

FACT SHEET

Summary of IPART's decisions on councils' requests for special rate variations in 2015-16

19 May 2015

Purpose

This fact sheet summarises IPART's decisions on council applications for special variations and minimum rate increases in 2015-16.

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 2015-16, IPART has set the rate peg at 2.4%.

Special variations provide councils with the flexibility to generate additional income above the rate peg to meet specific needs. IPART undertakes an independent assessment process to determine if the increases are required and affordable, and that the council is accountable to its community through appropriate consultation.

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.

Special Variation Applications in 2015

Applications

For 2015-16, we received 22 applications for special variations. There are 152 councils across NSW.

Of the 22 applications for special variations:

- ▼ 21 were approved in full, and
- ▼ 1 was partially approved (Gwydir Shire).

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

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.¹ Box 1 lists the assessment criteria.

All applications needed 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.

The process for 2015-16 was conducted over a shorter timeframe than last year between receipt of applications and decisions. This timeframe was challenged by the amount of information that certain councils provided being well in excess of that necessary to support its application. Not only does this increase the workload for both councils and IPART, it is also confusing for people looking at applications on our website and it reduces transparency. We propose to amend our processes for 2016-17 to ensure that information provided by councils is more relevant and material to the application and is consistent with the information requirements specified in the application form and the special variation guidelines.

Minimum Rate Applications in 2015

Applications

We received 1 application for minimum rate increases for 2015-16 from Gundagai Shire Council. In addition, one of the special variation

applications, from Kyogle Council, included a minimum rate for a special rate that was above the statutory limit.

Both minimum rates above the statutory limit were approved. These minimum rates above the statutory limit are set out in Table 2.

How we assessed applications for minimum rates above the statutory limit

Applications for increases in minimum rates are assessed against the criteria in the Minimum Rates Guidelines issued by the Office of Local Government.²

The Minimum Rates Guidelines set out 3 criteria:

1. Rationale for increasing minimum rates above the statutory amount.
2. Impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category.
3. Consultation the council has undertaken to obtain the community's views on the proposal.

Crown land adjustments

We also assessed and approved applications for Crown land adjustments (CLA) for 3 councils - Kyogle, Port Stephens and Wingecarribee.

These adjustments allow the councils to permanently increase their allowable general income for parcels of former crown land that have become rateable.³ This usually occurs because the land has either been sold to private individuals or transferred to State Owned Corporations that are liable to pay rates. Details of these adjustments are included in Table 1.

¹ Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income for 2015/16*, October 2014 (the Guidelines).

² Office of Local Government, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit 2015/16*, October 2014 (the Minimum Rates Guidelines).

³ Crown land that is not used for private purposes is generally exempt from rates.

Box 1 Criteria for assessing applications for special variations 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.^a
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.
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.

^a 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.

Table 1 Summary of special variations that IPART has determined for 2015-16 – annual variation and purpose

| Council | Type | Increase in permissible income (including rate peg) (%) | | | | | Cumulative increase (%) | Purpose of the special variation |
|-------------------|---------------------------|---|---------|---------|---------|---------|-------------------------|--|
| | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | | |
| Ashfield | 508A | 7.5 | 8.2 | 8.9 | 9.3 | | 38.45 | Infrastructure renewal and maintenance including the aquatic centre |
| Ballina | 508A | 5.41 | 5.34 | | | | 11.04 | Refurbishment and upgrades to two swimming pools |
| Blue Mountains | 508A | 6.6* | 9.6 | 9.6 | 9.6 | | 40.34 | Renewal and maintenance of built infrastructure and assets; environmental protection; improved services and financial sustainability |
| Coffs Harbour | 508A | 8.14 | 7.75 | | | | 16.52 | Funding asset maintenance and renewal shortfall |
| Deniliquin | 508(2) Temp 3 years | 4.49 | | | | | 4.49 | Promote council as a tourist destination and centre for business development |
| Eurobodalla | 508A | 6.37 | 6.37 | 6.37 | | | 20.35 | Maintain services, enhance financial sustainability and a community and transport infrastructure program |
| Gloucester | 508A | 13.0 | 13.0 | 13.0 | | | 44.29 | Roads and bridges infrastructure backlog |
| Greater Hume | 508A | 7.21 | 7.46 | 7.15 | | | 23.45 | Roads and bridges infrastructure backlog |
| Gwydir - applied | 508A | 15.0 | 15.0 | | | | 32.25 | Financial sustainability |
| Gwydir - approved | 508(2) Temp 1 year | 15.0 | | | | | 15.00 | |
| Jerilderie | 508A | 10.0 | 10.0 | | | | 21.00 | Fund a program of capital expenditure on rural and urban roads |
| Kyogle | 508A | 12.43 (inc CLA) | 5.43 | 5.43 | 5.44 | 5.44 | 38.94 | Financial sustainability, infrastructure expenditure for roads, bridges and stormwater assets |
| Marrickville | 508(2) | 5.4 | | | | | 5.40 | Infrastructure asset renewal funding shortfall |
| Mosman | 508(2) | 13.0* | | | | | 13.00 | Infrastructure renewal and maintenance to address infrastructure backlog, service improvements and financial sustainability |
| Narromine | 508A | 5.9 | 6.5 | | | | 12.78 | Infrastructure backlog and LIRS repayments, |

| Council | Type | Increase in permissible income (including rate peg) (%) | | | | | Cumulative increase (%) | Purpose of the special variation |
|---------------|----------------------------|---|---------|---------|---------|---------|-------------------------|--|
| | | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | | |
| Newcastle | 508A | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 46.93 | maintain services and financial sustainability Financial sustainability, maintain and enhance existing services, infrastructure backlogs, asset renewal and new capital expenditure |
| Oberon | 508A | 6.5 | 6.9 | 6.95 | 7.0 | 7.0 | 39.40 | Road maintenance and backlogs and improve financial sustainability. Fund interest payments on a LIRS loan and upgrade to freight roads |
| Port Stephens | 508(2) | 2.44 | | | | | 2.44 | Crown land adjustment allowing council general income to increase to reflect newly rateable land. The adjustment will not affect rates for existing ratepayers. |
| City of Ryde | 508A | 7.0 | 7.0 | 7.0 | 7.0 | | 31.08 | Achieve financial sustainability, maintain existing services, renew assets, and address infrastructure backlogs |
| Shoalhaven | 508(2) Temp 10 years | 3.89 | | | | | 3.89 | To service a loan for the funding of infrastructure for the Jerberra Estate |
| Wakool | 508(2) | 7.0 | | | | | 7.00 | Restore existing service levels by reinstating programs previously suspended |
| Weddin | 508A | 6.4 | 7.0 | 7.0 | 7.0 | | 30.34 | Capital construction and ongoing maintenance for a new regional medical centre and aquatic centre |
| Willoughby | 508A Temp 7 years | 6.9 | 4.6 | | | | 11.82 | Infrastructure levy |
| Wingecarribee | 508(2) | 2.5 | | | | | 2.50 | Crown land adjustment allowing council general income to increase to reflect newly rateable land. The adjustment will not affect rates for existing ratepayers. |
| Wollondilly | 508A | 10.8 | 10.8 | 10.8 | 10.8 | | 50.72 | Reducing the infrastructure maintenance backlog and financial sustainability |

* Includes an expiring special variation.

Note: All SV percentages include the rate peg.

Note: All 508A variations are permanent unless otherwise stated.

Table 2 Summary of minimum rate applications determined by IPART

| Council | Minimum rate | 2014-15 minimum \$ | % increase | \$ increase | 2015-16 minimum \$ |
|----------------|---|-------------------------------|-------------------|--------------------|-------------------------------|
| Kyogle | Stormwater and Flood special rate ^a | nil | na | na | 86 |
| Gundagai | Town Improvement District special rate | 202.40 | 2.4 | 4.85 | 207.25 |

^a Kyogle Council applied to introduce a minimum rate in 2015-16 and to then increase it each year in line with the special variation for 5 years. This application was approved. After 2015-16, minimum Stormwater and Flood Special rate will increase to \$88 in 2016-17, \$91 in 2017-18, \$93 in 2018-19 and \$96 in 2019-20.