

FACT SHEET

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

3 June 2014

Purpose

This fact sheet summarises IPART's decisions on council applications for special variations and minimum rate increases in 2014/15.

Background

A special variation under the *Local Government Act 1993* (the Act) allows a council to increase its general income by more than the rate peg. For 2014/15, IPART has set the rate peg at 2.3%.

Special variations provide councils flexibility if they need to raise additional income, with IPART undertaking an independent assessment process in accordance with the *Guidelines for the preparation of an application for a special variation to general income for 2014/15* (the Guidelines) issued by the Office of Local Government.¹

Councils apply for special variations for a variety of reasons. In recent years, a number of councils have sought to increase rate income to improve financial sustainability, to fund new or enhanced services to meet growing demand in the community, or to improve their infrastructure, in particular roads and bridges.

Councils can apply for a special variation as either:

- ▼ an increase in general income in a single year, under section 508(2) of 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 increase in income to repay borrowings or to fund capital projects. Permanent variations remain in the rate base permanently.

¹ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application for a special variation to general income for 2014/15*, September 2013 (the Guidelines). Effective February 2014, the Division of Local Government became the Office of Local Government (OLG). We also assess applications to increase certain minimum rates above statutory minimum amounts using guidelines issued by OLG.

Special Variation and Minimum Rate Applications in 2014

For 2014/15, we received 32 applications for special variations and 2 applications for minimum rate increases.² There are 152 councils across NSW.

Of the 32 applications for special variations:

- ▼ 28 were approved in full
- ▼ 2 were approved for a lower cumulative amount over fewer years than requested (Burwood and Coffs Harbour)
- ▼ 1 was approved for a lower amount (Warringah)
- ▼ 1 application was declined (Weddin).

Table 1 sets out the percentage increases in general income approved by us for each council and the purpose of the special variation.

The 2 minimum rate applications were approved in full. These are set out in Table 2.

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 Office of Local Government. Box 1 lists the assessment criteria.

All applications were 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 the proposed increase on ratepayers are also considered.

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

Crown land adjustments

We also assessed and approved applications for Crown land adjustments for 3 councils - Great Lakes, Newcastle and Port Stephens. These adjustments allow the councils to increase their general income to reflect additional rate revenue as a result of previous Crown land becoming rateable through sale to private individuals or transfer to particular State Owned Corporations. Details of these adjustments are included in Table 1.

² Gundagai Shire Council applied for a special variation and an increase in the minimum of its special rate. Lane Cove Council also applied to increase its minimum rates.

Box 1 Assessment criteria for special variation applications for 2014/15

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 Integrated Planning and Reporting (IP&R) documents, including its Delivery Program and Long Term Financial Plan. 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. In demonstrating this need councils must indicate the financial impact in their Long Term Financial Plan applying the following two scenarios:
 - a) Baseline scenario – revenue and expenditure forecasts which reflect the business as usual model, and exclude the special variation, and
 - b) Special variation scenario – the result of approving the special variation in full is shown and reflected in the revenue forecast with the additional expenditure levels intended to be funded by the special variation.
 2. Evidence that the community is aware of the need for and extent of a rate rise. This must be clearly spelt out in IP&R documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&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. The relevant IP&R documents must be approved and adopted by the council before the council seeks IPART's approval for a special variation to its general revenue.
 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&R process should also establish that the proposed rate increases are affordable having regard to the local community's capacity to pay.
 4. The proposed Delivery Program and Long Term Financial Plan must show evidence of realistic assumptions.
 5. An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the special variation period.
 6. IPART will assess each application based on its merits against criteria 1 to 5 above. In doing so, IPART will consider:
 - size and resources of the council
 - size (both actual \$ and %) of increase requested
 - current rate levels and previous rate rises
 - purpose of the special variation; and
 - any other matter considered relevant in the assessment of a special variation application.
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Interpreting Table 1

To help the reader interpret Table 1, we have included some examples of each of the types of applications and the decisions made by us. All approvals in the table are permanent unless we have noted otherwise.

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 Greater Taree Council. In effect, the application was for a single increase in general income of 7.3% to remain in the rates base for 5 years under section 508(2) of the Act. IPART approved the application in full. These are shown in Table 1 as 508(2) T (for temporary) followed by a number indicating how many years the special variation is to remain in the council's rate base.

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 Bellingen Shire Council. The council applied under section 508(2) for a single increase in general income of 11.8% 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 increase in general income is Rockdale City Council. The council applied for an increase with a variation in each of the next 4 years and for a cumulative increase of 26.25%, or 14.46% above the rate peg to remain permanently in the rates base. IPART approved the increase in full.

Special variations to renew existing special variations

Eight councils applied for a special variation 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 as it includes a variation that ratepayers are already paying. Application amounts that included expiring special variations are shown in Table 1 with an asterisk.

Crown land adjustments

An example of a council applying for a Crown land adjustment is Newcastle City Council. As a result of former Crown land becoming rateable, general income will increase by 0.75%. This means Newcastle City Council will be able to increase its general income in 2014/15 by 3.05%, including the rate peg. Crown land adjustments should not necessarily affect existing rates.

Partial or non-approval of application

Where we have not approved, or only given partial approval to a council, the table includes 2 rows. The first lists the SV that the council applied for, while the second lists the SV that we have approved.

Table 1 Summary of special variations determined by IPART – annual variation and purpose

Council	Type	Purpose of special variation	% increase in permissible income (including rate peg)							Cumulative Increase %
			14/15	15/16	16/17	17/18	18/19	19/20	20/21	
Armidale Dumaresq	508(2) T7	To address a \$2.1m shortfall for asset renewals (mainly roads, drainage and amenities).	12.3							12.3
Bellingen	508(2)	To fund loan for transport infrastructure works to address backlog, and additional maintenance.	11.8							11.8
Blacktown	508A	To fund the asset renewal backlog and future asset renewal requirements.	6.7	5.11						12.15
Blayney	508A	To fund a program of infrastructure renewal while allowing the council to maintain assets and service levels.	4.69	5.11						10.04
Burwood	508A	To improve the operating balance, increase capital spending and reduce the infrastructure backlog.	5.5	6.5	7.0	7.5	7.5	7.5	7.5	60.6
		Approved in part	5.5	6.5	7.0	7.5				29.2
Campbelltown	508(2)	For the maintenance and renewal of council assets and related LIRS loan repayments.	11							11
Canterbury	508A	To maintain services and meet infrastructure maintenance and renewal requirements.	7.5	7.5	7.5					24.23
Cessnock	508(2)	To continue permanently the program of road infrastructure renewal now being funded by an existing, temporary, special variation.	9.55*							9.55
Coffs Harbour	508A	To ensure the sustainable management of council infrastructure assets through rehabilitation, maintenance and renewal works.	7.9	8.14	7.75					25.73
	508(2)	Approved in part	7.9							7.9
Corowa	508A	To maintain current service levels, long term financial sustainability and containment of infrastructure backlog.	7	7	7	7				31.08
Fairfield	508(2)	To fund increasing operating costs, infrastructure renewal/upgrade and new facilities.	10*							10

Council	Type	Purpose of special variation	% increase in permissible income (including rate peg)							Cumulative Increase %
			14/15	15/16	16/17	17/18	18/19	19/20	20/21	
Gilgandra	508A	To increase rural road maintenance and renewal and improve long term financial sustainability.	9.3	10	10					32.25
Glen Innes Severn	508A	To achieve operating balance and fund asset renewals.	11.21	10.02	5.59					29.2
Great Lakes	508(2)	Crown land adjustment allowing council income to increase to reflect newly rateable land. The adjustment will not affect rates for existing ratepayers.	2.32							2.32
Greater Taree	508(2) T5	For a new environmental levy to help fund the implementation of the Environmental Action Plan.	7.3							7.3
Gundagai	508(2) T10	To meet borrowing costs for a loan of \$3m to partially fund main street upgrade estimated to cost \$4m.	15.12							15.12
Guyra	508(2)	To renew an expiring special variation for road renewal and maintenance and improve financial sustainability.	8*							8
Holroyd	508A	To fund maintenance and renewal of key assets and improve financial sustainability.	8	8	8	7	7			44.22
Junee	508A	To improve the council's financial sustainability, retain funding for basic services and road renewal works.	11.9*	9.5	9					33.56
Kempsey	508A	To adequately finance infrastructure maintenance programs and retain existing services to the community.	9.3	10	10	4				37.54
Ku-ring-gai	508(2)	To permanently renew an expiring levy for road renewals.	7.3*							7.3
Liverpool City	508(2)	For capital works and annual maintenance programs for the delivery of adequate infrastructure and services to the growing community.	12*							12
Liverpool Plains Shire	508(2)	To improve council's financial sustainability and fund road renewals.	12.5*							12.5
Maitland	508A	To increase capital expenditure and to ensure future financial sustainability.	7.25	7.25	7.25	7.25	7.25	7.25	7.25	63.22
Nambucca	508A	For renewal of local roads and bridges.	3.8	5.0	5.5					14.98

Council	Type	Purpose of special variation	% increase in permissible income (including rate peg)						Cumulative Increase %
			14/15	15/16	16/17	17/18	18/19	19/20	
Newcastle	508(2)	Crown land adjustment allowing council income to increase to reflect newly rateable land. The adjustment will not affect rates for existing ratepayers.	3.05						3.05
Port Stephens	508(2)	Crown land adjustment allowing council income to increase to reflect newly rateable land. The adjustment will not affect rates for existing ratepayers.	2.34						2.34
Randwick	508A	To renew the council's environmental levy in 2014/15 for a further 5 years; amount sought maintains the current arrangements including the 3.59% pa to 2016/17 approved in 2013/14 for the council's Delivery Program 2013-17.	9.59*	3.59	3.59				17.60
Richmond Valley	508A	To improve financial sustainability, fund new assets and asset renewals.	12.3	5.5	5.5	5.5	5.5		39.1
Rockdale	508A	To contribute to the renewal of assets.	6	6	6	6			26.25
Singleton	508(2)	To provide additional funds for road infrastructure maintenance, renewal and new works.	7.3						7.3
Tenterfield	508A	For asset renewal and improved financial sustainability.	15	10	10	10			53.07
Warringah	508A	To maintain operating surpluses that will help fund asset renewals and new assets.	6.1	6.0	6.0	5.9			26.25
		Approved in part	3.1	3.0	3.0	9.4			19.66
Weddin	508A	To assist in funding future capital projects, in particular the Grenfell Medical Centre.	7	7	7	7			31.1
		Not approved							
Wollongong	508A	To improve financial sustainability, to maintain services and for infrastructure renewal.	6.13	6.23	6.24				19.78

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. **T followed by a number** indicates the s508(2) special variation is to temporarily remain in the council's rate base for a specific number of years. All other s508(2) special variations are to be permanently retained in the council's rate base, All s508A special variations are permanently retained in the council's rate base, except for Randwick City Council's environment levy.

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 2 Summary of minimum rate applications determined by IPART

Council	Minimum rate	2013/14 minimum \$	% increase	\$ increase	2014/15 minimum \$
Lane Cove ^a	Residential	538	10.0	54	592
Gundagai	Town Improvement District special rate	197.85	2.3	4.55	202.40

^a Lane Cove Council applied to increase its minimum residential rate by 10% each year for 5 years. This application was approved. After 2014/15, minimum residential rates will increase to \$651 in 2015/16, \$716 in 2016/17, \$788 in 2017/18 and \$867 in 2018/19.