2 Criterion 2 – Community awareness and engagement

Criterion 2 in the SV guidelines is:

Evidence that the community is aware of the need for and extent of a rate rise. The Delivery Program and Long Term Financial Plan should clearly set out the extent of the General Fund rate rise under the special variation. In particular, councils need to communicate the full cumulative increase of the proposed special variation in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. Council should include an overview of its ongoing efficiency measures and briefly discuss its progress against these measures, in its explanation of the need for the proposed SV. Council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. The fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

3.3 Impact on ratepayers

Criterion 3 in the SV guidelines is:

The impact on affected ratepayers must be reasonable, having regard to both the current rate levels, existing ratepayer base and the proposed purpose of the variation. The council's Delivery Program and Long Term Financial Plan should:

- clearly show the impact of any rate rises upon the community
- demonstrate the council's consideration of the community's capacity and willingness to pay rates, and
- establish that the proposed rate increases are affordable having regard to the community's capacity to pay.

In assessing the impact, IPART may also consider:

- socio-Economic Indexes for Areas (SEIFA) data for the council area; and
- whether and to what extent a council has decided not to apply the full percentage increases available to it in one or more previous years under section 511 of the Local Government Act.

3.4 Exhibition of IP&R documents

Criterion 4 in the SV guidelines is:

The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. It is expected that councils will hold an extraordinary meeting if required to adopt the relevant IP&R documents before the deadline for special variation applications.

3.5 Productivity improvements and cost containment strategies

Criterion 5 in the SV guidelines is:

The IP&R documents or the council's application must explain and quantify the productivity improvements and cost containment strategies the council has realised in past years and plans to realise over the proposed special variation period.

Councils should present their productivity improvements and cost containment strategies in the context of ongoing efficiency measures and indicate if the estimated financial impact of the ongoing efficiency measures has been incorporated in the council's Long Term Financial Plan.

3.6 Other relevant matters

Criterion 6 in the SV guidelines is:

Any other matter that IPART considers relevant.

4 IPART's contact officer

Enquiries regarding this document should be directed to Edward Jenkins at Edward_jenkins@ipart.nsw.gov.au or at (02) 9113 7774. Further information can also be found on IPART's [website](#).