

FACT SHEET

Council applications for special variations received by IPART for 2012/13

2 March 2012

Purpose

This fact sheet lists the 13 local councils that have applied to IPART for a special rate variation commencing in 2012/13.

Background

If a council wishes to increase its general income by more than the rate peg, it must apply to IPART for a special variation. A special variation allows a council to increase its 'general income' by more than the rate peg. IPART has set the rate peg at 3.6% for 2012/13. General income mainly includes income from council rates, but also includes some other types of council income.

In December 2011, 17 NSW councils notified IPART that they intended to apply for a special variation commencing in 2012/13. Since that time, councils have been consulting with their communities about their special rate variation proposals.

Of the 17 councils that notified us in December, 13 have lodged applications. Four councils have advised us that they will not proceed with applications for a special variation in 2012/13 – these councils are: Lane Cove Council, Cobar Shire Council, Upper Hunter Shire Council and City of Sydney.

What is the rate peg and what are the 2 types of special variations?

There are 2 types of special variations.

- ▼ Special variations under section 508(2) of the Local Government Act – for a single percentage increase in general income.
- ▼ Special variations under section 508A of the Local Government Act – for 2 to 7 consecutive annual increases in general income.

Section 508(2) variations may be temporary or permanent. Section 508A applications are permanently built into the revenue base of the council and rate increases are cumulative.

Special variation applications received from councils

Councils seeking a special variation commencing in 2012/13 were required to apply for a special variation by 24 February 2012. We received 13 applications from councils.

- ▼ 9 were for section 508(2) special variations.
- ▼ 4 were for section 508A special variations.

Table 2 at the back of this fact sheet lists the councils that have now applied for a Special Variation commencing in 2012/13, the type of variation and the percentage increase in general income being requested.

We will upload copies of applications from councils on our website over the coming weeks. Applications will be at the following link:

http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Special_Variations_and_Minimum_Rates/Applications_received_201213_-_Special_Variations_Minimum_Rate_Increases

Process that IPART will use to assess applications

We will assess applications against the criteria listed in Table 1. These criteria are set out in the *Guidelines for the preparation of an application for a special variation to general income 2012/13* that have been published by the Division of Local Government, Department of Premier and Cabinet. Copies of the Guidelines are available on IPART's website.

We expect to make determinations regarding applications in early June 2012. We publish reasons for our decisions and any conditions we set as part of our decisions. Criteria for assessment of special variation applications


Table 1 Criteria for assessment of special variation applications

Section 508(2)	Section 508A
– single percentage increase	– 2 to 7 percentage increases in consecutive years
1. Demonstrated need for the rate increase implied by the special rate variation.	1. Demonstrated need for the rate increases derived from the council’s Integrated Planning and Reporting framework, highlighting one or more of the following: <ul style="list-style-type: none"> - service provision requirements - infrastructure backlogs that have adverse implication for the community - special or unique cost pressures faced by the council.
2. Adequate community consultation regarding the special variation.	2. Demonstrated community support for the special variation.
3. Reasonable impact on ratepayers.	3. Reasonable impact on ratepayers.
4. Sustainable financing strategy consistent with the principles of intergenerational equity.	4. Sustainable financing strategy consistent with the principles of intergenerational equity.
5. An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation.	5. An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special variation.
Any other issue that the Tribunal considers relevant.	Any other issue that the Tribunal considers relevant.

Source: Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income 2012/13*.

Councils are required to consult with their communities on rate increases and expenditure plans

IPART will not hold public hearings as part of its assessment of applications. Instead, councils are required to consult with their communities regarding their expenditure and revenue plans as part of their Integrated Planning and Reporting activities or in preparation for a special variation. IPART encourages members of the community to participate in their council’s community consultation and engagement processes and to inform their council of their view.



Although we do not solicit them, we will accept and consider submissions from interested groups or individual ratepayers regarding special variations. These may be emailed, by no later than 31 March 2012, to localgovernment@ipart.nsw.gov.au or sent by post to:

Local Government Team
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230.

Our normal practice is to publish emails, letters and submissions we receive from the public by posting them on our website. **If you wish to submit an email, letter or submission but do not want us to publish it, please clearly indicate this in the email, letter or submission.**

Councils set rate levels

IPART determines the overall allowable increase in a council's general income. Once IPART makes a determination on the allowable increase in general income, councillors vote on resolutions regarding the council's rating structure. These set the rate levels for different types of ratepayers and different property values for the coming rating year. Councils ultimately make this decision, not IPART. This usually happens in June or July.

The dollar rates paid by an individual or businesses are determined by a number of factors, including the council's rating structure and the property's value. As a result, the increase in rates payable by individual ratepayers may be lower or higher than the special variation percentage approved by IPART for a number of reasons, eg, a council may allocate a higher increase to one category of ratepayers, or a property's value may change by more or less than the average change for properties in the council area.

Applications to increase minimum rates

Councils that wish to increase their minimum rates above the minimum rate statutory limit must obtain IPART's approval. Applications from councils to increase minimum rates above the statutory limit are due by 23 March 2012.

Table 2 Councils that have applied for a special variation and the percentage variation sought

Council	Type of special variation and whether temporary or permanent	Special variation sought by council (including rate peg percentage) % increase in year							Summary of reasons
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
Coffs Harbour City Council	508(2) – temporary – 10 years	5.64%*							To continue a special rate that has applied to business properties in the Coffs Harbour CBD for 12 years, but is due to expire on 30 June 2012. The council wishes to continue the levy for a further 10-year period to provide funds for a new capital works program, further revitalisation and on-going growth of the city centre.
Gilgandra Shire Council	508A – permanent – 7 cumulative percentage increases	6.8%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	To maintain service levels and enhance financial sustainability; to undertake infrastructure renewals; capital works projects and increase spending on unsealed rural roads in accordance with the council's 10-year financial plan.
Hunters Hill Council	508(2) – permanent –	10.4%*							To renew an existing special variation for roads maintenance.
Kempsey Shire Council	508A – permanent – 3 cumulative percentage increases	16.04%	14.32%	8.29%					To fund infrastructure maintenance programs for roads and bridges and retain existing services.
Lake Macquarie City Council	508A – permanent – 7 cumulative percentage increases	10.44%*	10.34%*	9.77%	7.95%	7.29%	6.75%	4.75%	To maintain and enhance assets and service delivery, while securing long term financial sustainability, address

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		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
									the infrastructure backlog, and provide a program of infrastructure renewal. Includes continuing permanently the existing Sustainability Levy (2.76%) which is due to expire on 30 June 2014.
Muswellbrook Shire Council	508(2) – permanent	7.6%*							To continue permanently a special variation of 4% that was approved for 1 year only in 2011/12. The special variation is levied on the mining rating category and is to be used to improve mine-affected roads and associated storm water drainage infrastructure.
Nambucca Shire Council	508(2) – permanent	10.04%*							Includes 5.04% to continue an existing Environment Levy, which is due to expire on 30 June 2012. The balance of 5% includes 3.6% for cost escalation and 1.4% to finance a loan to be used to improve sealed roads.
Newcastle City Council	508(2) – permanent	8.6%							To fund various civic projects to revitalise the city, including revitalising Hunter Street and the coast, new cycle ways, upgrading libraries and swimming pools and expanding the Art Gallery.

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North Sydney Council	508A – permanent – 6 cumulative percentage increases	12.3*	14.6%*	5.5%	5.5%	5.5%	5.5%		In 2011/2012, IPART approved an SV of 5.5% per annum for 7 years. Four existing levies were not included in that approval. The aim is to replace the current IPART approval with another one, that maintains the already approved 5.5% per annum and continues on a permanent basis the 4 levies that are due to end in either 2012/13 or 2013/14. The Infrastructure, Environment, Crows Nest Mainstreet and Neutral Bay Mainstreet Levies fund environmental programs, infrastructure renewal works and commercial precinct improvement programs.

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		% increase in year							
		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	
Port Macquarie-Hastings Council	508(2) – part permanent and part temporary for 5 years	15.33%*							To permanently continue the special variation of 7.3% approved in 2011/12 for 1-year for road and park maintenance, plus 4.43% to be built into the rate base for 5 years only to address the infrastructure backlog.
Queanbeyan City Council	508(2) – permanent	9.4%*							To continue expenditure on maintenance of infrastructure assets including parks and reserves, roads and footpaths in accordance with the council's 10-year works program.
Tamworth Regional Council	508(2) – permanent	20.6%							To fund infrastructure maintenance gap.
Wingecarribee Shire Council	508(2) – permanent	7.09%*							To continue the Environment Levy to fund specified environmental projects.

^a Under the *Guidelines for Special Variations* issued by the Division of Local Government, all s508A special variations are built into the base revenue of councils. Increases in more than one year have a compounding effect on revenue.

* Includes a component to continue an existing special variation that is due to expire.

Note: We aim to report the variations sought by councils on a consistent basis. Special variation percentages in the table include the rate peg and an amount to reflect the continuation of special variations from previous years that were time-limited and due to expire. IPART has used the actual rate peg of 3.6% for 2012/13 and an assumed rate peg of 3.0% for future years. Note that there is no guarantee that the rate peg in future years will be 3.0%. It may be a lower or higher percentage.

Background

- ▼ Since 1977, councils' general revenues have been regulated in NSW under 'rate pegging'. Rate pegging sets the maximum general revenue (mainly rates) that councils can collect.
- ▼ Until 2010, the rate peg was set by the Minister for Local Government. The Minister also determined whether to approve applications for special variations. Since then, IPART has set the rate peg and has determined applications for special variations.
- ▼ The rate peg for 2012/13 is 3.6%. The rate peg for 2011/12 was 2.8%.
- ▼ The Local Government Act makes provision for councils to increase revenues above the rate peg amount through the use of 'Special Variations'.
- ▼ There are two types of special variations: 508(2) and 508A.
- ▼ Councils may seek a section 508(2) special variation on a temporary or a permanent basis. However, special variations under section 508A are permanent. If a special variation is temporary, the additional income is collected for a specified period of time eg, a temporary levy for a specific program of works. If a special variation is permanent, the additional income is collected in all future years. The income is permanently included in the revenue base of the council.
- ▼ The number of councils that seek a special variation in any year can vary. This year, 13 councils applied for a special variation. We expect that a few councils will apply to increase their minimum rates. Applications from councils to increase their minimum rates above the statutory limit are due on 23 March 2012.