14 October 2016

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Chairman
Independent Pricing and Regulatory Tribunal
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Dear Dr Boxall,

Draft Report - Review of the Local Government Rating System

The NSW Business Chamber and Sydney Business Chamber (collectively the Chambers) welcome the opportunity to provide a submission to the draft Report for IPART's *Review of the Local Government Rating System*. The Chambers, which represent more than 19,000 businesses across NSW, has been a consistent advocate of the need for local government reform.

In May the Chambers submitted to IPART that:

- the scope of the review did not accommodate sufficient consideration of broader issues such as what a council's core functions should be including service delivery and infrastructure policies;
- the risk that misapplication of the tax principles outlined by IPART by individual councils may lead to specific groups of ratepayers, such as the business community, shouldering a rates burden that is neither efficient nor equitable (particularly given they do not generally have the same level of political representation as other groups of ratepayers);
- it remained unconvinced that rates should be determined on the capital improved value (CIV) of land instead of the unimproved value (UV), particularly given its potential to introduce a disincentive for people to live in higher density housing;
- it supported the general principle that exemptions should be based on how land is used rather than the attributes of its owner; and
- it had strong concerns about the rate freeze path for newly merged councils and its potential to impact on the ability of councils to develop a sustainable financial future.

At the outset, the Chambers consider that the Draft Report provides a comprehensive and articulate synthesis of the issues that it has been asked to examine as part of the review's terms of reference. In this respect the challenges and reform priorities that ought to be considered and the context in which they sit [redacted]

Key changes recommended by the Draft Report are to:

- [redacted]ptions to set rates within [redacted] [redacted]land use;
- integrate the use of the CIV valuation metho[redacted] rating system; and
- modify rate exemptions so eligibility is based on land use rather than ownership.

This submission sets out a number of overarching comments on these recommended changes which have been prepared for consideration by both IPART as part of the review process, but also the Government as it considers IPART's final report.

Give councils more options to set rates

Most of the Draft Report's recommendations are couched in terms of providing councils more options when setting local government rates. That is, IPART does not recommend any particular approach to setting rates instead recommending the expansion of options available to councils when setting rates.

The Chambers appreciate that, as is currently the case in councils seeking a special rate variation, if IPART's recommendations were implemented any move by a council to change the manner in which they calculate rates would require detailed consultation with their community (including business stakeholders), and for it to be passed through a motion at council. Unlike a special variation process however, IPART is not suggesting any oversight role in reviewing a council's decisions to change rating methodology or structure with the new rate-setting options proposed in the Draft Report.

Rating methodologies are highly complex, difficult to communicate and, potentially, significantly impactful on individual ratepayers in the short term. Despite recent structural reforms to councils, the Chambers remain unconvinced of the capacity of local councils to undertake robust impact analysis of their policy decisions[1] including decisions around rating methods.

[1] These concerns were generally reflected in our recently released 2016 Red Tape Survey where local councils were rated as one of the most complex regulators for respondents to deal with (with councils having the greatest increase in this rating from our 2014 survey) See: http://www.nswbusinesschamber.com.au/NSWBCWebsite/media/Policy/Taxation%20and%20Regulation/Reducing%20the%20regulatory%20burdens%20faced%20by%20business/Survey-Report.pdf

Without proper controls, there is tremendous scope for any new rate setting options to be misapplied in a manner that undermines the policy principles upon which they [redacted]

The Chambers would therefore oppose changes to the rating system that make it easier for local councils to increase the burden on [redacted] bility — particularly where [redacted] which the recommended [redacted] t that local councils shoul [redacted] rather that sufficient safeguards should be in place to protect ratepayers in circumstances where councils have misapplied these principles or have made decisions that cannot be justified on relevant policy grounds. Any benefits associated with a reduction in red tape associated with relieving IPART of its role in the rate setting process must be balanced against the potential for poorer outcomes for the community.

Use of capital improved values

As the Draft Report notes, the principles of good tax design may require policy makers to make decisions about competing priorities. In the case of land valuation, IPART has concluded that any efficiency costs associated with using CIV (instead of UV) are more than offset by other advantages.

The Chambers accepts that there are strong arguments in favour of using CIV within the context of determining the revenue needs of local governments and the broader tax design principles. However, despite the merits of these arguments there are a range of residual issues that should be considered by policy makers before implementing the relevant recommendations.

As the Draft Report notes, arguments in favour of CIV as a proxy for demand for council services are less compelling when considering business ratepayers. The principle of tax efficiency dissuades against taxing improvements to land. As best as possible the rating system should seek to minimise tax on investments, particularly in circumstances where capital improvements bear no correlation to the demand for council services. The Chambers would support consideration of an approach which recognises differences in the nature of residential and business ratepayers.

Further, there is a long way to go to bridge community understanding of the difference between CIV and UV. Apartment dwellers might ask what it would mean for them while freestanding homeowners might ask how a renovation will impact on their rates bill. Business owners would equally be concerned that a shift toward CIV could be used by local councils to increase the burden on them as ratepayers.

More broadly the precipitation of a cultural shift toward use of CIV among local councils would need to be done with a view to broader issues such as how [redacted] different tiers of government as well as opportunities to improve the efficiency of the tax system. The Chambers have previously advocated for a broad-based land tax to replace transfer duty and would urge policy makers to consider recommendations within [redacted]

The Chambers again endorse the principle that exemptions should be based on how land is used rather than the attributes of its owner.

The Chambers remain open-minded about how the rating system can be designed so long as it can be done in a manner that accommodates the needs of both residential and business ratepayers. As a baseline, a safeguard that the overall tax burden on business ratepayers would not increase (due to the adoption of a policy setting that is not already available to local councils) would go toward satisfying concerns.

More generally the Chambers considers ratepayers (including businesses) to be the most important stakeholders to this review process. While submissions from individual local councils may represent a significant number of the representations made as part of the review, their needs are subordinate to those that will be directly impacted by any changes made. The Chambers are concerned that in the draft report the terms stakeholders and councils were used interchangeably. Any notion that a change is supported by stakeholders must be based more broadly and where there is disagreement between councils and ratepayer representatives, such as Chambers of Commerce, this should be reflected in the report.

Finally the Chambers reiterate their view that the terms of reference necessarily limit the potential for this review process to consider how local councils can better serve the community. For example consideration of other revenue sources as part of the review process could have supported a much broader view of issues such as the revenue needs of rural councils in servicing their communities. While this is not something within IPART's control, the Chambers would urge policy makers to consider the report alongside other opportunities for reform.

Thank you for the opportunity to participate in this consultation. If you have any further questions in relation to this submission, please feel free to contact Mark Frost [redacted]

Yours sincerely

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[redacted]

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