



Rates and Revenue Harmonisation Policy

Briefing Paper

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Introduction

The purpose of this report is to identify the 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 2021.

Bayside Council must harmonise the two 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 an understanding of their views.

This is a background briefing paper and is intended to be used as a Council discussion tool on 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.

The objective of this briefing paper is to provide information about the rates modelling process that will be undertaken over the following weeks 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 Proclamation¹ prescribes the responsibilities of the first elected council and includes a requirement that the rating structure must be reviewed within the first council term.

The NSW Government amended the Local Government Act² 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"*.

The NSW Government has subsequently amended the Local Government Act again, to provide an optional, additional year for amalgamated councils to harmonise rates by 30 June 2021³.

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

² The NSW 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 two 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>.

³ The NSW Government passed the Local Government Amendment Bill 2019, to extend by a further 12 months the period for which the Minister for Local Government may maintain the existing rate path for amalgamated councils - <https://www.legislation.nsw.gov.au/bills/1f9f7f92-4c07-4403-b8be-ee3d2b76e1b4>.

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, Bayside Council is in a position to ensure it has the time to adopt a well-considered, fair and compliant rates and revenue policy.

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 system⁴. The report was developed by IPART in 2016 involving extensive consultation with stakeholders and received strong support from the local government sector. It made 42 recommendations to the minister for changes to the Local Government Act, addressing many of the existing limitations within the legislative framework for NSW rates. Subsequently IPART released the Submission Summary and Analysis Report⁵ and

“What is clear from the feedback received is that any change to the rating system will attract both applause and criticism. Every aspect of the system is contested and fraught with competing vested interests, ideas of fairness, and differing views regarding technical application of the legislative requirements contained within the Local Government Act 1993”⁶

Further the NSW Government responded in June 2020 with the ‘IPART Review of the Local Government Rating System - Government Response’ document. There were no significant changes endorsed, that directly impact on the rates harmonisation process and the requirement to have a revised structure in place by 1st July 2021.

The most significant rating review recommendations for Bayside Council are summarised as follows.

Table 1 Summary of IPART rating review recommendations and government response

Recommendation	Comment
Councils are given the option to use capital improved land values instead of unimproved land values.	Evidence suggests that capital improved land values have better alignment to ratepayer capacity to pay. The IPART report specifies that the state government should fund the cost of establishing the register of capital improved values. Government response - Noted. Given the lack of a clear case in support of introducing CIV, the significant implementation costs involved and the strong stakeholder views, the Government will not implement CIV as a basis for setting ad valorem rates at this time.
Allow councils to levy a new type of special rate for new infrastructure jointly funded with other levels of government.	Proposed special rate for services or infrastructure that benefit the community, falling outside council’s general income permitted under the rate. Government response - Support. The Government will examine how this recommendation can complement current reforms being made to the infrastructure contributions framework.

⁴ IPART, 2016, *Local Government Rating System Review 2016*, <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-legislative-review-of-the-local-government-rating-system/final-report-review-of-the-local-government-rating-system-december-2016.pdf>.

⁵ IPART, February 2016, *Local Government Rating System Review 2016 - Submission Summary and Analysis*.

⁶ Ibid, p.4.

Recommendation	Comment
<p>The impact on individual assessments, from changing to the capital improved value, or changing to base rates, is limited to 10% per annum.</p>	<p>A transition period will be helpful for reducing price shock that would otherwise impact individual ratepayers however, there should be a reasonable limit on the length of time it takes to transition all ratepayers to one structure.</p> <p>There would be additional operational/software costs to Council to be able to set up systems for individual rate capping during the transition period.</p> <p>Government response - <i>For further analysis and consideration, as part of the development of a rates harmonisation framework.</i></p>
<p>Merged councils are allowed to determine whether pre-merger areas are separate residential areas for the purpose of continuing to charge separate residential rates.</p>	<p>Council will consider a wholistic revenue strategy including rating structure, based on funding the services and infrastructure provided by the Council, and regardless of the Council's pre-merger operations.</p> <p>Government response - <i>For further analysis and consideration, as part of the development of a rates harmonisation framework.</i></p>
<p>The impact on individual assessments, from harmonising pre-merger rates structures, is limited to 10% per annum.</p>	<p>A transition period will be helpful for reducing price shock that would otherwise impact individual ratepayers, however, there should be a reasonable limit on the length of time it takes to transition all ratepayers to one structure.</p> <p>Government response - <i>For further analysis and consideration, as part of the development of a rates harmonisation framework.</i></p>

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 latest land revaluation took effect on Council's rating structure on 1 July 2020 with the application of the 2019 valuations. There is a level of disproportionate changes in land values in different parts of the local government area, that will affect comparability of Council's rates.

Rates modelling will be prepared based on 2019 land valuations and used as the basis for a decision on the creation of a new, equitable rating structure for the new Council area before adoption by Council and ready for rating from 1 July 2021.

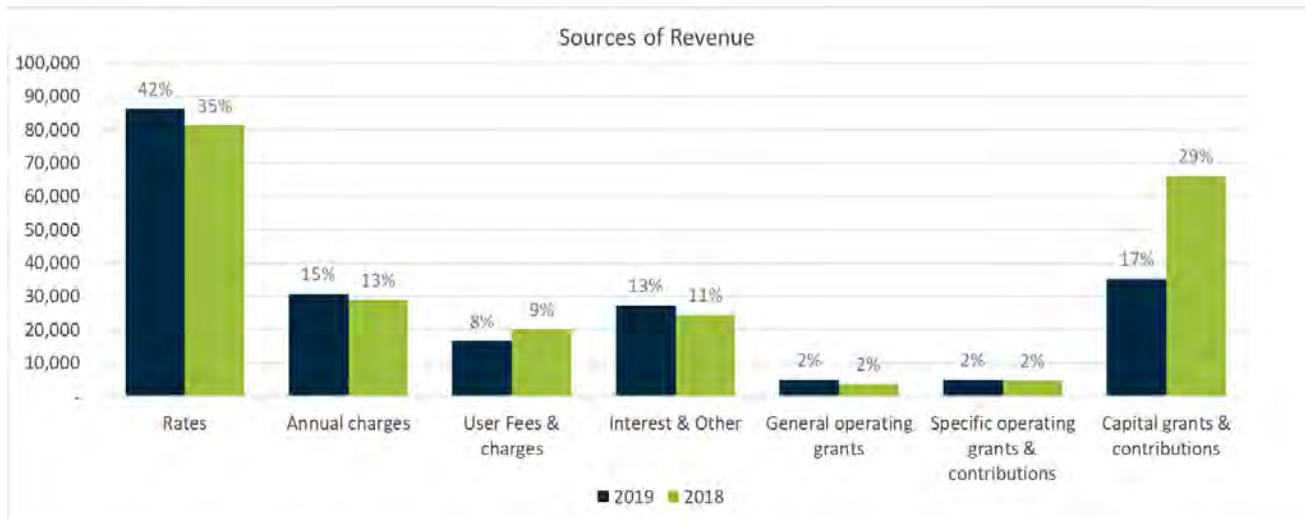
Local Government Act

The legislative framework for setting rates and designing rating structures is set out in the Local Government Act 1993⁷.

⁷ 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>.

General rates for 2018/19 are worth \$86 million constituting approximately 42% of Council’s general fund operating income. For 2019/20 the rate yield is \$92 million and for 2020/21 the estimate rate yield is \$94 million. They are a tax on property and are used to fund essential local infrastructure and services.

Figure 1 General fund income⁸



Growth in Council’s overall rates income is restricted by the rates peg or special variation percentage. 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 somewhat smooths 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. Bayside Council has 70,098 rates assessments with 65,663 assessments categorised as residential, 5 are farmland, and 4,430 are business.

⁸ <https://www.bayside.nsw.gov.au/sites/default/files/2020-01/2018-2019%20Annual%20Report.pdf>.

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 2. Where land does not meet the definition of any other rating category it must be categorised as business⁹.

Table 2 Subcategories of the business and residential categories of ordinary rates¹⁰

Category	Subcategories may be determined:
Residential	according to whether the land is rural residential, or according to a centre of population
Business	according to a centre of activity
Farmland	according to intensity of land use, or economic factors affecting the land or irrigability of land
Mining	according to the kind of mining involved

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 rates variation

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 IPART¹¹ including 12 applications for 2019/20 and no applications for 2020/21. 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.

The former Botany Council has not used the SRV process over the past 10 years, while the former Rockdale Council has used the SRV process, as described in table 3.

Table 3 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	2019-20	2020-21
Rate Peg	3.50%	2.60%	2.80%	3.60%	3.40%	2.30%	2.40%	1.80%	1.50%	2.30%	2.70%	2.60%
Rockdale Council					3.00%	3.00%	3.00%	3.00%	3.00%			
Botany Council												

Note: former Rockdale SRV in 2013/14 were based on S.508(2) and in 2014/15 were 4 years SRV based on S.508A.

⁹ NSW Government, 1993, *Local Government Act 1993*, section 518, <https://www.legislation.nsw.gov.au/#/view/act/1993/30/chap15/part3/sec518>.

¹⁰ Ibid, section 529.

¹¹ 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>.

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 potentially 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; this objective is balanced against the requirement to reducing the extent of sudden, unexpected increases for the majority of ratepayers.

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' 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 local government area.

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 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.

Financial sustainability

Key consideration

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

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. Over the last several years, Council has undertaken a systematic review of its resourcing strategy with an objective to fund asset renewal, maintain and expand current levels of service to meet the requirements of a growing population and to reduce the infrastructure backlog across the local government area.

Revenue and rating mix

Key consideration

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

Council provides a wide mix of infrastructure and services for the community based on the themes expressed in the Community Strategic Plan¹². 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 acknowledges a significant financial backlog from the former councils to bring its assets to a satisfactory standard¹³.

Council's Revenue Policy¹⁴ is the key policy document that defines if cost recovery of each services are; set by regulation, through direct user charges, includes overhead and margin, or if the service is being 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 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.

¹² Bayside Council, *Community Strategic Plan 2018-2030*, <https://www.bayside.nsw.gov.au/sites/default/files/2018-06/Community%20Strategic%20Plan%202018-2030.pdf>.

¹³ Bayside Council, *Delivery Program 2019-2020*, <https://www.bayside.nsw.gov.au/sites/default/files/2019-07/DP%202018-21%20and%20OP%202019-20.pdf>, p.38.

¹⁴ Bayside Council, *Operational Plan 2019-2020*, <https://www.bayside.nsw.gov.au/sites/default/files/2019-07/DP%202018-21%20and%20OP%202019-20.pdf>, p.64.

A rating structure is one of the most sensitive issues on which a council makes decisions. A well-considered decision-making process about the trade-offs that must be made begins with a discussion about the key taxation principles of equity, simplicity and efficiency¹⁵.

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.

Equity

Key consideration

- 3** *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.*
- 4** *Should business, residential, farmland and mining 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 tourism provide economic benefit to business ratepayers more than residential ratepayers.

Rating subcategories can be used to group ratepayers with a view to more closely aligning rates to the relevant local services received¹⁶. Bayside adopted both former councils' rating structures, where the former Botany rating structure uses sub-categorisation to set separate rates for a range of business activities within the business category as well as uses sub-categorisation in residential category; the former Rockdale rating structures does not use any sub-categorisation within their category.

Detailed revenue modelling will be provided for future Council workshops, 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.

¹⁵ IPART, 2016, *Review of the Local Government Rating System, Local Government – Draft Report*, pp.21-24.

¹⁶ Bayside Council, *Operational Plan 2019-2020*, <https://www.bayside.nsw.gov.au/sites/default/files/2019-07/DP%202018-21%20and%20OP%202019-20.pdf>, p.67.

Council will establish related policies to provide options and assistance to ratepayers deemed to be in genuine financial hardship, as well as a consistent policy to provide pensioner support. 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.

Due to the recent unfolding situation with the COVID-19 pandemic, Bayside Council has adopted a hardship policy to allow any impacted property owners to enter into a payment arrangement to provide coverage of section 601¹⁷ of Local Government Act 1993.

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.

Council's financial strategy incorporates the use of appropriate levels of borrowings to spread a share of the cost of new, long life infrastructure to the future generations that will also benefit from them. Equally, intergenerational equity requires that Council maintain and renew infrastructure and maintain a fully funded financial position so that future generations inherit the same standard and quantity of resources as current ratepayers.

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 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.

¹⁷ NSW Government, 1993, *Local Government Act 1993*, Section 601, http://www5.austlii.edu.au/au/legis/nsw/consol_act/lga1993182/s601.html.

Comparison of current rating structures

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

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

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

In the next phase, 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

For the purpose of this report and analysis, we have included community safety and infrastructure special levies as part of the ordinary income rates allocated to the categories and subcategories in former Rockdale Council.

When combined across the new local government area, the share of rates burden compared with land ownership within each former area is somewhat aligned; the former Botany area is contributing similar income percentage as they have less land value in comparison with the former Rockdale area.

Figure 2 Share of rates burden

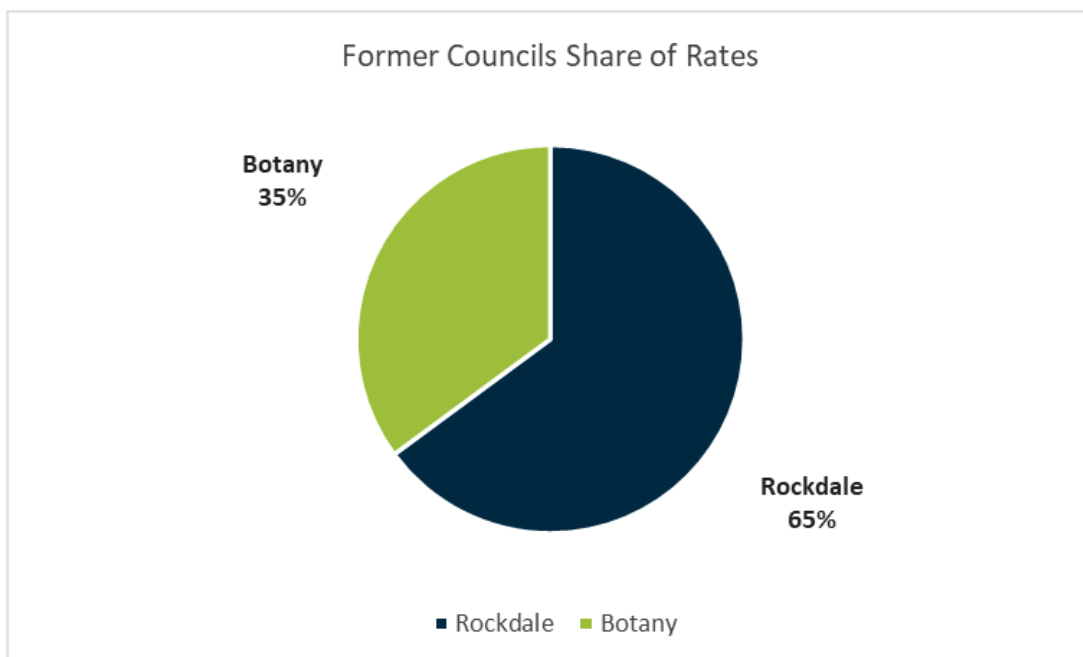
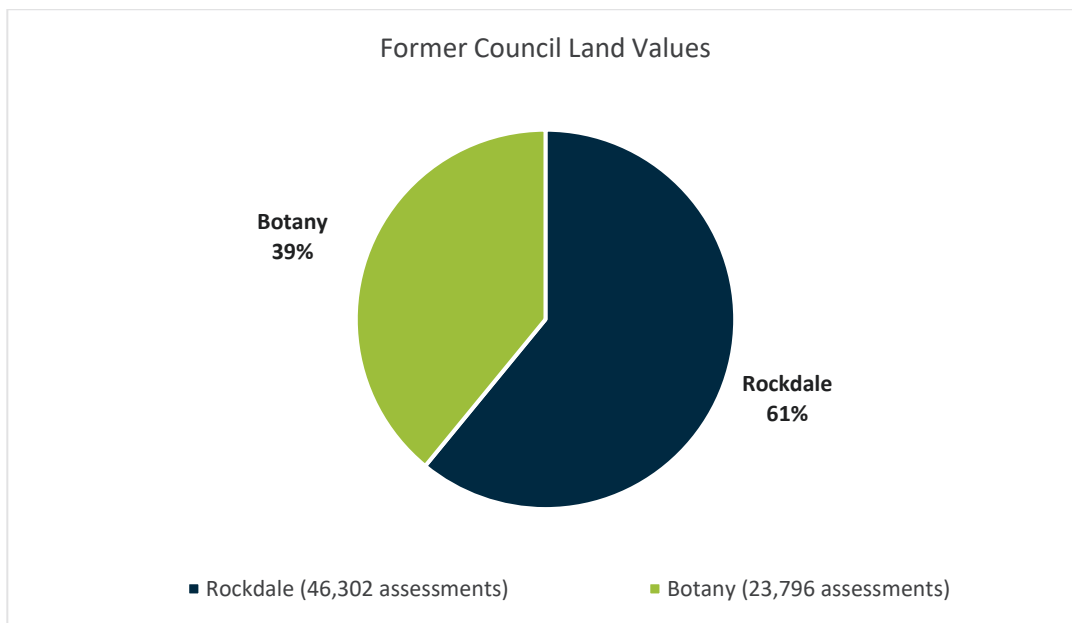


Figure 3 Land ownership



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, residential and farmland rating categories.

When combined, as shown in figure 4, the total rates contribution from residential ratepayers is 75%, business ratepayers contribute 25%, while farmland contributed less than 1%. Compared with property ownership, business ratepayers’ proportionate rates are 8% more than their proportionate percentage of total land value, with residential rates approximately 8% less of the proportionate land ownership, with farmland rates revenue aligned with the land value.

Figure 4 Proportionate rates revenue by category

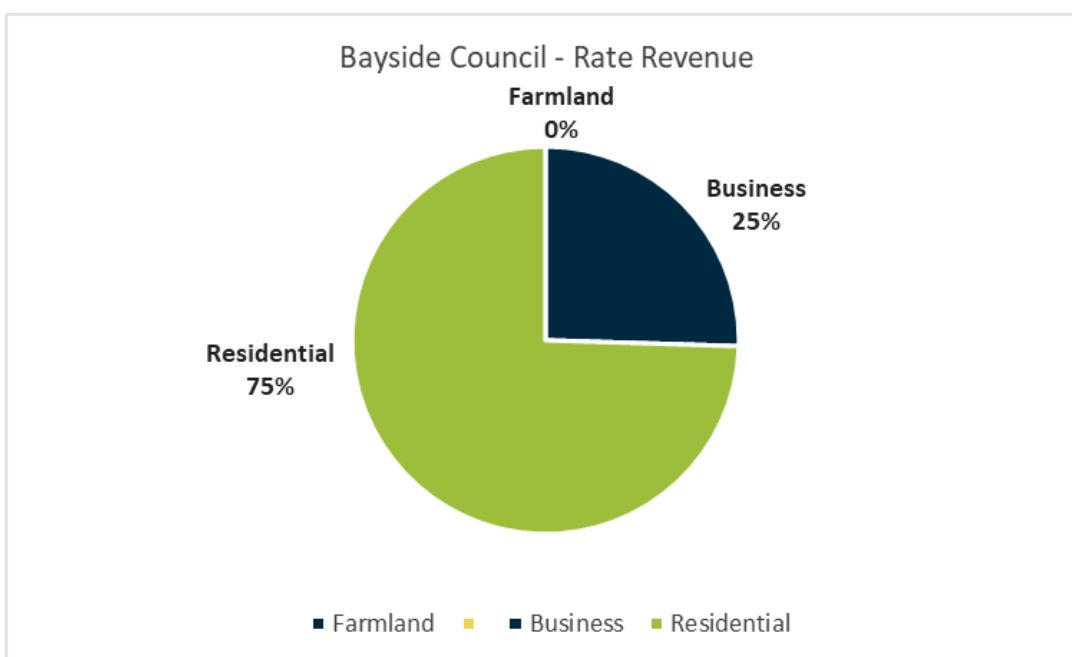
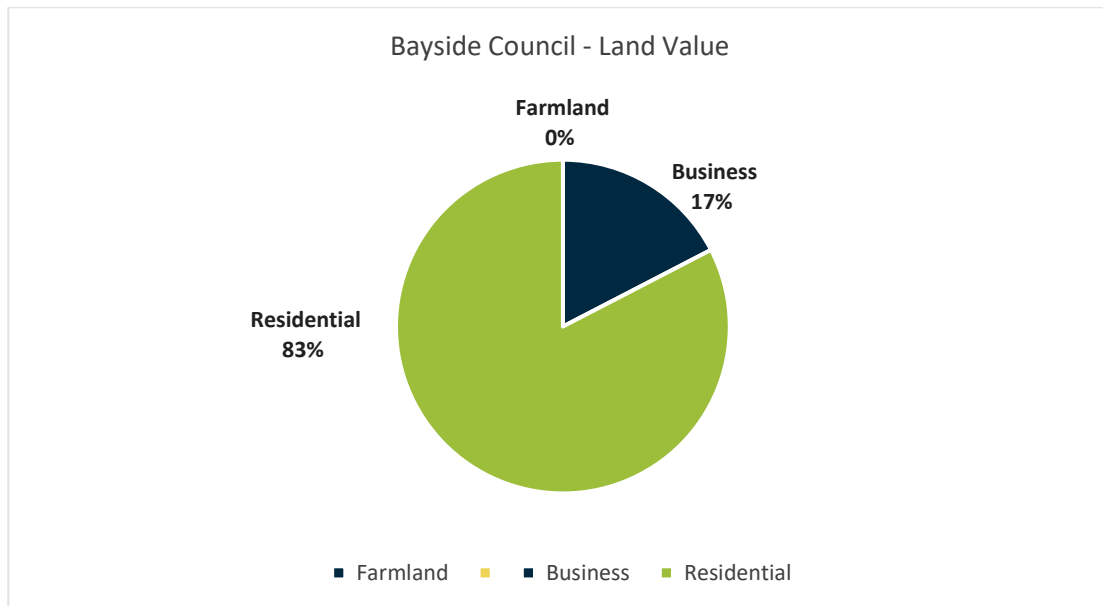


Figure 5 Proportionate land value by category



Within the two current rating structures, the relative rate contributions from residential, business and farmland ratepayers are different. Table 4 provides a snapshot of the two existing rating structures, illustrating the historic determinations of the former councils to share the rates burden between the four rating categories.

Table 4 Rating categories share of rates

Category	Number of assessments	% Land value	% Rates
Rockdale			
Farmland	5	0.0%	0.0%
Residential	44,435	92.0%	88.9%
Business	1,862	8.0%	11.0%
Sub-total	46,302	100.0%	100.0%
Botany			
Residential	21,228	68.0%	47.8%
Business	2,568	32.0%	52.2%
Sub-total	23,796	100.0%	100.0%
Bayside Council			
Farmland	5	0.0%	0.0%
Residential	65,663	82.6%	74.5%
Business	4,430	17.4%	25.5%
Total	70,098	100.0%	100.0%

The rating structure for the former Rockdale area is somewhat aligned, with land value and rates for residential and business categories, with residential rates contributing the majority of the income. Residential category with 44,435 assessment or 96% of total number assessment, contributing 88.9% in rates income and holding 92% of total land value in the former Rockdale. The business category contributes 11.0% of income aligning closely to the land value percentage of 8%

In the former Botany area, residential number of assessments was 21,228 or 89% of total assessment, and while holding 68% of land value, residential category was only contributing 47.8% of the total rates income. Whereas the business rates contribute 52.2%

Further the disproportionate difference in business land values of the two former councils (with Rockdale at \$1.961million and Botany at \$5.102m) will be a significant consideration in the rates harmonisation process.

When placing both former councils together into Bayside Council, we can see the residential category is holding 82.6% land value while contributing 74.5% of the income. The combination changes the discrepancy between land value and rate income proportion between residential and business category for Bayside Council.

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

Key consideration

5 Equitably sharing the rates revenue burden between the farmland, 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 three 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 two former councils have provided the maximum allowable pensioner rebates of \$250 for council rates.

Comparison of average rates

The average annual rates for residential, farmland, and business assessments within each of the current rating structures are shown in the following figures 6 to 8, and tables 5 to 7.

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

Figure 6 Average residential rates gap

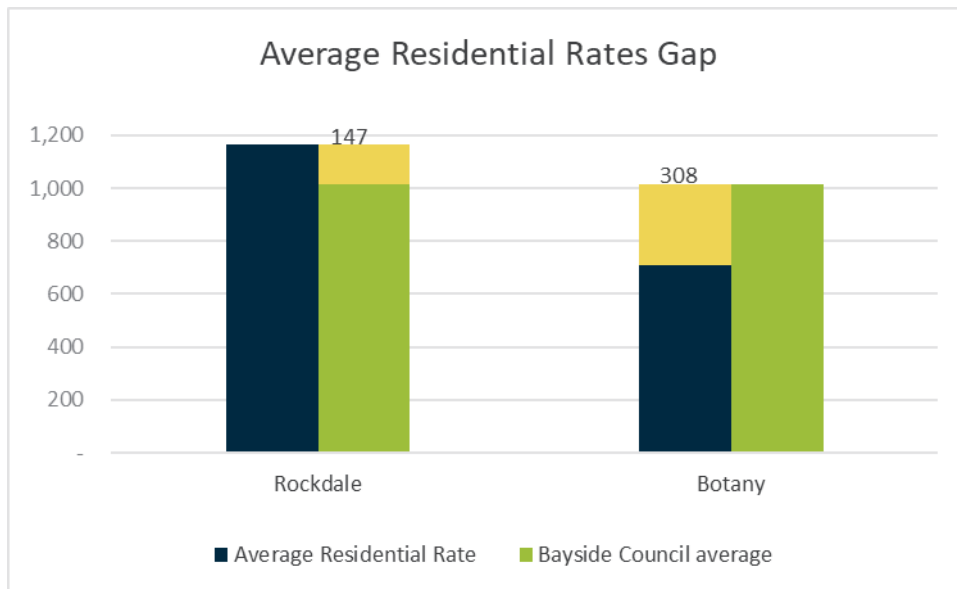


Table 5 Residential rating percentage

Category	Number of assessments	% Land value	% Rates
Residential			
Rockdale	44,435	67.8%	77.5%
Residential 1	20,426	31.4%	21.9%
Residential 2	802	0.7%	0.7%
Sub-total	65,663	100.0%	100.0%

Figure 6 compares the average general residential rates under the current rating structures. The former Rockdale average residential rate is higher (\$1,164) than the Bayside Council average of \$1,017, whereas former Botany is lower (\$709). Further to this the current residential rating structures in the former Botany consists of residential 1 and residential 2 as a sub-categorisation.

Table 5 shows that the former Rockdale and Botany land values and rates percentages are somewhat aligned within both residential and business rating structures. The former Rockdale area has a higher proportion of land value (67.8%) contributing 77.5% of the income.

We expect that any new rating structure will simplify all the different residential subcategories to achieve the rates harmonisation. However, Council will also need to consider the level and costs of infrastructure and service provision to the different communities in order to tailor rates to local preferences for services and minimise cross-subsidies.

Figure 7 Average business rates gap

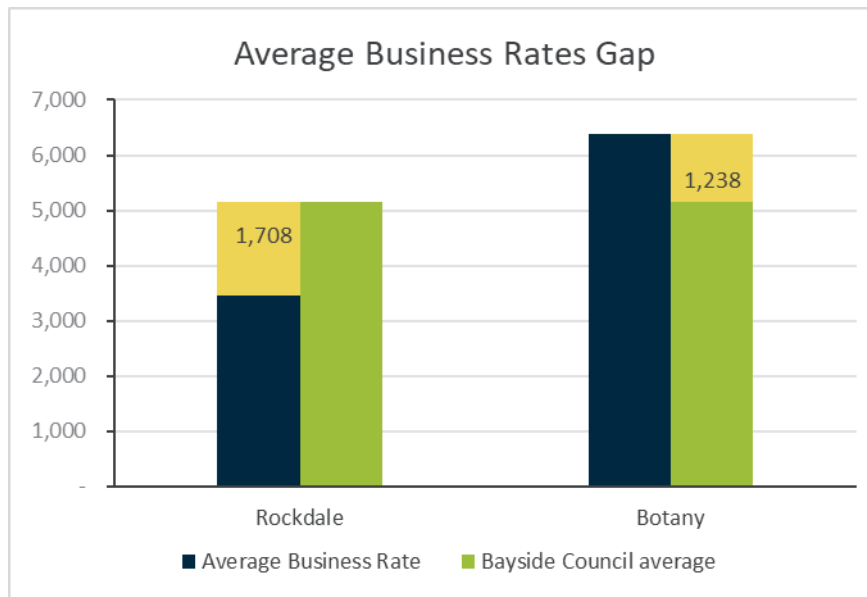


Table 6 Business rating percentage

Category	Number of assessments	% Land value	% Rates
Business			
Rockdale	1,862	28.1%	28.1%
Business A Mascot	94	3.1%	1.3%
Business B Mascot	34	1.2%	0.5%
Business A	2,071	29.6%	25.5%
Business B	71	18.8%	16.0%
Business C	1	0.1%	0.0%
Port Botany	16	5.1%	12.6%
Industrial A	128	3.4%	3.7%
Industrial B	16	6.6%	7.2%
Industrial North A	3	0.5%	0.2%
Industrial North B	134	3.6%	4.9%
Sub-total	4,430	100.0%	100.0%

Figure 7 compares the average general business rate assessments between the current rating structures. There are 1,862 business assessments in the former Rockdale area paying \$3,447 on average, a significantly lower rate on average; while, the former Botany businesses are paying \$6,393 on average, \$1,238 more on average comparatively to the Bayside Council average. This disproportion was mostly caused by the percentage of land value, where former Rockdale average land value percentage is significantly lower (28.1%) than land value in former botany.

We expect that any new rating structure will continue to identify different ‘centres of activity’ and appropriately separate business rates in these areas. The existing legislation allows Council to separate the business centres for rating purposes, and Council can choose how to balance the key tax principles when setting business rates.

Table 7 Farmland rating percentage

Category	Number of assessments	% Land value	% Rates
Farmland			
Rockdale	5	100.0%	100.0%
Botany			
Sub-total	5	100.0%	100.0%

There are 5 assessments in the former Rockdale area currently categorised as farmland. We expect the new rating will continue to identify those assessment as farmland. The Local Government Act does not allow farmland to be sub-categorised by geographic area, with Council being required to set a uniform rate across the local government area on 1 July 2021.

Other than by geography, the act provides options for sub-categorisation of farmland based on the intensity of land use, the irrigability of the land or economic factors affecting the land¹⁸.

Comparison of average land values

There are no variations in average land value from former local government areas, however there is a variance within former Botany between residential 1 and residential 2 subcategory.

¹⁸ NSW Government, 1993, *Local Government Act 1993*, section 529, <https://www.legislation.nsw.gov.au/#/view/act/1993/30/chap15/part3/sec529>. Additional guidance for farmland subcategorisation is provided in: Office of Local Government, *Rating and Revenue Guidelines*, p.20.

Figure 8 Average residential rates per \$1,000 of land value



Figure 8 shows the range of average residential rates per \$1,000 of land, with former Rockdale ratepayers paying \$2.30 with slightly higher average land values to former Botany ratepayers who are paying less at \$1.41. This is compared with the average of \$2.02 for Bayside Council.

Business assessments in the former Botany structure have a higher average land value and currently pay a higher average rate per \$1,000 land value, of \$3.28 compared with former Rockdale at \$3.27 and Bayside Council at \$3.27.

Figure 9 Average business rates per \$1,000 of land value

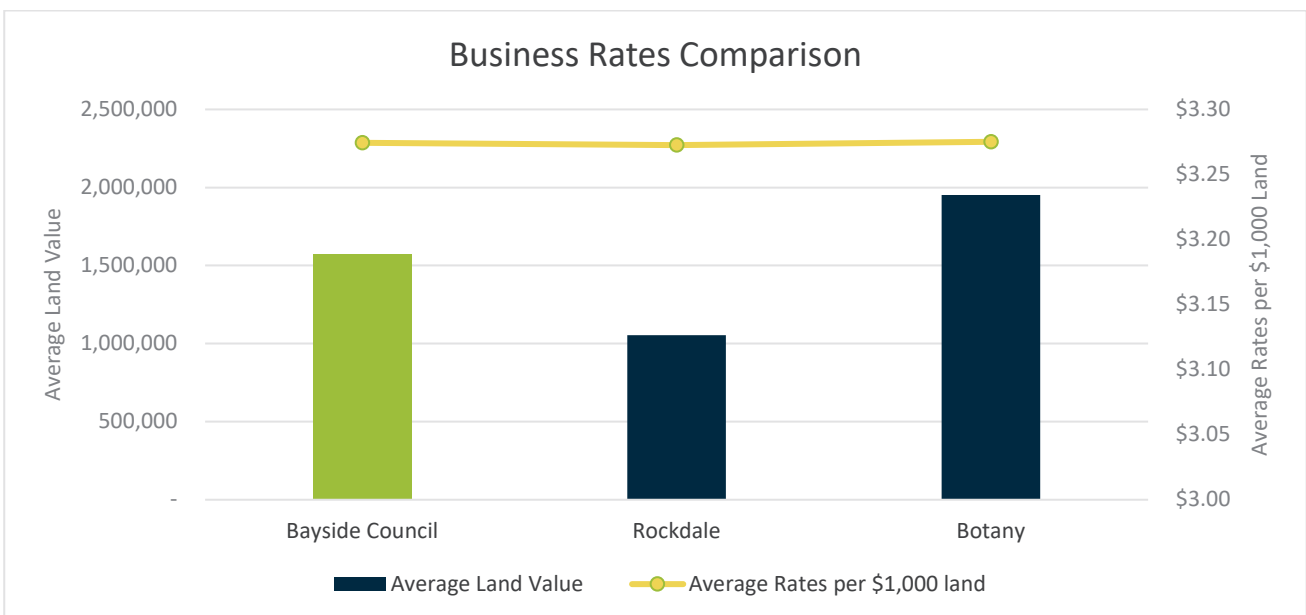
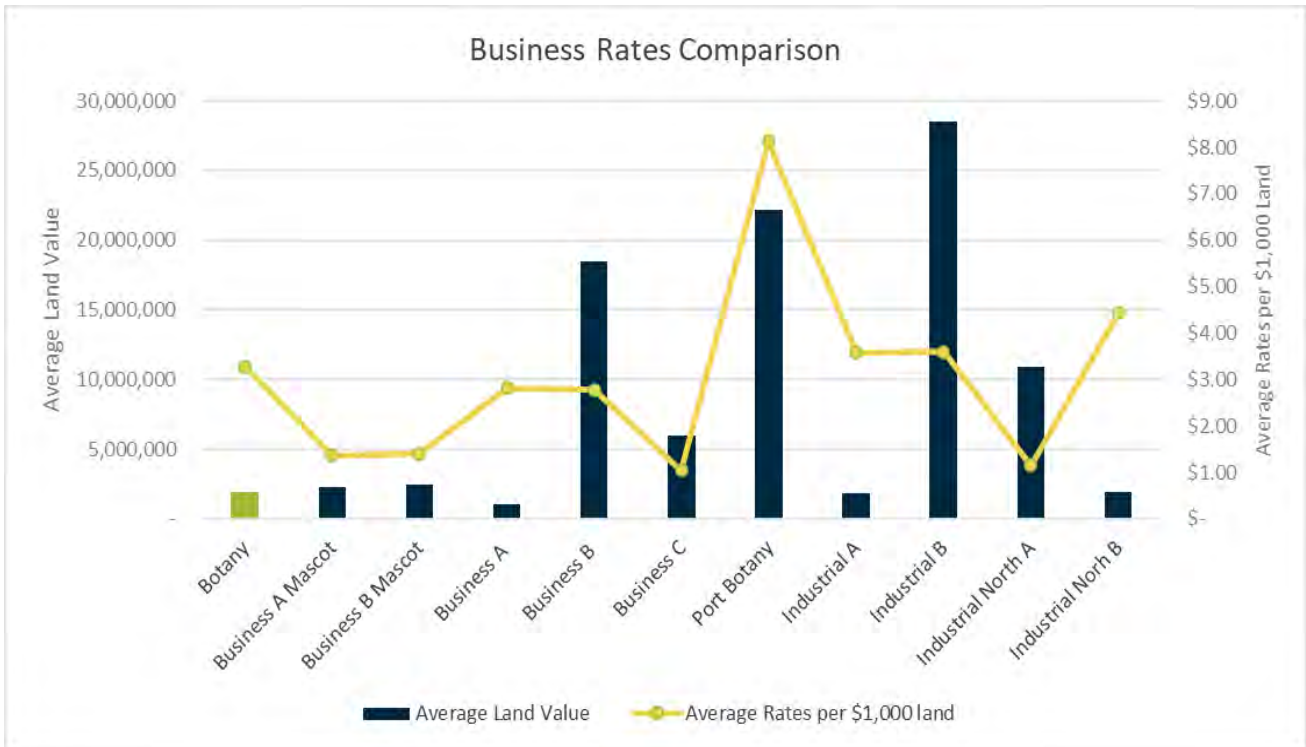
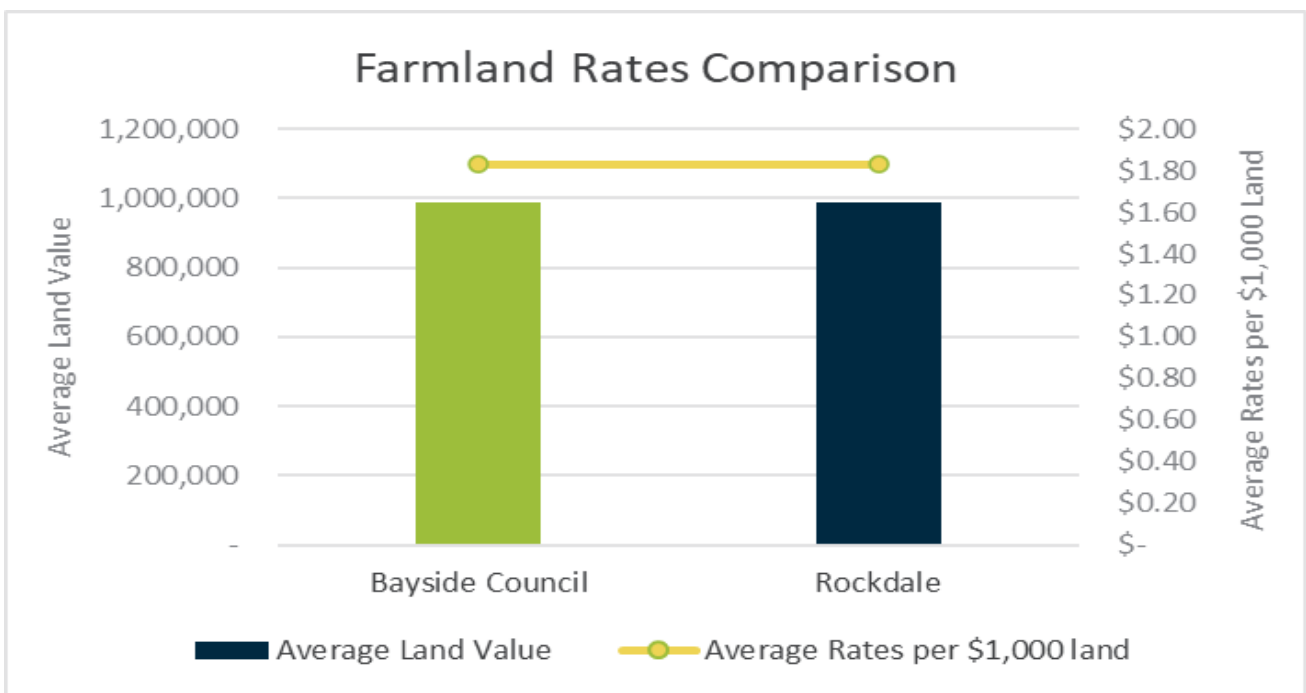


Figure 10 Average business rates per \$1000 of land value – former Botany



Former Botany business categories consist of ten subcategories, and figure 10 above provides additional information to compare average business rates per \$1,000 land value for those subcategories. Due to the number of subcategories and sizeable range of rates per \$1,000 land value, it is expected that the rate harmonisation process will face a vast challenge.

Figure 11 Average farmland rates per \$1,000 of land value



Being the only former council with a farmland structure, Bayside Council inherits its farmland structure from former Rockdale. Bayside Council’s average rate is \$1.83 per \$1,000 of land value.

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 of recovery for the provision of facilities and services.

IPART reviewed the use of minimums and base amounts and concluded that ad valorem with a base amount is both more equitable and more efficient than an ad valorem amount with a minimum¹⁹.

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, NSW metropolitan councils use minimum rate structures in high density areas, resulting in a high proportion of ratepayers paying the same minimum amount. IPART have recommended the rating legislation be updated so that rural and regional councils are given the option to use capital improved land values (CIV) instead of unimproved land values²⁰ for the levying of rates. This change would improve the equity of the rates calculation on strata properties.

The NSW Government response to the IPART recommendation on CIV states they will not enact the option for the use of CIV at this time²¹.

For the statutory limit on maximum minimum amounts, the Office of Local Government is following a recommendation by IPART, and clause 126 of the Local Government (General) Regulation 2005 will be amended on 1 July 2020 by the Local Government (General) Amendment (Minimum Rates) Regulation 2019, so that under section 548(3)(a) of the Act, the maximum amount of the minimum ordinary rate is to be \$554 for 2020-21²².

The two rating structures for former Rockdale and Botany have minimum amounts as their fixed charge component, and both former councils were applying the same minimum amounts across all categories and subcategories. Former Rockdale is applying \$749.04 and former Botany is applying \$539.59 across all ordinary rates. The minimum rate for former Botany is 28% less than former Rockdale, presenting a possible challenge in applying a harmonised minimum rate for Bayside Council in rate harmonisation process.

Former Rockdale has 33.9% of their business ratepayers paying at minimum rate, whilst former Botany has 39.7% of their business ratepayers paying at minimum. Percentage of residential ratepayers in former Rockdale paying at minimum rate is 53.4%, whilst former Botany has 66.3% of their residential ratepayers paying at minimum rate (**Appendix A**). With high percentage of ratepayers paying at minimum, the ad valorem component and impact of land value are expected to be lower.

¹⁹ IPART, 2020, *Local Government Rating System Review*, <https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Local-Government-Rating-System/Local-Government-Rating-System>, p.39.

²⁰ Ibid, p.17.

²¹ NSW Government, 2020, *IPART Review of the Local Government Rating System – Government Response*, <https://www.olg.nsw.gov.au/wp-content/uploads/2020/06/IPART-Rating-Review-Government-Response.pdf>.

²² <https://www.olg.nsw.gov.au/council-circulars/20-19-information-about-ratings-2020-21/>

The high percentage of ratepayers paying at minimum may add an extra challenge in rate harmonisation process. Aligning the rates by increasing the minimum rate of the former Botany will further increase the number of ratepayers paying at minimum.

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 following figures 12 and 13 illustrate the percentage of rates collected from fixed charges of the former councils' total rates revenue.

Figure 12 Share of residential rates collected from fixed charges

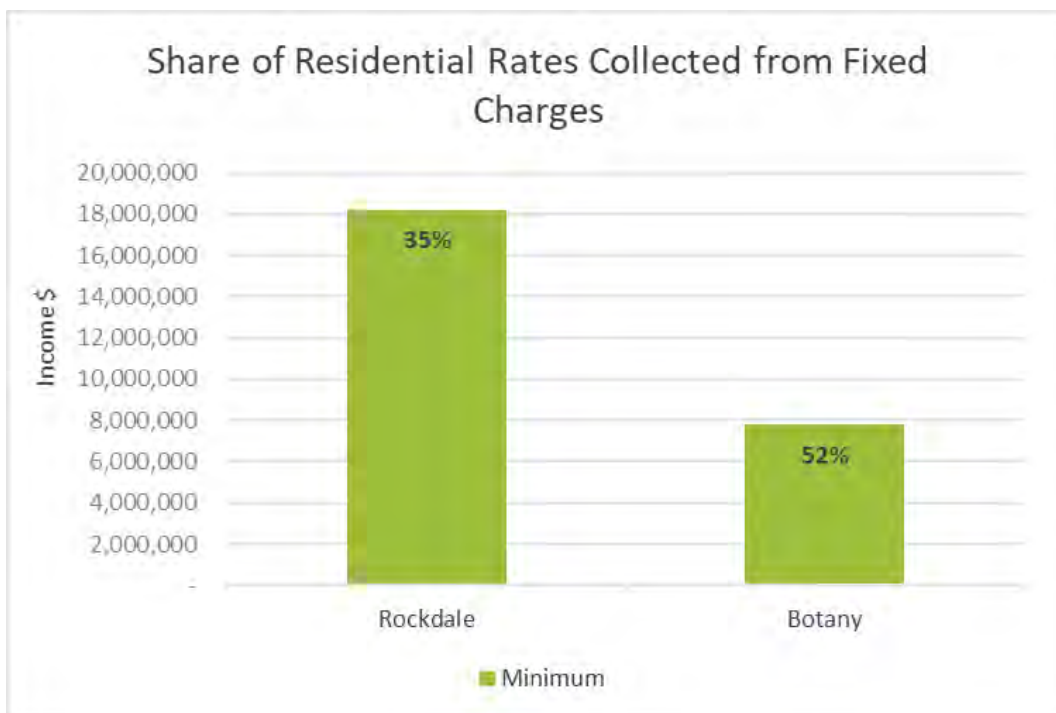
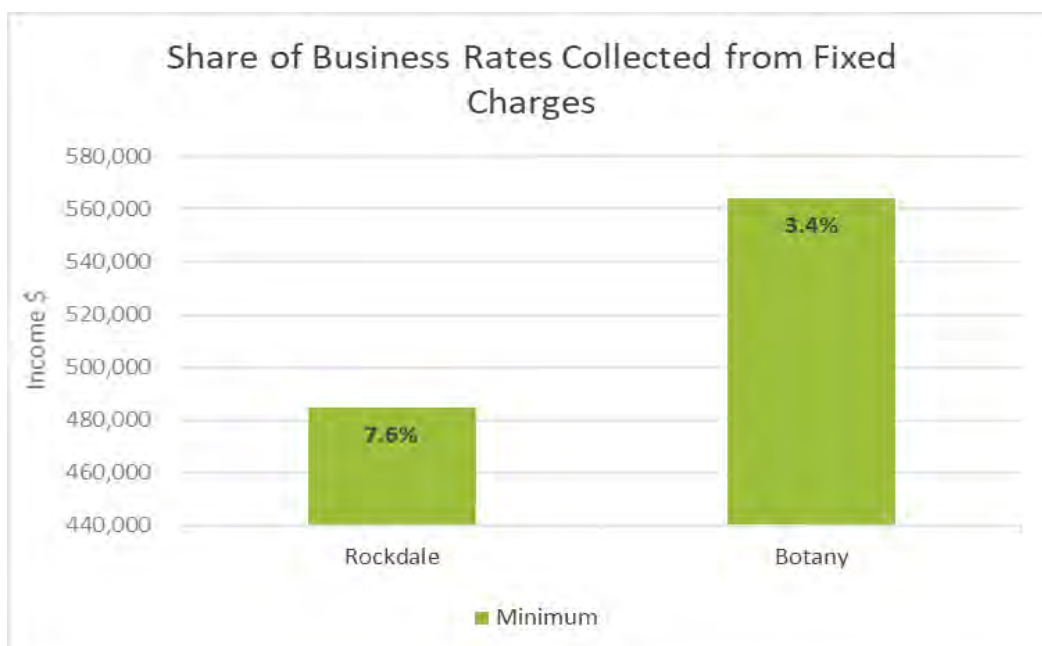


Figure 13 Share of business rates collected from fixed charges



Special rates

Key consideration

6 *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. Special rates do not increase Council's total rates revenue; however, they do allow Council to redistribute some rates to groups of ratepayers that benefit from specific projects. For example, special rates might be considered as a source of funding for the development of substantial new infrastructure in one area of the local government area. They may also be useful for funding works relating to areas where the works benefit ratepayers within locations.

Both former Rockdale and Botany together have seventeen special rates including infrastructure and area specific special rates, impacting on the complexity and potential understanding of this type of rating structure. For the purpose of this report and analysis, safety and infrastructure levies for former Rockdale Council have been included, while local area levies for both former councils have been excluded and listed as special rates in **Appendix B**.

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 they were collected. 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 decision hold-points and phases that will be completed over the next 16 months to have the new Rates and Revenue Policy in place for 1 July 2021. Reports, workshops and modelling will be provided throughout the planning period in addition to the indicative timeframe below. Table 8 below provides a high-level timeframe that will be further developed as the project progresses.

Table 8 Rates harmonisation indicative timeframe

Activities	Indicative timeframe
Rate harmonisation briefing paper	Jul-20
Service pricing model, capacity to pay, rates benefit analysis	Jul-20
Rates modelling including options	Jul-20
Internal Council workshop/option review	Aug-20
Develop community engagement strategy	Aug-20
Council workshop - preferred option for community engagement	Sep-20
Community engagement activities	Sep - Nov 20
Council endorse new rating structure	Nov-Dec 20
Draft Revenue Policy including harmonised rates	Feb-Apr 21
Revenue policy public exhibition	May-21
Rate structure adoption	Jun-21

Appendix A Comparative data

Category	No of assessments	Land Value	Income	Average Land Value	% Land Value	Avg Assess Rates	% Rates	Average Rates per \$1,000 land value	Rates Revenue Collected from Minimums Amounts	Share of Rates Collected from Fixed Charges	Numner of Assessment with Minimums Amounts	Share of Rates Collected from Fixed Charges
Rockdale												
Farmland	5	\$ 4,936,000	\$ 9,025	\$ 987,200	0.0%	\$ 1,805	0.0%	\$ 1.83	\$ -	0.0%	\$ -	0.0%
Residential	44,435	\$22,475,734,313	\$ 51,724,661	\$ 505,812	92.0%	\$ 1,164	88.9%	\$ 2.30	\$ 18,223,546	35.2%	\$ 23,713	53.4%
Business	1,862	\$ 1,961,128,957	\$ 6,417,926	\$ 1,053,238	8.0%	\$ 3,447	11.0%	\$ 3.27	\$ 484,629	7.6%	\$ 631	33.9%
Sub-Total	46,302	\$24,441,799,270	\$ 58,151,612	\$ 527,878	100.0%	\$ 1,256	100.0%	\$ 2.38	\$ 18,708,175	32.2%	\$ 24,343	52.6%
Botany												
Residential	21,228	\$10,657,570,189	\$ 15,059,091	\$ 502,052	68.0%	\$ 709	47.8%	\$ 1.41	\$ 7,793,674	51.8%	\$ 14,078	66.3%
Business	2,568	\$ 5,012,438,761	\$ 16,416,290	\$ 1,951,884	32.0%	\$ 6,393	52.2%	\$ 3.28	\$ 564,310	3.4%	\$ 1,019	39.7%
Sub-Total	23,796	\$15,670,008,950	\$ 31,475,381	\$ 658,514	100.0%	\$ 1,323	100.0%	\$ 2.01	\$ 8,357,985	26.6%	\$ 15,097	63.4%
Bayside Council												
Farmland	5	\$ 4,936,000	\$ 9,025	\$ 987,200	0.0%	\$ 1,805	0.0%	\$ 1.83	\$ -	0.0%	\$ -	0.0%
Residential	65,663	\$33,133,304,502	\$ 66,783,751	\$ 504,596	82.6%	\$ 1,017	74.5%	\$ 2.02	\$ 26,017,220	39.0%	\$ 37,790	57.6%
Business	4,430	\$ 6,973,567,718	\$ 22,834,216	\$ 1,574,169	17.4%	\$ 5,154	25.5%	\$ 3.27	\$ 1,048,939	4.6%	\$ 1,650	37.2%
Total	70,098	\$40,111,808,220	\$ 89,626,993	\$ 572,225	100.0%	\$ 1,279	100.0%	\$ 2.23	\$ 27,066,159	30.2%	\$ 39,440	56.3%
FARMLAND												
Rockdale	5	\$ 4,936,000	\$ 9,025	\$ 987,200	100.0%	\$ 1,805	100.0%	\$ 1.83	\$ -	0.0%	\$ -	0.0%
Botany												
Sub-total	5	\$ 4,936,000	\$ 9,025	\$ 987,200	100.0%	\$ 1,805	100.0%	\$ 1.83	\$ -	0.0%	\$ -	0.0%
RESIDENTIAL												
Rockdale	44,435	\$22,475,734,313	\$ 51,724,661	\$ 505,812	67.8%	\$ 1,164	77.5%	\$ 2.30	\$ 18,223,546	35.2%	\$ 23,713	53.4%
Botany	21,228	\$10,657,570,189	\$ 15,059,091	\$ 502,052	32.2%	\$ 709	22.5%	\$ 1.41	\$ 7,793,674	51.8%	\$ 14,078	66.3%
Sub-total	65,663	\$33,133,304,502	\$ 66,783,751	\$ 504,596	100.0%	\$ 1,017	100.0%	\$ 2.02	\$ 26,017,220	39.0%	\$ 37,790	57.6%
BUSINESS												
Rockdale	1,862	\$ 1,961,128,957	\$ 6,417,926	\$ 1,053,238	28.1%	\$ 3,447	28.1%	\$ 3.27	\$ 484,629	7.6%	\$ 631	33.9%
Botany	2,568	\$ 5,012,438,761	\$ 16,416,290	\$ 1,951,884	71.9%	\$ 6,393	71.9%	\$ 3.28	\$ 564,310	3.4%	\$ 1,019	39.7%
Sub-total	4,430	\$ 6,973,567,718	\$ 22,834,216	\$ 1,574,169	100.0%	\$ 5,154	100.0%	\$ 3.27	\$ 1,048,939	4.6%	\$ 1,650	37.2%
FORMER COUNCIL AREAS - ALL CATEGORIES												
Rockdale	46,302	\$24,441,799,270	\$ 58,151,612	\$ 527,878	60.9%	\$ 1,256	64.9%	\$ 2.38	\$ 18,708,175	32.2%	\$ 24,343	52.6%
Botany	23,796	\$15,670,008,950	\$ 31,475,381	\$ 658,514	39.1%	\$ 1,323	35.1%	\$ 2.01	\$ 8,357,985	26.6%	\$ 15,097	63.4%
Total	70,098	\$40,111,808,220	\$ 89,626,993	\$ 572,225	100.0%	\$ 1,279	100.0%	\$ 2.23	\$ 27,066,159	30.2%	\$ 39,440	56.3%
RESIDENTIAL												
Rockdale	44,435	\$22,475,734,313	\$ 51,724,661	\$ 505,812	67.8%	\$ 1,164	77.5%	\$ 2.30	\$ 18,223,546	35.2%	\$ 23,713	53.4%
Residential 1	20,426	\$10,419,672,476	\$ 14,610,075	\$ 510,118	31.4%	\$ 715	21.9%	\$ 1.40	\$ 7,793,674	53.3%	\$ 13,281	65.0%
Residential 2	802	\$ 237,897,713	\$ 449,016	\$ 296,631	0.7%	\$ 560	0.7%	\$ 1.89	\$ -	0.0%	\$ 797	99.4%
Sub-total	65,663	\$33,133,304,502	\$ 66,783,751	\$ 504,596	100.0%	\$ 1,017	100.0%	\$ 2.02	\$ 26,017,220	39.0%	\$ 37,790	57.6%
BUSINESS												
Rockdale	1,862	\$ 1,961,128,957	\$ 6,417,926	\$ 1,053,238	28.1%	\$ 3,447	28.1%	\$ 3.27	\$ 484,629	7.6%	\$ 631	33.9%
Business A Mascot	94	\$ 213,608,397	\$ 292,213	\$ 2,272,430	3.1%	\$ 3,109	1.3%	\$ 1.37	\$ 35,985	12.3%	\$ 65	69.1%
Business B Mascot	34	\$ 84,305,194	\$ 118,324	\$ 2,479,565	1.2%	\$ 3,480	0.5%	\$ 1.40	\$ 16,055	13.6%	\$ 29	85.3%
Business A	2,071	\$ 2,062,584,858	\$ 5,816,013	\$ 995,937	29.6%	\$ 2,808	25.5%	\$ 2.82	\$ 500,644	8.6%	\$ 904	43.7%
Business B	71	\$ 1,311,323,232	\$ 3,647,343	\$ 18,469,341	18.8%	\$ 51,371	16.0%	\$ 2.78	\$ 3,322	0.1%	\$ 6	8.5%
Business C	1	\$ 6,000,000	\$ 6,243	\$ 6,000,000	0.1%	\$ 6,243	0.0%	\$ 1.04	\$ -	0.0%	\$ -	0.0%
Port Botany	16	\$ 354,382,500	\$ 2,881,517	\$ 22,148,906	5.1%	\$ 180,095	12.6%	\$ 8.13	\$ 554	0.0%	\$ 1	6.3%
Industrial A	128	\$ 237,635,980	\$ 851,310	\$ 1,856,531	3.4%	\$ 6,651	3.7%	\$ 3.58	\$ 1,107	0.1%	\$ 2	1.6%
Industrial B	16	\$ 456,950,000	\$ 1,645,468	\$ 28,559,375	6.6%	\$ 102,842	7.2%	\$ 3.60	\$ -	0.0%	\$ -	0.0%
Industrial North A	3	\$ 32,840,000	\$ 37,820	\$ 10,946,667	0.5%	\$ 12,607	0.2%	\$ 1.15	\$ -	0.0%	\$ -	0.0%
Industrial North B	134	\$ 252,808,600	\$ 1,120,039	\$ 1,886,631	3.6%	\$ 8,359	4.9%	\$ 4.43	\$ 6,643	0.6%	\$ 12	9.0%
Sub-total	4,430	\$ 6,973,567,718	\$ 22,834,216	\$ 1,574,169	100.0%	\$ 5,154	100.0%	\$ 3.27	\$ 1,048,939	4.6%	\$ 1,650	37.2%

Appendix B Special rates

Special Rate	Former Council	No of Assessment	Land Value at 1/7/19	Projected Notional Incom 2020/21
Arncliffe Special	Rockdale	45	26,091,984	20,529
Rockdale Special	Rockdale	271	353,799,142	262,220
Bexley Special	Rockdale	88	46,608,930	38,596
Brighton Special	Rockdale	95	112,476,594	95,752
West Botany St Special	Rockdale	97	125,572,500	48,625
Ramsgate Special	Rockdale	50	33,329,966	9,277
Kingsgrove Special	Rockdale	43	50,112,710	25,145
Banksia Special	Rockdale	13	5,197,040	2,445
Ramsgate Beach Special	Rockdale	49	46,365,680	25,192
Mascot Mainstreet	Botany	75	82,701,300	113,552
Mascot Local Parking	Botany	75	82,701,300	113,552
Total				754,885