



Independent Pricing and Regulatory Tribunal

Lane Cove Council's application to increase minimum rates

under section 548(3) of *Local Government Act 1993*

Local Government — Determination
June 2014



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1 Determination

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the amount by which councils may increase their general income, which mainly comprises rates income. Each year, we determine a standard increase that applies to all NSW councils, based on our assessment of the annual change in their costs and other factors. This increase is known as the rate peg.

By the operation of the *Local Government Act 1993* (the Act), councils must apply to IPART if they wish to increase their minimum rates above the statutory limit.

We are required to assess councils' applications for minimum rates increases against the criteria included in the Guidelines set by the Office of Local Government (OLG) for the preparation of an application to increase minimum rates above the statutory limit 2014/15 (the Guidelines).¹

Lane Cove Council applied to increase the minimum residential rate by 10% (7% above the rate peg) each year for 5 years, from 2014/15 to 2018/19. After assessing the council's application, we have decided to allow the increase as requested. IPART has made this determination under section 548(3) of the Act.

1.1 Our decision

We determined that Lane Cove Council may increase the minimum level of its ordinary residential rate by 10% each year from 2014/15 to 2018/19. These annual increases incorporate the rate peg increases to which the council would otherwise be entitled (2.3% in 2014/15 and an assumed 3.0% in each of the following years).

It can increase the minimum level of its other rates by the rate peg only.

Permissible general income will increase by the rate peg of 2.3% in 2014/15.

Table 1.1 sets out our decision.

¹ Division of Local Government, Department of Premier and Cabinet, *Guidelines for the preparation of an application to increase minimum rates above the statutory limit*, September 2013 (the Guidelines). Effective February 2014 the Division of Local Government became the Office of Local Government.

Table 1.1 IPART’s decision on Lane Cove Council’s application to increase the minimum level of the ordinary residential rate

	Increase (%)	Residential minimum rate (\$)
2013/14	Current minimum rate	538
2014/15	10	592
2015/16	10	651
2016/17	10	716
2017/18	10	788
2018/19	10	867

2 What did the council request and why?

Lane Cove Council applied to increase the minimum amount of its ordinary residential rate by 10% each year for 5 years.

Currently the council has 12,850 residential ratepayers, of these, 5,966, or 46%, pay the minimum rate, which is \$538 for 2013/14.² The council is seeking to redistribute the rate burden amongst residential ratepayers paying ad valorem rates, and those paying the minimum rate, predominately living in home units.

The proposal will not result in extra revenue above the rate peg for the council. Permissible general income will increase by the rate peg of 2.3% in 2014/15. Instead, the increase in the minimum residential rate will result in a decrease in the ad valorem rate for residential rate payers.

3 How did we reach our decision?

We assessed Lane Cove Council’s application against criteria included in the Guidelines. We found that the application satisfactorily met the criteria.

Table 3.1 summarises our findings against each of the criteria.

² Lane Cove Council, *Minimum Rate Increase above Statutory Limit – Application Form Part A*, 21 March 2014 (Lane Cove Application Part A), Worksheet 1.

Table 3.1 IPART’s assessment against the criteria in the Guidelines

Criterion	IPART findings
1. Rationale for increasing minimum rates above the statutory amount.	<p>The council's rationale is to more equitably allocate the residential rating burden between those paying minimum rates and ad valorem rates.</p> <p>The rationale provided by the council is reasonable given the increasing gap in rates paid by residential ratepayers on the minimum rate and those paying ad valorem rates; and the disproportionate burden on ad valorem ratepayers.</p>
2. Impact on ratepayers, including the level of the proposed minimum rates and the number and proportion of ratepayers that will be on the minimum rates, by rating category or sub-category.	<p>The council proposes to increase the minimum residential rate from \$538 in 2013/14 to \$867 by 2018/19. This will result in a decrease in rates paid by the remaining residential ratepayers.</p> <p>By 2018/19, the council estimates that 55% of residential ratepayers will pay the minimum rate.</p> <p>We consider the increases are reasonable based on socio-economic and capacity to pay indicators for the area and increasing equity between ratepayers.</p>
3. Consultation the council has undertaken to obtain the community’s views on the proposal.	<p>The council undertook a variety of consultation activities to inform and obtain the community’s views on the proposal including: an information pack inserted with rates notices, public notification in the media, community leaders information session, a staffed public exhibition in the Plaza and a deliberative poll of 501 random residents.</p>

3.1 Rationale for increase in minimum rates

Lane Cove Council’s rationale for increasing the minimum residential rate is to achieve a more equitable rating burden amongst residential ratepayers. This is based on the argument that, for the most part, ratepayers receive the same benefits from the council and have access to the same range of facilities.³

³ Lane Cove Council, *Minimum Rate Increase above Statutory Limit – Application Form Part B*, 21 March 2014 (Lane Cove Application Part B), Attachment 8, *Information Sheet – Minimum Rate Review*, p 2.

Currently the 46% of residential ratepayers on the minimum rate contribute approximately 21% of the council's residential rates income.⁴ Following the increases to the minimum residential rate proposed over the next 5 years, this proportion will increase to be 41% of residential rates income, with ad valorem ratepayers contributing the remaining 59%.⁵

Over time the gap between those paying the minimum residential rate and ad valorem rates has increased. This gap is currently \$1,198 (the difference between the average ad valorem rate of \$1,736 and the minimum rate of \$538) and is forecast to increase.⁶

The Lane Cove Local Government Area (LGA) has a requirement to provide 3,900 new dwellings by 2031, with the majority of new dwellings being home units. The council states that therefore, under the current rating structure, the number of ratepayers on the minimum rate will increase disproportionately to the number of residential ratepayers paying the ad valorem rate (generally in houses) and this would mean a smaller proportion of residential ratepayers contributing a greater proportion of the rating burden.⁷

3.2 Impact on ratepayers

We consider the impact on minimum ratepayers will be reasonable based on socio-economic and capacity to pay indicators for the area. The proposal also increases equity between ratepayers.

By 2018/19, after 5 years of increases:

- ▼ the minimum residential rate will be \$867, an increase of \$329 (61%) on the minimum rate of \$538 for 2013/14
- ▼ the average residential ad valorem rate will be \$1,534 in 2018/19, a decrease of \$202 (12%) on the average ad valorem rate in 2013/14 of \$1,736.⁸

The Lane Cove LGA has a SEIFA ranking of 151, where in NSW, 153 is the least disadvantaged,⁹ and rates represent a relatively small proportion of expenses compared to quarterly strata fees.¹⁰

⁴ Currently, for residential rates, a minimum rate of \$538 is payable for land up to a value of \$292,302. Above this value an ad valorem rate of 0.184056 cents in the dollar is applied. Lane Cove Application Part B, p 4.

⁵ Lane Cove Application Part B, pp 4-5.

⁶ Lane Cove Application Part A, Worksheet 2; Lane Cove Application Part B, p 3.

⁷ Lane Cove Application Part B, p 3.

⁸ Lane Cove Application Part A, Worksheet 2.

⁹ ABS, Socio-Economic Indexes for Areas (SEIFA) 2011, March 2013.

¹⁰ Lane Cove Application Part B, p 5.

At present, of the 5,966 ratepayers paying the minimum residential rate, 398 are pensioners. Although the council does not expect that the increase in the minimum rate will create financial hardship, the council's Outstanding Debt Management Policy makes particular provision for pensioners.¹¹

3.3 Community consultation

The council undertook a variety of consultation activities to inform and obtain the community's views on the proposal including:

- ▼ an information pack inserted with rates notices
- ▼ public notification in the media
- ▼ community leaders information session
- ▼ a staffed public exhibition in the Plaza
- ▼ a deliberative poll of 501 random residents.¹²

The deliberative poll indicated 64.8% of respondents support the proposal to increase minimum rates (results weighted to ensure balance between those currently paying minimum rates and those paying ad valorem rates).¹³

We consider that the council has clearly communicated its proposal with the community, outlining its rationale for the increases and the impact for residential ratepayers.

4 What does our decision mean for the council and ratepayers?

Our decision will increase the minimum residential rate by \$54 in 2014/15, taking it to \$592, and to \$867 by 2018/19.

In 2014/15, the council estimates that there will be 13,125 residential ratepayers, 48% of whom will pay the minimum rate. By 2018/19, of 15,046 residential ratepayers, the council estimates that 8,266, or 55%, will pay the minimum rate.¹⁴

As discussed above, our decision will not increase the council's general income above that permitted under the rate peg.

¹¹ Lane Cove Application Part B, p 5; Lane Cove Application Part B, Attachment 14, *Outstanding Debt Management Policy*.

¹² Lane Cove Application Part B, pp 5-6; Lane Cove Application Part B, Attachment 4, *Minimum Rate Review Consultation Plan*.

¹³ Lane Cove Application Part B, p 6; Lane Cove Application Part B, Attachment 11, Iris Research, *Lane Cove Council Minimum Rates Variation Survey*, February 2014.

¹⁴ Lane Cove Application Part B, pp 4-5 and IPART calculations.

Table 4.1 below shows how the burden between those on the minimum rate and ad valorem rates will change over the next 5 years.

Table 4.1 Lane Cove Council’s proposed residential rating structure

Year	Estimated number of rate payers			Share of Rates			
	Min rate	Ad valorem	Total	Min Rate	Average ad valorem rate	Min	Ad valorem
				\$	\$	%	%
2013/14	5,966	6,884	12,850	538	1,736	21	79
2014/15	6,266	6,859	13,125	592	1,735	24	76
2015/16	6,766	6,840	13,606	651	1,707	27	73
2016/17	7,266	6,820	14,086	716	1,665	31	69
2017/18	7,766	6,800	14,566	788	1,608	36	64
2018/19	8,266	6,780	15,046	867	1,534	41	59

Source: Lane Cove Application Part A, Worksheet 2 and Lane Cove Application Part B, pp 4-5.