

## FACT SHEET

# Summary of rate variations requested by councils and IPART's decisions

Based on our assessment of council applications against specified criteria  
11 June 2013

### Background

Local councils in NSW receive income from multiple sources including rates, grants, user fees and charges, fines, developer contributions, local government charges for water supply and sewerage and charges for waste disposal.

Around half of NSW council income comes from rates and other charges and is known as general income.

Under NSW Government policy, local councils' general income is increased each year in line with price changes for a typical council through the 'rate peg'. Since 2010, the rate peg has been set by IPART. The rate peg for 2013/14 is 3.4%.<sup>1</sup>

The policy also provides flexibility by allowing councils to raise additional income above the rate peg if needed by applying to IPART for a 'special variation'. Special variations give councils flexibility if they need to exceed the rate peg, with IPART undertaking an independent assessment process to determine if the increase is realistic, justifiable and affordable for ratepayers.

Councils apply for special variations for a variety of reasons. In recent years, a number of councils have sought to increase rate income to put their finances on a more sustainable footing and to improve their infrastructure like roads, drainage and community buildings.

The NSW Treasury Corporation has recently completed reviews of the financial sustainability of councils across the State. These reviews show that many councils need to develop plans with their communities to improve their financial sustainability and tackle infrastructure backlogs.<sup>2</sup>

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<sup>1</sup> The rate peg for 2013/14 was published in November 2011. It is calculated by taking the 3.7% increase in Local Government Cost Index (LGCI), deducting a productivity factor of 0.2% and deducting 0.1% of the carbon price advance that was included in the 2012/13 rate peg. The LGCI weights reflect the effects of inflation on an 'average' council's costs.

<sup>2</sup> NSW Treasury Corporation, *Financial Sustainability of the NSW Local Government Sector*, April 2013.

Councils can apply for a special variation as either:

- ▼ an increase in general income in a single year, under section 508(2) of the *Local Government Act 1993*, (the Act), or
- ▼ an increase in general income in more than 1-year (between 2 and 7), under section 508A of the Act.

Special variations may be temporary or permanent. Temporary variations are included in the rate base of the council for a limited number of years. For example, a council may request a temporary lift in income to repay borrowings or to fund capital projects eg, Coffs Harbour. Permanent variations remain in the rate base permanently. For example, to reduce operating deficits on a permanent basis eg, Cobar.

### **Special Variation and Minimum Rate Applications in 2013**

For 2013/14 we received applications for special variations or minimum rate increases from 24 of the 152 councils across NSW. Of these, 23 were for special rate variations and 1 was for an increase in minimum rates.

Of the 23 applications for special variations, 20 were approved in full, 1 was approved for a lower cumulative amount over fewer years than requested (Wyong), 1 was approved for a lower amount (Great Lakes) and 1 is a temporary variation that will remain in the rate base for 1-year rather than 5 (Ku-ring-gai). No applications were declined. The minimum rate application was approved in full.

The Summary of Variations - Annual Variations and Purpose (Table 2) sets out the percentage increases in general income requested by each council and approved by us and the reasons for the requested special variation.

The Summary of Approvals (Table 3) sets out the type and duration of each council application. It also sets out the approved percentage increases in general income above the rate peg over the period of the special variation and the estimated increase in average residential rates that will occur in 2013/14.

Reports on our decisions for each council are available on our website.

## How we assessed applications for special variations

We assess applications from councils against criteria set out in Guidelines that are issued by the Division of Local Government. These are included in Table 1.<sup>3</sup>

All applications were required to demonstrate the need for the additional revenue, community engagement and awareness of the proposed changes, and productivity improvements to reduce overall council costs. The council's long-term financial plan and the impact of proposed increase on ratepayers is also considered.

We also considered submissions from ratepayers, community groups, business groups and ratepayer associations.

The Guidelines included transitional arrangements for 2013/14. We assessed 14 of the applications for single variations in 2013/14 using the transitional arrangements (see Table 1).

### Crown Land Adjustments

We also assessed and approved 4 separate applications for Crown land adjustments. These adjustments allow councils to increase their general income to reflect additional rate revenue from newly rateable land. For 2013/14, Crown land adjustments were approved for City of Sydney, Great Lakes, Port Macquarie-Hastings, Port Stephens and Wingecarribee. A Crown land adjustment for Great Lakes Council was incorporated in its special variation amount. Details of these adjustments are included in Tables 2 and 3.

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<sup>3</sup> *Guidelines for the preparation of an application for a special variation to general income*, Division of Local Government (DLG), Department of Premier and Cabinet, October 2012. We also assess applications to increase certain minimum rates above statutory minimum amounts using guidelines issued by DLG.

**Table 1 Criteria used to assess special variation applications**

<p>1. The need for and purpose of a different revenue path (as requested through the special variation) is clearly articulated and identified through the council's IP&amp;R documents, including its Delivery Program and Long Term Financial Plan.</p> <p>Evidence for this criterion could include evidence of community need/desire for service levels/project and limited council resourcing alternatives and the Council's financial sustainability conducted by the NSW Treasury Corporation.</p>
<p>2. Evidence that the community is aware of the need for and extent of a rate rise. This should be clearly spelt out in IP&amp;R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&amp;R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates.</p>
<p>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. Council's IP&amp;R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.</p>
<p>4. The proposed Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.</p>
<p>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 period.</p>
<p>6. IPART's assessment against criteria 1-5 above should take into account:</p> <ul style="list-style-type: none"> <li>- size of the council</li> <li>- resources of the council</li> <li>- size (both actual \$ and %) of increase requested</li> <li>- current rate levels and previous rate rises</li> <li>- purpose of the special variation, and</li> <li>- any other matter considered relevant in the assessment of a special variation application.</li> </ul>
<p><b>Transitional arrangements for 2013/14</b> In light of the 2012 local government elections and the requirement for councils to review the Community Strategic Plan and Delivery Program, and develop an Operation Plan by 30 June 2013, the revised guidelines and application timing may create a difficulty for councils who wish to apply but have not yet completed the necessary IP&amp;R review. Therefore for the 2013/14 rating year process, IPART will have the discretion to award a single year variation or extension to an existing special variation where it assesses that the general principles of need, community awareness, reasonable ratepayer impact, realistic financial planning assumptions and cost containment and productivity achievement related to the assessment criteria are met by a council even though the evidence is not necessarily reflected within the council's IP&amp;R .documentation.</p>

**Source:** DLG, *Guidelines for the preparation of an application for a special variation to general income*, October 2012, pp 10-12.

## Interpreting Table 2

To help the reader to interpret Table 2, we have included some examples of each of the types of applications and the decisions made by us.

### **508(2) special variation for a temporary increase in income**

An example of a council applying for a single-year, temporary increase in general income is Lismore Shire Council. The council applied to continue for 5 years a special variation paid only by certain business ratepayers. In effect, the application was for a single increase in general income of 3.82% to remain in the rates base for 5 years under section 508(2) of the Act. IPART approved the application in full.

### **508(2) special variation for a permanent increase in income**

An example of a council applying for a single year, permanent increase in general income is Rockdale City Council. The council applied under section 508(2) for a single increase in general income of 6.4% to remain permanently in the rates base. IPART approved the application in full.

### **508A special variation**

An example of a council applying for a multi-year, permanent increase in general income is Parkes Shire Council. The council applied for a permanent increase with a variation in each of the next 4 years and for a cumulative increase of 63.1%, or 50.1 percentage points above the rate peg. IPART approved the increase in full.

### **Minimum rates**

The only application to increase minimum rates was made by Gundagai Shire Council under section 548(3) of the *Local Government Act 1993*. The council sought to increase the minimum amount of the Town Improvement District special rate in line with the rate peg. IPART approved the application in full.

### **Special variations to renew an existing special variations**

12 councils requested to renew an expiring special variation. Where we approve the continuation in part or in full, the annual increase in average rates will generally be lower than the special variation percentage approved. Application amounts that included existing special variations are shown in Tables 2 and 3 with an asterisk.

### **Crown land adjustments**

For 2013/14, the City of Sydney applied for a crown land adjustment of 1.56% above the rate peg in respect of land on part of the Barangaroo site where commercial licences have been issued for development. Likewise, Crown land within the Port Stephens City Council area was sold to private interests, thus becoming rateable and adding 0.07% to its rates base. We approved both applications. Crown land adjustments should not affect existing rates.



Council		% increase in permissible income (including rate peg)							Cumulative Increase %	Purpose of special variation
		13/14 %	14/15 %	15/16 %	16/17 %	17/18 %	18/19 %	19/20 %		
Gundagai	Requested	3.4							3.4	To increase the minimum amount of the Town Improvement District special rate in line with rate peg.
	Approved	3.4							3.4	
Gunnedah	Requested	9.4	8.5	9.5	7.5				39.7	To fund debt servicing costs associated with a capital works program, and to improve its financial sustainability.
	Approved	9.4	8.5	9.5	7.5				39.7	
Hunter's Hill	Requested	10.67*							10.67	To continue for 10 years the Infrastructure and Environment levies (due to end 30 June 2013). Also operational catch-up of a permanent 2%.
	Approved	10.67*							10.67	
Junee	Requested	10.0							10.0	To fund road renewal works.
	Approved	10.0							10.0	
Kiama	Requested	9.74*							9.74	To permanently continue 2 special variations (due to end 30 June 2013 and 30 June 2014) to fund road asset renewal works.
	Approved	9.74*							9.74	
Kogarah	Requested	5.8*	4.8	4.8	4.8				21.8	To replace a current special variation of 5.9% in 2013/14 and to fund service levels in the Community Strategic Plan and the Delivery Program 2013/17.
	Approved	5.8*	4.8	4.8	4.8				21.8	
Ku-ring-gai	Requested	8.4*							8.4	To continue for 5 years a special levy for road infrastructure. We approved continuation of the levy for 1-year.
	Approved in part	8.4*							8.4	
Lismore	Requested	3.82*							3.82	To continue a special variation on businesses for 5 years to fund promotion of business in the Lismore urban area.
	Approved	3.82*							3.82	
Parkes	Requested	13.0	13.0	13.0	13.0				63.0	To improve financial sustainability so the council can maintain and renew assets and increase spending on assets.
	Approved	13.0	13.0	13.0	13.0				63.0	

Council		% increase in permissible income (including rate peg)						Cumulative Increase %	Purpose of special variation
		13/14 %	14/15 %	15/16 %	16/17 %	17/18 %	18/19 %		
Port Macquarie-Hastings	Requested	3.41						3.41	Crown land adjustment allowing council income to increase to reflect newly rateable. The adjustment should not affect rates for existing ratepayers.
	Approved	3.41						3.41	
Port Stephens	Requested	3.47						3.47	Crown land adjustment allowing council income to increase to reflect newly rateable. The adjustment should not affect rates for existing ratepayers.
	Approved	3.47						3.47	
Randwick	Requested	3.59	3.59	3.59	3.59			15.15	To fund the projects and services in the 2013-17 Delivery Program in line with community expectations and the Resourcing Strategy.
	Approved	3.59	3.59	3.59	3.59			15.15	
Rockdale	Requested	6.4*						6.4	To permanently continue a special variation (due to end on 30 June 2013) for the renewal of assets.
	Approved	6.4*						6.4	
Shellharbour	Requested	8.4	9.0	10.0	10.0			43.0	To improve financial sustainability, to maintain current levels of service and to improve infrastructure.
	Approved	8.4	9.0	10.0	10.0			43.0	
Shoalhaven	Requested	8.0						8.0	To fund infrastructure renewals mostly roads and footpaths.
	Approved	8.0						8.0	
Upper Hunter	Requested	5.9	5.5	5.5				17.9	To fund loan repayments (for a program of upgrades to road and bridge infrastructure) for which the council has received, or applied for, interest subsidies.
	Approved	5.9	5.5	5.5				17.9	
Walgett	Requested	6.4						6.4	To fund a program of upgrades to local roads
	Approved	6.4						6.4	



Council		% increase in permissible income (including rate peg)							Cumulative Increase %	Purpose of special variation
		13/14 %	14/15 %	15/16 %	16/17 %	17/18 %	18/19 %	19/20 %		
Wingecarribee	Requested	3.46							3.46	Crown land adjustment allowing council income to increase to reflect newly rateable land. The adjustment should not affect rates for existing ratepayers
	Approved	3.46							3.46	
Wyong	Requested	6.9	6.9	6.9	6.9	6.9	6.9	6.9	59.5	To improve financial sustainability so as to be able to reduce infrastructure backlogs. We approved a variation of 6.9% each year for 4 years, rather than 7 years as requested.
	Approved in part	6.9	6.9	6.9	6.9				30.6	

**Notes:** \* An asterisk indicates that the council has an existing special variation that is either being continued or replaced. It is included in the special variation percentage.

An # indicates that the council is re-applying for a special variation that has already been approved in a prior year.

Percentage increases are shown to 1 or 2 decimal places, depending on the precision with which the requested special variation was expressed.

**Source:** IPART and council applications.

**Table 3 Summary of the impact of approvals for special variations (SV) and minimum rate (MR) increases**

<b>Council</b>	<b>Decision</b>	<b>Type of variation</b>	<b>Cumulative increase above rate peg %</b>	<b>Average annual increase above rate peg %</b>	<b>Cumulative increase above rate peg and existing SVs %</b>	<b>Average annual increase above rate peg and existing SVs %</b>	<b>Estimated increase in average rate in 2013/14 (residential unless stated) \$</b>
		<b>Note 1</b>	<b>Note 2</b>	<b>Note 3</b>	<b>Note 4</b>	<b>Note 5</b>	<b>Note 6</b>
Bega Valley	Approved	508A – P 3	7.1*	2.4	4.0	1.3	\$52
Blue Mountains	Approved	508(2) - P	4.4*	-	0.0	-	\$39
Camden	Approved	508(2) T 6yrs	1.1*	-	0.0	-	\$5
Cessnock	Approved	508(2) – T 1 yr	6.05*	-	0.0	-	\$34
City of Sydney	Approved	CLA	1.56	-	-	-	-
Cobar	Approved	508(2) - P	21.6	-	21.6	-	\$99
Coffs Harbour	Approved	508(2) – T 10 yrs	2.03*	-	0.0	-	\$31; \$239 CBD bus rate
Corowa	Approved	508(2) – P	3.6	-	3.6	-	\$30
Great Lakes	Approved in part	508(2) – part T 7 yrs part P	10.52*	-	3.4	-	\$83
Gundagai	Approved	MR	0.0	-	0.0	-	\$6 TID min rate
Gunnedah	Approved	508A – P 4	26.7	6.7	26.7	6.7	\$49
Hunter's Hill	Approved	508(2) part T 10 yrs part P	7.27*	-	2.0	-	\$71
Junee	Approved	508(2) – P	6.6	-	6.6	-	\$56

<b>Council</b>	<b>Decision</b>	<b>Type of variation</b>	<b>Cumulative increase above rate peg %</b>	<b>Average annual increase above rate peg %</b>	<b>Cumulative increase above rate peg and existing SVs %</b>	<b>Average annual increase above rate peg and existing SVs %</b>	<b>Estimated increase in average rate in 2013/14 (residential unless stated) \$</b>
		<b>Note 1</b>	<b>Note 2</b>	<b>Note3</b>	<b>Note 4</b>	<b>Note 5</b>	<b>Note 6</b>
Kiama	Approved	508(2) – P	6.3*		0.0		\$44
Kogarah	Approved	508A – P 4	8.8*	2.2	5.4	1.4	\$27
Ku-ring-gai	Approved in part	508(2) – T 1 yr	5.0*		0.0		\$48
Lismore	Approved	508(2) – T 5 yrs	0.4*		0.0		\$35; Lismore bus rate \$127 or \$247
Parkes	Approved	508A – P 4	50.1	12.5	50.1	12.5	\$72
Port Macquarie-Hastings	Approved	CLA	0.01	-	-	-	-
Port Stephens	Approved	CLA	0.07	-	-	-	-
Randwick	Approved	508A – P 4	2.2	0.6	-	-	\$36
Rockdale	Approved	508(2) - P	3.0*	-	0.0	-	\$29
Shellharbour	Approved	508A – P 4	30.0	7.5	30.0	7.5	\$88
Shoalhaven	Approved	508(2) - P	4.6		4.6	-	\$70
Upper Hunter	Approved	508A – P 3	8.2	2.7	8.2	2.7	\$38
Walgett	Approved	508(2) - P	3.0		3.0		\$21
Wingecarribee	Approved	CLA	0.06	-	-	-	-

Council	Decision	Type of variation	Cumulative increase above rate peg %	Average annual increase above rate peg %	Cumulative increase above rate peg and existing SVs %	Average annual increase above rate peg and existing SVs %	Estimated increase in average rate in 2013/14 (residential unless stated) \$
		Note 1	Note 2	Note 3	Note 4	Note 5	Note 6
Wyong	Approved in part	508A – P 4	17.6	4.4	17.6	4.4	\$58

**Notes:** SV = special variation. MR = minimum rate application. P or T indicates permanent or temporary variation. CLA = Crown land adjustment. TID = Town Improvement District.

\* An asterisk indicates that the council has an existing special variation that is either being continued or replaced. It is included in the special variation percentage.

The rate peg is set at 3.4% for 2013/14 and is assumed to be 3% in each subsequent year.

**Explanation of terms:** The data columns are:

1. Special variations under section 508A have all been approved as permanent increases and will be permanently retained in the rates base. The number of variations we have approved are either 3 or 4 years. Special variations approved under 508(2) are for a single variation in 2013/14. These may be either permanent, or temporary or part permanent-part temporary. Temporary variations remain in the rates base for a limited number of years.
2. The total increase in the council's general income above the rate peg that was approved by IPART for the period of the special variation. It is the difference between the cumulative percentage increase in income approved by IPART (as shown in Table 3) less the cumulative percentage increase that would have occurred under the rate peg regime.
3. The simple average increase per annum in council income above the rate peg that is approved by IPART. It is only shown for councils which applied for multi-year increases. It is calculated as the cumulative percentage increase above the rate peg divided by the number of years over which the increases occur.
4. The cumulative increase in the council's general income above the rate peg after allowing for any reduction in general income resulting from the expiry of existing special variations. It also measures the actual cumulative increase in rates that ratepayers, on average, can expect to pay above the rate peg.
5. The simple average increase in council income above the rate peg. It also measures the simple average annual increase in rates above the rate peg.
6. The dollar increase in the average residential rate in 2013/14. Other rates may increase by different amounts. Non-residential rate increases may be shown if they are significant and the focus of the special variation.

**Source:** IPART and council applications.

