

# Information Sheet – Minimum Rate Review



## Introduction

Council is seeking community feedback regarding the proposal to apply to the Independent Pricing and Regulatory Tribunal (IPART) for an increase in the minimum residential rate.

The purpose of the proposal is to ensure equity in sharing the rating burden, as at present 46% of residential rate payers predominately home unit properties, are on the minimum rate of \$538 contributing 21% of rate income. The proposal does not provide additional income to Council as ratepayers not on the minimum rate will receive a reduction in their Rates.

Under the proposal, minimum rates will increase by 7% per annum for the next five (5) years. The increase will be in addition to the normal rate cap increase each year which has been set at 2.3% for 2014/15. This will mean that for 2014/15 the minimum residential rate will increase by 9.3% to \$588.

Additional information is available on Council's website [www.lanecove.nsw.gov.au/communityconsultations](http://www.lanecove.nsw.gov.au/communityconsultations) or you can view the public exhibition at the Lane Cove Civic Centre (48 Longueville Road, Lane Cove) and Lane Cove Library (Library Walk, Lane Cove). Also, Council Staff will be available to answer any enquiries in Lane Cove Plaza from 5pm on Thursday, 13 February 2014.

Community consultation closes at 5.00pm on Wednesday 5<sup>th</sup> March 2014.

## Background

The Lane Cove LGA is currently experiencing significant growth with a requirement to provide 3,900 new dwellings by 2031, equating to a population increase of approximately 30%. With the growth it is expected that there will be increased demand for the provision by Council of a wide range of services and facilities.

The majority of new dwellings will be home units in areas up zoned with the adoption of Lane Cove LEP 2009. Therefore, under the current rating structure the number of ratepayers on the minimum Rate will increase disproportionately to the number of residential ratepayers generally in houses. In terms of equity, a smaller proportion of residential ratepayers i.e. residents living in houses will effectively carry a greater percentage of the rating burden despite all ratepayers having the same access to services and facilities provided by Council.

The Independent Local Government Review Panel in its recently released report on reforming Local Government in New South Wales also identified the inequity in the payment of rates between owners of apartments and owners of houses. In particular they acknowledged that in many cases owners of high value apartments are paying less in rates than owners of nearby houses worth much less.

The number of residential ratepayers on minimum and ad valorem rates in 2013/2014 is as follows:-

	<b>Residential</b>	
<b>On Minimum Rate</b>	5,966	46.43%
<b>On Ad Valorem Rate</b>	6,884	53.57%
<b>TOTAL NO. OF RATEPAYERS</b>	12,850	100%

## **The Rationale**

The rationale for increasing the minimum rate is based on the following equity principles:-

1. For the most part, ratepayers receive the same benefits from Council and have access to the same range of facilities, regardless of the amount of rates paid.

*Services include; parks and recreation facilities, road construction and maintenance, footpaths, street lighting, street cleansing, Fire Brigade levy, dog and pest control, library services, community services, sporting and health facilities, building control & town planning, environmental planning, sustainability and conservation, bushfire control and more;*

2. Ratepayers in units, some with similar number of occupants to an average house pay considerably less rates for the same amount of services. ABS Census data from 2011 identified that 10,471 Lane Cove residents lived in units, with the average occupancy rate per unit being 1.90 persons and 18,352 residents live in dwelling houses, with the average occupancy rate being 3.03 persons;
3. The 5,966 or 46.43% of residential properties subject to the minimum rate, contribute only approximately 21% to the overall residential rate income; and
4. Over a period of time rate pegging has increased the gap between minimum rates and those above the minimum.

## The Outcome

Based on increases in the minimum rate of 7% per annum over the next five years i.e. from 2014/15 plus an estimated 3% per annum rate cap, the rating structure including minimum rates will be as follows:-

1 Year	Estimated Number of Ratepayers		4 Total Rate Payers Estimated	5 Rate in \$	6 Estimated Rate Income from Minimum Ratepayers	7 Estimated Rate Income From Ad Valorem	8 Estimated Total Rate Income	9 Min Rate	10 Average Ad Valorem Rates	11 12 Rates Income Break Up	
	2 Min Rate	3 Ad Valorem								% Min	% Ad Val
2013/14	5,966	6,884	12,850	0.184056	\$3,209,708	\$11,945,045	\$15,154,753	\$538.00	\$1,735.56	21%	79%
2014/15	6,266	6,859	13,125	0.184013	\$3,709,472	\$11,899,924	\$15,609,396	\$592.00	\$1,734.94	24%	76%
2015/16	6,766	6,840	13,606	0.181458	\$4,404,666	\$11,673,012	\$16,077,678	\$651.00	\$1,706.58	27%	73%
2016/17	7,266	6,820	14,086	0.177492	\$5,202,456	\$11,357,552	\$16,560,008	\$716.00	\$1,665.33	31%	69%
2017/18	7,766	6,800	14,566	0.171836	\$6,119,608	\$10,937,200	\$17,056,808	\$788.00	\$1,608.41	36%	64%
2018/19	8,266	6,780	15,046	0.164304	\$7,166,622	\$10,401,890	\$17,568,512	\$867.00	\$1,534.20	41%	59%

## Comments

- It should be noted that the above figures including the Ad Valorem Rates are subject to variation depending on the annual determination of the rate cap. For example in 2014/15 IPART has set the rate cap at 2.3% rather than the 3% estimate in the above Table.
- Column 6 in the Table shows the estimated increase in rate revenue from minimum rates over the next five years from \$3,709,472 to \$7,166,622.
- Column 7 in the Table reflects the estimated decrease in rating burden for ratepayers on the Ad Valorem over the next five years from \$11,899,924 to \$10,401,890.
- Column 11 identifies that by 2018/19 ratepayers on the minimum rate will provide 41% of rates income up from the current 21%.
- A split of 41% minimum Rates and 59% Ad Valorem Rates by 2018/19 correlates with current Census data which suggests the average occupancy of apartments/units in Lane Cove is 1.90 persons and 3.03 persons residing in dwelling houses.

# **Frequently Asked Questions**

***Q. How are Residential Rates calculated?***

**A.** Residential Rates are calculated as follows:-

- NSW Valuer General determines the Unimproved Capital Value (UCV) i.e. land value of all properties (not including value of buildings / facilities built on the land).
- The UCV or land value multiplied by the ad valorem tax (i.e. rate in the dollar) is used to calculate Rates paid. E.g. a property with an UCV of \$400,000 and an ad valorem tax rate in the dollar of \$0.184056 will pay \$736.22 in rates.

***Q. Under the proposal what will be my increase for rates for 2014/15 if I am on the minimum rate?***

**A.** As the actual rate cap for 2014/15 has been set by IPART at 2.3% the minimum rate for the year will increase by \$50 from \$538 to \$588, which is less than a dollar a week.

***Q. Who pays the minimum rate in Lane Cove?***

**A.** For 2013-2014 for Residential Rates, a minimum rate of \$538 is payable for land values up to a value of \$292,302 with an ad valorem tax rate of 0.184056 applied to all land values in excess of \$292,302 (the break even value). At present 46% of Lane Cove ratepayers predominantly owners of apartments/units are paying the minimum rate.

***Q. Will Council be receiving an increase in rates revenue as a result of this proposal?***

**A.** No. Council's rating base cannot increase overall by more than the rate cap set by IPART each year with the cap set at 2.3% for 2014/15.

***Q. Will some ratepayers benefit from the proposal?***

**A.** Yes. Approximately 54% of ratepayers who are currently paying an ad valorem rate should receive a minor reduction in rates.

***Q. What about affordability and the effect on pensioners?***

**A.** At present there are 398 pensioners paying the existing minimum rate of \$538. They will continue to be entitled to a pensioner rebate of up to \$250 per annum depending on their financial circumstances. Hardship provisions also apply in terms of affordability. Rates represent a relatively small component of expenses for strata units when comparing the existing minimum rate of \$538 to strata fees which range from \$500 to \$2,000 per quarter i.e. \$2,000 - \$8,000 per annum.

***Q. Why do owners of houses pay more rates than owners of home units?***

**A.** Currently, the unimproved value of the land occupied by a block of apartments is split between the owners of the individual units, on the basis of strata title unit entitlements i.e. the size of each unit compared to other units, and as a result the unit owners are only required to pay their portion of the total value. However, owners of houses cannot split rates between other owners and must pay the total value of rates for their property.

***Q. Do owners of high value apartments in Lane Cove pay the same rates as owners of less expensive apartments?***

**A.** Yes, in Lane Cove at present, all apartment owners are paying the 2013/2014 minimum rate irrespective of the differing market values of the properties.

## **What Happens Now**

- Wednesday, 5 March 2014 – community consultation and feedback ends.
- Monday, 17 March 2014 – Council Meeting to determine whether to proceed with making application to IPART.
- Monday 24 March 2014 – Application due to IPART.
- Mid June 2014 - IPART announces determination.

## **Have Your Say**

Written submissions will be received by Council until **5.00pm on Wednesday 5 March 2014**. All submissions must quote the reference **SU5252** and be directed to General Manager by:-

- Post - Lane Cove Council, PO Box 20 Lane Cove 1595;
- Fax - 9911 3600; or
- Email - [lccouncil@lanecove.nsw.gov.au](mailto:lccouncil@lanecove.nsw.gov.au)