Independent Pricing and Regulatory Tribunal

Review of the Local Government Rating System

Growth and setting different residential rates

Austin Harris
Senior Analyst

Letitia Watson-Ley
Principal Analyst

19th September 2016

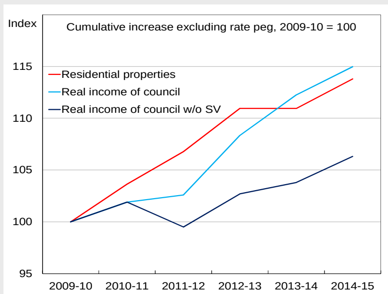
What changes have we recommended?

- Council income should grow in line with the growth in capital (CIV) arising from new residents and businesses:
  - promote growth & urban renewal
  - make councils more financial sustainable whilst maintaining consistent service levels
  - reduce the regulatory burden
  - ensure council rate growth is independent of their choice of rating method
  - not cause rates per household to rise
- A new special rate for joint infrastructure projects with other governments (not requiring IPART approval)

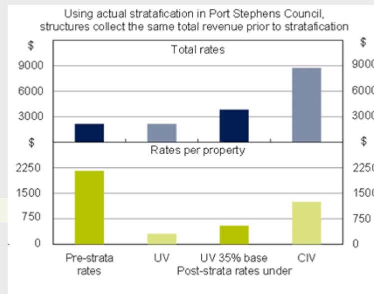
2

Why have we made these changes?

A metropolitan council's growth in residential properties and rates income



Council rates income under strata subdivision



- The current system does not properly compensate councils for growth from new developments
- Councils have incentives to maximise base or minimum amounts as part of their rate structure

3

How does this change work in practice?

- Growth 'outside the rate peg' should instead be scaled by the percentage change in CIV:

$$Income_{Year\ 2} = Income_{Year\ 1} \times (1 + rate\ peg) \times (1 + increase\ in\ CIV)$$

Benefits

- Council income increases in-line with the growth in capital from new developments, approximating their cost growth
- Reduction in regulatory burden as the number and size of SVs would significantly decrease
- Councils are not motivated to structure rates with high base or minimum amounts to maximise 'growth outside the peg'

4

A new special rate for joint infrastructure

- Current special rates are of limited use for joint infrastructure projects
- This recommendation would make it easier for councils to partner with other levels of government to provide new infrastructure
- This new special rate:
  - would not be included in a council's general income as it is not funding core council services
  - would not need regulatory approval by IPART

5

Flexibility to set different residential rates

- Remove 'centre of population' requirement
- Councils can set different residential rates if satisfy criteria

Separate town or village

- Is the area a separate town or village?
- Criterion reflects existing OLG guidelines
- Mainly relevant for rural & regional councils

OR

Different community of interest

- Does the area have a different community of interest?
- Differences in access, demand or costs
- Mainly relevant for metro councils

6

Different community of interest

Access, demand or costs criteria

Within a contiguous urban development, an area has different:

access to

OR

demand for

OR

costs of providing

council services and infrastructure

compared to other areas in that development

7

Different community of interest

Tailor rates to local circumstances

Example of how councils could use different rates to:

Respond to local circumstances

Minimise any cross-subsidies between areas

Provide incentives for development

- Growth area
- Greater access to new infrastructure

Area A

Area C

Area B

- Existing suburbs
- No differences in access, demand or costs across these suburbs

- Development with private facilities
- Lower demand for services

8

Different community of interest

Protections to promote equity and transparency

- Difference between highest & lowest rate structure
  - limited to 1.5 times
  - otherwise obtain approval from IPART

1.5 times difference between highest & lowest

ad valorem rate

AND

base amount

- Transparency requirements
  - Publish details of different rates (plus reasons for them)
  - Website & rates notice

9

New councils after the rate path freeze

Establishing new rate structures

If a new council can identify…

separate towns or villages

OR

different communities of interest

it should be able to choose to...

gradually equalise rates across pre-merger areas

OR

keep existing rate structures in pre-merger areas

OR

move to a different rate structure

Requires IPART approval if exceed 1.5 times limit

10

New councils after the rate path freeze

Gradual equalisation of rates

- If a new council is required to equalise rates across pre-merger areas (or chooses to)
  - should be a gradual process

Set limit on rate increase from equalisation → Maximum of 10 percentage points
- above rate peg or applicable SV
- each year

New councils can go below this limit → Limit acts as a ceiling

Allows councils to take into account ratepayers' ability to pay

11

Questions for consideration

- Do you agree with the use of CIV as the basis for determining growth outside the peg, irrespective of the valuation method used for levying rates?
- What are your views on the proposed criteria for setting different residential rates?
  - **Separate town or village**.
  - **Different community of interest.**
- Do you agree with the maximum difference (1.5 times) between highest and lowest rate structures without need for regulatory approval?
- What are your views on setting a maximum limit for rate increases arising from equalisation for new councils?

12

Independent Pricing and Regulatory Tribunal

www.ipart.nsw.gov.au