

13 May 2019

WHAT

A special variation allows councils to increase their general income above the rate peg. General income mainly comprises income from rates. The rate peg has been set by IPART at 2.7% for 2019-20. Councils must also apply to increase their minimum rates above the statutory limit.

Each year councils may apply to IPART for a special variation for the following year.

For the 2019-20 year IPART has made decisions on 13 special variation (SV) and two minimum rate (MR) applications.



WHY

Special variations may fund:

- ▼ Improvements in a 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
- ▼ Particular cost pressures being faced by a council.

Special variations may be temporary or remain permanently in the rate base.

Minimum rate increases may align with the SV increases to maintain the relative rating burden between those paying the minimum amount and other ratepayers. Alternatively, they may be used to rebalance the rating structure.

¹ Guidelines for the preparation of an application for a special variation to general income.

We assess SV applications using guidelines developed by the Office of Local Government¹, which outline criteria for assessment. These are financial need, community awareness, impact on ratepayers, sufficient documentation of planning, and explanation of the council's productivity improvements and cost containment strategies (see Table 3).

Minimum rate applications are assessed on their rationale, impact on ratepayers and the consultation undertaken by the council to obtain and consider the community's views (see Table 4).



WHO

We received applications from 13 councils:

- ▼ Burwood (SV)
- ▼ Dungog Shire (SV)
- ▼ Hunter's Hill (SV)
- ▼ Kiama Municipal (SV)
- ▼ Ku-ring-gai (SV)
- ▼ Lithgow City (SV)
- ▼ Muswellbrook Shire (SV)
- ▼ North Sydney (SV and MR)
- ▼ Port Stephens (SV)
- ▼ Randwick City (SV)
- ▼ Richmond Valley (SV)
- ▼ Sutherland Shire (SV and MR)
- ▼ Tamworth Regional (SV)



DECISIONS

We have approved eight applications in full:

- ▼ **Three multi-year** applications from Burwood, Kiama and Richmond Valley were approved and the additional revenue can be permanently retained in the rate base.
- ▼ **Three single-year** applications from Ku-ring-gai, Muswellbrook and Sutherland were approved and the additional revenue can be permanently retained in the rate base.
- ▼ **One single-year** application from Hunter's Hill comprising a permanent component and a temporary component was approved. The additional revenue from the permanent component can be permanently retained in the rate base and the additional revenue from the temporary component can be retained in the rate base for ten years.
- ▼ **One single-year** application from Randwick was approved and the additional revenue can be temporarily retained in the rate base for five years.
- ▼ Sutherland Council's application included a minimum rate increase, which was approved.

Three applications were approved in-part:

- ▼ Dungog was approved for a 5-year permanent increase in revenue rather than its proposed increase over seven years, due to the uncertainty of forecasts beyond five years coupled with the significant impact on ratepayers.

- ▼ Lithgow was approved for a 9.0% permanent increase in revenue. Its proposed 11.7% permanent increase was declined due to shortcomings in its community consultation. Many ratepayers believed the SV application was for a 9.0 % increase in revenue.
- ▼ North Sydney was approved for a 3-year permanent increase in revenue rather than its proposed five years. Its application did not demonstrate a financial need beyond year three.
- ▼ North Sydney Council's application included a minimum rate increase, which was approved for three years.

Two special variation applications were not approved:

- ▼ Port Stephens did not demonstrate the need for the additional revenue to improve financial sustainability or meet infrastructure benchmarks. The Council proposed using the additional revenue to fund new and enhanced infrastructure and services. Given this and the considerable increase in revenue being sought from ratepayers, we considered ratepayer willingness to pay for the proposed expenditure to be funded by the SV. We found the large majority of ratepayers were not willing to pay.
- ▼ Tamworth only partly demonstrated financial need for the additional revenue and did not adequately consult with the business community directly affected by the proposed SV.

Table 1 Summary of special variation (SV) decisions by IPART for 2019-20

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 2.7% in 2019-20)					Cumulative % rise (% rise above assumed rate peg in future years)	SV purpose
		2019-20	2020-21	2021-22	2022-23	2023-24		
Approved in full								
Burwood	508A	4.70	4.50	4.50	4.50		19.48 8.88	Fund ongoing operations such as infrastructure maintenance and renewal, maintain existing services and reduce its infrastructure backlog.
Hunters Hill	508(2)	9.74					9.74 7.04	Fund ongoing operations such as infrastructure maintenance and renewals and enhance financial sustainability.
Kiama Municipal ^a	508A	9.83	6.00				16.42 11.15	Fund ongoing operations such as infrastructure maintenance and renewal and enhance financial sustainability.
Ku-ring-gai ^b	508(2)	7.70					7.70 5.00	Fund environmental works and programs.
Muswellbrook Shire ^c	508(2)	15.13					15.13 12.43	Fund ongoing operations such as infrastructure maintenance and renewal, maintain existing services and improve and develop infrastructure.
Randwick City ^d	508A	5.90					5.90 5.90	Fund ongoing development projects and services, focusing on environmental protection and long-term financial sustainability.
Richmond Valley	508A	5.50	5.50	5.50	5.50		23.88 13.29	Enhance financial sustainability, maintain existing services, infrastructure and facilities and renew infrastructure.
Sutherland Shire	508(2)	8.76					8.76 6.06	Improve financial sustainability and enable additional infrastructure renewals to reduce the backlog.

NSW councils' special variation and minimum rate applications for 2019-20

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 2.7% in 2019-20)					Cumulative % rise (% rise above assumed rate peg in future years)	SV purpose
		2019-20	2020-21	2021-22	2022-23	2023-24		
Approved in-part								
Dungog Shire ^e	508A	15.00	15.00	10.00	10.00	10.00	76.02 62.66	Fund operations such as infrastructure maintenance and renewal, reduce infrastructure backlog, maintain existing services and enhance financial sustainability.
Lithgow City ^f	508(2)	9.00					9.00 6.30	Fund infrastructure renewals, maintain existing services and enhance financial sustainability.
North Sydney ^g	508A	7.00	7.00	7.00			22.50 14.61	Fund ongoing operations such as infrastructure maintenance and renewal, invest in new infrastructure, reduce its infrastructure backlog, maintain existing services and enhance financial sustainability.
Not approved								
Port Stephens ^h								- Fund operations such as infrastructure maintenance and renewal, and develop new infrastructure and services.
Tamworth Regional ⁱ								- Fund event attraction and management.

Note: In years where no percentage is specified, councils may increase rates by up to the rate peg.

a Kiama Municipal was granted an SV in 2018-19 which is due to expire on 30 June 2019. As a result, the net increase to general income will be 5.93% in 2019-20.

^b Ku-ring-gai was granted an SV in 2011-12 which is due to expire on 30 June 2019. As a result, the net increase to general income will be 3.00% in 2019-20.

^c Muswellbrook was granted an SV in 2018-19 which is due to expire on 30 June 2019. As a result, the net increase to general income will be 2.66% in 2019-20.

^d Randwick City was granted an SV in 2014-15 which is due to expire on 30 June 2019. As a result, the net increase to general income will be 5.39% in 2019-20. The approved 5.90% increase can be retained in the rate base temporarily for five years until 2023-24. The Council also has an existing permanent SV of 5.52% applying in 2019-20 and 2020-21. The existing 508A instrument has been amended to include the temporary component.

^e Dungog applied for a cumulative 97.78% from 2019-20 to 2025-26 to be retained permanently in the rate base.

^f Lithgow City was granted an SV in 2009-10 which is due to expire on 30 June 2019. As a result, the net increase to general income will be 3.80% in 2019-20. The Council applied for an 11.7% SV in 2019-20 to be retained permanently in the rate base.

^g North Sydney applied for a 7.00% SV each year from 2019-20 to 2023-24 (cumulative 40.26%) to be retained permanently in the rate base.

^h Port Stephens applied for a 7.50% SV each year from 2019-20 to 2025-26 (cumulative 65.90%) to be retained permanently in the rate base.

ⁱ Tamworth Regional applied for a cumulative 11.79% SV from 2019-20 to 2022-23 to be retained permanently in the rate base.

Table 2 Summary of minimum rate decisions by IPART for 2019-20 (\$)

Council	Minimum rate approved		
	2019-20	2020-21	2021-22
Approved in full			
Sutherland Shire (Residential and Business)	900.00		
Approved in part			
North Sydney (Residential and Business)	563.00	602.00	644.00

Note: Not all categories or sub-categories of ordinary rates are subject to a minimum amount. Councils have discretion in adopting a minimum rate for a particular category or sub-category. In years where no minimum rate is specified, councils have discretion to set a rate subject to constraints of the rate peg.

Background

What is a Special Variation

A special variation allows councils to increase their general income above the rate peg. General income mainly comprises income from rates. The rate peg has been set by IPART at 2.7% for 2019-20.

The Local Government Act makes provision for two types of special variations:

- ▼ A single year percentage increase, under section 508(2), and
- ▼ Successive annual percentage increases over a period of between two and seven years, under section 508A.

Applications for each of these may be either permanent (ie, increases applied to general income remain permanently in the rates base at the higher level approved), or temporary (ie, increases in general income remain in the rates base for the approved period, after this time the general income is reduced to what it would have been without the special variation).

How did IPART assess the applications

We assessed applications against the criteria set out in the Office of Local Government's [Guidelines for the preparation of an application for a special variation to general income](#) (the Guidelines). The criteria are provided in Table 3.

For further information see our Fact Sheet – [How IPART will assess applications for special variations](#). All special variation applications needed to demonstrate the need for the additional revenue, that the council engaged with and made the community aware of the proposed changes, and the council is making productivity improvements. The criteria emphasise the importance of the council's Integrated Planning and Reporting (IP&R) documents as a key method for consulting with its community on a proposed rate increase. We also considered whether the impact of the proposed increase on ratepayers is reasonable.

There are also assessment criteria set out for Minimum Rate applications [Guidelines for the preparation of an application to increase minimum rates above the statutory limit](#) (the Minimum Rate Guidelines). These criteria are provided in Table 4.

In addition, we considered submissions from ratepayers, community groups, and other stakeholders.

Table 3 Assessment criteria for special variation applications**Assessment criteria****Criterion 1 – Financial need**

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 IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate.

In establishing 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.

The IP&R documents and the Council's application should provide evidence to establish this criterion. This could include evidence of community need/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

Criterion 2 – Community awareness

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. In particular, councils need to communicate the full cumulative increase of the proposed SV in percentage terms, and the total increase in dollar terms for the average ratepayer, by rating category.

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. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.

Criterion 3 – Impact on ratepayers is reasonable

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 Plan 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.

Criterion 4 – IP&R documents are exhibited

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 income.

Criterion 5 – Productivity improvements and cost containment strategies

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.

Additional matters

In assessing an application against the assessment criteria, IPART considers the size and resources of the Council, the size of the increase requested, current rate levels and previous rate rises, the purpose of the special variation and other relevant matters.

Source: Office of Local Government, *Guidelines for the preparation of an application for a special variation to general income*, October 2018, pp 8-9.

Table 4 Assessment criteria for minimum rate applications

Assessment criteria

Criterion 1 – Rationale

The rationale for increasing minimum rates above the statutory amount.

Criterion 2 – Impact on ratepayers

The 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.

Criterion 3 – Consultation

The consultation the Council has undertaken to obtain the community's views on the proposal.

Source: Office of Local Government, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit*, September 2018, p 9.