

FACT SHEET FOR COUNCILS

Community awareness and engagement for special variation applications

October 2013

Purpose

This fact sheet provides guidance to councils on how we will assess applications for special rate variations against the second criterion in the *Guidelines for the preparation of an application for a special variation to general income for 2014/15* (the Guidelines) issued by the Division of Local Government (DLG) on 30 September 2013. Criterion 2 states that councils must provide:

Evidence that the community is aware of the need for and extent of a rate rise. This should be clearly spelt out in Integrated Planning and Reporting (IP&R) documentation and the council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness/input. The IP&R documentation should canvas alternatives to a rate rise, the impact of any rises upon the community and the council's consideration of the community's capacity and willingness to pay rates. The relevant IP&R documents must be approved and adopted by the council before the council seeks IPART's approval for a special variation to its general revenue.

How will we assess the community awareness and engagement criterion?

In assessing whether a council's application satisfies the community awareness and engagement criterion, we will consider the following principles:

- ▼ that the council clearly communicated the full impact of the proposed rate increases to ratepayers
- ▼ that the council clearly communicated what the special variation will fund. The uses of the funds may vary across various items of operating expenditure, improve operating balances (and financial sustainability) and fund capital spending that improves the rate of renewals or reduces asset backlogs. The funds might also be used to make loan repayments or to build up asset reserves.

Specifically, we will consider whether:

- ▼ the council's adopted IP&R documents demonstrate that the community is aware of the need for, and extent of, the rate rise
- ▼ the council has demonstrated an appropriate variety of engagement methods to ensure community awareness and input into the special variation process
- ▼ the council's adopted IP&R documents canvas:
 - alternatives to a rate rise
 - the impact of any rate rises upon the community
 - the council's consideration of the community's capacity and willingness to pay.

Evidence of awareness and engagement should be proportionate to the size and impact of the proposed rate rise.

What do councils need to do?

Councils should follow the IP&R guidance material (eg, the *Integrated Planning and Reporting Manual*) in developing a Community Engagement Strategy to consult with the community on its Community Strategic Plan, Delivery Program and Resourcing Strategy.

These plans provide councils with a framework for consulting with their communities on expenditure priorities and their willingness to pay for rate increases above the projected rate peg.

The council must adopt the relevant IP&R documents before the application for a special variation is submitted.

What information needs to be presented to ratepayers?

Effective community awareness and engagement means that the community is informed about the special variation application, and not just a small section of it. The criterion states that councils should use an appropriate variety of engagement methods to ensure opportunity for community awareness/input. These may include:

- ▼ mail outs to ratepayers
- ▼ fact sheets
- ▼ media releases
- ▼ public meetings
- ▼ listening posts
- ▼ online discussion forums
- ▼ surveys.

Councils should choose methods that reflect the size and impact of the proposed rate increase, and the resources of the council. For example, for a relatively small increase, evidence of community awareness of the need for, and extent of, the rate rise could include press statements or articles published by the council. In this situation it is not necessary for the council to undertake a random survey of residents/ratepayers. For larger increases, the council should have a more comprehensive awareness and engagement program.

In all cases, the council should seek feedback from its community and report the feedback it receives to us in its application for a special variation. Some relevant feedback may have occurred in response to the council's IP&R process. The council should show how it has considered and responded to issues of common concern to the community.

The council must present information in a way that community members can understand, explaining why the special variation is being sought. For example, it may be to lift service standards, to undertake a program of works, to reduce infrastructure backlogs, or to improve financial sustainability.

Councils must be able to show that they have fully disclosed all the relevant information to the community and clearly identified the impact of the proposed rate increase on ratepayers. Information must show:

- ▼ the requested percentage increase(s) *including* the rate peg
- ▼ the full cumulative impact on rates (if the special variation is for 2 or more years)
- ▼ if the increases are to be temporarily or permanently retained in the rate base
- ▼ if the council has an expiring special variation and how this will affect ratepayers and the percentage special variation it proposes to apply for (further guidance on expiring special variations is on page 5 below)
- ▼ rates and rate increases on an annual (not just daily or weekly) basis
- ▼ increases in other charges, where these are likely to exceed CPI increases.

Councils should also explain the effect on rates and services if the special variation were not approved. For example if reductions in particular services are likely, or if certain projects will not go ahead if the special variation does not proceed, this should be made clear to ratepayers. Councils will need to present a realistic scenario to the community. Councils should not present a worst-case scenario or threaten ratepayers with unrealistic cuts in the most popular community services.

Best practice engagement would present the community with more than an 'all or nothing' choice. Preferably, consultation material will measure the level of community support for different programs of expenditure by allowing respondents to rank services and/or proposed works in order of priority. Feedback from the community is essential and the views that the council obtains should, as far as practicable, be representative of those of the community as a whole.

How should community input and willingness to pay be captured?

There are a number of ways that councils may capture community feedback/input. These include:

- ▼ a mail-out to all ratepayers with a reply-paid survey
- ▼ an online survey
- ▼ a random survey of ratepayers, appropriately stratified to capture the population characteristics of the LGA
- ▼ resident workshops
- ▼ online discussion forums
- ▼ discussions with particular community groups.

It is a matter for each council to decide whether a stratified random survey is useful as part of its community awareness and engagement program. IPART is aware that the costs involved in undertaking a comprehensive community consultation program, and in particular surveys, can be significant. Generally, the nature and extent of the consultation program undertaken should be commensurate with the size of the special variation being sought, and the resources of the council.

Where a council is seeking a large rate increase and decides to undertake a survey, it is important that the survey sample is representative of the relevant population, and is of sufficient size to generate statistically reliable results. The survey questionnaire should provide respondents with clear and transparent information on the special variation and what it is to fund, and should not use leading questions.

How should the outcomes of community engagement be reported?

As part of a special variation application, a council must demonstrate an appropriate variety of engagement methods to ensure opportunity for community awareness and input/feedback.

The information should clearly identify:

- ▼ key stakeholders in the consultation process
- ▼ the information that was presented to the community regarding the special variation proposal
- ▼ methods of consultation used by the council and why these were selected.

The council must also provide a summary of the outcomes from community engagement, as presented in the council's IP&R documents. For example:

- ▼ the number of attendees at workshops or meetings
- ▼ the percentage of respondents supporting, in various degrees, the proposal(s)
- ▼ the overall sentiment of representations
- ▼ the results of surveys, if undertaken
- ▼ any action proposed by the council to address issues of common concern.

Additional Guidance for Expiring Special Variations

When a council is renewing an existing special variation that is due to end, this can make the explanation of the variation amount more complex.

There are up to 3 amounts to consider: the value of the expiring variation, the value of the rate peg and the value of any additional variation amount above the rate peg.

Councils should inform their communities:

- ▼ that an existing special variation is about to expire or will do so during the period covered by the application for a special variation
- ▼ if applicable, that a temporary expiring special variation is being replaced with a permanent increase to the rate base
- ▼ if this is so, the council should also state that the proposed special variation includes the value of the expiring special variation and the additional rate increase being sought by the council
- ▼ that the year-on-year impact on rates would not be as great or that rates may fall if the special variation is not approved and only the rate peg is applied after the existing special variation ceases.

Councils should note that percentage special variation being requested will be higher than the year-on-year-percentage change in rate levels. An example is given in the next section.

Demonstrating the impact of an expiring special variation on rates

Councils should use comparisons of year-on-year changes in average rates (or across bands of rate levels based on land values) both with and without the special variation, to show the impact of the special variation being sought. These comparisons should also clearly show the impact of any expiring variations. The material should also clearly show the cumulative rate increase over the period of the special variation.

As an example, consider Table 1. This is a worked example for the benefit of councils and assumes:

- ▼ a council which has only 1 residential rate averaging \$1,000 in 2013/14 and 1 business rate averaging \$3,000 in 2013/14. We have assumed that the same percentage increases would be applied to average residential and business rates
- ▼ a rate peg of 3.0% per annum over the period
- ▼ an application for a special variation of 6.5% per annum for 4 years
- ▼ an existing special variation that will expire on 30 June 2015, and is not renewed or replaced. For simplicity, we have assumed that the expiring special variation (ESV) is equal to 4% of the 2014/15 rate base. This percentage is deducted from the rates base before the rate peg or SV is applied in 2015/16.

Table 1 Impact on average rates of a special variation with an expiring special variation

	2013/14	2014/15	2015/16	2016/17	2017/18	Cumulative % rise over the 4 years
Residential rates under the rate peg	\$1,000	\$1,030	\$1,020	\$1,050	\$1,082	8.2
Residential rates with the SV	\$1,000	\$1,065	\$1,092	\$1,163	\$1,238	23.8
Impact of SV*		\$35	\$72	\$112	\$156	
Cumulative impact of SV*		\$35	\$107	\$219	\$376	
Business rates under the rate peg	\$3,000	\$3,090	\$3,059	\$3,151	\$3,245	8.2
Business rates with the SV	\$3,000	\$3,195	\$3,275	\$3,488	\$3,714	23.8
Impact of SV*		\$105	\$216	\$337	\$469	
Cumulative impact of SV*		\$105	\$321	\$658	\$1,127	

* above the level of rates that would be reached under the rate peg

The first line in each rate category shows how average rates would rise under the rate peg, allowing for the existing special variation to expire on 30 June 2015 before the rate peg is applied for 2015/16.

The second line in each category shows how average rates would rise if the special variation were approved, again allowing for the expiring special variation.

A cumulative rise in general income of 3.0% per annum (the rate peg) over 4 years is 12.6% and a cumulative rise in general income of 6.5% per annum (the special variation) for 4 years is 28.6%. However, the cumulative rise in *rates* will only be



8.2% under the rate peg and 23.8% under the special variation. The lower cumulative rise in rates is caused by a reduction in rates that occurs when the expiring special variation drops out at the start of 2015/16.

The effect of expiring special variations is often difficult to explain to ratepayers, but it may be a significant factor in determining the cumulative effect of the proposed special variation on rates. In terms of the application by the council to us, it must apply for the full 28.6% rise. It will then have to explain to ratepayers that the rise in rates will be less than this because of the effect of the expiring special variation.