

Fact Sheet – How IPART will assess applications for special variations for 2016-17



22 January 2016



WHAT

This fact sheet provides guidance to councils that are considering applying for a special variation to their general income in 2016-17.

The criteria are set out in the *Guidelines for the preparation of an application for a special variation to general income for 2016-17* (the Guidelines) issued by the Office of Local Government (OLG), and are available at www.olg.nsw.gov.au and www.ipart.nsw.gov.au

Under these Guidelines, released on 15 January 2016, **councils that are subject to a merger proposal will not be eligible for a special variation or minimum rate increase for the 2016-17 rating year.**

The OLG's criteria relate to:

- ▼ reasons for the proposed special variation
- ▼ community consultation
- ▼ impact on ratepayers
- ▼ public exhibition, and
- ▼ cost savings – past and future.



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 by the local government area.



HOW

The 2 types of special rate variations that a council may apply for under the *Local Government Act 1993* (the Act) are:

- ▼ an increase in a single year ie, under section 508(2) of the Act
- ▼ 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.

If a council has developed its Integrated Reporting and Planning (IP&R) documents effectively, it should be able to demonstrate that it has extensively engaged with its community about:

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



WHEN

- ▼ **15 February 2016** – councils submit Part A and Part B of their special variation application forms via our [Council Portal](#)
- ▼ **17 May 2016** – IPART publishes its determinations on applications for 2016-17.

Fact Sheet – How IPART will assess applications for special variations for 2016-17



1 Purpose

This Fact Sheet provides guidance to NSW councils that are considering applying for a special variation to their regulated general income in 2016-17.

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

2 What is a special rate variation?

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

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.

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

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

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

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

We will assess each application in accordance with the *Guidelines for the preparation of an application for a special variation to general income for 2016-17* (the Guidelines) issued by the Office of Local Government (OLG). These are available on the OLG and IPART websites.

Under these Guidelines, released on 15 January 2016, **councils that are the subject of a merger will not be eligible for a special variation or minimum rate increase for the 2016-17 rating year.**

Once we have completed our assessment, the application is either approved, approved in-part or rejected. We announce and publish the reasons including any conditions in a report, which we post on our website in May 2016.

What are the criteria that we use to assess applications?

The criteria that we will use to assess proposed special variations from 2016-17 are set out in the Special Variation Guidelines and are reproduced below, see Box 1. The Guidelines for 2016-17 have changed slightly from the previous year.

Box 1 The Guidelines' assessment criteria for applications 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.

Criterion 1: Need for the variation

The council must demonstrate, supported by the council's IP&R documents, that the additional rate revenue is needed. This 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, and
- ▼ that the council has considered its current and projected financial sustainability.

Criterion 2: Community awareness and engagement

More information on how councils can achieve adequate community awareness and engagement, is available in our fact sheet (January 2016), posted on our website.

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 a local government area 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. These may include review of service priorities, levels of service, labour and capital inputs, and organisational structures or services to be delivered.

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

What information do councils provide to us?

Councils are to provide evidence that shows that they have met the criteria of assessment in the OLG's Guidelines.

The council's application will be supported by the council's IP&R documents. These plans are developed by councils in consultation with their communities and include 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.

If a council has developed its IP&R documents effectively 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, and
- ▼ the community's capacity and willingness to pay higher rates.

Further information on the IP&R Framework may be found on OLG's website.¹

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

- ▼ the rating structure
- ▼ the impact on rates of the proposed 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.

4 Can residents and ratepayers make submissions directly to us?

The avenue for community consultation is through each council's Integrated Planning and Reporting process and the council's consultation on the proposed special variation.

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 ie, by 14 March 2016.

¹ Refer to *Integrated Planning and Reporting Guidelines for local government in NSW* and *Integrated Planning and Reporting Manual for local government in NSW*.

Submissions should be submitted no later than the published submissions deadline. We will consider submissions received after the published deadline at our discretion.

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 use email, our address is: localgovernment@ipart.nsw.gov.au

Members of the community and industry stakeholders may indicate in writing at the time of their submission that they prefer it or any part of it to be treated as confidential. IPART determines requests for access to confidential submissions in accordance with the Government Information (Public Access) Act 2009 and Section 22A of the Independent Pricing and Regulatory Tribunal Act 1992. We will publish on our website all non-confidential public submissions from **15 March 2016**. We generally remove email addresses, postal addresses and telephone numbers before publishing submissions.

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

5 What are the steps for councils that are considering applying?

- ▼ **Step 1** – download the Guidelines and application forms (Parts A and B) from our website at www.ipart.nsw.gov.au.
- ▼ **Step 2** – ensure that the council has addressed the criteria in the Guidelines.
- ▼ **Step 3** – Complete application forms Parts A and B and submit these and any supporting material via the Portal. This can be done progressively and saved on the Portal. Completed applications for special rate variations must be submitted by **15 February 2016**.