

Tuesday 19th May, 2020

Dear Pittwater Ward Councillors Ferguson, McTaggart, White
cc Councillors from Curl Curl, Frenchs Forest, Manly & Narrabeen wards
cc Duffys Forest Residents Association

**Re: Councils FY21 Rate increases and the effect on the rural acreages of
Terrey Hills & Duffys Forest**

We write to you as we act for clients in the Duffys Forest/Terrey Hills acreage community. For disclosure, we are also residents of the Duffys Forest/Terrey Hills acreage community and have an interest in this matter.

Our purpose is to highlight an inequity that is about to occur from Council's proposed FY21 rating. Rate increases of over 36% are proposed for approx. 380 acreage residents of Duffys Forest and Terrey Hills.

In this letter we highlight the extent of this rate increase and how Council's FY21 rate charges are an unreasonable burden on rural acreage ratepayers. This letter also highlights that the comment of a 'collective rise of 1.3%' is mathematically incorrect and an over-simplification.

1. Summary

In the following pages we analyse Council's FY21 draft budget, solely focused on rating revenue. We highlight anomalies including;

- An increase of 3.1% in gross rates to be collected, i.e. gross rate revenue of \$173m in FY21 as compared to \$168m in FY20,
- An increase of 3.4% in gross rates to be collected for the former Warringah LGA,
- An increase of 3.6% increase in the gross rates to be collected from the residential ratepayers of the former Warringah LGA, and
- A projected 36%+ increase in gross rates to be collected for the rural acreage residents of Duffys Forest and Terrey Hills.

We analyse the effects of Council's decision to move from the 2016 land values to the 2019 land values. We highlight;

- There is wide disparity of changes in land value over the three years, and
- Council's budget papers do not contain any meaningful discussion or analysis on the affects of moving from the 2016 land values to the 2019 land values,

We discuss Council's rate setting decision making process and we highlight;

- The exercise of Council's discretion to increase the rate burden on residential ratepayers,
- The exercise of Council's discretion to ameliorate the consequences of changes in land value for some ratepayers,
- Two of the thirteen rating sub-categories receiving an increase in ad valorem rates, and

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- The compounding effect of Council's rating decisions that results in rural acreage residents of Duffys Forest and Terrey Hills receiving a 36%+ increase in rates for FY21

We undertook a qualitative comparison between Warringah Mall and the 380 rural acreage residents of Duffys Forest and Terrey Hills. Wherein Warringah Mall received a 35% land value increase, Duffys Forest/Terrey Hills acreage received an aggregate 32% land value increase. Warringah Mall is projected to receive a 2.6% rate increase in FY21 while Duffys Forest/Terrey Hills acreage ratepayers are projected to receive a 36%+ increase in rates.

We request your assistance in facilitating a new rating sub-category for the rural acreage residents of Duffys Forest and Terrey Hills. On the basis that it is fair, equitable and there is precedent to support a sub-category. We further request that we receive the same consideration as Warringah Mall with Council exercising its discretion to cap rate increases for this new sub-category at 2.6%. Finally, we model the suggested new sub-category and find that it is sustainable for Council.

2. Overview of rates: - Council's draft FY21 budget

Council's revenue from rating for FY21 is projected to be approx. \$173m. The breakdown of this revenue is explained on pages 134 to 141 of Council's draft budget.

Council advises that it seeks to apply the 2.6% IPART rate cap to rates for FY21, as explained on page 134 of the draft budget.

Council advises that rates will be based on land values as at 1 July 2019 compared to the FY20 budget that was based on land values as at 1 July 2016.

As part of its Covid-19 response, Council is recommending a temporary revenue policy to vary the 2.6% increase. This revenue policy seeks to cushion the impact of the adoption of the maximum IPART increase of 2.6% by recommending a 50% increase. In summary, Council describes this policy initiative as "Ratepayers will collectively pay 1.3% more in rates in 2020/21".

Appendix A provides a compilation of the rating structure comparing FY21 to FY20.

For accounting purposes, Council's FY21 gross rates and annual charges are projected to be \$214m. Rating revenue is added with annual charge revenue, predominately domestic waste charges of \$46m.

Appendix B provides an overview of the two external constraints imposed on Council's rating decision making, namely, IPART and the Merger agreement. The task for future harmonisation is also noted.

3. Land Value – The effect of changing from 2016 to 2019 ULVs

The NSW Valuer General has determined that the total value of all land in the Northern Beaches Council is nearly \$91b as at 1 July 2019. On 1 July 2016, the Valuer General had determined the total value of land to be just over \$88b. Over the three-year period to 2019, the total value of all land increased by 3.1%.

It is believed¹ that over 80% of all northern beaches' land is subject to rates as either business or residential land².

It is estimated that for that 80% of land that is rateable, there was an aggregate 2.8% increase in the value of northern beaches land over the three-year period to 2019.

Residential land comprises approximately 92% of the Northern Beaches rateable land, reflecting the predominant urban nature of the northern beaches' community. The residual rateable land is predominately business land.

Between 2016 and 2019 there were significant changes in land value between the different zones of rateable land.

Figure 1 highlights the significance of the inter-zone changes for the four zones of Business, Industrial, Residential & Rural.

Land that is zoned as residential recorded an aggregate increase of 0.5% in the value of land over the three-year period to 2019.

Significantly, land that is zoned as Business, Rural and Industrial recorded increases of 22%, 28% and 43% respectively.

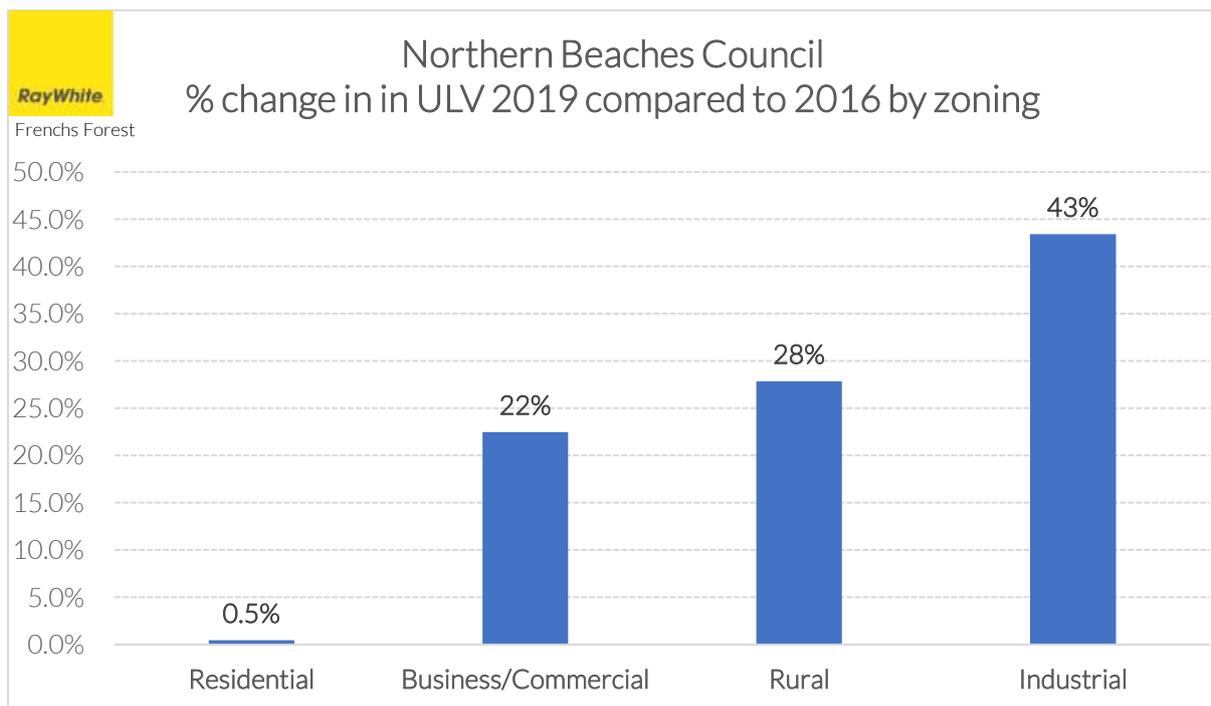


Figure 1- Changes in ULV for rateable properties by zoning
Source: Valuer General - Property NSW & Ray White Frenchs Forest

¹ Under the NSW Government's Open Data Policy, data on land value is freely available. We are led to believe that Northern Beaches Council has not created an open data policy that would allow identifiable rateable properties in bulk to be freely downloadable and matched to the NSW Government data.
² Residential land includes rural zoned land. Business land includes industrial zone land.

Combining these zones into Council's rating categories of residential and business we estimate that the averaged change in land value over the three-year period to 2019 is;

- Residential land (i.e. including rural) increased by 1.1%
- Business land (i.e. including industrial) increased by 27.5%

The above calculated thresholds provide a benchmark to determine "winners" and "losers" from land value changes.

Councillors, we note that Council's FY21 draft budget provides no discussion and/or analysis of the effect of the adoption of 2019 land values including the "winners" and "losers" and the significance between the inter-zone relativities³.

We will discuss the effect of changing land values, the benchmark and the significant inter-zone differences after discussing Council's rating methodology.

4. Council rating methodology

Council's FY21 draft budget discloses that Council has constructed its proposed FY21 rates by adhering to the rating structures of prior years and in keeping with the requirements of IPART and the Merger.

Based on conversations with Council officers, we understand that Council determine rates by undertaking the following four computations in step order;

1. Determine the increase in gross rates.
For FY21 Council has budgeted an increase of 3.1% in gross rates to be collected, i.e. gross rate revenue of \$173m in FY21 as compared to \$168m in FY20⁴.
2. Determine the increase in the minimum rate for each sub-category.
For FY21, Council has decided to increase each of the nine (9) sub-categories minimum rates by the maximum amount permitted by IPART of 2.6%
3. Determine the increase in the revenue to be raised by each sub-category.
This step involves the consideration of whether the relatives between sub-categories should be maintained or varied. For FY21, Council has decided to increase the rate burden on residential ratepayers by projecting rating revenue of \$143m compared to \$139m in FY20, an increase of 3.2%.
4. Determine the ad valorem rate to be applied to properties above the minimum rate threshold.
After completing steps 1 to 3, the calculation of the ad valorem rate becomes a mathematical function that ensures that all properties are rated to achieve the determined rating revenue.

In the following sections we shall examine these four procedural steps.

³ On page 135 of Council's draft FY21 budget, these changes are summarised as "Individual rates are also affected by other factors such as land valuations by the NSW Valuer General. As such, rates for individual ratepayers may vary by more or less than the percentage allowable, depending ... compared to the land value of other ratepayers."

⁴ This increase will be reduced if Council's covid-19 policy is adopted.

5. Council's gross rating revenue, category rates & minimum rates – Steps 1, 2 & 3

Step 1 – Determine gross rating revenue

Council seeks to raise \$173m in rates for FY21. This is achieved by levying ordinary rates on the residents of the former LGAs of Manly, Warringah & Pittwater plus two applicable special rates for the former Manly LGA.

Table 1 reveals that FY21 gross rating revenue is forecast to increase by 3.1%⁵.

	FY17/18	FY18/19	FY19/20	FY20/21
Ordinary	\$158m	\$162m	\$167m	\$172m
Special	\$1m	\$1m	\$1m	\$1m
Total	\$160m	\$164m	\$168m	\$173m
% change		2.5%	2.7%	3.1%

Table 1 - Gross rating revenue for years FY18 to projected FY21

Analysis by former LGA reveals that the ratepayers of the former Warringah LGA will be levied an increase in gross rating revenue of 3.4%, as detailed in Table 2. The ratepayers of the former Manly and Pittwater LGAs receive rate increases of 2.7% and 2.8% respectively.

	FY17/18	FY18/19	FY19/20	FY20/21
Manly	\$28m	\$29m	\$30m	\$30m
Pittwater	\$41m	\$42m	\$43m	\$44m
Warringah	\$89m	\$91m	\$94m	\$97m
	\$158m	\$162m	\$167m	\$172m

Manly (% increase on previous year)	2.2%	2.5%	2.7%
Pittwater (% increase on previous year)	2.4%	2.7%	2.8%
Warringah (% increase on previous year)	2.7%	2.7%	3.4%

Table 2 -Gross rating revenue by LGA for years FY18 to FY21

Step 2 – Determine minimum rate increase

There are nine sub-categories across the three former LGAs that have minimum rates stipulated. Each of the nine minimums are forecast to rise by the IPART maximum of 2.6%, as detailed in **Figure 2**.

⁵ Refer to comments on Council's proposed covid-19 rates policy

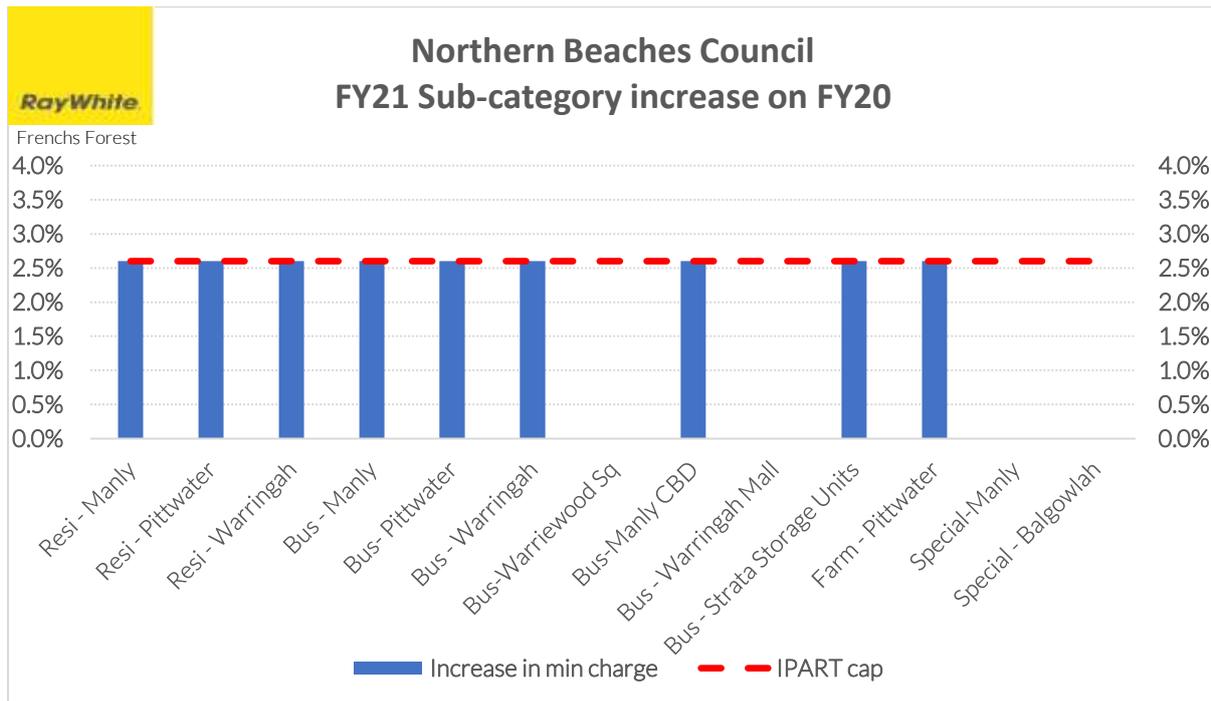


Figure 2 - FY21 increase in minimum rates for each sub-category

Step 3 - Determine sub-category increase

Having completed Steps 1 & 2, we are led to believe that Council then determines the rating revenue that is to be collected from each sub-category.

Council's FY21 draft budget provides no discussion and/or analysis of the decision of determining the rating revenue to be raised from each sub-category.

For FY21, Council seeks to levy a 3.6%⁶ increase in the gross amount of rates to be raised from the residential category for the former LGA of Warringah. An increase of 3.1% is proposed for the business category of the former LGA of Manly. This is illustrated in **Figure 3**.

⁶ In FY21 the former Warringah residential LGA is projected to create 830 additional ratepayers, an increase of 1.6% on FY20 ratepayers. The former Manly LGA is projected to lose 267 ratepayers, a decrease of 1.5% on FY20 ratepayers.

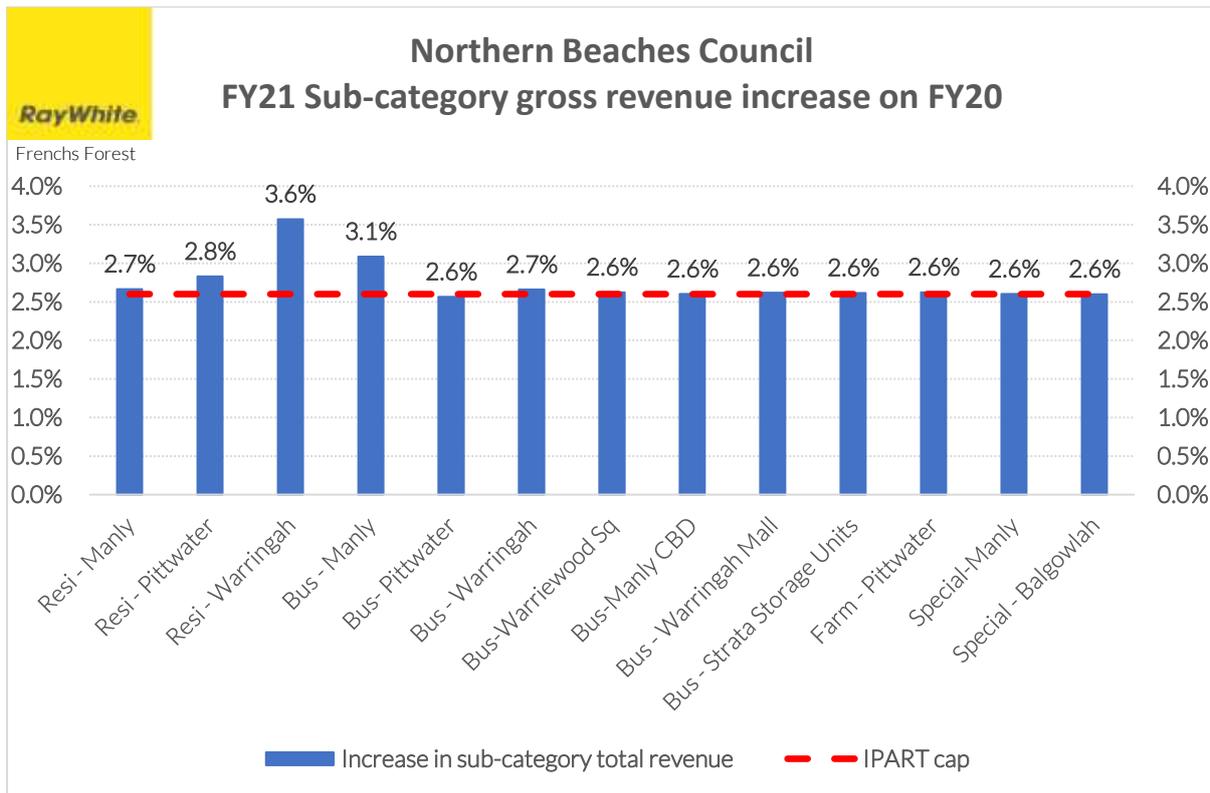


Figure 3- FY21 sub-category gross revenue changes compared to FY20

6. Council's ad valorem rates – step 4

Having completed steps 1 to 3, the determination of the ad valorem rate to be applied to each sub-category becomes a mathematical computation.

The computation is based on land values and as previously discussed, the change from 2016 to 2019 land values causes ad valorem rates to vary from FY20.

For FY21, all ad valorem rates reduce except for the two residential sub-categories of the former Manly & Warringah LGAs, this is illustrated in **Figure 4**.

In Appendix A, the comparison of the ad valorem rates is shown.

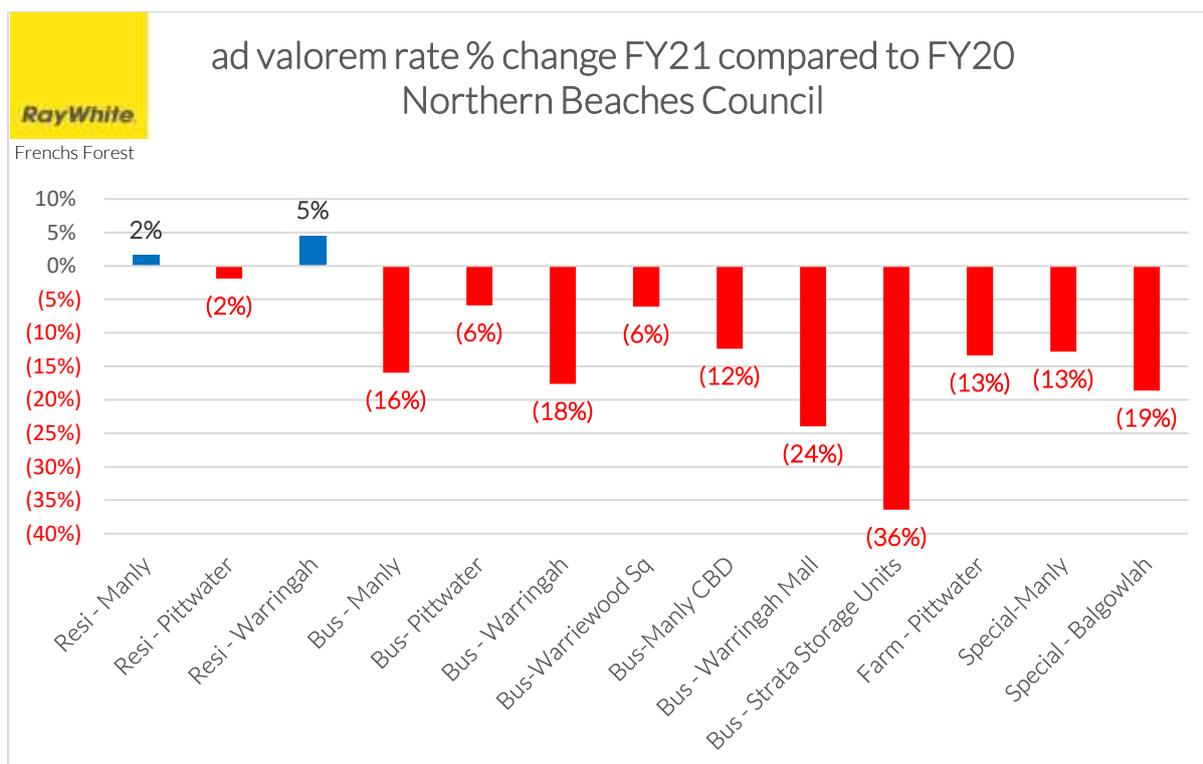


Figure 4 - % Changes to projected ad valorem rates FY21 compared to FY20

7. Council's covid19 rating policy

In the FY21 draft budget Council proposes temporary revenue policies due to Covid19.

The principle of the policy is that half of the 2.6% increase be rebated to ratepayers so as to cause the increase to be 1.3%. It summarises this policy as "Ratepayers will collectively pay 1.3% more in rates in 2020/21"

As detailed previously, rating revenue is forecast to rise by 3.1% not the claimed 2.6%. For the purposes of this paper, the application of Council's covid19 policy is not considered.

8. Inter-Zone differences and Council response example -Warringah Mall

Warringah Mall is illustrative of Council's decision- making process for changing rates to reflect inter-zone land values and the calculations to vary ad valorem rates.

Warringah Mall's land value increased by 35% over the three-year period to 2019. This is 7.5% greater than the 27.5% benchmark increase in land value for business rated lands, calculated in section 3 above.

This 7.5% higher land value increase is equal to a weighting of a 127% against the threshold, meaning that against its business peers Warringah Mall should have received an increase in rates for FY21 of more than 2.6%.

To demonstrate this point, the Warringah Business ad valorem rate decreased by 18% for FY21 while the Warringah Mall ad valorem rate decreased by 24%, see **Figure 4**.

Warringah Mall is not subject to a minimum rate.

As discussed in Step 3 above, see **Figure 3**, Council for its FY21 budget made the decision to apply a 2.6% cap to the rates for the sub-category Warringah Mall. The effect of this cap is that rates from Warringah Mall are projected to be \$858,115 in FY21 as compared to \$836,234 in FY20.

The combination effect of Warringah Mall's changes in land value, Council's decision to apply the 2.6% cap and the computed ad valorem change are illustrated in **Figure 5**.

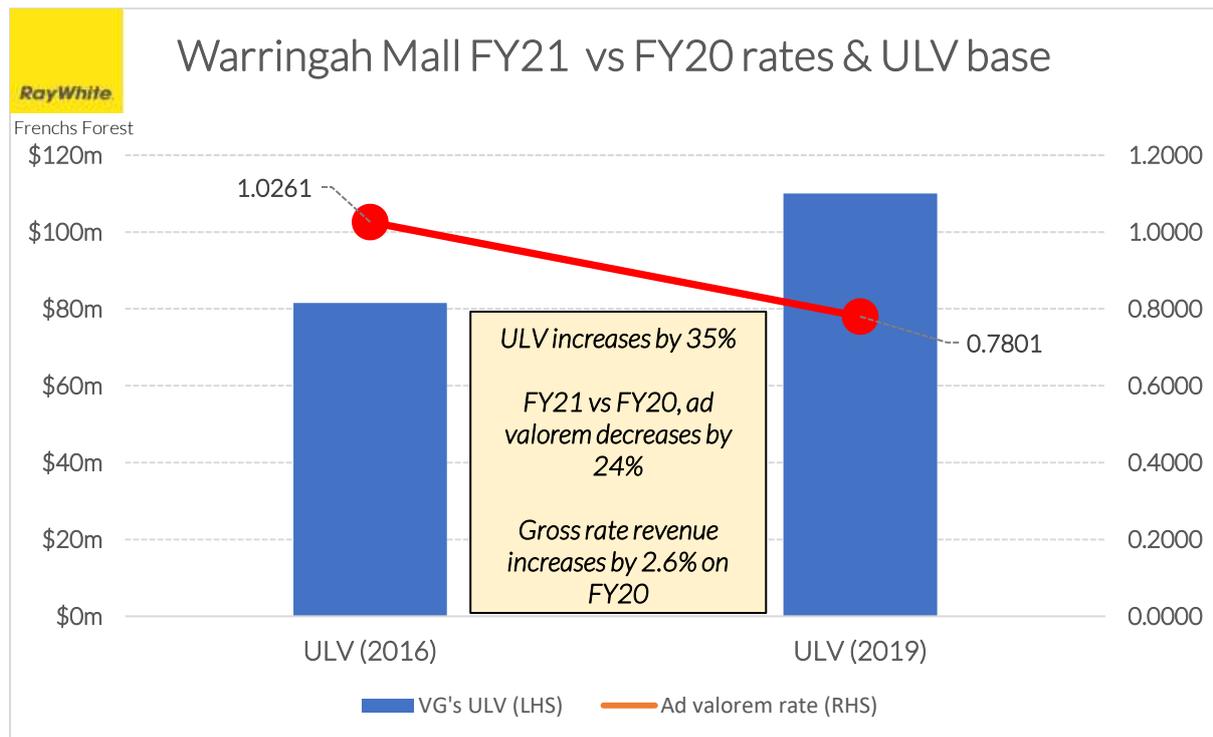


Figure 5 - Warringah Mall sub-category, gross revenue & ad valorem change

In simple terms, Warringah Mall received a land value increase of 35% and Council decided that in FY21 its rates should increase by 2.6%.

9. Inter-Zone differences and Council response example -Duffys Forest & Terrey Hills Acreage

For rating purposes, all rural acreage properties are classified as residential and are levied at the residential category rate applying to the former LGA⁷.

Figure 1 illustrated that land zoned as residential recorded an increase of 0.5% in land value over the three-year period to 2019 as determined by the Valuer General. Rural lands recorded an increase of 28% over the same period.

⁷ Rural zoned properties are located in the former LGAs of Pittwater & Warringah

We estimate that the effect of combining rural land with residential land was to cause the value of all residential rated land to increase by an average of 1.1% over the three-year period to 2019, see Section 3 where this residential category benchmark is discussed.

Of the rural lands, the suburbs of Duffys Forest and Terrey Hills received the largest increase in land value of 30% and 33% respectively, for an average of 31.5%. When this is compared to the benchmark residential increase of 1.1% this highlights these suburbs as extreme outliers.

There are approximately 380 ratepaying residents of Duffys Forest & Terrey Hills who live on rural zoned acreage properties. These properties are subject to ad valorem rates.

In **Figure 3** it is shown that Council is projected to increase residential rates for the former Warringah LGA by 3.6% for FY21. This Step 3 increase is substantially higher than the other twelve sub-categories.

To achieve the mathematical computation required by Step 4 for Warringah Residential, Council proposes that the ad valorem charge increase from 0.1568 in FY20 to 0.1639 for FY21. This is a 4.5% increase in the ad valorem, see **Figure 4**.

The combined effect of;

- exceptional changes in land value for the rural lands of Duffys Forest and Terrey Hills,
- Council's decision to apply an exceptional 3.6% increase to Warringah Residential, and
- the computed increased ad valorem charge are illustrated in **Figure 6**.

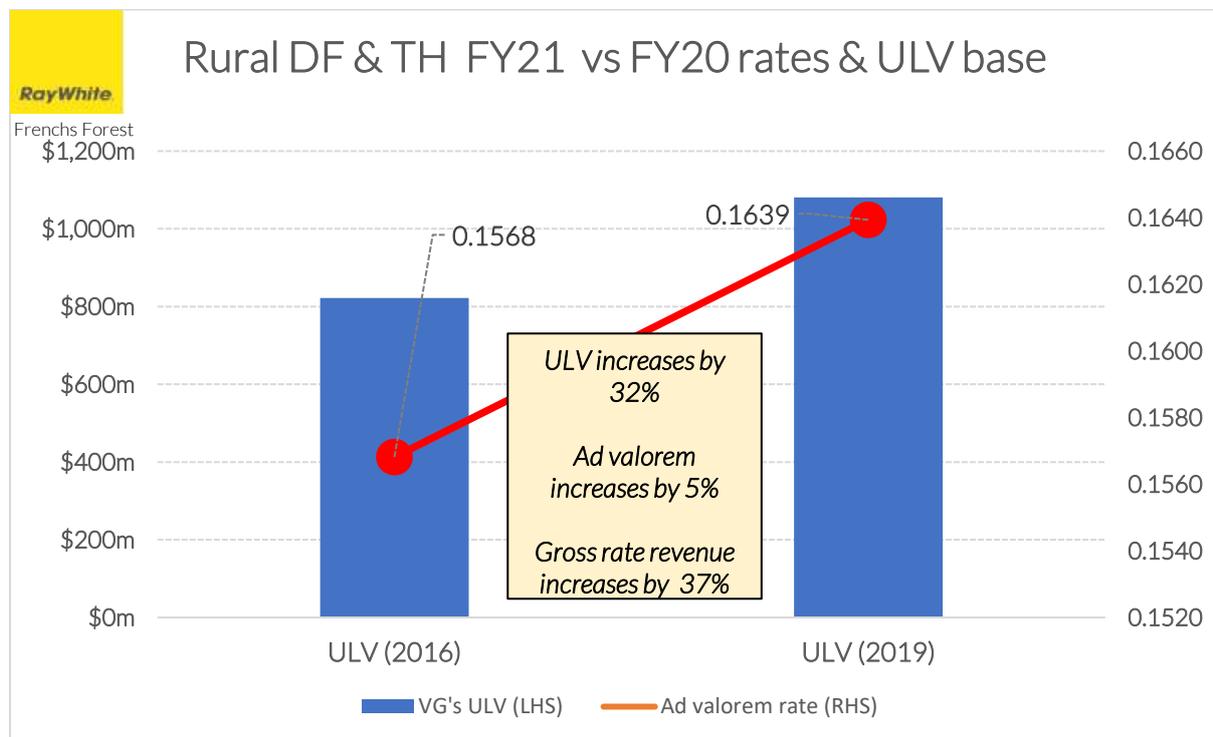


Figure 6 - Rural Duffys Forest & Terrey Hills gross rate revenue & ad valorem change

Figure 6 must be contrasted with Figure 5.

Warringah Mall received a 35% land value increase, Duffys Forest/Terrey Hills acreage received an aggregate 32% land value increase.

Warringah Mall are projected to receive a 2.6% rate increase in FY21 while Duffys Forest/Terrey Hills acreage ratepayers are projected to receive a 36%+ increase in rates.

Councillors can you request from Council justification for its rating process wherein residents who experience similar land value increases receive such different outcomes from Council's rate changes?

10. Request for assistance for a new sub-category

Council is entitled upon the request of ratepayers to facilitate re-categorisation of land

We believe that Duffys Forest & Terrey Hills acreage properties should be categorised separately from Residential properties. In simple points we make the following observations.

- Precedent exists with the former Pittwater LGA having a sub-category of Farmland and the Council's history of creating the sub-categories of Warringah Mall and Strata Storage Units.
- The exceptional change in rural land values, compared to residential land, necessitates the separation of rural land from residential land rating
- The excessive imposition of rate increases is inequitable and requires re-categorisation

Councillors, will you assist us in seeking re-categorisation for FY21 for the rural ratepayers of Duffys Forest & Terrey Hills?

11. The impact of a new sub-category on FY21 rates

Under Council's FY21 draft budget, the 380 acreage ratepayers of Duffys Forest & Terrey Hills are extreme outliers. That arises because rural land values increased by an average 31.5%, when residential land values increased by 0.5% as shown in **Figure 3**.

When these 380 ratepayers are indexed to the residential category benchmark of 1.1%⁸, in Section 3 above, the magnitude of the amplification of the increase in rates is readily apparent. To illustrate, Council's FY21 draft budget results in the 380 Duffys Forest & Terrey Hills acreage ratepayers paying nearly \$1.8m in council rates in FY21, being an increase of over \$480,000 compared to the prior year, i.e. a 37.4% increase in rates.

Because rural and residential land are rated in the same category, the apportionment of any rate increase, becomes an exercise in intra-category cost-shift apportionment.

We calculate that Council is placing an intra-category cost shift burden of approximately \$450,000 on the 380 rural acreage properties of Duffys Forest & Terrey Hills.

⁸ Intra-subcategory apportionment is required by the Merger not intra-category. For the former Warringah LGA residential land values decreased 1%, while land values in Manly and Pittwater increased, 3% and 4% respectively. When the 380 acreage ratepayers of Duffys Forest & Terrey Hills are appropriately assessed intra-subcategory then greater amplification of the magnitude occurs against Warringah Residential LGA.

In summary, the \$480,000 increase in rates for the 380 rural acreage properties of Duffys Forest & Terrey Hills can be attributed to an IPART increase, circa \$30,000 and the extreme cost-shift increase caused by differing land values, i.e. \$450,000.

We have modelled the impact of creating a new category specifically for the rural ratepayers of Duffys Forest & Terrey Hills..

Our model uses the same methodology that Council applies to Warringah Mall, namely a rate cap of 2.6% on increases in gross rating revenue. Through this creation of a new sub-category, the intra-category cost shift would not occur and that cost burden would continue to be spread across the residentially rated base.

A last point on the importance of creating a sub-category similar to Warringah Mall. In the case of Warringah Mall, any change in council rates is spread across the multiple of affected business and consumers. For affected businesses, they obtain the benefit of taxation deduction on rates. For most of the 380 acreage ratepayers of Duffys Forest & Terrey Hills, they are unable to obtain the benefits of taxation deduction and/or pass-on the burden, this is another reason why it is appropriate to prevent intra-category cost shifting.

12. Conclusion

In this paper we have examined Council's FY21 projected budget and its anticipated revenue from rates. Council's budget papers provide minimal information on Council's process for the determination of rates, in particular, the discretionary Step 3.

There is also minimal information contained with Council's budget papers on the significant change caused from the transition of 2016 land values to the 2019 land values and the consequences arising therefrom.

Council's increase in rating revenue of 3.1% for FY21 exceeds the IPART threshold of 2.6%. Council has indicated that it will be applying a covid19 policy however the application of this subsidy is unclear, particularly wherein Council states that "Ratepayers will collectively pay 1.3% more in rates in 2020/21".

Notwithstanding the merger arrangements, there is disparity between the former LGAs with residential ratepayers of the former Warringah LGA bearing a projected increase of 3.6% in gross rate revenue for FY21. This is contrasted with the former Manly and Pittwater LGAs who see a 2.7% and 2.8%, respectively, increase in gross rate revenue.

Council's computational calculation of ad valorem rates show that residential ratepayers of the former Manly and Warringah LGAs project an increase in ad valorem rates in FY21 while the other eleven sub-categories see substantial reductions in their ad valorem rates.

Council's exercise of its discretionary determination of rates has created substantial inequity, particularly for the 380 Duffys Forest & Terrey Hills rural acreage ratepayers. These ratepayers are projected to receive rate increases of 36%+ when compared to FY20.

The rural ratepayers of Duffys Forest & Terrey Hills are contrasted with Warringah Mall, these acreage residents have received land value increases of 32% as compared to 35% for Warringah Mall.

Council has chosen to cap Warringah Mall projected rates for FY21 at 2.6%. Council in its discretionary Step 3 have chosen to increase Residential Warringah rates at 3.6% for FY21 and through computational maths increased ad valorem rates by 5%.

Council is able to facilitate the creation of new sub-categories at the request of ratepayers. For the rural ratepayers of Duffys Forest & Terrey Hills it is fair and equitable that a separate sub-category be created by Council to levy rates otherwise a cost-shift burden of approximately \$450,000 will be imposed on the 380 ratepayers.

Should you wish to discuss this letter we can be contacted on 9450 1904 or 0400 800 002 or trevor.cain@raywhite.com. We are happy to meet with you at your convenience to discuss this letter and the effects of Council's FY21 budget on the acreage ratepayers of Duffys Forest & Terrey Hills.

Kind Regards

Trevor Cain
Principal & Head of Commercial
Ray White Frenchs Forest

Appendix A

Northern Beaches Rates Table
Period FY20 vs proposed FY21

Type	Former Council	Ad valorem		Minimum		Estimated Number		Estimated Revenue		
		FY19/20	FY20/21	FY19/20	FY20/21	FY19/20	FY20/21	FY19/20	FY20/21	
Residential	ORDINARY	Manly	\$0.1225	\$0.1245	\$838.81	\$860.62	17,683	17,416	\$24.1m	\$24.7m
	ORDINARY	Pittwater	\$0.1625	\$0.1594	\$908.30	\$931.92	23,414	23,525	\$38.4m	\$39.5m
	ORDINARY	Warringah	\$0.1568	\$0.1639	\$997.02	\$1,022.94	53,546	54,376	\$76.2m	\$79.0m
Business	ORDINARY	Manly	\$0.3570	\$0.3001	\$1,095.26	\$1,123.74	524	519	\$1.7m	\$1.8m
	ORDINARY	Pittwater	\$0.3693	\$0.3476	\$1,159.67	\$1,189.82	1,899	1,894	\$4.6m	\$4.7m
	ORDINARY	Warringah	\$0.5755	\$0.4742	\$1,280.05	\$1,313.33	3,947	3,970	\$16.7m	\$17.1m
	ORDINARY - Warriewood Square	Pittwater	\$0.3995	\$0.3752			1	1	\$0.1m	\$0.1m
	ORDINARY- Manly CBD	Manly	\$0.6381	\$0.5593	\$1,095.26	\$1,123.74	622	613	\$3.7m	\$3.8m
	ORDINARY - Warringah Mall	Warringah	\$1.0261	\$0.7801			1	1	\$0.8m	\$0.9m
	ORDINARY- Strata Storage units	Warringah	\$0.6955	\$0.4422	\$587.11	\$602.37	328	328	\$0.2m	\$0.2m
	SPECIAL - Manly Business Centre Improvement	Manly	\$0.2181	\$0.1902			622	613	\$1.2m	\$1.3m
	SPECIAL - Balgowlah Business Centre Improvement	Manly	\$0.1451	\$0.1181			84	84	\$0.1m	\$0.1m
Rural	ORDINARY - Farmland	Pittwater	\$0.0634	\$0.0549	\$908.30	\$931.92	7	7	\$0.0m	\$0.0m
							102,678	103,347	\$167.9m	\$173.1m

Source: Northern Beaches Council

Appendix B

**Northern Beaches Council
Rating Constraints**

IPART

Councils' rates are subject to control by NSW's IPART. For FY21, IPART has determined that Councils are limited to a 2.6% increase in gross rating revenue, unless otherwise authorised. The same percentage is imposed on an increase to any minimum rate charge. Councils are restricted from having a majority of rates subject to a minimum charge.

IPART does not control determination of any change to the revenue of a category or sub-category.

Merger

Under the terms of the merger of the three LGAs to form the Northern Beaches Council, the residents of the three former LGAs are required to have their pre-existing rate paths maintained for four years, i.e. to the end of the FY21 year.

Council's FY21 draft budget adheres to this requirement as can be seen in in appendix A.

Harmonisation

Council discloses that it is examining the steps and consultation needed to introduce harmonisation across the merged ratepayers for FY22.