

BACKGROUND ON SPECIAL RATE VARIATIONS

Revenue from ordinary rates comprises around 44% of Council's annual revenues. The balance of Council's revenue comes from annual charges, user charges, fees, investment income, government grants, and developer contributions.

Since the early 1980's the State Government has regulated rating levels for all councils in NSW by setting a statutory limit on annual increases in council rates (rate pegging).

Rate pegging means that local councils have been restricted in their ability to raise sufficient income to meet the demands of their communities. In some instances, the percentage increase allowed by the rate peg has been less than the salaries and wages increases in the Local Government Award (for example, in 2004-05 the rate peg was 3.5% while the Award increase was 4.0%).

At the same time, State and Federal Governments have been passing responsibility for service delivery for a number of functions to local councils without the necessary funding required to provide these services (such as on-site sewage management, companion animals and food safety). As a result, councils have streamlined their work practices to continue to efficiently provide services to their communities and made cuts to services that they have previously provided to accommodate these new responsibilities.

Special Rate Variations

The Independent Pricing & Regulatory Tribunal (IPART) is responsible for:

- Setting the annual rate cap (or "rate peg");
- The assessment and determination of councils' applications for special rate variations; and
- The assessment and determination of councils' applications to increase ordinary and/or special rate minimums above the statutory limit.

The general increase in rates for all NSW Councils was capped at 3.4% for the 2013-14 year. The 2014-15 year has not yet been announced by the IPART.

The Division of Local Government (DLG) issued "Guidelines for the preparation of an application for a special variation to general income" in September 2013 that set out the assessment criteria for special rate variation applications.

There are two types of special rate variations that Council can apply for:

Section 508(2)

This is a one-off percentage increase (greater than the rate peg) that remains permanently in the rate base or

a one-off percentage increase (greater than the rate peg) for a fixed period after which the rate base is adjusted back to the rate peg path.

Section 508A

Under a Section 508A variation, a Council is able to phase-in a potentially significant rate increase over 2-7 years (rather than have a substantial increase in rates in the one year) and this increase then remains permanently in the rate base.

The assessment criteria for special rate variation applications are:

- Need for the proposed rate increase;
- Community awareness of the need for and extent of a rate rise;
- Reasonable impact on ratepayers;
- Realistic assumptions in the Delivery Program and Long-Term Financial Plan; and
- An explanation of the productivity improvements and cost containment strategies the council has realised in past years, and plans to realise over the proposed special rate variation period.

Cessnock City Council has had four special rate variations approved since 2001. The first increase of 2.31% was approved in 2001 for a five year period. All of the funds from that increase were targeted towards road infrastructure improvements.

The second increase was 6.05% per year for a five-year period commencing in 2006-07 and expiring in 2010-11. The money raised from this special rate variation was spent in three major areas:

- Resealing an additional 67 roads across the local government area;
- Major road rehabilitation across the local government area; and
- Replacement or major refurbishment of recreation buildings.

The third increase was 6.05% per year was granted under Section 508(2) of the Local Government Act for a two year period commencing in 2011-12 and expiring in 2012-13. The money raised from this special rate was spent on resealing, heavy patching and rehabilitation of regional roads, urban collector roads, and rural collector roads in the local government area.

The most recent increase was an extension of the 6.05% variation for a further twelve months expiring on 30 June 2014.