Randwick City Council
a sense of community

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Review of Local Government Rating System
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Att: Dr Peter J Boxall AO, Chairman

Dear Dr Boxall

IPART – Review of the Local Government Rating System

Randwick City Council welcomes the opportunity to provide a submission to IPART on the Review of the Local Government Rating System. Our submission will address each of the draft recommendations listed in section 1.7, page 9 of the Local Government – Draft Report, August 2016.

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

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.***

Randwick Council has long advocated for a switch to CIV. We support the IPART findings in regard to CIV, being more consistent with the benefits received principle and the ability to pay principle. CIV will also provide a more equitable distribution of rates between houses and apartments.

In regard to having choice between CIV and UV, we support the principle, however we have concerns over the practicality of maintaining two sets of valuation data.

If given a choice, there may also be an issue with some councils taking the easier option of simply maintaining UV for setting rates. If IPART findings are that CIV generally performs better than UV, then it may be pertinent to make CIV the default method for council to adopt, but at the same time also provide councils with the opportunity to make application to IPART with a case as to why they believe UV would be a better methodology for that particular council area.

2 ***Section 497 of the Local Government Act 1993 (NSW) should be amended to remove minimum amounts from the structure of a rate, and section 548 of the Local Government Act 1993 (NSW) should be removed.***

Randwick Council has undertaken extensive rates modeling over the past four years, both locally and for various merger options. It has been our observation that to allow council to implement a more equitable rating distribution, more flexibility is required. This will be of particular importance when merged councils are attempting to equalize rates at the end of the rates path freeze period.

Randwick has previously put forward that we would like to see more flexibility with setting rate structures with a number of measures:

- Introduction of CIV
- The removal of the 50% cap on the base rate
- Increase the maximum base rate to 80%
- Introduction of a maximum residential rate
- Maintain the provisions for minimum amounts.

We acknowledge that the use of CIV may potentially reduce the need for all of the above measures to remain, however this wont be known until CIV data sets are produced and rate modeling is conducted.

We would prefer that the flexibility in determining appropriate rating structures is expanded rather than restricted, particularly throughout the period while newly merged councils address the challenges faced with equalizing rates across their new council areas. Greater flexibility would allow councils to make the appropriate decisions on the rating structure that suits the desired balance between efficiency and equity.

IPART on page 67 of its report refers to the idea of councils being responsible for determining the appropriate rating structure with the use of different residential rates:

"There is sometimes a conflict between the principles of vertical equity and efficiency. Under the current LG Act, many councils are unable to tailor their residential rates to local preferences. Rather, they must set the same ad valorem rate for residents. Residential ratepayers with higher land values pay higher rates than those with lower land values. This is irrespective of their access to or demand for council services, or costs of providing them with those services.

In effect, this obliges Sydney metropolitan councils to prioritise the principle of vertical equity over other tax principles when setting residential rates within their areas. A better outcome may be to let councils determine the appropriate balance between equity and efficiency concerns within their diverse communities – through permitting different residential rates – and be accountable to their ratepayers at the ballot box."

We would like to see the rate structure design parameters being extended beyond different residential rates to other flexible design options that may lead to simpler and more effective rating structure outcomes.

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

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.
– This formula would be independent of the valuation method chosen by councils for rating.

The concept of growth in rates outside the rate peg based on proportional increases in CIV from supplementary valuations is supported.

It is recognised that for those councils that may choose to continue with UV as the method for setting rates, they will have to maintain an additional CIV data set in order to calculate any growth in rates under this formula.

4 ***The Local Government Act 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.***

Recommendation is supported. Having this special rate outside of a council's general income should serve to encourage councils to participate in partnering with other spheres of government for new infrastructure or urban renewal projects.

5 ***Section 511 of the Local Government Act 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.***

Recommendation is supported.

Give councils greater flexibility when setting residential rates

6 ***The Local Government Act 1993 (NSW) should be amended to remove the requirement to equalize 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.***

Randwick supports the creation of residential subcategories for separate town, villages or community of interest.

Councils may have large disparity in rates between properties in different suburbs which do not necessarily correlate with the costs of providing council services or infrastructure within the respective area.

Having different residential rates will provide council with flexibility in determining an appropriate rating structure that more closely aligns the rates paid by ratepayers with the services received.

Differential rating will also allow Council some discretion in determining the appropriate balance between key taxation principles of efficiency and equity. The balance between rates correlating to the services received and rates being proportional to the ratepayers ability to pay.

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.***

Council is supportive of this recommendation as it would facilitate additional rating flexibility in circumstances where communities within an LGA have different access to, demand for, or costs of providing council services or infrastructure relative to other areas within the LGA.

Importantly, it is not clear whether the recommendation is also intended to facilitate rating flexibility by permitting Councils to utilise differential residential rating to address rating inequity caused by significant differences in land values. If it doesn't then it ought to, however, Randwick Council's view is that there are superior and simpler alternatives available to achieve this outcome.

As previously communicated to IPART, Randwick Council has undertaken extensive rates modelling over the past four years both locally and for various merger options.

A move to CIV as a valuation methodology is supported, however, it is recognised that due to a lack of CIV data to model against:

a. the positive effect on single dwellings of a burden shift to apartments is difficult to quantify; and
b. the redistribution of rating burden across single dwellings as a result of moving from UV to CIV is unknown

Randwick Council's position is that given the uncertainty that a move to CIV presents, the best way to enable councils to determine the appropriate balance between equity and efficiency of its rating policy is to increase the cap on the base rate from 50% to 80% (S.500).

A report by The Research and Innovation Office of UTS, commissioned by Randwick Council in 2013, validated Randwick's conclusions, commenting that *"greater flexibility is needed in rating structures in NSW so that councils can design a system that best fits their LGA. The current limits on minimum rates and base rates, in addition to ad valorem rates based on land values, are too restrictive. This is a rising issue in inner city LGA's where there are a growing number of high rise dwellings and vast disparity in land values".*

Capping the base rate at 50% is resulting in a situation where rates paid far outweigh the benefits and services received by owners of highly valued properties.

It is also Randwick's view that the option of a 'maximum' rate would be a useful tool during transition and beyond.

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.***

It is acknowledged that a cap on the difference between the lowest rate structure and the highest rate structure is important. This will ensure a degree of consistency with the application of ability to pay principles. It is suggested however that 1.5 times might not be the appropriate measure.

Ahead of having a CIV data set that allows rate modeling to occur, it is difficult to say that a 1.5 times maximum differential will be sufficient to address the rates harmonisation that may be required. A 1.5 times differential may be a suitable limitation for a council with limited differences in valuations but may

only provide limited assistance for a council where valuations differences between areas within the council are significant.

Our preferred position is that each council be permitted to develop a rating structure that it determines is the most appropriate fit for its community utilizing the enhanced flexibility proposed in our response to Recommendation 7. If this includes differential rating that exceeds the 1.5 times maximum difference, then there should be a mechanism for a council to seek IPART approval that does not necessarily require a full Special Variation application.

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.***
- ***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.***
- ***In the event that a new council determines they are not separate towns or villages, or different communities of interest, or it chooses to equalize 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.***

Recommendation generally supported, however we would have preferred to be able to commence work on rate harmonisation and equalisation during the 4-year rate path freeze.

Requires clarification that any application of the 10 percentage points increase limit does not reduce a councils general income for that year, or that any shortfall in general income from this or any other transitional measures, can be caught up in subsequent years.

Better target rate exemption eligibility

10 ***Sections 555 and 556 of the Local Government Act 1993 NSW should be amended to:***
- ***exempt land on the basis of use rather than ownership, and to directly link the exemption to the use of the land, and***
- ***ensure land used for residential and commercial purposes is rateable unless explicitly exempted.***

Recommendation is supported.

11 ***The following exemptions should be retained in the Local Government Act 1993 (NSW):***
- ***section 555(e) Land used by a religious body occupied for that purpose***
- ***section 555(g) Land vested in the NSW Aboriginal Land Council***
- ***section 556(o) Land that is vested in the mines rescue company, and***
- ***section 556(q) Land that is leased to the Crown for the purpose of cattle dipping.***

Recommendation is supported. May need further definition. For example, is land used to house a minister of religion exempt under section 555(e) or does it become rateable as a residential property.

12 ***Section 556(i) of the Local Government Act 1993 (NSW) should be amended to include land owned by a private hospital and used for that purpose.***

Recommendation is not supported. Private hospitals are commercial businesses operating for profit. Council rates should be a legitimate business expense as part of their operation.

13 ***The following exemptions should be removed:***

- ***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 (Local Government Act 1993 (NSW) section 555(c) and section 555(d))***
- ***land that is below the high water mark and is used for the cultivation of oysters (Local Government Act 1993 (NSW) section 555(h))***
- ***land that is held under a lease from the Crown for private purposes and is the subject of a mineral claim (Local Government Act 1993 (NSW) section 556(g)), and***
- ***land that is managed by the Teacher Housing Authority and on which a house is erected (Local Government Act 1993 (NSW) section 556(p)).***

Recommendation is supported.

14 ***The following exemptions should not be funded by local councils and hence should be removed from the Local Government Act and Regulation***

- ***land that is vested in the Sydney Cricket and Sports Ground Trust (Local Government Act 1993 (NSW) section 556(m))***
- ***land that is leased by the Royal Agricultural Society in the Homebush Bay area (Local Government (General) Regulation 2005 reg 123(a))***
- ***land that is occupied by the Museum of Contemporary Art Limited (Local Government (General) Regulation 2005 reg 123(b)), and***
- ***land comprising the site known as Museum of Sydney (Local Government (General) Regulation 2005 reg 123(c)).***

The State Government should consider whether to fund these local rates through State taxes.

Recommendation is supported.

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.***

Recommendation is 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.***

Recommendation is supported. Will need to monitor how this is applied. IPART commentary around self-assessment is noted, however we have concerns that this could be open to false assessments. We expect that to ensure probity there will be a degree of administration by council staff in verifying self-assessments before amending any rates.

17 ***A council's maximum general income should not be modified as a result of any changes to exemptions from implementing our recommendations.***

Recommendation supported on basis that ratepayers have been subsidising the costs of council services provided to exempt properties. Appropriate that current ratepayers benefit from any removal of exemptions via larger spread of the general income pie.

18 ***The Local Government Act 1993 (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).***

No position on this recommendation. Randwick is not a water and sewerage authority.

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.***

Recommendation supported. Calculating the cost of rate exemptions will provide transparency to council and ratepayers on the impact of rate exemptions. Will also allow the comparison of rate exemption impact between councils.

Randwick has sizeable health and educational precincts (Prince of Wales Hospital, Sydney Children's Hospital, and University of New South Wales). The cost of rate exemptions is significant.

It is recognised that there may be a degree of administration in categorising properties that are currently exempt.

Replace the pensioner concession with a rate deferral scheme

20 ***The current pensioner concession should be replaced with a rate deferral scheme operated by the State Government.***

- ***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.***
- ***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.***

Randwick views pensioner concessions as a State Government social policy. We support IPART looking at programs that maintain assistance to eligible pensioners while removing the cross-subsidisation that currently exists with other ratepayers funding the council proportion of the pensioner concession.

Provide more rating categories

21 Section 493 of the Local Government Act 1993 (NSW) should be amended to add a new environmental land category and a definition of 'Environmental Land' should be included in the LG Act.

Recommendation is supported.

NOTE: With the introduction of changes to the Emergency Services Property Levy (ESPL) and the requirement that councils maintain a new data set of property classifications for the purposes of collecting the ESPL, it is logical to try and align the ESPL property classifications with rating categories.

It will be a lot easier for council staff to administer one set of property classifications rather than two sets that may have differing criteria.

22 Sections 493, 519 and 529 of the Local Government Act 1993 (NSW) should be amended to add a new vacant land category, with subcategories for residential, business, mining and farmland.

Recommendation is supported. Will require a robust definition of what is vacant land.

23 Section 518 of the Local Government Act 1993 (NSW) should be amended to reflect that a council may determine by resolution which rating category will act as the residual category.

- ***The residual category that is determined should not be subject to change for a 5-year period.***
- ***If a council does not determine a residual category, the Business category should act as the default residual rating category.***

Recommendation is supported. Council currently has to categorise a property as business if it does not satisfy the criteria for the other categories. This is not always appropriate as the subject property might not be of a commercial nature.

24 Section 529 (2)(d) of the Local Government Act 1993 (NSW) should be amended to allow business land to be subcategorised as 'industrial' and or 'commercial' in addition to centre of activity.

Recommendation is supported.

As previously noted, would be beneficial if any new categories align with ESPL property classifications.

25 Section 529 (2)(a) of the Local Government Act 1993 (NSW) should be replaced to allow farmland subcategories to be determined based on geographic location.

No position on this recommendation. Randwick does not have properties categorised as farmland.

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.

No position on this recommendation. Randwick does not have properties categorised as mining.

Recovery of council rates

27 Councils should have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.

Recommendation is supported in principle.

Randwick has adopted a debt management practice that places an emphasis on communication with ratepayers ahead of legal recovery action. This has achieved a stronger customer focus while at the same time delivering excellent recovery results. We would be happy to supplement this approach with the engagement of the State Debt Recovery Office as long as this aligns with our debt management philosophy and adds to the efficiency of the process.

Across the industry as a whole, we see the use of the State Debt Recovery Office as providing an opportunity to ensure a consistent approach to the recovery of outstanding rates and charges while at the same time potentially reducing the costs for ratepayers associated with legal action.

Existing recovery practices often see significant additional costs applying to those ratepayers who can least afford it.

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.

Recommendation is supported. This would only ever be used as a last resort for recovery of rates.

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.

Recommendation is supported. As previously mentioned, Randwick has adopted a debt management practice that places an emphasis on communication with ratepayers ahead of legal recovery action. This frequently leads to the negotiation of alternative payment arrangements that benefit both the ratepayer and council. This has achieved a stronger customer focus while at the same time delivering excellent recovery results.

30 The Local Government Act 1993 (NSW) should be amended or the Office of Local Government should issue guidelines to clarify that councils can offer flexible payment options to ratepayers.

Recommendation is supported. Randwick currently offers flexible payment options to ratepayers to assist them with their financial obligations including weekly, fortnightly and monthly payment arrangements.

31 The Local Government Act 1993 (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.

Recommendation is supported in principle. As we move towards further digitalisation of business processes, electronic delivery should become the default delivery method. Rather than a discount for electronic delivery it may be more appropriate to charge a fee for ratepayers wanting hard copy postal delivery.

32 The Local Government Act 1993 (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.

Recommendation is strongly supported. Postponed rates is often confusing for ratepayers and even council staff at times face difficult in explaining how it applies. The removal of postponed rates will simplify rating administration.

NOTE: Randwick has very few properties that are receiving postponed rates. There are currently only 8 properties out of 51,675 total properties subject to postponed rates.

Other draft recommendations

33 The valuation base date for the Emergency Services Property Levy and council rates should be aligned.

- ***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.***

Recommendation is supported.

Not only should valuation base date for ESPL and council rates be aligned but also the valuation method used to set the rates or levy. If the council is using CIV for setting rates, then this should be the valuation basis for deriving the ESPL so as to avoid the administration associated with maintaining two different valuation data sets.

As previously mentioned, with the introduction of the ESPL requirement that councils maintain a new data set of property classifications for the purposes of collecting the ESPL, it is logical to also try and align the ESPL property classifications with rating categories.

It will be a lot easier for council staff to administer one set of property classifications rather than two sets that may have differing criteria.

34 Councils should be given the choice to directly buy valuation services from private valuers that have been certified by the Valuer General.

Randwick agrees with the concept of developing a more efficient process with a potentially higher quality product. We do not necessarily support an approach that allows councils choice over valuation services as this could end up being detrimental to the objective.

Choice of valuation services is likely to involve a tender process. There may be political pressure to select the most cost effective option ahead of the best quality service offering. This could lead to further cost cutting by valuers and even further reduction in service quality.

This has been evidenced in other service areas. Using audit services as an example, this has gone away from councils having choice to being consolidated under the direction and control of the Auditor General Office.

We would recommend that the VG maintains control over all aspects of valuation delivery. It is noted that the VG already utilise contract valuers under their existing valuation service arrangements.

Should you require further information or wish to discuss this matter in greater detail, please do not hesitate to contact Greg Byrne, Manager Financial Operations on [redacted] or email at [redacted]

Yours sincerely

[redacted]

Ray Brownlee PSM
General Manager