

6 October 2016

Dr Peter J Boxall AO, Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Dear Dr Boxall

**Re: Review of Local Government Rating System**

Mosman Council appreciates the opportunity to comment on the Independent Pricing and Regulatory Tribunal's Draft Report of its review of the local government rating system.

From Council's point of view the review of the rating system should focus on three main areas:

1. Equalisation of rates to ensure equity across the ratepayer base for the new Council area
2. Reduction of complexity, and
3. Options for adopting the valuation base to determine rates


Council objects to the introduction of any system that permits charging one group of residents within a council area, higher rates than others in the same council area, as all receive the same service level. As a principal of fairness, Council supports equalisation of rates across councils subject to forced amalgamation. The risk to Mosman residents should rates not be equalised after the four year rate path freeze is having to pay considerably higher rates than all other suburbs within any newly amalgamated area.

Further, Council endorses the reduction of complexity within the rating systems. The rates setting process is not well understood by the community in general. Adding additional options with conditions will not improve this situation. In conveying explanations to the general public Council considers that simplicity rather than complexity will engender greater trust. A rating system kept as simple as possible will help all ratepayers understand and enable them to contribute to the process with their Council.

Council appreciates the provision of options for selecting a valuation base to address the level of contributions of strata units to fund available services. As an early adopter of base amounts for rates, Council would recommend further consideration of the 50.0% limit for Councils who choose to remain with the unimproved value, particularly where there is a high level of strata units within a local government area.

Please find attached Council's responses to IPART's draft recommendations.

Yours sincerely,



Dominic Johnson  
ACTING GENERAL MANAGER

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## List of Draft Recommendations by IPART

### Allow councils to use CIV as an alternative to UV in setting rates

Recommendation	Council Response	Comments
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.	Agreed	
2. Section 492 of the <i>Local Government Act</i> 1993 (NSW) should be amended to remove minimum amounts from the structure of a rate, and section 548 of the <i>Local Government Act</i> 1993 (NSW) should be removed.	Agreed	

### Allow councils' general income to grow as the communities they serve grow

Recommendation	Council Response	Comments
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	Agreed	An alternative for those Councils that may choose to continue to use UV as the basis for determining rates could be based on increasing each rating category's average rates by the rate peg factor in each year's initial rate levy and applying the average rate to the revised number of assessments for the following year to set the maximum income limit.
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: form part of a council's general income permitted under the rate peg, nor Require councils to receive regulatory approval from IPART.	Agreed in part	Council is concerned that this may disadvantage ratepayers who may be required to fund infrastructure that has a regional impact.
5. Section 511 of the <i>Local Government Act</i> 1993 (NSW) ) should be amended to reflect	Agreed	

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.		
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### Give councils greater flexibility when setting residential rates

Recommendation	Council Response	Comments
6. The Local Government Act 1993 (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: a separate town or village, or a community of interest	More information required	Council has reservations in terms of the implications for Metropolitan Councils.
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.	More information required	There appears to be an increase in complexity including differential accounting to ensure funds are expended in the areas they are raised. Council has reservations for Metropolitan Councils in terms of the reduction in the democratic process of allocating funds in areas of identified need.
8. The Local Government Act 1993 (NSW) should be amended so, where a council uses different residential rates within a contiguous urban development, it should be required to: 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 publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers	More information required	Council has reservations in regard to the added complexity of establishing new rating categories and high levels of governance over an already restricted but very low income base. The rate peg limitations, together with the low income base will ensure relativities between categories are marginal.
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. <ul style="list-style-type: none"> <li>In the event that a new council</li> </ul>	Disagree	Mosman Council is concerned that its ratepayers will pay more for the same services available to them than its merger partner ratepayers. If equalisation does not occur there are issues of equity.

<p>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 outlined below.</p> <ul style="list-style-type: none"> <li>• 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 <i>Local Government Act 1993 (NSW)</i> should be amended to facilitate this gradual equalisation.</li> </ul>		
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### Better target rate exemption eligibility

Recommendation	Council Response	Comments
<p>10. Sections 555 and 556 of the <i>Local Government Act 1993 NSW</i> should be amended to</p> <ul style="list-style-type: none"> <li>• 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>• Ensure land used for residential and commercial purposes is rateable unless explicitly exempted</li> </ul>	Agreed	Council recommends that land owners who receive exemption be required to submit an annual return of land use to ensure continued exemption.
<p>11. The following exemptions should be retained in the <i>Local Government Act 1993 (NSW)</i>:</p> <ul style="list-style-type: none"> <li>• section 555(e) Land used by a religious body occupied for that purpose</li> <li>• section 555(g) Land vested in the NSW Aboriginal Land Council</li> <li>• section 556(o) Land that is vested in the mines rescue company, and</li> <li>• section 556(q) Land that is leased to the Crown for the purpose of cattle dipping</li> </ul>	Agreed	
12. Section 556(i) of the <i>Local Government</i>	Agreed	

<p><i>Act 1993 (NSW)</i> should be amended to include land owned by a private hospital and used for that purpose.</p>		
<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 (NSW)</i> 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 (NSW)</i> 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 (NSW)</i> 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 (NSW)</i> section 556(p))</li> </ul>	<p>Not applicable to Mosman Council</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 (NSW)</i> 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</li> <li>• Land comprising the site known as Museum of Sydney (<i>Local Government (General) Regulation 2005</i> reg 123(c))</li> </ul>	<p>Not applicable to Mosman Council</p>	
<p>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.</p>	<p>Agreed</p>	<p>Council recommends that land owners who receive exemption be required to submit an annual return of land use to ensure continued exemption.</p>
<p>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</p>	<p>Agreed</p>	<p>Council recommends that land owners who receive exemption be required to submit an annual return of land use to ensure continued</p>

the non-exempt use		exemption.
17. A Council's maximum general income should not be modified as a result of any changes to exemptions from implementing our recommendations.	Disagreed	The total change will not have a significant impact on the balance of amounts payable by other ratepayers.
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).	Not applicable to Mosman Council	
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.	Disagree	The scale of non-rateable properties in Mosman is low. Council questions the need to report this annually.

### Replace the pensioner concession with a rate deferral scheme

Recommendation	Council Response	Comments
<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>	Agreed	Council would appreciate confirmation that the recommendation envisages that the NSW Government will pay Council the deferred amount of rates.

### Provide more rating categories

Recommendation	Council Response	Comments
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.	Not applicable to Mosman Council	

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.	Disagree	Vacant land is not an issue for Mosman Council. However, Council notes that vacant land enjoys a capital growth in value particularly in the Sydney metropolitan region. Given the low value of rates as evidenced by the Office of Local Government's rating data, rates are unlikely to cause financial hardship. Adding the option of subcategories increases the complexity of the rate determination process.
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. <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>	Agreed	
24. Section 529 (2)(d) of the <i>Local Government Act 1993</i> (NSW) should be amended to allow business land to be sub-categorised as 'industrial' and or 'commercial' in addition to centre of activity.	Not applicable to Mosman Council	Mosman Council is not impacted by industrial areas.
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.	Not applicable to Mosman Council	Mosman Council has no farmland areas.
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.	Not applicable to Mosman Council	Mining issues do not affect Mosman Council.

### Recovery of council rates

Recommendation	Council Response	Comments
27. Councils should have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.	Agreed	Council is pleased to have an additional option to consider for the recovery process.
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	Disagree	Council does not agree with this recommendation as the option to sell a ratepayer's property is out of proportion to the level of debt.

rates from five years to three years.		Selling a property should be an issue of last resort.
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.	Agreed	
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.	Agreed	
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	Agreed	
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.	Agreed	

### Other draft recommendations

Recommendation	Council Response	Comments
33. The valuation base date for the Emergency Services Property Levy and council rates should be aligned. <ul style="list-style-type: none"> <li>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.</li> </ul>	Agreed	
34. Councils should be given the choice to directly buy valuation services from private valuers that have been certified by the Valuer General.	Agreed	