

Item No: C10/20-582

RATES HARMONISATION

Responsible Division: Finance & Governance
Officer: Director Finance & Governance
File Number: 8464685
Community Strategic Plan Goal: *Transparent and accountable leadership*

SUMMARY

This report provides a rates harmonisation update to Council following the conclusion of the community consultation period and presents a summary of the submissions received. Further, this report outlines the next steps required in the rates harmonisation process.

RECOMMENDATION

That Council:

- 1. Note the outcome of the community engagement undertaken on the options for rates harmonisation.**
- 2. Adopt option 1 no SRV increase as per community consultation feedback.**
- 3. Register with IPART for a single minimum rate for Cumberland. The residential minimum will commence at \$650, increase by 10% for four years; the business rates minimum will be \$1,200 and increase by CPI.**
- 4. Approve the rates structure for consultation with ratepayers:**
 - i) Single minimum rates residential ratepayers**
 - ii) Ordinary residential rates**
 - iii) Business – Commercial Rate**
 - iv) Business – Shopping Centre Rate**
 - v) Business – Industrial Rates**
- 5. Adopt in principle a gradual transition of rates, noting current legislation has not been amended to allow this. Council does have a Plan B, as outlined in this report, to achieve a gradual transition of rates without any loss of \$8m in rates income at risk.**
- 6. Write to the Minister of Local Government and Local Government NSW (LGNSW) in support of new amendments to legislation that allow Council to opt-in into a maximum period of 5 years for a gradual transition to the new Cumberland rate. Outlining that Cumberland supports the ratepayers whom have a lower capacity and want to avoid a 40% increase in one year.**

7. **As per IPART guidelines, inform all ratepayers of the expected impact to residents over five years and business for one year using gradual transition and single year transition options.**
8. **Note that the gradual transition plan will be included in the annual Operational Plan pending amendments to the *Local Government Act*.**

REPORT

1. Context

At the Ordinary Meeting of Council held on 18 September 2019, Council considered the issue of rates harmonisation (Item No: C09/19-214) and resolved (Min. 697) as follows:

- “1. Note the information and options for rates harmonisation.*
- 2. Take the maximum 4 years allowed in section 218CB of the Local Government Act 1993 to implement the new rates. The implementation date will be by June 2021.*
- 3. Make an application to the Minister for Local Government for a variation to section 218CB, outlining a solution that no increases in residential rates for 2020-2021 be implemented in the former Holroyd City Council area to reduce the overall impact on rates harmonisation.*
- 4. Write to the Minister for Local Government and the Independent Pricing and Regulatory Tribunal in relation to the loss of business rates of \$5.0m per annum from the former Auburn City Council area, highlighting the financial sustainability issue this has created and requesting approval to make an application to increase the rates cap from 2020-2021.”*

The following events have transpired since Council resolved the above:

- On 21 October 2019, the Office of Local Government (OLG) updated the 2016 Ministerial Determination which permits merged councils to make a Special Variation (SV) application to IPART from the 2020/2021 financial year.

This addresses Item 4 in Minute 697, Item No: C09/19-214, meaning that if Council wished to recover the lost rates identified at the meeting of 18 September 2019, an application would need to be made to IPART to do so. Such an application would need to be made to IPART by November 2020. This process is detailed in this report.

- On 14 November 2019, the OLG wrote to Council advising that any changes to the former Council rate paths will need to be approved by IPART following a s508a application to implement any gradual harmonisation of rates.

This correspondence addresses Item 3 in Minute 697, Item No: C09/19-214. If Council wishes to proceed with no increases being applied to the rates for properties in the former Holroyd City Council, approval would need to be sought from IPART to do so. The process for the seeking of such approval is identical to that outlined in the point above.

In May 2019, Council engaged Morrison Low to conduct an independent assessment of the options available with respect to harmonising rates. The scope of this exercise included:

- Consideration of four options to harmonise rates, including the implementation of a Base Rate or 3 different levels of minimum rates.
- An analysis on the ability to pay.
- Recalculation of the rates for 75,000 rateable properties under all four options.
- Further analysis of each option divided by percentile bands 10 to 90 to determine the impacts of each option for the different groups of ratepayers.

At the Ordinary Meeting of Council held on 18 December 2019, Council considered the issue of rates harmonisation (Item No: C12/19-321) and resolved (Min. 869) as follows:

“That Council:

- 1. Note the information and options presented in the report.*
- 2. Commence community consultation regarding the following two combination of options, noting these options would require IPART approval:*
 - i) Option 1: 5 year transition with the application of a minimum rate and Option 5: Increase in the rate cap over 5 years by \$10m.*
 - ii) Option 1: 5 year transition with the application of a minimum rate and Option 3: Harmonisation of rates over 5 years.*
- 3. Advocate to the Minister for Local Government in relation to this matter, and organise a deputation to the Ministers Office along with other Council’s in the same position as Cumberland.*
- 4. Ensure the consultation is available in various languages.”*

The following events have transpired since Council resolved the above:

- On 20 March 2020, Council issued a press release advising all residents of the up and coming rates harmonisation.
- On 7 April 2020, the rates harmonisation group agreed to pause the consultation due to the increasing attention on COVID-19.
- On 3 July 2020, Council relaunched the rates harmonisation consultation via Have Your Say and a direct letter to ratepayers alongside their 2020-21 rates notices.
- The consultation period ran until 30 September, with a community survey conducted in the week commencing 14 September.
- The community consultation was targeted towards the two options approved and included in December 2019 Council report.
- Consultation material is listed below and the data gathered is included in this report. This addresses Items 2 and 4 of Minute 869, Item No: C12/19-321.
 - Video on Council’s website and in the Customer Service Centres;
 - Flyer in 4 alternative languages;
 - Online form on Have Your Say;

- Letters to Council;
 - Online Frequently Asked Questions;
 - Letter to all ratepayers;
 - Facebook posts;
 - Eventbrite one-on-one consultation sessions;
 - Promotion in the community newsletter and on Council's website.
- On 25 August, the OLG responded to Council's request for an update on rates harmonisation (see attached). This letter informed Council that the Minister has no authority to approve gradual transition plans. This would require an Act of Parliament, noting there is no intention to introduce a Bill for that purpose. This addresses Item 3 of Minute 869, Item No: C12/19-321.

It should also be noted that Council had requested to undertake early implementation in the 2020-21 year. The OLG had advised that the Accounting Code and legislation does not permit this.

- On 17 September 2020, Council was granted a meeting with the Minister for Local Government to discuss the gradual transition of rates. Council provided the reports from Morrison Low to provide context regarding the challenges facing Cumberland. This addresses Item 3 of the resolution to the best of Council's ability in the current circumstances (Min. 869, Item No: C12/19-321).

2. Update on Rates Harmonisation

a) Other Actions Underway

- On 13 August 2020, Council's Director Finance and Governance met with IPART to discuss the requirement to align the minimum rates. It was agreed at this meeting that Council could make an application for multi-years to increase minimums.

The following matters were also discussed:

- 1) IPART's view is that Council's new minimum requires approval as the statutory cap is being exceeded. Some councils have obtained legal advice stating that the proclamation permits the selecting of a minimum rate (e.g. Parramatta is \$708.08) from the former councils. IPART does not agree and advises Council to make an application.
- 2) Council must inform the community of the financial impact of the new minimum rate. This is normal practice for a minimum rate application. For rates harmonisation, this is a challenge as there is no legislation allowing Cumberland to use a gradual transition method; therefore, Council will need to include two options when informing ratepayers of the impact or run the risk that the process may be invalid. IPART is a regulator and can only apply the law as it is now. This is likely to be resolved before final submission is due in February 2021.

The tables Council would provide to ratepayers are attached.

3) Attached is the Guideline for 2020-21.

<https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/local-government-special-variations-applications-for-special-variations-2020-21-special-variation-documents/application-guide-for-part-b-minimum-rate-increases-2020-21.pdf>

- On 8 September 2020, the OLG met with General Managers to discuss the opportunity to advance legislation for a gradual transition as outlined in IPART's report and supported by the Minister in June 2020. OLG advised that the intention is to have the legislation passed by the end of this financial year.

The State Government's response to this was that "*IPART's recommendations regarding residential rates equalisation and gradual harmonisation of rates is integral to this process.*" (See Page 9 of the attached *IPART Review of the Local Government Rating System – Government Response*).

This is another variation which was unexpected and most of the merged councils are hopeful that this legislation can be approved in time.

It should be noted that this occurred a fortnight after the letter from OLG advising there is no plan to promote such legislation. Based on this, it is expected that there will be future challenges and changes in the next 9 months.

b) Rates Harmonisation Legislation

The legislative framework for setting rates and designing rating structures is set out in the *Local Government Act 1993* (the Act). Growth in Council's overall rates income is restricted by the rate pegging limit or special rate variation percentage as approved by IPART. Increases in land value do not increase the total value of rates but can impact the way rates are distributed.

Council sets the rating structure to determine the distribution of rates between categories and subcategories of ratepayers, and has the option to charge ordinary rates and special rates within its total allowable rates income.

A rate, whether ordinary or special, may consist of:

- an ad valorem amount (which may be subject to a minimum amount), or
- a base amount to which an ad valorem amount is added.

c) Setting a Revenue Policy

At the expiry of the 'rates freeze period' (30 June 2021), all councils are required to have rates and revenue policies that comply with the Act. This requires the preparation of one rating structure to cover the new local government area.

In order to set a new rating structure, Council needs to formulate a view on major revenue and rating principles and set revenue strategy objectives. Key considerations include:

- Long term revenue requirements to meet the financial sustainability criteria.
- Mix of revenue from rates, annual charges and user fees and charges.
- Relative similarities and differences in current rating structures and how changes will impact ratepayers.
- The principles of equity, simplicity and efficiency for a new revenue strategy.

3. Proposed Harmonised Rating Structure – Transition Plan

Introduction

In setting a new harmonised revenue policy, Council is required to determine how rates will be distributed between the rating categories.

Rates modelling was prepared to analyse the impact of different rates structures with options for different percentage contribution from the three categories, including calculations based on the ability-to-pay model based on the current level of rates that are paid by each category of ratepayer.

a) Objectives:

- Rates harmonisation deadline 1 July 2021 with:
 - No further extension
 - No transition options (there is Plan B)
 - Compliance with current legislation.
- Develop an equitable rating structure that distributes the rates burden fairly across the new Local Government Area.
- Balance the need to reduce the extent of a sudden, unexpected impact for the majority of ratepayers.
- Maintain rates yield forecast (LTFP).

b) Use of a Minimum for Ordinary Rates Harmonisation

Most NSW metropolitan councils use minimum rate structures in high density areas, resulting in a high proportion of ratepayers paying the same minimum amount. The two rating structures for former Auburn and Parramatta have minimum amounts, while former Holroyd had a base amount. The analysis undertaken has been based on continuing with the minimum rate structure for the whole Cumberland Local Government Area.

From a rates levied perspective, 36.5% of ratepayers in the LGA are minimum residential ratepayers. The minimum ratepayers should at least contribute 30% (currently 24%) of the rates, which represents a rate of \$860 per ratepayer by 2024.

The reason for not going any further is to recognise comments in the submissions that not all unit dwellings are new units; there are a portion of older unit dwellings that are not supportive of paying large increases.

IPART advised councils that a benefit to the minimum rate for growing population is the rate cap will be (\$0.7m in our circumstances) higher every year than if the statutory cap is applied. This is because Council receives a supplementary value for additional ratepayers on what they pay and all our growth is likely to be via additional unit dwellings.

Minimums have also been endorsed by the State Government in their response to the IPART report, as it removes the unfairness from unimproved land value and moves towards the rate that would be paid under a capital improved model. The report is attached for information.

c) Final Rating Recommendations – Transition Plan

The following table provides the proposed rates based on land data from July 2020. The final rates will be included in the Operational Plan 2021-22. Council recognises rates will always move and this is indicative to the current data.

i) Residential Rates

Former area	2021-22	2022-23	2023-24	2024-25	2025-26
Cumberland Min Rate (proposed)	650	715	785	860	860
Ad valorem					
Auburn	0.00167	0.00172	0.00180	0.00190	Merged
Holroyd	0.00227	0.00221	0.00213	0.00202	Merged
Parramatta	0.00216	0.00214	0.00208	0.00202	Merged
Cumberland	0.00207	0.00205	0.00202	0.00196	0.00202
Residential Rates Yield					
Auburn	19,212,433	20,194,055	21,477,716	22,965,131	23,900,128
Holroyd	40,342,976	40,261,791	40,145,408	39,605,732	39,594,470
Parramatta	10,287,309	10,425,369	10,429,311	10,438,877	10,435,798
Cumberland	69,842,719	70,881,214	72,052,435	73,009,739	73,930,396

ii) Commercial Business Rates and Industrial Rates

The former Councils of Auburn and Holroyd had one business rate category, and the former Parramatta Council had a Business General and Industrial Rate. In 2017, Council undertook an exercise to analyse the 4,400 businesses as part of Fire Services Levy; this was also supported by IPART (see section 8.3.1 of IPART's report). Council is now in a good position to utilise this information to roll out a business rate that is more equitable.

The creation of commercial rate provides an increase in equity by introducing a rate that is 2.0 times the residential rate. The industrial rate is 3 times the residential rate. Council has future flexibility in setting these rates and will gradually transition to these rates. The other recommendation from IPART was to set a specific rate over multi-level shopping centres as they are a centre of activity.

Former area	2021-22	2022-23	2023-24	2024-25	2025-26
Cumberland Min Rate	1,200	1,224	1,250	1,275	1,300
Commercial ad valorem					
Auburn	0.0037	0.0042	0.0039	0.0040	Merged
Holroyd	0.0045	0.0042	0.0042	0.0040	Merged
Parramatta	0.0060	0.0055	0.0055	0.0048	Merged
Cumberland	0.0044	0.0040	0.0039	0.003913	0.00375
Industrial ad valorem					
Auburn	0.0040	0.0045	0.0050	0.0055	Merged
Holroyd	0.0051	0.0052	0.0055	0.0056	Merged
Parramatta	0.0075	0.0070	0.0065	0.0060	Merged
Cumberland	0.0048	0.0052	0.0055	0.00567	0.0060
<u>Yield</u>					
Commercial Yield (includes Shopping Centres)					
Auburn	5,019,215	5,554,867	5,343,533	5,131,569	5,359,308
Holroyd	5,243,843	4,819,682	4,728,151	4,600,317	4,785,842
Parramatta	1,721,646	1,594,030	1,406,039	1,290,426	1,242,030
Cumberland	11,984,704	11,968,578	11,477,723	11,022,311	11,387,180
Industrial Yield					
Holroyd	14,064,082	14,338,634	15,990,672	16,542,969	17,204,127
Auburn	5,527,316	6,218,105	6,908,895	7,599,685	8,622,041
Parramatta	2,131,485	2,134,125	2,079,857	1,911,222	1,925,453
Cumberland	21,722,883	22,690,864	24,979,424	26,053,876	27,751,621
Total	33,707,586	34,659,441	36,457,146	37,076,187	39,138,802

iii) Commercial Shopping Centre

The creation of a commercial rate will provide a benefit to multistorey shopping complexes. Therefore, Council will introduce this rate to three properties that meet this criteria. It is proposed to use the same rate as the Industrial Rate.

d) Plan B

If the proposed legislation is unsuccessful and Council was to implement harmonisation in one year, there would be an additional financial risk of non-payment of rates as the areas impacted have been identified in the Morrison Low analysis as the ratepayers with a lower capacity to make additional payments. Council's responsibility is to recommend a legally compliant rates structure in April/May Operational Plan for 2021-22.

Therefore, officers have developed a Plan B which, although presenting additional complications as it is complex, can be implemented in the case that Council does not have access to new legislation. This process will utilise existing special rates approved under s495 of the Act, as Council will prepare a capital works schedule for the former Council areas and increase and decrease rates in compliance with the Act.

This is not the desired option, but provides Council with a legally compliant method of implementing a gradual transition if required. The details of this Plan will be brought to a future workshop if the legislation does not progress to the timeline.

e) Next Steps

Council has completed three major steps as per below and is currently at the point marked in yellow.



Detailed Plan Going Forward

October 2020

- Council to determine the preferred rates harmonisation structure for the IPART Minimum Application.
- Council resolution to notify IPART of the intention to apply to set the minimum rate for Cumberland City Council 1 December to 31 January 2020 (8 weeks).

December 2020 /January 2021

- Council will distribute information to ratepayers to inform them of the impacts for each of the former Councils under the transition plan or a potential one-year plan. Merged councils are not required to record community submissions as a new rate needs to be adopted.

February 2021

- Council determines whether or not to lodge an application with IPART to set the minimum rate for Cumberland City Council.
- Subject to Council's decision, IPART application submitted for the minimum rate to be set.

April 2021

- New legislation is due in this month or Council will need to present Plan B.

May 2021

- Draft Operational Plan 2021-22, including the budget and harmonised rating structure, to be considered by Council for public exhibition. May be an extraordinary meeting, depending on legislation timeline.
- IPART determination received for setting the minimum rate.

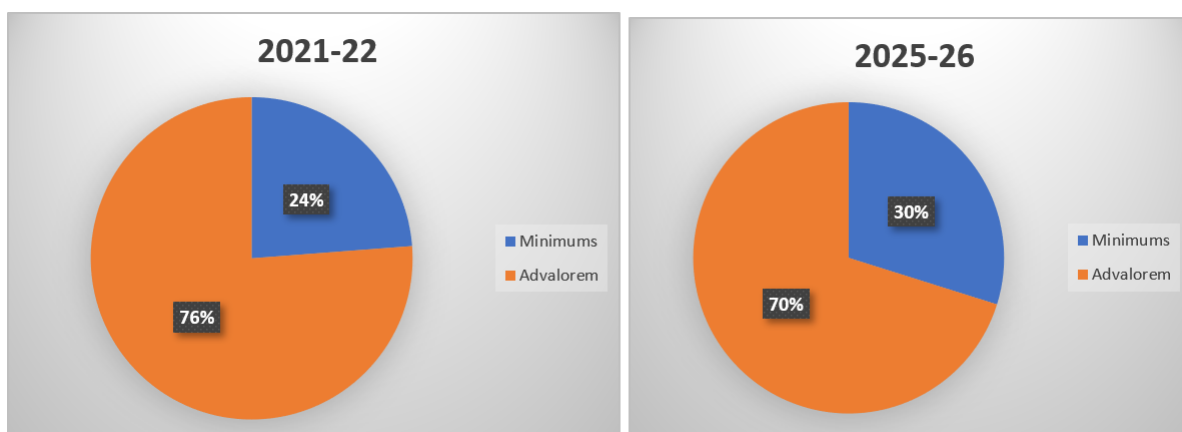
June 2021

- Council considers feedback received during the public exhibition period for the draft Operational Plan 2021-22 and determines whether to adopt the Operational Plan for 2021-22, including the budget and ratings structures.

f) Rates Structure

Based on realignment of the rates to allow for consistent reporting, the below is a graphical representation.

Residential Structure (minimums versus ad valorem)



Total Rates Structure



COMMUNITY ENGAGEMENT

Council publicly exhibited the rates harmonisation options from 20 March 2020 to 30 September 2020 (noting the pause for COVID-19 from April to July).

During the public exhibition period, the following community engagement activities were undertaken:

- The rates harmonisation options were distributed via:
 - Letter to all 76,000 ratepayers, including a flyer in four languages.
 - Community survey of 600 people.
 - E-news 7 July edition with rates harmonisation article was sent to 5,112.
 - Facebook post reached 8,571 people, with an engagement of 1,138.
 - 23 online consultation sessions booked through Eventbrite.
 - Rates harmonisation webpage on Council's website, which received 1,425 visits.
 - The printed quarterly newsletter was distributed to 73,057 households LGA wide.
- Rates harmonisation had a dedicated Have Your Say webpage and was displayed as a banner on Council's website.
- The rates harmonisation flyer was made available at Council libraries, staffed Community Centres and Customer Service Centres. The rates video ran in all Customer Service waiting areas.
- Public notice of the exhibition period and press release was reported in the Auburn Review and Parramatta Advertiser on 22 March 2020.

Council received 1,700 visits to the 'Have Your Say' webpage during the public exhibition period and 550 submissions per the attached 'Rates Harmonisation Submissions Summary' document. Option 1 received 65% support.

Council undertook a community survey, which indicated the following:

- 85% were at least somewhat satisfied with Council's performance and 81% were at least somewhat satisfied with the Council-provided community assets.
- 79% of residents were at least somewhat supportive of Council introducing the single rate over five years to ensure the impact to residents is less than 10% per year.
- Prior to contact, 20% of residents were already aware of the proposed SRV.
 - 63% of residents selected Option 1 (rate peg only) as their first preference.
 - 37% of residents selected Option 2 (SRV option) as their first preference.

POLICY IMPLICATIONS

There are no policy implications for Council associated with this report.

RISK IMPLICATIONS

There are no risk implications for Council associated with this report.

FINANCIAL IMPLICATIONS

There will be an additional cost of \$50,000 to distribute a letter box drop to all residents. Council will include this in the Quarterly Budget Review Statement.

CONCLUSION

This report addresses the resolution of Council (Min. 869, Item No: C12/19-321), resolved 18 December 2019, noting that community consultation has indicated that 65% of the community are in support of Option 1. The next steps in the process are outlined, with the journey mapped out and the decision Council is required to make also detailed.

ATTACHMENTS

1. State Government Response to IPART Report [↓](#)
2. Letter from OLG September 2019 [↓](#)
3. OLG Letter August 2020 [↓](#)
4. Residential Rates 5 year transition [↓](#)
5. Business Rates Harmonisation [↓](#)
6. Rates Harmonisation Submissions Summary [↓](#)
7. Micromex Community Consultation report [↓](#)