HOMEBUSH RESIDENTS' GROUP, INC **|** Incorporation number INC2201289

homebush.org **|** secretary@homebush.org

30 January 2023

Strathfield Council
65 Homebush Road
Strathfield NSW 2135
Attention: The General Manager

By Email:
council@strathfield.nsw.gov.au

Dear Sir or Madam

SPECIAL RATE VARIATION

We refer to Council's 2023 special rate variation proposal (***SRV***), as communicated on the Council's website as at 27 January 2023, and Council's booklet in relation to the SRV.

The Homebush Residents' Group, Inc. (the ***HRG***) is an association of residents in and around Homebush village. The HRG is registered in New South Wales as an incorporated association with an incorporation number INC2201289. We make these submissions on behalf of the HRG's members, all of whom are residents of the Municipality of Strathfield, to **oppose** the SRV.

1 Minimum rate structure

We are supportive of the Council's proposal to move to a minimum rate structure. Unimproved land value correlates poorly with *property* value when considering multi-dwelling properties. Accordingly, it is also a poor predictor of wealth or income. Further, we agree that the cost of Council services consumed by any particular household is not correlated with the land value of the property. Unimproved land value is inversely proportional to density, yet consumption of Council services does not reduce with density. In fact, all else being equal, a household living in a high density flat dwelling is more likely to consume Council services than a household living in a low density dwelling, due to the lack of space for recreation, exercise and socialising. For these reasons, we agree that a minimum rate structure is a fairer system.

2 Unreasonable impact

We oppose the ad valorem rate proposed for the SRV for residential categories, because it represents an extremely unreasonable impact on a significant portion (up to 30%) of ratepayers.

The Council website states that the proposed minimum rating amount will be **$1,200 per annum**. Although the Council website does not specify the proposed new ad valorem rate, by interpolating between the figures given on the website, we estimate that the proposed ad valorem rate will be **approximately 0.16775 cents in the dollar** of unimproved land value at the end of the four-year phase-in period.

By comparison, the current system has a base rate of $423 and an ad valorem rate of only 0.064212 cents in the dollar.

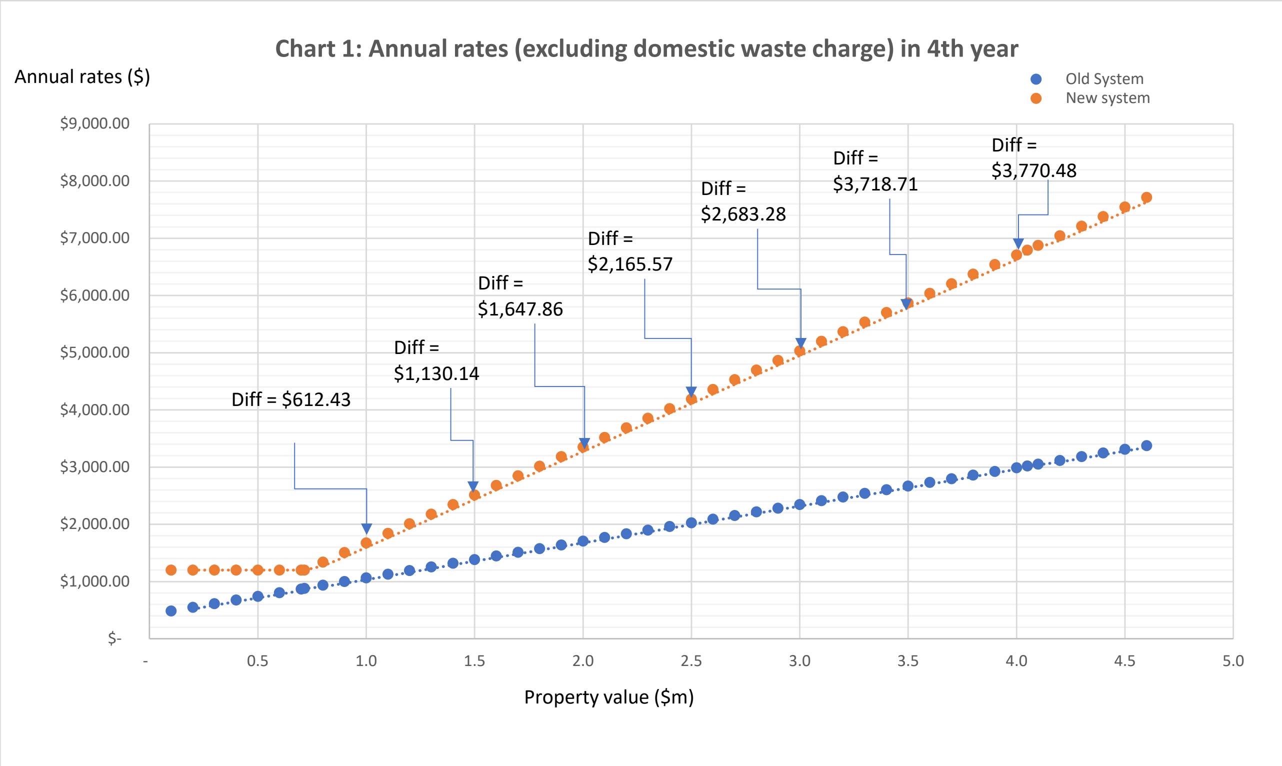
Chart 1 below illustrates the impact of the SRV on residents by property value. The labels in Chart 1 indicate (in dollar terms) the impact on householders at different land value levels.

We understand from discussions with Council staff that Council's analysis of the impact of the proposed SRV is based on 2019 rates. Based on our informal survey of land values in the area, land valuations have significantly increased between 2019 and 2022. The increase has been in the range of $1 million or more per house in our local area. We urge council to reassess the impact on residents of the SRV by taking into account the change in land value between 2019 and the current (2022) rates.

In fact, based on the Valuer-General's assessment as at 1 July 2022 (which will apply from 1 July 2023), most single-dwelling properties in and around the Homebush village centre (centred on Rochester Street, Homebush) currently have assessed unimproved land values around the range of $2.5 million to $4 million.

At these land values, the SRV will result in an annual rate burden of around $4,000 to $7,000 per household. In other words, the impact of the SRV is in the range of an annual **$2,000 to $4,000 increase** per household, or **more than 100%** compared to the current system.

We note that Council is also estimating a small reduction in the domestic waste charge of around $250 per annum per household, but this reduction is negligible compared to the size of the increase in the range of land values under discussion, and for simplicity we have not shown it in the chart.



This level of increase is unreasonably large. As Council will be aware, the large majority of freestanding properties in the Homebush-Strathfield area are occupied by family or couple households. Many of these households are working professionals who also have to support school-age children. Many others are retirees living on fixed incomes.

We illustrate this impact by taking the example of a house with an unimproved land value of $3 million, which equates to a typical, modest single-dwelling property close to Homebush village. This property would face an annual rate burden of around $5,000, which equates to:

- more than five times the median weekly personal income in Homebush ($960 per week according to the 2021 Census);
- about ten times the maximum weekly age pension rate ($513.25 per week, including maximum pension supplement and energy supplement). (We note that Council proposes that the pensioner rate rebate, which is capped at $250 *per annum*, will remain unchanged); and
- about fifteen times the current weekly JobSeeker allowance for a single person ($334.20).

We remind Council that these significant increases are calculated based by applying the current system and the SRV to the same valuation base. In reality, for each individual household, the significant increase in land value between 2019 and 2022 will itself already produce a significant increase in rate burden, and the crippling increase outlined above will be on top. Taking the example of a property which had a valuation in 2019 of $1.7 million, and which now (based on 2022 valuations) has a valuation of $3 million, the increase in rate burden even without the SRV is **55%**. The impact of the SRV *plus* the impact of the land value increase between 2019 and 2022 is **more than 200%**.

For families that are fortunate enough to have working adults, this would be a significant financial burden that cannot be accommodated without impacting materially on quality of living. For pensioners or those who are out of work, the proposed rate burden is simply unbearable.

Nor is the new structure fair. As we have noted above, the cost of Council services consumed by any particular household is not correlated with the land value of the property. Unimproved land value is inversely proportional to density, yet consumption of Council services does not reduce with density. We trust that this is well recognised by Council and by Morrison Low. It is indeed well recognised by IPART as a position that numerous councils have repeatedly advocated to it in successive rate variation applications. Against this background, it is simply perverse to require one household to pay four or six times the minimum rate while another household pays only the minimum rate, when the latter household is likely to consume just as much, or more, Council services.

We urge Council to rethink the unreasonable and unfair impact of the SRV on residents. We set out below in section 5 a proposal for a fairer rate structure for Council to consider.

The flip side of the increase in rate burden due to increases in land value, is that Council should expect a significant increase in rate revenue next year even without applying for any SRV. As illustrated by the worked example above, most single dwelling properties, Council can expect to receive an increase in rate burden which is likely to often be greater than 50%. We urge Council to reassess the need for an SRV at all.

3 A permanent SRV is not appropriate

We do not agree that Council has demonstrated a history of well-documented council productivity improvements and cost containment strategies. Based on Council's published materials, the previous Councils have deliberately deferred action on looming deficits over many years.

We welcome the present Council's and management team's focus on productivity improvement and cost containment strategies this year. However, these strategies do not appear to have been fully thought out and contain significant moving pieces. For example, we understand that a services review is due only at the end of this financial year. We submit that Council should defer applying for a permanent SRV until the full impact of the productivity improvement and cost containment strategies currently under consideration have been costed and measured.

As far as the cost of servicing the budget impact of past wastages and accumulated backlogs is concerned, we do not agree that a permanent SRV is an appropriate response. This category of issues are not recurring and, we hope, will be avoided by the new Council's commitment to integrity, and a new management team that will better manage Council projects. In our view, this category of issues includes backlogs in maintaining Council assets accumulated over the last few years, as well as unnecessary capital investments undertaken in the past, such as replacing natural turf with artificial grass on playing fields, or unnecessary replacement of existing assets such as the Hudson Park driving range.

With these considerations in mind, we urge Council to consider applying for a temporary SRV to deal with budget blackholes left by this category of past projects. If a temporary SRV is considered necessary, we urge Council to consider dispensing with any phase-in period and apply the full amount of the SRV from year 1, and using the additional revenue to pay for budget repair. Either way, these non-recurring issues should not be taken into account when calculating the permanent increase in rate burden.

We urge Council to defer applying for any permanent SRV until it has seen the positive impact on rate income that flows from the increase in land value, and its productivity improvement and cost containment strategies have been properly considered and implemented (as to which, we offer suggestions below). This should, at a minimum, be after recalculated rates have been determined for financial year 2024, and after completing the services review to be conducted at the end of this financial year.

4 Cost reductions and other funding sources

Unfunded but recurring costs and expenses are properly to be funded by a permanent SRV. We urge Council to reconsider the size of increase needed to deal with this category of issues. Some suggested matters to consider include:

- Council should consider the funding model for community festivals or events. While we support Council's commitment to community events, Council should not be the primary funder of community festivals or events, especially events which are of interest only to small groups. Strathfield Council is an affluent area and community festivals or events should be primarily organised by community organisations and funded by a combination of commercial sponsorship and ticket or merchandise sales, and any grants that may be available from Federal and State governments. Council's funding of community events should at best be supplementary. Council funding should not be used to prop up otherwise inadequately funded events.
- Council should shift the cost of repair and maintenance of assets onto users where damage is caused (or wear and tear is exacerbated) due to misuse or excessive use of public assets by residents or businesses. For example, where Council has to increase cleaning or remediate footpaths or nature strips due to improper disposal of waste or excessive use, Council should be rigorous in passing the cost on to the relevant business, resident or strata body corporate.
- Council should ensure that boarding houses pay their fair share of rates. Boarding houses generate disproportionately high negative externalities and consume many times the amount of Council resources compared to single-dwelling properties of the same land value. We understand that Council currently treats boarding houses as residential for rating purposes, and that boarding house operators have the opportunity to apply to reduce the assessment of their land tax. We suggest that the rating policy for boarding houses should be reviewed to ensure that they pay either commercial rates or residential rates equivalent to a multi-dwelling building with the same number of residents, whichever is higher. Further, a number of properties in the Strathfield Council area are operated as informal or illegal boarding houses, where rooms in residential properties are rented out to an excessive number of boarders. Council should take reports of such practices seriously. Aside from usual enforcement measures, Council should rigorously pursue the property owners to ensure that they pay back rates, calculated at either commercial rates or residential rates equivalent to a multi-dwelling building with the same number of residents, whichever is higher.

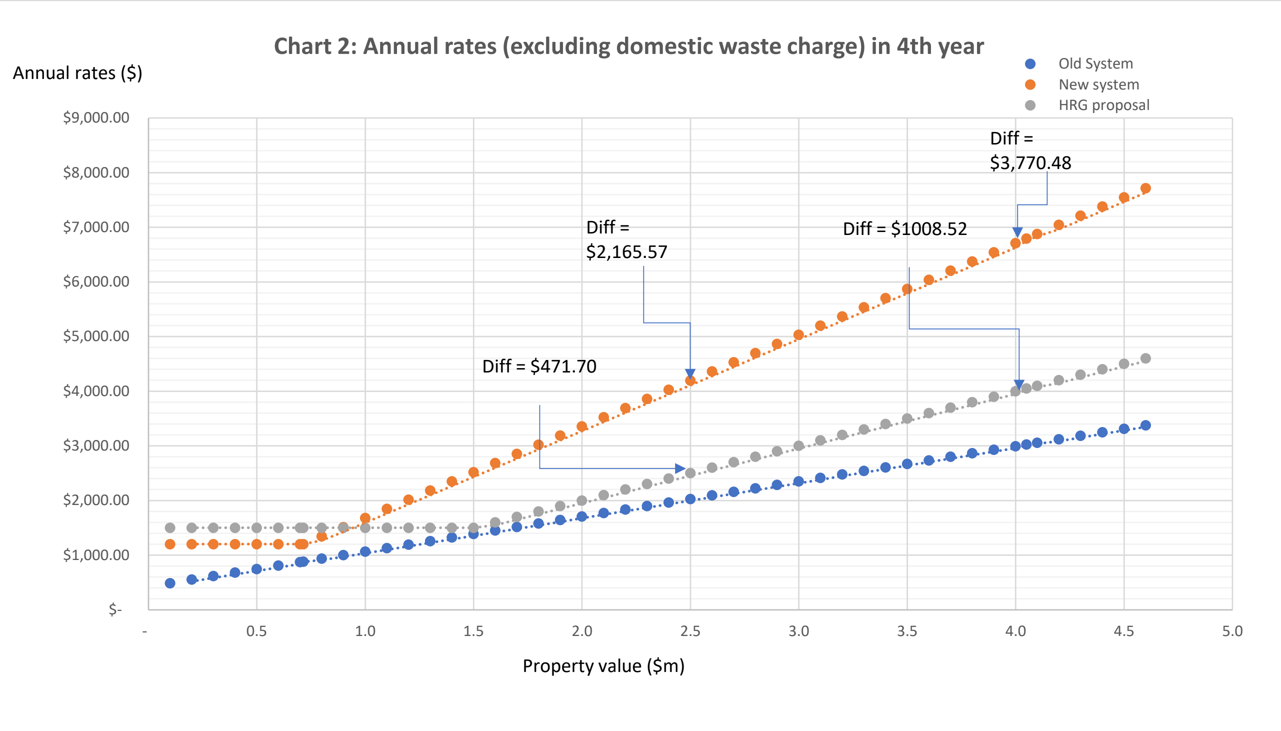
5 Suggested SRV structure

The unreasonable and unfair impact of the SRV on residents primarily results from the excessively high ad valorem rate.

Council's publicity material relating to the SRV state that 70% of rate payers will pay the minimum rate, and that 74% of ratepayers will see an increase of no more than 19.5%. This suggests that there is opportunity for Council to remedy the unreasonable impact on householders. Assuming that the distribution of land value is a truncated normal distribution (as would be expected), a small increase in the minimum rate will result in a significant improvement to the overall budget position, and will allow the excessively high ad valorem rate to be reduced.

For example, a $500 per household increase in the minimum rate would be expected to allow the burden to reduce by more than $1,000 per household for householders paying more than the minimum rate.

In Chart 2, we illustrate the impact of moving to a structure where the ad valorem rate is **0.1 cents in the dollar** and the minimum rating amount is **$1,500** (labelled "HRG proposal"). As can be seen from the chart, this structure would have much less drastic impact on all residents, and would be significantly fairer.



Moreover, as Council will know well, high density developments in the municipality will be increasing over the medium to long term. As a result, the share of low-land-value properties that will pay the minimum rate will significantly increase compared to properties that will pay the ad valorem rate, which will be a diminishing pool. A higher minimum rate is therefore in the interest of ensuring long term financial sustainability for the Council. Conversely, a low minimum rating amount and an excessively high ad valorem rate will only cause budgetary deterioration down the track as the proportion of properties that are high-land-value freestanding houses shrink further.

6 Hardship mitigation measures

We suggest that the impact on individual householders who may suffer hardship can be further mitigated through the following measures.

- Change the pensioner rebate of $250 to a percentage one. For example, assuming the minimum rate will be set at $1,500, the pensioner rebate should be set at 16.67%. A household paying the minimum rate will continue to receive $250 in rebate, but a household paying the ad valorem rate will receive a more proportionate rebate.
- Introduce an owner-occupier rate category. A large portion of low-value residential properties are owned by investors, for whom council rates are a tax-deductible expense. The burden on investors is therefore mitigated through the tax system. For owner-occupiers, council rates are not tax deductible. We submit that Council should introduce an owner-occupier rate category, which is lower than the non-owner-occupier category by 32.5% (the marginal tax rate for a person earning median income in the Strathfield Council area), which is available to properties that are not (wholly or partially) rented out. This will help to mitigate the higher burden for owner-occupiers. If Council is not minded to introduce a separate category for owner-occupiers, a discount could be provided to owner-occupiers in the form of a rebate.

7 Exhibition and community awareness

We do not agree that there has been a sufficient process to exhibit relevant Council documents to the public, and we do not agree that there has been adequate community awareness of the Council's plans. This is because:

- Council has not published the proposed formula, leaving residents to calculate the rate formula themselves relying on a limited number of published data points. Most residents will not have sufficient numeracy to do this.
- Council's extensive use of headline numbers such as 70% of residents paying the minimum rate, or 74% of residents having an increase of less than 19.5%, while detailed figures are well hidden on the website, is likely to have misled less attentive residents into not pursuing the detailed figures that help to illustrate the full impact of the SRV for all residents. If the headline numbers have been calculated based on 2019 land valuations, then those numbers themselves are also misleading.
- Combining what has been described as an accounting shift of the domestic waste charge with a fundamental change to the rate structure has obfuscated the true impact on residents, especially when combined with the added complexity of the four-year phase-in process.
- Compounding the issues above, as noted, Council's analysis (and resultant documents exhibited) of the proposal's impact relies on outdated and now inaccurate rates information.

8 Conclusion

We respectfully submit that Council should:

- Adopt a minimum rate structure, but reassess the proposed SRV formula, to reduce the excessively high ad valorem rate (and, if necessary, increase the minimum rating amount).
- If it considers necessary to deal with the impact of past wastages or accumulated backlogs, apply for a temporary SRV, to apply immediately from next year, to deal only with these issues.
- Defer applying for a permanent SRV until the impact of increased land valuation and its productivity improvement and cost containment strategies have been properly considered and implemented. This should, at a minimum, be after the financial year 2024 rates have been determined, and the services review has been completed.
- Further review avenues to save cost and increase revenue, including Council funding for events, shifting cost of repair and maintenance to users, rating treatment of boarding houses, and rigorously pursuing informal boarding houses for back rates.
- Consider restructuring the pensioner rebate and introducing an owner-occupier rebate.

Thank you for your consideration.

Yours faithfully

Homebush Residents' Group, Inc.