Draft Review of the Local Government Rating System

Thank you for the opportunity to comment on the review. I am a ratepayer in the Mosman Local Government Area and I have worked in the local government industry for over 30 years.

For the community in general the subject of Council rates is an issue that is emotive, complex and often misunderstood. In particular the way rate pegging limitations are applied and movement in valuations has proved to be a point of contention for over 30 years.

I believe that IPART's recommendations are unnecessarily complex and will not improve public understanding of how rates are determined. In conveying explanations to the general public Councils will find that simplicity rather than complexity will engender greater trust.

Residential rates levied across the State indicate that as a form of taxation, rates have the lowest impact on household finances. The Office of Local Government's rating information discloses the range of average rates (2014/15) across the State from the lowest $55.07 pa (or $1.07 per week) to the highest $1,420.22 pa (or $27.24 per week). It is clear that the majority of residential ratepayers in NSW contribute less than the price of a cup of coffee per day in rates. It is hard to justify the level of governance, consideration of taxation principals and alternate levy types proposed by IPART for such low levels of contribution.

IPART's recommendations will result in Councils applying a 'bucket' accounting approach (spending funds where they are raised). Surely this has to be the antithesis of good government. This approach is not replicated at either the State or Federal level and should not be applied to Local Government.

In order to simply address the level of contributions of strata units to fund available services I would recommend that the base amount limit be increased to 75% of the total rate levy.

Given the low level of average rates across the State, I find it difficult to accept that there is a need for continued rate pegging controls over each Council's major source of income. Rate pegging is an unnecessary impost on Councils and weakens their long term financial sustainability. Rate pegging means Councils unlike other organisations are expected to continually constrain their expenses to a level below prevailing cost index increases. This is an unrealistic expectation. New South Wales Council rates are lower than other states.

Rate Peg

The rate peg was introduced in 1976 to place control over Councils increasing their rates, limiting increases to an inflation factor and reducing that by a productivity factor. The premise behind rate control is that rates were high (and that Councils are irresponsible). There does not appear to be any recorded evidence from that time that demonstrated that Council rates were high. There is no evidence now that rates are high.

An analysis of all residential rates across the State shows that Hunters Hill is the highest rating Council (2014/15 OLG rating data) with an average rate of $1,420.52, a weekly equivalent of $27.42. This is simply not too high when, for example compared to the cost of the weekly commute from Hunters Hill to the City. The ratepayer is paying less for access to all the services that Council provides than the price a single person's weekly bus fare.

There are 12 Councils in the State where the average rate is less than $200.00 per annum. One would question why there is a need to limit rates in those circumstances as a 2.0% rate peg would cost ratepayers less than $4.00 per year. This is a very big issue for country Councils who would be made to comply with all the requirements of an IPART SRV process in order to get approval to put rates up by an average of just $10.00 per year. This does not appear a reasonable or justifiable process in those circumstances.

The rate peg has played a major role in causing Councils to lose their financial sustainability over time.

Application of Taxation Principals

I note the principles covered in the Draft Report. It is curious that this is now an issue given the last thirty years of rate pegging has ruled this out as a consideration.

In terms of equity I would point to the very low scale of residential rates as a form of taxation noting that the majority of ratepayers in New South Wales pay less than $25.00 per week. The management and determination effort that is now promoted in the Draft IPART Report to develop a new range of rates is extraordinary and excessive. Councils deliver excellent services for a very low ratepayer contribution.

In any local government area, high rates are generally limited to a small number of either very large properties or those in very desirable locations.

To demonstrate the low impact of Council rates take for example a Mosman rental property with a $1m UV, the annual land tax payable to the State Government on such a property is $100 plus 1.6% of the UV totalling $16,100. Mosman Council rates are base amount $687 plus 0.0767% totalling $1,474.

Building a system that takes into account the all the taxation principles and different categorisation options envisaged in the Draft Report appears to be excessive considering the total quantum of rates payable per property. Would this level of complexity be applied to determining bus fares?

Efficiency of Valuation Methods

The Draft Report analysis of a four apartment strata property compared to a single house states that under a UV the rates for both properties are the same is not entirely correct. In the example the issue of minimum rates and gains by minimums or base amounts is not addressed. There is no metropolitan Council that only levies a rate in the dollar. In the example, the strata owners will be contributing a higher total amount due to the application of minimums or base amounts. This ensures the strata property contributes more than the single residence.

To state that the owners of the four apartments will contribute one quarter of the rates of the adjoining house is simply not correct. The question that needs to addressed further is whether the contribution from the strata is adequate in relation to services available to those residents.

The Capital Improved Value (CIV) is claimed to be a more efficient means of determining rates. I do not agree with this assertion. Importing a set of CIVs into a property system is equally efficient as importing a set of Unimproved Valuations (UV) for land.

Given the level of development and redevelopment being undertaken a constant review of CIVs would need to be undertaken in the interest of fairness to owners who choose not to undertake any development of their properties.

From a valuation perspective, I would suggest that much more work is involved in determining a CIV as each individual property needs to be assessed where compared to a UV where the individual inspection is not required. As a result the CIV will be much more costly and less efficient to produce due to the need for more regular revaluations. There is also likely to be an increase in objections to the valuations as evidenced in South Australia, adding significant extra costs.

CIV better reflects share of demand for services

I note that the IPART Review asserts that families living in big houses demand greater services. I have great difficulty in agreeing with this assertion. It is my view that a person residing in a residential unit will in fact have a higher demand for services due to the limitations on:

- recreational use of common grounds,
- privacy issues and
- ability to socialise in common grounds.

Additionally there will be a greater use of footpaths and roads per strata property due to the greater number of residents.

Residential unit owners are more likely to be involved in using Council provided recreational and community facilities. A house owner has a greater opportunity to enjoy the amenity of their backyard including the ability to entertain visitors, lessening the need to use Council provided facilities.

If IPART were to address the base amount as a principle for extracting a reasonable contribution from home unit owners this would achieve the goal of ensuring all ratepayers contribute a fair share towards the costs of available services.

If the maximum base amount was increased to 75% every ratepayer would contribute that amount as a flat charge, fairly defraying the cost of services available to all properties with the remaining 25% of rate revenue being derived from an ad valorum, ensuring higher valued properties continued to pay more. This would result in more properties contributing closer to the average rate.

Option to use CIV or UV

If a Council did not wish to apply CIV to the calculation of their general rates and IPART's recommendation is eventually adopted by the Government for the ESPL, Councils will be required to maintain two sets of valuations. This is not an efficient use of resources. It effectively doubles the workload and costs in maintaining the property system's dual valuations information.

In regard to UVs, an apartment block (IPART Draft Report Box 3.1), the underlying land value is based on the property's highest and best use. It would therefore be higher in value than a single house residence where there was no greater use potential. The land value in both properties is obviously lower than the improved value. CIV will cause a marginal shift between properties but will not deliver greater total rate revenue due to the rate peg.

It could be assumed that under a CIV where there is a large percentage of apartments there will be a contraction of amounts payable towards the average rate. Individual apartments will still be lower valued than separate houses. The total shift in rate contribution amounts will not be known until a full CIV valuation list is available.

CIV is more consistent with the ability to pay principle

This statement is a broad brushed generalisation. It does not consider that homes may have been passed on via inheritance, it does not take into account whether the owner is still employed or whether there is a significant mortgage over the property which needs servicing.

CIV is more consistent with the sustainability principle

With the rate peg in place there is no real difference, new properties come into existence under both systems and are valued providing additional rate income. In the case of new strata developments there is an overall gain over the rate peg. Councils will continue to struggle with financial sustainability when their major income source is restricted to below cost increases.

I am at a loss to understand how CIV is simpler to calculate compared to UV. Assessing the CIV will require an examination of individual properties by the valuer to determine the building size, the construction materials used, its condition and if any recent improvements have been undertaken.

A UV can be applied on a square metre locality basis and will remain constant as allotment relativities tend to stand in place for longer whereas CIV will need to be regularly reviewed for development activities. If more effort is required by the valuer it will cost more.

Concern that UV cannot equitably and efficiently raise rates in urban areas with a high share of apartments

If you exclude the option for minimum rates and base amounts then the statement by IPART is correct. However, to discount fixed charge components such as minimums or base amounts because they 'are not an equitable or efficient way to fund public good' is with respect somewhat short sighted.

In looking at the total services provided by Council, the majority of services are equally available to all ratepayers. An equitable share of the cost based on that level of availability can be the basis on which to establish a user pays benefit level.

In regard to efficiently recovering an appropriate level of funding from apartments, I believe that this issue can be simply resolved by increasing the base amount to ensure all ratepayers make a fair contribution towards the costs of services.

If every ratepayer was contributing directly and equally to a maximum of 75% of the total rate revenue, all apartments would be making a reasonable contribution. Rate pegging the total rate levy ensures that higher valued properties will see a downward movement in rates as apartments make a fairer contribution to services.

I note that in Mosman Council's case the current 50.0% base amount is $687 or $171.75 per quarterly assessment. This is not a major call on a ratepayer's funds. If the base amount were increased to 75% it would rise to $257.63 per quarter with the ad valorum reducing across the ratepayer base. I note also that Mosman Council is the fifth highest rating Council by a small margin and in that case the higher level of base amount would be greater than most other Councils. **It is simply not too high**.

Giving Councils a choice would provide more benefits than mandating a single method

More complexity. Greater costs will be faced in obtaining differing sets of valuations. Council staff resources are limited. Adding additional work maintaining additional valuation data is not a cost free exercise.

IPART should consider mandating the methodology, in particular to ensure there is industry wide knowledge of how rates work. Councils are generally finding it difficult to employ staff with the specialised rating knowledge required.

Mandating either UV or CIV would ensure that Councils are operating in the same way, improving comparability and aligning with the State Government processes.

As the rate determination process is not well understood within the general community adding more options will not improve this situation. Simplicity and transparency are considered to be a better option.

Removing Minimum amounts

I agree with this recommendation. A base amount structure ensures every rate payer meets a fixed proportion of costs towards equally available services and infrastructure.

Allowing general income to increase in line with the increase in CIV from new developments

The comments made in regard to the impact of new strata developments in an area where there is no current minimum or base amount, whilst academically correct they are misleading. All councils operate with either a minimum or base amount.

Whilst IPART states '…the incentive to maximise fixed charges in the rate structure runs contrary to efficiency and equity tax principle' it does address the simplicity driver. I believe it also addresses equity in ensuring that every property contributes to a fair share of the rate burden. I note as a ratepayer that Mosman Council is the fifth highest rating Council. I don't see this level of rates as insurmountable or at a level that would damage family budgets.

Given the low level of rates payable in any single residential assessment across New South Wales there appears to be too great a focus on methodology. I recommend that IPART takes this into account when addressing the issue.

A better formula for calculating 'growth in rates outside the peg'

I agree there is a need for simpler formula. If the formula used to calculate the rate peg was amended to align with rate categories, growth in the number of assessments could be managed.

In this regard, a simpler formula based on the average rate per category could be determined on the initial levy for each prior year:

- Total income for rate category initial levy for year divided by number of assessments to determine the average rate.
- For the following year income limit, increase the average rate by rate peg and multiply by the current number of assessments to give total rate category income limit for following year.

This formula would allow the increase in growth to reflect the additional number of properties requiring servicing.

Give Councils more options to set rates within rating categories

Outwardly this appears to be an attractive option. IPART's recommendation indicates a separate area based structure (and record of accounting) could remain in order to contain expenditure in the areas where rates are raised.

This is an approach that appears to relieve Councils of hard decisions but encourages discrimination within a local government area where projects are delivered to locations based on an ability/willingness to pay rather than assessed need. The Draft Report indicates that further rules would need to be developed to ensure there is not too great a disparity between categories - more complexity.

The Council should be responsible for delivering services to its whole area based on assessed needs and priorities, achieved by the best use of integrated planning principles.

In the major taxation jurisdictions the allocation of funding is not locality based. Income tax does not vary between States and is distributed according to Federal Government policy. Similarly the State Government does not spend land tax or stamp duty in the areas in which it is raised but in areas of identified need across the State. The proposal to differentiate charges within a relatively small local government area and spend in the area in which it is raised appears at odds when compared to how the State or Federal Government operates.

Adding more rating categories is tinkering at the edges of the problem, particularly when the current rate levels are low and the rate peg remains in force. This is simply adding another layer of complexity.

Given the low level of residential rates, movements between categories would at best only be marginal. The overall average rate will remain the same and would only highlight the differences between each category.

Councils should have more flexibility to set different residential rates

This is an interesting initiative as it would allow residential areas to be defined as the former Council areas. This of course begs the question why have amalgamations?

In a rural Council where there is a significant distance between towns and villages there is an argument that this would be an appropriate option. In regard to a Sydney Metropolitan Council such as the proposed Lower North Shore Council the basis of justification becomes less clear. Why should residents of North Sydney and Willoughby make a lesser contribution to the operations of the

Council? What additional services do the residents of Mosman have access to that justifies demanding that they pay more?

An issue that will confront the proposed lower North Shore Council are the rates paid by the residents of comparable Spofforth Street properties and comparable Macpherson Street properties:

Spofforth Street
Eastern/Mosman side General Rate $2,221
Western/North Sydney side General Rate $1,866

Macpherson Street
Eastern/Mosman side General Rate $1,302
Western/North Sydney side General Rate $883
(Note Mosman Council base amount contracts higher valued property rate levies as apartments contribute a fairer share)

This differential will be required to stay in place for at least four years and then adjusted incrementally. It is easy understand the disquiet the eastern side residents will feel.

Councils should be allowed to tailor rates to local preferences for services, minimise any cross-subsidies and provide incentives for urban renewal

This proposal is distinctly different to the State and Federal approach where Governments are responsible for assessing competing needs and delivering services in identified areas. The recommendation would support keeping former local government areas separate (why have amalgamations?). The senior levels of government cross subsidise to achieve a balanced outcome for the benefit of all. Local Government should be responsible for doing the same.

As rates are already low for strata units it is hard to see how rates could be tailored to promote urban renewal. Developers only pay rates for the short period in which they own the property. Those payments would be tax deductable.

It is difficult to see how a property's rate (Mosman 2014/15 average $1,196) would impact on urban renewal costs where any substantial building will cost well in excess of $1m. It is not considered a disincentive. Stamp duty incentives would better address the issue.

Councils should be able to choose how to balance key tax principles when setting residential rates

The application of tax principles to very low taxation levels ($1.07 per week for Urana Shire and $27.24 per week for Hunters Hill) is not warranted. (Lowest and highest rating Councils)

Protections should be introduced to promote equity and transparency in setting different rates

The variation in rating categories in a metropolitan Council are highly unlikely to approach the level requiring control as suggested by IPART.

Equalising Residential Rates

The Merger Proposal impacting Mosman envisages Willoughby, North Sydney and Mosman Councils amalgamating. The average 2014/15 rates shown in the Office of Local Government's data for each Council is:

- Willoughby $809.04
- North Sydney $526.64
- Mosman $1,196.06

Equalising of rates will have an impact across the residents of Mosman.

Mosman's rate structure varies from Willoughby and North Sydney. Mosman has a base amount plus a rate in the dollar whereas Willoughby and North Sydney have a rate in the dollar supported by a minimum. With the proposal to remove the minimum rate option, a new base amount for the merged Council may need to be determined at some point if the equalisation option is taken up.

Using the Office of Local Government's average rate data, it indicates that under an equalisation process Mosman's base amount $628 (2014/15) would reduce substantially to approximately $371 across the three former Council areas. This would impact adversely on house owners within the Mosman local government area. Owners of strata title units in Mosman will achieve a reduction in rates payable whilst house owners will see a significant increase.

Regardless of the valuation base applied to the rate determination, the base amount will be the same dollar amount raising no more than 50% (as currently recommended by IPART) of the total residential rate income. Without a full list of CIV valuations no informed assessment can be made on the impact of that option.

Whilst the Draft IPART Report indicates that the limit of base amounts will remain at 50%, in a merged and equalised Council it will cause a significant downward shift in the base amount changing the rate burden across the Mosman area.

Gradual equalisation of rates for new councils

If a new Council moves to equalise rates, the Draft Report recommends that the amount of rates adjusted cannot exceed10.0% above the rate peg. The annual incremental adjustment for Mosman Council's average rate (2014/15) of $1,196 per annum would amount to $29.75

Provide more rating categories

In a rate pegged environment the option of having more rate categories based on conditions of localised costs indicates a move towards 'bucket' accounting (spending funds in areas in which they are raised). Whilst from an accountant's point of view this might be considered appropriate, it diverges from the normal operations of government.

The State Government does not allocate its stamp duties or land tax in an area based way. The Federal Government allocates income and other tax receipts according to its analysis of needs and benefit of the common good. Cross subsidies exist at both the State and Federal levels. Why is the recommended approach for NSW Councils considered to be a better model of good government?

Councillors and parliamentarians are charged with making decisions that are best for the people they serve. The democratic process should prevail.