

15 May 2018

WHAT

IPART has made decisions on 13 special variation (SV) and three minimum rate (MR) applications in 2018-19.



WHY

Special variations may fund:

- ▼ improvements in the council's financial sustainability
- ▼ asset maintenance and renewal
- ▼ new or enhanced services to meet the needs of the local community
- ▼ projects of regional significance, and
- ▼ special cost pressures being faced by a council.

SVs may be temporary or remain permanently in the rate base.

Minimum rate increases may align with SV increases to maintain the relative rating burden between those paying the minimum amount and other ratepayers.



WHO

We received applications from 13 councils:

- ▼ Ballina Shire (SV)
- ▼ Balranald Shire (SV)
- ▼ Bellingen Shire (SV)
- ▼ Clarence Valley (SV and MR)
- ▼ Hawkesbury City (SV)
- ▼ Kempsey Shire (SV)
- ▼ Kiama Municipal (SV and MR)
- ▼ Lismore City (SV)

- ▼ Muswellbrook Shire (SV)
- ▼ Randwick City (SV and MR)
- ▼ Shoalhaven City (SV)
- ▼ Upper Hunter Shire (SV)
- ▼ Willoughby City (SV).



DECISIONS

Nine applications were approved in full:

- ▼ **Two single-year** applications from Kempsey and Lismore are to renew an expiring SV.
- ▼ **Seven multi-year** applications from Ballina, Balranald, Bellingen, Clarence Valley, Hawkesbury, Randwick and Shoalhaven can be permanently retained in the rate base.
- ▼ Clarence Valley and Randwick's applications for MR increases were approved in full.

Two special variation applications were approved in part:

- ▼ Kiama and Muswellbrook were approved a **temporary increase for one year** as neither council adequately updated its Integrated Planning & Reporting (IP&R) documents. Kiama's minimum rate application was **not approved**.

Two special variation applications were not approved:

- ▼ Upper Hunter and Willoughby did not adequately update their IP&R documents. Additionally, Upper Hunter did not adequately communicate the full impact of the proposed SV to the community, while Willoughby did not demonstrate a need for the additional revenue.

Table 1 Summary of special variation (SV) decisions by IPART for 2018-19

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 2.3% in 2018-19)							Cumulative % rise (% rise above assumed rate peg in future years)	SV purpose
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25		
Approved in full										
Ballina Shire	508A	9.10	5.90						15.54 (10.68)	Fund infrastructure asset renewal, Healthy Waterways program and improve financial sustainability.
Balranald Shire	508A	10.00	10.00	10.00	10.00	10.00	10.00	10.00	94.87 (76.24)	Fund asset maintenance and renewal, reduce the infrastructure backlog and improve financial sustainability.
Bellingen Shire	508A	6.00	6.00	6.00					19.10 (11.62)	Fund asset renewals, reduce the infrastructure backlog and improve financial sustainability.
Clarence Valley	508A	8.00	8.00	8.00					25.97 (18.49)	Improve financial sustainability and fund asset renewals and maintenance.
Hawkesbury City	508A	9.50	9.50	9.50					31.29 (23.81)	Fund asset maintenance and renewals and improve financial sustainability.
Kempsey Shire ^a	508(2)	6.50							6.50 (4.20)	Renew an expiring environmental levy.
Lismore City ^b	508(2)	2.71							2.71 (0.41)	Renew an expiring business levy to continue funding the Lismore Business Promotion Program
Randwick City	508A	7.64	5.52	5.52					19.85 (12.37)	Fund new community facilities and projects, maintain service levels and provide anti-terrorism infrastructure.
Shoalhaven City ^c	508A	17.10	5.00	5.00					29.10 (21.62)	Improve financial sustainability, reduce the infrastructure backlog and fund asset renewal and maintenance.

NSW councils' special variation and minimum rate applications for 2018-19

Council	Type of SV approved	% increase per year approved (includes rate peg increase of 2.3% in 2018-19)							Cumulative % rise (% rise above assumed rate peg in future years)	SV purpose
		2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25		
Approved in-part										
Kiama Municipal ^d 1-year temporary	508(2)	6.00							6.00 (3.70)	Fund operating and capital expenditure.
Muswellbrook Shire ^e 1-year temporary	508(2)	14.73							14.73 (12.43)	Fund new and existing infrastructure and projects.
Not approved										
Upper Hunter Shire ^f	-	-	-	-	-	-	-	-	-	Maintain and renew infrastructure, fund new infrastructure investment and improve financial sustainability.
Willoughby City ^g	-	-	-	-	-	-	-	-	-	Undertake upgrade works on the Northbridge Plaza car park.

^a Kempsey Shire was granted an SV in 2008-09 which is due to expire on 30 June 2018. As a result, the net increase to general income will be 2.30% in 2018-19, which is equal to the rate peg. The approved SV can be retained in the rate base temporarily for 10 years until 2027-28.

^b Lismore City was granted an SV in 2013-14 that is due to expire on 30 June 2018. As a result, the net increase to general income will be 2.31% in 2018-19, which is close to the rate peg. The approved SV can be retained temporarily in the rate base for five years until 2022-23.

^c Shoalhaven City was granted an SV in 2017-18 which is due to expire on 30 June 2018. As a result, the net increase to general income will be 5.04% in 2018-19.

^d Kiama Council applied for a 6.00% SV in each year from 2018-19 to 2020-21 (cumulative 19.10%), to be retained permanently in the rate base.

^e Muswellbrook Shire applied for a 14.73% SV in 2018-19 to be retained permanently in the rate base.

^f Upper Hunter Shire applied for a 6.30% SV in each year from 2018-19 to 2020-21 (cumulative 20.12%) to be retained permanently in the rate base.

^g Willoughby City applied for a 3.06% SV in 2018-19, and to retain this increase in its rate base temporarily for four years until 2021-22.

Table 2 Summary of minimum rate decisions by IPART for 2018-19 (\$)

Council	Minimum rate approved		
	2018-19	2019-20	2020-21
Approved in full			
Clarence Valley (Residential)	555.00	599.00	647.00
Randwick City (Residential)	805.68	850.15	897.08
Randwick City (Business)	1,298.32	1,369.99	1,445.61
Not approved			
Kiama Municipal ^a (Business)	-	-	-

^a Kiama Council applied for a 6.00% increase in the minimum amount of its business rates in each year from 2018-19 to 2020-21 in line with its special application.

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.

1 Background

What is a Special Variation

A special variation allows councils to increase general income above the rate peg. General income mainly comprises income from rates. The rate peg has been set by IPART at 2.3% for 2018-19.

The Local Government Act provides 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 set out in Box 1.

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.

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

2 Rate peg for 2019-20 to be released in September 2018

We have changed the timing of our release of the rate peg. In previous years we released the rate peg in November/December. We have brought this forward and will release the 2019-20 rate peg in September this year. Stakeholder feedback supported this change.

This change provides councils with more time to prepare annual budgets, and better engage with their communities on potential special variation applications.

Box 1 Assessment criteria for special variations for 2018-19

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 in the council's IP&R documents, in particular its Delivery Program, Long Term Financial Plan and Asset Management Plan where appropriate. In establishing the 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.

Evidence to establish this criterion could include evidence of community need or desire for service levels or projects, council generating operating deficits without the SV and limited funding alternatives for the council.

2. **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. 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. IPART's fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.
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 Delivery Program 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.
4. The **relevant IP&R documents must be publicly exhibited** (where required), approved and adopted by the council before the council applies to IPART for a special variation to its general income. The Delivery Program requires public exhibition for 28 days and the Long Term Financial Plan is expected to be posted on the council's website.
5. 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.
6. IPART's **assessment of other matters** which may include 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.