

## FACT SHEET

# How does IPART assess applications for special variations by councils

October 2014

### Purpose

This fact sheet provides guidance to NSW councils that are considering applying for a special variation to their regulated general income in 2015/16.

It discusses the information that IPART uses to assess whether applications by councils meet the criteria set by the Office of Local Government.

### What is a special rate variation?

The *Local Government Act 1993* allows councils to apply for a special rate variation. A special rate variation allows councils to increase general income by more than the rate peg.<sup>1</sup>

Councils may apply for a special rate variation for a range of reasons such as:

- ▼ improving the financial position of the council, particularly where there may be financial sustainability issues
- ▼ funding the development and/or maintenance of essential community infrastructure or to reduce backlogs for asset maintenance and renewal
- ▼ funding new or enhanced services to meet growing demand in the community
- ▼ funding projects of regional significance, and
- ▼ covering special or unique cost pressures that the council faces.

The 2 types of special rate variations that a council may apply for under the Act are:

- ▼ an increase in a single year (under section 508(2))
- ▼ increases in each of 2 to 7 years (under section 508A). These will be cumulative; for example, the cumulative increase of 5% per annum for 4 years is 21.6%.

Either type of special variation may be temporary or it may be permanent.

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<sup>1</sup> General income includes rates and annual charges and user fees and charges except for water and sewerage, waste management and domestic waste disposal and stormwater management.

## How does IPART assess applications for special variations in rates?

Councils are to submit their applications for special variations to us by **16 February 2015**. A list of the councils that apply and the details of their applications will be published on our website.

We will assess each application in accordance with the *Guidelines for the preparation of an application for a special variation to general income for 2015/16* (the Guidelines) issued by the Office of Local Government (OLG) in October 2014. The Guidelines are updated each year. They are available on both the OLG's and our websites.

Once we have completed our assessment, we decide whether to approve, approve in part or reject the special rate variation. We expect to announce our decisions in **May 2015**. We will publish a Determination which outlines the reasons for our decisions.

We notify councils by letter regarding the outcome of their application. We also publish the reasons for our decision, and any conditions attaching to it, in a report, which we post on our website.

## What are the criteria that we use to assess applications?

The criteria that we will use to assess special variations from 2015/16 are set out in the special variation Guidelines and are reproduced below (Box 1).

The Guidelines for 2015/16 have changed slightly from the previous year in the following respect. Criterion 4 requires that revised IP&R documents (Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan), must publicly exhibited (where required), approved and adopted by the council before it applies to IPART for a special variation.

## Integrated Planning and Reporting (IP&R)

The NSW Government introduced the IP&R framework to improve councils' long term planning; integrate community, financial and asset planning; and to improve council accountability. Under the IP&R Framework, the councils have:

- ▼ Identified and planned for funding priorities, asset management and service levels following engagement with their communities. One way these priorities might be paid for would be through a special variation in rates.
- ▼ Developed a set of plans in consultation with their communities, including a Community Strategic Plan, a Long Term Financial Plan (both for 10 years or more), a 4-year Delivery Program and an Operational Plan with accompanying budgets. The purpose and size of any proposed special variation and its resultant expenditure increases would be reflected in the Delivery Program and Long Term Financial Plan.
- ▼ Established a series of reporting processes.

Further information on the IP&R Framework may be found in OLG's website.<sup>2</sup>

### **What information do councils provide to us?**

Councils are to provide evidence that shows that they have met the criteria of assessment in the special variation Guidelines. If a council has effectively developed its IP&R documents in consultation with its community, it should be in a position to demonstrate to us that it has extensively engaged with its community about:

- ▼ its financial position and projections
- ▼ the community's service delivery and expenditure priorities
- ▼ the community's capacity and willingness to pay higher rates.

A council's IP&R documents, particularly the Delivery Program, Long Term Financial Plan, Asset Management Plans and Community Engagement Strategy, should provide sufficient information to meet most of the criteria for assessing an application.

Councils should submit their completed IPART application forms, Part A and Part B, templates for which are posted on our website. These forms indicate the type of information that should accompany applications so that we can assess the application. Among other things, this includes information on:

- ▼ the rating structure
- ▼ the impact on rates of the special variation
- ▼ the council's track record on productivity improvements and cost containment strategies, and its plans for future gains in these areas.

The amount of information that councils are to provide under each criterion is a matter for the council to decide. The information provided should be sufficient to assist us in assessing the application against each criterion. In general, the information provided should be proportional to the size or complexity of the special variation being requested.

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<sup>2</sup> Refer to *Integrated Planning and Reporting Guidelines for local government in NSW* and *Integrated Planning and Reporting Manual for local government in NSW*.

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### **Box 1 Assessment criteria for applications for 2015/16**

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 through the council's Integrated Planning and Reporting (IP&R) documents, including its Delivery Program and Long Term Financial Plan (LTFP) and Asset management Plan where appropriate. In establishing the need for the special variation, the relevant IP&R documents should canvas alternatives to a rate rise. In demonstrating this need councils must indicate the financial impact in their LTFP 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 approving 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/desire for service levels/project 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 IP&R documentation 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 an opportunity for community awareness and input to occur.
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 IP&R processes should
- clearly show the impact of any rises on the community
  - include the council's consideration of the community's capacity and willingness to pay the proposed special variation and
  - establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.
4. The relevant IP&R documents must be exhibited (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general revenue.<sup>a</sup>
5. The council's IP&R documents or the 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.

<sup>a</sup> The IP&R documents include the following documents that require public exhibition: the Community Strategic Plan; Delivery Program and Operational Plan. The IP&R suite also includes the Long Term Financial Plan, Workforce Plan and the Asset Management Plan.

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### **Criterion 1: Need for the variation**

The council must demonstrate that the additional rate revenue is needed. The demonstration is to be based on the council's IP&R documents, where relevant.

The criterion requires councils to provide evidence that includes:

- ▼ the community's need and/or desire for higher levels of service or particular projects to be delivered by the council
- ▼ that the council has examined alternatives to a rate rise
- ▼ that the council has considered its current and projected financial sustainability.

### **Criterion 2: Community awareness and engagement**

For more information on how councils can achieve adequate community awareness and engagement, refer to our fact sheet on this topic, dated October 2014, posted on the IPART website.<sup>3</sup>

### **Criterion 3: Impact on ratepayers**

We require councils to show us why they consider the impact on ratepayers to be reasonable.

In making our assessment, we will also consider trends in a range of socioeconomic indicators, both within an LGA over time and with other relevant council areas.

### **Criterion 4: Relevant IP&R documents are to be publicly exhibited, approved and adopted by the council**

The IP&R documents include the following documents that require public exhibition: the Community Strategic Plan; Delivery Program and Operational Plan. The IP&R suite also includes the Long Term Financial Plan, Workforce Plan and the Asset Management Plan.

### **Criterion 5: Productivity improvements and cost containment strategies**

We will examine the evidence of productivity improvements and cost containment strategies. This includes cost savings made, and to be made over the life of the proposed special variation, by the council. The range of improvements may include re-prioritising various services and the levels of service provision, re-organising/reducing labour and capital inputs, and reviewing organisational structures or services to be delivered.

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<sup>3</sup> [http://www.ipart.nsw.gov.au/Home/Industries/Local\\_Govt/Fact\\_Sheets\\_Information\\_Papers](http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Fact_Sheets_Information_Papers)



We will also consider trends in various productivity indicators across time for the council and compare them to other relevant councils.

### **What are the steps for councils that are considering applying?**

- ▼ Step 1 – Call us to discuss the application (phone 9113 7710) and consider meeting with us well before the official notification date (**12 December 2014**).
- ▼ Step 2 – download the Guidelines from OLG’s website and the application forms (Parts A and B) from our website at [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).
- ▼ Step 3 – ensure that the council has addressed the criteria in the Guidelines.
- ▼ Step 4 – Register on our Council Portal and submit your notification letter to us by **12 December 2014** indicating your council’s intention to apply for a special rate variation.
- ▼ Step 5 – Complete application forms Part A and B and submit these and any other application material via the Portal. This can be done progressively and saved on the Portal from the notification date. Completed applications for special rate variations must be submitted by **16 February 2015**.

### **Can residents and ratepayers make submissions directly to us?**

The avenue for community consultation is through each council’s integrated planning processes and specific consultation on the special variation. We encourage members of the community to participate in their council’s community consultation and engagement processes.

The Guidelines require each council to engage with its community on its expenditure and revenue plans as part of its Integrated Planning and Reporting process. Councils will have to demonstrate to us that they have engaged with their communities and listened to the input that they have received.

IPART does not hold public hearings as part of our assessment of council applications. Nor do we solicit public submissions. However, we will accept and consider submissions from interested groups or individual ratepayers regarding special variations for up to 4 weeks after the deadline for council applications. For 2015, this date is **16 March 2015**. We will only accept submissions received by this closing date.

We prefer ratepayers to lodge submissions using our electronic submission facility that is available on our website during the submission period. This may be accessed alongside each council’s application at: [http://www.ipart.nsw.gov.au/Home/Industries/Local\\_Govt/Special\\_Variations\\_and\\_Minimum\\_Rates/Applications\\_Determinations](http://www.ipart.nsw.gov.au/Home/Industries/Local_Govt/Special_Variations_and_Minimum_Rates/Applications_Determinations)



If you wish to post your submission to us, our address is:

Local Government Team  
Independent Pricing and Regulatory Tribunal of NSW  
PO Box K35  
Haymarket Post Shop NSW 1240

If you wish to use email, our address is: [localgovernment@ipart.nsw.gov.au](mailto:localgovernment@ipart.nsw.gov.au).

If you make an online submission please indicate if you are agreeable to its publication on our website or else indicate that you want your submission to be confidential.

We will post all non-confidential public submissions from **16 March 2015**. They will only show the author's name; all other contact details will be removed.

### **Want more information?**

Refer to the Guidelines or contact us on 9113 7710. We also publish fact sheets on community awareness and engagement and the process for applying for an increase in minimum rates.