AMENDED ITEM

Item No: 4.9

Title: Ordinary Rates Harmonisation

Department: Finance

27 May 2019 Ordinary Council Meeting

Trim Reference: F2004/06147 - D13538211

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Report Purpose

To consider the impact of Ordinary Rates Harmonisation scheduled to take effect from the 2020/2021 financial year and to consider making formal representations to the Minister for Local Government for legislative amendments with a view to reducing the impact on ratepayers.

Recommendation

That Council make formal representations to the Minister for Local Government to;

a Implement legislative amendments to delay the expiry of restrictions on the Ordinary Rates structure of merged councils until the 2021/2022 financial year.

b Implement legislative amendments to reduce the impact that changes from Ordinary Rates Harmonisation will have on ratepayers of merged councils.

c Issue guidelines to merged councils on Ordinary Rates Harmonisation.

Context

The *Local Government (Council Amalgamations) Proclamation 2016* merged the former Gosford City Council and Wyong Shire Council on 12 May 2016, to create Central Council, in addition to locking in the existing ordinary rates structure for the 2016/2017 financial year.

The NSW government subsequently introduced further amendments via Section 218CB(1) and 218CB(2) of the Local Government Act 1993 (the Act). The effect of these amendments was to continue to 'freeze' the ordinary rates structure of the former Gosford City Council and former Wyong Shire Council for a further three financial years 2017/18 - 2019/20.

In accordance with the legislation, the Ordinary Rates Harmonisation is scheduled for implementation in the 2020/2021 financial year. The proposed timing of these changes is however problematic. In particular, as new land valuations are to become effective in November 2019, modelling on the ratepayer impact that a harmonised rates structure would generate in 2020/2021 cannot be conducted until that time, resulting in an insufficient timeframe to properly inform and consult with ratepayers.

Current Status

Legislative hurdles

Council cannot alter its existing rates structure due to the existence of s218CB(2) of the Act which does not expire until 30 June 2020. At that time Council will be able to redefine its rating structure in compliance with the Act.

This process specifies the consolidation and levying of ordinary rates of the former legacy Councils as if all residential ratepayers were part of one homogenous group or one ‘centre of population’.

The consequence is that whilst harmonisation for Ordinary Rates will be achieved, the process will occur in one year which will result in material variances in rates levied for some ratepayers. A transitional implementation of the harmonisation would be the preferred approach so the impacts are phased progressively.

One possible solution considered by Council staff was to differentiate charges of residential rates from legacy councils. The ability to levy differential rates is detailed under s529(2) of the Act. This provides that to levy different ordinary rates charges to residential properties, different “centres of population” must be defined. The Office of Local Government (OLG) Rating and Revenue Raising Manual (2007) provides the following advice (refer page 23):

A centre of population should not be a device intended to enable rating variations within an homogeneous suburb or suburbs, or by street, or by any special feature such as proximity to water.

The geographical spread of the Central Coast residential population prohibits Council from presenting a reasonable argument to pursue different rates charges under multiple centres of population.

This solution would have provided for a ‘glide path’ mechanism that would reduce the price shock impact on ratepayer. Glide Paths were originally raised in discussions by IPART during the Fit For The Future consultation and merged council reforms in 2016, in response to concerns raised by merging councils on the eventual impact on ratepayers through amalgamations.

To date, there have been no legislative changes enacted that will lessen the impact on ratepayers for price shock changes caused by ordinary rates harmonisation.

Possible options that could be considered for legislative changes to reduce the impact on ratepayers include the expanded use of s.529(2) of the Act and the introducing maximum limits for ratepayers with year-on-year increases/decreases on their ordinary rates charges.

It is proposed that such options be submitted to the Minister for Local Government for consideration to reduce the impact on ratepayers resulting Ordinary Rates Harmonisation.

Timing

Land Revaluations are completed every three years. The next scheduled land revaluation will be completed in the next few months and is expected to be provided to Council in November 2019. Council is required under the Land Valuations Act to utilise these values in its next rating year being 2020/ 2021. This is the same year that ordinary rates harmonisation is scheduled to occur.

The normal impact of a land revaluation is a redistribution of ordinary rates levies amongst ratepayers. Generally for ratepayers whose land value has increased higher than the average land value, the ratepayer will incur an increased rates cost. Conversely ratepayers whose land has risen by less or decreased in value, will see a reduction in their rates cost compared to the average. This ignores the impact of the rate peg which is a CPI type mechanism.

With new land valuations applied in November 2019 ratepayers will experience changes to their 2020/2021 rates that are impacted by the following competing variables:

- Land Revaluation
- Rate Peg (e.g. CPI)
- Harmonised Rates structure

At this time no modelling on the ratepayer impact that a harmonised rates structure would generate in 2020/2021 can be conducted as new land valuations in November 2019 will render existing modelling inaccurate.

The Rates Harmonisation of aligning the rates structure between the two former legacy Councils is in itself, a complex matter to communicate to ratepayers. This communication will be further complicated with the distorting factors of land revaluations and rate peg.

Council will also be preparing a new delivery plan under the Integrated Planning and Reporting (IP&R) framework that will take effect from the 2021/2022 financial year.

This process will involve a comprehensive services review, where ratepayers will be able to provide input to Council on what services they value. This vital information will feed into Council's future service offering. The outcome of this services review and any impacts on how it is funded cannot be anticipated at this time. Aligning the Ordinary Rates Harmonisation process with the outcomes driven from the services review will help Council to promote equity when levying Ordinary Rates and service delivery.

It should also be acknowledged that ratepayers have already been subjected to additional changes to the Water, Sewerage and Drainage charges by the recent IPART pricing determination.

Proposal

Legislative hurdles

In an effort to reduce the price shock impact on ratepayers it is proposed that representation be made to the Minister for Local Government for legislative changes that will reduce the price shock impact on ratepayers from Ordinary Rates Harmonisation. In particular these representations should seek to delay the restrictions around Rates Path Freeze for one year until the 2021/2022 financial year. The delay will assist to differentiate changes in ordinary rates from that caused by land revaluation.

It is also proposed that these representations include a request for the issue of guidelines for merged councils on Ordinary Rates Harmonisation.

Council supports harmonised pricing for common services and made representations to IPART in the Water, Sewerage and Drainage pricing process to achieve this aim for residential customers but were unsuccessful. IPART has continued however with differential prices for former Gosford City Council and former Wyong Shire Council customers.

Consultation

The Ordinary Rates harmonisation project plan is currently being finalised. The high level consultation/engagement plan for the rates harmonisation projected to take effect for the 2021/21 financial year includes:

Proposed project timeline

Milestone	**Delivery**
Project planning	Current
Councillor workshop – Taxation Principles and Rating Structures. Feedback on direction of initially modelling	August 2019
New land valuations provided by the Valuer General	November 2019 (based on previous revaluations)
Analysis of impact of new land valuations and preparation of initial modelling for Ordinary Rates Harmonisation	December 2019
Councillor workshop – Review of initial modelling	January 2019
Councillor workshop – Finalise modelling prior to Community engagement	January 2019
Community engagement	February 2020
Councillor workshop – 2020/2021 Operational Plan	February 2020
Councillor workshop – outcome from community engagement and finalise Ordinary Rates structure	March 2020

Specific targeted engagement for highly impacted ratepayers	April 2020
2020/2021 Operational Plan – finalise preparation based on March 2020 Councillor workshop	March 2020
2020/2021 Operational Plan – on exhibition	April 2020
2021/2021 Operational Plan – Adoption	May 2020

The above project timeline is based on implementation in the 2020/2021 financial year. The time available to properly consult with Councillors and the community on this complex subject is limited. There is an increased risk that due to these time constraints the consultation will be less than Council would typically and ideally have undertaken.

This high level plan will be impacted by any legislative changes or issued guidelines on the parameters for the rates harmonisation.

Recommendation

Should Council wish to address the impacts identified in the ordinary rates harmonisation process scheduled for the 2020/2021 financial year, it is recommended that formal representations be made to the Minister for Local Government to implement legislative amendments to delay the expire of s218CB(2) until 2021/2022, to issue guidelines on ordinary rates harmonisation for merged councils and provide for better legislative mechanisms to reduce the price shock on ratepayers caused from ordinary rates harmonisation.

Financial Impact

Ordinary Rates revenue totals $165m or 29.4% of Council’s 2019/2020 total revenue. Any decision which impacts Council’s ability to levy this total amount will have a profound impact on existing service levels. Reducing Council’s rates income will require reductions in services.

Any decisions that alter and/or harmonise the ordinary rates structure whilst may not impact Council’s overall ordinary rate revenue will impact have how rates are levied or ‘allocated’ amongst ratepayers.

Link to Community Strategic Plan

Theme 4: Responsible

Choose Focus Area

R-G4: Serve the community by providing great customer experience, value for money and quality services.

Critical Dates or Timeframes

The restrictions placed upon Council Rates structure expires on 30 June 2020.

Council will be required to define its own Rates structure, within legislative requirements, for the 2020/2021 financial year. This structure will be presented for exhibition in the 2020/20201 operational plan around April 2020.

Attachments

Nil.