

Fact Sheet – How IPART will assess applications for special variations



28 November 2017



WHAT

This fact sheet provides guidance to councils that are considering applying for a special variation (SV) to their general income.

The criteria are set out in [guidelines](#) released by the Office of Local Government in November 2017.

Under these guidelines, **new councils created in 2016¹ are not permitted to apply for a special variation until at least the 2020-21 rating year.**

The criteria relate to:

- ▼ reasons for the proposed SV
- ▼ community awareness and engagement
- ▼ impact on ratepayers
- ▼ approval and public exhibition (where required) of Integrated Reporting and Planning (IP&R) documents, and
- ▼ cost savings – past and future.



WHY

A council can apply for an SV to fund:

- ▼ improvements in the council's financial sustainability
- ▼ reductions in backlogs for 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 the council.



HOW

The 2 types of SVs that a council may apply for under the *Local Government Act 1993* are:

- ▼ an increase in a single year, under section 508(2), or
- ▼ increases in each of 2 to 7 years, under section 508A.

Either type of SV may be temporary or it may be permanent.

If a council has developed its IP&R documents effectively, it should be able to demonstrate that it has extensively engaged with its community about:

- ▼ its financial position and projections
- ▼ the community's service delivery and expenditure priorities, and
- ▼ the community's capacity and willingness to pay higher rates.



WHEN

The timetable for the special variation application process is available on IPART's website.



WHAT NEXT

- ▼ **Step 1** – councils submit Part A and Part B of their SV applications via IPART's [Council Portal](#).
- ▼ **Step 2** – public submissions close regarding proposed SVs.
- ▼ **Step 3** – IPART publishes its determinations on all applications for SVs.

¹ Except Mid Coast Council

1 Purpose

This fact sheet provides guidance to NSW councils that are considering applying for an SV to their general income.

It discusses the information that IPART uses to assess whether applications by councils meet the criteria set by the Office of Local Government in its guidelines.

2 What is an SV?

An SV allows councils to increase general income above the rate peg. For most councils, general income consists of rates income. For a small number of councils, general income also includes some annual charges such as drainage levies.

The *Local Government Act 1993* (NSW) provides for two types of SVs:

- ▼ a single year percentage increase, under section 508(2)
- ▼ successive annual percentage increases over a period of between 2 and 7 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 is adjusted to match the rate peg path after the SV expires).

3 How does IPART assess SV applications?

We will assess each application in accordance with the Office of Local Government's guidelines.

Under these guidelines, **new councils created in 2016 are not permitted to apply for special variations until at least the 2020-21 rating year.**

Once we have completed our assessment, the application is either approved, approved in-part or rejected. We announce and publish the reasons including any conditions in a report, which we post on our website.

What are the criteria we use to assess applications?

The criteria that we will use to assess proposed SVs are set out in the guidelines and reproduced below (see Box 1).

Box 1 The guidelines' assessment criteria for applications

1. The **need for, and purpose of, a different revenue path** for the council's General Fund (as requested through the SV) is clearly articulated and identified in the council's Integrated Planning and Reporting (IP&R) documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing the need for the SV, 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 SV, and
- ▼ SV scenario - the result of implementing the SV in full is shown and reflected in the General Fund revenue forecast with the additional expenditure levels intended to be funded by the SV.

Evidence to establish this criterion could include evidence of community need or desire for service levels or projects and limited council resourcing alternatives. Evidence could also include the assessment of the council's financial sustainability conducted by the NSW Treasury Corporation.

- 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 SV. The council's community engagement strategy for the SV 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 SV.
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 an SV 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 SV period.

Criterion 1: Need for the SV

The council must demonstrate, supported by its IP&R documents, that the additional rate revenue is needed. This requires councils to provide evidence that includes:

- ▼ the community's need and/or desire for service levels or particular projects to be delivered by the council
- ▼ that the council has examined alternatives to a rate rise, and
- ▼ that the council has considered its current and projected financial sustainability.

Criterion 2: Community awareness and engagement

The *Fact Sheet – Community awareness and engagement for special variation applications* – is available on [IPART's website](#). It provides information on how councils can achieve adequate community awareness and engagement.

Criterion 3: Impact on ratepayers

We require councils to show us why they consider the impact on ratepayers to be reasonable. In making our assessment, we will also consider trends in a range of socioeconomic indicators, both within the council area and with other relevant council areas.

Criterion 4: IP&R documents publicly exhibited, approved and adopted by council

The relevant IP&R documents include the following documents that require public exhibition: the Community Strategic Plan, Delivery Program and Operational Plan. The IP&R suite also includes the Long Term Financial Plan, Workforce Plan and the Asset Management Plan.

Criterion 5: Productivity improvements and cost containment strategies

We will examine the evidence of productivity improvements and cost containment strategies. This includes cost savings made, and to be made over the life of the proposed SV, by the council. This may also include a review of service priorities, levels of service, labour and capital inputs, and organisational structures or services to be delivered.

We will also consider trends in various productivity indicators across time for the council and compare them to other relevant councils.

What information do councils provide to us?

Councils are to provide evidence that shows that they have met the criteria of assessment in the guidelines.

The council's application will be supported by the council's IP&R documents. The purpose and size of any proposed special variation and its resultant expenditure increases would be reflected in the Delivery Program and Long Term Financial Plan.

If a council has developed its IP&R documents effectively in consultation with its community, it should be in a position to demonstrate to us that it has extensively engaged with its community about:

- ▼ its financial position and projections
- ▼ the community's service delivery and expenditure priorities, and
- ▼ the community's capacity and willingness to pay higher rates.

Further information on the IP&R Framework may be found on the Office of Local Government's website.²

Councils should submit their completed IPART application forms, Part A and Part B, which are posted on our website. These forms indicate the type of information that should accompany applications so that we can assess the application. This includes information on:

- ▼ the rating structure
- ▼ the impact on rates of the proposed SV, and
- ▼ the council's track record on productivity improvements and cost containment strategies, and its plans for future gains in these areas.

The amount of information that councils are to provide under each criterion is a matter for the council to decide. The information provided should be sufficient to assist us in assessing the application against each criterion. In general, the information provided should be proportional to the size or complexity of the SV being requested.

4 Can residents and ratepayers make submissions directly to us?

The avenue for community consultation is through each council's IP&R process and the council's consultation on the proposed SV.

IPART does not hold public hearings as part of our assessment of council applications. Nor do we solicit public submissions. However, some members of the community may wish to also make a submission to IPART. We will accept and consider all submissions from interested groups or individual ratepayers regarding SVs up until four weeks after the application deadline.

We will accept submissions using our electronic submission facility that is located on the council applications page of [IPART's website](#). In regard to proposed SVs, we will accept submissions until the date indicated on our website.

Members of the community and industry stakeholders may indicate in writing at the time of their submission that they prefer it or any part of it to be treated as confidential.

We intend to post all non-confidential public submissions on our website once the submission due date has closed. We generally remove email addresses, postal addresses and telephone numbers before publishing submissions.

² Refer to *Integrated Planning and Reporting Guidelines for local government in NSW* and *Integrated Planning and Reporting Manual for local government in NSW*.

Submissions may also be emailed to localgovernment@ipart.nsw.gov.au or posted to:

Local Government Team
Independent Pricing and Regulatory Tribunal of NSW
PO Box K35
Haymarket Post Shop NSW 1240

5 What are the steps for councils that are considering applying?

- ▼ **Step 1** – download the guidelines and application forms (Parts A and B) from [IPART's website](#).
- ▼ **Step 2** – ensure that the council has addressed the criteria in the guidelines.
- ▼ **Step 3** – complete the application forms (Parts A and B) and submit these and any supporting material via IPART's [Council Portal](#). This can be done progressively and saved on the Portal. Completed applications for SVs must be submitted by the due date indicated on our website.