

## FACT SHEET

# Summary of variations requested by councils and decisions by IPART

Based on IPART's assessment of council applications for special variations  
23 June 2011

### Background

In 2010, IPART was given the responsibility for setting the amount by which councils can increase their general income each year. General income mainly includes rates income. It excludes certain local government charges such as water supply and sewerage charges and waste charges. Previously, the Minister for Local Government set the maximum increase in general income.

IPART sets the allowable growth in councils' general income in one of two ways:

- ▼ by setting the rate peg that applies to all councils
- ▼ by considering and determining special variations applications by councils.

IPART has set the rate peg at 2.8% for 2011/12.<sup>1</sup>

Councils can however apply for special variations to increase their general income by more than the rate peg increase.

There are 2 types of special rate variations:

- ▼ a variation allowing a single percentage increase in income, that may remain in the revenue base temporarily or permanently
- ▼ a variation allowing increases in general income in more than 1-year (multi-year) that will remain in the revenue base permanently.<sup>2</sup>

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<sup>1</sup> The 2011/12 rate peg is calculated using a Local Government Cost Index (LGCI) of 3.0%. This index is constructed to reflect inflation for an average council. A productivity adjustment of 0.2% has been deducted from the LGCI.

<sup>2</sup> Single year increases relate to Section 508(2) of the *Local Government Act 1993* (the Act), multi-year increases relate to Section 508A of the Act.

Applications for a 1-year rate increase and for multi-year rate increases must address the criteria set out in the Guidelines.<sup>3</sup> The General Fact Sheet describes the process in detail.

There are 152 councils in NSW. For 2011/12, IPART received 23 applications for special variations or minimum rate increases by 25 March 2011 (the date applications were due). Twenty one were for special variations and 2 were for increases in minimum rates above the statutory limit.

Applications must address each of the criteria set out in the Guidelines (Table 1).

**Table 1 Criteria used in assessing Local Government special variation applications**

<b>Section 508(2) – 1-year increase in general income</b>	<b>Section 508A – multi-year increase in general income</b>
Demonstrated need for the rate increase implied by the special variation.	Demonstrated need for the rate increases derived from council's completed IP&R framework, highlighting 1 or more of the following: <ul style="list-style-type: none"> <li>▼ Service provision requirements (eg, unmet demand for services, new demand for services, or community support for enhanced service standards).</li> <li>▼ Infrastructure backlogs that have adverse implications for the amenity, safety and health of the community.</li> <li>▼ A special or unique cost pressure faced by the council.</li> </ul>
Adequate community consultation regarding the special variation.	Demonstrated community support for the special variation.
Reasonable impact on ratepayers	Reasonable impact on ratepayers.
Sustainable financing strategy consistent with principles of intergenerational equity.	Sustainable financing strategy consistent with the principles of intergenerational equity.
An explanation of the productivity improvements the council has realised in past years, and plans to realise over the period of the proposed special variation.	An explanation of the productivity improvements the council has realised in past years, and plans to realise over the period of the proposed special variation.
	Implementation of Integrated Planning and Reporting Framework.

Each application received was carefully assessed by the Tribunal. We also considered submissions received directly from ratepayers, community groups, business groups and ratepayer associations.

<sup>3</sup> *Guidelines for the preparation of an application for a special variation to general income in 2011/2012*, Division of Local Government (DLG), Department of Premier and Cabinet, December 2010. Applications for one-year rate variations need to meet the criteria for a Section 508(2) variation set out in the guidelines. Applications for multi-year rate variations need to meet the criteria for a Section 508A variation set out in the guidelines.

Nine of the applications for a special rate variation were approved in full, 10 were approved for a lower amount or for fewer years than the council requested, 4 were rejected outright.

This Summary of Variations provides an overview of the council applications and IPART's decisions in relation to the type of variation, the percentage variation for each year and the annual average increase over the period of the special variation (Table 2).

Executive summaries for all IPART decisions are publicly available.


### Interpreting the table

Special variations are expressed as percentage amounts. Unless otherwise stated, the special variation amounts listed in the table include:

- ▼ The rate peg percentage that would otherwise be available to the council (2.8% in 2011/12 and assumed to be 3% in subsequent years).
- ▼ The value of any previously determined special variations that were time-limited and are being renewed. Often, these are for time limited levies, such as infrastructure or environmental levies. Where an existing special variation is being renewed, this is shown by an asterisk (\*). In these cases, the special variation percentage presented in the table is larger, but rates will not be increased by the full percentage amount, since the existing special variation is already included in rates. Several of the councils applying for special rate variations in 2011/12 were seeking to renew expiring special variations as part of their applications.
- ▼ Special variations under section 508(2) of the Act relate to a single percentage increase. They may be temporarily or permanently in the revenue base of the council (see examples below).
- ▼ Special variations under section 508A of the Act involve a percentage increase in two or more years. These increases are permanently in the revenue base of the council.

### Examples of an application for a Section 508(2) special variation that is temporarily in the revenue base

An example of council seeking a single percentage increase that is temporarily in the revenue base is Cessnock. Cessnock lodged a 508(2) special variation application for a single 9.06% increase in income in 2011/12 to remain in the council's revenue base for a period of 2 years, and then be removed from the revenue base. This is a temporary lift in the income of the council to fund road works. IPART approved an increase of 8.85%, which excluded a 'catch-up' amount that is separate from the special variation determination by IPART.



Another example of a council seeking a single percentage increase in general income is Bega Valley Shire Council. In this case, the council requested that the income from the special variation will remain in the revenue base of the council for a period of 20 years and then be removed from the revenue base.

The council applied for a single percentage increase in general income in 2011/12 of 8.77%, which included the value of an existing special variation. IPART approved a single percentage increase in income in 2011/12 of 6.29%. This is a temporary lift in the income of the council, which is to fund a 20-year loan for resurfacing an airport runway that is owned by the council and a program to promote tourism. This income will remain in the revenue base of the council for a period of 20 years and then be removed from the revenue base.

#### **Examples of an application for a Section 508(2) special variation that is permanently in the revenue base**

One council applying for a single percentage increase was Richmond Valley Council, which lodged a section 508(2) special variation application for a 5.96% permanent increase in its permissible general income in 2011/12. IPART did not approve the variation. As a result, the general income of Richmond Valley Council will increase only by the rate peg amount of 2.8%.

#### **Example of an application for a Section 508A special variation that is permanently in the revenue base**

Parramatta City Council applied for a multi-year, permanent increase in general income. The council sought a permanent increase in general income with a variation of 4.3% in both 2011/12 and 2012/13, and 9.2% in 2013/14. The amount for 2013/14 includes a component for an expiring special variation. IPART approved the increase in full. The resulting cumulative increase in general income from the 3 years is 18.79%, which is 9.19% higher than if the council's income increased in line with the rate peg amount. The council's general income is increasing by an average of 2.98% each year above the rate peg over the period of the special variation.

**Table 2 Summary of special variation amounts requested by councils and determined by IPART**

Council name	Decision	Type of variation	Permanent (P) or temporary (T)	Increase in general income (mainly rates income) including the rate peg						Annual Average increase above the rate peg %
				2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %	
Albury City Council	Requested	508A	P	5.64	5.69	5.55				2.69
	Approved in part	508A	P	5.64	5.69	4.77				2.43
Auburn City Council	Requested	508A	P	11.74*	8.50	8.50	8.50	8.50		6.18
	Approved in part	508A	P	6.00	6.00	6.00				3.07
Bega Valley Shire Council	Requested	508(2)	T – Single % increase that is removed from the revenue base in 20 years	8.77*						5.97
	Approved in part	508(2)	T – Single % increase that is removed from the revenue base in 20 years	6.29*						3.49
Byron Shire Council	Requested	508(2)	P	5.33 <sup>a</sup>						2.53
	Declined	Rate peg	P	2.80						0.00

Council name	Decision	Type of variation	Permanent (P) or temporary (T)	Increase in general income (mainly rates income) including the rate peg						Annual Average increase above the rate peg	
				2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %		2017/18 %
Cessnock City Council	Requested	508(2)	T – Expires in 2 years	9.06 <sup>*b</sup>							6.26
	Approved in part	508(2) Catch-up separate		8.85 <sup>*</sup>							6.05
Great Lakes Council	Requested	508A	P	19.30	7.88	7.83	14.06 <sup>*</sup>	5.91	5.91		7.07
	Approved in part	508A	P	8.00	8.00	8.00					5.07
Gundagai Shire Council	Requested	Increase in minimum rate within rate peg	P	2.80							0.00
	Approved	Increase in minimum rate within rate peg	P	2.80							0.00
Hornsby Shire Council	Requested	508A	P	7.80	6.00	4.00					2.99
	Approved	508A	P	7.80	6.00	4.00					2.99
Ku-ring-gai-Council	Requested	508(2)	T - Expires in 8 years	7.80							5.00
	Approved	508(2)	T - Expires in 8 years	7.80							5.00

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				2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %		
Lane Cove Council	Requested	508(2)	P	10.24								7.44
	Approved	508(2)	P	10.24								7.44
Maitland City Council	Requested	508A	P	9.80	10.0							7.00
	Approved	508A	P	9.80	10.0							7.00
Muswellbrook Shire Council	Requested	508(2)	P	6.80								4.00
	Approved in part	508(2)	T - Expires in 1-year	6.80								4.00
Narrabri Shire Council	Requested	508(2)	T - Expires in 1-year	8.79								5.99
	Not approved	Rate peg	P	2.80								0.00
North Sydney Council	Requested	508A	P	5.50	12.93*	15.43*	5.50	5.50	5.50	5.50		4.94
	Approved in part	508A	P	5.50	5.50	5.50	5.50	5.50	5.50	5.50		2.53
Parramatta City Council	Requested	508A	P	4.30	4.30	9.20*						2.98
	Approved	508A	P	4.30	4.30	9.20*						2.98

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				2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	
Penrith City Council	Requested	508A	P	6.30	6.00*	5.50	5.00				2.75
	Approved in part	508A	P	5.80	5.50*	5.00	4.50				2.25
Pittwater Council	Requested	508A	P	7.80*	7.00	6.00					4.00
	Approved	508A	P	7.80*	7.00	6.00					4.00
Port Macquarie-Hastings Council	Requested	508A	P	15.34*	6.00						7.67
	Approved in part	508(2)	T Expires in 1-year	10.10*							7.30
Richmond Valley Council	Requested	508(2)	P	5.96							3.16
	Not approved	Rate peg	P	2.80							0.00
Waverley Council	Requested	508A	P	14.50*	13.50	12.50	11.50	10.50	8.67	2.22	7.45
	Approved	508A	P	14.50*	13.50	12.50					10.56 <sup>c</sup>
Willoughby City Council	Requested	Increase in minimum rate	P	2.80							0.00
	Not approved	Rate peg	P	2.80							0.00



Council name	Decision	Type of variation	Permanent (P) or temporary (T)	Increase in general income (mainly rates income) including the rate peg							Annual Average increase above the rate peg
				2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %	2016/17 %	2017/18 %	
Wollondilly Shire Council	Requested	508A	P	6.70	6.70	6.70	6.70	6.70	6.70	6.70	3.73
	Approved in part	508A	P	6.00	6.00	6.00					3.07
Woollahra Municipal Council	Requested	508A	P	9.82 <sup>a</sup>	10.41 <sup>b</sup>						7.21
	Approved	508A	P	9.82 <sup>a</sup>	10.41 <sup>b</sup>						7.21

<sup>a</sup> Includes catch-up adjustment of 0.08% that the council is entitled to under the Act, but is not part of our special variation determination.

<sup>b</sup> Includes a catch-up adjustment of 0.21% that the council is entitled to under the Act, but is not part of our special variation determination.

<sup>c</sup> The annual average increase above the rate peg is larger for the determination because it is over a shorter period and the percentage increases are higher in the early years of the proposed variation.

\* Includes an expiring special variation that is being renewed.

**Note:** IPART has set the rate peg for 2011/12 at 2.8%. The rate peg for future years has not yet been determined. IPART has assumed that the rate peg for future years is 3.0%.

**Source:** Local council applications for special variations and IPART calculations.

