

12.2 2021-22 LAND RATE MODEL

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SUMMARY

The purpose of this report is to seek approval from Council to place the proposed rating model for 2021-2022 on public exhibition for a period of 28 days.

BACKGROUND

Land rates were introduced to Norfolk Island in 2016 under the applied *Local Government Act 1993* (NSW)(NI) [the Act]. Sub-section 494(1) specifies that Council is required to '*make and levy an ordinary rate for each year on all rateable land in its area*'.

Section 497 of the Act details the way in which a levy may be calculated:

'A rate, whether an ordinary rate or a special rate, may, at a council's discretion, consist of:

(a) an ad valorem amount (which may, in accordance with section 548, be subject to a minimum amount of the rate), or

(b) a base amount to which an ad valorem amount is added.'

Section 493 of the Act outlines the four categories under which a property may be rated, being: residential, business, farmland and mining.

There are currently no properties on island categorised as *mining*, therefore, rates are levied under the three remaining categories: residential, business and farmland.

RELEVANCE TO THE STRATEGIC PLAN AND RESOURCING STRATEGY

Objective 9 – An Informed Community

Objective 10 – Transparency in Decision Making

DISCUSSION**Structure of Value Based Rating Systems**

The rates structure being proposed for 2021-2022 uses a value-based rating system with a base component as well as an Ad Valorem component.

What is a Base Rate?

The Base Rate is a static value levied on all rateable properties within the local government area, regardless of size, value, or location. The Base Rate is assumed to be reflective of the cost of running the local government, however, due to the small number of rateable properties on Norfolk Island this is not possible. The Base Rate is set against each category and is applied to each property within the category equally; the Base yield cannot exceed 50 per cent of the total yield for any category or the overall rating yield.

What is an Ad Valorem Rate?

The Ad Valorem Rate is a calculation of the property rate per dollar of property value. The higher the value of the property, the higher the Ad Valorem component will be; property values are determined by the Valuer-General (NI).

It is the combination of these two rating elements that form the rating liability for each ratepayer.

Base Rate + Ad Valorem Rate = Rates Payable

The intent of this rating model is to determine the values of the Base and Ad Valorem rate for each of the three rating categories which are applicable to Norfolk Island: residential, business and farmland.

Individual property owners have the right to request a change of category if they believe they have been incorrectly categorised.

What is the proposed Rating Yield for 2021-2022?

The Rating Yield is the value of rates that will be levied on a Community; it does not reflect the total amount of rates that will be collected during the year as this value is subject to change. Items that can impact the amount of rates collected include:

- ┌ a change in property values
- ┌ a change in categorisation
- ┌ abandonment of rates
- ┌ rating exemptions
- ┌ Council-owned properties (Council paying itself)
- ┌ pensioner rebates

The adopted Long-Term Financial Plan 2020-2029 (LTFP) makes the assumption that there will be an annual increase in the rating yield of 1.5% in the Plan timeframe. In determining what the rating yield will be for 2021-22, the Council has to consider the following.

- (i) improving Council's financial sustainability
- (ii) reducing backlogs for maintenance and renewal of Council's assets and infrastructure
- (iii) maintaining and enhancing services to meet the needs of the community

Councillors have been suspended for a period of six (6) months, due primarily to the financial position we are in. Council is now subject to a Public Inquiry. Council's financial sustainability is uncertain into the foreseeable future, with minimal cash reserves on hand. In the short term it is incumbent on Council, as a minimum, to try and maintain existing services to meet the needs of the community.

From Council's perspective a proposed 1.5% increase, as in previous years would not be sufficient to meet this requirement, let alone maintain and renew Council's assets and infrastructure.

To determine a fair and equitable increase in the rating yield for the 2021/2022 Council referenced as a guide,

- (a) the maximum rate increases (rate peg) set by the NSW Independent Pricing and Regulatory Tribunal (IPART). For 2021/22 the rate peg for NSW Councils is 2.0%. However this increase must be analysed in conjunction with the % increase applied in previous years by IPART and compared to previous increases of the NIRC rates yield. This shows that comparative NIRC rate yield % increases/decreases were, for the financial years 2018 – 2019 to 2020 – 2021, cumulatively lower than the NSW rate peg (2.7% v 7.61%).

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Year	Rate peg % - NSW	NIRC Rate Yield increase %	Difference
2018-19	2.3%	3.6%	-1.03%
2019-20	2.7%	-2.6%	5.3%
2020-21	2.6%	1.75%	0.09%
2021-22	2.0%	TBC	

b) the Australian consumer price index for March 2021 (117.9) has increased by 1.1% from the corresponding quarter in the previous year (March 2020 - 116.6). Anecdotally the equivalent Norfolk Retail Price Index has risen by significantly more than 1.1%, due but not limited to, increases in freight costs in the same period for example.

At this point in time, it is imperative for Council's financial viability that significant steps are taken to start improving our revenue streams and provide evidence to our Regulator that we are taking necessary actions. The following considerations are made:

- (i) Council's obligation to build cash reserves to be able to continue to provide services to the community.
- (ii) A degree of catch up required due to applying variable per annum increases/decreases in previous years.
- (iii) Partial recognition that there is almost certainly a significant disparity between the Australian CPI and a Norfolk Retail price index where increasing the rates yield by an Australian CPI equivalent of 1.1% does not reflect the true increase in costs on Norfolk over the four years.
- (iv) Council almost certainly would have been insolvent if it wasn't for a \$3 Million cash injection by the Department in December 2020.
- (v) A 1.5% increase barely covers inflation.
- (vi) A 5% increase will raise an additional \$60,000.
- (vii) A 10% increase will raise an additional \$120,000.

We are therefore recommending an increase of 10% for 2021/2022.

The increase in the Rating Yield Percentage (%) being proposed is for 2021-22 only. As part of the preparation of the 2021-22 budget, the Council's existing Long Term Financial Plan will be updated. This will include a review of the assumptions that are used to develop the financial plan forecasts, such as future rate yield percentage (%) increases. It is anticipated to present this to Council by December 2021.

Council will also investigate the re-establishment of the calculation and reporting of the Island's Retail Price Index.

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What portion of the total Yield does each Category contribute?

The category distribution in the model adopted for the previous year, 2020-21, is shown in table 1 below.

Category	% of Yield	\$ Levied for each Category
Residential	63%	\$782,934.41
Business	32%	\$389,222.79
Farmland	5%	\$67,143.62
Mining	0%	\$0
	100%	\$1,239,300.82

Table 1 Adopted 2020-21 Model category distribution

The actual rates levied in 2020-21 were \$1,237,323.52, a shortfall of \$1,977.30.

Three (3) proposed yield and category distribution models, with increases of 1.5%, 5% and 10% respectively, are shown in Tables 2, 3 and 4 below;

Category	% of Yield for 1.5% increase	\$ Levied for each Category
Residential	64%	\$803,819.24
Business	31%	\$383,236.25
Farmland	5%	\$68,827.88
Mining	0%	0
	100%	\$1,255,883.37

Table 2 2021-22 Proposed Yield and Category Distribution Model 1.5% increase

Category	% of Yield for 5% increase	\$ Levied for each Category
Residential	64%	\$831,279.22
Business	31%	\$396,658.61
Farmland	5%	\$71,251.87
Mining	0%	
	100%	\$1,299,189.70

Table 3 2021-22 Proposed Yield and Category Distribution Model 5% increase

Category	% of Yield for 10% increase	\$ Levied for each Category
Residential	64%	\$870,738.24
Business	31%	\$415,411.33
Farmland	5%	\$74,799.87
Mining	0%	
	100%	\$1,360,949.44

Table 4 2021-22 Proposed Yield and Category Distribution Model 10% increase

The breakdown of Base Rate to Ad Valorem rate in the dollar (multiplier) for both proposed models are shown in the tables 5,6 and 7 below.

Category	Base Rate – 1.5%	Multiplier – 1.5%
Residential	\$244.00	0.002370978
Business	\$699.00	0.005650286
Farmland	\$202.00	0.001239974
Mining	\$0.00	0.00000000

Table 5 2021-22 Model Base rate & Ad Valorem Rate (multiplier) 1.5% increase

Category	Base Rate – 5%	Multiplier – 5%
Residential	\$252.00	0.002454687
Business	\$723.00	0.005848759
Farmland	\$210.00	0.001279105
Mining	\$0.00	0.00000000

Table 6 2021-22 Model Base rate & Ad Valorem Rate (multiplier) 5% increase

Category	Base Rate – 10%	Multiplier – 10%
Residential	\$264.00	0.002570898
Business	\$758.00	0.006125609
Farmland	\$220.00	0.001345139
Mining	\$0.00	0.00000000

Table 7 2021-22 Model Base rate & Ad Valorem Rate (multiplier) 10% increase

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A comparison of the annual increases in rates are depicted below in Table 8:

Residential Valuation to	Number Properties	2020 to 2021	1.5% increase	5% increase	10% increase	Annual \$ increase in rates per property		
						1.5%	5%	10%
\$ 50,000	143	\$356.91	\$362.55	\$374.73	\$392.54	\$5.64	\$17.82	\$35.63
\$ 100,000	756	\$473.82	\$481.10	\$497.47	\$521.09	\$7.27	\$23.64	\$47.27
\$ 150,000	254	\$590.74	\$599.65	\$620.20	\$649.63	\$8.91	\$29.47	\$58.90
\$ 200,000	125	\$707.65	\$718.20	\$742.94	\$778.18	\$10.55	\$35.29	\$70.53
\$ 250,000	100	\$824.56	\$836.74	\$865.67	\$906.72	\$12.18	\$41.11	\$82.16
\$ 300,000	65	\$941.47	\$955.29	\$988.41	\$1,035.27	\$13.82	\$46.93	\$93.80
\$ 350,000	22	\$1,058.38	\$1,073.84	\$1,111.14	\$1,163.81	\$15.46	\$52.76	\$105.43
\$ 400,000	10	\$1,175.30	\$1,192.39	\$1,233.87	\$1,292.36	\$17.10	\$58.58	\$117.06
>400,000	21							

Table 8 2021-22 Comparison of Annual increase in rates by value of property and three indicative yield increases

The recommended increase of 10% will result in the majority of rate payers (77%) paying an additional sum, ranging from \$35.63 to \$58.90 in 2021 – 2022 (equivalent to between \$0.69 and \$1.13 extra a week).

GOVERNANCE/POLICY IMPLICATIONS

The challenge for Council is in creating a rating model which not only meets the requirements of the legislation, but, one which is fair and equitable across all three rating categories.

The proposed model meets the minimum collection requirements of the legislation s513A

513A Minimum revenue to be raised from ordinary rates

Despite any other provision of this Act, an ordinary rate made for a year by the council must be such as to ensure that the total of ordinary rates levied on all rateable land for the year is at least:

- (a) for the year ending on 30 June 2017—\$500,000; and
- (b) for the year ending on 30 June 2018 and any later year—\$1,000,000

In total there are 1892 rateable properties on Island, of this 1496 (79%) are categorised *Residential*, 241 (13%) are *Business* and 155 (8%) are categorised as *Farmland*.

LEGAL IMPLICATIONS

Council is required to meet its obligations under the *Local Government Act 1993* (NSW)(NI) and levy rates annually. The Act contains strict guidelines as to how rates can be levied and, by when. The proposed model for FY 2022 meets the legislative requirements under the Act.

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ENVIRONMENTAL IMPLICATIONS

N/A

SOCIAL IMPLICATIONS

The levying of land rates is a legislative requirement; the distribution of the total yield is a decision for Council. In considering an equitable rating model it is important to take into consideration the property category distribution and, any changes which may have occurred to this distribution over the last 12 months.

FINANCIAL IMPLICATIONS

The increase in the total yield(s) of the three (3) proposed models for 2021-22 are:

Rates Year	1.5% increase	5% increase	10% increase
2020-21 Yield	\$1,237,323.52	\$1,237,323.52	\$1,237,323.52
2021-22 Models	\$1,255,764.30	\$1,298,967.12	\$1,360,949.44
Total increase in yield (\$)	\$18,440.78	\$61,643.60	\$123,625.92

Table 9 2021-22 Estimated increase in Rates yield from 2020-21

The percentage increase has the largest impact on the *Residential* category purely as this category has the largest number of properties (1496) as opposed to *Business* (251), *Farmland* (155) and *Mining* (0).

Revenue collected from rates forms part of Councils general revenue fund.

CONCLUSION

The proposed models meet legislative requirements and are considered to fairly distribute the burden of land rates across the three rating categories. For 2021-22 Council is obliged to consider increasing the rating yield percentage, as with all Council fees and charges to assist in building up cash reserves to maintain existing services for the community, and to replace aging infrastructure. The recommended rates yield percentage increase for 2021-22 is 10% and that this model be placed on public exhibition for a period of 28 days.

RECOMMENDATION

That Council

- (1) Endorse the placing of the proposed 2021-22 rating model with a yield percentage increase of 10% on public exhibition for a period of 28 days, as detailed below:

Category	Base Rate – 10%	Multiplier – 10%
Residential	\$264.00	0.002570898
Business	\$758.00	0.006125609
Farmland	\$220.00	0.001345139
Mining	\$0.00	0.00000000

- (2) Note that the increase in the Rating Yield percentage being proposed is for 2021-22 and as part of the preparation of the 2021-22 budget, the Council's existing Long Term Financial Plan will be updated to include a review of the assumptions that are used to develop the financial plan forecasts, such as future rate yield percentage (%) increases, and that this report be presented to Council at its December ordinary meeting.
- (3) Ask the General Manager to investigate re-establishment of the calculation and reporting of the Island's Retail Price Index, to be used as a reference for calculating future Rating Yield percentages and Council fees and charges.

ATTACHMENTS

Nil