

FACT SHEET

Existing special variations and the carbon price advance and withdrawals

30 March 2012

1.1 Purpose

The purpose of this fact sheet is to explain how councils with existing special variations may apply to have their special variations amended to incorporate the expected effect of the introduction of a carbon price from 1 July 2012. This would bring these councils into line with the way we have set the rate peg for 2012/13 and the adjustments to the rate peg in subsequent years.

1.2 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, which determines the allowable increase in the 'general income' for councils. General income mainly includes rates income, but also includes some other types of council income.

IPART has set the rate peg for 2012/13 at 3.6%. This includes an amount of 0.4% as a carbon price advance. The carbon price advance will be removed from the rate pegs in the following two years. We will remove 0.1% from the 2013/14 rate peg and 0.3% from the 2014/15 rate peg.

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

Flexibility is needed because there are 152 varied councils in NSW. Each has different expenditure needs and financial capacities. Communities may want different services and be more, or less, willing to pay for these services through higher rates. Given these different council needs and capacities, the flexibility of the special variation process enables councils to meet the preferences of their communities.

1.3 What are we doing?

We are allowing 18 councils with existing special variations to apply to us to modify their approved special variation percentages by:

- ▼ allowing an additional variation of 0.4% in 2012/13, and
- ▼ reducing the variations in 2013/14 and 2014/15 by 0.1% and 0.3% respectively.

These adjustments are in line with the adjustments that we have made to the rate peg for the carbon price advance and withdrawal which will apply to all councils that do not have a special variation in place for those years. Table 1 shows how the rate peg and special variations are affected. However, councils have to apply for the additional variation and some may choose not to do so.

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 last 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 last 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 last 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 last 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 last 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.

1.4 What will it mean?

1.4.1 For councils

Overall, councils will receive a marginal cash flow benefit from receiving additional revenue earlier and the compounding effect of that earlier revenue before it is withdrawn.

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.

1.4.2 For ratepayers

This change means that a ratepayer paying \$1000 a year in rates in 2012-13 would pay \$4 more in 2012/13, \$1 less in 2013/14 and another \$3 less in 2014/15.

1.5 Why are we doing it?

1.5.1 Why did we include a carbon price advance in the rate peg?

In December 2011 we set the rate peg for 2012/13 of 3.6% which included a carbon price advance of 0.4%. This advance is to be removed over the next two years - the rate peg in 2013/14 will be reduced by 0.1% and the rate peg for 2014/15 will be reduced by 0.3%.

We made these adjustments to the rate pegs 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, or LGCI). This lagged index would not capture the effect of the carbon price on council costs in 2012/13.

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 2012 (both of which are available on our website).

1.5.2 Why are we allowing councils to modify their existing variations?

Councils with existing special variations will not receive the 0.4% advance in 2012/13, but may face a lower rate peg either in 2013/14 or 2014/15, or in both years. Therefore, we have decided to allow 18 councils with existing special variations to

apply to us to amend their special variations in order to ensure access to equal treatment for all councils.

Accordingly, the Division of Local Government (DLG) has issued an Addendum to the 2012/13 *Guidelines for Special Variations* to allow some councils to apply to us to access this arrangement.¹

1.6 Which councils are eligible to apply?

The 18 councils that have existing special variations and can apply are shown in Tables 2 to 4 on page 5. The tables also show how the existing special variation will be varied if the council applies to IPART.

1.7 How will applications be assessed?

Applications will be assessed using a streamlined administrative process. They will not be assessed against the standard criteria used to assess applications made under sections 508(2) and 508A. The DLG's Addendum to the Guidelines simply requires councils to:

- ▼ inform IPART that they wish 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.

1.8 How do councils apply?

Councils in Tables 2 to 4 may apply to IPART under section 508A(9) for a variation to their existing special variation.

Applications in letter form, certified by the council's General Manager, are to reach IPART by mail or by email no later than 20 April 2012. IPART will formally advise councils of its decisions by 6 June 2012 and we will publish a fact sheet listing the approved changes.

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

¹ The Addendum issued by DLG may be accessed on the DLG and IPART websites.

Councils eligible to apply to modify their existing special variations

Table 2 Final year of special variation 2012/13

Council	2012/13 % approved	% approved after adjustment
Moree	9.25	9.65
Randwick	6.28	6.68
Tweed	7.50	7.90
Taree	10.00	10.40
Maitland	10.00	10.40
Woollahra	10.41	10.81

Table 3 Final year of special variation 2013/14

Council	2012/13 % approved	% approved after adjustment	2013/14 % approved	% approved 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 Final year of special variation 2014/15 or later

Council	2012/13 % approved	% approved after adjustment	2013/14 % approved	% approved after adjustment	2014/15 % approved	% approved after adjustment
Penrith	5.50	5.90	5.00	4.90	4.50	4.20
North Sydney*	5.50	5.90	5.50	5.40	5.50	5.20

Note: * After 2014/15, North Sydney's special variation remains at 5.5% per annum until the end of 2017/18. North Sydney has also applied for a special variation for 2012/13 which would replace the existing one.

Source: DLG Addendum to the Guidelines for the Preparation of an Application for a Special variation to General Income in 2012/13, March 2012, Schedules 1 to 3 and IPART.