

Fact Sheet – Decisions on councils’ requests for special variations for 2016-17



17 May 2016



WHAT

This fact sheet summarises IPART’s decisions on council applications to increase rates by special variations (**SV**) and minimum rate (**MR**) increases in 2016-17.



WHY

Special variations may 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 within the local government area.

Minimum rate increases may:

- ▼ redress imbalances in rate levels between ratepayers who pay minimum rates and those who pay ad valorem rates.

Crown land adjustments provide increases to a council’s general income for newly rateable land.



WHO

Twenty (20) councils notified us in December 2015 that they intended to apply either for an SV or MR increase for 2016-17.

However, under the Office of Local Government’s (OLG) Guidelines released on 15 January 2016, councils that were the subject of merger proposals at that time were not eligible for an SV in 2016-17.

The number of applications subsequently reduced to thirteen (13) for 2016-17.

Councils applying for an SV:

- ▼ Great Lakes
- ▼ Greater Taree City
- ▼ Gwydir Shire
- ▼ Lachlan Shire
- ▼ Lismore City
- ▼ Penrith City
- ▼ Singleton
- ▼ Tweed Shire
- ▼ Wagga Wagga City
- ▼ Wingecarribee Shire

Councils applying for both an SV and MR:

- ▼ Clarence Valley
- ▼ Yass Valley

Gundagai applied for an MR increase only.

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



DECISIONS

- ▼ Of the **8 multi-year SV applications**, 5 received approval in full – Lachlan, Penrith, Singleton, Wingecarribee and Yass. These SV increases can be permanently retained in the rate base. Clarence Valley’s application was approved in part. No decision was announced for Great Lakes and Greater Taree because the councils were dissolved on 12 May.
- ▼ All **4 single-year SV applications** were approved in full. SV increases in Gwydir, Lismore and Tweed will be permanent, while the increase in Wagga Wagga is for 5 years only.
- ▼ The **MR application** for Yass Valley was approved in full. Clarence Valley’s was not approved. No decision was announced for Gundagai because the council was dissolved on 12 May.
- ▼ All **3 Crown land applications** for permanent increases were approved in full – for Kiama, Port Stephens and Sutherland.

1 Purpose

This fact sheet summarises our decisions for applications received from councils under the *Local Government Act 1993* (the Act) for a special variation or minimum rate increase for 2016-17.

Under the OLG's Guidelines, councils that were subject to merger proposals at that time were not eligible for a special variation increase for the 2016-17 rating year. Subsequent advice from OLG confirmed we were able to assess special variation applications from Great Lakes and Greater Taree, and the minimum rate application from Gundagai.

Applications were received by 15 February 2016 in the case of special variations. Applications for increases in Minimum Rates were received by 14 March 2016.

2 What is a special rate variation?

A special variation 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 1.8% for 2016-17.

The 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 rate base stays at the higher level following the special variation, or temporary ie, the rate base returns to what it otherwise would have been without the special variation.

3 How did IPART assess the applications?

We assessed applications against the criteria set out in the OLG's *Guidelines for the preparation of an application for a special variation to general income for 2016-17* and *Guidelines for the preparation of an application to increase minimum rates above the statutory limit 2016-17*.

Refer to **Box 1** for the criteria used to assess **special variation applications**.

Refer to **Box 2** for the criteria used to assess **minimum rates applications**.

For further information see our *Fact Sheet – How does IPART assess applications for special variations by councils* on IPART's website.

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 productivity improvements to reduce overall council costs. The council's long term financial plan and the impact of the proposed increase on ratepayers were also considered.

We also considered submissions from ratepayers, community groups, and other stakeholders.

Box 1 Assessment criteria for special variations for 2016-17

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 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 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 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 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.

Details of special variations approved by IPART are in **Table 1**.

Nine applications were approved in full.

Clarence Valley Council applied under section 508A for an increase of 6.5% per year for five years. We approved a temporary 1-year increase of 6.5% under section 508(2).

Council applications where no decision has been announced

Three councils that were subject to merger proposals announced by the Government applied for rate increases: Great Lakes Council and Greater Taree City Council applied for special variations, and Gundagai Shire Council applied to increase its minimum special rate above the statutory limit.

On 11 May 2016, IPART made decisions on these applications but had not yet issued the instruments giving effect to the decisions to the applicant councils. On 12 May 2016, each of the relevant councils was dissolved under an amalgamation proclamation issued by the Governor. As a consequence, IPART can no longer implement the decisions made on 11 May because the councils no longer exist. Hence, no final decisions and instruments can be issued by IPART on these three former councils' applications.

Minimum rate increases

IPART received three applications to increase minimum rates. The criteria used to assess these applications are shown in Box 2.

Box 2 Assessment criteria for minimum rate increase for 2016-17

1. Rationale for increasing minimum rates above the statutory amount.
2. Impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or subcategory.
3. Consultation the council has undertaken to obtain the community's views on the proposal.

Details of minimum rate applications approved by IPART are in **Table 2**.

Crown land adjustments

Increases to a council's general income arising from **Crown land adjustments** are approved as a special variation, although they are not assessed using the criteria in the OLG's Guidelines for special variations.

Crown land is exempt from rates but generally becomes rateable when ownership is transferred from the Government. These adjustments allow the councils to permanently increase their income from rates for parcels of former crown land that have become rateable. This usually occurs because the land has either been sold to private individuals or transferred to State Owned Corporations that are liable to pay rates.

We assessed and approved applications for Crown land adjustments for three councils - Kiama, Port Stephens and Sutherland.

Details of Crown land adjustments approved by IPART are in **Table 3**.

Table 1 Summary of special variations for 2016-17 approved by IPART

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 1.8%)				Cumulative % rise (% rise above rate peg)	Purpose
		2016-17	2017-18	2018-19	2019-20		
Clarence Valley Approved in-part, temporary for 1-year	508(2)	6.5				6.5 (4.7)	Financial sustainability, road maintenance and renewal, and infrastructure backlogs.
Gwydir Shire	508(2)	30.0*				30.0 (28.2)	Financial sustainability and continuation of an expiring special variation .
Lachlan Shire	508A	6.8	7.4	7.4	7.4	32.3 (22.7)	Financial sustainability and asset maintenance, renewal and upgrading of infrastructure.
Lismore City	508(2)	3.6				3.6 (1.8)	Biodiversity Management Strategy.
Penrith City	508A	9.1*	5.0	5.2	5.4	27.0 (17.4)	Maintain and improve services and renew infrastructure, and make permanent an expiring special variation for the Asset Renewal and Established Areas strategy (AREAS).
Singleton	508A	9.75	9.75*	9.75	9.75	45.1 (35.5)	Asset renewals (includes an expiring special variation).
Tweed Shire	508(2)	2.77				2.8 (1.0)	Levy on residents of a new urban release area to protect bushland within and around the development.
Wagga Wagga City Temporary for 5 years	508(2)	5.63				5.6 (3.8)	Fund upgrading of Main City and North Wagga levee banks.
Wingecarribee Shire	508A	8.55	9.25	9.25	12.15*	45.3 (35.7)	Financial sustainability, asset maintenance, renewals and upgrades, and to continue expiring special variation for Environmental Levy
Yass Valley	508A	8.5	8.5	8.5	8.5	38.6 (29.0)	Financial sustainability and infrastructure renewals and upgrades.

* Includes an expiring special variation.

Table 2 Summary of minimum rate increases for 2016-17 approved by IPART

Council	Minimum rate	2015-16 minimum (\$)	2016-17 minimum (\$)	2017-18 minimum (\$)	2018-19 minimum (\$)	2019-20 minimum (\$)
Yass Valley – 8.5% pa increase	Residential Yass, Residential Murrumbateman and Business	493	535	580	630	683
	Residential Villages	481	522	566	614	667

Note: 2015-16 is included for comparison.

Table 3 Summary of Crown land adjustments for 2016-17 approved by IPART

A Crown land adjustment (CLA) allows a council's general income to increase to reflect newly rateable land. These adjustments do not affect rates for existing ratepayers.

Council	Previous Owner	\$ value of land	% increase for CLA	2016-17 rate peg increase %	2016-17 increase % – CLA including rate peg
Kiama	Rail Corp NSW (1 parcel, business rating category)	24,102	0.165	1.80	1.965
Port Stephens	Landcom (7 parcels, residential rating category)	12,200	0.032	1.80	1.832
Sutherland	Defence Housing Authority (2 parcels, residential rating category)	1,135	0.001	1.80	1.801