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## Governance and Administration Matters - 24 November 2020

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### ITEM 7.1

### Rates Harmonisation & Financial Sustainability

### AUTHOR

Office of General Manager

### PURPOSE AND BACKGROUND

In accordance with the relevant provisions of the Local Government Act, Council is required to harmonise its former council's rating structures, and establish an equitable rate path based on one ad valorem rate, for one city, for all Ratepayers, by 1 July 2021.

Separately, this report considers options for a concurrent Special Rate Variation (SRV), which will also restore the \$5M per annum SRV lost across former Canterbury during the NSW Governments rate path freeze together with options to deliver a raft of service enhancements and increase expenditure on the renewal of community infrastructure such as Town Centres, playing fields, sporting club houses, recreational assets, community facilities and our Leisure and Aquatic centres to deliver on our communities needs while ensuring Council remains financially sustainable, with an equitable distribution of rating income, for generations to come.

### ISSUE

Following a number of discussions and workshops with Councillors on the matter, Council is now required by law to determine its approach to harmonising the former council's rate structures, effective for 1 July 2021.

As Councillors have been discussing, the two former rating structures vary somewhat, particularly the current ad valorem rates for its ordinary residential Ratepayers, and as such will result in varying increases and decreases for many Ratepayers throughout the local government area.

This is largely due to the difference in the current *Cents-in-the-Dollar* for the former Council areas, and the difference in their land values:

Residential	BCC	CCC
Current Ordinary Cents in the Dollar	0.207299	0.180159

Business	BCC	CCC
Current Ordinary Cents in the Dollar	0.549445	0.455657

Regrettably, any variation to individual ratepayers (while Council's overall rates income remains unchanged) is unavoidable, given that the outcome of the harmonisation process and method of calculating rates are set by the NSW Government.

Notwithstanding the above, the NSW Government are intimating a possible change to the legislation, whereby councils may be able to gradually apply the harmonisation process over a number of years.

At present, Council has:

- Not received any information expected to be included in the Draft Bill and as such cannot comment on its implications for Council; and
- If it proceeds, the Draft Bill is not expected to be put to Parliament until March 2021 and/or be determined until sometime later.

That said, and as a precaution, Council has pre-empted a Draft Bill being released, in preparing its options and made allowance for its outcome.

Separately, the Rate Path Freeze, which was set by the NSW Government, saw around \$5M per annum of funding drop-off from the former Canterbury rate-base in 2019/20 and 2020/21 – a current cumulative total of around \$15M by the next budget.

This drop in income resulted in an average per annum saving of around \$138 per ordinary rateable property – a cumulative saving of \$420 per rateable property, only in the Canterbury area, by the time the harmonisation process commences.

Council must consider restoring this, as prefaced by both the Canterbury's and now CBCity's Long-Term Financial Plans (LTFP).

Concurrently, Councillors have also been canvassing the broader LTFP considerations, which are extensively detailed in this report.

Separately, this Council, together with all other merged councils have been lobbying the NSW Government on a change to the legislation to enable a smooth/gradual transition of bringing their different rates structures to a single "harmonised" ad valorem rate. One City, One Rate.

This report proposes that Council call on the Minister to urgently provide clarity for merged councils regarding the matter.

## **RECOMMENDATION** That -

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1. Council notes the current requirements of the Local Government Act to harmonise its former Council's rating structures by 1 July 2021.
2. Council also notes that, despite not being provided any information and/or advice to-date, Council understands that the NSW Government are considering an amendment to the legislation, whereby merged councils be allowed to gradually harmonise their former council rate structures.
3. Having regard to the various briefings/workshops held with Councillors to-date, it is proposed that Council, in principle, agree to implement Option 3 as outlined in the Report.

4. Council's preference when applying Option 3 be based on a gradual approach to harmonising its former Council's rating structures over a five year period (commencing 1 July 2021), including a proposed Special Rate Variation.
5. In the event that the current legislation is *not* amended, then Council's preference when applying option 3 be based on fully implementing the required harmonisation process of the two former Council's rating structures by 1 July 2021 – as per option 1 - with the remaining changes over a 5-year period.
6. Council endorse the proposed new Business Sub-Categories, as detailed in Option 3 in this report.
7. Council commence a detailed and comprehensive community engagement program to inform its final decision on the matter and notify IPART accordingly, as required.
8. In the event amended legislation provides a harmonisation timeframe of less than five years, the community will be accordingly advised of the impact of this on the above.
9. At the conclusion of the consultation process, a further report be provided to Council on the outcomes of the community engagement process for Council to make a final determination on the matter.
10. The Mayor urgently call for a meeting with the Minister for Local Government seeking that:
  - a) The NSW Government provide merged councils and their communities with clarity concerning the harmonisation process – particularly given that it will affect every ratepayer throughout our community;
  - b) The NSW Government resolve the current ambiguity regarding the harmonisation process and urgently reflect changes to the legislation so as to ensure that councils can effectively harmonise their former council rate structures in a timely manner;
  - c) Ensure that merged councils be given the flexibility to set their own timeframe (and not less than five years) to gradually harmonise their former council's rating structures, ensuring a "smoother" impact for its ratepayers; and
  - d) The NSW Government assist with funding the significant cost that merged councils have and will continue to incur to implement the NSW Government's harmonisation process.
11. The Mayor separately write to the Premier outlining councils ongoing frustration, the lack of clarity and above all the absence of support shown by the NSW Government over the years on this issue.

## **ATTACHMENTS**

[Click here for attachment\(s\)](#)

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- A. Letter to The Hon Gabriel Upton, Minister re Amalgamation Funding & Rate Increase - Canterbury Bankstown Council dated 8 June 2018
- B. Economic Paper - A Funded Future

## **POLICY IMPACT**

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Having regard to the requirements of the Local Government Act, Council is required to harmonise its former council's rating structures by 1 July 2021. Separately, and following a number of briefings/workshops with Councillors, this report also reflects an approach to addressing the constraints and issues outlined in Council's Financial Strategy and Long Term Financial Plan.

## **FINANCIAL IMPACT**

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Whilst having no immediate financial impact, the report proposes a financial path, which will ensure that Council remain financially sustainable in the long term – particularly addressing required enhancements to its operational services, establishing appropriate funding streams to address our burgeoning backlog and asset renewal requirements, as well as contribute to funding its Leisure and Aquatics Strategy.

## **COMMUNITY IMPACT**

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The content and implications of this report have a far reaching impact on our rate paying community. The required harmonisation process is both a legislative requirement and a process which is regulated under the Local Government Act – a process which Council has no discretion to vary.

Separately, the option to apply for a Special Rate Variation, will provide Council with the financial resources to ensure it delivers on the community's servicing expectations, upgrading relevant community facilities, sporting & recreational facilities and importantly ensuring that the longevity and management of our \$4.8B asset base.

Council will be ensuring it widely consults with the community so as to ensure that our ratepayers are informed of the proposed changes and have an opportunity to have their say on the matter.

## DETAILED INFORMATION

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### EXECUTIVE SUMMARY

As a recent merged entity, this council faced a number of challenges and we are proud to have continued to provide quality services to our community when the easy option was to cut \$5M of services from Canterbury when it stopped paying that equivalent income in 2019/20.

One critical issue facing Council is to secure our financial future and importantly ensure generations to come are well placed to both benefit and enjoy living in our great City.

Council's financial position and its ability to remain financially sustainable are well documented. In the main, whilst Council's financial position continues to decline - particularly our ability to address deteriorating asset renewals and backlog issues – we are considered sound from a cashflow perspective.

Apart from a legal requirement to transition and harmonise our two former council's rate structures, the decision before Council is separately to determine whether it take the necessary step to set a Revenue Strategy, which creates greater equity in who pays rates, addresses our existing Long-term Financial Plan (LTFP), and ensures the ongoing financial sustainability of this City.

Whilst the issues at hand have been detailed below, I have summated the more pertinent issues that Councillors have been workshopping and considering to-date in arriving at its decision on the matter.

### ***Rates Harmonisation***

- At present, the most pressing issue before Council to determine, is its agreed approach to harmonising its two former Council rating structures. Despite the Government having recently intimated a change, Council are required to complete the process by 1 July 2021;
- At present, the former Canterbury Council's (CCC) *Cents in the Dollar* rate is 0.180159 and the former Bankstown City Council's (BCC) *Cents in the Dollar* rate is higher at 0.207299.

Clearly, the harmonisation process will have a greater impact on the properties in the former CCC, given the rate for those properties will rise to a new average.

This is unavoidable given the method of setting rates is set by legislation. This will be detailed further in this report;

- During the NSW Government's Rate Freeze period (2016 – 2021) for merged councils, Council lost \$5M per annum in rating revenue entirely from CCC Ratepayers, which was reflected in an average decrease of \$138 per year for each Ratepayer. This is due to one of the former CCC's Special Rate Variations ending on 30 June 2019.

- Despite raising the issue on several occasions with the Minister and OLG, regrettably Council were prevented from maintaining this funding at the time, which CCC had resolved it needed to assist in remaining financially sustainable.
- Importantly, Councillors should also note:
  - When Council lost the \$5M per annum Levy, former CCC Residential Ratepayers rates on average dropped by around \$138 in 2019/20, a 9.3% reduction given the loss of the SRV. By the time Council is required to harmonise the former Council's structure, CCC's Ratepayers would on average have accumulated a benefit of around \$420; and
  - If Council were to restore this amount through the harmonisation process, then all Ratepayers – both former CCC and BCC – will wear the impact.
- The table below provides a summary of the points raised above.

**Residential Rates Assessment**  
**Residential Property with Land Value = \$600,000**

	<b>Bankstown Actual 2020/21</b>	<b>Canterbury Actual 2020/21</b>	<b>Canterbury Adjusted figures if \$5M SRV was not lost</b>	<b>CBCity estimated figures due to Harmonisation</b>
<b>Residential Ordinary - Rate</b>	\$1,243.79	\$1,080.95	\$1,182.03	\$1,181.47
<b>Residential Ordinary – Land Value</b>	\$ 600,000	\$ 600,000	\$600,000	\$ 600,000
<b>Residential – Cents in the Dollar</b>	0.207299	0.180159	0.197005	0.196911

- Councillors should note that if the \$5M per annum SRV had not been lost, then the impact on CCC Ratepayers would not have been anywhere near as great an impact.
- Councillors have been considering a number of options which have been reduced to 3 options being explored in detail.
  - **Option 1 - Harmonise Only** - this option will provide Council the ability:
    - To merge the two former council rating structures and implement it by the current statutory timeframe, 1 July 2021;
    - The option will set a Minimum Rate for both residential properties (\$728.18 – being the former CCC minimum rate) and business properties (\$794.27 – being the former BCC minimum rate), and one individual *Cents in the Dollar* rate for all other residential properties and similarly for all other business properties;
    - This option will generate zero additional income for Council.

- Given CCC's current Cents in the Dollar rate is lower than BCC's, when harmonised, rates will rise for CCC's Ratepayers and conversely reduce for BCC's Ratepayers;
  - This option may be able to be gradually applied over several years – subject to the parameters set out in OLG's Draft Bill, which proposes to alter the 1 July 2021 deadline and allow councils to gradually harmonise their rate structures. Council is awaiting details of the Draft Bill.
- **Option 2 - Harmonise and Increase Minimums** – this option will provide Council the ability:
- To merge the two former council rating structures and implement it by the current statutory timeframe, 1 July 2021;
  - Apply a new Minimum Rate of \$990 for relevant Residential and Business Properties (SRV process).
  - The adjustment aims to ensure that each Ratepayer is required to pay an equitable share of funding for services and infrastructure and/or the benefits they derive when compared with owners of standard residential or business properties throughout the area;
  - This option also looks to preserve the amount of rating income previously generated from the Ordinary Residential Rate and re-apply it to the remaining pool of Ordinary Residential and Business Ratepayers;
  - Council acknowledge that the increase in Minimum Rates will raise approximately \$20M in additional Rating Revenue for our City, which will all be allocated to renew and/or maintain our Council's asset base (current shortfall in asset renewal funding is \$31M per annum);
  - Council also acknowledge that this option does *not* enable it to implement:
    - Any further improvements and/or additional services – eg. street cleaning – including roadway kerb/gutter cleaning;
    - Council's adopted Aquatics Strategy. This would need to be considered as part of a separate SRV, as required; and
    - Matching funding to compliment the use of Section 7.11 contributions (Section 94).
  - This option will still result in a larger increase for CCC's Ratepayers- given their lower Cents in the Dollar rate – though BCC Ratepayers will also experience a rise, given the need to redistribute the additional income across remaining Residential and Business Ordinary rateable properties, as required under the Act;



- This option may be able to be gradually applied over several years – subject to the parameters set out in OLG’s Draft Bill, which proposes to alter the 1 July 2021 deadline and allow councils to gradually harmonise their rate structures. Council is awaiting details the Draft Bill.
  
- ***Option 3 – Harmonisation and Special Rate Variation*** - this option will provide Council the ability:
  - To gradually merge the two former council rating structures over a 5-year period;
  - Gradually increase Minimum Rates to \$850 in 2022/23 and \$990 in 2023/24;
  - Gradually harmonise both Residential and Business Ordinary Ratepayers over a 5-year period;
  - This option looks to restore the former CCC Infrastructure Levy of \$5M per annum and a further \$35M per annum for asset replacement, particularly realising our leisure and aquatics strategy, restoring our deteriorated roadways, embellishing and upgrading our recreational & sporting fields, replacing agreed community centres and service enhancements – with a focus on the cleanliness and presentation of our centres, streets and public spaces while also maintaining services the former Canterbury Council proposed to cut.
  - Councillors should also note that the additional funds will be utilised to maintain the services that CCC proposed to cut – to be financially sustainable;
  - The SRV will consist of Council raising \$40M of additional rating revenue from the following rating categories:
    - Minimum Rate Ratepayers                \$12M
    - Residential Ordinary Ratepayers       \$18M
    - Business Ordinary Ratepayers         \$10M
  - The above option is also premised on Council establishing sub-categories for business precincts, with the view to provide greater equity amongst the varied nature, type and size of commercial and industrial properties throughout our area.
  - In establishing the sub-categories, Council has relied on the hierarchy of commercial and industrial zones, as adopted in our Local Strategic Planning Statement.
  - Based on the above, if Council were to proceed with this option, then it would:

- Apply a gradual approach to harmonising its former Council's rating structures over a five year period – commencing 1 July 2021; and
- Separately apply the proposed SRV for an additional \$40M in rating revenue over a four year period – commencing 1 July 2022.

In the event that the current legislation is **not** altered, then Council would:

- Fully harmonise its former Council's rating structures as at 1 July 2021; and
  - Separately apply the proposed SRV for an additional \$40M in rating revenue over a four year period – commencing 1 July 2022.
- As Councillors will note, this option has assumed a gradual harmonisation period of five years, being Council's preferred harmonisation period. Naturally, the Draft Bill may reflect some other harmonisation period, which Council will need to reflect and/or adjust, as required.
  - Whilst the increase proposed under Option 3 may be considered substantial, it is comparable with other metropolitan Councils. Indeed, many metropolitan councils have recently adjusted their rating income base to address their operational needs and importantly strengthen their financial sustainability.
  - Given the likely impact that the rate harmonisation process will have on all Ratepayers, Council has the option to now put in place a rating strategy to also address existing inequities in our rate structures, to better manage revenue from growth in properties throughout our area and importantly address our longer-term financial sustainability issues through one structured process – allowing for a staged and well-balanced approach for all our Ratepayers.
  - Importantly, Councillors should note that regardless of which Option is chosen, there will be no change to the current rebate provided to our Pensioner Ratepayers. At present, Council provides Pensioners a statutory rebate of \$250 per annum plus a further voluntary \$40 rebate per annum – a total rebate of \$290 per annum - making it one of only a few councils who provide an initiative of this nature.
  - Councillors have agreed that a combined approach - which includes harmonising our rate structures, restoring CCC's \$5M SRV lost during the Rate Freeze, and both increased service enhancement and asset replacement funding – would be less confusing and/or misleading for our community and as such should be carried out as part of one process.
  - A comprehensive explanation of each option is outlined further in this report.

### ***Former Councils Financial Position***

- Both former council's Fit for the Future proposals clearly indicated a need for financial reform. In the main:
  - Both former Councils *cost-per-capita* (ie. expenditure per Ratepayer) were amongst the lowest of all metropolitan councils. This indicates that further cost savings would have needed to be at the expense of cutting services;
  - Former BCC had realised operational efficiencies of around \$7M per annum prior to amalgamation and had foreshadowed needing an SRV for \$17M per annum to address its existing asset backlog issues and annual maintenance.
  - The former CCC had relied on their:
    - Infrastructure Levy (\$5.0M) continuing;
    - Sustainability Levy (\$8.3M) to assist with managing their day-to-day operations and asset management needs; and
    - Other savings and/or Income totalling \$4.2M per annum, to similarly assist with managing their day-to-day operations and asset management needs.
  - All proposed savings and/or other income initiatives were never implemented by CCC and were rejected by CBCity – given they were considered unacceptable or unrealistic.
  - Separately, more recent investigations have also disclosed that CCC had:
    - Understated its level of unfunded asset renewals estimates by \$53M;
    - Understated its level of Depreciation Expense at the time of amalgamation by around \$6M (when compared to the calculation for the former Bankstown) – thereby inflating its annual financial performance; and
    - Did not disclose around \$123M worth of assets at the time of amalgamation.
  - In total, the above items further adds to a shortfall of funding of around \$15.2M for CBCity.

### ***Our Ongoing Constraints and Pressures***

- Our issues are not unique to Council. Indeed, our sector is facing enormous pressure to ensure that councils across the State remain sustainable. Most councils:
  - Are heavily reliant on Rates and Annual Charges as a base to fund day-to-day operations & asset renewals – Councils mostly have very little funding available for new initiatives;

- Have great difficulty managing escalating non-discretionary costs (eg. State Government charges) and other operational costs within the approved annual IPART rate-peg increase;
- Experience growing community pressure to improve and/or increase services;
- Struggle to address long standing and burgeoning asset backlogs and aging facilities; and
- Struggle managing and funding liabilities – particularly the use of Section 7.11 contributions made under the EPA&A Act (formerly Section 94 Contributions).
- Decades of imprudent Government strategies (both Federal and State) have considerably constrained the NSW local government sector – placing enormous pressure on councils to appropriately manage their operations, particularly:
  - Rate-capping (rate-peg), which has been in place for more than 30 years and has failed to appropriately recognise or reflect the true cost to managing our operations and replacing our assets;
  - LGNSW has estimated that Cost-shifting from the State Government onto the NSW Local Government Sector is around \$820M per annum – and around \$6.2B over the past 10 years. LGNSW estimates cost shifting from State Government onto CBCity to be around \$34M per annum.
  - In 2010/11, the allocation of the Federal Government’s Financial Assistance Grant program provided to councils was frozen through to 2017/18, meaning that it had not been adjusted for inflation during that period. Separately, the formula/method of distributing funding was also changed, which directed money away from our local government area. Council estimates that the current negative impact to be around \$4.5M per annum.

### ***Understanding What Is Required***

- To address our needs, Council estimates that a further \$40M is required to ensure we remain financially sustainable and deliver on our key infrastructure strategy – Council’s Leisure and Aquatics Strategy.
- A break-up of our funding needs is as follows:

Description	\$M/ Annum
Funding Asset Renewals & Backlog	31
Service Enhancements	4
Leisure & Aquatics – Annual Debt Servicing Cost	5
<b>Total Required Funding</b>	<b>40</b>

- If Council were to proceed with an SRV, this income would be obtained as follows:

Description	\$M/ Annum
Restore Former Canterbury Council Infrastructure Levy	5
New SRV Funding	35
<b>Total Required Funding</b>	<b>40</b>

### ***Consulting with Our Community***

- At present any option which Council applies, will be the subject of an independent assessment by IPART. Council must follow IPART's timeframes in implementing the required changes.
- Councillors should also note that in our recent meeting with IPART, they had indicated that Council's submission:
  - should be based on harmonising our rate structures based on current legislation, being 1 July 2021; and
  - despite not having any information or clarity on the matter, separately prepare a scenario whereby we gradually harmonise the structures over a set period; assuming the NSW Government determines to amend the current legislation.

Interestingly, OLG, who is preparing the Draft Bill, have suggested the same assumption and approach be applied during our consultation process.

- Given the above and the Government's imminent Draft Bill, it is proposed that Council:
  - Prepare for both options, be it fully harmonise by 1 July 2021 and/or gradually harmonise rates of a 5-year period, which may need to be amended to reflect the provisions of the Draft Bill, which are yet to be determined;
  - Consult with our community on the proposed option(s); and
  - submit its proposal to IPART by 8 February 2021, for its determination.
- Naturally, the basis of ensuring that Council is clear on its eventual decision, will be subject to obtaining a thorough understanding of the community's sentiments and their support for Council's preferred option moving forward.
- As expected, Council will use a range of measures and channels to ensure that all ratepayers across our LGA are both informed and given the opportunity to have their say regarding our decision.
- Councillors will be informed and have input into the preparation of engagement strategies and consultation material as part of this time sensitive process.

- Councillors should also note that IPART will also conduct its own independent consultation process with our community prior to determining its decision.

## THE ISSUE AT HAND

It is important to reflect on Council's current financial position, savings already realised internally and required decisions to enable Council to continue to deliver on the expectations and vision for our City.

Councillors have been involved in multiple workshops relating to Council's current financial position, which is largely based on the following known issues/parameters:

- According to the Office of Local Government, one of the lowest operational cost-per-capita amongst all metropolitan councils - indicating further cost savings must be at the expense of cutting services. Similarly, it prefaces that we also have the lowest income-per-capita amongst metropolitan councils, which will be demonstrated further in this report.
- Service cuts and savings proposed by the former Canterbury Council as part of its Fit for the Future proposal - totalling \$4.2M - were never implemented given they were not achievable, nor acceptable, to our community – and as such were rejected by CBCity.
- CBCity has exceeded expected merger savings suggested by the NSW Government (expected average \$4.5M per annum) – by realising around \$7.6M per annum. These savings are in addition to the \$7M per annum saved by the former Bankstown Council prior to amalgamating. This has all been achieved without any drop in full time equivalent staff numbers.

In total, this equates to savings of \$14.6M per annum. This has been critical to remaining financially sound. It has also been critical in assisting Council to weather the impact of escalating non-discretionary costs – particularly State Government charges and cost shifting - which continue to consume any economies of scale derived from merging and/or other transitional savings;

- There is no capacity to respond to increased levels of services expected by our community (eg. street cleaning – including roadway/gutter cleaning, town centre cleaning, quicker response times to dumped rubbish, etc);
- The limited capacity to generate alternate sources of revenue;
- Declining income – particularly Government Grants and Contributions and return-on-cash investments due to current economic conditions totalling around \$15M per annum, as well as our capacity to continue to withstand unforeseen events, such as COVID-19, which will cost Council around \$18M;
- Twenty-four percent (24%) of Council's Ratepayers are pensioners. Each pensioner receives a statutory rate rebate of \$250 per annum. Separately, Council provides each Pensioner a further voluntary \$40 rebate per annum, making it one of only a few councils who provide an initiative of this nature – and an initiative that Council will be preserving as part of any option that it determines to apply.

The total rebate equates to around \$7M per annum. Council is required to fund a proportion of the rebate totalling \$3.2M. This income cannot be recouped and/or recovered, thereby reducing our available income.

- Our ongoing ability to absorb cost shifting from other tiers of Government. Current estimates indicate that cost shifting is costing Council around \$34M per annum, an amount which is quite insurmountable. All cost shifting comes at the expense of renewing our assets;
- Current modelling indicates an asset backlog (proportion of assets which cannot be renewed and needing to be fully re-constructed) of around \$80M. This will swell to around \$300M in 10 years and a staggering amount of \$950M in 20 years. This assumes Council does not inject further annual funding to maintain the current average condition of our \$4.8B asset base; and
- There is no additional funding to complement Section 7.11 contributions made under the EP&A Act (formerly Section 94).

As set by legislation, Council is required for the first time to harmonise its two former council's rates databases by 1 July 2021.

Because of the different nature of properties and property valuations throughout the local government area - there will be a significant financial impact to certain parts of our community. These issues which are unavoidable given that the method for calculating rates is determined by legislation.

Despite both the Mayor and I making several representations to both the Minister for Local Government and the Office of Local Government (OLG) to provide clarity around the harmonisation process – we are still yet to receive confirmation and/or advice on how councils are to approach the harmonisation process.

More recently, the Government has indicated that it is considering providing some flexibility for councils to smooth and/or gradually transition the impact on Ratepayers, though a Draft Bill is not yet available for Council's to assess. This matter won't be considered and/or determined by Parliament until March 2021.

Given the likely impact, Council has the option to consider integrating both the harmonisation process and a proposed SRV for our City. The prospect of integrating these two elements, provides the opportunity to:

- effectively manage the financial impact of harmonising rates on our Ratepayers;
- address several existing inequities and create a contemporary rating structure for our new City. This would help will assist with managing ongoing growth throughout the local government area; and
- address the longer-term financial sustainability issues facing our city.

Despite the option it chooses, Council will still need to follow a strictly regulated process to implement its decision. This includes:

- prepare for both options to address the matter – be it fully harmonise by 1 July 2021 and/or propose a structured approach to gradually harmonise rates over a set period;
- Consult with our community on the proposed option(s) between December 2020 and January 2021; and
- submit its proposal to IPART by 8 February 2021, for its determination.

In considering the above matters, the following section steps Councillors through some of the most relevant issues.

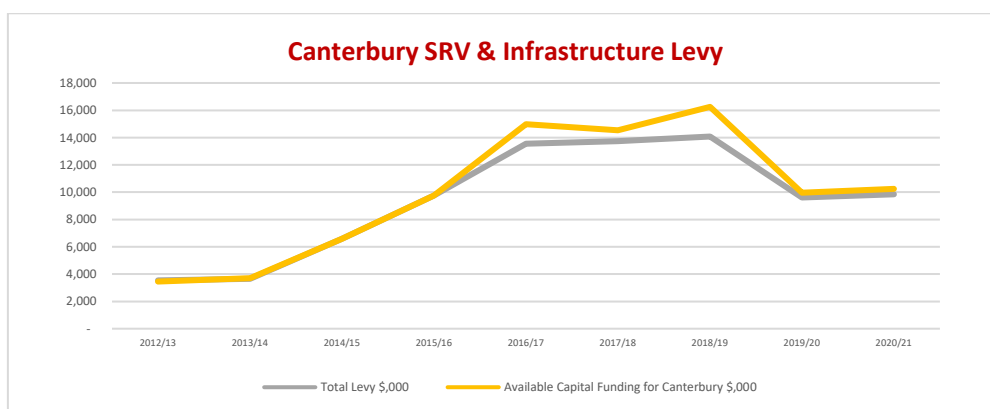
## **UNDERSTANDING OUR FORMER COUNCILS FINANCIAL POSITION**

Councillors would be aware that our long-term financial issues are of no surprise, nor are they new revelations. Indeed, the former Council's *Fit for the Future* proposals clearly indicated that in the main:

- The former Bankstown City Council (BCC):
  - Had already realised operational efficiencies of around \$7M per annum – with any further reduction having to come from cutting services; and
  - Needing a Special Rate Variation (SRV) of around \$17M per annum to address existing asset backlog issues and annual maintenance.
- Similarly, the former Canterbury City Council (CCC):
  - Required the continuation of one of their Special Rate Variation (SRV) – *Infrastructure Levy*, which generated around \$5M per annum – though this regrettably ended on 30 June 2019 and Council was unable to extend it given the NSW Government's Rate Freeze Policy for Merged Council's, at the time;
  - Separately, the former CCC's application to IPART proposed that it would generate a further \$12.5M in funding to assist with managing its services and assets – and importantly remain financial sustainable;
  - Its application was based on raising a further SRV (*Sustainability Levy*) of around \$8.3M per annum – which translated into a rate increase of 24% over three years, plus a series of other savings and/or other income totalling \$4.2M;
  - Some of the projected savings and/or other income were to come from:
    - Increasing charges to sporting fields and leasing out areas of aquatics centres and parks for income generating activities;



- Reducing the frequency of street cleaning – including roadway kerb/gutter cleaning, reducing festivals to only one per year and reducing free nature strip mowing;
  - Accept further deterioration in roads, footpaths, parks and buildings of \$1.5M; and
  - Borrowing \$36.5M to address infrastructure backlog issues at the time rather than obtaining further rating income – which was based on debt servicing costs/obligations stretching over 30 years. This approach would leave a significant cost for future generations to bear.
- As Councillors would be aware, the savings/other-income options were never implemented by the former Council and given their nature, were rejected by CBCity – particularly as we have reviewed our policies and/or approach to managing our services and assets.
  - Given this, our financial position is \$4.2M per annum worse-off given that these savings/other-income are unrealistic.
  - Separately, despite CCC's *Sustainability Levy* being levied to support both its day-to-day operations and asset management needs, CBCity's decision at the time of amalgamation, was to fully restrict the total value of both its *Sustainability* and *Infrastructure Levy*, and specifically allocated it to replacing assets throughout the former area only.
  - Councillors should also note that in 2016/17 through to 2018/19, expenditure on capital works throughout the former CCC area exceeded the value of the levy by almost \$4M, funds were redirected from other sources, including efficiencies and former Bankstown funds. The following table depicts the above (note the drop in 2019/20 is when the Infrastructure Levy ended, and Council lost \$5M in rating revenue).



- Lastly, it should also be noted that:
  - the level of unfunded renewals for existing infrastructure and facilities for former CCC was understated by around \$53M, which have further compounded the extent of required funding needed to manage our liabilities;

- Understating the level of Depreciation Expense at the time of amalgamation by around \$6M when compared to the former Bankstown calculation. Importantly, CBCity has adjusted its Depreciation Expense in line with industry standards and now appropriately reflects the true cost of its asset renewals projections; and
  - The need to reflect around \$123M of infrastructure assets, which were never disclosed in CCC's financial statements or asset management reporting and the financial impact required to renew/manage them.
- For clarity, the following table summates the amount of income, be it what was used by CCC as a basis to suggest that it would be FFF, initiatives which were never implemented or costs which were not accurately accounted for are as follows:

Description	\$M/ Annum
<b>Lost Infrastructure Levy</b>	5.0
<b>Proposed service cuts never implemented</b>	4.2
<b>Understating Depreciation Expense – compared to BCC</b>	6.0
<b>Further shortfall in available funding for CBCity</b>	<b>15.2</b>

Whilst the above background and issues have been carefully canvassed in our adopted Financial Strategy & Long-Term Financial Plan, the major concerns identified by both were:

- A heavy reliance on Rates & Annual Charges being its major form of annual income;
- Inability to manage escalating non-discretionary (eg. State Government Charges) and operational costs within the approved annual IPART rate-peg increase;
- Like most councils throughout NSW, the need to address burgeoning asset backlogs and renewal of aging facilities; and
- Managing and funding liabilities – particularly the use of Section 7.11 contributions made under the EP&A Act (formerly Section 94).

That said, the above issues were not unique to the former council's and generally continue to be major concerns for all councils throughout the State. Decades of imprudent Government strategies (both Federal and State) have considerably constrained the NSW local government sector – placing enormous pressure on councils to appropriately manage their operations.

Clearly, certain specific issues, such as:

- Rate capping, which has been in place for more than 30 years, has failed to appropriately recognise and/or reflect the true cost of managing our operations – particularly ensuring adequate funding is generated to manage our assets;

- Along with rate capping, cost shifting has undermined the financial sustainability of the local government sector by forcing councils to assume responsibility for more infrastructure and services, without sufficient corresponding revenue.
- LGNSW has estimated that Cost-shifting from the State Government onto the NSW Local Government Sector is around \$820M per annum – and around \$6.2B over the past 10 years. LGNSW estimates cost shifting from State Government onto CBCity to be around \$34M per annum.
- In 2010/11, the allocation of the Federal Government’s Financial Assistance Grant program provided to councils was frozen through to 2017/18, meaning that it had not been adjusted for inflation during that period. Separately, the formula/method of distributing funding was also changed, which directed money away from our local government area. Council estimates that the current negative impact to be around \$4.5M per annum

These issues are still quite live for our new City and factors which have significantly contributed towards our need to review our financial situation.

## **SECURING A FINANCIALLY SUSTAINABLE FUTURE**

As indicated earlier, Council’s current financial position is considered reasonable at-best (from a cashflow perspective) and financial reform is required.

Councillors will find attached an *Economic Paper*, which provides a simple snapshot of the issues we face, an explanation of the reasons contributing to our position and required funding to address our constraints.

The paper will assist in explaining to our community the challenges we face – and importantly the level of funding required to ensure – as a minimum – that we:

- Have adequate funding to deliver on our community’s expectations around service delivery; and
- Securing adequate funding to maintain assets to current standards and prevent further deterioration.

Whilst significant, it does reflect the price and/or cost of decades of inadequate funding in managing our \$4.8B asset base.

As a snapshot, some of the critical figures include:

- A further \$4M required to harmonise and improve several operational services – with a focus on the cleanliness and presentation of our centres, streets and public spaces while also maintaining services the former Canterbury Council proposed to cut;
- As a minimum, funding of around \$31M per annum is required to ensure we replace, renew and address the deterioration of our existing asset base;

- Funding Council’s adopted Aquatics Strategy, totalling \$170M – Council proposes to borrow up to \$85M to fund the program. The annual debt servicing cost equates to around \$5M over a 20 years period. The balance of funding will be sourced from, Section 7.11 Contributions, existing asset reserves and general funds.
- Allocating additional rating income from growth to compliment the use of Section 7.11 contributions;
- Ensure we maintain adequate cash reserves to protect our liabilities and weather unforeseen events, as we have had to endure throughout the COVID pandemic; and
- Importantly, ensure we meet required NSW Government financial indicators expected of all councils.

Notably, Council’s cost-per-capita is one of the lowest amongst metropolitan council’s. Whilst this demonstrates that we are extremely efficient in providing our services, it does also suggest that we have no capacity to extend them within our current cost-base.

Indeed, any decision to further refine services would result in a drop in service levels and/or requiring them to be cut. Though an option, it’s important to understand and/or consider this in the context of the number of services we provide and the finite resources we have allocated to providing them.

In total, Council annually spends around \$270M (excluding Depreciation Expense) on managing in-excess of 100 different services. Whilst our budget is large – it’s also quite stretched. By way of example, if Council were to:

- Reduce the number of its libraries from nine facilities to five - we would generate annual savings of \$2.1M;
- Cut our graffiti operations, we would generate annual savings of \$0.6M; and
- Cut our entire cleaning services (including roadway kerb/gutter cleaning), we would generate annual savings of \$6.9M.

Whilst Council would never contemplate the above, it demonstrates that a drastic and/or significant change as the ones noted above would only generate around \$10M – and collectively they come nowhere near addressing our funding shortfall.

As Councillors have indicated in considering these issues, the decision at hand is a difficult one – though have also acknowledged that a decision to “do-nothing” and allow our assets to further deteriorate, will at some point become irreversible. Each year that we choose to “do-nothing” compounds our asset backlog/renewal issues by \$31M, which equates to \$124M per term of Council and around \$300M over a decade.

Continuing to balance our needs from existing resources is unsustainable.

## **BUILDING THE RIGHT FINANCIAL CAPACITY**

### **Current Revenue Framework**

Whilst having canvassed our funding needs, it's important to again reflect on what options we have to address the pressing matters.

Broadly, Council manages its operations by generating revenue from three (3) major sources of income, which include:

- *Annual Charges (Waste & Stormwater)* – which generate around \$70M (23%) of our income, however these are restricted sources and must be preserved to manage those specific services;
- *Fee/Charges & Other Revenues* – which equate to around \$69M (22%) and include sources such as interest income, grants and contributions and general fees and charges for our facilities; and
- *Income from Rating Revenue* – which equates to around \$170M (55%) of our income and is utilised to manage all our remaining services, manage our assets and liabilities.

Ultimately, our ability and capacity to raise revenue from fees, charges and other sources is extremely limited. Most of Council's income from this category are:

- Statutory Fees (representing 60% of our fees/charges) and are largely set by legislation and/or by the Government;
- market and/or demand driven
- Regulatory Fees/Charges – such as parking fines;
- Fees/charges commensurate with other Council's; and
- Are set/pegged to support our community, such as community halls, sporting facilities and aquatics.

Therefore, Council's only viable option remains to consider varying its income from Rating Revenue. Naturally, any conversation concerning increasing rates is both difficult and contentious, particularly where it affects all Ratepayers.

### **Required Amount of Rating Revenue**

Based on the above and in summary, Council's additional funding requirements are defined as follows:

Description	\$M/ Annum
<b>Funding Asset Renewals &amp; Backlog</b>	31
<b>Service Enhancements</b>	4
<b>Leisure &amp; Aquatics – Annual Debt Servicing Cost</b>	5
<b>Total Required Funding</b>	<b>40</b>

In total, Council requires around \$40M of additional Rating Revenue to deliver on the services, programs and asset management requirements for our City. If we were to proceed, this income would be obtained as follows:

Description	\$M/ Annum
<b>Restore Former Canterbury Council Infrastructure Levy</b>	5
<b>New SRV Funding</b>	35
<b>Total Required Funding</b>	<b>40</b>

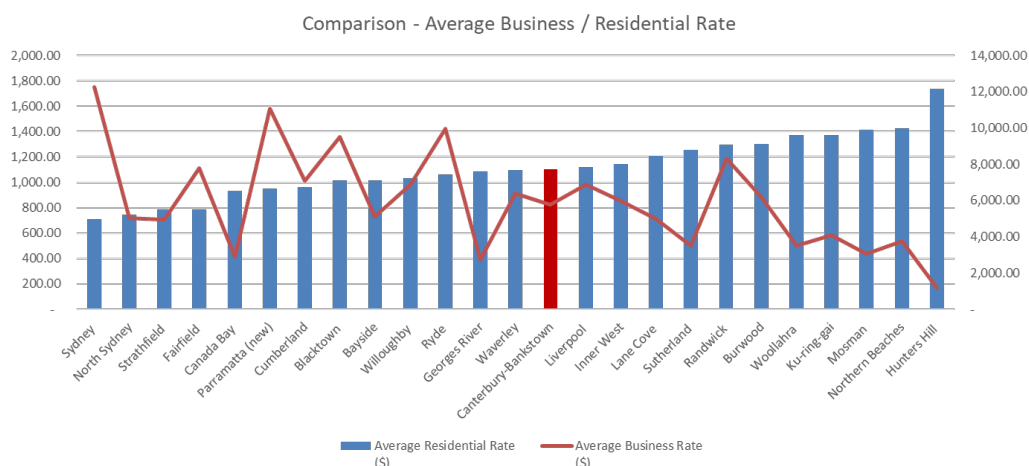
The amount reflects an average increase of around 23% over five years or 4.6% per annum - which includes and/or allows for Council to restore the former Canterbury Council Infrastructure Levy lost during the Rate Freeze period - across the entire rate-base.

The breakdown of the increase, particularly across each category and Minimums Rates is as follows:

Description	Increase \$M
<b>Minimum Rate Adjustment</b>	12
<b>Residential Ordinary – Restore CCC SRV</b>	4
<b>Residential Ordinary - Adjustment</b>	14
<b>Business Ordinary – Restore CCC SRV</b>	1
<b>Business Ordinary - Adjustment</b>	9
<b>Total Required Funding</b>	<b>40</b>

Whilst considered quite a reasonable increase, the adjusted amount is comparable amongst metropolitan Councils. Indeed, in more recent times, many metropolitan councils have similarly turned to adjusting their rating income base to address their operational needs and importantly strengthen their financial sustainability.

Whilst the only readily available public data relates to the 2018/19 financial year – a comparison amongst the metropolitan Councils is as follows:



Councillors will note that our current average rates are placed amongst the mid-point of metropolitan councils. Even with our proposed adjustment/increase, Council’s average rates would still be considerably lower than several other similar councils.

Whilst the above table provides a simple average, it’s important to both assess and understand what the likely impact any increase would have on each of our Ratepayers – and ensure that our decisions are equitable amongst our community.

The following part of the report will cover how we might look to raise the additional income across our rate base.

## RATING REVENUE PRINCIPLES & STRUCTURE

### Key Tax Principles

Ultimately, rates are a form of tax paid by Ratepayers. The rationale for setting rates is based on several tax principles endorsed by IPART, namely:

- Efficiency;
- Equity;
- Simplicity;
- Sustainability; and
- Competitive neutrality.

In terms of setting rates, the above principles essentially require councils to ensure that:

- each ratepayer is required to pay an equitable share of funding for services and infrastructure;
- that the share of funding paid is based on one’s *ability to pay* – where property values correlate with wealth and ability to pay – principles used by IPART to assess the current rating system;

- taxes should be equitable over time – meaning the current generation of ratepayers should not pay the total costs of services that will also benefit future generations (intergenerational equity), and conversely not deferring today’s liabilities onto the next generation at an unsustainable level;
- rates income is sustainable, in that it can meet the required cost of providing services, maintaining our infrastructure, withstand changing economic conditions and grow over time to support the future needs of councils; and
- treating all ratepayers in a similar way – which promotes fairness and equality amongst competing businesses throughout our area.

The above principles have been used in proposing our approach to harmonising our rates and importantly proposing how we may equitably apply an SRV across all ratepayers.

## Calculating Rates

The process of calculating rates is both highly regulated and quite complex.

There are a few elements which form the basis to establishing the amount of rates each property is required to pay throughout the local government area, namely:

- *An ad valorem amount* – which is set as a proportion of the unimproved land value (UV) of the rateable property – that is, the value of the property without any buildings, houses or capital investments; and
- *A Minimum amount* - which when applied, is a fixed charge that applies instead of the ad valorem amount, particularly when the unimproved land value (UV) is quite low (eg. individual units) compared to a standard residential property.

That said, Councillors should note that most other States use Capital Improved Value - CIV (includes the value of land, buildings, house or other capital investment) as a method to calculate the amount of rates payable by individual properties.

In their recent publication – *Review of the Local Government Rating System* - IPART had recommended that metropolitan councils move to a CIV valuation system as it was a more equitable approach for rating purposes. Regrettably, the NSW Government has chosen not to take IPART’s recommendations, and have deferred the matter.

Nevertheless, the UV for each property is determined by the NSW Valuer General. Council relies on these values to calculate the proportion of Council’s rates each individual property is required to pay.

Each property is separately categorised (in our case either residential or business). Council also has the discretion to set a different ad valorem amount and Minimum Rate (requires IPART approval) for each category or sub-categories within a category (ie. varied Business Rates for different types/size of businesses and/or business precincts).



The Act requires that Residential Rates for all properties within a centre of population are calculated the same way – particularly in metropolitan areas where residents have access to all services in a similar way (ie. apply a consistent ad valorem amount for all former CCC and BCC residential properties).

### **Harmonising the Former Council's Rating Databases**

Councillors are aware that in accordance with its proclamation, Council is required to adhere to specific issues in terms of rates, including:

- During its first term, the new Council is required to review/harmonise their rating structures;
- Ensure that the existing rate of each former Council continue for four years (Rate Freeze), till 30 June 2020 – which was subsequently revised by the Minister to 30 June 2021; and
- The harmonisation process is a mandated requirement, meaning that no Council has any discretion to vary the timeline.

As indicated earlier, given the differing nature of the two databases, their structures and the varied nature, or deviation, of property valuations throughout the local government area - there will be proportionally differing financial impacts across different parts of our community. These issues are unavoidable given that the method for calculating rates is determined by legislation.

As noted earlier, despite both the Mayor and I making several representations to both the Minister for Local Government and the OLG to provide clarity around the harmonisation process – we are still yet to receive confirmation and/or advice on how councils are to approach the harmonisation process.

More recently, the Government has indicated that it is considering providing some flexibility for councils to smooth and/or gradually transition the impact on Ratepayers, though no council has been provided with details of the Draft Bill and disappointingly, the change in legislation is not expected to be considered and/or determined until March 2021.

Again, we have no information as to how councils would apply this and over what period – though I understand there is growing support amongst many merged councils for at least a 5 year horizon to complete the process.

In our subsequent discussion with OLG and IPART, their advice has been that Council should be considering both options – being harmonise on 1 July 2021 and gradually complete the process over time - and consult with our community regarding both possibilities, pending the outcome of current Bill.

Whilst this is quite irrational and will perplex our community, Councillors have indicated any change must be gradually harmonised over a period of five years, and the amended legislation must pass.

## Overview of Former Council's Rating Structures

By way of background, both former Council rating structures have largely evolved over time – meaning that the principles and approach have remained somewhat fixed, are flat in structure and quite antiquated – which ultimately means that they haven't appropriately supported the changing needs and growth of our former Cities.

By way of summary, in the case of both former council's:

- Minimum Rates have never varied (other than by IPART increases), are quite low and lack equity, meaning that they don't share and/or reflect the benefit received in terms of services provided by Council;
- The proportion of rates paid by each category – Residential vs Business – has not evolved to reflect growth and/or the varied nature of businesses. This covers both the size and extent of commercial and industrial properties throughout our local government areas; and
- The lack of flexibility to manage the shift and/or changes in valuations to properties – and its impact on individual ratepayers – during each valuation cycle.

Throughout this process, we now have an opportunity to create a more contemporary and sustainable rating structure, which more appropriately addresses required rating principles. This process also gives us the ability to effectively grow over time to support the future needs of our city.

## Comparison of Rating Structures – Financial Perspective

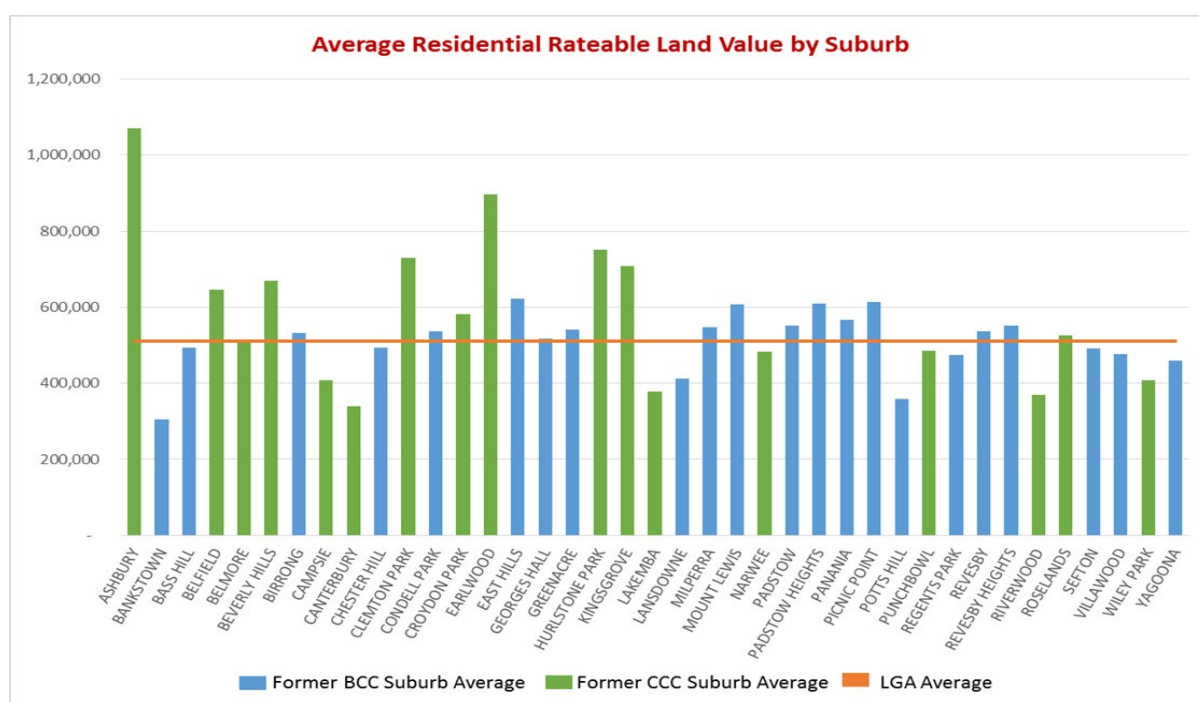
A snapshot of relevant rating information regarding our former Council rating structures is as follows:

### Former Council Rating Structures Residential Notional Yield – 2020/21

	Bankstown Actual 2020/21	Canterbury Actual 2020/21	Canterbury Adjusted figures if \$5M SRV was not lost
Residential – Cents in the Dollar	0.207299	0.180159	0.197005
% of Total Rates Income	69%	80%	80%
Minimum Rate	\$ 636.80	\$ 713.90	\$ 713.90
Minimum Rate – Properties	13,347	22,296	22,296
Minimum Rates - % Total Residential Properties	21%	44%	44%
Minimum Rates – Total Revenue	\$ 8,499,370	\$ 15,917,114	\$15,917,114
Residential Ord – Land Valuation (Example)	\$600,000	\$600,000	\$600,000
Residential Ord – Rates per annum (Example)	\$1,243.79	\$1,080.95	\$1,182.03
Residential Ord – Total No. Properties	49,826	28,769	28,769
Residential Ord – Total Revenue	\$ 61,027,196	\$ 42,371,406	\$ 46,333,326

### Former Council Rating Structures Business Notional Yield – 2020/21

	Bankstown Actual 2020/21	Canterbury Actual 2020/21	Canterbury Adjusted figures if \$5M SRV was not lost
<b>Business – Cents in the Dollar</b>	0.549445	0.455657	0.487582
<b>% of Total Rates Income</b>	31%	20%	20%
<b>Minimum Rate</b>	\$ 778.70	\$ 713.90	\$ 713.90
<b>Minimum Rate – Properties</b>	918	612	612
<b>Minimum Rates - % Total Business Properties</b>	19%	21%	21%
<b>Minimum Rates – Total Revenue</b>	\$ 714,847	\$ 436,907	\$ 436,907
<b>Business Ord – Land Value (Example)</b>	\$ 1,300,000	\$ 1,300,000	\$1,300,000
<b>Business Ord – Rates per annum (Example)</b>	\$7,142.79	\$5,923.54	\$6,338.57
<b>Business Ord – Total No. Properties</b>	4,035	2,327	2,327
<b>Business Ord – Total Revenue</b>	\$ 30,519,514	\$ 14,136,889	\$ 15,127,369



In determining the right approach to harmonise the former council rates structures, it's important to understand some of the major characteristics of each structure but even more importantly, the issues which will present certain changes and/or impacts by bringing both databases together.

A breakdown of some of the issues are as follows:

- As mentioned previously, the sole determining factor in calculating rates for each individual property is based on land values. Put simply, properties with a higher land value will be required to pay a greater portion of rates than those with lower land values. Council has no discretion vary or alter this – it's a requirement of the Local Government Act.

Whilst determined by the NSW Value General, the basis to determine land values is largely based on various factors, particularly, the size, shape and features of the land, zoning and property sales analysis.

The suburb by suburb analysis above demonstrates the average land values throughout our local government area. Given their uniqueness, characteristics and locality within the metropolitan area, it's not surprising that a larger number of the former Canterbury Council suburbs are valued higher than those in the former Bankstown area.

- In certain cases, the land value attributable to specific properties, such as units and some townhouses are quite low, which would mean that their rates would be quite small. In these cases, Council applies a Minimum Rate for each of these properties to ensure that there is an element of equity amongst all Ratepayers.
- That said, both former Council Minimum Rates are quite low compared to most other metropolitan councils. As a comparison, Council's Minimum Rates compare as follows:

#### Minimum Rates Comparison

	Residential Annual \$	Residential Weekly \$	Business Annual \$	Business Weekly \$
<b>Penrith City Council</b>	1,133.00	21.79	1,381.20	26.56
<b>Blacktown City Council</b>	978.00	18.81	1,175.00	22.60
<b>Former Kogarah Council</b>	966.73	18.59	966.73	18.59
<b>Sutherland Council</b>	923.40	17.76	923.40	17.76
<b>Former Canterbury Council</b>	<b>713.90</b>	<b>13.73</b>	<b>713.90</b>	<b>13.73</b>
<b>Former Bankstown Council</b>	<b>636.80</b>	<b>12.25</b>	<b>778.70</b>	<b>14.98</b>

- Whilst discussed further in the report, the current Minimum Rate for both former Council does not adequately reflect the benefit derived and/or equity when compared with owners of standard residential or business properties throughout our area. At present, the comparison within our area is as follows:

#### Rates Comparison - CBCity

	Residential Annual \$	Residential Weekly \$	Business Annual \$	Business Weekly \$
<b>Former CCC – Minimum</b>	713.90	13.73	713.90	13.73
<b>Former CCC – Residential Average</b>	1,472.81	28.32	6,075.16	116.83
<b>Former BCC - Minimum</b>	636.80	12.25	778.70	14.98
<b>Former BCC – Residential Average</b>	1,224.81	23.55	7,563.70	145.46

- As noted previously, the former CCC Infrastructure Levy of \$5M per annum was lost and could not be reinstated during the Rate Freeze period without pursuing an SRV. The

resultant impact of losing the \$5M per annum of income was a significant blow for Council, given it reduced the amount of funding available to maintain assets throughout the former CCC area.

That said, the drop in income was quite favourable for both residential and business ratepayers throughout the former area. The drop in rates are explained as follows:

#### **Loss of Former CCC Infrastructure Levy – Impact on Ratepayers**

	<b>Canterbury Actual \$</b>	<b>Canterbury Adjusted \$</b>	<b>Annual Variance \$</b>	<b>Annual Variance %</b>
<b>Residential Ordinary - Average</b>	1,472.81	1,610.53	(\$137.72)	(9.3%)
<b>Residential – Cents in the Dollar</b>	0.1801159	0.197005	(0.016889)	(9.3%)
<b>Business Ordinary - Average</b>	6,075.16	6,500.80	(425.64)	(7.0%)
<b>Business – Cents in the Dollar</b>	0.455657	0.487582	(0.031325)	(7.0%)

- As Councillors will note, former CCC Residential Ratepayers received a reduction of around \$138 on their rate notice for 2019/20, a 9.3% reduction given the drop in the SRV. By the time Council is required to harmonise its rates databases, former CCC Ratepayers would on average have accumulated a benefit of around \$420.

Councillors should note that if they agree to restore this amount as part of an SRV, then all Ratepayers – both former Canterbury and Bankstown – will wear the impact of this.

- Councillors will note an amount referred to as *Cents in the Dollar (CID)* in the above tables. Simply, the CID is a standard rate/charge which, when multiplied by a properties land value, gives you the amount of rates that that property needs to pay for each financial year (except for lower valued properties such as units where a Minimum Rate would apply).

When harmonising our two rates databases, these two CID's will need to be appropriately averaged – meaning BCC will reduce and conversely, CCC's CID will need to increase. Councillors will note that if CCC's SRV Levy remained, the CID for CCC would have largely been consistent with BCC's CID and therefore, any adjustment would have meant a lesser impact on CCC's Ratepayers.

- Lastly, Councillors will note significant variances when comparing the Business Notional Yield data above, particularly the quantum of revenue, number of properties and the average rates amount. Whilst its quite straight forward to compare the former Council's residential data, the business comparison is significantly different, given the vast difference in the type, size and nature of business properties in either area.

For example, the former BCC has several large industrial and commercial precincts and properties (Chullora – Australia Post, TIP TOP, Milperra – large based manufacturing sites and Vicinity – CBD) compared to CCC and therefore would be rated quite differently.

In summary, whilst both rating structures were quite simple and largely similar, they did have certain unique elements, which when harmonised, will result in a financial impact for virtually all Ratepayers throughout the city, particularly former CCC Ratepayers. The major impeding factors contributing to this are largely because of the:

- broad variance in land valuations across the entire City;
- the need to average both CID's – thereby needing to increase the former CCC rate/charge and lowering the BCC rate/charge;
- averaging the proportion of rates collected from both the Residential and Business Categories; and
- setting one Minimum Residential and Business Rate – and offsetting any financial adjustment from all other remaining properties across each category.

## **RATES HARMONISATION OPTIONS**

Councillors have been considering various options to complete the required harmonisation process, as required under the Act. Whilst I understand the Draft Bill is imminent, I am of the view that, as a precaution, Council should be preparing an option(s) where it proposes to completely harmonise its two rating databases by 1 July 2021 – in accordance with the current provisions of the Act.

### **Option 1 – Harmonisation Only**

One option available to Council would be to harmonise both of its rate structures based on the following key parameters/elements:

- Minimum Residential Rate – apply a Minimum Rate of \$728.18, being the former Canterbury Council Minimum Rate (adjusted for the 2021/22 IPART rate limit of 2.0%);
- Minimum Business Rate - apply a Minimum Rate of \$794.27, being the Former Bankstown Council Minimum Rate (adjusted for the 2021/22 IPART rate limit of 2.0%);
- Council retain the current combined average income split between both Residential and Business categories – being Residential 73% and Business 27% and then continue to adjust based on growth;
- Council continue to levy the current Bankstown CBD Special Improvement Rate – estimated to generate around \$0.7M specifically for improvement throughout the CBD;
- The above harmonisation process be implemented by 1 July 2021, as required by the current legislation (Local Government Act 1993); and

- In the event that the current legislation is amended prior to 1 July 2021, then Council's preference is to gradually apply the harmonisation process as noted above, subject to considering the available options and/or parameters set by the Government.

## **Option 2 – Harmonise and Increase Minimum Rates**

Council acknowledges that the current Minimum Rates set under the current rate structures is well below comparable metropolitan councils and what is considered equitable, having regard for the services, programs and facilities made available to all Ratepayers and our broader community.

As a further option, Council may consider harmonising both of its rate structures, as well as adjust Minimum Rates based on the following key parameters/elements:

- Minimum Residential Rate – apply a new Minimum Rate of \$990, for relevant residential properties (inclusive of the 2021/22 IPART rate limit of 2.0%);
- Minimum Business Rate - apply a new Minimum Rate of \$990, for relevant residential properties (inclusive of the 2021/22 IPART rate limit of 2.0%);
- Council acknowledge that the increase in Minimum Rates will raise approximately \$20M in additional Rating Revenue for our City, and will all be allocated to renew and/or maintain our Council's asset base (note - current shortfall in asset renewal funding is \$31M per annum);
- Council also acknowledge that this option does *not* enable it to implement:
  - Any further improvements and/or additional services – eg. street cleaning – including roadway kerb/gutter cleaning;
  - Council's adopted Aquatics Strategy. This would need to be considered as part of separate SRV, as required; and
  - Matching funding to compliment the use of Section 7.11 contributions (Section 94).
- In implementing the above change, Council apply an income split between both Residential and Business categories – being Residential 76% and Business 24% and then continue to adjust based on growth.

The proportion/percentage accounts for the adjustment to Minimum Rates, whilst also and preserving the amount of rating income previously generated from the Ordinary Residential and Business Rate, and re-applying it to the remaining pool of Ordinary Residential and Business Ratepayers;

- Council continue to levy the current Bankstown CBD Special Improvement Rate - estimated to generate around \$0.7M specifically for improvement throughout the CBD;

- The above harmonisation process be implemented by 1 July 2021, as required by the current legislation (Local Government Act 1993); and
- In the event that the current legislation is amended prior to 1 July 2021, then Council's preference is to gradually apply the harmonisation process as noted above, subject to considering the available options and/or parameters set by the Government.

### Option 3 – Harmonisation and Special Rate Variation

For some time now, Council has discussed the longer-term financial challenges for our City and the likely consequences of a “Do-Nothing” approach to addressing our service and asset management needs.

Regrettably, we do not foresee any significant financial relief and/or support from either the Federal or State Government's – particularly with issues associated with cost-shifting and Financial Assistance Grants - and as such we are left to address our needs from amongst our own Ratepayers.

In the main, Council requires an additional \$40M per annum in Rates Income to remain sustainable. This is both well documented in our adopted long-term financial strategy and separately noted (specifically our asset management issues) in Council's Annual Financial Statements – which are signed-off by the NSW Auditor General.

Whilst it's acknowledged that the financial impact will be felt by some of our Ratepayers, making a decision on a way forward is in the public interest. This is to ensure that we don't continue to accumulate and/or pass on our growing concerns and liability to future generations.

As a guide, the \$40M would be raised as follows:

Description	Increase \$M
<b>Minimum Rate Adjustment</b>	12
<b>Residential Ordinary – Restore CCC SRV</b>	4
<b>Residential Ordinary - Adjustment</b>	14
<b>Business Ordinary – Restore CCC SRV</b>	1
<b>Business Ordinary - Adjustment</b>	9
<b>Total Required Funding</b>	<b>40</b>



Council would look to:

- Apply a gradual approach to harmonising its former Council's rating structures over a five year period – commencing 1 July 2021; and
- Separately apply the proposed SRV for an additional \$40M in rating revenue over a four year period – commencing 1 July 2022.

In the event that the current legislation is **not** altered, then Council would look to:

- Harmonise its former Council's rating structures as at 1 July 2021; and
- Separately apply the proposed SRV for an additional \$40M in rating revenue over a four year period – commencing 1 July 2022.

A summary of the proposed harmonisation and SRV process is outlined below:

**Option 3 - Harmonisation and Special Rate Variation**  
**Based on Legislation Changing to Allow Gradual Harmonisation (Assume 5-Years)**

	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5
<b>Harmonisation Process</b>					
<b>Minimum Rate – Residential</b>	\$ 728.18	-	-	-	-
<b>Minimum Rate - Business</b>	\$794.27	-	-	-	-
<b>Ordinary Residential</b>	Adjust for impact of Minimum Rate	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART
<b>Ordinary Business</b>	Adjust for impact of Minimum Rate	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART	Gradual Harmonisation 25% + IPART
<b>Special Rate Variation Process</b>					
<b>Minimum Rate – Residential</b>	-	\$ 850.00	\$ 990.00	IPART Increase	IPART Increase
<b>Minimum Rate - Business</b>	-	\$ 850.00	\$ 990.00	IPART Increase	IPART Increase
<b>Ordinary Residential</b>	-	\$4.5M + IPART	\$4.5M + IPART	\$4.5M + IPART	\$4.5M + IPART
<b>Ordinary Business</b>		\$2.5M + IPART	\$2.5M + IPART	\$2.5M + IPART	\$2.5M + IPART
<b>Ordinary Business – Subcategories</b>	Establish	Determine and apply loading			

**Option 3 - Harmonisation and Special Rate Variation**  
**Based on Legislation Not Changing and Harmonisation Being Implemented On 1 July 2021**

	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5
<b>Harmonisation Process</b>					
Minimum Rate – Residential	\$ 728.18	-	-	-	-
Minimum Rate - Business	\$794.27	-	-	-	-
Ordinary Residential	Full Harmonisation	-	-	-	-
Ordinary Business	Full Harmonisation	-	-	-	-
<b>Special Rate Variation Process</b>					
Minimum Rate – Residential	-	\$ 850.00	\$ 990.00	IPART Increase	IPART Increase
Minimum Rate - Business	-	\$ 850.00	\$ 990.00	IPART Increase	IPART Increase
Ordinary Residential	-	\$4.5M + IPART	\$4.5M + IPART	\$4.5M + IPART	\$4.5M + IPART
Ordinary Business		\$2.5M + IPART	\$2.5M + IPART	\$2.5M + IPART	\$2.5M + IPART
Ordinary Business – Subcategories	Establish	Determine and apply loading			

As Councillors will note, this option has assumed a gradual harmonisation period of five years, being Council's preferred option. Naturally, the Draft Bill may reflect some other harmonisation period, which Council will need to reflect and/or adjust, as required.

Separately, the above option would also reflect the following parameters:

- The adjusted income split between both Residential and Business categories would be adjusted annually to account for the above movements/impact and then continue to adjust based on future growth;
- Council discontinue to levy the current Bankstown CBD Special Improvement Rate, given that the additional revenue raised under this option and other designated funds (eg. Section 7.11 contributions) would largely accommodate the objectives originally set out under the Special Rate – ie. infrastructure improvements; and
- The above option is also based on Council establishing sub-categories for business precincts, with the view to provide greater equity amongst the varied nature, type and size of commercial and industrial properties throughout our area.

In establishing the sub-categories, Council has relied on the parameters and/or hierarchy of commercial and industrial zones, as adopted in our Local Strategic Planning Statement. On this basis, Business Sub-Categories will be established along the following framework:

#### **Business Sub-Categories**

<b>Rating Sub-Category</b>	<b>LSPS Hierarchy</b>
<b>Business – Commercial Large</b>	Major Shopping Centres (Bankstown / Roselands)
<b>Business – Commercial General</b>	Bankstown CBD, Campsie, Local Centres
<b>Business – Industrial Large</b>	Business Parks, Major Industrial Areas
<b>Business – Industrial General</b>	All Other Industrial Areas
<b>Business - Ordinary</b>	Village, Small & Neighbourhood Centres

- The sub-categories will assist in applying the relevant taxing principles, particularly:
  - Ensuring our structure reflects equity across the vast different types and size of commercial and industrial properties/precincts throughout our area;
  - Applying a structure (which is reflected by IPART and OLG’s guidelines for rating principles), where rates are based on one’s ability to pay – ie. property values correlates with wealth and thereby ability to pay; and
  - Treating all Business Ratepayers in a similar way and promoting fairness, equality and competitive neutrality amongst competing businesses throughout the area.
- It is proposed to establish and allocate each Business to a Sub-Category as part of formulating our 2021/22 rating Structure, though any differentiation in rates set for each sub-category will not be determined until Council sets/formulates its 2022/23 Rates Yield – given it will align with the first adjustment for Businesses when applying the SRV.

As Councillors will note, the option proposes to:

- Apply a simple transition of any adjustment – with the focus of the first year being to both setting Minimum Rates (Residential and Business) across the entire City; and
- In turn gradually progress to:
  - Raising the Minimum Rate to a similar level of other metropolitan councils and an importantly establishing some equity amongst our Ratepayers;
  - Harmonise the Ordinary Rate for remaining Residential and Business Ratepayers, and establish one consistent CID for each category by 2025/26; and
  - Gradually raise the additional rating income from the remaining Residential and Business Ratepayers (as outlined above) by 2025/26.

Subject to its decision, Council will progress to preparing a comprehensive assessment and/or application on the agreed option that we move forward with. This will include:

- implementing the required parameters in our rating database;
- establishing the impact on each ratepayer; and
- confirming our parameters, methodology and calculations to ensure accuracy and compliance with the Act.

## **IMPLEMENTATION TIMELINE**

As noted earlier, despite the option and/or path it chooses, Council will still need to follow a strict regulated process to enact its decision.

On the basis that Council proceeds with Option 3, this will require Council to:

- Prepare for both options, be it fully harmonise by 1 July 2021 and/or gradually harmonise rates of a 5-year period – may need to be amended to reflect the provisions of the Draft Bill, which are yet to be determined;
- Consult with our community on the proposed option(s); and
- submit its proposal to IPART by 8 February 2021, for its determination.

A suggested timeline of our complete process would be set as follows:

- November 2020 Ordinary Council Meeting:
  - In principle, Council resolves to proceed with its preferred option to harmonise its former rates structures, including its decision regarding the SRV; and
  - Council resolves to notify IPART of its decision.
- December 2020 to January 2021 (7 Weeks) – Community Consultation.
- Extraordinary Council Meeting (early February 2021):
  - consider feedback from community consultation process;
  - determine final option/structure to be implemented; and
  - submit application to IPART.
- April 2021 Ordinary Meeting – Draft Operational Plan 2021/22, including Budget and agreed rating structure to be considered by Council for exhibition.
- May 2021 – determination received from IPART (IPART will independently consult with our community in determining its decision).

- June 2021 Ordinary Meeting – Council considers feedback received during public exhibition period for the Draft Operational Plan and Budget and determines whether to adopt the Operational Plan including the budget and rating structure.

## **COMMUNITY ENGAGEMENT**

The basis of ensuring that Council are clear on its decision will be reliant on obtaining a thorough understanding of the sentiments of our community and their support for Council's preferred option.

Whilst the timing of the engagement/consultation period may not entirely be ideal, Council has little control over this as it is largely driven by IPART's timeframes to assess all applications and notify councils by May of the following year.

Council will use a range of measures and channels to ensure that all ratepayers across our LGA are both informed and given the opportunity to have their say regarding our decision.

As a guide, Council will be using various platforms to reach out to as many ratepayers regarding the matter, including:

- Councils Have Your Say;
- Media releases;
- Newsletters to Ratepayers;
- Dedicated email address; and
- Dedicated customer service and engagement staff to assist with enquiries.

Councillors will be informed and have input into the preparation of engagement strategies and consultation material as part of this time sensitive process.

Councillors should also note that IPART will also conduct their own independent consultation process with our community prior to determining their decision.