

FACT SHEET

Changes to existing special rate variations of councils for the carbon price advance

17 May 2012

1. Summary

IPART has amended the existing special rate variations for 16 NSW councils for the effect of the carbon price. We have changed the existing special variations of these councils to make them consistent with adjustments to the rate pegs for 2012/13, 2013/14 and 2014/15.

These are not newly approved special variations, but minor adjustments to existing special variations approved in previous years.

We have:

- ▼ added an additional 0.4% to existing rate variations in 2012/13, and
- ▼ reduced existing special rate variations by 0.1% in 2013/14 and 0.3% in 2014/15.

These adjustments change the timing of councils' cash flows. The adjustments mean that a ratepayer paying \$1,000 a year in rates in 2012/13 will pay \$4 more than they otherwise would have in 2012/13, \$1 less in 2013/14 and another \$3 less in 2014/15.

2. What is the rate peg and what is a special variation?

NSW has a longstanding policy of regulating the growth in local council rates under an arrangement known as 'rate pegging'. Under rate pegging, IPART sets a 'rate peg' each year, that determines the allowable increase in the 'general income' for most councils. General income mainly includes rates income, but also includes some other types of council income.

The rate pegging regime provides flexibility for the individual needs of councils by allowing councils to apply to IPART for a 'special variation'. A special variation allows a council to increase its general income by more than the rate peg percentage.

An approved special variation sets the allowable increase in general income for the council. If a council does not have an approved special variation, its general income is set using the rate peg.

3. Rate peg for 2012/13 and carbon price advance

In December 2011, IPART set the rate peg for 2012/13 at 3.6%. This included an amount of 0.4% as a carbon price advance. We included an advance to the rate peg to assist councils to meet higher costs expected from the carbon price to be introduced from 1 July 2012.

The carbon price advance will be removed from the rate pegs in the following 2 years. We will remove 0.1% from the 2013/14 rate peg and 0.3% from the 2014/15 rate peg.

4. Why did we include a carbon price advance in the rate peg and then remove it in the next 2 years?

We included an advance to the rate peg to assist councils to meet higher costs expected from the carbon price to be introduced from 1 July 2012. This was necessary because we set the rate peg each year using a lagged index of average council costs (the Local Government Cost Index). This lagged index would not capture the effect of the carbon price on council costs in 2012/13.

The effect of the carbon price will not be introduced into the Local Government Cost Index until 2013/14 and 2014/15.

We needed to remove the carbon price advance from the rate pegs in 2013/14 and 2014/15 so that it is not double counted.

The carbon price advance is, in effect, an adjustment to the timing in councils' cash flows, as explained in our *2012/13 Rate Peg Information Paper* and *Fact Sheet* issued in December 2011 (both of which are available on our website).

5. Why have we modified existing special rate variations?

Councils with existing special rate variations will not receive the 0.4% carbon price advance, but may face lower rate pegs in 2013/14 or 2014/15, or both years. Therefore, we have amended the existing variations in order to ensure equal treatment for all councils.

6. How did we change the rate peg and existing special variations?

Table 1 shows how the rate pegs and special rate variations are affected.

Table 1 Rate peg and special variations

	2012/13	2013/14	2014/15	2015/16
What happens to the rate pegs?	Rate peg plus 0.4% for carbon price advance	Rate peg minus 0.1% for reversal of carbon price advance	Rate peg minus 0.3% for reversal of carbon price advance	Rate peg
What happens for different councils?				
Councils with no special variation (SV)	Rate peg plus 0.4%	Rate peg minus 0.1%	Rate peg minus 0.3%	Rate peg
Councils with SV under section 508A with final year of 2011/12	Rate peg plus 0.4%	Rate peg minus 0.1%	Rate peg minus 0.3%	Rate peg
Councils with a SV under s508A with final year of 2012/13	Special variation plus 0.4%	Rate peg minus 0.1%	Rate peg minus 0.3%	Rate peg
Councils with SV under s508A with final year of 2013/14	Special variation plus 0.4%	Special variation minus 0.1%	Rate peg minus 0.3%	Rate peg
Councils with SV under s508A with final year of 2014/15	Special variation plus 0.4%	Special variation minus 0.1%	Special variation minus 0.3%	Rate peg
Councils with SV under s508A with final year of 2015/16 or later	Special variation plus 0.4%	Special variation minus 0.1%	Special variation minus 0.3%	Special variation

Note: The rate peg in the table refers to the Local Government Cost Index (LGCI) less the productivity factor.

7. What will the changes to the special rate variations mean?

7.1 For councils

Overall, councils will receive additional revenue earlier. This will give them a marginal cash flow benefit. Councils will receive additional rate revenue in 2012/13 and they will receive less revenue in the next 2 years. The reduction in revenue in 2013/14 and 2014/15 will either occur because of a reduction in the approved special variation or through the reduced rate pegs.

7.2 For ratepayers

This change to the existing variations means that a ratepayer paying \$1,000 a year in rates in 2012/13 pay \$4 more than they otherwise would have in 2012/13, \$1 less in 2013/14 and another \$3 less in 2014/15.

8. What was the process for changing special variations?

Eighteen councils were eligible to apply to IPART to amend their variations and 16 councils applied. We amended the variations for all of the councils that applied. The tables on page 4 show how existing special variations have been changed.

We considered councils' requests using a streamlined administrative process. This was set out in an Addendum to the Guidelines for Special Variations issued by Division of Local Government. Councils were required to:

- ▼ inform IPART that they wished to modify their variations, and
- ▼ inform their communities, through their draft Operational Plan and Statement of Revenue Policy, that they are taking up the arrangement to reflect the equitable treatment being offered to all councils by the regulator.

9. Further information?

Fact sheets on the rate peg and the carbon price advance are available on IPART's website. The links to these documents are included below.

Rate peg for NSW Councils 2012/13

http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Fact_Sheets_Information_Papers/Fact_Sheet_-_Rate_peg_for_NSW_councils_for_2012-13_-_6_December_2011

Carbon Price Advance for NSW Councils

http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Fact_Sheets_Information_Papers/Fact_Sheet_-_Carbon_Price_advance_to_the_2012-13_rate_peg_-_6_December_2011

For any questions, please contact Nicole Haddock on 9290 8426 or Dennis Mahoney on 9290 8494.

Changes to existing special rate variations of councils

Table 2 Councils with final year of special variation in 2012/13

Council	2012/13 Original variation %	Variation after adjustment %
Moree	9.25	9.65
Tweed	7.50	7.90
Taree	10.00	10.40
Maitland	10.00	10.40
Woollahra	10.41	10.81

Table 3 Councils with final year of special rate variation in 2013/14

Council	2012/13 Original variation %	Variation after adjustment %	2013/14 Original variation %	Variation after adjustment %
Albury	5.69	6.09	4.77	4.67
Auburn	6.00	6.40	6.00	5.90
Ballina	5.70	6.10	6.00	5.90
Great Lakes	8.00	8.40	8.00	7.90
Kogarah	5.90	6.30	5.90	5.80
Hornsby	6.00	6.40	4.00	3.90
Parramatta	4.30	4.70	9.20	9.10
Pittwater	7.00	7.40	6.00	5.90
Waverley	13.50	13.90	12.50	12.40
Wollondilly	6.00	6.40	6.00	5.90

Table 4 Councils with final year of special rate variation in 2014/15

Council	2012/13 Original variation %	Variation after adjustment %	2013/14 Original variation %	Variation after adjustment %	2014/15 Original variation %	Variation after adjustment %
Penrith	5.50	5.90	5.00	4.90	4.50	4.20