



## PROPOSED NEW RATING STRUCTURE

### WHAT YOU SHOULD KNOW

#### FACT SHEET / FREQUENTLY ASKED QUESTIONS

##### Have your say...

This is your opportunity to have *your* say about the proposed rating structure that will impact *your* rates.

So get involved and make a comment.

#### 1. WHAT IS A RATING STRUCTURE?

A rating structure is the system used by a council to calculate the rates payable by each rateable property within its local government area.

#### 2. WHY DO COUNCILS CHARGE RATES?

Councils do more than just "roads and rubbish". Councils also fund the provision of a vast range of services and facilities to their communities such as sport and recreation, stormwater, town centres, libraries, community services, emergency management, environmental planning, public health and much, much more. Rates are a vital financial contribution towards the total revenue that a council receives in order to fund these services.

#### 3. WHAT ARE THE OBJECTIVES OF THE LOCAL GOVERNMENT ACT 1993 IN RELATION TO RATING?

Councils charge rates, categorise and sub-categorise land and choose the method for the levying of rates under the Local Government Act 1993 (sections 493 to 560).

The Act requires councils to:

- Provide a system of local taxation, based on rates levied on property, which is **simple, fair, broadly uniform**, and which promotes local accountability;

The Act requires that rating be on “ad valorem” that is “at value” based on land values. This is one of the most fundamental principles of local taxation and is believed to be the fairest and equitable system by the Division of Local Government.

The objectives of the Local Government Act 1993 were considered by the Council in its proposed new rating structure.

#### 4. WHAT ARE THE COUNCIL'S OBJECTIVES FOR A NEW RATING STRUCTURE?

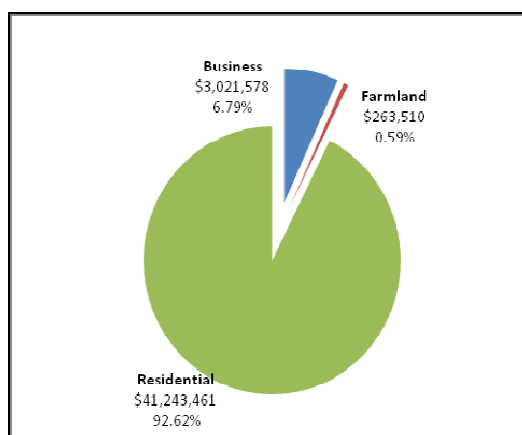
- **A simpler structure** - currently there are 31 rating categories and sub-categories, which Council is looking to reduce which will make it easier for the community to understand;
- **A fairer and more equitable structure overall, with all ratepayers paying their fair share** - a new rating structure needs to be based primarily on land valuations and considers ratepayer’s access to the services provided by the Council.

#### 5. WILL THE PROPOSED CHANGES INCREASE THE REVENUE COUNCIL RECEIVES FROM RATES?

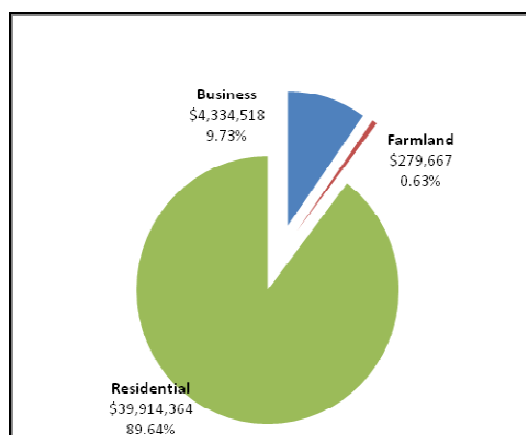
**No.** The Council will not receive any extra revenue from the proposed changes as the Council’s rates revenue can only be increased by a set amount each year as directed by the Independent Pricing & Regulatory Tribunal of NSW (IPART).

The proposed changes only affect how rates are calculated and distributed across the City, as shown in the charts below.

*Chart 1: Current distribution of rates between categories*



*Chart 2: Proposed distribution of rates between categories*



## 6. WHY IS THE COUNCIL UNDERTAKING A RATING REVIEW NOW?

Each year the Council undertakes a minor review of its rating structure and when required undertakes more comprehensive reviews to ensure that the rating structure continues to be fair and equitable. In addition, regular reviews are required to ensure ongoing compliance with the Local Government Act 1993.

The last major review occurred in 1994-1995 following the introduction of the new Local Government Act 1993. At this time the community was asked for their comment on a number of alternative rating structures. Following consideration of the submissions received, the Council determined to continue the existing system.

The Council's application for a Special Variation to Rates in 2010 highlighted the complex and cumbersome nature of the current rating structure and consequently a review was planned to see how the structure could be simplified.

## 7. HOW ARE COUNCIL'S RATES DETERMINED?

There are three essential rating pre-requisites which make up a rate, that is:

- The categories and sub-categories in which properties will be categorised;
- The method for calculating rates;
- The proportion of rates paid by Residential, Business and Farmland categories and the sub-categories within the Residential category, which is calculated by a rate-in-the-dollar (known as the ad valorem rate).

### **A. Categories & Sub-Categories**

In accordance with the Local Government Act 1993, all councils must classify all properties into one of four rating categories – Residential, Business, Farmland or Mining (note this local government area currently has no mining properties). The Council then may divide these categories into sub-categories based on the requirements set out in the Local Government Act 1993.

### **B. Method for Calculating Rates**

Once properties are categorised, the Councils must choose the method of rate calculation, which is either:

- Entirely on the land value of the property (ie. using a rate-in-the-dollar set by the Council);
- Entirely on the land value, but subject to a minimum amount which may override the initial rate calculated if the rate based entirely on land value is considered too low (known as a minimum rate which is set by IPART); or
- On a combination of the property's land value and a fixed amount per property (known as a base amount).

### **C. Proportion of Rates Paid by the Rating Categories & Sub-Categories**

Once the method is chosen, the Council can choose how to apportion rates revenue between the categories and within the sub-categories. This is done by a differential which determines the ad valorem

rate for each category and sub-category. The differential can be the same for all categories (and sub-categories) of land or it may be different for each of the categories (and sub-categories).

Differentials are the ratio of rates to be paid by ratepayers. For example if a rating structure has rates with differentials of “1” and “2”, then if the first ratepayer pays rates of \$100, with the second ratepayer paying rates of \$200, that is 1 to 2.

Altering differentials amongst the sub-categories of a rating category or between the rating categories gives councils the opportunity to vary the rates payable by certain areas within their local government area such as those outside a town centre which may receive less access to council provided services. Differentials can also be used to increase the rates revenue from a certain category to ensure the ratepayers in that category contribute a fairer percentage of rates. This is usually done for the Business category which traditionally has a higher differential than Residential as businesses make an income from the services provided by a council and unlike residential ratepayers, businesses can choose to claim rates as a tax deduction.

The Council undertook an analysis of the Business differentials in a number of comparable NSW councils and found that the average Business differential was approximately “2.5”. While this is substantially higher than the average Business differential of “1.3” currently set by BMCC, it is important to note that at no time has BMCC considered increasing the City’s Business differential to such a high level. However, it does give an indication that the City’s businesses are not contributing as high a percentage of rates as in other council areas. Given that the balance of rates revenue is contributed largely by Residential ratepayers, it is considered that it is neither fair nor equitable for residents to continue to bear such a high burden for overall rates revenue. This redistribution of the contribution of rates between ratepayers will not see an increase to the Council’s overall rates revenue.

## 8. WHY IS THE COUNCIL PROPOSING TO CHANGE ITS RATING STRUCTURE?

The Council’s current rating structure is complex with 31 rating categories and sub-categories, two minimum rates, and 26 differentials determining the ad valorem rates for the categories and sub-categories. The Division of Local Government has raised concerns of possible non-compliance with relevant legislation and the general inequity of the current structure.

As well, the review has given the Council the opportunity to transparently look at the proportion of rates revenue contributed by the Residential, Business and Farmland categories.

An added benefit of a simplified rating structure is a greater staff efficiency which is a key objective of the Council in achieving a more efficient organisation.

A copy of the current rating structure is available in *Document 1 – Rates for 2010-2011*.

## 9. WHAT ARE THE PROPOSED CHANGES?

The Council is proposing changes to each of the essential pre-requisites of a rating structure are as follows. The proposed new rating structure can be found in *Document 2 – Proposed New Rates for 2011-2012*.

Please note that the ad valorem rates are in draft form only, the final proposed new ad valorem rates will be in the 2011-2012 Operational Plan which goes on exhibition on 8 April 2011.

### A. Categories & Sub-Categories

#### ***Current structure:***

- 14 Residential sub-categories
- 16 Business sub-categories
- 1 Farmland category

#### ***Proposed changes:***

The Council is proposing:

- to amalgamate the Residential sub-categories and create just four sub-categories
- abolish all Business sub-categories
- no changes are proposed to the category of Farmland.

#### ***Residential category changes:***

Two major changes are proposed to the current structure:

- Amalgamation of a number of the current Residential sub-categories to four which are based on “centres of population” as required by the Local Government Act 1993;
- Abolition of the Rural Residential sub-category (this sub-category is only necessary if a council intends to establish a different rate for this sub-category which it does not).

The proposed new Residential sub-categories are:

1. Residential North/West Mountains Villages - *Mounts, Bell, Megalong, Mt Victoria to Medlow Bath*
2. Residential Upper Mountains Townships - *Katoomba to Wentworth Falls*
3. Residential Mid Mountains Villages – *Bullaburra to Linden*
4. Residential Lower Mountains Townships & Villages – *Faulconbridge to Lapstone*.

#### ***Business category changes:***

All Business sub-categories will be abolished to create the one Business category.

## **B. Method for Calculating Rates**

### ***Current structure:***

The current method for calculating rates is ad valorem rate with a minimum amount. Council currently has two minimum rates, both of which have been approved by the Minister of Local Government at a higher amount than that set annually by IPART. If implemented in 2011-2012, these higher minimum rates would be set by the Council at \$475 and \$875.

### ***Proposed changes:***

The Council is proposing to keep the current rate calculation method however the minimum amount will be reduced to just one of \$442 as set by IPART. The Council considers the ad valorem rate with a minimum amount payable as the fairest calculation method because rates are based primarily on land value.

Many of those who are currently on a minimum rate will see a reduction in their rates. This is true for Residential, Business and Farmland property owners and it is aimed at assisting those property owners who are low income earners.

## **C. Proportion of Rates Paid by the Rating Categories & Sub-Categories**

### ***Current structure:***

The current structure has 26 differential rates across its 31 categories and sub-categories.

### ***Differentials within sub-categories:***

There is significant variance within the sub-categories as the differentials range from:

- Residential: 1.0 (Katoomba, Leura & Wentworth Falls) to 1.1692 (Faulconbridge, Winmalee, Springwood, Yellow Rock, Sun Valley and Valley Heights);
- Business: 1.1103 (Hazelbrook) and 1.8375 (Industrial Lawson); and
- Farmland: 0.7295.

These differentials have evolved over time with the result that currently a ratepayer in one township may pay more than a ratepayer in another township, even though the land value is equal. This may not seem fair nor equitable, especially where lower rates may be paid by a ratepayer located in a township that may receive a greater benefit of services from the Council.

This possible inequity within the current rating structure is shown in the table below where rates have been calculated on an average land value across townships in both the Residential and Business categories.

**Table 1: Example Rates on Properties with Average Residential & Business Land Value**

<b>Residential - Land Value - \$221,224</b>	<b>Current Rates</b>	<b>Business - Land Value - \$361,427</b>	<b>Current Rates</b>
Wentworth Falls	\$1,029	Hazelbrook	\$1,867
Warrimoo-Lapstone	\$1,115	Leura	\$1,919
Linden	\$1,131	Springwood	\$2,782
Blackheath	\$1,188	Lawson Industrial	\$3,089

The average rates paid by each rating sub-category are available in the supporting *Document 3 - Average Current Rates by Township / Sub-Category*.

*Differentials between categories:*

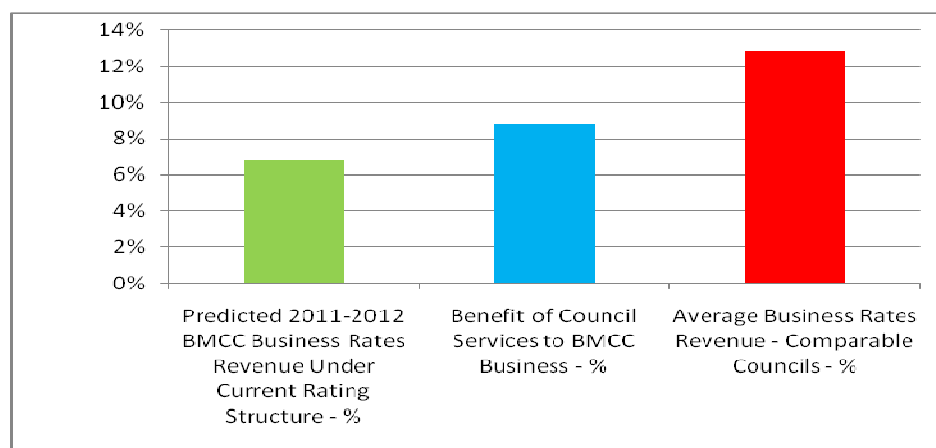
The issue of the proportion of total rates revenue levied between the Residential and Business categories is a discretionary one and the Council determines this on the principles of fairness and equity.

The current differential between Residential and Business is 1 to 1.3. The Council considers this Business ratio as very low, especially as the percentage of rates revenue paid by businesses does not cover the costs of providing Council services to businesses. As well, the differential is substantially lower than the amount businesses are charged by comparable councils.

In 2011-2012 under the current rating structure it is predicted that businesses would contribute approximately 6.79% of total rates revenue, however on a conservative basis, in 2010-2011 businesses received the benefit of almost 9% of the Council's expenditure on services and infrastructure including Environmental Health & Regulatory Compliance, Economic Development, Tourism, Town Centres and the environment, stormwater, roads etc.

This low Business differential means that the City's Residential ratepayers are paying a higher percentage of rates revenue as a consequence.

**Chart 3: Revenue Received –v- Expenditure by BMCC - Business**



***Proposed changes:***

The new structure proposes four differentials – two for Residential and one each for Business and Farmland.

***Differentials within sub-categories:***

Residential: it is proposed that the new sub-categories of Upper Mountains Townships and Lower Mountains Townships & Villages have a differential of “1” and that the North/West Mountains Villages and Mid Mountains Villages sub-categories have a differential of “0.85”. This will mean that, on the same land value, ratepayers located in the Mid Mountains or the outlying areas which receive a lower level of service will pay 15% less than ratepayers in or nearby the major townships. The Council considers this fair and equitable overall, as the lowered differential takes into account the reduced level of services provided to those areas.

Business: the new rating structure proposes a single Business category which will have a single differential rate for all businesses. The Council considers this as overall fair and equitable because all businesses will pay the same rate-in-the-dollar regardless of their location. Businesses located in areas that currently have a lower rate-in-the-dollar will experience increases to their rates as they are brought into alignment with other business areas.

***Differentials between categories:***

The new rating structure also proposes increasing the differentials for Business and to a small degree to Farmland. The proposed differential for Business is “2” and for Farmland is “0.7”.

Business: the proposed increase to the Business differential is to ensure that businesses pay their fair share of rates – based on the benefit to businesses provided by the Council's expenditure.

The increase also considers the higher value of business land when compared to the value of residential land, the relatively small number of business properties as well as the rates charged to businesses by similar NSW councils.

Farmland: the average value of land in the Farmland category is relatively high in comparison to the value of Residential and Business land. The originally proposed new Farmland differential of “0.8” did not accurately reflect the ability of Farmland property owners to pay nor the benefit received from the services provided by Council. As a result the differential was decreased to “0.7”. While this is a lower differential than the current Farmland differential, as it is a ratio to Residential rates Farmland properties will incur a small rates increase to offset the decrease to the Residential differential.

Overall, these are a more equitable calculation of rates across the rating categories and will mean:

- Total rates revenue from the Residential category is decreased with most of the City's Residential ratepayers incurring a reduction in rates (including pensioners and low income earners). The average decrease in rates will be \$39, with many ratepayers receiving a bigger decrease up to \$400;



- Total rates revenue from the Business category is increased with the result that most Business ratepayers will incur an increase to rates; and
- A small increase to the total revenue received from Farmland ratepayers.

## 10. WHO WILL BE AFFECTED BY THE PROPOSED CHANGES?

Most of the City's ratepayers will be affected by the proposed changes as the inequities in the current structure are levelled out and all ratepayers pay a fair share of rates.

Charts showing the average increase or decrease experienced by ratepayers across the City can be found in the supporting *Document 4 – Number of Properties Affected by Increase / Decrease in Rates*.

To get an indication of the actual average increase or decrease to rates by township, please refer to the supporting *Document 5 – Average Proposed Movement in Rates by Township / Sub-Category*.

## 11. WHAT ABOUT PENSIONERS?

Any change to rates for pensioners will depend on the locality of their property. The proposed increased contribution to rates by Business means that the average pensioner will receive a reduction in rates of \$39. Those with low valued properties (many of whom are low income earners) may receive a bigger decrease of up to \$400.

Any pensioner who suffers genuine hardship because of these proposed changes should contact the Rates Team to discuss their individual circumstances.

## 12. WHEN WILL THESE PROPOSED CHANGES BE IMPLEMENTED?

If the proposed changes are supported by the community, it is expected that the Council will adopt the new rating structure to commence from 1 July 2011.

## 13. HOW DO THE PROPOSED CHANGES EFFECT THE LAND REVALUATIONS THAT WERE RECENTLY ANNOUNCED?

The Council does not collect more rates revenue if property values rise due to a land revaluation.

If land values increase because of a revaluation then rates for all ratepayers are simply adjusted to take into account these changes in property values so that the total rates revenue received by the Council is not above the previous year's rates revenue as increased by any IPART permitted increase.

Increases or decreases in land values to individual properties will not necessarily mean an increase or decrease in an individual's rates. Whether an individual's rates will increase or decrease will depend on whether their property's change in value is in line with the average of all other land valuations. If it is in line, then their rates

will stay approximately the same (subject to rate peg). If their property's value increases or decreases more than the average, then their rates may increase or decrease respectively.

If you require any more detailed information on the affect of land revaluations on rates, please contact the Council's Rates Team on 4780 5000 during business hours.

## **14. HOW CAN I FIND OUT THE EFFECT OF THESE PROPOSED CHANGES ON MY PROPERTY?**

You can find out how the proposed changes to the rating structure will affect your property by calling the Rates Team on 4780 5000 during business hours (8.30am to 5.00 Monday to Friday) from 25 March 2011 to 6 May 2011. Have your assessment number ready and Council officer will give you an estimation of your rates for 2011-2012.

Alternatively you can email [council@bmcc.nsw.gov.au](mailto:council@bmcc.nsw.gov.au) (put "request for estimation of 2011-2012 rates" in the subject box) and a staff member will respond quickly to your request. Remember to include your name, assessment number and/or the property's address.

## **15. HOW CAN I MAKE A FORMAL SUBMISSION ON THE PROPOSED CHANGES?**

The Council encourages comments on the proposed new rating structure which, if adopted, will be the basis of your rates into the future.

Even if the proposed changes mean that your rates will decrease (as many rates will) and you agree with the proposal, it is important to let the Council know you agree so that this view point is taken into equal consideration.

**All submissions received will be considered, and only then  
will the Council decide on whether or not to adopt or amend the proposal.**

Formal submissions will be accepted until 5pm, Friday 6 May 2011.

A formal submission can be made on the form available or just send in a letter. The submission form is available from:

**Online:** [www.bluemountainshaveyoursay.com.au/ratingreview](http://www.bluemountainshaveyoursay.com.au/ratingreview) - click 'make a submission' on the Forum Section or [www.bmcc.nsw.gov.au](http://www.bmcc.nsw.gov.au)

**Hardcopy:** front counters at Katoomba and Springwood offices and all branch libraries.

Your submission can be made online on the [www.bluemountainshaveyoursay.com.au/ratingreview](http://www.bluemountainshaveyoursay.com.au/ratingreview) or [www.bmcc.nsw.gov.au](http://www.bmcc.nsw.gov.au) websites or can be:

**Posted to:** Your Say Rating Review, Blue Mountains City Council, Locked Bag 1005, Katoomba NSW 2780

**Delivered to:** Katoomba or Springwood front counters

**Emailed to:** [council@bmcc.nsw.gov.au](mailto:council@bmcc.nsw.gov.au)

## SUPPORTING DOCUMENTS

The following documents are also available which provide further information on the impact of the proposed new rating structure on the City's ratepayers:

1. Rates for 2010-2011
2. Proposed New Rates for 2011-2012
3. Average Current Rates by Township / Sub-category
4. Number of Properties Affected by Increase / Decrease in Rates
5. Average Proposed Movement in Rates by Township / Sub-category