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Review of Local Government Rating System
Independent Pricing and Regulatory Tribunal
PO Box K35,
Haymarket Post Shop NSW 1240

11 October 2016

IPART Draft Report - Review of the Local Government Rating System

Dear Sir/Madam

Thank you for the opportunity to comment on IPART's Draft Report on the Review of the Local Government Rating System (Draft Report).

The NSW Minerals Council (NSWMC) is the peak industry association representing the NSW minerals industry. Our membership includes approximately 80 members, ranging from junior exploration companies to international mining companies, as well as associated service providers.

The mining industry is a significant ratepayer, with mining companies in NSW paying more than $45 million in council rates in 2014-15 (NSWMC 2016[1]).

The NSWMC welcomes the Review of the Local Government Rating System, which aims to improve the efficiency and equity of the rates mechanisms.

Mining rates reflect the cost of council services

We commend IPART's recommendation that mining rates reflect the cost of council services. Draft recommendation 26 of IPART's Draft Report states:

> *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.*

Ensuring that differences in the rate charged to a mining category reflects differences in costs of providing services will help to support IPART's commitment to the tax principles of equity, simplicity, sustainability and competitive neutrality. This will provide a level of consistency between mining rates across different councils.

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[1] 1 NSW Minerals Council 2016, '*NSW Mining Industry Economic Impact Assessment - 2014/15*', p14.

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NSWMC recommends the removal of the word "primarily" from recommendation 26 as this term adds ambiguity to the guidance provided to councils. The rate charged by a council to a mining category should not be above its average business rate unless the council can establish that additional costs are incurred in providing services to the mining properties.

A formula or percentage implementing a maximum differential rating, in line with the approach in Victoria, (limited to 4 times the lowest rate or an equivalent compared to the business rate) would help to provide further certainty and predictability of mining rates.

Capacity to pay should not be a factor which influences the calculation of mining rates. At section 8.7.1 of the Draft Report it states:

> *Our reform would make the mining rate more cost reflective and promote other tax principles, ensuring the rate is not just based on capacity to pay.*

NSWMC notes that rates should be tied to services provided by the council and not tied to capacity to pay at all. Rates function differently to a tax or royalty and councils should not be able to use rates as a de facto profits tax or royalty. Redistribution of funds to local councils would be more effectively carried out through programs which redirect royalty income to help address local needs in the areas where mining occurs. The NSWMC strongly supports the NSW Government's Resources for Regions program and has encouraged the Government to expand and strengthen the program.

<u>Retain unimproved value as the basis for calculating mining rates</u>

As discussed in our submission dated 18 May 2016, we recommend that unimproved value be retained as the basis for calculating mining rates. This is because capital investments at mine sites vary significantly from year to year, hence a Capital Improved Value (CIV) method would add significant complexity to the valuation process.

In a mining context, capital investments are not necessarily 'improvements'. Almost all infrastructure and other capital works at a mine site are actually a liability for the company in the long term, as they will need to be rehabilitated once resource extraction is complete.

From a valuation perspective, introducing a CIV method could reduce the value of mining land – which would lead to a reduction in mining rate payments. Despite these potential savings for mining companies, they are unlikely to be offset by the level of complexity, administrative burden and effort that would be required in undertaking ongoing annual engagements with valuation consultants and local councils.

Hence, **we recommend that unimproved value be retained as the basis for calculating mining rates.**

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Other recommendations

As outlined in our submission dated 18 May 2016, our other recommendations are as follows:

- Large lots should be able to be split into various rating categories, for example mining, farmland, business, vacant etc. to allow rates amounts to more accurately reflect the actual use of a particular piece of land.
- Provide a concession on mining rates for mines that are either closed or in care and maintenance or are still in a construction/establishment phase.
- Exempt Substrata land from mining rates.

The NSW Minerals Council looks forward to continuing to work with IPART to assist with the development of an efficient and equitable local government rating system.

Should your office require further information or assistance, please contact Greg Sullivan, Director Policy, [redacted]

Yours sincerely

[redacted]

Stephen Galilee
CHIEF EXECUTIVE OFFICER