

Item No: C1120(1) Item 1

Subject: HARMONISATION OF RATES

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RECOMMENDATION

THAT Council:

1. Acknowledges that the rates harmonisation process is to be implemented before 1 July 2021, in accordance with the Local Government Act 1993;
2. Endorses the Proposed Rating Structure (categories, sub-categories) as recommended in the report for community engagement as follows;

Type	Minimum	Ad Valorem
Residential	\$850	Yes
Business – General	\$820	Yes
Business – Industrial		
• Marrickville	\$820	Yes
• St. Peters	\$820	Yes
• St. Peters North	\$820	Yes
• Camperdown	\$820	Yes
Business Shopping Malls		
• Ashfield Mall	\$820	Yes
• Leichhardt	\$820	Yes
• Marketplace	\$820	Yes
• Norton Street Plaza	\$820	Yes
• Marrickville Metro		
Business Airport	\$820	Yes

3. Endorse the new Minimum Rates as recommended in the report, for community engagement as follows:
 - Residential - \$850
 - Business – General - \$820
 - Business – Industrial
 - Marrickville - \$820
 - St. Peters - \$820
 - St. Peters North - \$820
 - Camperdown - \$820
 - Business Shopping Malls
 - Ashfield Mall - \$820
 - Leichhardt Marketplace - \$820
 - Norton Street Plaza - \$820
 - Marrickville Metro - \$820
 - Business Airport - \$820

4. **Endorses reallocation of Ashfield Mall, Leichhardt Marketplace and Norton Street Plaza from Business General to Business Malls and the redistribution of rates income from Business General to Business Malls as recommended in the report, for community engagement;**
5. **Commences Community Consultation on the proposed rating structure;**
6. **Notifies IPART in November 2020 of its intention to apply for a new Minimum Rate, in accordance with the relevant legislation;**
7. **Following completion of the above Community Consultation, receives a Report on the outcomes of community engagement for the adoption of the Harmonised Rating Structure; and**
8. **Pending the outcome of community engagement, resolves to submit an application to IPART to obtain approval for the new Minimum Rate.**

DISCUSSION

Amalgamation and Rates Path Harmonisation

During the Council Amalgamation process, section 218CB was inserted into *the Local Government Act 1993*. This essentially was a transitional provision, required all amalgamated Councils to continue on their existing pre-amalgamated rating structures for a period of four (4) years from 1 July 2016 through until 30 June 2020. Subsequently, the NSW Government amended the Local Government Act again, extending this deadline until 30 June 2021.

This provision of section 218CB expires at 30th June 2021, meaning that Council will be required to adopt a harmonised rating structure effective from 1st July 2021. Therefore, the rates path freeze will lift, and Inner West Council is required, by Law, to harmonise rates from July 2021.

This requirement to harmonise rates is mandatory, and current NSW legislation does not allow for the harmonisation of rates over a transition period. Furthermore, current NSW legislation does not allow for the continuation of existing pre-amalgamation structures. Council must adopt a new, harmonised rating structure. If Council does not do so, Council will not have a compliant rating structure.

Finally, NSW legislation does not allow Council to make provision compassion to those ratepayers who will be most affected by a sudden and significant change in the rates they are required to pay.

As such, there is no option for Council to continue with these structures. Therefore, it is not within the scope of this project to consider these legacy structures any further.

Proposed Rating Structure

The Act allows rates to set a structure to distribute rates between categories and subcategories of ratepayers and may also charge ordinary rates and special rates. A rate 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.

Ad Valorem Only

Use of ad valorem only is not considered to be equitable as it creates significant disparity for ratepayers as it solely relies on the land value for rate calculations. Further it is an ineffective way of addressing the benefits (or user pays) principle. It has therefore not been considered in our analysis.

Minimums

Minimums and Base Amounts both help smooth the impact of land valuations on rates, however a base amount will generally result in a disproportionately lower level of rates for strata apartments. The Base amount is limited due to the fact that the overall value of revenue from base amounts is capped at 50% of the total rates revenue.

The use of a minimum rate structure in higher density areas is desirable as it will result in a higher proportion of ratepayers paying the same minimum amount, and reduces the gap between the lower amount of rates paid (for properties with lower land values, such as apartments) and the average ad valorem amount being paid by ratepayers across the local government area. Officers have therefore performed scenario analysis based on differing minimum values.

- a) Should Council wish to set a minimum rate as is recommended, it is required to: Notify IPART of its intention to set a minimum rate (November 2021)
- b) Submit a Minimum Rate Application to IPART. These are currently due 8 February 2021, however a one-month extension has been sought.

Proposed Rating Categories

A simplification of rating categories is proposed. The Rating structure proposed to be established comprise the following categories and sub-categories:

- Residential
- Business – General
- Business – Industrial
- Business – Malls
- Business – Airport

It is considered that an ad valorem subject to a minimum rate should be applied across all proposed rating categories and sub-categories, with this minimum to be set at –

- **Residential - Minimum \$850**
- **Business General, Industrial, Malls and Airport - Minimum \$820**

Determining a New Minimum

The following impact analysis of different minimum levels for Rates has been undertaken -

Residential

Five options were developed and evaluated. Analysis highlighted that land value variations between former councils, along with the 2019 revaluation, have a significant impact on all proposed rating structures.

Consideration was given to:

- Council's property profile and continued growth in apartments;
- The need to maintain a similar level of rating equity across all property forms and value;
- Having a simple and easy to understand rating structure; and
- Desire to maximising future rates revenue as a result of growth.

Our analysis of these factors has resulted in a recommended Residential harmonised rates structure using an ad valorem with a minimum amount. It is recommended to move to a minimum rate of \$850, in order to achieve the greatest degree of equity.

The impact on income is illustrated in the following table

Former Councils	Land Value \$'000,000	Land Value %	Current Income \$'000	Current Income %	Assessment Numbers	Income Residential Options \$'000	Income %
Ashfield	12,268	21%	23,971	27%	16,214	19,179	22%
Leichhardt	22,933	39%	32,688	37%	23,552	31,621	36%
Marrickville	23,749	40%	30,653	35%	33,221	36,512	42%
Total	58,950	100%	87,312	100%	72,987	87,312	100%

Table 1: Residential Rates Income by Former Council

The high level outcome for the residential category is detailed in the following figure.

Median Residential Property Value	\$789,000
Median Residential Rate	\$968
Upper Quartile Residential Property Value	\$1,100,000
Upper Quartile Residential Rate (75th Percentile)	\$1,353
Minimum Residential Rate	\$850
Proportion of Ratepayers Paying Minimum Rate	44%
Average Residential Rate	\$1,195
Number of Residential Assessments with Increases over \$3,50/week	\$9,851

The following table demonstrates the impact of the recommended option, being a minimum rate of \$850, across Inner West Council's LGA, based on a percentile of land value.

Percentile	Assessment	2019 Land Values	2020/21 Rates	Recommended Option	Change %
All Residential	72,988				
10th Percentile	7,299	190,237	710	850	19.7%
20th Percentile	7,299	259,470	710	850	19.7%
30th Percentile	7,299	353,074	710	850	19.7%
40th Percentile	7,299	601,200	886	850	-4.1%
50th Percentile	7,299	789,000	1,005	968	-3.7%
60th Percentile	7,299	906,000	1,123	1,112	-1.0%
70th Percentile	7,299	1,030,000	1,312	1,267	-3.4%
80th Percentile	7,299	1,200,000	1,597	1,464	-8.3%
90th Percentile	7,299	1,450,000	1,932	1,772	-8.3%
95th Percentile	3,649	1,680,000	2,261	2,067	-8.6%
96th Percentile	3,649	1,780,000	2,387	2,165	-9.3%
97th Percentile	3,649	1,890,000	2,513	2,313	-8.0%
98th Percentile	3,649	2,070,000	2,713	2,534	-6.6%
99th Percentile	3,649	2,660,000	3,360	3,260	-3.0%
100th Percentile	3,649	36,500,000	37,853	44,905	18.6%

Table 2: Recommended Comparative Change by Land Value

Further the following table demonstrates the impact of the recommended option, a minimum of \$850, by former LGA, based on a percentile of land value.

Percentile	Assessment	2019 Land Values	2020/21 Rates	Recommended Option	Year 1 Change	% Impact Change
Ashfield	16,214					
10th Percentile	1,621	191,884	921	850	(71)	-7.7%
20th Percentile	1,621	265,998	994	850	(144)	-14.5%
30th Percentile	1,621	317,364	1,046	850	(196)	-18.7%
40th Percentile	1,621	370,000	1,097	850	(247)	-22.5%
50th Percentile	1,621	500,000	1,217	850	(367)	-30.2%
60th Percentile	1,621	868,000	1,584	1,057	(527)	-33.3%
70th Percentile	1,621	1,050,000	1,773	1,292	(481)	-27.1%
80th Percentile	1,621	1,230,000	1,942	1,501	(441)	-22.7%
90th Percentile	1,621	1,570,000	2,278	1,919	(359)	-15.8%
Lowest Percentile	1,621	1,150	322	850	528	164.0%
Highest Percentile	1,621	13,400,000	13,989	16,486	2,497	17.8%
Leichhardt	23,552					
10th Percentile	2,355	214,816	686	850	164	23.9%
20th Percentile	2,355	345,455	686	850	164	23.9%
30th Percentile	2,355	597,442	779	850	71	9.1%
40th Percentile	2,355	824,000	1,090	999	(91)	-8.3%
50th Percentile	2,355	931,000	1,243	1,139	(104)	-8.4%
60th Percentile	2,355	1,030,000	1,384	1,267	(117)	-8.5%
70th Percentile	2,355	1,180,000	1,572	1,439	(133)	-8.5%
80th Percentile	2,355	1,340,000	1,788	1,636	(152)	-8.5%
90th Percentile	2,355	1,600,000	2,137	1,956	(181)	-8.5%
Lowest Percentile	2,355	3,750	5	850	845	16900.0%
Highest Percentile	2,355	24,200,000	32,525	29,773	(2,752)	-8.5%
Marrickville	33,221					
10th Percentile	3,322	176,878	710	850	140	19.7%
20th Percentile	3,322	233,272	710	850	140	19.7%
30th Percentile	3,322	303,898	710	850	140	19.7%
40th Percentile	3,322	567,000	710	850	140	19.7%
50th Percentile	3,322	741,000	765	908	143	18.7%
60th Percentile	3,322	840,400	871	1,033	162	18.6%
70th Percentile	3,322	932,000	967	1,146	179	18.5%
80th Percentile	3,322	1,070,000	1,110	1,316	206	18.6%
90th Percentile	3,322	1,270,000	1,317	1,562	245	18.6%
Lowest Percentile	3,322	48,323	247	850	603	244.1%
Highest Percentile	3,322	36,500,000	37,853	44,905	7,052	18.6%

Table 3: Former Council Comparative Change for Recommendation

To understand the degree of impact the following table illustrates the range in dollar changes across the Inner West Council residential assessments for the recommended option of a \$850 minimum.

\$ Rate Increase Range	Number of Assessments	Percentage of Assessments
Below -\$400	5,912	8.1%
-\$400 to -\$200	6,703	9.2%
-\$200 to -\$75	17,525	24.0%
-\$75 to \$0	1,654	2.3%
\$0 to \$75	921	1.3%
\$75 to \$200	32,799	44.9%
\$200 to \$400	7,139	9.8%
Above \$400	336	0.5%
Total	72,989	100%

Table 4: Dollar Range Analysis by Assessment Numbers

The following table illustrates the range in dollar changes across the former Councils residential assessments for the recommended option of a \$850 minimum.

Former Councils	Ashfield		Leichhardt		Marrickville	
	Number of Assessments	Percentage of Assessments	Number of Assessments	Percentage of Assessments	Number of Assessments	Percentage of Assessments
Below -\$400	5,642	34.8%	270	1.1%	0	0.0%
-\$400 to -\$200	5,431	33.5%	1,271	5.4%	0	0.0%
-\$200 to -\$75	3,412	21.0%	14,113	59.9%	0	0.0%
-\$75 to \$0	1,292	8.0%	360	1.5%	2	0.0%
\$0 to \$75	380	2.3%	540	2.3%	1	0.0%
\$75 to \$200	23	0.1%	6,929	29.4%	25,847	77.8%
\$200 to \$400	18	0.1%	22	0.1%	7,098	21.4%
Above \$400	17	0.1%	46	0.2%	273	0.8%
Total	16,214	100%	23,552	100%	33,221	100%

Table 5: Former Council Dollar Range Analysis by Assessment Numbers

Business General

Five options were developed and evaluated. Consideration was given to:

- Maintaining a similar level of rating equity across all property forms and value;
- Having a simple and easy to understand rating structure; and
- Maximising future rates revenue from growth.

The preferred option should have the least impact on each former council and maintains key rating principles of equity and simplicity.

Analysis of these factors has resulted in a preferred Business General harmonised rates structure using an ad valorem with a minimum amount of \$820, and a redistribution of \$600,000 from Business General to Business Malls to improve alignment between benefits received and rates paid.

The impact on income is illustrated in the following table:

Former Councils	Land Value \$'000,000	Land Value %	Current Income \$'000	Current Income %	Assessment Numbers	Income Business Option \$'000	Income %
Ashfield	1,340	22%	4,921	20%	830	5,236	21%
Leichhardt	2,491	40%	12,580	50%	1,708	9,658	40%
Marrickville	2,394	38%	7,544	30%	1,917	9,551	39%
Total	6,225	100%	25,045	100%	4,455	24,445	100%

Table 6: Business General Income by Former Council

The high-level outcome for the Business category is detailed in the following figure

Median Business Property Value	\$888,000
Median Business Rate	\$3,237
Upper Quartile Business Property Value	\$1,430,000
Upper Quartile Business Rate (75th Percentile)	\$5,363
Minimum Business Rate	\$820
Proportion of Ratepayers Paying Minimum Rate	14%
Average Business Rate	\$6,168
Number of Business Assessments Increasing More Than 10%	\$2,284

Figure 2 – Recommended Outcome

To understand the degree of impact the following table illustrates the range in dollar changes across the Inner West Council Business General assessments for the recommended option of a \$820 minimum and the transfer of \$600,000 from Business General to Business Mall.

\$ Rate Increase Range	Number of Assessments	Percentage of Assessments
Below -\$800	1,095	24.6%
-\$800 to -\$400	265	5.9%
-\$400 to -\$200	103	2.3%
-\$200 to \$0	220	4.9%
\$0 to \$200	720	16.2%
\$200 to \$400	342	7.7%
\$400 to \$800	1,067	24.0%
Above \$800	641	14.4%
Total	4,454	100%

Table 7: Dollar Range Analysis by Assessment Numbers

The following table demonstrates the changes in rates being charged to ratepayers with a minimum set at \$820 and the redistribution of \$600,000 to Business Malls sub-category, for each former LGA.

Former Councils	Ashfield		Leichhardt		Marrickville	
\$ Rate Increase Range	Number of Assessments	Percentage of Assessments	Number of Assessments	Percentage of Assessments	Number of Assessments	Percentage of Assessments
Below -\$800	0	0.0%	1,094	64.1%	0	0.0%
-\$800 to -\$400	1	0.1%	263	15.4%	1	0.1%
-\$400 to -\$200	0	0.0%	103	6.0%	1	0.1%
-\$200 to \$0	165	19.8%	55	3.2%	1	0.1%
\$0 to \$200	431	52.0%	193	11.3%	97	5.1%
\$200 to \$400	120	14.5%	1	0.0%	222	11.6%
\$400 to \$800	82	9.9%	0	0.0%	985	51.4%
Above \$800	32	3.8%	0	0.0%	609	31.8%
Total	830	100%	1,708	100%	1,917	100%

Table 8 Former Council Dollar Range Analysis by assessment numbers

The following table demonstrates the impact of the recommended option, a minimum rate of \$820 and the transfer of \$600,000 to Business Malls, across Inner West Council's LGA, based on a percentile of land value.

Percentile	Assessment	2019 Land Values	2020/21 Rates	Recommended Option	Change %
All Business	4,454				
10th Percentile	445	146,904	725	820	13.1%
20th Percentile	445	318,100	1,239	1,167	-5.8%
30th Percentile	445	605,000	2,119	2,115	-0.2%
40th Percentile	445	752,800	2,618	2,750	5.0%
50th Percentile	445	888,000	3,168	3,237	2.2%
60th Percentile	445	1,050,000	3,874	3,882	0.2%
70th Percentile	445	1,259,700	5,003	4,663	-6.8%
80th Percentile	445	1,690,000	6,752	6,257	-7.3%
90th Percentile	445	2,708,768	11,351	10,298	-9.3%
95th Percentile	223	4,080,000	16,937	15,847	-6.4%
96th Percentile	223	4,650,000	19,497	18,031	-7.5%
97th Percentile	223	5,238,800	22,084	20,283	-8.2%
98th Percentile	223	6,607,600	27,464	25,454	-7.3%
99th Percentile	223	8,977,600	39,354	34,887	-11.4%
100th Percentile	223	56,200,000	296,983	218,397	-26.5%

Table 9 Recommended Option Comparative Change by Land Value

Business Industrial

There are no proposed changes to the current structure or income yield with the exception of including a minimum of \$820, having no impact

Business Mall

Under the current legacy rating structures, only Marrickville Metro is separately rated as a stand-alone sub-category. The recommended structure is to transfer Ashfield Mall, Leichhardt Marketplace and Norton Street Plaza from Business General and into Business Malls sub-category. The following table details the current rates paid by each Mall.

Former Councils	2019 Land Values	Ad Valorem	Current Rates	Percentage of Property Value	Percentage of Rates
Ashfield	51,516,845	0.2729900	192,668	33%	20%
Leichhardt	32,800,000	0.5284400	173,328	21%	18%
Leichhardt	34,700,000	0.5284400	183,369	23%	19%
Marrickville	35,200,000	1.1874488	417,982	23%	43%
Total	154,216,845		967,347	100%	100%

Table 10 Current Mall Rates

Part of the recommended structure is to redistribute \$600,000 of rates revenue from Business General to Business Malls to improve alignment between benefits received and rates paid. The following table demonstrates the impact of the redistribution of the \$600,000 based on percentage of property value.

Former Councils	2019 Land Values	Ad Valorem	Percentage of Property Value	Percentage of Rates	Rate Income	Different to Current \$
Ashfield	51,516,845	0.763053	33%	25%	393,101	200,433
Leichhardt	32,800,000	0.917503	21%	19%	300,941	127,613
Leichhardt	34,700,000	0.917503	23%	20%	318,373	135,005
Marrickville	35,200,000	1.576511	23%	35%	554,932	136,950
Total	154,216,845		100%	100%	1,567,347	600,000

Table 11 Mall Income distribution with \$600,000 transfer

Business Airport

There are no proposed changes to the current structure or income yield with the exception of including a minimum of \$820, having no impact.

COMMUNITY CONSULTATION

The community engagement process should ensure that ratepayers are given an opportunity to be made aware of why council is required to make this change to the rating structure, inform ratepayers of the impact of the change to their rates and allow ratepayers an opportunity to provide Council with their feedback.

So as enable thorough community consultation, Council staff have requested an extension to IPARTs (current) deadline of the 8 February 2021, for the submission of the minimum rate variation. In consultation with IPART, an extension has been sought until the 10 March 2021. Councillors will be advised separately if that extension application is unsuccessful, thereby needing to advance the community engagement timeline.

Council has developed a robust Communications and Engagement Plan which allows for an extended community engagement period due to the December and January holiday period, in accordance with Council's adopted Community Engagement Framework.

The plan includes:

- Dedicated project page on Council's community engagement website, Your Say Inner West
- Extensive promotion to ratepayers and broader community including mail-out to ratepayers, information flyer, promotion through Council's channels including e-news, social media and traditional media, updates on corporate web page, targeted emails to stakeholders e.g. business chambers
- Inclusive communication including provision of information translated to top community languages, promotion of translator service, and provision in accessible formats for people with disability
- Information session hosted by Council's Finance team, online Q & A function enabled and contact officer for phone calls throughout engagement period

After the engagement period closes, a comprehensive Engagement Outcomes Report will be published and reported to the elected Council.

HARMONISATION TIMETABLE

The remainder of the Rates Harmonisation timetable is as follows:

Activities	Month
Council report – resolution to endorse engagement program	November 2020
Notify IPART SR Minimum Rating Structure	November 2020
Prepare Communications and Engagement material - Ratepayers	November/December 2020
Engage Ratepayers	Early December–14 February 2021
Publish Engagement Outcomes Report	February 2021
Council report - Endorse/Adopt New Rating Structure	9 March 2021
Submit SR Minimum Rate Application IPART	10 March 2021
IPART decision following public exhibition	TBA
LIVE - July 2021 (Issue Rates Notices)	July 2021

FINANCIAL IMPLICATIONS

Should Council not establish proposed Minimum Rates as recommended within this paper at this time, Council will be unable to raise the Minimum Rate until future years (given the requirement of community consultation and IPART approval).

In these circumstances, Council will need to consider an alternative structure. Council may resolve to adopt the Statutory Minimum Rate (section 548(3)(a) of the *Local Government Act 1993*) plus ad valorem. This statutory minimum is prescribed in Regulation 126 (Local Government Regulations 2005). This is set at \$554.

The effect of this is that ratepayers with lower land values will (e.g. apartments) will be subject to a lower significantly lower Minimum Rate, and the remaining Rates Base being distributed to all other ratepayers. This model is undesirable as it less equitable and does not address key issues such as of benefits provided / user pays principles.

SUMMARY

Council is required to harmonise its rating structure by 1 July 2021.

A rating structure has been recommended in this report that:

- Does not increase the overall yield received from rates;
- Distributes the yield received from rates equitably across the entire LGA having regard to property land values;
- Sets a minimum Residential rate of \$850.00 as this will provide rating equity across all property forms and value, including apartments; without unreasonably burdening those properties in the lower property value brackets; and
- Proposes Business rates being charged to ratepayers with a minimum set at \$820 and the redistribution of \$600,000 to Business Malls sub-category to improve alignment between benefits received and rates paid.

Should Council endorse the structure in principle, it will proceed to community engagement, before being reported back to Council in March 2021.

ATTACHMENTS

Nil.