Inner West Council

Rates Harmonisation Briefing Paper

April 2019

Document status

Ref	Approving Director	Date
7370	G Smith	April 2019

Contents

Introduction 1

Background and Legislative Framework 1

- Newly Formed Councils 1
- Local Government Act 2
- Special Rate Variations 4
- Impact on Ratepayers 5

Requirements for Setting Revenue Policy 5

Financial Sustainability 6

Revenue and Rating Mix 6

Rating Principles 7

- Equity 8
- Simplicity 9
- Efficiency 9

Comparison of Current Rating Structures 9

- Current Rating Structures 10
- Pensioner Concessions 16
- Comparison of Average Rates 16
- Comparison of Average Land Values 17
- Minimums and Base Amounts 18
- Special Rates 21

Rates Harmonisation - Next Steps 21

Appendix A Rates Structure Data 23

Appendix B Special Rates 24

Tables

Table 1 Subcategories of the business and residential categories of ordinary rates 4
Table 2 History of special rate variations 4
Table 3 Comparison of Pensioner Concessions 16

Figures

Figure 1 General fund income 3
Figure 2 Share of rates burden 10
Figure 3 Land ownership 10
Figure 4 Proportionate rates revenue by category 11
Figure 5 Proportionate land value by category 11
Figure 6 Ashfield rates - Proportionate rates revenue by category 13
Figure 7 Leichhardt rates – proportionate rates revenue by category 13
Figure 8 Ashfield land values - Proportionate land value by category 13
Figure 9 Leichhardt land values – proportionate land values by category 13
Figure 10 Marrickville rates – proportionate rates revenue by category 14
Figure 11 Marrickville land values - proportionate land values by category 14
Figure 12 Average residential rates gap 17
Figure 13 Average business rates gap 17
Figure 14 Average residential rates per $1,000 of land value 18
Figure 15 Average business rates per $1,000 of land value 18
Figure 16 Residential rates collected from fixed charges 20
Figure 17 Business rates collected from fixed charges 20

Introduction

The purpose of this report is to identify issues and matters that need to be addressed and considered by Council in developing a new Rates and Revenue Policy. All merged councils are required to establish a new, equitable rating structure, and transition to it on 1 July 2020.

Inner West Council must harmonise the three rating structures that are currently in place, and a significant level of community engagement will be required to explain the impact on ratepayers, the reason for change and to gain understanding and a level of acceptance.

This is a background briefing paper, and is intended to be used as a Council discussion tool about the fundamental, strategic issues that need to be considered up-front to inform the policy decisions about the major revenue and rating principles. These decisions will become the basis for developing revenue and rating strategy, including rates structure options.

An objective of this briefing paper is to provide information about the rates modelling process that will be undertaken over the following months and to identify the key decision points that will require more detailed discussion once modelling analysis has been undertaken. This will ultimately provide a preferred rating structure for consideration by Council and the community.

Background and Legislative Framework

Newly Formed Councils

The Council Amalgamations Proclamation[1] prescribes the responsibilities of the first elected council, including a requirement that the rating structure must be reviewed within the first council term.

The Government amended the Local Government Act[2] which allowed the Minister to require that the former councils' rating structures stay in place for four rating years, from 1 July 2016 to 30 June 2020. This enabled the Government to achieve its policy that there will *"be no change to the existing rate paths for newly merged councils for 4 years".*

Constraints – Uncertain Government Policy

Several aspects of the Government's intention for future policy direction are unclear in regard to NSW rate legislation, however, having begun this planning process early, Inner West Council is in a position to ensure it has the time to adopt a well-considered, fair and compliant Rates and Revenue Policy.

1 Local Government Local Government (Council Amalgamations) Proclamation 2016, *https://www.legislation.nsw.gov.au/#/view/regulation/2016/242/whole*

2 The Government passed the Local Government Amendment (Rates - Merged Council Areas) Bill 2017, amending the Local Government Act 1993 to enable the Minister for Local Government to require the newly merged councils maintain their pre-merger rate paths for an additional three rating years after the first rating year that was covered by the Council Amalgamations Proclamation. *https://legislation.nsw.gov.au/bills/f6ef3a03-b0dd-42ad-b42e-db080671ba80*

The Government has announced a review into NSW rates legislation, asking the Independent Pricing and Regulatory Tribunal (IPART) to develop a report with recommendations for improved equity and efficiency in the rating system[3]. The report was developed by IPART in 2016; it involved extensive consultation with stakeholders and received strong support from the local government sector. It made recommendations to the Minister for changes to the Local Government Act, addressing many of the existing limitations within the legislative framework for NSW rates. If accepted, many of those recommended changes would significantly affect the legislative framework for the setting of rating structures. However, the Minister for Local Government has not responded to, or released, the IPART report, and Council will need to develop its Rates and Revenue Policy under the legislation as it stands.

Whilst it appears unlikely that rating legislation will be changed in the short term, Council's work in preparing a Revenue Strategy and Rating Structure that complies with current legislation will provide Council with a clear understanding of the issues and potential solutions, which can be adapted to meet future legislative changes, if required.

Constraints – Land valuations

Rates are calculated on land values, and the distribution of rates within subcategories is based on the proportionate distribution of land values for the properties within the same subcategory.

For rates purposes, land valuations are calculated every three years by the NSW Valuer General; the total rates pool isn't affected by the revaluation, but individual property rates can be affected to a small or large extent because of disproportionate value changes across large and disparate areas.

The next land revaluation is due to take effect on Council's rating structure on 1 July 2020, with the valuations due to be released to Council by December 2019. If there are disproportionate changes in land values in different areas of the LGA, this will affect Council's rates modelling being prepared up to that point.

Rates modelling will be prepared on the basis of current land valuations, and used as the basis for a decision on the creation of a new, equitable rating structure for the new council area. When new land valuations are received, they will be applied to the new rating structure, with a final review before adoption by Council, ready for rating from 1 July 2020.

This process will allow Council to separately consider the impact of rates harmonisation before new land valuations obscure the analysis.

Local Government Act

The legislative framework for setting rates and designing rating structures is set out in the Local Government Act 1993.[4]

General rates are worth $113 million, constituting approximately 44% of Council's general fund income. They are a tax on property and are used to fund essential local infrastructure and services.

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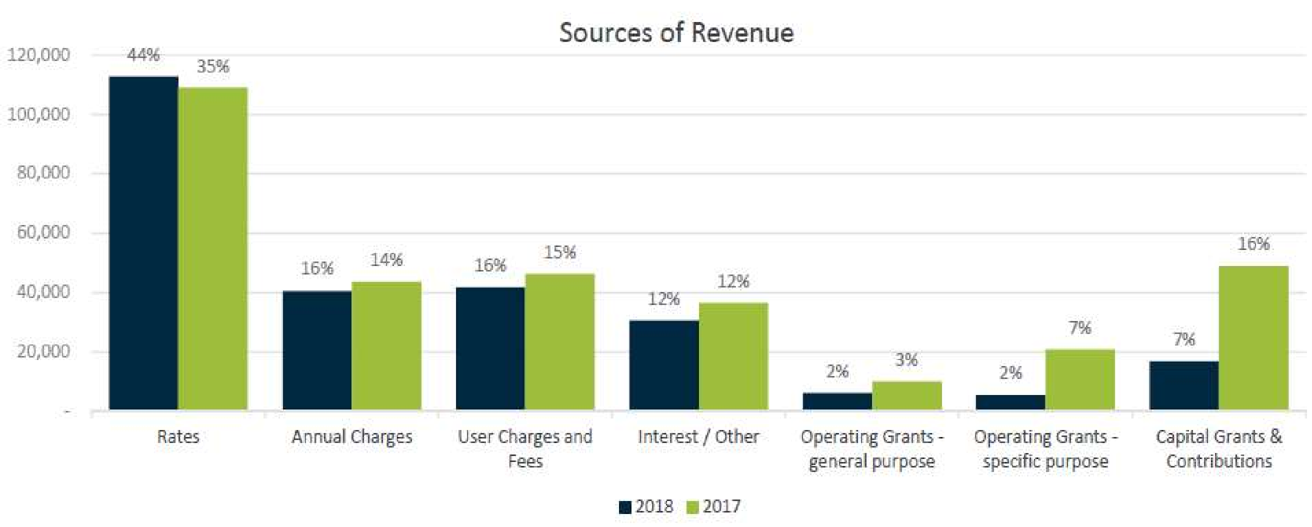
3 IPART, Local Government Rating System Review, *https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Local-Government-Rating-System/Local-Government-Rating-System*

4 For more detailed information on the current rating system, refer to the *Local Government Act, 1993, Chapter 15, Parts 1 to 9,* *https://legislation.nsw.gov.au/#/view/act/1993/30/chap15/part1*, and the *Council Rating and Revenue Raising Manual*, 2007, *https://www.olg.nsw.gov.au/sites/default/files/Council-Rating-And-Revenue-Raising-Manual-2007.pdf*

Figure 1 General fund income[5]



Growth in Council's overall rates income is restricted by the rates peg or special variation percentage. The Council sets the rating structure to determine how to distribute the 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.

The minimum amount and the base amount are fixed components of the rate, and smooth the impact of land values on rates and improve rates equity.

The ad valorem component is calculated with reference to the unimproved land valuations issued by the NSW Valuer General. New land valuations are released every three years. As the increase in overall rates income is restricted by the percentage rates peg (or special variation), the increase in land value does not result in a corresponding increase in the rates charged to an individual assessment. The proportionate share of rates charged to each assessment is dependent on the land value of the property as compared with all other properties within the same rating category and subcategory, and the rating structure determined by Council.

Council must declare every parcel of rateable land into one of the four rating categories: Farmland, Residential, Mining or Business. Inner West Council has 71,000 rates assessments categorised as Residential and the remaining 6,000 are categorised as Business.

[5] Inner West Council General Purpose Financial Statements, year ended 30 June 2018 https://www.innerwest.nsw.gov.au/about/the-council/corporate-planning-performance-budget/performance-reporting The 2017 comparative year was 7 weeks longer than a standard financial year, reporting from Council's date of inception on 13/5/2016 to 30/6/2017.

Council may also determine subcategories within its rating structure, and vary the way rates are charged within each category and subcategory. The Local Government Act restricts the way that subcategories can be determined, as described in Table 1.

Table 1 Subcategories of the business and residential categories of ordinary rates[6]

Category	Subcategories may be determined:
Residential	according to a centre of population
Business	according to a centre of activity

Councils also have the discretion to levy special rates within their rating structures. Special rates have a broad application and may be made for the purpose of funding any works, services, facilities or activities. There are additional governance and reporting requirements on special rates; income must be accounted for separately and only allocated for the purpose for which it was collected. Council must form an opinion about which land should be levied, based on land that

- benefits from the works, services, facilities or activities, or
- contributes to the need for the works, services, facilities or activities, or
- will have access to the works, services, facilities or activities.

Special Rate Variations

Councils use the special rates variation (SRV) process to apply for an increase in their total rate revenue, above the rate peg. Over the past five years there have been 71 SRV applications approved by IPART[7]. It has become a part of the normal way that councils manage their business, to provide funding for the increasing costs of providing the level of service expected by local communities.

In comparison with other NSW councils, Ashfield, Leichhardt and Marrickville have used the SRV process in moderation over the past decades, with Inner West ratepayers experiencing rate increases as described in Table 2 below.

Table 2 History of special rate variations

Council	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Rate Peg:			*2.80%*	*3.60%*	*3.40%*	*2.30%*	*2.40%*	*1.80%*	*1.50%*	*2.30%*
SRV, inclusive of rate peg:										
Ashfield	7.50%						**7.50%**	8.20%	8.90%	9.30%
Leichhardt										
Marrickville							5.40%			

In addition to the 12 year time period shown in Table 2, Marrickville Council was granted a 15 year temporary special rate variation in the 2005/06 financial year of 6.96% (including the rates peg amount); which expires on 30 June 2021. Inner West Council will be required to reduce its total general rates revenue by the cumulative value of the temporary increase, being $1.6 million, from 30 June 2021.

6 Section 529 of the Local Government Act

7 IPART, Special Variation Determinations, https://www.ipart.nsw.gov.au/Home/Reviews?k=&fr=&t=&i=localgovernment&s=completed&c=special%20variations%20minimum%20rates&ty=&adv=0

With the exception of Mid-Coast Council, merged councils have been prevented from accessing the SRV process during the four year rates freeze period. In accordance with the Local Government Act as it stands, merged councils will become eligible to use the SRV process from the 2020/21 financial year. It is apparent that many of the merged councils will have to address their long term financial sustainability, and will put responsible financial strategies in place, including consideration for all the options available such as the need for future SRVs.

Impact on Ratepayers

Even small changes to the rating structure will normally have large effects on the calculation of rates on some individual assessments, due to the nature of differential rates.

History and past policy decisions work against this process because small policy differences have large cumulative impacts on individual rates assessments that will necessarily result in large adjustments in any new harmonised rating structure.

There is no solution that will not produce outlier increases and decreases for individual ratepayers that may be beyond Council's accepted tolerance level. Our objective throughout this process is to produce an equitable rates structure that distributes the rates burden fairly; and this objective is balanced with the requirement to reducing the extent of sudden, unexpected increases for the majority of ratepayers.

In addition to the development of a new rating structure, Council will also work towards the implementation of harmonised annual charges for waste as well as a harmonised structure for fees and charges. Unlike with rating, there is no legislated time requirement to have these in place, however it is in the best interest of ratepayers if the transition can be planned in advance, and the cumulative impact on ratepayers is understood.

Community consultation strategies will be developed as part of the rates and revenue policy planning process. It will be important to provide an explanation about Council's rationale for the different options and the preferred approach. All modelling developed will consider the impact on ratepayers.

Requirements for Setting Revenue Policy

At the expiry of the 'rates freeze period', 30 June 2020, all councils are required to have rates and revenue policies that comply with the Local Government Act. This requires the preparation of one rating structure to cover the new LGA.

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

- long term revenue requirements to meet 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.

Financial Sustainability

Key Consideration

1 *Sourcing adequate revenue to deliver the service and infrastructure required for current and future communities.*

2 *The impacts and challenges of the expiring Special Rate Variation, of $1.6 million on Council's long term financial sustainability.*

A sustainable rates and revenue policy must provide sufficient funding for infrastructure and services, with growth in revenue to match the financial requirements of a growing community.

Inner West Council has focused on planning and prioritising major projects to ensure the right assets are provided at the right time, to service the LGA, as it experiences high levels of population growth and development. It has recognised the requirement for additional income to address the current infrastructure backlog, and to plan for the replacement of new and upgraded assets.[8]

Current funding levels will reduce but not eliminate the infrastructure backlog over the next ten years. Additional funding is required to continue to maintain and renew assets to provide a satisfactory level of service.[9]

Council's objective is to ensure that it maintains current service levels; it recognises that infrastructure and services will need to expand to meet the changing needs of the Inner West community. Ongoing financial sustainability can only be achieved by further cost savings or income generation proposals, or by reducing existing programs. Council has committed to an ongoing budget review process aimed at identifying cost savings or income generation options.

Council is currently refining its consolidated long term financial planning and asset management planning. This includes improving the consistency of data to establish a clear understanding of renewal requirements, improved asset systems to plan effectively and further community consultation to establish agreed service levels. The outcome of this process will provide additional evidence to continue to refine Council's asset management strategy, and support a decision about the level of revenue required to match the cost of services and infrastructure.

Revenue and Rating Mix

Key Consideration

3 *Striking the revenue balance between rates and other sources of revenue for funding the delivery of services.*

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8 Inner West Council Long Term Financial Plan 2018-2028, adopted June 2018. https://www.innerwest.nsw.gov.au/about/the-council/corporate-planning-performance-and-budget/delivery-program-and-resourcing-strategy

9 Inner West Council Resourcing Strategy 2018-2028, adopted June 2018.

Council provides a wide mix of infrastructure and services for the community, based on the priorities expressed in the Community Strategic Plan.[10] Service decisions are the result of a variety of factors such as the history of service provision, community expectations and the identified needs of the growing community. Rates are just one component of the revenue mix, which includes annual charges, user fees, operating and capital grants and other revenues.

Knowing the full cost of council infrastructure and services is important when setting their prices and making decisions about the appropriate sources of funding. Private services that benefit specific users are often better funded by user fees and charges, however many of Council's services have a mix of public and private characteristics.

Council's Pricing Policy is the key policy document that defines how services are characterised as public, private, or mixed, and the proportion of cost recovery for each of those services through direct user charges. Where full cost recovery through direct charging isn't practical or appropriate, infrastructure and services are funded through cross-subsidisation, with higher charges on other users, or by fully distributing the costs to the broader community of taxpayers and ratepayers.

The Pricing Policy is one component of the Revenue Policy, that deals with fees and charges, and that provides full transparency of Council's decisions to distribute the cost of service provision to ratepayers. To be effective, a holistic approach to revenue policy is required to avoid the common method of basing fees and charges on historic levels, and to put in place an ongoing review of service objectives and policy decisions against the cost of services.

Rating Principles

Rating income is typically used to fund (or partly fund) infrastructure and services that are characterised as public goods or mixed goods, where direct cost recovery is not practical or appropriate and where there are social reasons to distribute the cost of service provision across the community.

Council's decisions about the rating structure determine the share of rates contributed by each category and subcategory of ratepayer, but does not influence the total amount of money that is raised, meaning that a reduction provided to any category must be borne by an increase to other ratepayers.

A rating structure is one of the most sensitive issues on which Council makes decisions. A well-considered decision-making process about the trade-offs that have to be made begins with a discussion about the key taxation principles of equity, simplicity and efficiency.[11]

The following information about the key taxation principles is intended to provide background information and generate discussion and feedback from Council about the relative importance placed on the various taxation principles.

[10] Our Inner West 2036, Community Strategic Plan, adopted June 2018. https://www.innerwest.nsw.gov.au/about/the-council/corporate-planning-performance-budget/community-strategic-plan

[11] IPART, *Review of the Local Government Rating System, Local Government – Draft Report*, August 2016. Pages 21 to 24 describe the key tax principles in additional detail.

Equity

Key consideration

4 Depending on your viewpoint, the equitable outcome may be the one where users pay more or less or exactly in proportion to their level of consumption of services.

5 Should business and residential assessments contribute to funding public goods according to their ability to pay?

The Benefit or User Pays Principle

Some ratepayers have more access to, make more use of, and benefit more from different council services funded by rates. For example, services such as economic development and city centre infrastructure and services provide benefit to business ratepayers more than to residential ratepayers.

Rating subcategories can be used to group ratepayers with a view to more closely aligning rates to the relevant local services received. As an example, the current Marrickville rating structure uses sub-categorisation to set a higher level of rates within the business industrial parks at Marrickville, St Peters and Camperdown. These business subcategories are based on the business centres of activity, and are used in the rating structure to provide a higher contribution for increased infrastructure requirements in industrial areas.[12]

Detailed revenue modelling will be provided for future council workshop discussions, including a level of analysis of the proportionate service benefits received by each category and subcategory in a proposed rating structure. This will be compared to the cost of service provision, and will be used to inform the recommendations for the target rate revenue yield for each rating subcategory.

The Capacity to Pay Principle

The second equity concept used to guide the development of taxation strategies focuses on the capacity to pay principle. The principle is that those who are better off should pay more than those who are worse off. Local government rates are essentially a wealth tax, as they are determined on the proportionate value of property.

However, there are problems with the connection between ratepayers' capacity to pay and land valuations, particularly in NSW where the unimproved land value is used to calculate rates. The land valuation represents unrealised wealth and may not correlate to a ratepayer's cash assets or disposable income.

The pensioner concession system is used to support a section of disadvantaged residential property owners, and therefore supports the capacity to pay principle.

Historically, councils have used the capacity to pay principle as a primary argument in the setting of differential rates. As a matter of equity and good public policy, it is appropriate that the meaning and assessment of capacity to pay is agreed, and that decisions are influenced by an understanding of the local factors relevant to particular sections of the community and their capacity to pay rates.

[12] Inner West Council, *Operational Plan and Budget FY 2019/10*, page 13

Intergenerational Equity

Taxes should also be equitable over time, meaning that future generations should pay a similar level of rates to receive a similar level of services. It is important that rates income grows over time to meet the cost of servicing new dwellings and a growing population.

Simplicity

Taxes should be easily understood, difficult to avoid and have low costs of compliance and enforcement. Rating structures have improved simplicity when there are a limited number of subcategories and special rates and limited variability in the rating amounts. The Revenue and Rating Policy should also be clearly written and accessible to ratepayers.

Property rates are generally easy to administer compared with other forms of taxation as they rely on a clear information source – property values, and are hard to avoid because the Government holds comprehensive land ownership records.

Efficiency

Economic efficiency is a measure of the way that taxation can change behaviour, such as a decision to invest, spend or earn income. For services that are price sensitive, direct charging can influence demand and lead to greater efficiency allowing users to make their own decisions about their willingness to pay for service provision. Revenue policy becomes less efficient when services are funded by ratepayers instead of direct user charges and when discounts and subsidies are provided.

Comparison of Current Rating Structures

As a result of the requirement to merge its revenue policy, Inner West Council now has a one-off opportunity to revisit first principles in setting a fair and equitable rating structure across the LGA. However, there is a competing priority to minimise the number of assessments that experience large and sudden changes as a consequence of harmonising the three current rating structures.

We have prepared some high level analysis, based on average rates values and average land valuations, highlighting the potential consequences of a rates harmonisation process. As rates are a property-based tax, our high level analysis compares rates contributions with land ownership, providing an indication of the impact of rates harmonisation on average rates payable across the new LGA.

Whilst we have focused on some elements of the rating structures for our analysis, the complete set of comparative data is provided as Appendix A to this briefing paper.

Future detailed modelling analysis will use Council's rates book data to determine the value of the impact on individual assessments and provide percentile analysis to understand the extent of the higher impact levels across all assessments and ratepayers.

Current Rating Structures

When combined across the LGA, the share of rates burden compared with land ownership within each former area is well aligned; each former area, as a whole, is contributing to the total rating revenue relative to the level of land ownership.

Figure 2 Share of rates burden

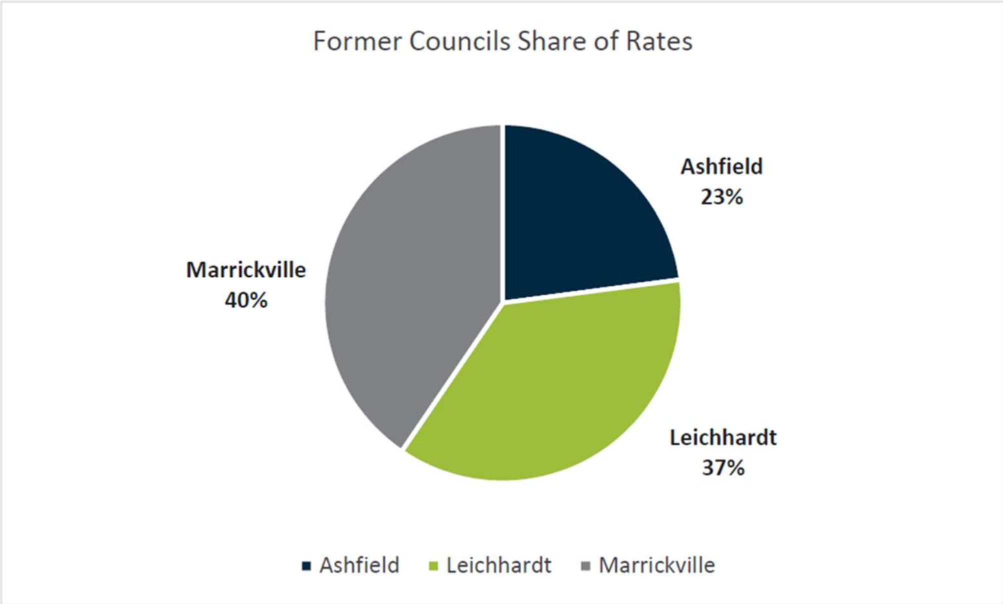
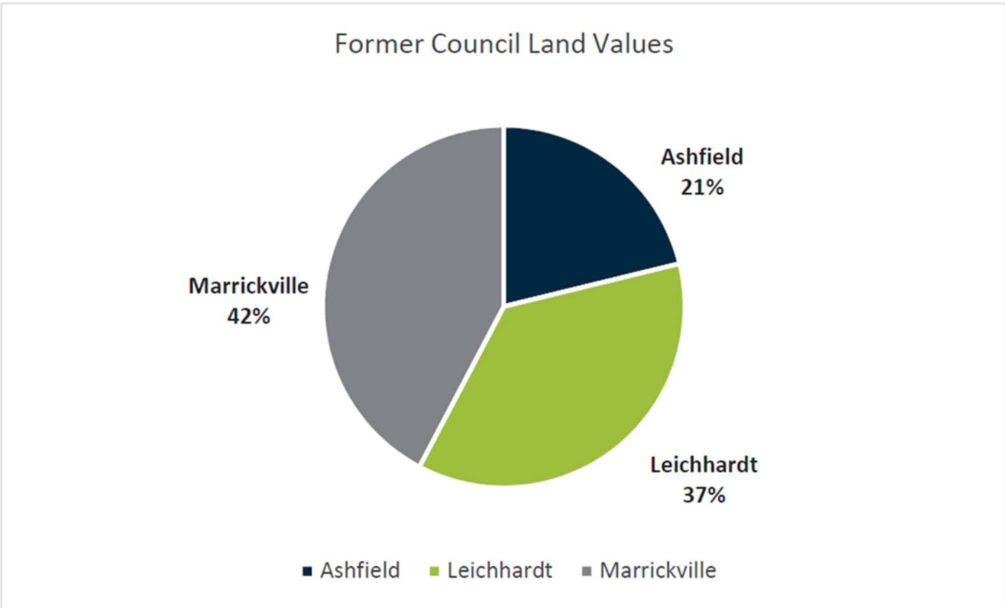


Figure 3 Land ownership



Rates Categorisation

Within each of the current rating structures, the former councils have followed different philosophies for categorisation, with the current rating structures incorporating different levels of contribution from the business and residential rating categories.

Aggregated over the three rating structures in the Inner West LGA, the rates contribution from residential ratepayers is 69.5% and business ratepayers contribute 30.5%. As a proportion of land ownership, residential assessments pay less, contributing at a level of 80% of the proportionate residential land ownership and business assessments contribute 2.6 times the proportionate business land ownership.

Figure 4 Proportionate rates revenue by category

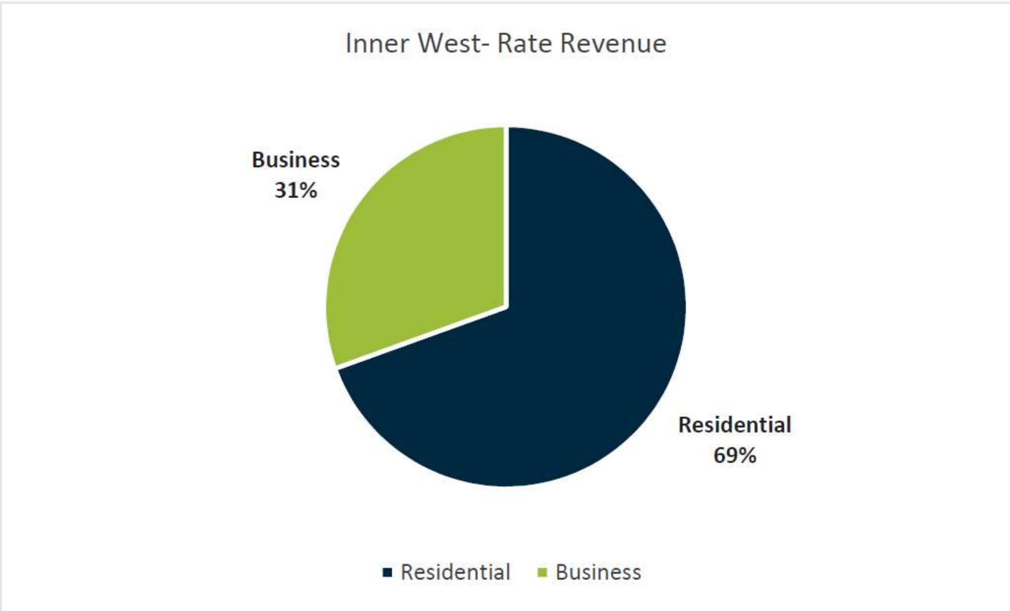
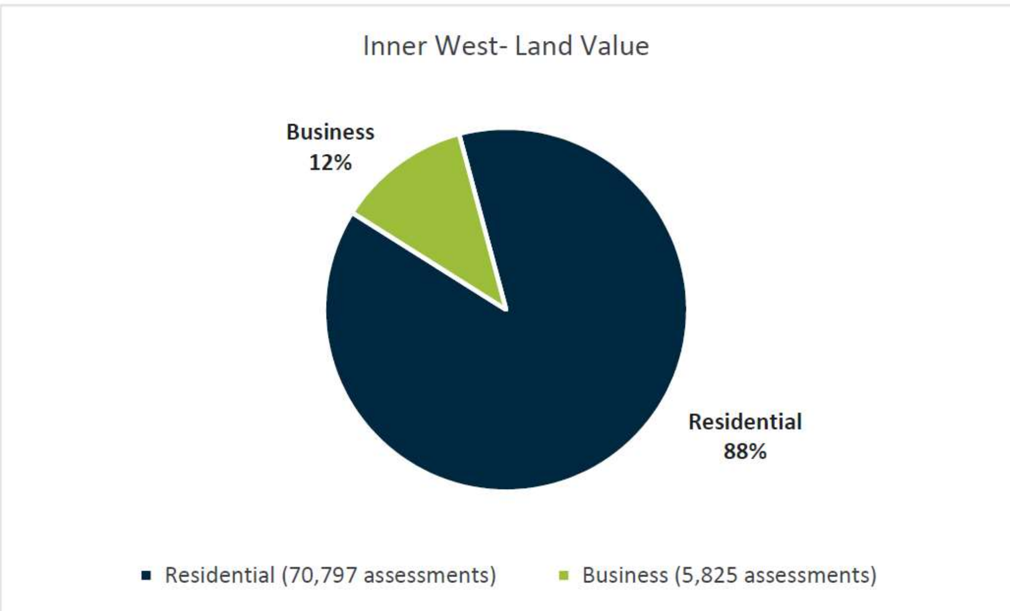


Figure 5 Proportionate land value by category



Within the three current rating structures, the relative rate contributions from residential and business ratepayers are different. Figures 6 to 11 provide a snapshot of the three existing rating structures, illustrating the historic determinations of the former councils to apportion the rates burden between the two rating categories.

Figure 6 Ashfield rates - Proportionate rates revenue by category

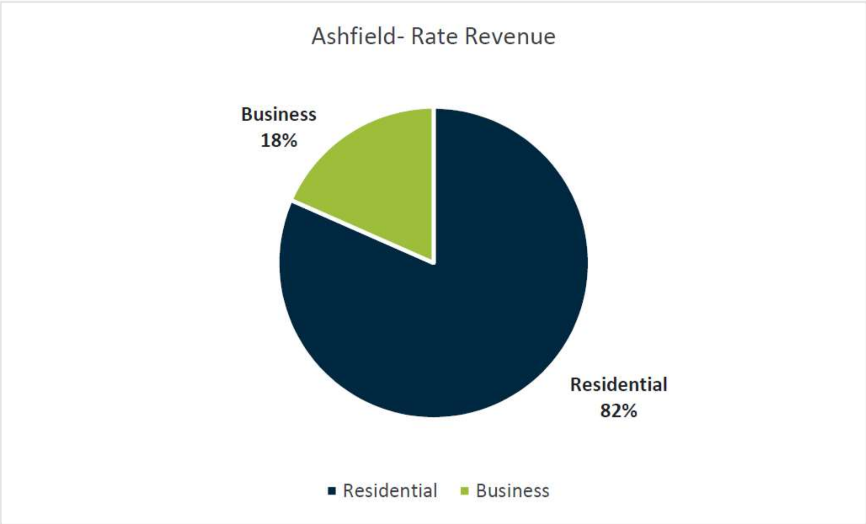


Figure 8 Ashfield land values - Proportionate land value by category

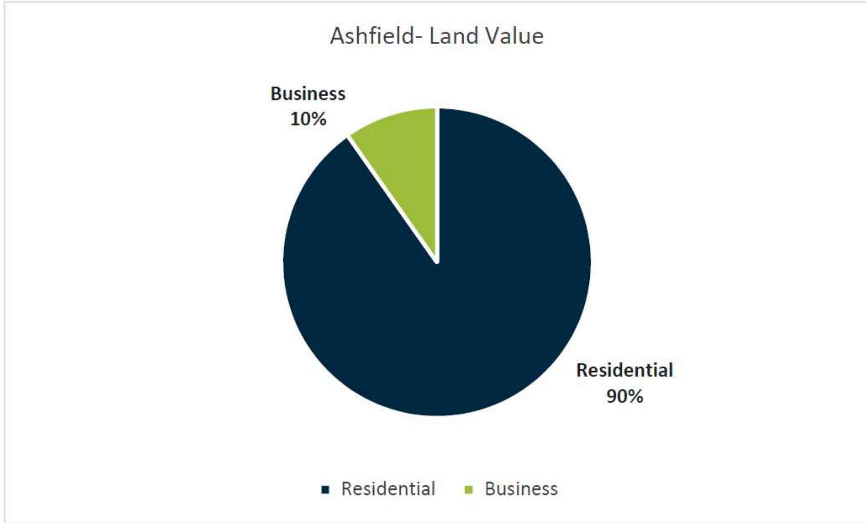


Figure 7 Leichhardt rates – proportionate rates revenue by category

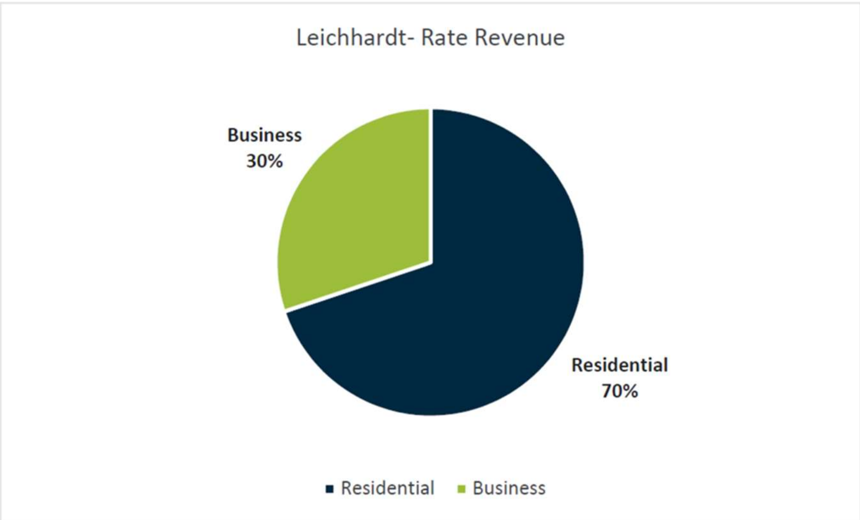


Figure 9 Leichhardt land values – proportionate land values by category

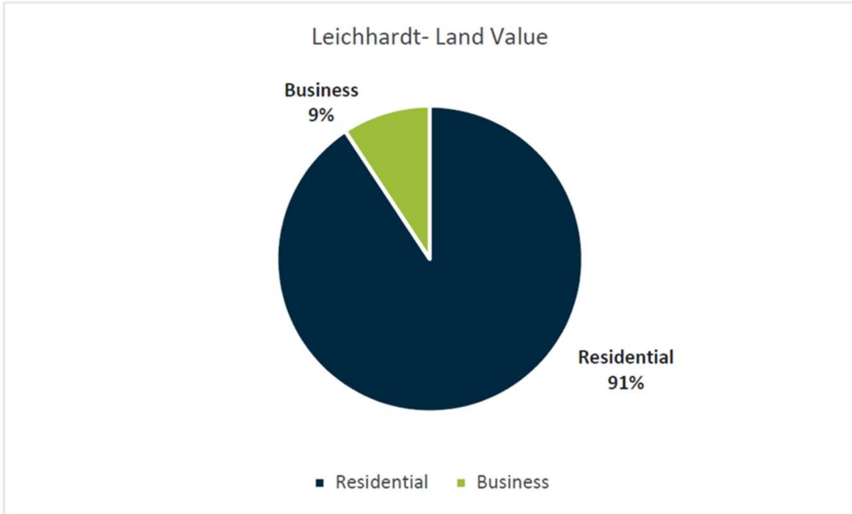


Figure 10 Marrickville rates – proportionate rates revenue by category

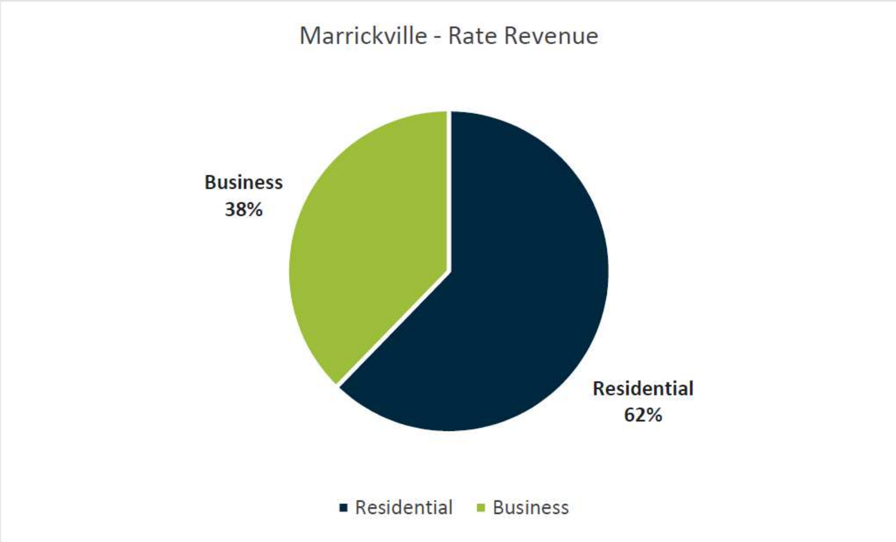
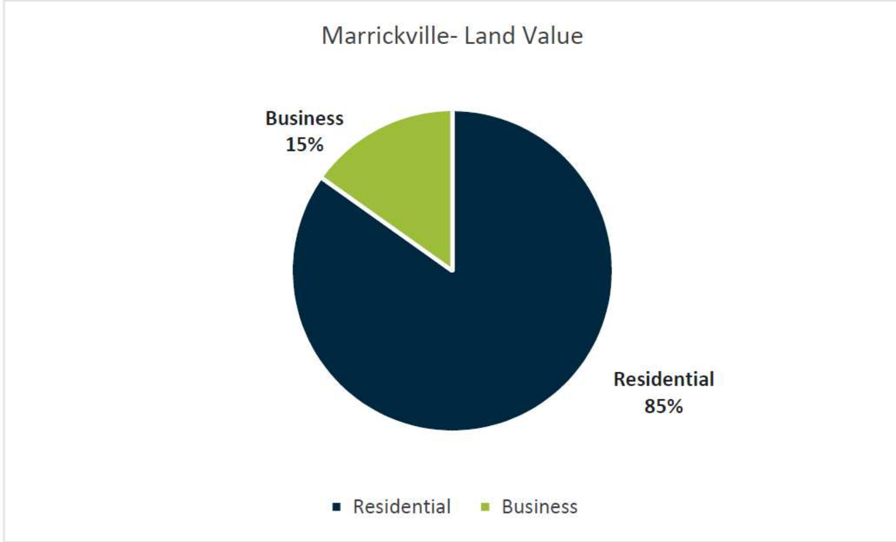


Figure 11 Marrickville land values - proportionate land values by category



Each former council has incorporated a structural discount for residential rates, with residential assessments in the Ashfield rating structure paying 82% of the rates compared with land ownership of 90%, residential assessments in Leichhardt pay 70% of the rates, compared with 91% land ownership and in Marrickville, residential assessments pay 62% compared with 85% land ownership. All three of the current rating structures put a higher proportionate share of rates on the business ratepayers, but to a much smaller extent in the former Ashfield Council area.

We know that even very minor changes to ad valorem rates result in large price variations for individual assessments. Therefore, any new, harmonised rating structure will necessarily have differences that impact significantly on individual assessments.

Key consideration

6 Equitably sharing the rates revenue burden between the residential and business categories.

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

Rates modelling will be prepared to analyse the impact of different rates structures, with options for different percentage contribution from the four categories, including calculations based on

- the benefits model - estimating Council's costs for the provision of services that proportionally benefit each category of ratepayer
- the ability to pay model - based on the current level of rates that are paid by each category of ratepayer
- combination / transitional model - based on the ability to pay, with small incremental movements toward the benefits model, planned over time
- other scenarios dependent upon feedback from Council about the relative importance placed on the different taxation principles.

Pensioner Concessions

In accordance with the Local Government Act, each of the three former councils have provided the compulsory pensioner rebates of $250 for general rates and domestic waste collection. Additional voluntary pensioner rebates were provided within each of the rating structures as follows, and Council has resolved to transition to the Leichhardt model for pensioner concessions.

Table 3 Comparison of Pensioner Concessions

Rating Structure	Pensioner Concession
Ashfield	• $75 per annum additional pensioner rebate
Leichhardt	• Free domestic waste charge and free stormwater management charge, valued at $479[13] • Available for resident owners of ten years or more
Marrickville	• $80.20 per annum additional pensioner rebate for owners who were pensioners on 1 July 2015 • $54.70 per annum additional pensioner rebate for all other pensioner owners

This historic difference in treatment of voluntary pensioner rebates has been costed and considered by Council as an initial step in the revenue policy harmonisation process, and will also be relevant when considering the total ratepayer impact of any new rating structure.

Comparison of Average Rates

Average annual rates for residential and business assessments within each of the current rating structures are shown in Figures 12 to 13 below.

The yellow gap is the difference in average rates for each current rating structure, with the overall average in Inner West Council. However, ratepayers aren't average, and there will be larger and smaller variations for individual assessments.

[13] Value is calculated as the cost of an 80 litre bin collection service in the Leichhardt charging structure of $454, plus the $25 stormwater management charge

Figure 12 Average residential rates gap

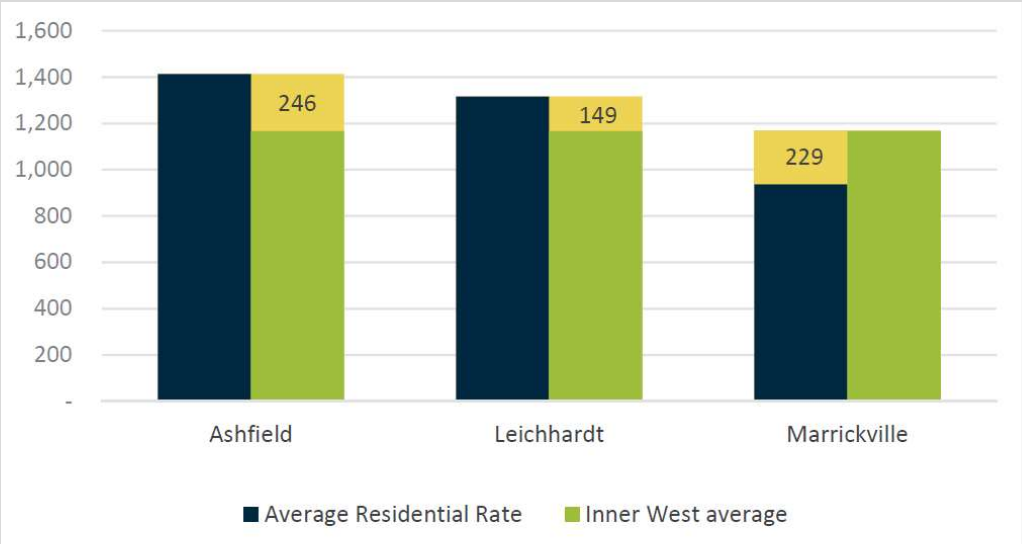


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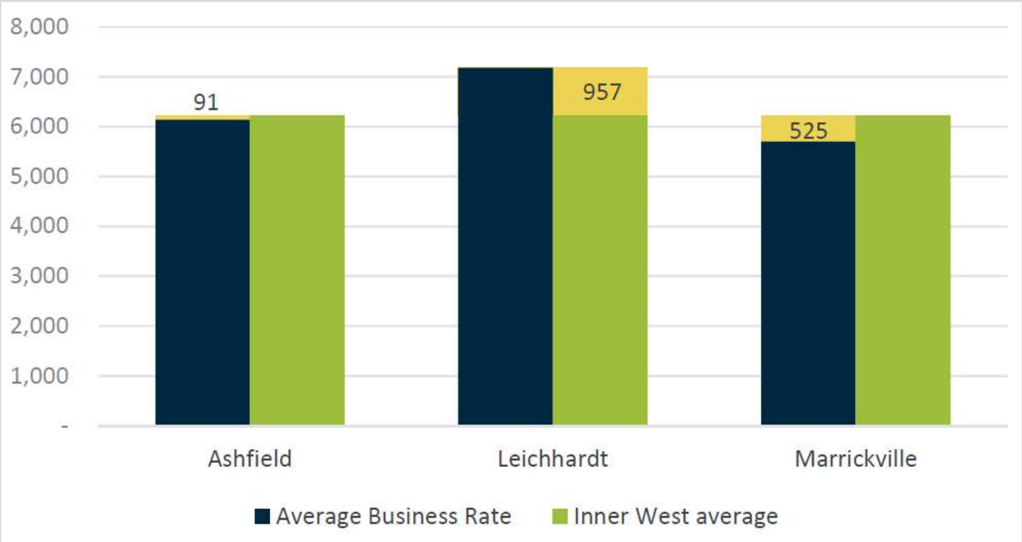
Figure 13 Average business rates gap



Figures 12 and 13 compare the average general residential and business rates under the current rating structures. Across the three rating structures, Ashfield residential rates are comparatively high, with the lowest residential rates in Marrickville. The highest average business rates are in the Leichhardt area, and the lowest in Marrickville. Marrickville also has a lower average land value for its residential and business assessments.

The variations shown in Figures 12 and 13 are straight averages, future detailed modelling will use rating structure options that incorporate *minimum* and *base* amounts, with an objective to minimise major negative impacts on individual rate assessments.

Comparison of Average Land Values

There are significant variations in average land value across the Inner West LGA, indicating the distribution of rates that may occur when rates are combined into one structure.

Figure 14 Average residential rates per $1,000 of land value

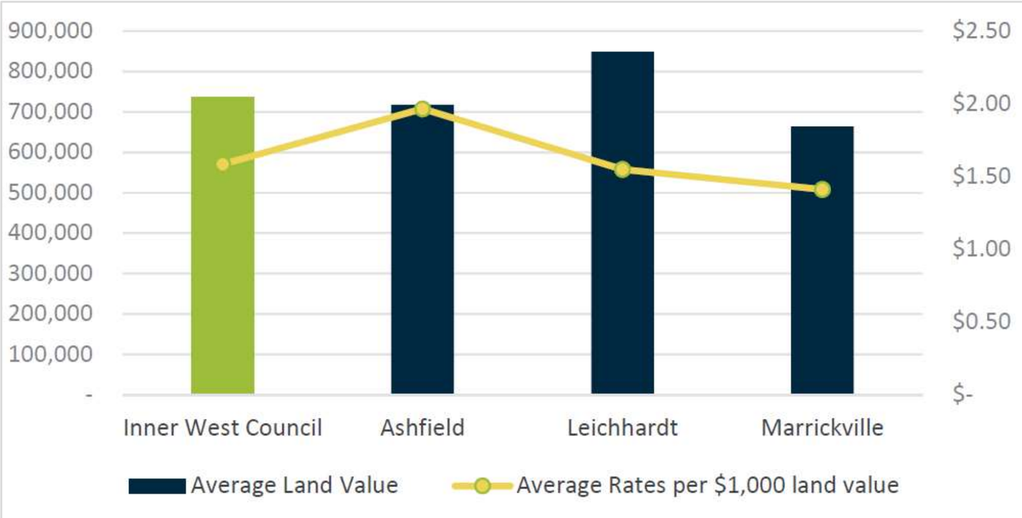


Figure 14 shows the range of average residential rates per $1,000 of land, with Marrickville ratepayers having comparatively lower land values and paying $1.41, compared with the Inner West average of $1.58.

Figure 15 Average business rates per $1,000 of land value

Business assessments in the Leichhardt rating structure currently pay a higher average rate per $1,000 land value, of $6.53, compared with the lowest (Ashfield), of $4.09, and the Inner West average of $5.16.

The comparatively lower Ashfield rate is consistent with historic policy decisions by the former councils to reduce the proportion of residential rates to different extents. The disparity will impact residential and business assessments moving to any new, harmonised rating structure.

Minimums and Base Amounts

In addition to the ad valorem component of a rate, the Local Government Act allows a component of fixed charge that consists of minimum and / or base amounts.

The fixed charge component of the rate is used to smooth the impact of land valuation on rates. Rates without a *base* or *minimum* amount could otherwise cause an unacceptably uneven distribution of costs between the lowest and highest rates assessment. They are also used to ensure the lowest rate is set at a reasonable level for the provision of facilities and services.

IPART reviewed the use of *minimum* and *base* amounts, and concluded that an ad valorem with a base amount is both more equitable and more efficient than an ad valorem amount with a *minimum*.[14]

However, rates calculations based on ad valorem and *base* amounts do not suit urban areas with high density building. As unimproved land values are used as the basis for calculating the ad valorem component, the rates calculation for multi-unit dwellings results in disproportionately low rates for apartment owners. Therefore, *minimum* amounts are used by metropolitan councils in high density areas, and this results in a high proportion of ratepayers paying the same *minimum* amount.

Use of a *minimum* structure in high growth, high density areas, creates a rating structure that will increase Council's total rates income over time in line with growth, at a rate of the m*inimum* amount, for each new assessment. A structure with a high *minimum* amount may assist Council by providing additional resources to fund consistent service levels over time.

The current three rating structures use a combination of *base* and *minimum* amounts, with 28.8% of total residential rates across the Inner West area being made up of a fixed component.

The Ashfield rating structures uses *base* rates within its residential structure, collecting 49.8% of the rate from the *base* amount, of $695.50 for each of the 16,000 residential assessments. The Leichhardt and Marrickville rating structures use *minimum* amounts of $651.50, and $673.90, respectively.

In rating structures with lower proportions of fixed charges, we would expect that small changes to the ad valorem component would have larger impacts on assessments with higher value properties.

The current structures use fixed charges to a lesser extent for business rates, with 264 business ratepayers (of 5,825 total) from the Ashfield and Leichhardt areas paying a *minimum* business rate, and no fixed rate component in Marrickville.

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14 IPART, *Local Government Rating System Review*, page 39, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Local-Government-Rating-System/Local-Government-Rating-System

Figure 16 Residential rates collected from fixed charges

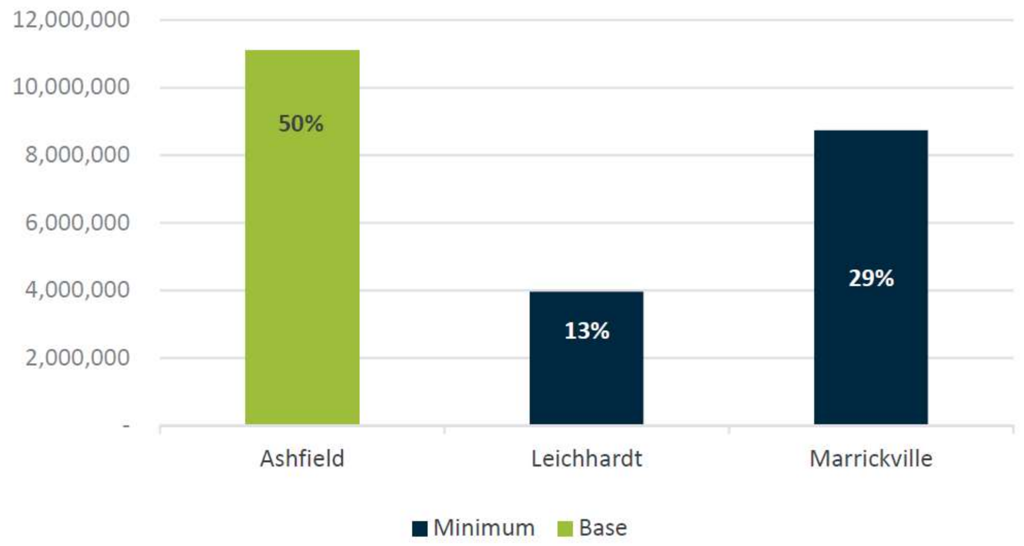
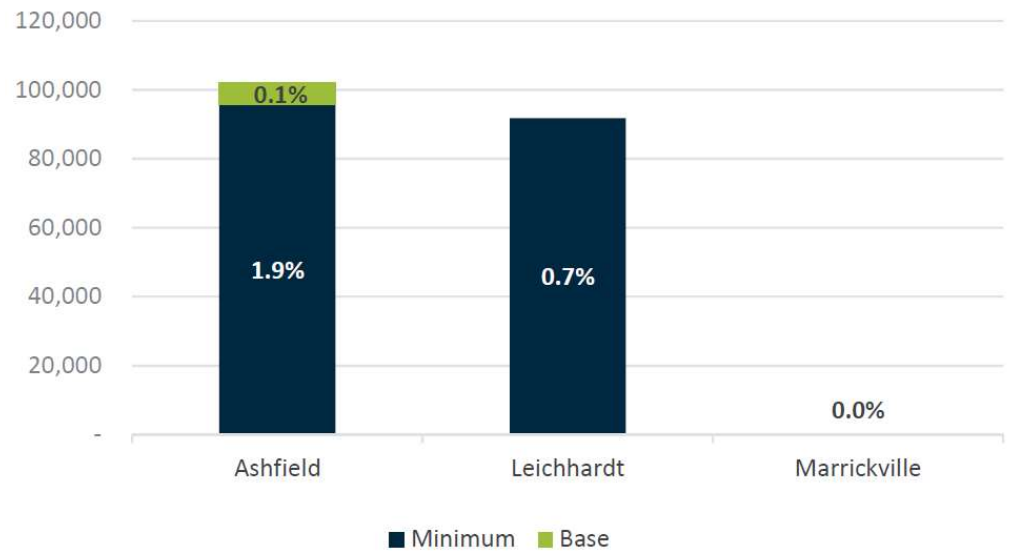


Figure 17 Business rates collected from fixed charges



Special Rates

Key consideration

7 Using special rates to fund significant, high value projects that benefit groups of ratepayers.

Special rates are useful where there is a specific and well-defined purpose, for funding major projects that benefit a particular group of ratepayers, and where other groups of ratepayers don't receive any commensurate level of benefit. For example, special rates might be considered as a source of funding for the development of substantial new infrastructure in one area of the LGA. Special rates often have a sunset clause that allows for the required level of rates revenue for funding the identified project.

There are additional governance requirements over special rates, with restrictions over how special rate revenue is expended, and additional reporting requirements to show that special rates are being spent for the specific purpose for which they were collected.

As a source of funds for Council, Special Rates are completely restricted to a specific purpose, not providing any flexibility to meet changing community needs, or respond to changing local circumstances.

Special rates are not recommended for the delivery of ongoing services or infrastructure renewal, and it makes sense to source funding for normal operations from the ordinary rates base.

Appendix B shows the special rates that have been incorporated into the current rating structures.

Rates Harmonisation - Next Steps

The following indicative timetable provides the major tasks that will be completed over the next 15 months to have the new Rates and Revenue Policy in place for 1 July 2020. Reports, workshops and modelling will be provided throughout the planning period, in addition to the indicative timeframe below.

Task	Timeframe
Council Strategy Workshop - Revenue and Rates Structure Principles	April 2019
Council Workshop - Long Term Financial Strategy; determine revenue requirements	April 2019
Ability to pay analysis report	April 2019
Rates Modelling - Rates benefit model	April 2019
Rates Modelling - Develop rate structure options	April 2019
Rates Modelling - Model rate structure scenarios and prepare ratepayer impact analysis	April 2019
Service Pricing Modelling - Model service pricing policy outcomes	April 2019
Council Workshop - Rates Structure Scenarios	May 2019
Prepare Community Engagement Strategy	June 2019
Adopt 2019/20 Long Term Financial Plan	June 2019
Commence Community Engagement Activities - Rates Harmonisation	August 2019

Task	Timeframe
Rates Modelling - New land valuations - re-model rate structure and prepare ratepayer impact analysis	November 2019
Council Workshop – Harmonised Revenue Policy Decision	December 2019
Written notice of rates categories to ratepayers	January 2020
Council Workshop - Harmonised Revenue Policy	March 2020
Council Workshop - Long Term Financial Plan	March 2020
Adopt Harmonised Revenue Policy for public exhibition	May 2020
Adopt Rates Structure	June 2020
Post rates notices	July 2020

Appendix A Rates Structure Data

Appendix B Special Rates