

## 1 Purpose

This Information Paper provides guidance to councils about IPART's approach to assessing the criteria relating to community consultation, and how to consult with their communities about proposed special variation (SV) and minimum rate (MR) increases. It also outlines how a council should report its community awareness and engagement processes to demonstrate performance against the criteria.

Criterion 2 in the *Guidelines for the preparation of an application for a special variation to general income* (SV Guidelines) issued by the Office of Local Government (OLG) states that councils must provide:

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 SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category. The council should include an overview of its ongoing efficiency program, and briefly discuss its progress against this program, in its explanation of the need for the proposed SV.

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.<sup>1</sup>

Criterion 3 in the *Guidelines for the preparation of an application to increase minimum rates above the statutory limit* (MR Guidelines), issued by the OLG, is:

The consultation the council has undertaken to obtain the community's views on the proposal.<sup>2</sup>

The full criteria can be found in the SV Guidelines and MR Guidelines released in November 2020 by the Office of Local Government (OLG).

The examples contained within this information paper have been selected from community consultation previously undertaken by councils, including some that address past pitfalls identified by IPART. These examples are neither compulsory nor comprehensive and councils should consider these as a starting point when developing their own community consultation material that ensures the community is aware of, and engaged with, the costs and benefits of the SV and/or MR proposal/s.

## 2 IPART's approach to assessing community engagement and awareness

Effective community awareness and engagement enables members of the public to have adequate opportunities to consider the proposed SV and/or MR increase/s, provide feedback to the council, and for the council to then consider this feedback.

Councils should follow the Integrated Planning and Reporting (IP&R) guidance material in developing a community engagement strategy to consult with the community on the

<sup>1</sup> OLG, *Guidelines for the preparation of an application for a special variation general income*, November 2020, section 3.1. They are available on [IPART's website](#).

<sup>2</sup> OLG, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit – 2020*, October 2020, section 2.2. They are available on [IPART's website](#).

Community Strategic Plan, Delivery Program and Resourcing Strategy, and to comply with the formal requirements for public exhibition and adoption of IP&R documents.

However, when designing their strategy for consulting with the community about a proposed SV, IPART expects councils will use a more comprehensive and targeted consultation strategy, based on the requirements of the criterion in the SV Guidelines, and the guidance in this Information Paper.

Although the consultation criterion in the MR Guidelines is not in such prescriptive terms as that for SVs, we expect councils to follow the guidance in this Information Paper, applying it to the circumstances of their proposal. The nature and extent of consultation should be appropriate, proportionate, and tailored to the purpose, extent and magnitude of the proposed MR increase, and the ratepayers who will primarily be affected.

This criterion requires IPART to assess whether the council's consultation with ratepayers has been effective, i.e. that the community is aware of the need for and extent of a rate rise. In assessing the community awareness and engagement criterion, IPART expects the council to demonstrate:

- ▼ it has clearly communicated the full impact of the proposed rate increases to ratepayers
- ▼ it has clearly articulated whether the SV will result in either a temporary or permanent increase in the council's total income
- ▼ it has clearly communicated what the SV would fund
- ▼ it has used an appropriate variety of engagement methods to ensure community awareness and input into the SV process
- ▼ the community is aware of the need for and extent of the rate rise.

In making our assessment we will examine:

- ▼ the process the council used to consult with and engage the community about the proposed SV or MR increase, including its timeliness
- ▼ the content of the material used for consultation and its clarity
- ▼ whether an effective variety of engagement methods were used to reach as many ratepayers as possible across all relevant rating categories in order to ensure the community is aware of the need for, and extent of, the proposed rate increases
- ▼ whether the opportunities for input and feedback on the proposal made available to the community were effective
- ▼ the outcomes from consultation and any council response to community feedback
- ▼ how the IP&R documents set out the extent of the requested rate increases.

### **Impact of COVID-19 on special variation and minimum rate increase applications for 2021-22**

IPART recognises that challenges posed by the ongoing coronavirus (COVID-19) pandemic may impact on councils' abilities to fully meet some of the criteria set out in the Guidelines. We recommend that councils intending to apply for an SV or MR increase for 2021-22 submit an application addressing the criteria to the fullest extent possible.

The Guidelines give IPART flexibility to take into account matters it considers relevant, and to consider particular circumstances of individual councils. Councils should provide information on the relevant impacts of COVID-19 in SV and MR applications for 2021-22, including consideration of the impact on ratepayers' capacity to pay, and measures taken to effectively consult with ratepayers under social distancing requirements.

## **Transparency in community engagement**

In our assessment we place particular weight on how transparent the council has been with its community when explaining:

- ▼ the need for the proposed SV or MR increase
- ▼ the proposed cumulative SV rate increases including the rate peg for each major rating category (in both percentage and dollar terms)
- ▼ the annual increase in average rates (in both percentage and dollar terms) that will result if the proposed SV is approved in full (and not just the increase in daily or weekly terms)
- ▼ the size and impact on rates where an existing SV will continue, expire, be renewed or replaced at the end of the current financial year or during the period when the requested SV will apply
- ▼ the rate levels that would apply without the proposed SV or MR increase, also clearly showing the impact of any expiring SV
- ▼ productivity enhancements or cost containment strategies undertaken by the council and potential alternatives to the SV.

Councils should provide their communities with opportunities to provide feedback on the proposed SV or MR increase. This may be when developing their IP&R documents or when directly consulting on the proposed rate increase.

Councils should also show how they considered and responded to issues of concern within their community, which will often relate to the need for an increase to general income by way of an SV, as well as the community's capacity and willingness to pay higher rates.

## **3 Designing community consultation**

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This section provides councils with broad guidance about the methods and approaches councils should use when consulting their communities about proposals to increase rates by means of an SV or MR increase.

### **Community engagement methods**

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Councils may provide information and capture community feedback/input about their proposals in a variety of ways, including:

- ▼ A mail-out to all ratepayers, with a reply-paid survey
- ▼ Fact sheets
- ▼ Media releases
- ▼ Online surveys

- ▼ Surveys of ratepayers, random and appropriately stratified to capture the population characteristics of the local government area
- ▼ Public meetings
- ▼ Listening posts
- ▼ Resident workshops
- ▼ Online discussion forums, and
- ▼ Discussions with particular community groups.

Councils should choose methods that reflect the magnitude and impact of the proposed rate increase, and the resources of the council.

### **COVID-19 impacts on community engagement**

While some community engagement measures may not be possible due to physical distancing and limits on public gathering, IPART expects that councils will provide evidence that they have pursued alternative arrangements such as virtual or online meetings, online surveys, and other forms of direct and indirect engagement to communicate with their ratepayers.

### **Willingness to pay**

In cases where there is not a clear financial need or the expenditure is for a new service, councils should gauge the willingness to pay of affected ratepayers. This may be best demonstrated by conducting a formal assessment of the community's willingness to pay. This is usually carried out using robust survey techniques and a council should demonstrate the validity of its approach.

### **Presenting information to the community**

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When consulting with the community about a proposed SV or MR increase, councils must present information in a way that allows community members to understand why the increase is being sought, and how it will affect the rates they pay. Councils must be able to demonstrate that they have fully disclosed all relevant information to the community, and clearly identified the impact of the proposed rate increase on the various categories of ratepayers that will be affected.

### **Past pitfalls:**

- ▼ Meaningful engagement avoids the situation where a community is presented with an 'all or nothing' choice. Councils need to present a realistic scenario to the community and not present a worst-case scenario, or threaten ratepayers with unrealistic cuts to the most popular community services.
- ▼ If service level reductions are contemplated, it should be made clear to ratepayers whether particular services would be maintained at levels insufficient to meet community expectations, or if certain projects would not proceed without approval of its proposal.
- ▼ Percentage increases should be expressed as a total amount, i.e. a percentage "including the rate peg" and not a percentage "above the rate peg". Using the examples shown in

Tables 3.1 and 3.2 below, the increase should be presented as “7.5% including the rate peg of 2.5%”, **not** “5% above the rate peg”.

### Information about the need for the proposal

Information about the need for the proposal should include:

- ▼ How the SV is consistent with community needs and priorities.
- ▼ Other options considered such as alternative revenue sources (grants, borrowing, public-private partnerships), changing expenditure priorities, productivity or efficiency measures, adopting different modes and levels of service delivery.
- ▼ Why the proposal is the most appropriate option.
- ▼ How council will approach funding services and service delivery levels if the proposed SV is not approved, and rate revenue increases only in line with the rate peg.

### Information about how much ratepayers will have to pay

Councils must be able to show that they have fully disclosed all the relevant information to the community and clearly identified the impact of the proposed rate increase on the various categories of ratepayers.

Council should also explain how the average rate may be different to the rate for specific properties (i.e. that the rate charged is partially based on the value of the land).

Councils should present how rates would increase with the SV or MR increase, and without (i.e. rate peg only). The information should include:

- ▼ the requested percentage increase(s) for each year including the rate peg (see examples in Tables 3.1 and 3.2)
- ▼ the cumulative percentage impact on rates if the SV is for two or more years
- ▼ whether the increases are temporary or will be permanent
- ▼ how an expiring SV will affect rate levels (illustrated by Table 3.4)
- ▼ rates and rate increases (in both percentage and dollar terms) on an annual (not just daily or weekly) basis, and
- ▼ increases in other annual charges, where they are likely to be higher than CPI increases.

### Examples of how councils can present information

The most appropriate way councils can present information about the proposed SV will depend on the length of the SV and the percentage increase in each year, and whether it will be temporary or permanent.

The tables below are examples of how a proposed SV will affect residential ratepayers. Councils should tailor the way they present the impact of proposed rate increases on different ratepayer categories and across different time periods, to suit the particular circumstances of their proposed SV.

### How to demonstrate the impact of a proposed single year SV (s 508(2))

Table 3.1 shows the impact of a single year s 508(2) SV of 7.5%. For illustrative purposes, our example shows the impact on the category of residential ratepayers. Councils should adapt the table to show the impact on average rates of all major categories of residential, business, farmland and mining ratepayers which would be affected by the proposed SV.

**Table 3.1 Impact on the average residential rate of a s 508(2) SV of 7.5% in Year 1**

	Base year	Year 1	Increase
Average residential rate under assumed rate peg of 2.5% pa	\$1,000	\$1,025	\$25
Average residential rate with an SV of 7.5% in first year	\$1,000	\$1,075	\$75
Difference between SV and rate-peg-only scenarios			\$50

Table 3.1 shows that if the average residential rate was \$1,000 in the base year, it would rise by \$75 in the first year (Year 1), or \$50 more than would apply under the rate-peg-only case.

Where the SV is permanent, the council should also explain to ratepayers the impact of the SV on rate levels in the longer term, say 4 to 5 years, compared with the impact of rate peg only increases. Assuming a rate peg of 2.5% in future years,<sup>3</sup> in this example the average residential rate with the SV would be \$1,158 in Year 4, but only \$1,104 with rate peg increases.

### How to demonstrate the impact of a proposed multi-year SV (s 508A)

Table 3.2 shows the impact of a multi-year s 508A SV of 7.5% (including the rate peg) per year, for 4 years. For illustrative purposes, our example shows the impact on the category of residential ratepayers. Councils should adapt the table to show the impact on average rates of all categories of residential, business, farmland and mining ratepayers which would be affected by the proposed SV.

**Table 3.2 Impact on the average residential rate of a s 508A SV of 7.5% per year**

	Base year	Year 1	Year 2	Year 3	Year 4	Cumulative increase
Average residential rate under assumed rate peg of 2.5% pa	\$1,000	\$1,025	\$1,051	\$1,077	\$1,104	\$104
Annual increase rate peg (%)		2.5%	2.5%	2.5%	2.5%	10.4%
Average residential rate with an SV of 7.5% pa for 4 years	\$1,000	\$1,075	\$1,156	\$1,242	\$1,335	\$335
Annual increase with SV (%)		7.5%	7.5%	7.5%	7.5%	33.5%
Cumulative impact of SV above Base year levels		\$75	\$156	\$242	\$335	
Difference between SV and rate-peg-only scenarios		\$50	\$105	\$165	\$232	

<sup>3</sup> The assumed rate peg percentage increase in Years 2 to 4 is based on the percentage IPART uses in the Application Form Part A spreadsheet. IPART recommends councils use this in their rate path projections.

In this example, the council is proposing its income will increase every year by 5% above the assumed rate peg increase of 2.5%. It will apply to IPART for a 7.5% SV in each of the 4 years and the SV percentage includes the assumed rate peg increase.

If the average residential rate was \$1,000 in the Base year, it would rise by \$75 in the first year (Year 1) or \$50 more than would apply under the hypothetical rate-peg-only case. By the fourth year the average annual residential rate would be \$335 above the Base year level, or \$232 above what it would have been if only the rate peg applied.

Where the SV is to be retained permanently in the council's general income, the council should also explain to ratepayers that in Year 5 and future years, the rate peg percentage increase will apply to rate levels with the SV, and not to the rate level with the rate peg only. In this case, the assumed annual rate peg increase of 2.5% would be applied to the amount of \$1,335, rather than to \$1,104. Councils should use modelling appropriate to the proposed SV to show ratepayers the impact in the longer term, for example comparing rate levels with and without the SV by Year 8.

### How to demonstrate the impact of an SV on different rating categories

Councils can choose to allocate recovery of the proposed increase in income from an SV across different rating categories to achieve a specific objective. For example, councils may seek to recover a higher percentage of the rate increase from ratepayers in business centres because the purpose of the SV is to provide town centre improvements.

Table 3.3 shows the impact of a s 508A SV of 5.8% per year for 3 years (including the rate peg) across a council's different ratings categories. A s 508A SV increases the total general revenue that a council is able to raise, but the distribution of the rate burden amongst the ratepayers is a decision for the council. Councils may also apply the SV to the minimum rate for each of the rating categories.

**Table 3.2 Impact on the average rate of a s 508A SV of 5.8% per year for 3 years, weighted differently between the different rating categories**

	Base Year	Year 1	Increase	Year 2	Increase	Year 3	Increase
<b>Residential Average</b>	\$1,169	\$1,233	5.5%	\$1,300	5.4%	\$1,372	5.5%
<b>Residential Minimum</b>	\$966	\$990	2.5%	\$1,015	2.5%	\$1,040	2.5%
<b>Major Town Centre Average</b>	\$3,311	\$3,558	7.5%	\$3,822	7.4%	\$4,105	7.4%
<b>Minor Town Centre Average</b>	\$1,500	\$1,538	2.5%	\$1,576	2.5%	\$1,615	2.5%
<b>Other Business Minimum</b>	\$1,100	\$1,128	2.5%	\$1,156	2.5%	\$1,185	2.5%
<b>Total Income Increase (%)</b>	5.8%	5.8%		5.8%		5.8%	

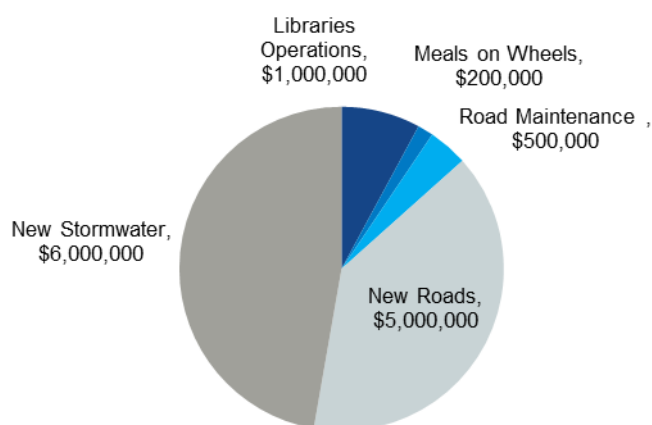
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### How to present the need for a proposed special variation

Councils should clearly present the need for the proposed SV in the format that is most effective in explaining the need for the SV.

Figure 3.1, for example, shows that the SV will allow the council to maintain existing services, undertake required maintenance and provide new infrastructure.

**Figure 3.1 Intended allocation of special variation funds**



Depending on the purpose of the SV, a council may also choose to present to ratepayers information on its performance such as explanatory material on a range of indicators. This could include its operating performance ratio and infrastructure backlog ratio, with and without the SV revenue and expenditure.

### Presenting information about expiring SVs

When a council is renewing an SV that is due to expire, the explanation of the variation amount can be quite complex.

There are up to three amounts to consider:

1. The percentage value of the expiring SV.
2. The percentage value of the rate peg.
3. The percentage value of any additional variation amount above the rate peg for which the council is applying through an SV.



Councils should inform their communities of the following:

- ▼ That an existing SV is about to expire or will do so during the period covered by the application for an SV.
- ▼ Due to the impact of the expiring SV, **the SV percentage being applied for will be higher than the year-on-year percentage change in the average rate.**
- ▼ Whether the temporary expiring SV is being replaced with another temporary SV, or a permanent increase to the rate base.
- ▼ That, if the SV is not approved (and only the rate peg increase will apply), when the existing SV expires the year-on-year impact on rate levels would be lower, and may even fall below existing levels.

### How to demonstrate the impact of an expiring SV

The council should clearly show the impact of any expiring SVs and the cumulative rate increase over the period of the SV.

Table 3.4 demonstrates how a council may communicate the combined impact of an expiring SV with a proposed SV. In this example:

- ▼ An existing SV, equivalent to 4% of rates in the Base year, is to expire on 30 June 2021. The expiring SV reduces average rates from \$1,000 to \$960 at the end of the Base year. This forms the base to which future increases due to the rate peg and/or proposed SV are applied.
- ▼ The council has proposed an SV to increase rates by 7.5% in each of the next 4 years.

**Table 3.4 Impact on the average residential rate of an expiring SV and a s 508A SV of 7.5% per year for four years**

	Base year	Year 1	Year 2	Year 3	Year 4	Cumulative increase
<b>Average residential rate under assumed 2.5% rate peg with a 4% expiring SV</b>	\$1,000	\$984	\$1,009	\$1,034	\$1,060	\$100
<b>Annual increase (%)</b>		-1.6%	2.5%	2.5%	2.5%	10.4%
<b>Average residential rate with both a 4% expiring SV and a 7.5% pa SV commencing in Year 1</b>	\$1,000	\$1,032	\$1,109	\$1,193	\$1,282	\$322
<b>Annual increase (%)</b>		3.2%	7.5%	7.5%	7.5%	33.5%
<b>Cumulative impact of SV above Base year levels after expiry</b>		\$72	\$149	\$233	\$322	
<b>Difference between SV and rate peg only scenarios</b>		\$48	\$101	\$159	\$222	

**Notes:** The assumed rate peg percentage increase in Years 2 to 4 is based on the percentage IPART uses in the Application Form Part A spreadsheet, and IPART recommends councils use this in their rate path projections. The cumulative percentage over the four years is calculated with the base being the average rate as of 30 June in the Base year after the expiring SV has been removed (i.e. \$960 not \$1,000).

The council needs to communicate the combined impact of the expiring SV being removed and the increase in rates as a result of either the rate peg only or the SV. In this example:

- ▼ Under the **rate peg only scenario**, the average residential rate would fall from \$1,000 in the base year to \$984 in Year 1 (or by a total of 1.6%). This reflects both the expiry of the 4% SV, causing a fall to \$960, and the assumed 2.5% rate peg causing an increase from \$960 to \$984. From Year 2 onward, the rate would increase by the assumed 2.5% per annum.
- ▼ Under the **SV scenario**, the council will need to communicate that rates would increase by \$72 (or 3.2%) in Year 1. Due to the effect of the expiring SV, the increase in Year 1 is lower than the 7.5% proposed SV. The cumulative increase over the 4-year period is actually 33.5% (or \$322 – which is the difference between the base year post-expiry \$960 and Year 4 \$1,282), and not 28.2% (or \$282 - difference between Base year \$1,000 and Year 4 \$1,282), because the proposed SV increase is applied to the post-expiring SV level of rates of \$960 in the Base year.

## **Presenting information when merged councils apply for an SV**

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Some councils which were created by merger in 2016 will be applying for an SV for 2021-22 as part of the process of harmonising rates across the former council areas.

IPART will expect these councils to meet the same requirements as all other councils.

The base-level scenario for a merged council will be more complex because the rate structures and rate levels in the former council areas are different. Therefore, merged councils must take extra care in the way they communicate with their community about the proposed SV, and ensure that they explain the rationale for the proposed SV, and quantify the impact it will have on rates to be paid by the different categories of ratepayers in each of the pre-merger council areas.

**New councils are encouraged to contact IPART when they are preparing their consultation materials to discuss how to communicate with their ratepayers and present information about the proposed SV in the most effective way.**

## **Presenting information when the council is applying for an additional SV**

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Section 5.2 of the SV Guidelines introduces changes to how a council seeks an SV during the term of an existing s 508A SV.

When consulting with the community on the proposed additional SV, councils must clearly communicate the full cumulative increase to rates, i.e. the impact of the existing plus the additional SVs. The SV Guidelines acknowledge that in these situations the focus of community consultation can be on the difference between the status quo (what ratepayers are currently paying including the existing SV) and what rate levels would be under the existing plus additional SVs.<sup>4</sup>

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<sup>4</sup> See OLG, SV Guidelines, section 5.2.

## **Reporting outcomes of community engagement in an application**

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In its SV application, the council should report on:

- ▼ key stakeholders in the consultation process
- ▼ the information presented to the community regarding the SV
- ▼ methods of consultation used by the council and why they were selected.

The council must also provide a summary of the outcomes of community engagement, for example:

- ▼ the number of attendees at workshops or meetings
- ▼ the percentage of respondents supporting, to various degrees, the proposal(s)
- ▼ the overall sentiment of representations
- ▼ the results of surveys, if undertaken
- ▼ any action proposed by the council to address issues of concern within the community.

Councils should provide examples of key consultation material.

## **Informing the community about making submissions to IPART**

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IPART considers the foundation for community consultation is through each council's IP&R process and the council's consultation on the proposed SV.

The council should inform members of the community that they are able to make a submission to IPART. IPART will take comments and enquiries from ratepayers as part of the SV assessment process. We will accept and consider submissions from interested groups or individual ratepayers on councils' SV applications to IPART for around 3 weeks after the date we receive council applications.

As part of the community consultation on their SV and MR proposals, councils should inform their community that IPART will accept submissions about their SV and MR proposals, and direct them to [IPART's website](#) for details about how and when to make a submission.