



Office of  
Local Government

# **GUIDELINES FOR THE PREPARATION OF AN APPLICATION FOR A SPECIAL VARIATION TO GENERAL INCOME**



**NOVEMBER 2017**

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# 1. Introduction

Special variations provide an opportunity for councils to vary general income by an amount greater than the annual rate peg.

The Independent Pricing and Regulatory Tribunal (IPART) will assess and determine special variation applications by councils under powers delegated by the Minister for Local Government. These powers include:

- setting the annual rate peg based upon an IPART-published Local Government Cost Index and productivity factor; and
- assessing and determining applications for special variations.<sup>1</sup>

The Office of Local Government (the Office) establishes guidelines for applying for special variations. These guidelines set the criteria against which applications will be assessed and provide information on how and when to apply.



*All special variation applications must comply with the requirements set out in these guidelines.*

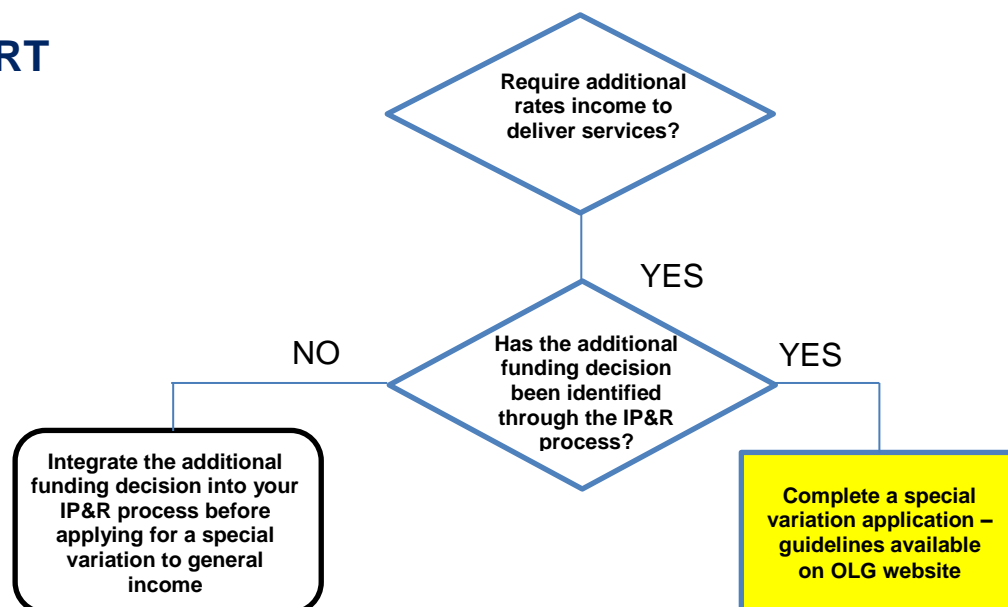
*It is the responsibility of councils to ensure their application is fully compliant and that all relevant information is provided as part of their application.*



*Any inquiries regarding these **Guidelines** should be directed to the Office of Local Government on (02) 4428 4100.*

*Council must apply to IPART for a special variation.*

## FLOWCHART



<sup>1</sup> On 6 September 2010, the Minister for Local Government, delegated authority under the following sections of the Local Government Act 1993: sections 506, 507, 508(2), 508(3), 508(6), 508(7), 508A, 548(3) and 548(8) to IPART.

This document is structured as follows:

- Section 2 discusses the importance of the Integrated Planning and Reporting framework (IP&R) in informing a council’s decision to apply for a special variation.
- Section 3, and in particular subsection 3.1, outlines the criteria that IPART will assess a council’s special variation application against.
- Section 4 outlines which councils may apply for a special variation.
- Section 5 explains the purpose and types of special variations available providing scenarios and the impact of each type.
- Section 6 outlines how IPART will assess special variation applications.
- Section 7 provides other information such as link to the IPART website, reporting mechanisms and council resolution.
- Section 8 outlines the application process – forms and timetable.

There are 4 attachments to this document as follows:

- Attachment 1 – Calculation of expiring special variations
- Attachment 2 – Special variations contributions plan costs above relevant cap
- Attachment 3 – Other adjustments to general income
- Attachment 4 – Increasing minimum rates

## 2. Integrated planning and special variations



The Integrated Planning and Reporting framework (IP&R) provides a mechanism for councils and the community to have important discussions about service levels and funding priorities and to plan in partnership for a sustainable future.

IP&R therefore underpins decisions on the revenue

required by each council to meet the community needs and demands, and in particular, whether the council requires a special variation to meet those needs.

All NSW councils have implemented IP&R. The special variation guidelines and IPART's assessment process are based on an expectation that councils will have engaged the community in a discussion on the funding required through the IP&R process.

Before applying to IPART for a special variation to general income, councils must adopt their Community Strategic Plan, Delivery Program, Long Term Financial Plan and where applicable, Asset Management Plan. Councils may only apply to IPART for a special variation to general income on the basis of those adopted IP&R documents. However, councils do not have to adopt their Operational Plan for the coming year before applying to IPART for a special variation.

More information on what councils are expected to do for implementing IP&R can be found in the Integrated Planning and Reporting Manual for local government in NSW "*Planning a Sustainable Future*", March 2013 located on the Office's website link:

- <http://www.olg.nsw.gov.au/sites/default/files/Intergrated-Planning-and-Reporting-Manual-March-2013.pdf>

### **3. Assessment criteria for special variation applications**

The assessment of applications for a special variation will examine the extent to which councils have fulfilled their obligations under IP&R, in accordance with the criteria.

The IP&R Manual for Local Government "*Planning a Sustainable Future*", March 2013, outlines what is expected of councils in completing IP&R. In particular it discusses the importance of linking community outcomes and aspirations (as identified in the Community Strategic Plan) to key actions (the Delivery Program). It also identifies the need for councils to ensure that the appropriate resources are available at the right time (Resourcing Strategy).

The IP&R Manual states that in considering the likely revenue that will be available to meet the community's long term objectives, the Long Term Financial Planning

process needs to address capacity for rating, fees and charges, grants and subsidies, borrowings and cash reserves. In particular page 69 of the IP&R Manual states:

*“The planning process should include an assessment of the community’s capacity and willingness to pay rates and whether there is the potential for changes in that capacity. In making that judgement, the council might review information relating to:*

- *Separate or specific rates and charges*
- *The potential to reduce the reliance on rates through increased revenues from other sources e.g. fees and charges*
- *Potential growth/decline in rating revenues from changing demographic and industry makeup*
- *Possible need to increase reliance on rating due to reduction of revenues from other sources e.g. a decline in grants or subsidies*
- *Projected impact of the rate peg*
- *Opportunities for a special variation to general income*
- *Council’s current rating policy and likely changes to that policy in the future.”*

### **3.1 Criteria for special variation applications**

Undertaking the IP&R processes, and in particular developing the Long Term Financial Plan as outlined in the IP&R Manual, should provide sufficient information to meet the criteria against which IPART assesses applications provided that the special variation is clearly identified in this process.

The criteria against which IPART is to assess each application are based on what councils are required to do under IP&R. These criteria are:

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 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<sup>2</sup>:

- 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/desire for service levels/project and limited council resourcing alternatives. Evidence could also include analysis of council's financial sustainability conducted by Government agencies.

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. The IPART fact sheet includes guidance to councils on the community awareness and engagement criterion for special variations.<sup>3</sup> 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.
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.

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<sup>2</sup> Page 71, IP&R Manual for Local Government "*Planning a Sustainable Future*", March 2013

<sup>3</sup> <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase>



4. **The relevant IP&R documents<sup>4</sup> 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.
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 the matters set out in Section 3.

The criteria for all types of special variation are the same. However, the magnitude or extent of evidence required for assessment of the criteria is a matter for IPART.



***Smaller councils** that have limited resources with which to prepare an application or councils that are considering a very small increase should still consider applying.*

*IPART is required to consider the assessment criteria and the level of information required in relation to the **particular circumstances of individual councils**. Generally the application and evidence required is to be in keeping with the scale of the variation sought.*

*Councils are encouraged to contact IPART early in the application process, to discuss the information requirements for their particular circumstance.*

### 3.2 Exemption

There may be exceptional circumstances in which unforeseen events have occurred outside a council's control, which:

- have a demonstrated material impact on the council's general income, and
- prevent the council from being able to reflect the special variation in its IP&R documentation.

Should all of the above conditions occur, IPART may consider and approve the council's application for a special variation where it determines that the approval is appropriate, including whether the council would have met the criteria for a special variation even though the evidence that it would have done so is not necessarily

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<sup>4</sup> The relevant documents are the Community Strategic Plan, Delivery Program, and Long Term Financial Plan and where applicable, Asset Management Plan. Of these, the Community Strategic Plan and Delivery Program require (if amended), public exhibition for 28 days. It would also be expected that the Long Term Financial Plan (General Fund) be posted on the council's web site.

reflected in the council's IP&R documentation. Councils considering doing this are advised to contact IPART as soon as practicable to discuss the implications and their options in this regard.

## 4. Which councils can apply for a special variation?



***New councils (except for Mid-Coast Council) are not permitted to apply for a special or minimum rate variation until at least the 2020/21 rating year***

### 4.1 New councils and the rate path protection commitment

On 12 May 2016, the NSW Government announced the creation of 19 new councils. Bayside Council was subsequently created on 9 September 2016.

When the Government announced proposals to merge councils, it made a commitment that residents of new councils would pay no more for their rates than they would have under their former council for four years. This means that new councils maintain the rating trajectories of former councils for four years.

On 31 March 2017 the NSW Government introduced an Act to amend the *Local Government Act 1993* with respect to the maintenance of pre-merger rate paths for land in the areas of newly merged councils; and for related purposes.<sup>5</sup>

In levying rates for land, new councils (except for Mid Coast council) proclaimed in 2016 are to maintain the rate path last applied for the land by the relevant former council for the 3 rating years immediately following the rating year for which the relevant proclamation makes provision for the levying of rates (the relevant period).

On 26 May 2017, the determination to maintain rate paths was published in the Government Gazette. This determination set out the methodology merged councils must follow in implementing the rate path protection for the final three years.

During the rate path protection, the amounts on rate notices may still increase to take into account:

- The annual rate peg.

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<sup>5</sup> Local Government Amendment (Rates—Merged Council Areas) Act 2017 No 8

- Any Special Variations to general income that were approved by IPART prior to the merger occurring. Importantly, during the rate path protection, any approved special rate variations must only be applied to ratepayers in the former council area that the special rate variation was approved for.
- Changes in property valuations undertaken by the NSW Valuer General. Valuations must occur at least every three years for each council area. However, council's general income cannot increase as a result of these valuations during the rate path protection period.

New councils proclaimed in 2016 are not permitted to apply for new special variations or minimum rate variations during the rate path protection, except for Mid Coast Council.

## **5. Purpose and types of special variations**

Special variations are an important means of providing additional funding to councils to allow them to deliver services and infrastructure that the community has requested and the council is unable to fund within its existing revenue.

The reasons an individual council may require a special variation are wide and varied. Special variations do not have to be tied to a particular project or series of projects. A council may need a special variation to either maintain current service levels or to increase service levels where the community has clearly indicated a desire to do so. In some circumstances, councils may seek special variations for contributions plan costs when these are above the relevant cap (Attachment 2).

The need for additional funding through a special variation must be identified through the Council's IP&R processes. The adopted Delivery Program should include the rationale, impact on ratepayers and the benefits of the proposed special variation.<sup>6</sup>

This framework provides councils with a clear path for consulting with their communities on needs, priorities and willingness to pay rates at levels above the projected rate peg. However, where there are exceptional circumstances that prevent

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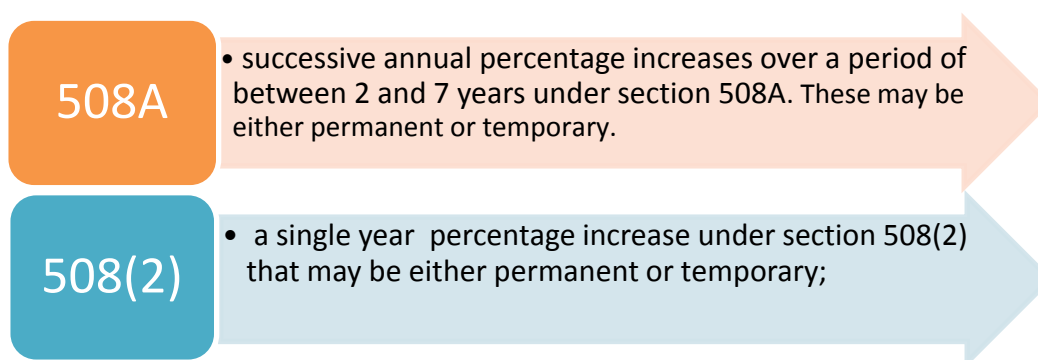
<sup>6</sup> The Delivery Program is required to outline the impact of the proposed special variation, including the annual, cumulative dollar and percentage increases in rates for the various rating categories respectively.

councils from reflecting the special variation in their IP&R documentation, IPART may approve a special variation (see section 4 for further details).

The type of special variation that is appropriate will depend on councils' IP&R deliberations. The criteria for assessing both types of special variation are the same but councils are required to specify the type of special variation for which they are applying. Further information on this is contained at section 5.1 below.

## 5.1 Types of special variations

There are two special variation options under the *Local Government Act 1993*. When seeking a special variation, councils may apply under section:-



The type of special variation that is appropriate for each council will be determined by the General Fund revenue requirements of the council, as outlined in the adopted Long Term Financial Plan. This will depend on a number of factors including:

- the size of the variation required,
- the reason for the variation,
- the need for the increase to be either permanent, or temporary for a fixed term,
- the fluctuation of expenditure over time,
- the financial objectives of a council, and
- the rate at which a council wishes to recover its costs.

It is important to understand the difference between each type of variation and the impact each will have on a council's financial position, the provision of services and the ability of ratepayers to pay the additional rates.

In general, a council's general income could follow one of five paths:

**Scenario 1**  
*s508A*  
*permanent*

- Successive annual percentage increases (between 2 and 7 years), which remain permanently in the rate base;
- **Example Scenario 1 - s508A permanent** – successive annual percentage increases (5 years) of 7.0%, 7.0%, 6.0%, 5.0%, 4.0%, including the rate peg, which are permanently retained within the rates base (ie, General Income). The rate peg increase applies from Year 6.

**Scenario 2**  
*s508A*  
*temporary*

- An increase may also be temporary. At the expiry of the special variation the council must adjust its general income to the level that it would have been without the special variation (the rate peg path).
- **Example Scenario 2 - s508A temporary** - successive increases of 7.0%, 7.0%, 6.0%, 5.0%, 4.0%, including the rate peg. The cumulative increase above the rate peg is removed from the rate base in year 6.

**Scenario 3**  
*s508(2)*  
*permanent*

- a one-off (single year) percentage increase that remains permanently in the rate base.
- **Example Scenario 3 - s508(2) permanent** – one off increase of 7.0% in Year 1 which is retained within the rates base permanently. Rate peg increases apply from Year 2.

**Scenario 4**  
*s508(2)*  
*temporary*  
*for x years*

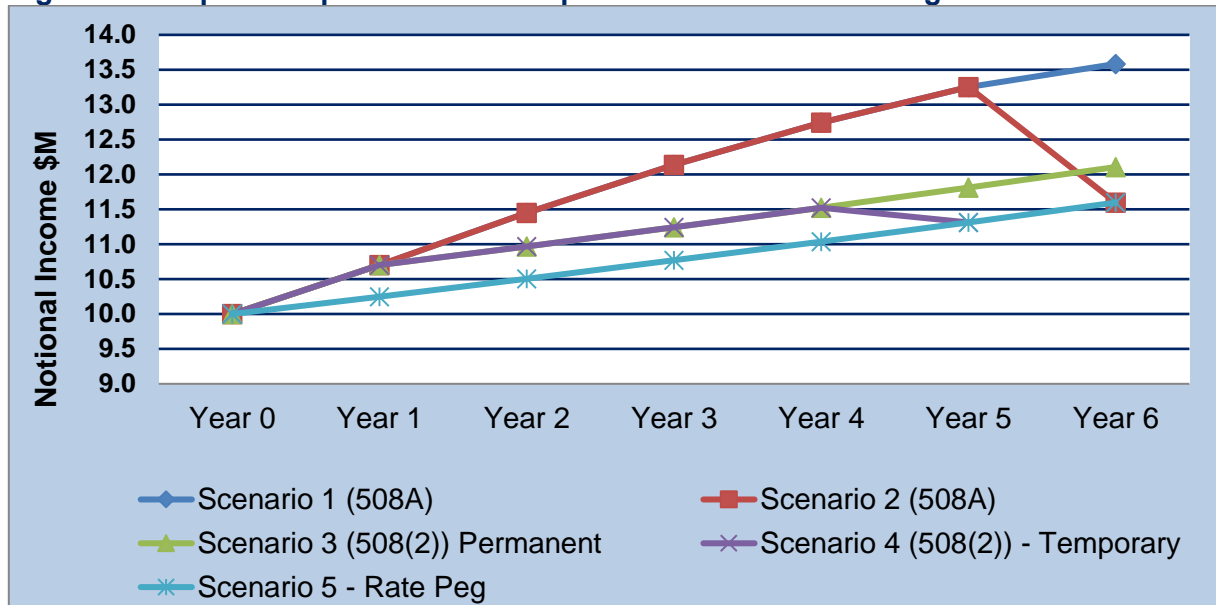
- a one-off (single year) percentage increase that remains in the rate base for a temporary period of x years. At the end of the temporary period (when the special variation expires) the rate base is adjusted to match the rate peg path.
- **Example Scenario 4 - s508(2) temporary** – one off increase of 7.0% in Year 1 which is retained within the rates base for four years. Rate peg applies from Year 2 with general income returning to the rate peg path in Year 5

**Scenario 5**  
*Rate Peg*

- IPART determined rate peg applies each year.
- Scenario 5 – annual rate peg increases are 2.5% in Years 1 to 6.

Figure 5.1 below charts the resulting revenue path for a council under each of these scenarios.

**Figure 5.1: Impact of special variation options on a council's rating income**



**Scenario 1 - 508A permanent special variation**

Scenario 1 allows successive annual percentage increases to a council's general income for between 2 to 7 years.

The council identifies the additional revenue required over the period of the proposed increases, as indicated by the IP&R. The council then determines the annual percentage increases for the proposed special variation (including the assumed rate peg of 2.5% pa) required over the period to match this total amount.

There is no automatic adjustment to the approved percentage as a result of the actual rate peg in a particular year being higher or lower than what was assumed when the increase was approved. However, if the percentage approved for the special variation is lower than the rate peg in that year, the rate peg applies.

The increases for each year for this special variation are cumulative and compounding. The following example, scenario 1, illustrates how this variation would operate for a council that was seeking to increase its general income by \$3.25 million by the end of a five year period. In doing so, the council is proposing to increase its rates by 7%, 7%, 6%, 5% and 4% over a 5-year period or a total amount of 32.52%. It is assumed that the rate peg is 2.5% in Year 6:

**Table 5.1: Impact of a scenario 1 (508A) variation on total income yield**

Year	Special Variation	Cumulative increase	Notional General Income (\$000s)
0	-	-	\$10,000
1	7%	7.00%	\$10,700
2	7%	14.49%	\$11,449
3	6%	21.36%	\$12,136
4	5%	27.43%	\$12,743
5	4%	32.52%	\$13,252
6	2.5% (rate peg)	35.84%	\$13,584

Under scenario 1, a council is able to phase in a potentially significant rate increase over a number of years, rather than concentrate the increase in rates in one year, as under scenario 3. This type of variation can have a significant impact on a council's rating income and ratepayers. This is due to the cumulative nature of the rate increases over successive years and because the increases are retained permanently in the revenue base.

### **Scenario 2 – 508A temporary special variation**

Scenario 2 is the same as scenario 1 but temporary. With a 508A temporary special variation the council must either adjust its general income to the level that it would have been without the SV or apply for a new special variation on expiry of the fixed term (see expiring scenarios 2 & 4 below).

### **Scenario 3 - 508(2) permanent special variation**

Scenario 3 allows a single percentage revenue increase for a specified year that is greater than the rate peg for that year.

While the percentage increase in general revenue is only for a specific year, the period to which the increase in general income is to be retained in the council's income base may be permanent (scenario 3) or temporary for a determined number of years (scenario 4).

Under scenario 3, the percentage increase is a permanent one and therefore has a greater impact on income. That is the additional revenue generated from the special variation in the specified year permanently goes into the council's revenue base.

#### **Scenario 4 - 508(2) temporary (for x years) special variation**

Under scenario 4, the additional revenue generated from the special variation (excluding the rate peg increases) remains a part of a council's notional general income only for the term of the variation. This provides the council with the additional revenue for every year of a fixed term, indexed by the rate peg amount. On expiry of the fixed term, the council must either adjust its general income to the level that it would have been without the SV or apply for a new special variation (see expiring scenarios 2 & 4 below).

The council should be aware that while a temporary variation may allow infrastructure upgrades to be undertaken, these assets may require ongoing maintenance on completion. Additional funding may therefore still be required on an ongoing basis to meet this commitment.

#### **Scenarios 2 & 4 - expiring special variations**

The value of an expiring special variation must be deducted from the council's general income on the date of the special variation's expiry.

The value of the deduction is equal to the total increase in general income under the special variation less the general income the council would have received had the special variation not been approved.

Councils that currently have a temporary (i.e. fixed term) special variation approaching its expiry date may:

- accept the required income adjustment on expiry of the variation, usually reflecting that the council no longer needs the additional funds, or
- apply for a new special variation to partially or fully continue the funding from the expiring variation and, in effect, avoid the income adjustment that would otherwise occur.

It is important for the council to clearly communicate the impact of the expiring variation when consulting with the community on a special variation proposal. This applies even if the new special variation is to continue essentially the same level of funding for the same projects.



For expiring variations, councils are required to contact the Office of Local Government to confirm the calculation of the expiring variation (see attachment 1 for more information).

In exceptional circumstances a council may need to end an existing special variation earlier than its approved term to form part of a new special variation application. Councils considering doing this are advised to contact IPART to discuss the implications and their options in this regard.

## **5.2 Other types of income adjustment**

Councils must include any other adjustments to their general income such as:

- catch up or excess results from the previous year,
- valuation objections successfully claimed in the previous year, and
- Crown land adjustments for newly rateable Crown land.

The requirements of these guidelines do not apply to these adjustments. See Attachment 3 for further information.

Councils can also apply to increase minimum ordinary rates or special rates above the statutory limits under sections 548(3) (a) and (b) of the *Local Government Act 1993*. Applications to increase minimum amounts above the statutory limit are the subject of a separate assessment process also undertaken by IPART in accordance with the “*Guidelines for the Preparation of an Application to Increase Minimum Rates above the Statutory Limit 2018/2018*” (see also attachment 4 or visit the Office’s website link:

- <http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/directory-of-policy-advice/rating-and-special-variations>

## **6. IPART’s assessment approach for special variation applications**

The Independent Pricing and Regulatory Tribunal (IPART) comprises three permanent members appointed by the Premier.

IPART will assess applications for special variations against the criteria set out in these guidelines. Councils should be aware that if they provide all of the required

information, this does not guarantee that applications will be approved by IPART. IPART will assess each application based on its merits against the assessment criteria. In doing so, IPART will consider:

- size of the council,
- resources of a 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.

Based on these considerations, IPART will determine the level and length of the increase in general income. It is generally expected that special variations will be for up to four years, to align with a council's Delivery Program and to avoid committing future councils to rate rises. However, it is recognised that in some circumstances a period of longer than four years (and up to seven years) may be appropriate.

IPART will assess each application based on its merits. To assist IPART in assessing the application while also reducing the burden on councils to provide additional documents, council applications must be based on their adopted IP&R documentation and relevant application forms should provide IPART with relevant extracts of the IP&R documentation (including web links to the relevant plans once they have been finalised and published on a council's website). It is not anticipated that a complete suite of IP&R documents is provided to IPART, unless requested. Some supplementary material will also be necessary, as outlined in the application forms.

IPART will publish on its website a statement of reasons for its decision to approve, either in full or in part, or to decline an application. Where an application is approved, IPART will issue the council with an Instrument setting out the amount approved and any conditions applying to the approval.



*IPART will make the **final decision** as to whether the proposed special variation is accepted, partially accepted or declined. This decision is final and IPART will not reassess an application after it has made its decision.*

## 7. Other information requirements

In its application forms IPART may require councils to provide specific information to address the assessment criteria. These application forms are available on the IPART website link:

- <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase>

Councils are encouraged to read these guidelines in conjunction with the application forms.

### 7.1 Reporting mechanisms

Where a special variation is approved, the council is issued with an Instrument of Approval, which sets out the conditions of that approval, including minimum annual reporting requirements.

For those councils seeking a special variation, it is expected that they will put in annual reporting requirements to transparently report to their communities. This may be done through supplements to existing reporting processes and should include reporting on the additional income obtained through the variation, and if the special variation relates to a specific project:

- the projects or activities funded from the variation,
- details of any changes to the projects or activities funded from the variation compared with the council's initial proposal (any such changes must be consistent with the terms of the Instrument of Approval), and
- the outcomes achieved as a result of the projects or activities.

The application must include the reporting mechanisms which should align with the reporting processes identified through IP&R. A council's Annual Report must provide a report on the achievements through the Delivery Program. The End of Term report should also outline detailed performance indicators to report against the Delivery Program achievements in relation to the special variation.

## 7.2 Council resolution

Councils must supply a copy of the resolution(s) to apply for the special variation, with its application. IPART will not assess a special variation application unless the council demonstrates its commitment to its proposal.

## 8. Application process

### 8.1 Application forms

The forms for a special variation application consist of 2 separate parts:

- SV Part A – Microsoft Excel form that gathers data to calculate the amount of the special variation in terms of the dollar and percentage amounts, the impact on rates and the proposed program of expenditure. The form also seeks a council's contact information.
- SV Part B – Microsoft Word template for providing information to assist IPART in assessing the merits of the application. It also includes a certification page that must be signed by the council's General Manager and Responsible Accounting Officer.

Information on the application process and forms is available from the IPART website link:

- <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase>



***Councils that are seeking to apply for a Special Variation or Minimum Rate Variation are urged to notify IPART of their intention to apply***



*Any inquiries regarding the application process should be directed to IPART via phone 02 9290 8400 or email [localgovernment@ipart.nsw.gov.au](mailto:localgovernment@ipart.nsw.gov.au)*

## 8.2 Application timetable

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<b>Date</b>	<b>Outcome</b>
15 December 2017	Notifications for Special Variation or Minimum Rate Variation applications due to IPART.
12 February 2018	Special Variation applications due to IPART.
12 March 2018	Minimum Rate Variation applications due to IPART.
15 May 2018	Determinations announced for Special Variations and Minimum Rate Variations

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The above timetable applies to Special Variation and Minimum Rate Variation applications for 2017-18. In future years this timetable will not be included in the Guidelines, instead it will be communicated in a circular to councils published on the OLG and IPART websites:

- <http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/directory-of-policy-advice/rating-and-special-variations>
- <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Special-Variations>

Councils seeking to apply for a Special Variation or Minimum Rate Variation should notify IPART as soon as possible of their intention to apply. IPART will not accept late applications, unless it grants an extension to a particular council. IPART encourages councils to submit applications as early as possible.

## **Attachment 1 - Calculation of expiring special variations**

For illustration, a council is approved a scenario 3 - s508(2) special variation for a fixed term of three years to fund infrastructure projects with a new infrastructure levy.

This special variation will expire at the end of the third rating year, having been in place for three years.

When this infrastructure levy ends, the additional income from the levy (or the value of this expiring variation) must be deducted from the council's notional general income (rate base) before the council may apply the rate peg or other special variation percentage in the fourth rating year.

The value of the expiring variation will equate to the original value of the special variation plus the equivalent cumulative proportion of this increase from any general variation increases or any crown land income adjustments and expiring special variations or any special variation increases approved for the second and third years inclusive.

If the special variation approved in the first year was 6% and the rate peg increase in the second and third year were 2.5% and 2.6% respectively, the value of the expiring variation would equate to the dollar value of the initial special variation (detailed in the original special variation approval instrument) plus 2.5% for the second year, plus a further 2.6% for the third year (note: each annual increase is cumulative).

Another example shows the impact on a council's general income where the council is seeking to continue the funding from an expiring special variation and at the same time increase its general income over two years. The value of the expiring special variation shown in Table A1 is \$50,000, but the council wants to continue the expiring special variation and further increase its income by \$45,000. In the following year council wants an increase of \$104,500 (Note that this proposal would require a scenario 1 (s508A) application as it represents two years of increases above the rate peg percentage).

**Table A.1: Example of the impact of an expiring special variation on permissible general income in a special variation application**

<b>Year</b>	<b>Unadjusted or Permissible General Income</b>	<b>Value of expiring variation</b>	<b>Adjusted General Income</b>	<b>Special Variation</b>	<b>Increase in income due to special variation</b>	<b>Net increase to income on previous year</b>
Year 1	\$1,000,000	\$50,000	\$950,000	10%	\$95,000	\$45,000
Year 2	\$1,045,000	-	\$1,045,000	10%	\$104,500	\$104,500

In this example, the net increase in income in Year 1 is \$45,000. This is less than the increase due to the special variation of 10% (\$95,000) due to the deduction of the expiring special variation. The net increase in income in Year 1 is 4.5%, not the special variation percentage of 10%.

In these circumstances, the net increase in average rates levels in the first year is also likely to be around 4.5%. However, if the special variation was not approved, and assuming that the rate peg is 2.5% in the first year, the council's general income and average rates would actually fall by approximately 2.6% without the new special variation.

## Attachment 2 Special variations - contributions plan costs above relevant cap

The Minister for Planning has issued a Direction under section 94E of the Environment Planning and Assessment Act 1979 that limits local development contributions to a cap of \$30,000 per residential lot or dwelling for greenfield areas, and a cap of \$20,000 per residential lot or dwelling for all other areas (noting that exemptions also apply to certain plans).<sup>7</sup>

If a council's development contributions for a development area exceed the relevant cap, the council may seek to fund the gap by applying for a special variation. Councils may apply for a special variation to recover the costs in a contributions plan to the extent that the costs exceed the relevant cap.

### Application and assessment process

Councils planning to submit a special variation application to IPART for the costs of essential works must have submitted its relevant contributions plan to IPART and IPART must have completed its review of the plan prior to the council submitting a special variation application.

Councils should ensure the development contributions plans comply with the requirements of the relevant Department of Planning practice note and any information required by IPART.

Councils have the discretion to determine whether its proposed special variation, which may be over one or more years, would be collected from all ratepayers, or as a special rate (under s495 of the *Local Government Act 1993*) levied on only those ratepayers who will directly benefit from the enabling infrastructure.

IPART will assess the application against the relevant criteria for special variation applications as outlined in these guidelines.



*Councils should note that special variations or components of special variations that are approved by IPART for contributions plan works will have conditions requiring that the additional revenue be spent only on works outlined in the relevant contributions plan.*

<sup>7</sup> The most recent Direction issued under s94E of the Environmental Planning and Assessment Act 1979 is available at <http://www.planning.nsw.gov.au/directions-and-technical-advice>



## Attachment 3 - Other adjustments to general income<sup>8</sup>

Councils may also be entitled to other adjustments to their permissible general income in the coming financial year (generally the first year of a new special variation period). These adjustments are for:

- a) catch up or excess results from the previous year,
- b) valuation objections successfully claimed in the previous year, or
- c) Crown land adjustments for newly rateable Crown land.

### **The requirements of these guidelines do not apply to these adjustments.**

The adjustments to the income base for a) catch up/excess amounts and b) valuation objection income successfully claimed in the previous year will not form part of the special variation percentage which may be approved by IPART. However, should the special variation not be approved by IPART, the council will still be entitled to these income adjustments in addition to the rate peg.

Any income adjustment for c) newly ratable Crown Land must be approved by IPART as a special variation under s508(2) of the *Local Government Act 1993*. If a broader special variation is approved, the percentage component for Crown Land income adjustment (CLA) will form part of the total percentage approved.

Where a council is not applying for a special variation, it should submit its request for a CLA to the Office of Local Government. The Office will assess whether the council is eligible for a CLA and, if so, forward the application to IPART.

IPART will then decide whether to approve the increase under s508(2) having regard to OLG's assessment of eligibility, the council's application for the adjustment and any other matter considered relevant to the application.



*Catch up/excess amounts and adjustments to income for successful valuation objection income claimed in the previous year **do not form part of the special variation percentage, but Crown Land adjustments do.***

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<sup>8</sup> This information is provided as a brief summary of the various adjustments which may be applicable to councils on an annual basis. For more detail, councils should refer to the Office's Rating and Revenue Raising Manual located at: [www.olg.nsw.gov.au](http://www.olg.nsw.gov.au)

## **Attachment 4 - Increasing minimum rates**

Section 548 of the *Local Government Act 1993* allows a council to specify a minimum amount of a rate to be levied on each parcel of land within a particular category or sub-category.

The size of any minimum amount must not exceed the relevant permissible limits provided for in section 548(3) and clause 126 of the *Local Government (General) Regulation 2005*, unless Ministerial approval for a higher amount has been granted.

The Minister for Local Government has delegated to IPART responsibility for approving higher minimum rates.

There are two application processes relevant to increases in minimum rates above the statutory limits:

1. The special variation application process whereby minimum rates may be increased by the percentage of an approved special variation.
- OR
2. A minimum rate variation application process to increase minimum amounts of ordinary or special rates above the statutory limit.

Councils making a special variation application are encouraged to apply the same percentage increase to minimum rates and general income, and maintain the same relative distribution of the rating burden between minimum and other ratepayers that was levied in the previous year. However, in some circumstances, it may be necessary for the council to apply a lower percentage increase to minimum rates than the requested increase in general income.

If a council is seeking to apply a higher rate of increase to its minimum rates than to its other rates in a special variation application, this must be clearly identified and addressed in the special variation application.

### **Ordinary rate minimums**

Each year, clause 126 of the Regulation is amended to increase the statutory limit on ordinary rate minimums by the rate peg increase for that year. This means that councils do not need to make applications for ordinary rate minimum increases if the amount proposed is within that limit.

## Special rate minimums

For special rates, s548(3)(b) of the Act specifies that the minimum amount of a special rate (other than a water supply special rate or a sewerage special rate) may not exceed \$2 unless Ministerial approval for a higher amount has been granted. The Minister for Local Government has delegated the function of approving higher amounts to IPART.

Unlike the minimum amount for an ordinary rate, the Act does not provide the flexibility to increase the special rate limit through an amendment to the Regulation. Rather, a council must obtain approval on *every* occasion (including the application of the rate peg) that it wishes to increase the minimum amount on special rates.

Once a council receives approval to increase a special rate minimum, this increase is ongoing and continuing. However, should a council wish to increase the approved special rate minimum by the rate peg, by virtue of s 548(3)(b) of the Act, a council must complete an application.



*If a council levies minimum amounts for ordinary or special rates **and** it is seeking a special variation, it must show the impact on these minimum rates by its proposed special variation as part of its special variation application.*



***New councils (except for Mid-Coast Council) are not permitted to apply for a special or minimum rate variation until at least the 2020/21 rating year***

## Minimum rates applications

Where a council is submitting a special variation application and wishes to also increase its minimum rates by more than the special variation percentage, or above the statutory limit for minimum rates, it is not necessary to submit a separate application for its proposed minimum rates increase. However, it must clearly address the minimum rate increase in the special variation application.

If councils are not making a special variation application, they must submit a separate application to IPART to increase minimum rates above the statutory limit.

A council that is considering increasing its minimum rates (ordinary or special) above the statutory limit must refer to the *Guidelines for the Preparation of an Application to increase Minimum Rates above the Statutory Limit*. These guidelines are available from the Office's website link:

- <http://www.olg.nsw.gov.au/strengthening-local-government/supporting-and-advising-councils/directory-of-policy-advice/rating-and-special-variations>

Applications to increase minimum rates must be made on the Minimum Rates Application Form available on the IPART website link:

- <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/For-Councils/Apply-for-a-special-variation-or-minimum-rate-increase>

## Attachment 5 - SV Application Checklist

- Council is not a new council (with the exception of Mid Coast Council)
- Council has contacted IPART early in the application process to discuss the information requirements for its particular circumstance.
- Council resolution has been passed to apply for a Special Variation.
- Council has notified IPART of their intention to apply for a special variation on or before the due date as specified by IPART.
- Council's application is based on adopted IP&R documentation which identifies:-
  - The need and purpose of a different revenue path is clearly articulated and identified in the councils Delivery Program.
  - Evidence that the community is aware of the need for and extend of a rate rise.
  - The impact on affected ratepayers is reasonable.
  - IP&R documents are exhibited, approved and adopted by council
  - IP&R documents explain the productivity improvements and cost containment strategies.
- Council has completed special variation application forms Part A (excel workbook) & Part B (word document) (available on IPART's website)
  - SV Part B certification page has been signed by the council's General Manager and Responsible Accounting Officer.
- Council's application includes a copy of the council's resolution(s) to apply for the special variation.
- Application which includes Part A and B, certification and council resolution and other supporting documentation, is lodged on or before the due date as specified on the OLG Council Circular and on the OLG and IPART websites.