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CUMBERLAND COUNCIL

Assessment of Ability to Pay

Cumberland Council

April 2019

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Executive Summary

Cumberland Council is required to harmonise three rating structures that it currently has in place in accordance with the Local Government Amendment (Rates-Merged Council Areas) Bill 2017, on 30th of June 2020. The new rating system chosen by Council will take into account a number of factors including equity, efficiency and capacity to pay. This report puts due emphasis on the Capacity to Pay principle; given that some ratepayers have more ability to pay rates than others.

This report provides an analysis and evaluation of relative wealth and financial capacity; it looks at the financial vulnerability and exposure of different community groups within the Local Government Area (LGA). The key findings are summarised in Table 1.

Table 1 Ward demographics

Ward	Demographics
Areas of Advantage	
Greystanes	– Characterised by Established Families and Empty Nesters – Highest levels of household income – High levels of homeownership – Significant intra-suburb inequality
Neutral	
Wentworthville	– Characterised by Established Families – Moderate levels of household income – Large middle class
Areas of Disadvantage	
Regents Park	– Large young workforce – High property values – High levels of vulnerable individuals (unemployment, housing stress, etc.)
Granville	– Low levels of households Income – High levels of vulnerable individuals (unemployment, housing stress, etc.)
South Granville	– Very low levels of households income – High Social Housing – High levels of vulnerable individuals (unemployment, housing stress, etc.)

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Introduction

The Council Amalgamations Proclamation prescribed the responsibility of the first elected council to review its rating structure within the first council term, with one new rating structure to be applied across all ratepayers on 1 July 2020.

During the first four years of amalgamation, from 1 July 2016 to 30 June 2020, the Government amended the Local Government Act to achieve its policy that "there will be no change to the existing rate paths for newly merged councils for four years". This decision has meant that disparity in the current rating structures was retained, and transition to a new rating structure will occur on 1 July 2020, when all ratepayers will be impacted by the change.

Council must harmonise the five rating structures that are currently in place, establishing a new, equitable rating structure across the LGA. This is balanced with the priority to minimise the number of assessments that experience large and sudden changes as a result of harmonising the five current rating structures.

The new rating system chosen by Council will take into account a number of factors including equity, efficiency and capacity to pay. This report puts due emphasis on the capacity to pay principle; given that some ratepayers have more ability to pay rates than others.

This report provides an analysis and evaluation of relative wealth and financial capacity; it looks at the financial vulnerability and exposure of different community groups within the Local Government Area (LGA).

Key considerations include:

- regions of social disadvantage
- particularly vulnerable groups of individuals
- future trends in household expenditure.

These findings will then be compared to proposed changes in rates to identify whether there are any groups or individuals that are being particularly impacted and or marginalised.

Data for this review was obtained from the following sources:

- Australian Bureau of statistics 2016 Census Data - Data by Regions.
- Profile ID – Cumberland Council Community/Social/Economic Profiles.
- Realestate.com.au – median property prices based upon 18/19 Sales Data (last updated 01 Feb).
- February 2016 - Housing and Homelessness Policy Consortium. (ACT Shelter, ACTCOSS, Women's Centre for Health Matters, Youth Coalition of Act) – Snapshot: Housing stress and its effects.

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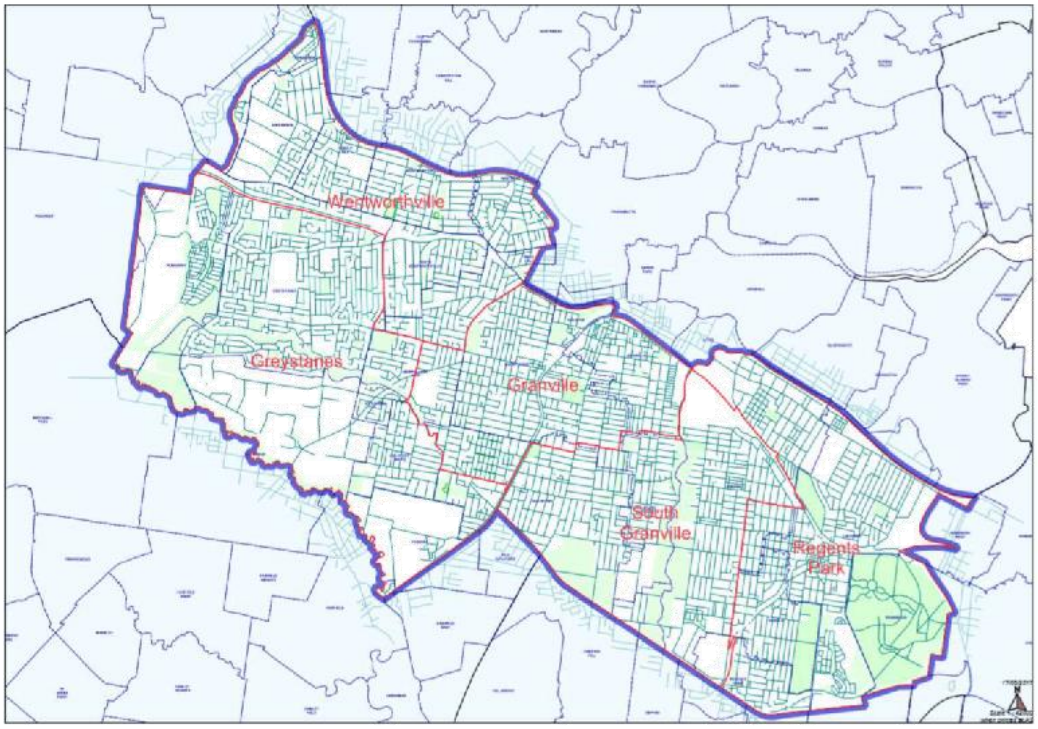
Background

Cumberland Council is divided into five primary electoral Wards. Council is looking to ensure that equity is maintained between Wards during the rates harmonisation process as each Ward has differing economic and socio-economic profiles. A basic summary of the Wards is provided in Table 2 and Figure 1 below.

Table 2 Cumberland Council Ward Summary

Wards	Population	Population Density (Persons/Ha)
Cumberland Council	**236,893**	**33.05**
Granville	49,208	49.62
Greystanes	40,245	18.51
Regents Park	53,730	35.09
South Granville	48,706	38.11
Wentworthville	45,430	38.03

Figure 1 Cumberland Council Overview Map – Source Cumberland Council



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Methodology

Our methodology in examining the relative wealth between the different Wards focuses on the following:

- **Areas of social disadvantage**

  We will first look into the different characteristics and make up of each Ward to determine whether there are any particular areas of social disadvantage. This will include an investigation into:

  - the age structure of each region
  - the typical make up of each household
  - household income, including the effect of dependants
  - median property values
  - SEIFA rankings.

- **Particularly vulnerable groups of individuals**

  We will then look into whether there are any particular groups within each Ward that, despite the overall wealth of the Ward, would be particularly vulnerable and affected by a change in rates. These include:

  - property owners
  - persons who have need for core assistance
  - individuals who are currently unemployed
  - households currently under housing stress
  - pensioners .

- **Future trends in household expenditure**

  We will look into trends in household expenditure and what future impacts they may have on an individual's ability to pay.

We will then compare these findings to the proposed rating changes to determine whether there are any particular groups or individuals that would be significantly impacted.

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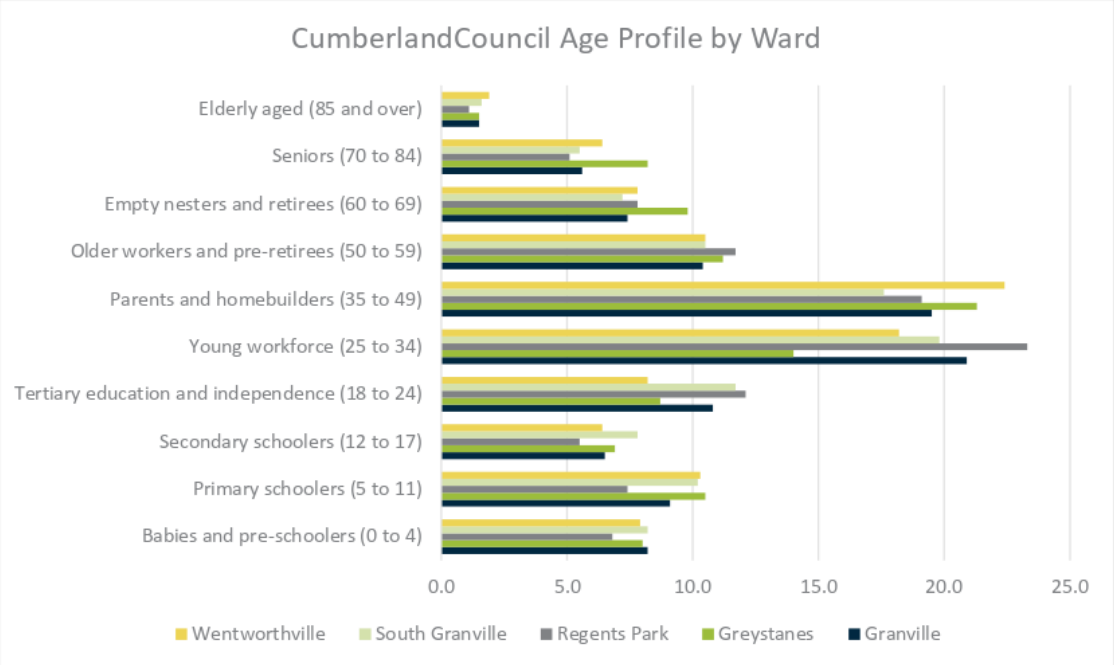
Social Disadvantage

Areas and/or suburbs within the LGA have differing demographic characteristics, and we first want to identify 'who are the people' that make up each Ward, 'what do they do' and 'how do they live'.

Service Age Groups

Age profiles are used to understand the demand for aged-based services as well as the income earning status of the population. Data has been broken into groups which are reflective of typical life stages. This provides insight into the number of dependants, size of the workforce and number of retirees in each region.

Figure 2 Cumberland Council Age Profile



Grouping these results in terms of the following categories (dependants, workforce, and retirees) and ranking them in terms of proportion of population (with 1 representing the largest proportion) generates the following results.

Category	Granville	Greystanes	Regents Park	South Granville	Wentworthville
Dependants	4	2	5	1	3
Working Age	2	5	1	3	4
Retirees	3	1	5	4	2

It is interesting to observe that Regents Park has a significantly larger Young workforce than the other Wards whereas Greystanes and Wentworthville have larger proportions of Home Builders and Retiree's than the other Wards.

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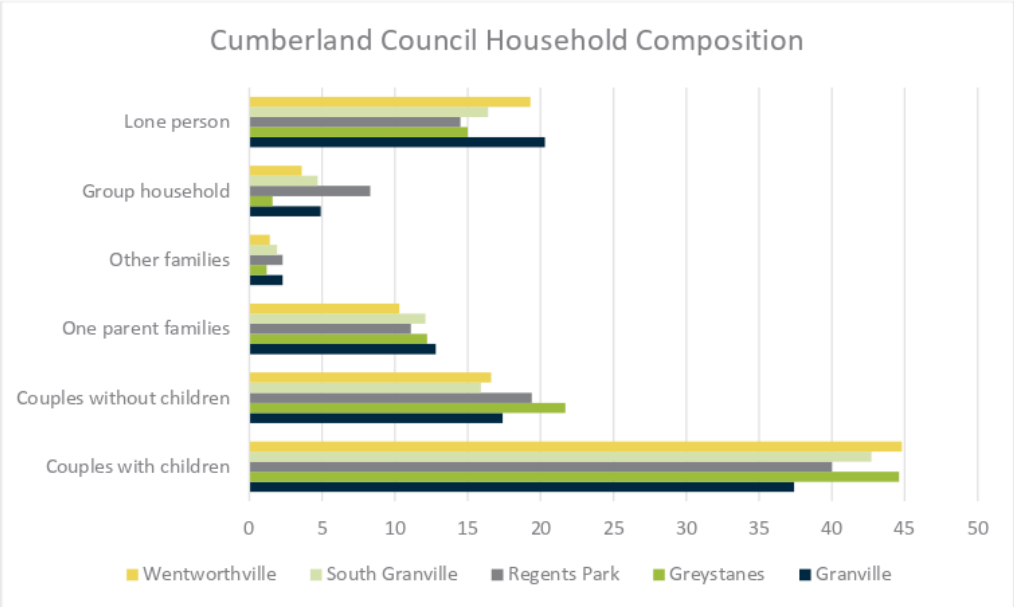
Household Types

Alongside the age structure of each Ward, it is important to determine the typical trends in the make-up of households. This provides a more complete picture of the people, families and communities in each Ward. A summary of household type is provided in the figure below.

Figure 3 Cumberland Household Types



A key observation from this data is that the Granville Ward has the highest level of vulnerable households, i.e. lone individuals and one parent families. Furthermore it is interesting to note that the Ward of Granville has the highest proportion of lone individuals and lowest proportion of couples with children attributable to the overall young demographic of the region.

Median Property Value

By reviewing property values within each Ward we are provided with contextual insight into the socio economic status of each area. Property values are intrinsically linked with affordability and wealth. Median property values were calculated by taking the weighted average of the 2018/19 median sales values for each suburb.

Table 3 Median Weighted Property Values

	Weighted Median House Value	Weighted Median Apartment Value
Granville	$783,000	$481,000
Greystanes	$807,000	$550,000
Regents Park	$900,000	$590,000
South Granville	$817,000	$469,000
Wentworthville	$883,000	$587,000

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Table 3 shows that the property values in Regents Park and Wentworthville are higher than the other Wards. On the other hand we observe that both house and apartment values in Granville are far lower than the other Wards.

Housing Tenure

By observing housing tenure levels in the community we are able to identify which areas would be most impacted by a change in council rates i.e. the direct impact of a change in rates will be felt by home owners whereas renters may experience an indirect increase / decrease dependant on their lease agreement / decisions of their landlord. Furthermore, individuals in social housing are unlikely to be impacted by a change in rates.

Table 4 Cumberland Housing Tenure

	Granville		Greystanes		Regents Park		South Granville		Wentworthville	
Tenure type	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
Ownership - Fully owned	3,215	21.8	4,112	34.4	3,471	23.6	2,844	22.9	2,937	21.9
Ownership - Mortgage	3,697	25.1	4,625	38.7	3,665	24.9	3,358	27.0	4,026	30.0
Ownership - Total	**6,912**	**47.0**	**8,737**	**73.1**	**7,136**	**48.5**	**6,202**	**49.9**	**6,963**	**51.9**
Renting - Social housing	1,093	7.4	309	2.6	602	4.1	1,427	11.5	1,196	8.9
Renting - Private	5,389	36.6	2,134	17.8	5,662	38.5	3,386	27.3	4,249	31.7
Renting - Total	**6,482**	**44.0**	**2,443**	**20.4**	**6,264**	**42.6**	**4,813**	**38.8**	**5,445**	**40.6**
Total households	**13,394**		**11,180**		**13,400**		**11,015**		**12,408**	

Table 4 above shows that ownership rates are significantly higher in the Greystanes Ward at 73.1%. All other Wards had relatively similar levels of homeownership centred on 49% (plus/minus 2%). It is important to note that there are high levels of public housing in the South Granville (11.5%), Wentworthville (8.9%) and Granville (7.4%) Wards.

Equivalised Household Income

Equivalised household income can be viewed as an indicator of the economic resources available to a standardised household. It is calculated by dividing total household income by an equivalence factor. The factor is calculated in the following way:

- First adult = 1
- Each additional adult + child over 15 = + 0.5
- Each child under 15 = + 0.3

By dividing by the equivalence factor, household income becomes comparable to that of a lone individual thereby making households with dependants and multiple occupants comparable to those without. By factoring in dependants into household income, we are provided with a better indicator of the resources available to a household.

As this is a relative comparison, data has been presented in quartiles; regions of disadvantage will have a high proportion of households in the bottom two quartiles than those of greater wealth and advantage. These quartiles were determined by reviewing the distribution of household incomes within NSW and then

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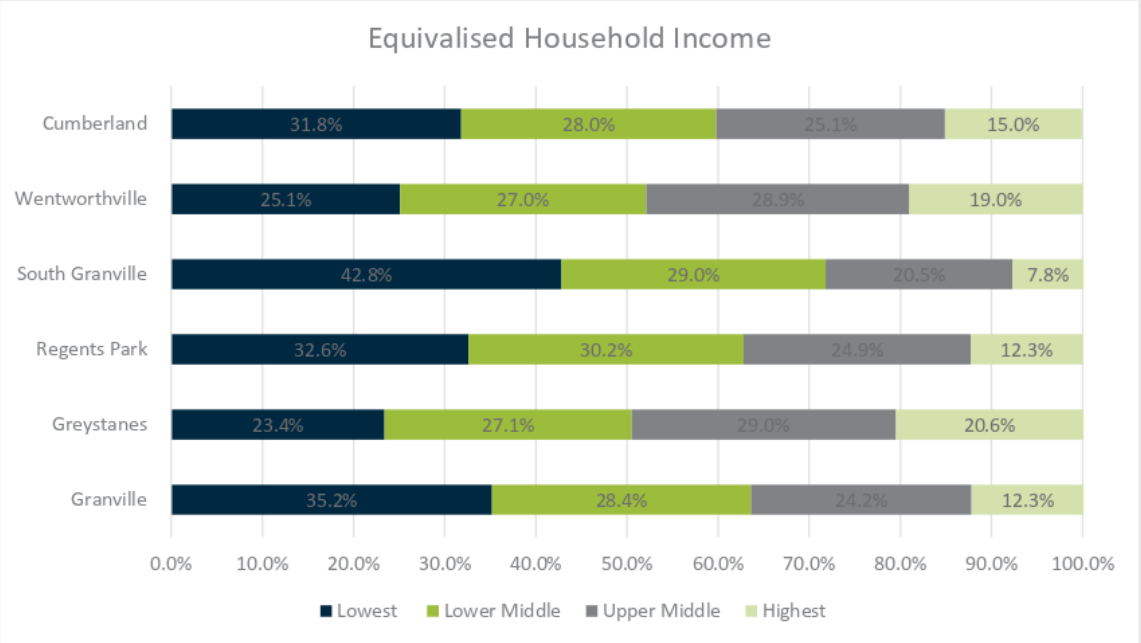
dividing them into four equal groups or quartiles.

The data has been presented in ranges for the following equivalised income levels:

- Lowest: $0 - $497
- Medium Lowest: $498 - $891
- Medium Highest: $892 - $1,464
- Highest: $1,465 and over

The following figure summarises the Equivalised Household Income ranges for the five Wards.

Figure 4 Equivalised Household Income



We can make the following observations from the data:

- The South Granville Ward had both the highest percentage of households in the lowest bracket as well as the lowest percentage of households in the highest bracket.
- The Greystanes and Wentworthville Wards had significantly higher proportions of households in the highest income bracket than the other Wards.
- Ranking of Wards by greatest disadvantage (percentage of households in lower brackets)
  - 1 – South Granville 2 – Granville 3 – Regents Park 4 – Wentworthville 5 – Greystanes
- Ranking of Wards by greatest middle class (percentage of households in middle brackets)
  - 1 – Greystanes 2 – Wentworthville 3 – Regents Park 4 – Granville 5 – South Granville
- Ranking Wards by advantage (percentage of households in upper brackets)
  - 1 – Greystanes 2 – Wentworthville 3 – Regents Park 4 – Granville 5 – South Granville

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Socio Economic Index for Areas

The Socio-Economic Index for Areas (SEIFA) is an economic tool developed by the ABS to rank areas in Australia according to their relative socio-economic advantage and disadvantage. It takes into consideration a broad range of variables such as income, education, employment, occupation, housing etc. and is standardised such that the average Australian represents a score of 1000.

In our research we explored two of the indexes published by the ABS.

- **Index of Relative Socio-Economic Disadvantage (IRSD)**

  This index ranks areas from most disadvantaged to least disadvantaged i.e. a lower score will have a greater proportion of relatively disadvantaged people in the area.

  From this score however you cannot conclude whether a high ranking area will have a large portion of relatively advantaged people just that it has a low proportion of disadvantage
- **Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD)**

  This index considers variables of both advantage and disadvantage and, as such, scores and ranks areas from most disadvantaged to most advantage.

A Ward level summary including national percentiles is provided in the table below.

Table 5 Ward Level SEIFA Scores and Percentiles

	SEIFA - IRSD	%	SEIFA - IRSAD	%
Granville	899.8	10	931.9	20
Greystanes	1008.1	50	1014.1	64
Regents Park	911.5	12	955	30
South Granville	860.4	6	904.8	12
Wentworthville	984.4	36	1000.9	55
Cumberland	929	15	959	32

By comparing both the IRSD and IRSAD indexes we can see that there is notable inequality within the individual Wards. This is particularly evident in the Wentworthville and Regents Park Wards which see a percentile change of 19% and 18% between the two indexes respectively. We can observe that there are moderate levels of affluence in the Greystanes Ward with the Ward being within the Top 35% of advantage within Australia. It is interesting to note that the relative rankings between the Wards are the same for both the IRSD and IRSAD indexes.

Table 6 Suburb SEIFA Rankings

SEIFA - IRSD	2016 index	Percentile
Pemulwuy	1107.1	98
Greystanes	1024.1	60
Girraween - Toongabbie	1011.3	52
Wentworthville	996.6	43
Westmead - Mays Hill	990.0	40
South Wentworthville	978.2	33
Lidcombe (South) - Rookwood	973.8	31

SEIFA - IRSAD	2016 index	Percentile
Pemulwuy	1141.4	99
Girraween - Toongabbie	1022.2	68
Westmead - Mays Hill	1021.7	68
Lidcombe (South) - Rookwood	1018.8	66
Greystanes	1018.4	66
Wentworthville	1009.5	61
Lidcombe (North)	1002.7	56

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SEIFA - IRSD	2016 index	Percentile
Lidcombe (North)	963.6	26
Pendle Hill	962.2	26
Guildford West - Woodpark - Smithfield	946.2	20
Merrylands (Central)	914.9	12
Regents Park	906.9	11
Merrylands (East)	906.5	11
Berala	905.8	11
Merrylands West	904.4	10
Granville	893.0	9
Guildford (West) - Yennora	875.3	7
Auburn (South)	868.6	6
Guildford (East)	864.4	6
Auburn (North)	836.7	4
South Granville - Chester Hill	831.1	4

SEIFA - IRSAD	2016 index	Percentile
South Wentworthville	989.6	49
Pendle Hill	977.4	42
Guildford West - Woodpark - Smithfield	957.1	31
Merrylands (Central)	944.4	25
Berala	941.7	24
Regents Park	938.0	22
Merrylands (East)	937.5	22
Merrylands West	929.5	19
Granville	928.7	19
Auburn (South)	917.4	16
Guildford (West) - Yennora	907.9	13
Guildford (East)	902.3	12
Auburn (North)	889.3	9
South Granville - Chester Hill	876.8	8

By reviewing SEIFA scores on a suburb basis, we observe large discrepancies within the Greystanes Ward whereby the suburb of Pemulwuy is within the top 2% nationally for disadvantage whereas the suburb of Guildford (west) – Yennora is within the bottom 7% nationally.

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Vulnerable Groups or Individuals

This section of the report considers whether there are any spatial patterns of individuals or groups who either need additional community services or are more sensitive to a change in rates.

Workforce Status

The levels of full or part-time employment and unemployment are indicative of the strength of the local economy and social characteristics of the population.

Table 7 Community Workforce Status

	Granville		Greystanes		Regents Park		South Granville		Wentworthville	
Employment status	#	%	#	%	#	%	#	%	#	%
Employed	**17,597**	**89.6**	**16,383**	**93.5**	**20,635**	**89.8**	**14,625**	**88.5**	**17,521**	**91.7**
Employed full-time	11,000	56.0	10,944	62.5	12,348	53.7	8,466	51.2	11,929	62.5
Employed part-time	6,020	30.6	5,075	29.0	7,562	32.9	5,434	32.9	5,112	26.8
Hours worked not stated	576	2.9	364	2.1	724	3.2	724	4.4	480	2.5
Unemployed (Unemployment rate)	**2,047**	**10.4**	**1,133**	**6.5**	**2,349**	**10.2**	**1,904**	**11.5**	**1,580**	**8.3**
Looking for full-time work	1,221	6.2	662	3.8	1,283	5.6	1,080	6.5	932	4.9
Looking for part-time work	826	4.2	471	2.7	1,066	4.6	823	5.0	647	3.4
Total labour force	**19,644**		**17,517**		**22,984**		**16,530**		**19,101**	

From Table 7, we can see that the Greystanes and Wentworthville Wards have the highest levels of fulltime employment both at 62.5%. Unemployment is a significant problem across the LGA with all Wards having unemployment levels higher than that of the Greater Sydney Area (6%).

Pensioners

To be classified as a pensioner an individual needs to be on the Age Pension, or have partial capacity to work such as having a disability, being a carer or being a low income parent. These individuals have reduced income streams and can be vulnerable to financial shocks and price rises.

Table 8 Pensioner Ward Summary

Ward	Number of Assessments	Count of pensioners	Percent %
Granville	12,246	2,502	20.4%
Greystanes	14,679	2,103	14.3%
Regents Park	11,496	2,017	17.5%
South Granville	14,325	2,152	15.0%
Wentworthville	14,614	1677	11.48%

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Core Assistance

The following map highlights the areas within the LGA that have higher concentrations of people who need assistance in their day to day lives with self-care, body movements or communication – because of a disability, long-term health condition or old age.

Figure 5 Core Assistance Density Map

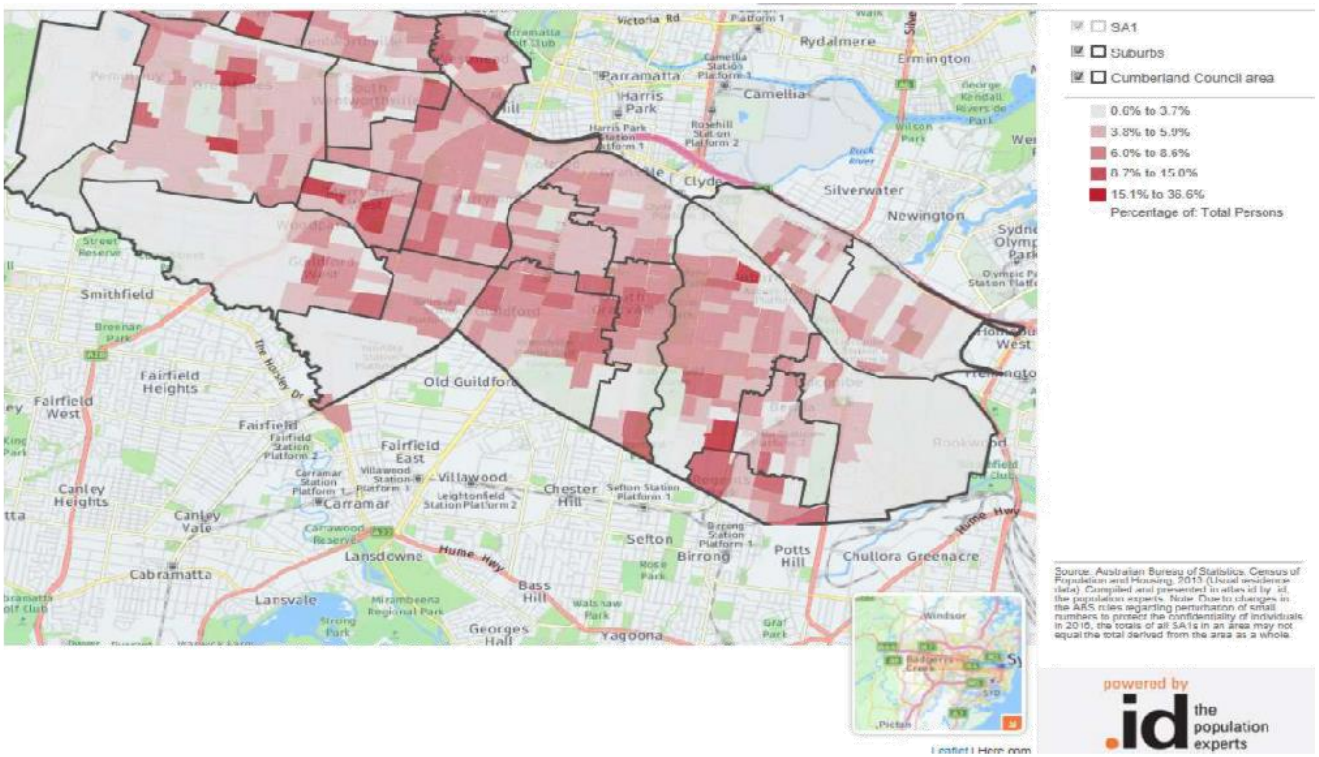

Table 9 Number of People Requiring Core Assistance per Ward

Ward	Number	Total population	Percent %
Granville	2,720	45,233	6.0%
Greystanes	2,105	37,608	5.6%
Regents Park	2,293	48,392	4.7%
South Granville	3,088	44,069	7.0%
Wentworthville	2,334	41,186	5.7%

We observe that the South Granville Ward has the number and proportion of individuals requiring Core Assistance.

Housing Stress

The National Centre for Social and Economic Modelling (NATSEM) defines households experiencing "Housing Stress" as those that satisfy both of the following criteria:

- Equivalised household income is within the lowest 40% of the State's income distribution
- Housing costs (i.e. mortgage and/or rent repayments) are greater than 30% of household income.

Research funded by the ACT Government on housing and homelessness issues in the ACT found that, due to financial pressures

- 19% of households facing housing stress compromised a lot on their grocery spend over a 12 month period
- 24% of households facing housing stress found rent / mortgage repayments quite / very difficult in the last three months.

As such, households facing housing stress are highly likely to also be in significant financial stress and vulnerable to sudden increases in council rates. A comparison of the levels of housing stress currently experienced in each suburb is provided in the table below, summarised at the Ward level.

Figure 6 Housing Stress Ward Comparison

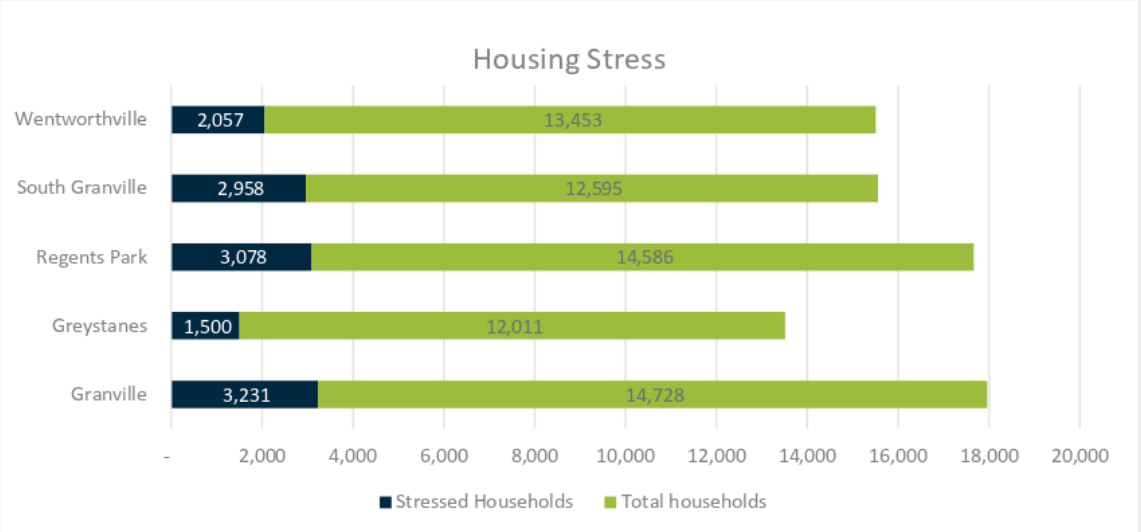

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Table 10 Percentage Breakdown of Housing Stress in Wards

Granville	Greystanes	Regents Park	South Granville	Wentworthville	Sydney Average
21.9%	12.5%	21.1%	23.5%	15.3%	11.8%

We can make the following observations from the data:

- All Wards have housing stress levels above the Sydney average particularly in the Granville, Regents Park and South Granville Wards which are 10.1%, 9.3% and 11.7% higher than the average respectively
- The Greystanes Ward has significantly lower levels of housing stress than the other Wards in the LGA yet housing stress levels are still higher than that of the Sydney average
- The 5 suburbs with the highest levels of housing stress are:
  - Auburn North – 26.5%
  - Guildford West – Yennora – 25.8%
  - Guildford East – 24.8%
  - South Granville – Chester Hill – 24.0%
  - Regents Park – 22.3%

We observe that three of the top five suburbs are currently in the South Granville Ward. Of the 21 suburbs, only Pemulwuy (8.9%) and Greystanes (10.6%) having housing stress levels lower than that of the Sydney average.

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Future Trends in Cost of Living

The cost of living can best be described as the cost of maintaining a certain standard of living. Identifying trends in future costs, particularly with regards to discretionary and non-discretionary income. The following table presents the changes in typical household expenditure throughout the Cumberland LGA over a five year period.

Table 11 Five Year Comparison of Cost of Living in Cumberland LGA

Cumberland Council	2017/18		2012/2013		Δ Change	
Expenditure Item	$ per Household	% of expenditure	$ per Household	% of expenditure	$ per Household	% of expenditure
Food	$8,351.00	9.90	$8,921.00	9.60	-$570.00	0.30
Alcoholic Beverages and Tobacco	$2,940.00	3.50	$3,808.00	4.10	-$868.00	-0.60
Clothing and Footwear	$1,945.00	2.30	$2,599.00	2.80	-$654.00	-0.50
Furnishings and Equipment	$3,054.00	3.60	$3,143.00	3.40	-$89.00	0.20
Health	$3,682.00	4.40	$4,573.00	4.90	-$891.00	-0.50
Transport	$8,087.00	9.60	$11,219.00	12.10	-$3,132.00	-2.50
Communications	$1,765.00	2.10	$1,492.00	1.60	$273.00	0.50
Recreation and Culture	$7,948.00	9.40	$8,783.00	9.50	-$835.00	-0.10
Education	$4,726.00	5.60	$4,829.00	5.20	-$103.00	0.40
Hotels, Cafes and Restaurants	$4,788.00	5.70	$5,558.00	6.00	-$770.00	-0.30
Miscellaneous Goods and Services	$10,736.00	12.70	$12,966.00	14.00	-$2,230.00	-1.30
Housing	$24,351.00	28.90	$22,061.00	23.80	$2,290.00	5.10
Utilities	$2,005.00	2.40	$2,550.00	2.80	-$545.00	-0.40
Total Expenditure	**$84,378.00**	**100.00%**	**$92,502.00**	**100.00%**	**-$8,124.00**	**0.00%**
Non-Discretionary*	$50,186.00	59.48%	$53,415.00	57.74%	-$3,229.00	1.73%
Discretionary	$34,192.00	40.52%	$39,087.00	42.26%	-$4,895.00	-1.73%
Net Savings	**$17,983.00**	**17.57%**	**$20,731.00**	**18.31%**	**-$2,748.00**	**-0.74%**
Expenditure	$84,378.00	100.00%	$92,502.00	100.00%	-$8,124.00	0.00%
Total Disposable Income	**$102,361.0**		**$113,233.0**		**-$10,872.0**	

**Non-Discretionary spending includes the following categories: (Food, Clothing & Footwear, Health, Transport, Communications, Housing and Utilities)*

Table 11 shows that over the five year period, total disposable income in the LGA has increased by an average of $10,872 per household, per annum, or 9.6%. There has been a 1.73% shift towards non - discretionary spending which has been primarily driven by the cost of Housing as well as significant reduction in spending in Miscellaneous Goods and Services. The largest savings have come from decreases in the cost of transport and the largest increase in expenses have come from housing related costs.

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Discussion

There are several differences that emerge between the various Wards. This is most evident in the SEIFA rankings which show that there is significant disadvantage across the LGA, however, there are pockets of advantage particularly in the Greystanes and Wentworthville areas. This is evident through high home ownership levels in the Greystanes Ward (73.1%) as well as the large middle class and high income earners in the Greystanes and Wentworthville Wards. These Wards also had notably lower levels of vulnerable individuals including single parent households and households experiencing housing stress. It is important to note that within the Greystanes Ward there is also significant inequality with the Guildford (West) – Yennora suburb having a SEIFA IRSAD percentile of 13% this is drastically different to the suburb of Pemulwuy which is in the 99th percentile for advantage and disadvantage. This needs to be a key consideration for any proposed ratings changes.

More prevalent throughout the LGA however is the levels of disadvantage particularly in the South Granville and Granville Wards. The SEIFA rankings show that all suburbs in these two Wards are within the bottom 12% of disadvantage nationally (as low as 4% for Auburn (North) and South Granville – Chester Hill). South Granville in particular has over 42% of its residents in the bottom quartile of household income. This correlates closely with the high unemployment in these Wards. Furthermore there are very high levels of household stress within Councils LGA with over a fifth of all households in the South Granville, Granville and Regents Park Wards having difficulty covering the cost of housing. While consolidating rating structures, Council needs to ensure that vulnerable individuals and households are not adversely impacted by these changes.

From Table 11, cost of living trends, we have observed that on average there has been a significant decrease in disposable income across the LGA. This can be attributed to the significant increase in number of households (From 2011 – 2016) in the bottom quartile of equivalised household in the LGA particularly in the Granville and South Granville Wards. There has been a 1.73% increase in non-discretionary spending, primarily driven by housing costs, which would have the greatest impact on those households that are most disadvantaged.

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Rates Comparison

For our commentary that follows we have utilised Option 1 from the ratepayer impact analysis[1]. This option keeps the proportion of business and residential rates the same and is suitable for our assessment as our review has been focused on residential households. Table 12 outlines the average land value, the average current rate and the average proposed change to each Ward.

Table 12 Proposed Rate Changes by Ward

Suburb	Total Assessments	Pensioner Assessments	Strata Units	Avg. land value ($000s)	Avg. current year rate	Option 1 Avg. Change $	Option 1 Avg. Change %
Business	4,288	7	822	1,065,804	7,157	194	16%
Residential							
Greystanes	12,246	2,501	1,183	454,586	1,050	(183)	-18%
Regents Park	14,679	2,102	6,891	444,611	775	207	22%
South Granville	11,496	2,017	3,151	466,666	781	203	24%
Granville	14,325	2,151	5,888	398,014	904	(21)	-3%
Wentworthville	14,614	1,677	5,959	407,494	1,012	(106)	-13%
Grand Total	71,648	10,455	23,894	470,410	**$923**	**29**	**3%**

We observe that on average the South Granville and Regents Park Wards will have the largest increase in rates, increasing 24% and 22% respectively across the board. Meanwhile the Greystanes Ward and Wentworthville Wards will see average decreases of 18% and 13% respectively. These changes can be attributed to the disparity in current annual rates representing an inequity in terms of the contributing to or paying for the current levels of service provided in each Ward.

Table 13 Proposed Rate Changes by Suburb

Suburb	Total Assessments	Strata Units	Average current rate	Average land value	Average Rate	Average Change $	Average Change %
Auburn	10,150	4,999	717	381,709	929	173	21%
Berala	2,629	860	777	484,406	1,060	234	28%
Chester Hill	225	28	838	506,578	1,085	215	25%
Girraween	1,809	611	1,083	443,698	967	(164)	-19%
Granville	3,168	1,215	808	407,255	940	90	9%
Greystanes	7,580	313	1,103	478,616	998	(190)	-18%
Guildford	3,893	971	863	486,628	1,082	176	19%
Guildford East	2,517	1,002	984	371,167	896	(138)	-15%
Guildford West	1,513	113	1,111	478,588	999	(186)	-18%
Holroyd	417	294	822	236,640	750	(97)	-12%
Lidcombe	6,334	2,636	878	503,958	1,157	247	23%
Mays Hill	416	221	914	296,741	882	(43)	-7%

[1] Morrison Low has undertaken ratepayer impact analysis of 4 rating structure options. This has been provided to Council separately.

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Suburb	Total Assessments	Strata Units	Average current rate	Average land value	Average Rate	Average Change $	Average Change %
Merrylands East	2,547	678	865	475,698	1,079	171	18%
Merrylands Central	6,902	2,734	1,040	414,018	986	(107)	-12%
Merrylands West	2,024	660	1,022	405,323	936	(147)	-16%
Pemulwuy	1,653	324	1,024	382,336	873	(168)	-16%
Pendle Hill	1,749	741	963	351,741	868	(138)	-15%
Regents Park	1,361	417	808	487,827	1,087	244	28%
South Granville	1,430	142	887	553,372	1,168	234	26%
South Wentworthville	2,140	669	1,109	466,209	1,036	(127)	-14%
Toongabbie	1,065	575	798	216,936	739	(80)	-10%
Wentworthville	3,098	1,689	983	357,512	932	(78)	-10%
Westmead	2,232	1,150	1,110	451,242	1,086	(50)	-9%
Woodpark	466	30	1,076	452,337	950	(199)	-19%
Yennora	8		936	356,625	735	(288)	-32%
Grand Total	**67,360**	**23,072**	**930**	**432,227**	**996**	**19**	**2%**

From Table 13, we observe several suburbs of particular concern when comparing the proposed changes to levels of disadvantage within the suburbs:

- Chester Hill – Although Chester Hill has a relatively low current average rate of $838, the average rate change of $234 (25%) may have adverse outcomes on the suburb which is one of the top 8% most disadvantaged suburbs in Australia.
- Auburn / South Auburn – Low current rate of $717 with an expected average change of $173 (21%). These suburbs are in top 9% of most disadvantaged suburbs in Australia.
- South Granville – Current rate of $887 with an expected average change of $234 (26%). The suburb is in the top 8% of most disadvantaged suburbs in Australia.

Conclusion

From our analysis we have observed considerable disadvantage and inequality throughout Council's LGA.

The largest rate increases have been in the South Granville and Regents Park Wards. These Wards have had significantly lower rates than the rest of the LGA while benefiting from a similar range and level of services. We have observed that these Wards contain some of the most disadvantaged locations within Council's LGA and will likely be adversely affected by the rate increase.

Furthermore, we see a minor reduction in annual rates for the Granville Ward (Councils 2nd most disadvantaged Ward) which should provide slight relief.

We have identified areas of advantage particularly in the Greystanes and Wentworthville Wards, these areas ware paying significantly higher annual rates, while receiving similar services to those in the remainder of the LGA. Not surprisingly this could see the greatest reduction in annual rates. These changes will also have a positive impact on inequality within these Wards, thus reducing pressure on disadvantaged households.

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Current rating structures and service provision have result from a range of political and historical decisions coupled with the growth and change in community requirements and expectations. Council's proposed changes should increase the level of parity within the LGA particularly with regards to annual rates and services received.

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CUMBERLAND COUNCIL

Cumberland Council

Rates Harmonisation Briefing Paper

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Introduction

The purpose of this report is to identify issues and matters that need to be addressed and considered by Council in developing a new Rates and Revenue Policy. All merged councils are required to establish a new, equitable rating structure, and transition to it on 1 July 2020.

Cumberland Council must harmonise the three rating structures that are currently in place, and a significant level of community engagement will be required to explain the impact on ratepayers, the reason for change and to gain understanding and a level of acceptance.

This is a background briefing paper, and is intended to be used as a Council discussion tool about the fundamental, strategic issues that need to be considered up-front to inform the policy decisions about the major revenue and rating principles. These decisions will become the basis for developing revenue and rating strategy, including rates structure options.

An objective of this briefing paper is to provide information about the rates modelling process that will be undertaken over the following months and to identify the key decision points that will require more detailed discussion once modelling analysis has been undertaken. This will ultimately provide a preferred rating structure for consideration by Council and the community.

Background and Legislative Framework

Newly Formed Councils

The Council Amalgamations Proclamation[1] prescribes the responsibilities of the first elected council, including a requirement that the rating structure must be reviewed within the first council term.

The Government amended the Local Government Act[2] which allowed the Minister to require that the former councils' rating structures stay in place for four rating years, from 1 July 2016 to 30 June 2020. This enabled the Government to achieve its policy that there will *"be no change to the existing rate paths for newly merged councils for 4 years"*.

Constraints – Uncertain Government Policy

Several aspects of the Government's intention for future policy direction are unclear in regard to NSW rate legislation, however, having begun the planning process, Cumberland Council is in a position to ensure it has the time to adopt a well-considered, fair and compliant Rates and Revenue Policy.

[1] Local Government Local Government (Council Amalgamations) Proclamation 2016, https://www.legislation.nsw.gov.au/#/view/regulation/2016/242/whole

[2] The Government passed the Local Government Amendment (Rates - Merged Council Areas) Bill 2017, amending the Local Government Act 1993 to enable the Minister for Local Government to require the newly merged councils maintain their pre-merger rate paths for an additional three rating years after the first rating year that was covered by the Council Amalgamations Proclamation. https://legislation.nsw.gov.au/bills/f6ef3a03-b0dd-42ad-b42e-db080671ba80

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The Government announced a review into NSW rates legislation, asking the Independent Pricing and Regulatory Tribunal (IPART) to develop a report with recommendations for improved equity and efficiency in the rating system.[3] The report was developed by IPART in 2016; it involved extensive consultation with stakeholders and received strong support from the local government sector. It made recommendations to the Minister for changes to the Local Government Act, addressing many of the existing limitations within the legislative framework for NSW rates. If accepted, many of those recommended changes would significantly affect the legislative framework for the setting of rating structures. However, the Minister for Local Government has not responded to, or released, the IPART report, and Council will need to develop its Rates and Revenue Policy under the legislation as it stands.

Whilst it appears unlikely that rating legislation will be changed in the short term, Council's work preparing a Revenue Strategy and Rating Structure that complies with current legislation will provide Council with a clear understanding of the issues and potential solutions, which can be adapted to meet future legislative changes, if required.

Constraints – Land valuations

Rates are calculated on land values, and the distribution of rates within subcategories is based on the proportionate distribution of land values for the properties within the same subcategory.

For rates purposes, land valuations are calculated every three years by the NSW Valuer General. The total rates pool is not affected by the revaluation but individual property rates can be affected to a small or large extent because of disproportionate value changes across the Cumberland LGA.

The next land revaluation is due to take effect on Council's rating structure on 1 July 2020, with the valuations due to be released to Council by December 2019. If there are disproportionate changes in land values in different areas of the LGA this will affect Council's rates modelling being prepared up to that point.

Rates modelling will be prepared on the basis of current land valuations, and used as the basis for a decision on the creation of a new, equitable rating structure for the new council area. When new land valuations are received, they will be applied to the new rating structure, with a final review before adoption by Council, ready for rating from 1 July 2020.

This process will allow Council to separately consider the impact of rates harmonisation before new land valuations obscure the analysis.

Local Government Act

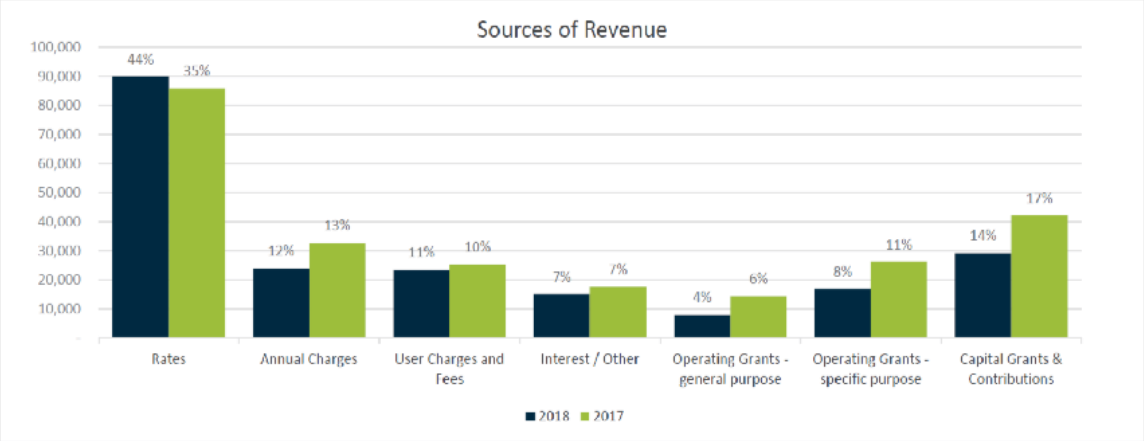
The legislative framework for setting rates and designing rating structures is set out in the Local Government Act 1993.[4]

General rates are worth $90 million, constituting approximately 44% of Council's general fund income. They are a tax on property and are used to fund essential local infrastructure and services.

[3] IPART, Local Government Rating System Review, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Local-Government-Rating-System/Local-Government-Rating-System

[4] For more detailed information on the current rating system, refer to the *Local Government Act, 1993, Chapter 15, Parts 1 to 9,* https://legislation.nsw.gov.au/#/view/act/1993/30/chap15/part1, and the *Council Rating and Revenue Raising Manual*, 2007, https://www.olg.nsw.gov.au/sites/default/files/Council-Rating-And-Revenue-Raising-Manual-2007.pdf

Figure 1 General fund income[5]



Growth in Council's overall rates income is restricted by the rates peg or special variation percentage. The Council sets the rating structure to determine how to distribute the rates between categories and subcategories of ratepayers, and has the option to charge ordinary rates and special rates within its total allowable rates income.

A rate, whether ordinary or special, 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.

The minimum amount and the base amount are fixed components of the rate, and smooth the impact of land values on rates and improve rates equity.

The ad valorem component is calculated with reference to the unimproved land valuations issued by the NSW Valuer General. New land valuations are released every three years. As the increase in overall rates income is restricted by the percentage rates peg (or special variation), the increase in land value does not result in a corresponding increase in the rates charged to an individual assessment. The proportionate share of rates charged to each assessment is dependent on the land value of the property as compared with all other properties within the same rating category and subcategory, and the rating structure determined by Council.

Council must declare every parcel of rateable land into one of the four rating categories: Farmland, Residential, Mining or Business. Cumberland Council has 68,000 rates assessments categorised as Residential and the remaining 4,300 are categorised as Business.

Council may also determine subcategories within its rating structure, and vary the way rates are charged within each category and subcategory. The Local Government Act restricts the way that subcategories can be determined, as described in Table 1.

[5] Cumberland Council General Purpose Financial Statements, year ended 30 June 2018 https://www.cumberland.nsw.gov.au/sites/default/files/2018-10/cumberland-council-financial-statements-2017-2018_0.pdf The 2017 comparative year was 7 weeks longer than a standard financial year, reporting from Council's date of inception on 13/5/2016 to 30/6/2017, and this accounts for comparatively higher annual charges and user fees and charges.

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Table 1 Subcategories of the business and residential categories of ordinary rates[6]

Category	Subcategories may be determined:
Residential	according to a centre of population
Business	according to a centre of activity

Councils also have the discretion to levy special rates within their rating structures. Special rates have a broad application and may be made for the purpose of funding any works, services, facilities or activities. There are additional governance and reporting requirements on special rates; income must be accounted for separately and only allocated for the purpose for which it was collected. Council must form an opinion about which land should be levied, based on land that:

- benefits from the works, services, facilities or activities, or
- contributes to the need for the works, services, facilities or activities, or
- will have access to the works, services, facilities or activities.

Special Rate Variations

Councils use the special rates variation (SRV) process to apply for an increase in their total rate revenue, above the rate peg. Over the past five years there have been 71 SRV applications approved by IPART[7]. Raising rate revenue through SRVs has become the normal way that councils manage their business to source adequate funding to provide the level of service expected by local communities.

Over the past eight years, the former council areas have increased their revenue outside the rates peg through the special variation process. Ratepayers in these areas have already experienced substantial rate increases over this time period, as described in Table 2. The percentage increases include the special rate variation and the annual rate peg.

Table 2 History of special rate variations

Council	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Rate Peg	*2.80%*	*3.60%*	*3.40%*	*2.30%*	*2.40%*	*1.80%*	*1.50%*	*2.30%*
Parramatta City	**4.30%**	4.30%	9.20%					
Auburn City	**6.00%**	6.00%	6.00%					
Holroyd City				**8.00%**	8.00%	8.00%	7.00%	7.00%

With the exception of Mid-Coast Council, merged councils have been prevented from accessing the SRV process during the four year rates freeze period. In accordance with the Local Government Act as it stands, merged councils will become eligible to use the SRV process from the 2020/21 financial year. It is apparent that many of the merged councils will have to address their long term financial sustainability and will put responsible financial strategies in place, including consideration for all options to increase revenue such as the need for future SRVs.

[6] Section 529 of the Local Government Act

[7] IPART, Special Variation Determinations, https://www.ipart.nsw.gov.au/Home/Reviews?k=&fr=&t=&i=localgovernment&s=completed&c=special%20variations%20minimum%20rates&ty=&adv=0

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Impact on Ratepayers

Even small changes to the rating structure will normally have large effects on the calculation of rates on some individual assessments, due to the nature of differential rates.

History and past policy decisions work against this process because small policy differences have large cumulative impacts on individual rates assessments that will necessarily result in large adjustments in any new harmonised rating structure.

There is no solution that will not produce outlier increases and decreases for individual ratepayers that may be beyond Council's accepted tolerance level. Our objective throughout this process is to produce an equitable rating structure that distributes the rates burden fairly; and this objective is balanced with the requirement to reduce the extent of sudden, unexpected increases for the majority of ratepayers.

In addition to the development of a new rates structure, Council will also work towards the implementation of harmonised annual charges for waste. Unlike with rating, there is no legislated time requirement to have these in place, however it is in the best interest of ratepayers if the transition can be planned in advance, and the cumulative impact on ratepayers is understood.

Community consultation strategies will be developed as part of the rates and revenue policy planning process. It will be important to provide an explanation about Council's rationale for the different options and the preferred approach. All modelling developed will consider the impact on ratepayers.

Requirements for Setting Revenue Policy

At the expiry of the 'rates freeze period', 30 June 2020, all councils are required to have rates and revenue policies that comply with the Local Government Act. This requires the preparation of one rating structure to cover the new LGA.

In order to set a new rating structure, Council needs to formulate a view on the major revenue and rating principles, and set their revenue strategy objectives. Key considerations include

- long term revenue requirements to meet financial sustainability criteria
- mix of revenue from rates, annual charges and user fees and charges
- relative similarities and differences in current rating structures and how changes will impact ratepayers
- the principles of equity, simplicity and efficiency for a new revenue strategy.

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Financial Sustainability

Key Consideration

1 *Sourcing adequate revenue to deliver the service and infrastructure required for current and future communities.*

A sustainable rates and revenue policy must provide sufficient funding for infrastructure and services, with growth in revenue to match the financial requirements of a growing community.

Council's Resourcing Strategy[8] models a ten year financial scenario that forecasts sustainable service delivery and infrastructure renewal for the ten year planning period. It recognises the impacts and challenges of adequately servicing a rapidly growing area, and prioritising and funding the major infrastructure projects to ensure the right assets are provided to service the community. It focuses on creating productivity improvements to reduce the Council's real costs per capita, and recognises that these annual efficiency savings are necessary for Council's long term financial sustainability.

Council has recognised infrastructure conditions, and maintaining a minimal infrastructure backlog as a priority issue. It has developed an asset management improvement strategy to refine its asset management planning, including improving the consistency of data to establish a clear and detailed understanding of Council's assets. The outcome of this process will provide evidence to support decisions about the revenue levels required to match the cost of infrastructure requirements.

Revenue and Rating Mix

Key Consideration

2 *Striking the revenue balance between rates and other sources of revenue for funding the delivery of services.*

Council provides a wide mix of infrastructure and services for the community, based on the priorities expressed in the Community Strategic Plan.[9] Service decisions are the result of a variety of factors such as the history of service provision, community expectations and the identified needs of the growing community. Rates are just one component of the revenue mix, which includes annual charges, user fees, operating and capital grants and other revenues.

Knowing the full cost of Council's infrastructure and services is important when setting prices and making decisions about the appropriate sources of funding. Private services that benefit specific users are often better funded by user fees and charges, however many of Council's services have a mix of public and private characteristics.

[8] Cumberland Council, *Resourcing Strategy*, https://www.cumberland.nsw.gov.au/sites/default/files/2017-10/resourcing-strategy-cumberland.pdf

[9] Cumberland Community Strategic Plan 2017-27, *Welcome, Belong, Succeed,* https://www.cumberland.nsw.gov.au/sites/default/files/2017-10/cumberland-council-strategic-plan.pdf

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Council's Pricing Policy is the key policy document that defines how services are characterised as public, private or mixed, and the proportion of cost recovery for each of those services through direct user charges. Where full cost recovery through direct charging isn't practical or appropriate, infrastructure and services are funded through cross-subsidisation, with higher charges on other users, or by fully distributing the costs to the broader community of taxpayers and ratepayers.

The Pricing Policy is one component of the Revenue Policy, that deals with fees and charges, and that provides full transparency of Council's decisions to distribute the cost of service provision to ratepayers. To be effective, a holistic approach to revenue policy is required to avoid the common method of basing fees and charges on historic levels, and to put in place an ongoing review of service objectives and policy decisions against the cost of services.

Rating Principles

Rating income is typically used to fund (or partly fund) infrastructure and services that are characterised as public goods or mixed goods, where direct cost recovery is not practical or appropriate and where there are social reasons to distribute the cost of service provision across the community.

Council's decisions about the rating structure determine the share of rates contributed by each category and subcategory of ratepayer, but does not influence the total amount of money that is raised, meaning that a reduction provided to any category must be borne by an increase to other ratepayers.

A rating structure is one of the most sensitive issues on which Council makes decisions. A well-considered decision-making process about the trade-offs that have to be made begins with a discussion about the key taxation principles of equity, simplicity and efficiency.[10]

The following information about the key taxation principles is intended to provide background information and generate discussion and feedback from Council about the relative importance placed on the various taxation principles.

Equity

Key consideration

3 *Depending on your viewpoint, the equitable outcome may be the one where users pay more or less or exactly in proportion to their level of consumption of services.*

4 *Should business and residential assessments contribute to funding public goods according to their ability to pay?*

The Benefit or User Pays Principle

Some ratepayers have more access to, make more use of, and benefit more from, different council services funded by rates. For example, services such as economic development and CBD infrastructure and services provide benefit to business ratepayers more than to residential ratepayers.

[10] IPART, *Review of the Local Government Rating System, Local Government – Draft Report*, August 2016. Pages 21 to 24 describe the key tax principles in additional detail.

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Rating subcategories can be used to group ratepayers with a view to more closely aligning rates to the relevant local services received. As an example, the current Parramatta rating structure identifies industrial areas and uses sub-categorisation to set a higher level of business rates[11]. Subcategories can be a useful tool when there are defined population centres and Council provides a higher service benefit in those areas.

Detailed revenue modelling will be provided for future Council workshop discussions, including a level of analysis of the proportionate service benefits received by each category and subcategory in a proposed rating structure. This will be compared to the cost of service provision, and will be used to inform the recommendations for the target rate revenue yield for each rating subcategory.

The Capacity to Pay Principle

The second equity concept used to guide the development of taxation strategies focuses on the capacity to pay principle. The principle is that those who are better off should pay more than those who are worse off. Local government rates are essentially a wealth tax, as they are determined on the proportionate value of property.

However, there are problems with the connection between ratepayers' capacity to pay and land valuations, particularly in NSW where the unimproved land value is used to calculate rates. The land valuation represents unrealised wealth and may not correlate to a ratepayer's cash assets or disposable income.

The pensioner concession system is used to support a section of disadvantaged residential property owners, and therefore supports the capacity to pay principle.

Historically, councils have used the capacity to pay principle as a primary argument in the setting of differential rates. As a matter of equity and good public policy, it is appropriate that the meaning and assessment of capacity to pay is agreed, and that decisions are influenced by an understanding of the local factors relevant to particular sections of the community and their capacity to pay rates.

Intergenerational Equity

Taxes should also be equitable over time, meaning that future generations should pay a similar level of rates to receive a similar level of services. It is important that rates income grows over time to meet the cost of servicing new dwellings and a growing population.

Simplicity

Taxes should be easily understood, difficult to avoid and have low costs of compliance and enforcement. Rating structures have improved simplicity when there are a limited number of subcategories and special rates and limited variability in the rating amounts. The Revenue and Rating Policy should also be clearly written and accessible to ratepayers.

Property rates are generally easy to administer compared with other forms of taxation as they rely on a clear information source – property values, and are hard to avoid because the Government holds comprehensive land ownership records.

[11] Cumberland Council, *Operational Plan 2018-2019*, Page 23, https://www.cumberland.nsw.gov.au/sites/default/files/2019-02/revised-2017-2021-delivery-program-operational-plan-2018-2019.pdf

Efficiency

Economic efficiency is a measure of the way that taxation can change behaviour, such as a decision to invest, spend or earn income. For services that are price sensitive, direct charging can influence demand and lead to greater efficiency allowing users to make their own decisions about their willingness to pay for service provision. Revenue policy becomes less efficient when services are funded by ratepayers instead of direct user charges and when discounts and subsidies are provided.

Comparison of Current Rating Structures

As a result of the requirement to merge its revenue policy, Cumberland Council now has a one-off opportunity to revisit first principles in setting a fair and equitable rating structure across the LGA. However, there is a competing priority to minimise the number of assessments that experience large and sudden changes as a consequence of harmonising the three current rating structures.

We have prepared the following high level analysis, based on average rates and land valuations, highlighting the potential consequences of a rates harmonisation process. As rates are a property based tax, our high level analysis compares rates contributions with land ownership, providing an indication of the impact of rates harmonisation on average rates payable across the new LGA.

Whilst we have focused on some elements of the rating structures for our analysis, the complete set of comparative data is provided as Appendix A to this briefing paper.

Future detailed modelling analysis will use Council's rates book data to determine the value of the impact on individual assessments and provide percentile analysis to understand the extent of the higher impact levels across all assessments and ratepayers.

Current Rating Structures

When combined across the LGA, the share of rates burden compared with land ownership within each former area is substantially aligned. As a whole, the share or rates contributed by the former Holroyd area is marginally higher, with a contribution of 58% of the rate revenue for 52% of the total assessable land value.

Ratepayers from the former Holroyd LGA are currently contributing a higher proportionate rate, when land values are taken into account.

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Figure 2 Share of rates burden

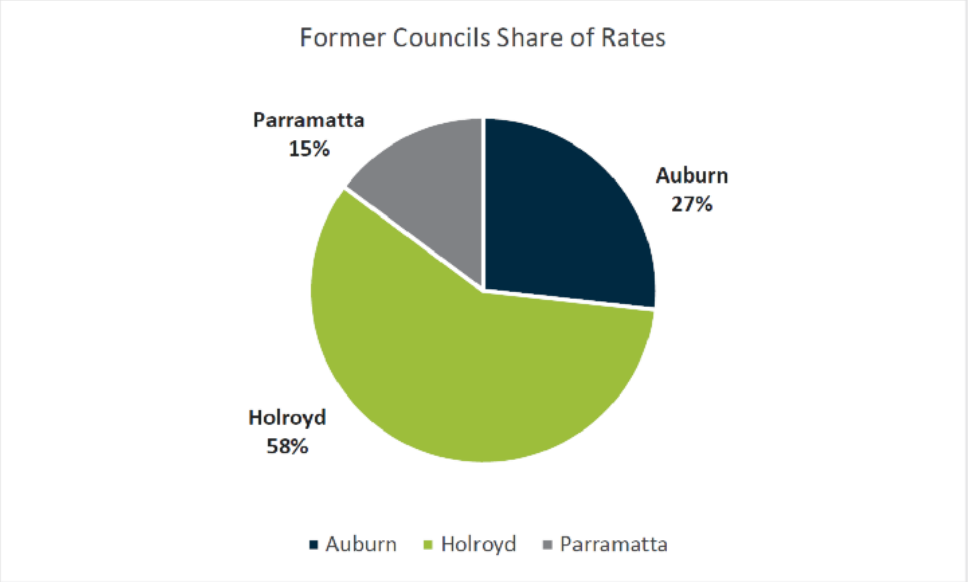
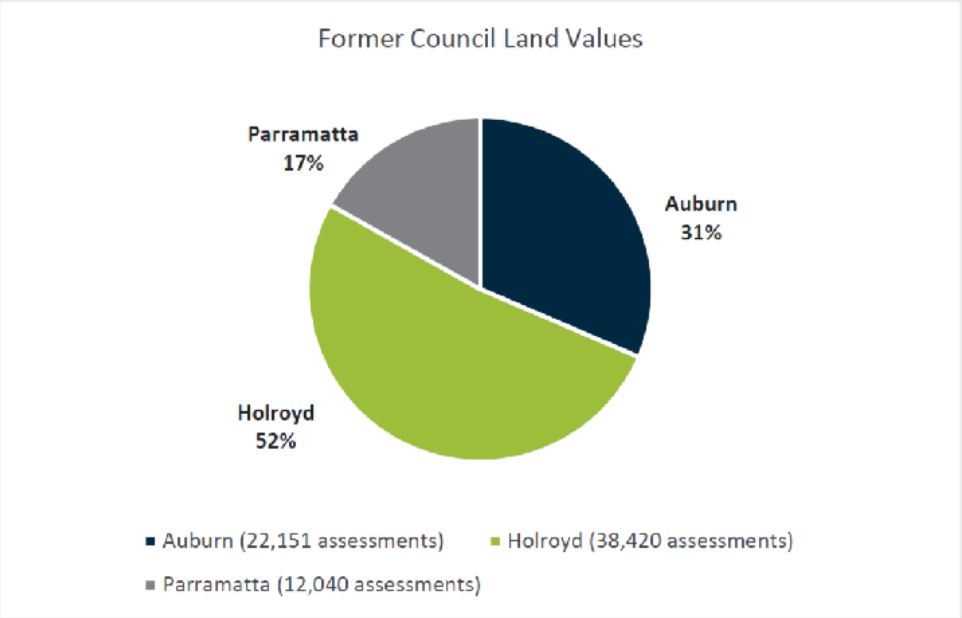


Figure 3 Land ownership



Rates Categorisation

Within each of the current rating structures, the former councils have followed different philosophies for categorisation, with the current rating structures incorporating different levels of contribution from the business and residential rating categories.

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Aggregated over the three rating structures in the Cumberland LGA, the rates contribution from residential ratepayers is 68% and business ratepayers contribute 32%. As a proportion of land ownership, residential assessments pay less, contributing at a level of 80% of the proportionate residential land ownership and business assessments contribute 2.4 times the proportionate value of assessable land.

Figure 4 Proportionate rates revenue by category

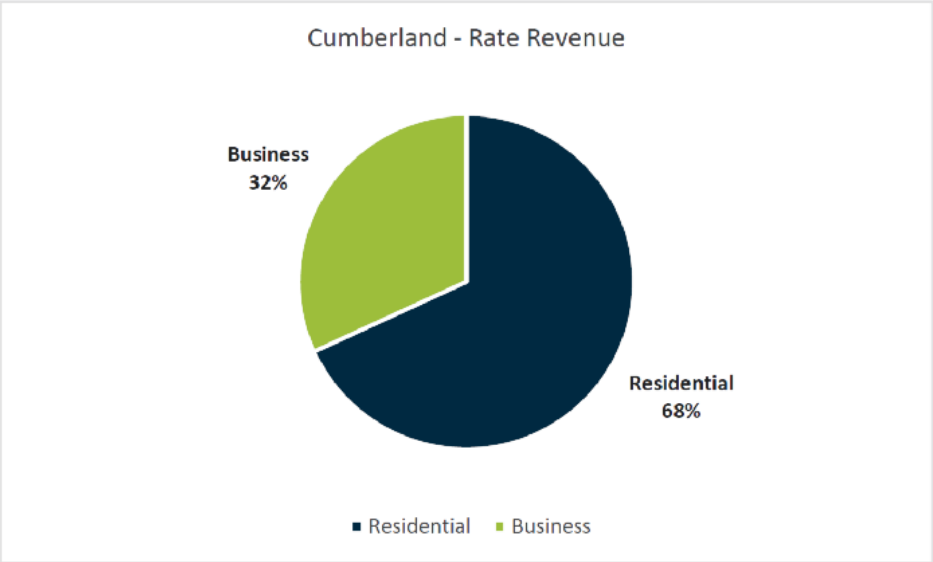
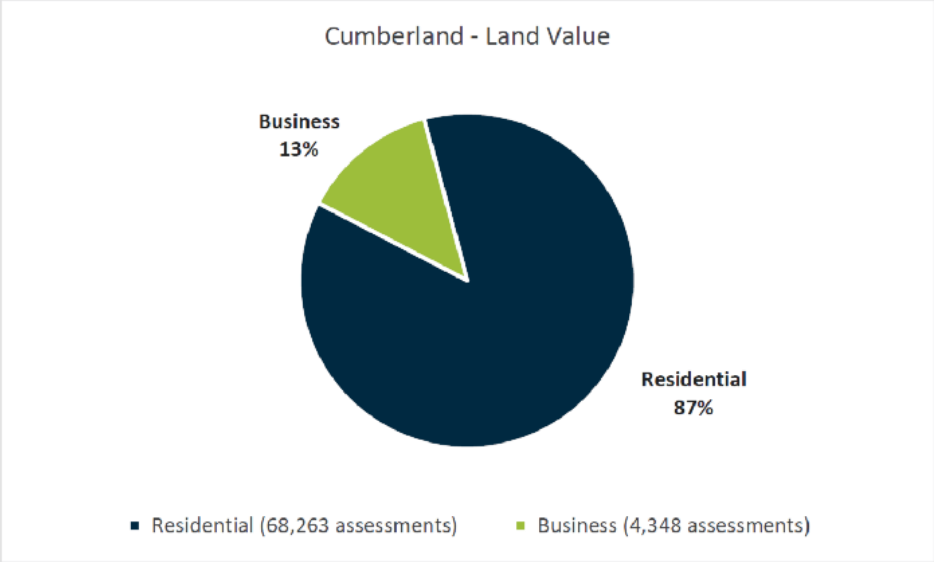


Figure 5 Proportionate land value by category



Within the three current rating structures, the relative rate contributions from residential and business ratepayers are different. Figures 6 to 11 provide a snapshot of the three existing rating structures, illustrating the historic determinations of the former councils to apportion the rates burden between the two rating categories.

Figure 6 Auburn - Proportionate rates revenue by category

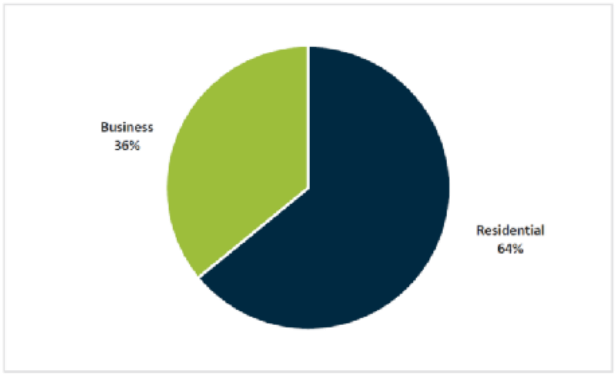


Figure 7 Holroyd - proportionate rates revenue by category

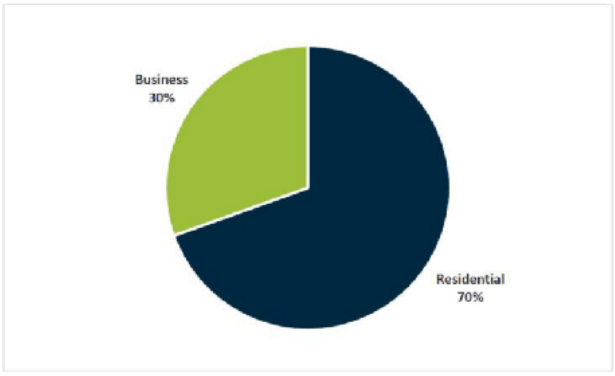


Figure 8 Parramatta - proportionate rates revenue

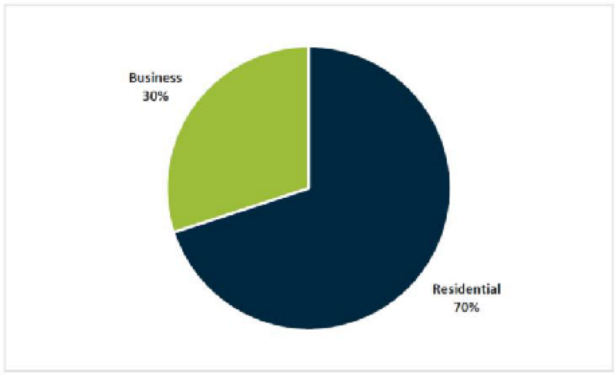


Figure 9 Auburn - proportionate land values by category

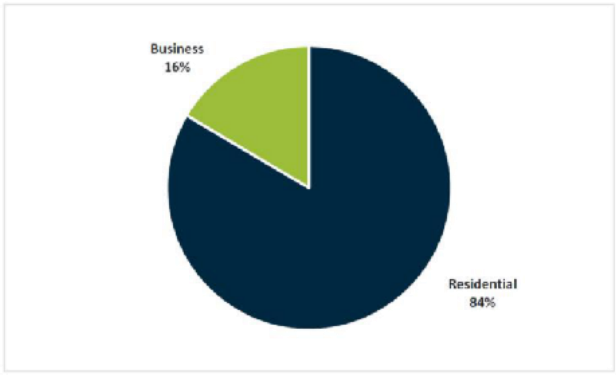


Figure 10 Holroyd - proportionate land values by category

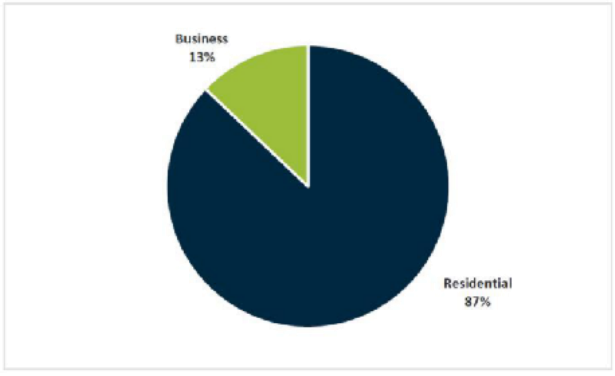
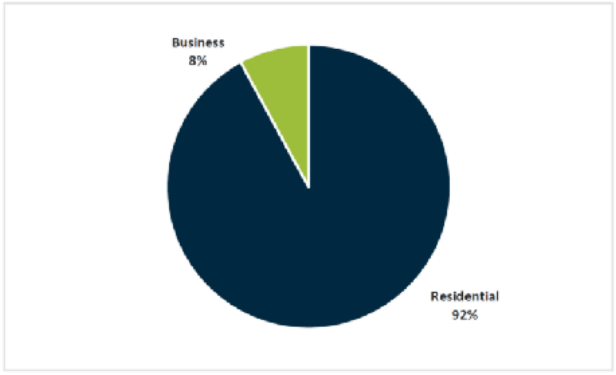


Figure 11 Parramatta - proportionate land values by category



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Each former council has incorporated a structural discount for residential rates, with residential assessments in each area paying less rates than the proportionate share of assessable land, and business assessments conversely, paying more. This occurs to a greater extent in the former Parramatta area, with business assessments paying 30% of the total rates revenue, relative to 8% land ownership. In proportion to land values, business rates in the Parramatta rating structure are high.

We know that even very minor changes to ad valorem rates result in large price variations for individual assessments. Therefore, any new, harmonised rating structure will necessarily have differences that impact significantly on individual assessments.

Key consideration

5 Equitably sharing the rates revenue burden between the residential and business categories.

In setting a new, harmonised revenue policy, Council is required to determine how rates will be distributed between the rating categories.

Rates modelling will be prepared to analyse the impact of different rates structures, with options for different percentage contribution from the four categories, including calculations based on

- the benefits model - estimating Council's costs for the provision of services that proportionally benefit each category of ratepayer
- the ability to pay model - based on the current level of rates that are paid by each category of ratepayer
- combination / transitional model - based on the ability to pay, with small incremental movements toward the benefits model, planned over time
- other scenarios dependent upon feedback from Council about the relative importance placed on the different taxation principles.

Pensioner Concessions

In accordance with the Local Government Act, each of the three former councils have provided the compulsory pensioner rebates of $250 for general rates and domestic waste collection. Pensioners make up 16% of Council's residential assessments. Additional voluntary pensioner rebates were provided within each of the rating structures as follows.

Table 3 Comparison of pensioner concessions

Rating Structure	Pensioner Concession
Auburn	• $250 compulsory rebate
Holroyd	• $250 compulsory rebate • $15 additional voluntary rebate
Parramatta	• $250 compulsory rebate • $100 additional voluntary rebate for pensioners where they have owned and resided in a property for five continuous years or more

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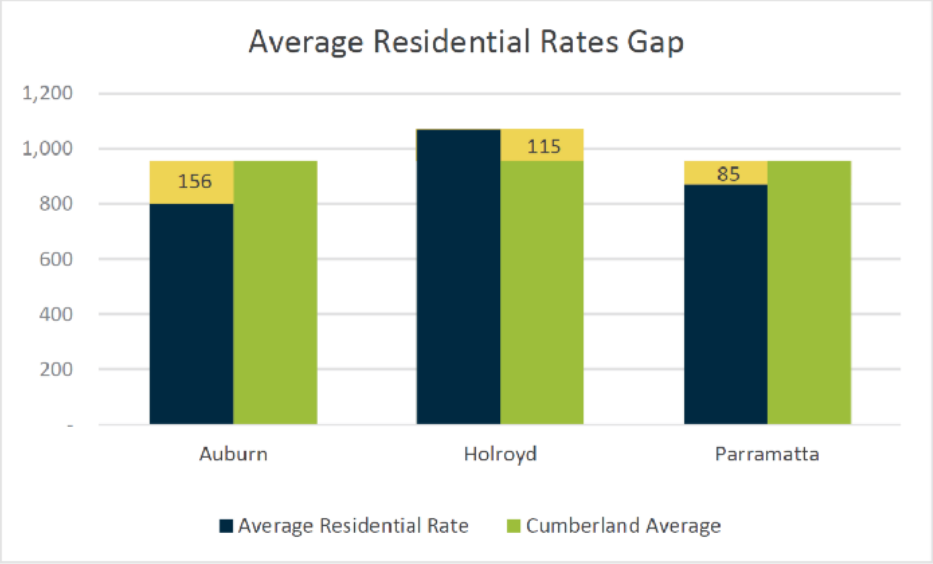
This historic difference in treatment of voluntary pensioner rebates will be costed for consideration by Council as part of the process of preparing a new revenue strategy, for fair and consistent application across the LGA.

Comparison of Average Rates

Average annual rates for residential and business assessments within each of the current rating structures are shown in Figures 12 to 15 below.

The charts illustrate the average gap between the current average rates for each rating structure, and the overall average in Cumberland Council. However, ratepayers aren't average, and there will be larger and smaller variations for individual assessments.

Figure 12 Average residential rates gap



The Holroyd rating structure has the highest average residential rate, and the Auburn structure has the lowest, at $800, being less that the overall average for Cumberland by $156.

20% of all residential ratepayers, being 13,700 assessments, pay the minimum rate of the Auburn and Parramatta rating structures. The minimum amounts are $580 and $672 respectively. The $92 gap between the two minimum amounts will need to be bridged, impacting those ratepayers paying the minimum amount.

The Holroyd structure uses a base and ad valorem component, rather than a minimum amount, with the current base for residential assessments being $508.

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Strata Units

34% of residential assessments across Cumberland LGA are strata units; paying lower rates based on lower land values. The following charts illustrate the average rates for each rating structure – for strata and non-strata residential properties.

The difference in the gap for average residential rates from the former Parramatta area illustrates the way the rating structure treats higher value residential properties – with a comparatively low residential rate.

Figure 13 Average residential rates gap – residential strata

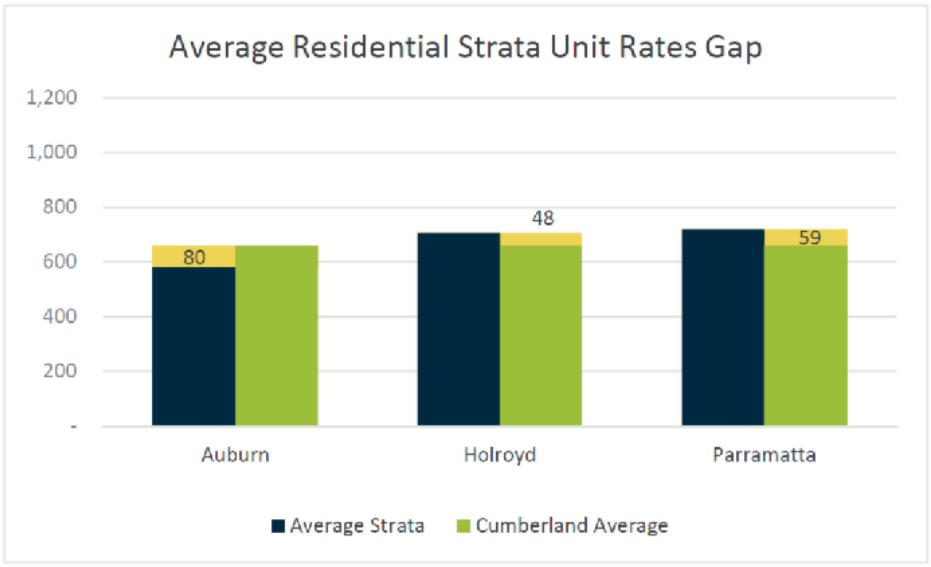

Figure 14 Average residential rates gap – residential non-strata

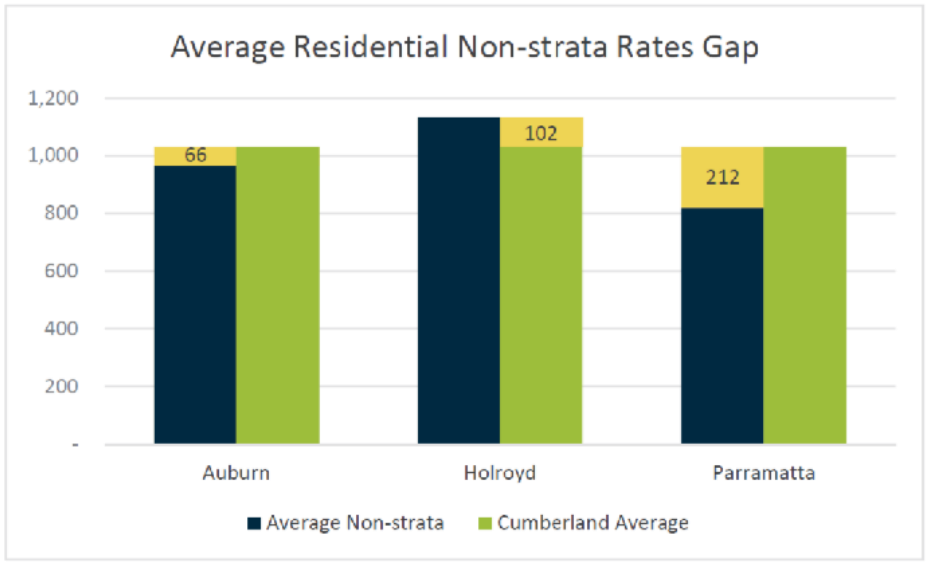

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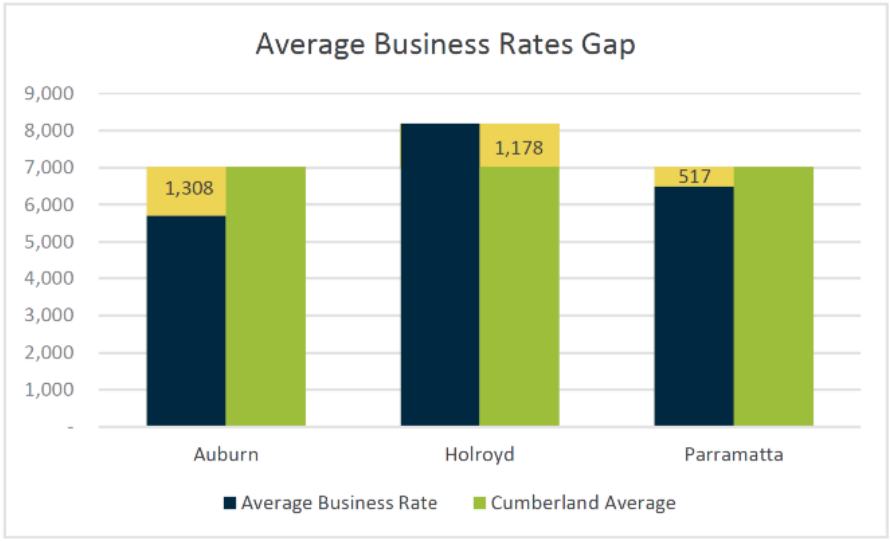
Figure 15 Average business rates gap



Across the three rating structures, the average Holroyd business rates of $8,191 are comparatively high, with the lowest rates in Auburn at $5,704. Parramatta business rates are also below the overall average, however Parramatta business assessments also have a significantly lower average land value on which rates are calculated.

The variations shown in Figures 12 to 15 are straight averages, future detailed modelling will use rating structure options that incorporate *minimum* and *base* amounts, with an objective to minimise major negative impacts on individual rate assessments.

Comparison of Average Land Values

There are significant variations in average land value across the Cumberland LGA, indicating the distribution of rates that may occur when rates are combined into one structure.

Figure 16 Average residential rates per $1,000 of land value

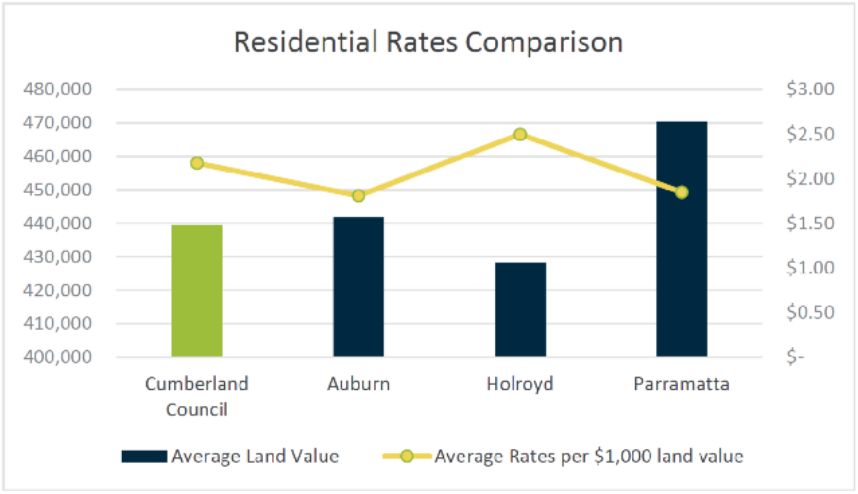


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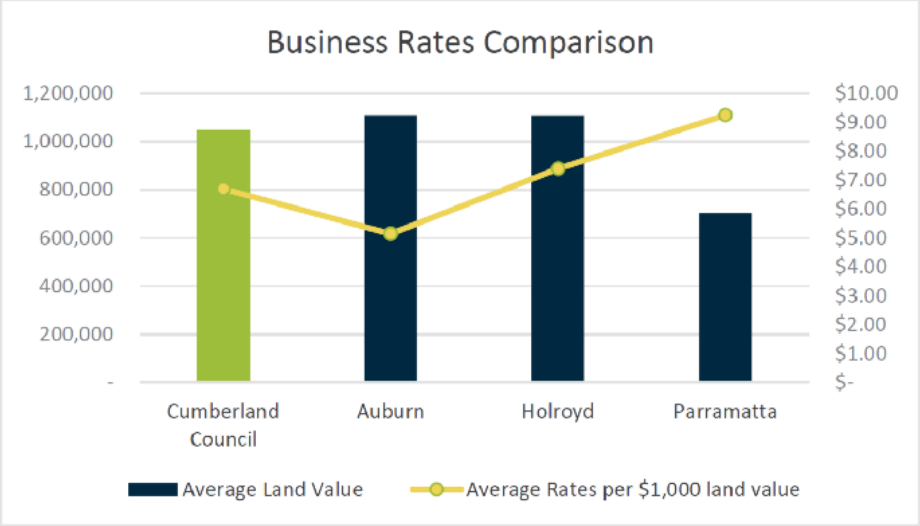
Figure 16 shows the range of average residential rates per $1,000 of land, with Holroyd ratepayers having comparatively lower land values with a higher average rate of $2.50, compared with the Cumberland average of $2.17.

Figure 17 Average business rates per $1,000 of land value



Business assessments in the Parramatta rating structure currently pay a higher average rate per $1,000 land value, of $9.24, compared with the lowest (Auburn) of $5.14, and the Cumberland average of $6.69.

The Holroyd rating structure has comparatively high business and residential rates, consistent with the history of special rate variations. The Parramatta rating structure has comparatively high business rates, consistent with the high level of rating income targeted at the business category.

Minimums and Base Amounts

In addition to the ad valorem component of a rate, the Local Government Act allows a component of fixed charge that consists of *minimum* and/or *base* amounts.

The fixed charge component of the rate is used to smooth the impact of land valuation on rates. Rates without a base or minimum amount could otherwise cause an unacceptably uneven distribution of costs between the lowest and highest assessment. They are also used to ensure the lowest rate is set at a reasonable level for the provision of facilities and services.

IPART reviewed the use of minimum and base amounts, and concluded that an ad valorem with a base amount is both more equitable and more efficient than an ad valorem amount with a minimum.[12]

[12] IPART, *Local Government Rating System Review*, page 39, https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Local-Government-Rating-System/Local-Government-Rating-System

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However, rates calculations based on ad valorem and base amounts do not suit high density urban areas. the ad valorem component of the rate is calculated on unimproved land values, resulting in disproportionately low rate amounts for multi-unit dwellings. given the restrictions on the level of revenue that can be raised from base amounts, a high proportion of metropolitan rating structures use minimum amounts as an imperfect tool to recover a sufficient level of fixed rates from apartments. this treatment results in a high proportion of ratepayers paying the same minimum amount.

Use of a minimum structure in high growth, high density areas, creates a rating structure that will increase Council's total rates income over time in line with development, at a rate of the minimum amount for each new assessment created. A structure with a high minimum amount may assist Council by providing additional resources to fund consistent service levels over time.

The current three rating structures use a combination of base and minimum amounts, with 41.6% of total residential rates and 3% of business rates across the Cumberland area being made up of a fixed component.

The Holroyd rating structures uses base rates within its residential structure, collecting 47.5% of the rate from the base amount of $508.05 for each of the 36,300 residential assessments. The Auburn and Parramatta rating structures use minimum amounts of $580 and $672, respectively.

In rating structures with lower proportions of fixed charges, we would expect that small changes to the ad valorem component would have larger impacts on assessments with higher value properties.

The current structures use fixed charges to a lesser extent for business rates, with 918 business ratepayers (of 4,348 total) paying a minimum business rate.

Figure 18 Residential rates collected from fixed charges

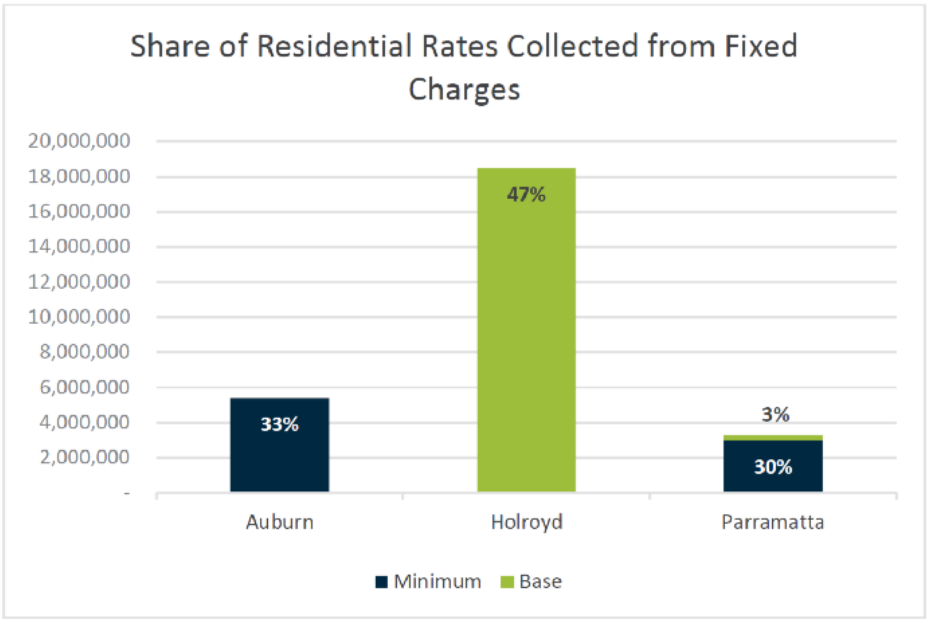

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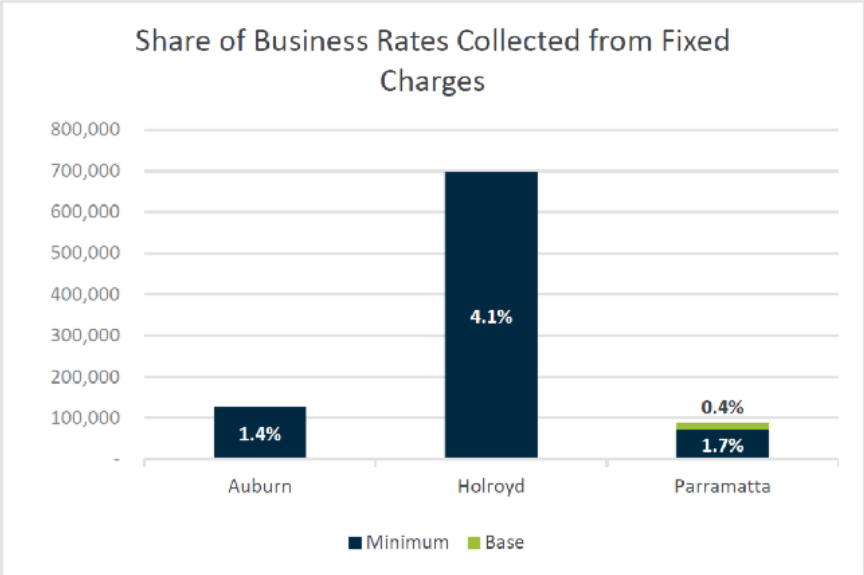
Figure 19 Business rates collected from fixed charges



Special Rates

Key consideration

6 Using special rates to fund significant, high value projects that benefit groups of ratepayers.

Special rates are useful where there is a specific and well-defined purpose, for funding major projects that benefit one group of ratepayers within a rating category, and where other groups of ratepayers don't receive any commensurate level of benefit. For example, special rates might be considered as a source of funding for the development of substantial new infrastructure in one area of the LGA. Special rates often have a sunset clause that allows for the required level of rates revenue for funding the identified project.

There are additional governance requirements over special rates, with restrictions over how special rate revenue is expended, and additional reporting requirements to show that special rates are being spent for the specific purpose for which they were collected.

As a source of funds for Council, special rates are completely restricted to a specific purpose, not providing any flexibility to meet changing community needs or respond to changing local circumstances.

Special rates are not recommended for the delivery of ongoing services or infrastructure renewal, and it makes sense to source funding for normal operations from the ordinary rates base.

Appendix B shows the special rates that have been incorporated into the current rating structures.

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Rates Harmonisation - Next Steps

The following indicative timetable provides the major tasks that will be completed over the next 15 months to have the new Rates and Revenue Policy in place for 1 July 2020. Reports, workshops and modelling will be provided throughout the planning period, in addition to the indicative timeframe below.

Task	Timeframe
Ability to pay analysis report	April 2019
Rates Modelling - Rates benefit model	April 2019
Rates Modelling - Develop rate structure options	April 2019
Rates Modelling - Model rate structure scenarios and prepare ratepayer impact analysis	April 2019
Service Pricing Modelling - Model service pricing policy outcomes	April 2019
SRV for Minimum rates - option included in Operational Plan & Delivery Program	May 2019
Council Strategy Workshop - Revenue and Rates Structure Principles and Options	June 2019
Determine future workshop requirements	June 2019
Prepare Community Engagement Strategy	July 2019
Commence Community Engagement Activities - Rates Harmonisation	October 2019
Rates Modelling - New land valuations - re-model rate structure and prepare ratepayer impact analysis	November 2019
IPART notification required for SRV – minimum rates	November 2019
Revenue Policy decision	December 2019
Written notice of rates categories / subcategories to ratepayers	February 2020
SRV application due for submission – minimum rates	March 2020
Adopt Harmonised Revenue Policy for public exhibition	May 2020
Adopt Rates Structure	June 2020
Post rates notices	July 2020

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Appendix A Rates Structure Data

Category	Number of assessments	Land Value	Income	Average Land Value	% Land Value	Avg Assess Rates	Avg Rates (non minimums)	% Rates	Average Rates per $1,000 land value	Number paying Minimum Rate	2018 Minimum	Rates Revenue Collected from Minimums	2018 Base	Rates Revenue Collected from Base Amounts	Share of Rates Collected from Fixed Charges
AUBURN															
Residential	20,537	$ 9,073,742,184	$ 16,425,683	$ 441,824	83.5%	$ 800	$ 981	64.1%	$ 1.81	9,268	$ 579.55	$ 5,371,269	$ -	$ -	32.7%
Business	1,614	$ 1,790,482,575	$ 9,205,759	$ 1,109,345	16.5%	$ 5,704	$ 6,512	35.9%	$ 5.14	220	$ 579.55	$ 127,501	$ -	$ -	1.4%
Sub-Total	22,151	$ 10,864,224,759	$ 25,631,442	$ 490,462	100.0%	$ 1,157	$ 1,590	100.0%	$ 2.36	9,488		$ 5,498,770		$ -	21.5%
HOLROYD															
Residential	36,341	$ 15,562,678,928	$ 38,886,107	$ 428,244	87.1%	$ 1,070	$ 1,070	69.5%	$ 2.50	-	$ -	$ -	$ 508	$ 18,462,893	47.5%
Business	2,079	$ 2,305,000,902	$ 17,030,580	$ 1,108,547	12.9%	$ 8,191	$ 10,996	30.5%	$ 7.39	594	$ 1,174.96	$ 697,926	$ -	$ -	4.1%
Sub-Total	38,420	$ 17,867,679,830	$ 55,916,688	$ 465,062	100.0%	$ 1,455	$ 1,460	100.0%	$ 3.13	594		$ 697,926		$ 18,462,893	34.3%
PARRAMATTA															
Residential	11,385	$ 5,358,046,940	$ 9,911,195	$ 470,623	92.1%	$ 871	$ 999	70.0%	$ 1.85	4,463	$ 672.00	$ 2,999,136	$ 26	$ 298,515	33.3%
Business	655	$ 460,181,586	$ 4,254,295	$ 702,567	7.9%	$ 6,495	$ 7,592	30.0%	$ 9.24	104	$ 686.00	$ 71,344	$ 26	$ 15,975	2.1%
Sub-Total	12,040	$ 5,818,228,526	$ 14,165,490	$ 483,242	100.0%	$ 1,177	$ 1,485	100.0%	$ 2.43	4,567		$ 3,070,480		$ 314,490	23.9%
CUMBERLAND															
Residential	68,263	$ 29,994,468,052	$ 65,222,985	$ 439,398	86.8%	$ 955	$ 1,043	68.1%	$ 2.17	13,731		$ 8,370,405		$ 18,761,407	41.6%
Business	4,348	$ 4,555,665,063	$ 30,490,635	$ 1,047,689	13.2%	$ 7,012	$ 8,627	31.9%	$ 6.69	918		$ 896,771		$ 15,975	3.0%
Total	**72,611**	$ 34,550,133,115	**$ 95,713,620**	**$ 475,825**	**100.0%**	**$ 1,318**	$ 1,491	**100.0%**	$ 2.77	14,649		$ 9,267,177		$ 18,777,383	29.3%
FORMER COUNCIL AREAS - RESIDENTIAL															
Auburn	20,537	$ 9,073,742,184	$ 16,425,683	$ 441,824	30.3%	$ 800	$ 981	25.2%	$ 1.81	9,268	$ 579.55	$ 5,371,269	$ -	$ -	32.7%
Holroyd	36,341	$ 15,562,678,928	$ 38,886,107	$ 428,244	51.9%	$ 1,070	$ 1,070	59.6%	$ 2.50	-	$ -	$ -	$ 508.05	$ 18,462,893	47.5%
Parramatta	11,385	$ 5,358,046,940	$ 9,911,195	$ 470,623	17.9%	$ 871	$ 999	15.2%	$ 1.85	4,463	$ 672.00	$ 2,999,136	$ 26.22	$ 298,515	33.3%
Cumberland Council	68,263	$ 29,994,468,052	$ 65,222,985	$ 439,398	100.0%	$ 955	$ 1,043	100.0%	$ 2.17	13,731		$ 8,370,405		$ 18,761,407	41.6%
FORMER COUNCIL AREAS - BUSINESS															
Auburn	1,614	$ 1,790,482,575	$ 9,205,759	$ 1,109,345	39.3%	$ 5,704	$ 6,512	30.2%	$ 5.14	220	$ 579.55	$ 127,501	$ -	$ -	1.4%
Holroyd	2,079	$ 2,305,000,902	$ 17,030,580	$ 1,108,547	50.6%	$ 8,191	$ 10,996	55.9%	$ 7.39	594	$ 1,174.96	$ 697,926	$ -	$ -	4.1%
Parramatta	655	$ 460,181,586	$ 4,254,295	$ 702,567	10.1%	$ 6,495	$ 7,592	14.0%	$ 9.24	104	$ 686.00	$ 71,344	$ 26.22	$ 15,975	2.1%
Cumberland Council	4,348	$ 4,555,665,063	$ 30,490,635	$ 1,047,689	100.0%	$ 7,012	$ 8,627	100.0%	$ 6.69	918		$ 896,771		$ 15,975	3.0%
FORMER COUNCIL AREAS - ALL CATEGORIES															
Auburn	22,151	$ 10,864,224,759	$ 25,631,442	$ 490,462	31.4%	$ 1,157	$ 1,590	26.8%	$ 2.36	9,488		$ 5,498,770		$ -	21.5%
Holroyd	38,420	$ 17,867,679,830	$ 55,916,688	$ 465,062	51.7%	$ 1,455	$ 1,460	58.4%	$ 3.13	594		$ 697,926		$ 18,462,893	34.3%
Parramatta	12,040	$ 5,818,228,526	$ 14,165,490	$ 483,242	16.8%	$ 1,177	$ 1,485	14.8%	$ 2.43	4,567		$ 3,070,480		$ 314,490	23.9%
Total	**72,611**	$ 34,550,133,115	**$ 95,713,620**	**$ 475,825**	**100.0%**	**$ 1,318**	**$ 1,491**	**100.0%**	$ 2.77	14,649		$ 9,267,177		$ 18,777,383	29.3%

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Appendix B Special Rates

Special Rate	Rating structure	Applies to	Purpose	Number of assessments	Land Value	Income	As a share of total rates income	Held in Reserve as at 30 June 2018
Open space Acquisition & Embellish	Parramatta	All assessments	Acquisition & embellishment of open space	11,996	$ 5,816,337,526	$ 592,161	0.62%	$ -
Suburban Infrastructure	Parramatta	All assessments (ouside Parramatta CBD)	Improvements to infrastructure and environmental assets	11,990	$ 5,816,337,526	$ 544,992	0.57%	$ -
Residential Infrastructure	Holroyd	Residential assessments	Residential infrastructure	36,341	$ 15,562,678,928	$ 2,254,877	2.36%	$ -
Business Infrastructure	Holroyd	Business assessments	Business infrastructure	2,079	$ 2,305,000,902	$ 994,977	1.04%	$ -
Total				**62,406**	**$ 29,500,354,882**	**$ 4,387,006**	**4.58%**	$ -

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