

25 October 2016

**IPART Review of the Local Government Rating System**

Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
NSW 1240

To whom it may concern

**IPART Review of the Local Government Rating System Draft Report**

AlburyCity welcomes the opportunity to respond to the *Review of the Local Government Rating System Draft Report* (Draft Report) prepared by the Independent Pricing and Regulatory Tribunal (IPART).

Please note that AlburyCity supports the Government's commitment to develop a streamlined and more proportionate process for Fit for the Future councils wanting to increase rates above the rate peg, allowing for example rate rises to fund infrastructure renewal. As identified by the Independent Local Government Review Panel the rate-pegging system in its present form impacts adversely on sound financial management. The rate-pegging system should be streamlined to remove unwarranted complexity, costs, and constraints to sound financial management and any future rate-pegging or local government cost index should factor the need to address infrastructure backlogs.

The State Government should give a high priority to implementing changes to the local government rating system that have the support of the local government sector.

Please find in Table 1 below AlburyCity's responses to the 34 recommendations that IPART has included within its Draft Report.

Table 1

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>Allow councils to use CIV as an alternative to UV in setting rates</p>	
<p>1. Councils should be able to choose between the Capital Improved Value (CIV) and Unimproved Value (UV) methods as the basis for setting rates at the rating category level. A council's maximum general income should not change as a result of the valuation method they choose.</p>	<p>Supported.</p> <p>To achieve the taxation principles, each council should be able to choose the valuation method that it considers is most appropriate for their community, as occurs in other states. This assessment of which valuation method is to be applied would include a cost benefit analysis. For example applying the Capital Improved Value (CIV) valuation method would better differentiate the capacity to pay of properties within the same rating category, however, it is likely to cost more to undertake the general valuation using the CIV valuation method compared to Unimproved Land Value. Although it is currently unclear how much more the CIV valuation method would cost to implement.</p>
<p>2. Section 497 of the <i>Local Government Act 1993</i> (NSW) should be amended to remove minimum amounts from the structure of a rate, and section 548 of the <i>Local Government Act 1993</i> (NSW) should be removed.</p>	<p>It is not AlburyCity's practice to utilise minimum amounts.</p>

IPART draft recommendations	AlburyCity's response
<p>Allow councils' general income to grow as the communities they serve grow</p>	
<p>3. The growth in rates revenue outside the rate peg should be calculated by multiplying a council's general income by the proportional increase in Capital Improved Value from supplementary valuations.</p> <ul style="list-style-type: none"> <li>– This formula would be independent of the valuation method chosen by councils for rating.</li> </ul>	<p>Supported when a council chooses to apply the CIV valuation method as the basis for setting rates at the rating category level.</p> <p>However, due to the potential increase in cost in determining CIV compared to the Unimproved Land Value, it should not be mandated that councils must take into account the CIV of supplementary valuations when calculating the notional growth in rate revenue outside the rate peg if they choose to use Unimproved Land Value as the valuation basis at the rating category level.</p>
<p>4. The <i>Local Government Act</i> 1993 (NSW) should be amended to allow councils to levy a new type of special rate for new infrastructure jointly funded with other levels of Government. This special rate should be permitted for services or infrastructure that benefit the community, and funds raised under this special rate should not:</p> <ul style="list-style-type: none"> <li>– form part of a council's general income permitted under the rate peg, nor</li> <li>– require councils to receive regulatory approval from IPART.</li> </ul>	<p>While this proposal is supported in principle greater detail is required as to how this proposal would be applied in practice.</p>
<p>5. Section 511 of the <i>Local Government Act</i> 1993 (NSW) should be amended to reflect that, where a council does not apply the full percentage increase of the rate peg (or any applicable Special Variation) in a year, within the following 10-year period, the council can set rates in a subsequent year to return it to the original rating trajectory for that subsequent year.</p>	<p>Supported.</p>

IPART draft recommendations	AlburyCity's response
<p>Give councils greater flexibility when setting residential rates</p>	
<p>6. The <i>Local Government Act 1993</i> (NSW) should be amended to remove the requirement to equalise residential rates by 'centre of population'. Instead, councils should be allowed to determine a residential subcategory, and set a residential rate, for an area by:</p> <ul style="list-style-type: none"> <li>– a separate town or village, or</li> <li>– a community of interest.</li> </ul>	<p>Supported.</p>
<p>7. An area should be considered to have a different 'community of interest' where it is within a contiguous urban development, and it has different access to, demand for, or costs of providing council services or infrastructure relative to other areas in that development.</p>	<p>This recommendation is considered to be particularly relevant to merged local government metropolitan areas.</p>
<p>8. The <i>Local Government Act 1993</i> (NSW) should be amended so, where a council uses different residential rates within a contiguous urban development, it should be required to:</p> <ul style="list-style-type: none"> <li>– ensure the highest rate structure is no more than 1.5 times the lowest rate structure across all residential subcategories (ie, so the maximum difference for ad valorem rates and base amounts is 50%), or obtain approval from IPART to exceed this maximum difference as part of the Special Variation process, and</li> <li>– publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers.</li> <li>– publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers.</li> </ul>	<p>Supported, with the exception of publishing on the rates notice reasons for different residential rates within a contiguous urban development due to there being insufficient space on the rates notice. The reasoning of all differential rating categories should be detailed in rating policy and published on each councils website.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>9. At the end of the 4-year rate path freeze, new councils should determine whether any pre-merger areas are separate towns or villages, or different communities of interest.</p> <p>– In the event that a new council determines they are separate towns or villages, or different communities of interest, it should be able to continue the existing rates or set different rates for these pre-merger areas, subject to metropolitan councils seeking IPART approval if they exceed the 50% maximum differential. It could also choose to equalise rates across the pre-merger areas, using the gradual equalisation process outlined below.</p> <p>– In the event that a new council determines they are not separate towns or villages, or different communities of interest, or it chooses to equalise rates, it should undertake a gradual equalisation of residential rates. The amount of rates a resident is liable to pay to the council should increase by no more than 10 percentage points above the rate peg (as adjusted for permitted Special Variations) each year as a result of this equalisation. The Local Government Act 1993 (NSW) should be amended to facilitate this gradual equalisation.</p>	<p>AlburyCity has been declared Fit for the Future by the State Government and is not subject to a merger.</p>

IPART draft recommendations	AlburyCity's response
<p data-bbox="185 427 632 459">Better target rate exemption eligibility</p>	
<p data-bbox="185 508 766 618">10. Sections 555 and 556 of the <i>Local Government Act 1993</i> NSW should be amended to:</p> <ul style="list-style-type: none"> <li data-bbox="185 629 783 739">– exempt land on the basis of use rather than ownership, and to directly link the exemption to the use of the land, and</li> <li data-bbox="185 750 783 815">– ensure land used for residential and commercial purposes is rateable unless explicitly exempted.</li> </ul>	<p data-bbox="813 508 1410 739">AlburyCity strongly supports the proposal by IPART that land be exempt from rates on the basis of use rather than ownership, and that land used for residential or commercial purposes is rateable unless explicitly exempted.</p> <p data-bbox="813 786 1410 976">Properties should not be exempt from rates when the land use is a commercial activity, competes with the private sector or exemption would not provide sufficient public benefits to the local community.</p> <p data-bbox="813 1023 1410 1254">Council strongly supports the reduction or removal of exemptions and concessions where they do not reflect contemporary situations, are contrary to sound fiscal policy and jeopardise the long term sustainability of councils.</p>
<p data-bbox="185 1303 766 1375">11. The following exemptions should be retained in the <i>Local Government Act 1993</i> (NSW):</p> <ul style="list-style-type: none"> <li data-bbox="185 1386 746 1458">– section 555(e) Land used by a religious body occupied for that purpose</li> <li data-bbox="185 1469 679 1541">– section 555(g) Land vested in the NSW Aboriginal Land Council</li> <li data-bbox="185 1552 766 1624">– section 556(o) Land that is vested in the mines rescue company, and</li> <li data-bbox="185 1635 775 1706">– section 556(q) Land that is leased to the Crown for the purpose of cattle dipping.</li> </ul>	<p data-bbox="813 1303 1410 1375">Supported, where the land is not used for residential and commercial purposes.</p>
<p data-bbox="185 1744 766 1899">12. Section 556(i) of the <i>Local Government Act 1993</i> (NSW) should be amended to include land owned by a private hospital and used for that purpose.</p>	<p data-bbox="813 1744 1410 1861">Supported, on the principle that land be exempt from rates on the basis of use rather than ownership.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>13. The following exemptions should be removed:</p> <ul style="list-style-type: none"> <li>– land that is vested in, owned by, or within a special or controlled area for, the Hunter Water Corporation, Water NSW or the Sydney Water Corporation (<i>Local Government Act 1993</i> (NSW) section 555(c) and section 555(d))</li> <li>– land that is below the high water mark and is used for the cultivation of oysters (<i>Local Government Act 1993</i> (NSW) section 555(h))</li> <li>– land that is held under a lease from the Crown for private purposes and is the subject of a mineral claim (<i>Local Government Act 1993</i> (NSW) section 556(g)), and</li> <li>– land that is managed by the Teacher Housing Authority and on which a house is erected (<i>Local Government Act 1993</i> (NSW) section 556(p)).</li> </ul>	<p>Not applicable to AlburyCity.</p>
<p>14. The following exemptions should not be funded by local councils and hence should be removed from the Local Government Act and Regulation</p> <ul style="list-style-type: none"> <li>– land that is vested in the Sydney Cricket and Sports Ground Trust (<i>Local Government Act 1993</i> (NSW) section 556(m))</li> <li>– land that is leased by the Royal Agricultural Society in the Homebush Bay area (<i>Local Government (General) Regulation 2005</i> reg 123(a))</li> <li>– land that is occupied by the Museum of Contemporary Art Limited (<i>Local Government (General) Regulation 2005</i> reg 123(b)), and 82</li> <li>– land comprising the site known as Museum of Sydney (<i>Local Government (General) Regulation 2005</i> reg 123(c)).</li> </ul> <p>The State Government should consider whether to fund these local rates through State taxes.</p>	<p>Not applicable to AlburyCity.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
15. Where a portion of land is used for an exempt purpose and the remainder for a non-exempt activity, only the former portion should be exempt, and the remainder should be rateable.	Supported.
16. Where land is used for an exempt purpose only part of the time, a self assessment process should be used to determine the proportion of rates payable for the non-exempt use.	Supported.
17. A council's maximum general income should not be modified as a result of any changes to exemptions from implementing our recommendations.	Not supported, as the recommendation does not reflect the financial impact that rating exemptions have on the ability of local government to fund essential services and infrastructure.
18. The <i>Local Government Act 1993</i> (NSW) should be amended to remove the current exemptions from water and sewerage special charges in section 555 and instead allow councils discretion to exempt these properties from water and sewerage special rates in a similar manner as occurs under section 558(1).	The proposal that councils have discretion to exempt properties from water and sewerage special rates currently exempted by section 555 of the <i>Local Government Act 1993</i> is supported.
19. At the start of each rating period, councils should calculate the increase in rates that are the result of rating exemptions. This information should be published in the council's annual report or otherwise made available to the public.	Not supported, as it is unclear what purpose publishing the financial impact of rating exemptions would serve when councils have little or no discretion when granting rating exemptions.



IPART draft recommendations	AlburyCity's response
<p>Replace the pensioner concession with a rate deferral scheme</p>	
<p>20. The current pensioner concession should be replaced with a rate deferral scheme operated by the State Government.</p> <ul style="list-style-type: none"> <li>– Eligible pensioners should be allowed to defer payment of rates up to the amount of the current concession, or any other amount as determined by the State Government.</li> <li>– The liability should be charged interest at the State Government's 10-year borrowing rate plus an administrative fee. The liability would become due when property ownership changes and a surviving spouse no longer lives in the residence.</li> </ul>	<p>As recommended by the Independent Local Government Review Panel social welfare should not be a local government responsibility. Pensioner rate concessions should be wholly funded by the State Government as occurs in all other states.</p> <p>Currently it is mandated that AlburyCity is required to fund 45% of the \$250 pensioner rate concession and \$175 for the combined water and sewer pensioner concession, which costs AlburyCity \$670,000 per annum.</p> <p>The proposed rate deferral scheme has merit with respect to asset rich and cash poor pensioners, provided that the scheme is wholly funded by the State Government.</p> <p>If the State Government chooses to retain a pensioner rate concession the amount should be indexed in line with the rate peg.</p>
<p>Provide more rating categories</p>	
<p>21. Section 493 of the <i>Local Government Act 1993</i> (NSW) should be amended to add a new environmental land category and a definition of 'Environmental Land' should be included in the LG Act.</p>	<p>Supported as a new option available to councils when setting rating policy.</p>
<p>22. Sections 493, 519 and 529 of the <i>Local Government Act 1993</i> (NSW) should be amended to add a new vacant land category, with subcategories for residential, business, mining and farmland.</p>	<p>Supported as a new option available to councils when setting rating policy.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>23. Section 518 of the <i>Local Government Act 1993</i> (NSW) should be amended to reflect that a council may determine by resolution which rating category will act as the residual category.</p> <ul style="list-style-type: none"> <li>– The residual category that is determined should not be subject to change for a 5-year period.</li> <li>– If a council does not determine a residual category, the Business category should act as the default residual rating category</li> </ul>	Supported.
<p>24. Section 529 (2)(d) of the <i>Local Government Act 1993</i> (NSW) should be amended to allow business land to be subcategorised as 'industrial' and or 'commercial' in addition to centre of activity.</p>	Supported as a new option available to councils when setting rating policy.
<p>25. Section 529 (2)(a) of the <i>Local Government Act 1993</i> (NSW) should be replaced to allow farmland subcategories to be determined based on geographic location.</p>	Supported as a new option available to councils when setting rating policy.
<p>26. Any difference in the rate charged by a council to a mining category compared to its average business rate should primarily reflect differences in the council's costs of providing services to the mining properties.</p>	Currently not applicable to AlburyCity.
<p>Recovery of council rates</p>	
<p>27. Councils should have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.</p>	Option supported.
<p>28. The existing legal and administrative process to recover outstanding rates should be streamlined by reducing the period of time before a property can be sold to recover rates from five years to three years.</p>	Proposal supported, however it is important to note that the sale of land is a last resort after all other debt recovery options have been exhausted.

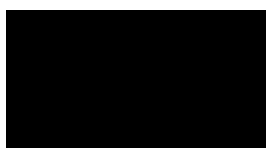
<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>29. All councils should adopt an internal review policy, to assist those who are late in paying rates, before commencing legal proceedings to recover unpaid rates.</p>	<p>This proposal would provide limited benefit to AlburyCity ratepayers, as AlburyCity actively encourages ratepayers who are having difficulty in meeting their obligations to make contact to enter into a payment plan. Matters are only taken to court as a last resort when no response has been received from the property owner.</p>
<p>30. The <i>Local Government Act 1993</i> (NSW) should be amended or the Office of Local Government should issue guidelines to clarify that councils can offer flexible payment options to ratepayers.</p>	<p>This proposal would provide limited benefit to AlburyCity ratepayers, as AlburyCity actively encourages ratepayers who are having difficulty in meeting their obligations to make contact to enter into a payment plan.</p>
<p>31. The <i>Local Government Act 1993</i> (NSW) should be amended to allow councils to offer a discount to ratepayers who elect to receive rates notices in electronic formats, eg, via email.</p>	<p>This options is supported in principle, however, system development would be required to enable this to occur.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>32. The <i>Local Government Act 1993</i> (NSW) should be amended to remove section 585 and section 595, so that ratepayers are not permitted to postpone rates as a result of land rezoning, and councils are not required to write-off postponed rates after five years.</p>	<p>This recommendation by IPART is not supported by AlburyCity.</p> <p>AlburyCity supports the current system in that as a result of land rezoning property owners can apply for the resulting increase in rates to be postponed, providing that the property is not redeveloped according to the new permitted land use. However, AlburyCity proposes that the Act be amended so that the increase in rates is not levied until the land is redeveloped.</p> <p>Currently 79 AlburyCity properties have applied for postponed rates which equates to \$46,000 in annual rate revenue. The carrying value of postponed rates not yet written off is in the order of \$250,000.</p>
<p><a href="#">Other draft recommendations</a></p>	
<p>33. The valuation base date for the Emergency Services Property Levy and council rates should be aligned.</p> <p>– The NSW Government should levy the Emergency Services Property Levy on a Capital Improved Value basis when Capital Improved Value data becomes available state-wide.</p>	<p>Supported.</p>

<b>IPART draft recommendations</b>	<b>AlburyCity's response</b>
<p>34. Councils should be given the choice to directly buy valuation services from private valuers that have been certified by the Valuer General.</p>	<p>Supported. Each council should be able to determine on a value for money basis whether to use the Valuer General's property valuation services or a private valuation firm, as occurs in other states.</p> <p>In addition, the amount that councils are charged by the NSW Valuer-General to provide municipal valuation services should be reviewed, as the net cost per assessment for the City of Wodonga to undertake its municipal valuation is less than half the amount that AlburyCity is charged by the Valuer-General, even though the City of Wodonga utilises CIV as its valuation method.</p>

Should you wish to discuss any of AlburyCity's responses as detailed above please contact Justin Finlayson, Chief Financial Officer on (02) 6023 8153.

Yours faithfully



Frank Zaknich  
**General Manager**