

Fact Sheet – Decisions on councils' requests for special variations for 2017-18

9 May 2017

WHAT

This fact sheet summarises IPART's decisions on council applications to increase rates by a special variation (SV) in 2017-18.

WHY

SVs may fund:

- ▼ improvements in the council's financial sustainability
- ▼ asset maintenance and renewal
- ▼ new or enhanced services to meet the needs of the local community
- ▼ projects of regional significance, and
- ▼ special cost pressures being faced by a council.

SVs may be temporary or permanent. Permanent variations remain in the rate base.

WHO

We received SV applications from eight councils:

- ▼ Ballina Shire
- ▼ Bellingen Shire
- ▼ Byron Shire
- ▼ Inverell Shire
- ▼ Lockhart Shire
- ▼ Muswellbrook Shire
- ▼ Port Macquarie-Hastings
- ▼ Shoalhaven City

We may also receive an additional SV application from MidCoast Council, following legislative changes passed by Parliament in March 2017.

DECISIONS

- ▼ The **2 single-year SV applications** were approved in full. These SV increases, for Port Macquarie-Hastings and Bellingen, are permanent.
- ▼ Of the **6 multi-year SV applications**:
 - 2 received approval in full – Byron and Inverell. These SV increases can be permanently retained in the rate base.
 - 2 received approval in part – Ballina and Shoalhaven. Both councils received a 1-year temporary increase in their rate base. Neither council updated its Integrated Planning & Reporting (IP&R) documents for their SV proposals. However, each council did demonstrate an immediate need for additional revenue.
 - 2 were not approved – Lockhart and Muswellbrook. These councils did not adequately communicate the full impact of the proposed SVs to their communities. In addition, Lockhart did not show it had a financial need for its proposed SV, while Muswellbrook did not meet the IP&R criterion.
 - Table 1 on page 2 summarises our decisions for the eight applications.

Table 1 Summary of SV decisions by IPART for 2017-18

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 1.5%)				Cumulative % rise (% rise above assumed rate peg)	SV purpose
		2017-18	2018-19	2019-20	2020-21		
Approved in full							
Bellingen Shire	508(2)	6.00				6.00 (4.50)	Fund a sealed roads resurfacing program, reduce the infrastructure backlog and improve financial sustainability.
Byron Shire	508A	7.50	7.50	7.50	7.50	33.55 (24.24)	Reduce the infrastructure backlog and improve financial sustainability
Inverell Shire	508A	6.25	7.25	7.25		22.21 (15.58)	Maintain and renew infrastructure, reduce the infrastructure backlog and improve financial sustainability.
Port Macquarie-Hastings	508(2)	5.39 ^a				5.39 (3.89)	Maintain and renew the council's road network, as well as reduce the infrastructure backlog.
Approved in-part							
Ballina Shire ^b temporary for 1-year	508(2)	4.90				4.90 (3.40)	Fund renewal of core infrastructure assets, Healthy Waterways program and improve financial sustainability.
Shoalhaven City ^c temporary for 1-year	508(2)	13.20				13.20 (11.70)	Fund new infrastructure investment, reduce the infrastructure backlog and improve financial sustainability.
Not approved							
Lockhart Shire ^d	-	-	-	-	-	-	Increase own source revenue and partly fund three projects: swimming pool refurbishments, flood mitigation measures, and road restoration works.
Muswellbrook Shire ^e	-	-	-	-	-	-	Finance three projects: a water park, a town centre upgrade and a convention centre.

a This SV replaces an SV granted in 2012-13 that was due to expire on 30 June 2017. As a result, the net increase to general income will be 1.50% in 2017-18, which is equal to the rate peg.

b Ballina Shire applied for 4.90% in 2017-18, and 5.90% in 2018-19 and 2019-20 (cumulative 17.64%), retained permanently in the rate base.

c Shoalhaven City applied for 13.20% in 2017-18 and 14.00% in 2018-19 (cumulative 29.05%), retained permanently in the rate base.

d Lockhart Shire applied for a 4.60% per annum increase for seven years (cumulative 37.00%), retained permanently in the rate base.

e Muswellbrook Shire applied for 4.00% in 2017-18, and 5.00% in 2018-19 to 2020-21 (cumulative 20.39%), retained permanently in the rate base.

1 Background

What is a Special Variation

An SV allows councils to increase general income, which mainly comprises income from rates, above the rate peg. The rate peg has been set by IPART at 1.5% for 2017-18.

The Local Government Act provides for two types of special variations:

- ▼ a single year percentage increase, under section 508(2), and
- ▼ successive annual percentage increases over a period of between two and seven years, under section 508A.

Applications for each of these may be either permanent (ie, the rates base stays at the higher level following the SV), or temporary (ie, the rates base returns to what it otherwise would have been without the SV).

How did IPART assess the applications?

We assessed applications against the criteria set out in OLG's [Guidelines for the preparation of an application for a special variation to general income for 2017/18](#) (the Guidelines). The criteria are set out in Box 1.

For further information see our [Fact Sheet – How IPART will assess applications for special variations for 2017-18](#).

All SV applications needed to demonstrate the need for the additional revenue, that the council engaged with and made the community aware of the proposed changes, and the council is making productivity improvements. The criteria emphasise the importance of the council's IP&R documents as a key method for consulting with its community on a proposed rate increase. We also considered whether the impact of the proposed increase on ratepayers is reasonable.

In addition, we considered submissions from ratepayers, community groups, and other stakeholders.

Box 1 Assessment criteria for special variations for 2017-18

1. 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 the need for the special variation, the relevant IP&R documents should canvas 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.

Evidence to establish this criterion could include evidence of community need or desire for service levels or projects, council generating operating deficits without the SV and limited funding alternatives for the council.

2. **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. The council's community engagement strategy for the special variation must demonstrate an appropriate variety of engagement methods to ensure community awareness and input occur. IPART's fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.
3. 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 Delivery Program and Long Term Financial Plan should:
 - ▼ clearly show the impact of any rate rises upon the community
 - ▼ include 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.
4. The **relevant IP&R documents must be publicly exhibited** (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income.
5. The IP&R documents or the council's application must explain the **productivity improvements and cost containment strategies** the council has realised in past years, and plans to realise over the proposed special variation period.