

ATTACHMENT 4: Business - 'New Rates 2021'**EXECUTIVE SUMMARY**

1. The purpose of this report is to provide an overview of the process in establishing a fairer and more equitable new business rate structure for Georges River Council. As a result of Council resolution (FIN057-19 and CCL049-20) of 26 August 2019 and 27 August 2020, it provides information to Council on the following items:
 - Background on the New Rates 2021 Program to date.
 - Establishment of new business sub-categories.
 - Harmonised Minimum Rates for the Business rate structure.

BACKGROUND

2. Council resolved, in 2018/2019, to develop a program for the preparation of a new Residential and Business rates structure for the Georges River Council Local Government area (LGA), which was to include options that would strengthen Council's financial sustainability and replace the cessation of the former Hurstville City Council's SRV from July 2021.
3. At the Extraordinary Council Meeting held on Monday 10 February 2020, Council considered whether to proceed with an application to Independent Pricing and Regulatory Tribunal (IPART) to introduce in 2020/21 a harmonised minimum rate, harmonised rate in the dollar and also a new Special Rate Variation (SRV) to improve Council's financial sustainability and replace the expiration of the former Hurstville Council SRV. The SRV application was prepared to reduce Council's operating deficit by \$8 million.
4. At that meeting, Council considered the results of the community consultation which outlined there were more than 6,000 responses received from residents. The consultation found that 78% of respondents were supportive of introducing a consistent minimum rate across the city and 66% supported a minimum rate increase to \$965.80. Additionally, 54% of respondents were supportive of Council applying to IPART for a SRV of 8.1% plus a rate peg of 2.5%.
5. Council resolved not to proceed with the application for the SRV or the harmonisation of rates in 2020/21 and instead to investigate staff reductions and salary savings as part of future cost saving measures. Following the adoption of the budget in June 2020 and the presentation of the revised LTFP, Council resolved to recommence consultation with the community on a New Rates 2021 proposal.

Councillor Workshops/Briefings

6. In 2018, the first New Rates Program Councillor workshop was held to provide a broad overview of what the restructure would entail, along with anticipated timeframes.
7. Following the decision of Council in February 2020 to defer the application to IPART, Council resolved in August 2020 to recommence community consultation on a new minimum and SRV. Based on this decision a new set of briefings were held with Councillors.
8. Over the past three years 15 councillor workshops have been held, providing details and financial modelling on a range of topics relating to the program. The following policy items have been covered, but are not limited to:
 - 10 Year Long Term Financial Plan and the impact of the cessation of the former Hurstville City Council's SRV from July 2021;

- Three models for rate calculation options;
 - Council's current income split by residential and business rates;
 - Comparison of average unit and average single dwelling rates;
 - The impact of different minimum rates scenarios;
 - Comparisons of metropolitan Council rate structures;
 - Business sub-category development based on centres of activity;
 - Rate income yield split across categories and sub-categories;
 - Outcome and consideration of options based on community feedback;
 - Refinement of the Long-Term Financial Plan based on 2018/2019 results; and
 - IPART application submission.
 - The target rate income required to resolve Council's financial sustainability issues
 - Historical information of deficits prior to amalgamation
 - Options of a lower SRV and the impact of sustainability
 - Differences between a one-off and multiyear SRV
 - Different minimums and their impact on different groups
 - Updates on the consequences of any proposed rating system legislative changes
 - Community consultation approach
 - Community consultation outcomes
9. Specifically, on 7 August 2019, a briefing on the current and proposed options for a Georges River Council business rating structure was discussed. At this briefing the following items were covered:
- Business rates modelling parameters;
 - Overview of the current rate structures of the former Hurstville and Kogarah Councils;
 - Key policy decisions of a new business rate structure;
 - Draft business sub-categories;
 - Overview of minimum business ratepayers;
 - Draft rate in the dollar multipliers, comparative to residential; and
 - Comparative NSW councils' business rate structures.
10. Outcomes of this meeting included, investigating a business rate structure that would attempt to ensure a fairer and more equitable distribution of the financial burden of an SRV on residential ratepayers.

Rate Path Harmonisation Obligations

11. In late December 2020, the NSW Government released an exposure draft of a Bill on the local government rating system. A section of the exposure draft relates to the possibility of allowing merged councils to gradually harmonise rates over 4 years. The exposure draft does not propose to allow the business rates to be gradually harmonised and therefore Georges River Council must have one business rating system by 1 July 2021 or create sub-categories.

12. The exposure draft does not propose any changes that would assist in resolving Council's financial challenges.

Former Council's Current Business Rating Systems

13. Council currently levies two different ordinary and special rates based on the former Councils' rating systems.
14. At the time of proclamation, Kogarah maintained only an ordinary rate structure, whereas Hurstville maintained an ordinary and special rate structure along with a time-bound SRV.
15. The tables below highlight the former Councils' ordinary business rate structure currently levied in the 2020/21 financial year:

2020/21 Rate Structure	Rate in \$	No. of Properties	2020/21 Rate Revenue (\$'000)
Business			
Former Kogarah - Ordinary Ad-valorem	0.0034159	138	704
Former Kogarah - Ordinary Minimum	966.73	94	91
Former Kogarah - Commercial Ad-valorem	0.0039472	223	2,216
Former Kogarah - Commercial Minimum	966.73	239	386
Former Kogarah - Industrial Ad-valorem	0.0039472	245	195
Former Kogarah - Industrial Minimum	966.73	326	54
Former Hurstville - Ordinary Ad-valorem	0.0033145	1,673	6,589
Former Hurstville - Ordinary Minimum	585.72	655	384
Total		3,593	\$10,619

16. The table below outlines the former Hurstville Council additional special rates currently levied for business and residential rateable properties within the relevant towns:

2020/21 Rate Structure	Rate in \$	No. of Properties	2020/21 Rate Revenue (\$'000)
Special Rates			
Former Hurstville - Hurstville Town Improvement	0.00047246	3,838	590
Former Hurstville - Mortdale Town Improvement	0.00059588	130	45
Former Hurstville - Riverwood Town Improvement	0.00057580	137	60
Total		4,105	\$695

PROPOSED BUSINESS RATE STRUCTURE

17. The Business and Residential rating structures are different in that Business has multiple layers by centre of activity. In addition, the rate in the dollar (ad valorem) and minimum can be different based on centres of activity.
18. To ensure fairness and equity in rates and annual charges across the Council LGA, harmonised, Minimum Rates and Rates in the Dollar are being proposed for business categories, along with different Minimum Rates for new “Major Commercial Centres of Hurstville and Kogarah” and “Major Shopping Complex” sub-categories.
19. To develop the new Georges River Council Business sub-categories, the economic centres within the Local Strategic Planning Statement (LSPS) have been used.
20. To develop the new centres, the Strategic Planning team undertook a comprehensive land use and floor space audit of all business-zoned land in the LGA. Council’s Commercial Centres Strategy conducted a review of the existing economic activity and performance of each centre. In light of this review, each centres ability to support the community’s access to goods and services was considered through the development of an existing retail hierarchy where all 48 centres are classified based on the existing amount of retail floor space and facilities accommodated. The centres hierarchy is comprised of a six-tiered classification system: strategic centre, local centre, village, small village, neighbourhood centre and enterprise corridor.
21. For the purpose of the draft Business rating structures and as per the requirements to harmonise Council’s business rate structure, the following business subcategories are proposed:
 - Major Commercial Centres of Hurstville and Kogarah.
 - Major Shopping Complex (greater than 150 shops).
 - Local Centres.
 - Neighbourhood Centres/Small Village.
 - Industrial.
22. The feedback from the community was that both the minimum and average rate for business seemed too low, especially when compared to the Residential rate and the Business rates used by other councils.
23. Council reviewed the business and commercial minimum rates at the 2 December 2019 briefing.
24. Councillor feedback during that workshop of 2 December 2019 indicated a preference towards a different Business Minimum Rate of \$1,100 for all rateable business properties not within the subcategories of “Major Commercial Centres of Hurstville and Kogarah” and “Major Shopping Complex”.
25. In addition to the above change, Councillor feedback indicated support for increasing the new Business Minimum Rate for the sub-category “Major Commercial Centres of Hurstville and Kogarah” to \$1,500.

FINANCIAL IMPLICATIONS

26. The proposed changes to the Business Minimum Rating structure will contribute approximately 20% towards the total of the permanent increase to general permissible rate income by 5.8% per year for five years which is discussed in the “New Rates 2021 – Special Rate Variation” report.

27. The cost of Rates borne by businesses is an allowable expense and effectively reduces tax payable by their operation. Changing the business rating structure and imposing a higher financial impost on them, in turn reduces the financial burden of increased rates on the residential sector which cannot claim it as an expense to reduce their tax liability. This helps distribute the net impact of increased rates in a fairer and more equitable manner.
28. It is anticipated that the adopted Debt Management and Hardship Policy continues to assist those in the community that may be experiencing adverse financial hardship, by enabling payment arrangements such as interest free extensions and interest free payment plans to ease the burden.

RISK IMPLICATIONS

29. The approval of the applications to IPART for a permanent multi-year increase to general permissible rate income (5.8% per year for 5 years or 29% cumulative inclusive of 16.5% SRV and assumed rate pegs of 2.5% per year or total of 12.5%), will strengthen Council's financial position and contribute positively towards enhancing its financial sustainability. Adopting the proposed business rate structure ensures the burden of the rate increase is fairly and equitably distributed, consistent with community expectations.
30. The exposure draft bill does not propose any changes that would assist in resolving Council's financial challenges and there is no certainty on the outcome of the draft bill at this point in time. There would be a risk in awaiting the outcome of the draft bill and this would result in missing the 2021/22 application submission deadline for IPART.
31. If the minimum does not change houses in the old Kogarah Council area will pay almost three times what an apartment currently pays (an average increase of \$300) and apartments will drop – broadening the inequity instead of addressing it. Houses in the old Hurstville Council area will have an average decrease of \$25 and those who had a large rate increase in 2020/21 will not receive a reduction.
32. Councillors have been apprised of Council's poor and deteriorating financial outlook over the 10 year period of the Long Term Financial Plan over the past two financial years. Failure to address the unsustainable financial position places Council in contravention of S.8b of the Local Government Act 1993 and will compel Council to cut and/or reduce services to ease the unfavourable gap between income and expenditure.
33. The elimination and/or reduction of services may involve reducing the number of hours libraries are open, the closure of child care centres, reduction of the frequency and extent of maintenance of open spaces, parks, sporting fields, reduced maintenance of council assets leading to their deterioration etc. These may however still be insufficient to address the problem to a meaningful extent.
34. At its July 2020 meeting the ARIC comprehensively reviewed and discussed Council's Budget for 2020-2021 and the Long Term Financial Plan projections to 2028-2029.
35. The ARIC expressed concern over the projected operating and cash flow deficits and that the estimates indicate that Council will not be financially sustainable and this will expose Council to significant risks to service delivery, governance and reputation.
36. The current and continuing economic, financial and social impact of COVID-19 will further exacerbate these risks. The ARIC noted that Management had implemented plans for cost savings measures. Whilst such measures are important, the ARIC is concerned that they will be inadequate to address financial sustainability which may threaten the significant progress achieved since merger in harmonising Council's processes, systems, risk management, governance and service delivery.

37. In this regard, the ARIC recommended that Council consider measures to immediately address the key financial sustainability risk, particularly in regard to increasing revenues to secure Council's immediate and long term future.

COMMUNITY ENGAGEMENT

38. Council conducted its largest, most extensive community program to date in order to provide the community ample opportunities to submit their views on the proposed harmonised minimum rates and the special rate variation options. The engagement program has been the largest in terms of respondents since the formation of Georges River Council.
39. Council resolved in 2018/2019 to develop a program for the preparation of a new residential and business rates structure for the Georges River Council Local
40. Government area (LGA), which was also to include options that would strengthen Council's financial sustainability and replace the cessation of the former Hurstville City Council's Special Rate Variation (SRV) from July 2021.
41. Accordingly, a comprehensive and thorough community engagement program for the proposed Special Rate Variation (SRV) and proposed consistent minimum rate was undertaken in late 2019.
42. The outcome of the community engagement showed broad community support for the proposed increase to general rate income of 10.6% (inclusive of 8.1% SRV and 2.5% rate peg) and a consistent minimum rate for residential properties, a consistent minimum rate for business properties and a higher minimum business rate for the Kogarah and Hurstville commercial centres.
43. At the Extraordinary Council Meeting held on Monday 10 February 2020, Council considered whether to proceed with an application to Independent Pricing and Regulatory Tribunal (IPART) to introduce in 2020/21 a harmonised minimum rate, harmonised rate in the dollar and also a new SRV to improve Council's financial sustainability and replace the expiration of the former Hurstville Council SRV. The SRV application was prepared to reduce Council's operating deficit by \$8 million.
44. At that meeting, Council considered the results of the community consultation which outlined there were more than 6,000 responses received from residents. The consultation found that 78% of respondents were supportive of introducing a consistent minimum rate across the city and 66% supported a minimum rate of \$965.80. Additionally, 54% of respondents were supportive of Council applying to IPART for a SRV of 8.1% plus a rate peg of 2.5%.
45. Council resolved not to proceed with the application for the SRV or the harmonisation of rates in 2020/21 and instead to investigate staff reductions and salary savings as part of future cost saving measures. Following the adoption of the budget in June 2020 and the presentation of the revised LTFP, Council resolved to recommence consultation with the community on a New Rates 2021 proposal.
46. Based on 2019 feedback, the 2021 proposal included the same residential and minimum rate harmonisation with a differential business minimum for the Kogarah and Hurstville business centres. The SRV was modified from the set of options tested in 2019, to propose a gradual increase in the total amount of rates collected over the five years equivalent to last year's preferred option as presented to the community.
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48. Support for the harmonised minimum rate structure and a rate revenue increase was established in 2019. Feedback received in 2020 affirmed support for a single rating system and the minimum rate as proposed in 2019.
49. Increasing the rates revenue income base through a gradual five-year increase was strongly supported by all participants in the Citizens Advice Group (CAG), by nearly two thirds of webinar participants and (telephone survey) supported by the majority of residents under 50 years of age, residents in apartments and town houses and those who are tenants. Older people in single detached dwellings were less likely to support the proposal but it still achieved almost 40% support.
50. Information about the proposed changes to rates achieved a potential reach of over 1.5 million contacts across 54 activities or events in the engagement period.
51. There was a very high rate of community awareness about the New Rates 2021 project - 55% of residents were aware that Council was exploring community sentiment towards proposed rate changes – an increase since the 2019 community engagement where the awareness rate was already high, at 47% of residents.
52. Based on 2019 feedback, the 2021 proposal included the same residential and minimum rate harmonisation with a differential business minimum for the Kogarah and Hurstville business
53. There was a lower level of participation in active engagement in 2020 as compared with 2019, which may be indicative of a level of satisfaction around what is being proposed, or a level of consultation fatigue as many people participated in 2019.

2019 Key Outcomes

54. There was strong support for one fair, equitable and consistent rating system for Georges River Council ratepayers with a single residential minimum rate
55. There was good support for a higher business minimum rate and a greater differential for the main town centres at Kogarah and Hurstville
56. There was a strong expectation that Council has efficient operating models with a focus on the services of Council, alongside increased user pay fees and charges
57. The community believed it was unfair that Council's rate income is not permitted to increase in line with development and population growth.
58. An overwhelming majority (78%) of respondents were supportive of a consistent application of a Minimum Rate across the LGA. This ranged from almost 90% of drop-in and information session respondents to more than three quarters of the other groups.
59. Over 90 people attended a Business Breakfast held on 18 September 2019. They were informed about the proposed changes to rates and provided leaflets about the Business Information and Feedback Session.
60. 6% of rateable properties are business properties. All business ratepayers were posted letters from the Mayor and *Changes to your rates* packs. Some 3,544 packs with letters, brochure, survey and reply paid envelopes were sent to Business ratepayers and 288 were returned, which is a response rate of 8%.
61. Over 100 business ratepayers who returned surveys providing a contact email address were sent a reminder invitation to the Business Information and Feedback Session which was held on 30 October 2019.
62. The final survey question sought views on a different business rate of \$1,100 for the commercial centres of Hurstville and Kogarah, reflecting the additional services provided by Council. There was a very high level of support for the different rate for the commercial centres. 68% of mail survey respondents and 87% of drop-in/information session

respondents indicated support, with high numbers being very supportive. Some comments suggested the Minimum Business Rate could be set at a higher level than that proposed.

63. If Council determines to amend the Business Minimum Rate as discussed in this report, Council must notify business ratepayers of that decision.

FILE REFERENCE

D19/276517 and D21/5553