Woollahra Municipal Council

ABN 32 218 483 245

Redleaf Council Chambers
536 New South Head Road
Double Bay NSW 2028
Correspondence to
General Manager
PO Box 61
Double Bay NSW 1360
DX 3607 Double Bay
records@woollahra.nsw.gov.au
www.woollahra.nsw.gov.au
Telephone: 61 2 9391 7000
Facsimile: 61 2 9391 7044

Council Ref: SC333
Your Ref:

13 October 2016

Dr Peter J Boxall AO
Chairman
Review of Local Government Rating System
IPART
PO BOX K35
Haymarket Post Shop NSW 1240

Dear Chairman

Submission
Review of Local Government Rating System

Please find enclosed Woollahra Council's submission in response to IPART's Draft Report on the Review of the Local Government Rating System along with a copy of the covering report that presented the submission for adoption by Council at its Meeting on Monday 10 October 2016.

Should you require clarification of any of the matters raised in the submission, please contact Council's Director – Corporate Services, Mr Stephen Dunshea [redacted] or by email at [redacted]

Yours sincerely

[redacted]

Gary James
General Manager

IPART Rating Review Submission

Woollahra Municipal Council
October 2016

Recommendation		Supported / Not Supported	Comments
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.	Not Supported	Council contends that the basis for setting rates should be consistent across local government in NSW. This is in keeping with the key taxation principle of 'simplicity'. As stated in IPART's Report at 2.3.3: *"Taxes should be easily understood, difficult to avoid and have low costs of compliance and enforcement. If a tax is easy to understand and is fair, compliance is generally high."* A single basis for setting rates across the State best promotes simplicity, understanding and consequently public confidence in the rating system. Further, it is Council's view that Unimproved Land Value (UV) should be retained as the basis for determining the ad valorem amount in council rates. A move to the alternative capital improved value (CIV) would be an expensive exercise that should be subject to a separate cost-benefit analysis prior to any determination. Applying the tax principles, UVs provided by the Valuer General based on mass valuations is considered to be efficient and simple. The context in which the Independent Local Government Review Panel (ILGRP) raised the prospect of CIV largely related to the rating of apartments. This was regarded at that time as a 'value-capture' opportunity to provide councils with additional revenue to improve the long-term financial sustainability of council. In this context it was also presented an opportunity through 'value-capture' to redistribute financial assistance grants (FAG) to areas of greatest need. Council agrees that there are inequities in the rating of apartments under the current rating system. However for the reasons outlined above regarding simplicity and public confidence in the system, we cannot support CIV as an alternative basis for setting rates in order to solve the inequities in the rating of apartments. Council contends that equitable rating of apartments could alternatively be managed through sub-categorisation of residential rates under the existing UV methodology.

Recommendation		Supported / Not Supported	Comments
			Council also make the point that there simply isn't readily available data on capital improved property valuations to enable proper modelling to be done to assess the benefits or dis-benefits of adoption of CIV as the basis for setting rate. Therefore Council suggests that any decision on a change from UV to CIV as an option be deferred pending a full investigation into the proposal that would include detailed modelling based on actual CIV data to be made available to councils. The current four year rate freeze presents an ideal opportunity for the deferral and detailed modelling and analysis. It is also noted that IPART has recommended that CIV be used as the basis for levying the Emergency Services Property Levy. If this comes into effect it would effectively mandate the use of CIV given that maintaining both UV and CIV by councils would be neither efficient nor simple.
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.	Supported	Woollahra Council has long supported the use of base rates and first adopted a 50% base rate structure for residential rate in 1994/95. This was on the basis that it sees all residential ratepayers contributing a base amount toward Council's core services - with the balance of rates paid reflecting the respective land values of properties. Given the broad range of land values across the Woollahra LGA, and in particular the very high values at the upper end, the 50% base amount structure most equitably distributes the rates levied. It is considered that the services and infrastructure available to the highest valued properties is not so dissimilar as to warrant them paying disproportionately more rates. It is, however, disappointing that IPART's recommendation does not extend to increasing the 50% restriction on revenue collected from the base amount. Any concerns about it being set above the level required to recover fixed costs could easily be addressed by subjecting it to external audit - as is the current requirement for councils to subject the reasonable cost for the domestic waste management charge to external audit.

Recommendation		Supported / Not Supported	Comments
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.	Supported in Principle	Any recognition of councils being able to increase their rates to keep pace with the cost of service provision is supported. Ideally this would be achieved by abolition of the rate peg rather than through growth in CIV arising from new residents or businesses.
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.	Supported	Council supports this recommendation subject to community consultation and evidence of community support for the infrastructure proposal. There should also be evidence that the infrastructure proposal has been flagged in the council's Integrated Planning & Reporting documents – consistent with the existing requirements for Special Rate Variation applications to IPART.
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.	Not Supported	Notwithstanding the merit in extending the 'catch-up' period from 2 years to 10 years to align with councils long-term financial planning, it is argued that extending the period beyond the current 2 years increases the likelihood of 'politicising' the practice against the four year election cycle. In this regard, the outcome could in fact be contrary to the aim of building a 'stronger system of local government' due to political influences in determining the timing - and potentially excessive delay - of any catch-up. It is considered that the current 2 year restriction creates a necessary urgency for councils to resolve the matter.

Recommendation		Supported / Not Supported	Comments
Give councils greater flexibility when setting residential rates			
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.	Conditionally supported	The recommendation is deficient in that it should extend to being able to determine a subcategory based on building type – with multi-unit dwellings being the obvious one. It is widely acknowledged in the Review that multi-unit dwellings may not contribute sufficiently to the overall rate burden of an LGA under current legislation and this can easily be addressed by sub-categorisation. A residential sub-category for multi-unit dwellings achieves the desired outcome of apartments contributing sufficiently to the overall rate burden without the expensive and complex move to CIV as the basis for setting rates.
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.	Partially Supported	Council acknowledges the merit of the recommendation in that it would enable a residential sub-category to be determined for a 'community of interest' where circumstances as suggested in the recommendation exist. However if the intent of this recommendation is to amend legislation to also facilitate the '**Judicial Interpretation'** relating to the former South Sydney Council establishing residential sub-categories (as outlined on pages 62 and 63 of the Report) then it **fails to do so.** Further, **if it is not intended to facilitate that Judicial Interpretation then it ought to.** In this regard, Council contends that **recommendation 7 is deficient** in defining the parameters of a 'community of interest' by limiting it to *'access to, demand for, or cost providing council services….'* Specifically, this recommendation does not address the situation where an area of contiguous urban development has access to the same services - and no differential cost of service or infrastructure provision - yet pays disproportionately more in rates because of its land values.

Recommendation		Supported / Not Supported	Comments
			Put simply, recommendation 7 does nothing to address **"The Woollahra Issue"** where rates will inevitably rise significantly under the proposed merger of Woollahra Council with Waverley and Randwick Councils due to the disproportionately higher land values in Woollahra compared to our neighbouring councils. IPART clearly acknowledge this situation on page 65 of its report as follows: *"However, factors other than access to council services are often the drivers of land values, particularly in metropolitan Sydney. These factors include proximity to public transport, beaches or waterways. So there may not always be a strong connection between the benefits received from local services (ie, access) and ad valorem rates paid. In these instances, setting differential residential rate may be a useful option for council."* Woollahra Council has raised this issue in the strongest possible terms with the ILGRP, with IPART, and with the State Government directly as being a significant adverse consequence of the Government's merger proposal. Clear evidence was provided in Council's Fit for the Future submission to IPART and more recently to the State Government appointed Delegate for the Merger Proposal that Woollahra ratepayers will be significantly disadvantaged under the merger through higher rates due to the significantly higher land values in Woollahra compared to our proposed merger partners. IPART has openly referred to the problem of higher rates to be paid under amalgamation by ratepayers in higher land value LGAs as the **"Woollahra Issue."** This very term was quoted to Woollahra Council representatives by IPART's **Mr Derek Francis** in a meeting held at IPART offices on 2 November 2015. Indeed, in correspondence arising from that meeting to Council on 18 November 2015, the CEO of IPART, Hugo Harmstorf stated: *"If a Council with high average land values merged with a council with lower average land values, the resulting rate charges may cause an uneven distribution of the potential gains from a merger. In light of the submissions we received relating to this, we have raised this issue with Government."*

Recommendation		Supported / Not Supported	Comments
			It is disappointing to Council that whilst IPART has openly acknowledged this problem, both directly with Woollahra Council and in its rating review report, that recommendation 7 (if legislated) would not permit councils to use sub-categorisation of residential rates to protect ratepayers from excessive, unjust and unfair massive increases in rates. Council contends that recommendation 7 should be amended to enable councils to determine a 'community of interest' for the purpose of creating a residential rating sub-category that would protect owners of disproportionately higher valued properties from excessive rate increases. In presenting this proposal, Council acknowledges that recommendation 9 below seeks to limit the annual increase for affected ratepayers – but ultimately rate equalisation over time will see these property owners paying far in excess of a 'fair' share of the rate burden. Council also notes that in acknowledging the adverse impact of the merger proposal on Woollahra ratepayers, Waverley and Randwick Council proposed a solution to the ***"The Woollahra Issue"*** in their joint 'Fit 'For the Future' submission to IPART, as being a change to rating legislation that would enable base rates to be set higher than 50% and that maximum rates for individual assessments would be 'capped' a multiplier of the base rate. Specifically, the Randwick/Waverley submission stated that: *"In most options a 70 per cent base rate resulted in the least change in the total rates paid by each council area. Restricting the total rates paid to a maximum of six times the base rate assisted in minimising the impact on high land value properties, particularly within the Woollahra area..."* Council makes the point in the strongest possible terms that this Randwick/Waverley rating structure proposal that does seek to minimise rate increases for Woollahra under the merger is not provided for in any of IPART's recommendations – thereby leaving Woollahra ratepayers exposed to the inevitable increases quoted in Woollahra Council's previous submissions and supported by independent audit verification.

Recommendation		Supported / Not Supported	Comments
			It is also important to note that in addressing the criteria of 'Community of Interest' in his Delegate's Report to the Minister for Local Government on the Woollahra, Randwick, Waverley Merger Proposal, Dr Robert Lang concluded that: "*Having considered the factors raised in submissions in regard to community of interest and assessing the balance of similarities and differences across the region, as well as noting the principle that residents identify with their locality rather than their local government area, I find that the merger proposal is not inconsistent with this criteria."* Consequently, it is argued that it would be difficult for any future merged council to identify areas of the combined council area that would meet the factors identified by IPART as facilitating the creation of a 'community of interest' within the merged council area.
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.	Supported	It is reasonable to impose such a limitation to avoid imposing excessive rates on ratepayers. Again, Council strongly notes that recommendation 7 is grossly deficient in defining the parameters for councils to determine an area of contiguous urban development for residential rating sub-categorisation to *'access to, demand for, or cost providing council services…..'*

Recommendation		Supported / Not Supported	Comments
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 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 *Local Government Act 1993* (NSW) should be amended to facilitate this gradual equalisation.	Conditionally Supported	Woollahra has consistently raised the rating inequities that will arise from merging council areas with vastly different land values. Woollahra would be an example of a Council where equalisation would not happen within five years. In early modelling of the impact of the merger of Randwick, Waverley and Woollahra Councils, used to support earlier submissions to IPART and the State Government, over 2,700 ratepayers are exposed to an increase in rates of 100% or more, the highest being 186%. This could see the transition to equalisation taking up to 18 years. Given the relatively low value of council rates, in the context of other household bills, it is submitted that a limitation of 20% may not impose an unreasonable burden in dollar terms on a household and shorten the transition period. There could also be practical issues with its implementation. What happens in the event a general revaluation of land coincides with the end of the 4 year freeze? The 'usual' movement in land values across an LGA can give rise to increases above 10% as could council policy decisions to vary the base rate percentage. Are these increases to be excluded? Also, what happens to the income foregone as a consequence of the cap? Is it 'lost' or re-distributed across the other ratepayers. It also needs to be established that rating software systems are capable of implementing such a recommendation. Notwithstanding Council's comments above in 'conditionally supporting' recommendation 9, Council strongly contends that recommendation 9 would be unnecessary if recommendation 7 was amended to enable councils to determine a 'community of interest' for the purpose of creating a residential rating sub-category that would protect owners of disproportionately higher valued properties from excessive rate increases.

Recommendation		Supported / Not Supported	Comments
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.	Supported	Council strongly supports the principle that the scope of the exemption should directly align to the land associated with direct service delivery of the exempt institution. For example, exemptions should be limited to the land upon which any schools and churches sit and not the 'associated' properties owned by the schools and churches to house clergy or staff. In this regard, the zoning of the land could be used as a guide to determining the exemption. In the interest of equity, simplicity and consistency it is submitted that councils should not be given discretion over the level of exemptions.
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.	Supported	These existing exemptions from rates are generally supported. However, as stated in response to recommendation 10 above, the exemption should directly align to the land associated with direct service delivery of the exempt institution and not apply to 'associated' properties owned by the relevant organisation or body.
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.	Not Supported	Private hospitals are commercial businesses operating for profit and should be subject to full council rates as a tax deductible operational business expense.
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	N/A	No submission is made in response to this recommendation.

	Recommendation	Supported / Not Supported	Comments
	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)).		
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.	N/A	No submission is made in response to this recommendation.
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.	Not supported	Other aspects of rating legislation are based on the concept of dominant use. Non-rateability should be no different. However, if it this recommendation was to be implemented by the use of a mechanism similar to Mixed Development Apportionment Factors it would be 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.	Not supported	This would add unnecessary complexity.

Recommendation		Supported / Not Supported	Comments
17	A council's maximum general income should not be modified as a result of any changes to exemptions from implementing our recommendations.	Not supported	Consistent with the Independent Local Government Review Panel's view on a move to CIV, and to some extent IPART's view on general income growth, any justified removal of rating exemptions should be considered a means of strengthening the local government sector through the injection of additional revenue to improve services and the provision of local infrastructure.
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).	N/A	No submission is made in response to this recommendation.
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.	Not supported	Council considers this to be an unnecessary level of disclosure that would not assist the general public in assessing the performance of councils nor the equity of its rating structure. Further, implementation of the recommendation would be problematic. For example: • What rating category do you place a public reserve in? • What happens when land is not valued? • What happens if a national park extends across more than one LGA? For these reasons, Council does not support the recommendation.

Recommendation		Supported / Not Supported	Comments
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.	Not Supported	This is a clear diminution of the current scheme and is not supported. It is submitted that the current pensioner concession scheme remain in place but be 100% funded by the State, consistent with other States and Territories and supported by stakeholder submissions. Further, Council strongly supports the stakeholder submission noted in the Review relating to the annual indexation of the 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.	Supported (In-Principle)	Council appreciates the sentiment of stakeholder submissions to IPART on this issue given the low development potential of lands affected by geographical factors such as water areas, mud flats, swamps, marshlands, steep slopes etc. However, the introduction of a new Environmental Land category for the purpose of reducing rates levied on such land will result in a shift in the rate burden to other rating categories. As there are no suggestions in the IPART report as to how to address this consequence, it is suggested that consideration of this recommendation be deferred for further analysis
22	Sections 493, 519 and 529 of the *Local Government Act 1993* (NSW) should be amended to add a new vacant land category, with sub-categories for residential, business, mining and farmland.	Conditionally Supported	Council would support amendments to the LG Act that provided councils the **'option'** of adding a new vacant land category – along with the suggested sub-categories. It is noted however that inclusion of this recommendation appears to be predicated on the adoption of CIV as an option for the basis of setting rates 0- but as noted in response to recommendation 1 – Woollahra Council does not support the option of CIV.

Recommendation		Supported / Not Supported	Comments
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.	Supported	No further comments.
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.	Supported	While not particularly relevant to Woollahra, the opportunity for councils to refine and improve their rating structures is supported.
25	Section 529 (2)(a) of the *Local Government Act 1993* (NSW) should be replaced to allow farmland sub-categories to be determined based on geographic location.	N/A	No submission is made in response to this recommendation
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.	N/A	No submission is made in response to this recommendation
Recovery of council rates			
27	Councils should have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.	Supported	Council supports this as an 'option only' where recovery has become problematic given the broad range or recovery means available to the SDRO.
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.	Supported	No further comments.

Recommendation		Supported / Not Supported	Comments
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.	Not Supported	Council considers the application of existing hardship policies, supported by any guidelines issued by the OLG (as proposed in recommendation 30 below) and the option of engaging the SDRO (as proposed in recommendation 28 above) to be sufficient mechanisms for the efficient and effective recovery of overdue rates. An additional internal review policy is therefore considered unnecessary.
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.	Supported	The OLG's performance benchmark of, for metropolitan councils, having less than 5% of rates collectible outstanding is a factor in determining the vigour with which councils pursue overdue rates. Retention of the performance benchmark is supported and the issuing of OLG guidelines would provide a useful resource document to assist councils with the management of overdue rates. Whilst flexible payment arrangements in cases of financial hardship are strongly supported, and indeed implemented at Woollahra within a policy framework, the management of overdue rates should remain at the discretion of councils. Consequently, any OLG guidelines issued should remain 'guidelines' only and their application not mandated.
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.	Not Supported	Council supports the move to electronic serving of rate notices as a cost saving initiative. However, it is considered that a greater incentive to encourage a move to electronic serving of rate notices is to impose an additional (modest) charge on ratepayers who choose to retain receiving notices by mail. Eligible pensioners should be exempt from the additional charge.
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.	Conditionally Supported	The State Government's Urban Renewal Corridors have the potential to significantly influence land valuations across large areas of Sydney. Council contends that current land owners who reside in properties affected by rezoning to a much higher density, not at their initiation and in many cases unwanted, should not be disadvantaged by this recommendation. In these instances, application of the recommendation should only come into effect when the owner ceases to reside at the property or when it is next sold.

Recommendation		Supported / Not Supported	Comments
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.	Partially Supported	Council supports the first statement in the recommendation that the valuation base dates should be aligned. However, as Council does not support the move to CIV as the basis for setting rates, it cannot support the recommendation that CIV be used as the basis for levying the ESPL (should the proposal be to levy the ESPL through council rate notices) as this would require councils to maintain both UV and CIV data for each property.
34	Councils should be given the choice to directly buy valuation services from private valuers that have been certified by the Valuer General.	Not Supported	The 'value-for-money' argument would strongly support councils being required to use the services of the Valuer General (VG). Presumably the State would continue to use the VG for its valuation services, providing significant scale efficiencies to both spheres of government. It is also suggested that there is merit in having a consistent, independent valuer across local government and indeed the State for the purposes of taxation.

8. General Manager and Officer's Report

Item No:	8.1
Subject:	**IPART REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM - SUBMISSION**
Authors:	Stephen Dunshea, Director - Corporate Services Don Johnston, Chief Financial Officer
Approver:	Gary James, General Manager
File No:	16/140047
Reason for Report:	To present Council's draft submission to IPART.

(O'Regan/Wynne)

Resolved Unanimously:

A. THAT Council endorse the draft submission to IPART's Review of the Local Government Rating System presented as **Annexure 1**.

B. THAT Council note that in the absence of data on which to reliably model the impact of the Capital Improved Value method for setting rates in NSW that Council cannot support IPART's recommendation that councils should be able to choose between the Capital Improved Value (CIV) and the current Unimproved Value (UV) methods.

C. THAT the Mayor write to the Premier, the Hon. Mike Baird MP and to the Minister for Local Government, the Hon. Paul Toole MP highlighting that none of the recommendations in the IPART report present any assurance to Woollahra ratepayers that they will be protected from the inevitable significant rate rises that will result from the proposed merger with Randwick and Waverley Councils.

D. THAT the letter to the Premier highlight that in not protecting Woollahra ratepayers from inevitable and significant rate rises under the merger, IPART's draft recommendations are contrary to public statements the Premier has made about council mergers such as *'put the ratepayer first', 'we are the ratepayers friend',* and *'amalgamation will put downward pressure on rates,'*

E. THAT the letters to the Premier and Minister include a request that any final decision on the proposed merger of Woollahra with Randwick and Waverley Councils be deferred until such time as CIV data is made available to councils and reliable modelling is undertaken to assess the impact of the merger on rates under both the CIV and UV rate setting methods.

F. THAT copies of the Mayor's letters to the Premier and the Minister for Local Government be sent to the Member for Wentworth, the Hon Prime Minister Malcolm Turnbull MP, the Member for Vaucluse, the Hon. Gabrielle Upton MP, the Member for Coogee, Bruce Notley-Smith MP, the Member for Sydney, Alex Greenwich MP and to the Mayors of Randwick and Waverley Councils.

1. Background:

In announcing council merger proposals in December 2015, the NSW Premier also announced that he would be requesting the Independent Pricing and Regulatory Tribunal (IPART) to undertake a review of the Local Government Rating System. The premier provided terms of reference for the review to IPART on 18 December 2015.

IPART released its draft report on the *"Review of the Local Government Rating System"* on 22 August 2016 and is seeking submissions in response to 34 draft recommendations by Friday 14 October 2016.

The purpose of this report is to seek endorsement of Council's submission to IPART presented as **Annexure 1** noting that a draft of the submission has previously been circulated to Councillors for review by email.

2. Report:

The Premier's terms of reference for the review instructed IPART to undertake a review to identify and make recommendations for potential reforms to the rating system for local government in NSW. The recommendations will aim to:

- Enhance the ability of councils to implement sustainable and equitable fiscal policy, and;
- Provide the legislative and regulatory approach to achieve the Government's policy of freezing existing rate paths for four years for newly merged councils.

Further, IPART was to consider the performance of the current rating system and potential improvements, including consideration of:

- The rating burden across and within communities, including consideration of apartments and other multi-unit dwelling;
- The appropriateness and impact of current rating categories and exemptions, mandatory concessions and rebates;
- The land valuation methodology used as the basis for determining rates in comparison to other jurisdictions;
- The impact of the current rating system on residents and businesses of a merged council and the capacity of the council to establish a new equitable system of rating and transition to it in a fair and timely manner;
- The objectives and design of the rating system according to recognised principles of taxation.

The key taxation principles IPART states they have used to assess the current rating system are efficiency, equity, simplicity, sustainability, and competitive neutrality.

In a fact sheet issued with the release of the draft report, IPART states that their draft recommendations include:

- Providing councils with the option to use the market value of the property - Capital Improved Value (CIV) method, or the current Unimproved Land Value (UV) method when setting rates.
- Allowing councils' total rates income to grow as the communities they serve grow from new development.
- Providing more rate options for councils to set residential rates to better reflect local community preferences.
- Replacing the current pensioner concession scheme with a rate deferral scheme operated by the State Government.
- Modifying rate exemptions so eligibility is based on land use rather than ownership
- Allowing councils to levy a new type of special rate that would not require regulatory approval to fund joint infrastructure projects with the state or federal governments.
- Creating two new rating categories for environmental and vacant land.

- Giving councils better options to set rates within the business and farmland rating categories.
- Allowing council to choose between purchasing valuation services directly from the market or from the NSW Valuer General.

Council's response to the 34 recommendations is provided in the draft submission presented at **Annexure 1.**

3. Discussion:

It is evident from IPART's draft report that they consider the introduction of the CIV method as the basis for setting rates as an alternative to the current UV method as addressing inequities in the rating system in NSW, particularly in respect of the rating of apartments.

Whilst there may be merit in IPART's Recommendation 1 regarding the introduction of CIV, Council's draft submission does not support the recommendation for the following reasons:

1. It is our strong view that, consistent with the key taxation principle of 'simplicity', there should be a single valuation method for setting rates across the State. In this regard it is argued that simplicity of the system improves understanding amongst stakeholders and thereby provides for greater trust and confidence in the rating system.

2. CIV may be preferable to UV as that single method for setting rates but in the absence of specific valuation data to reliably model the impact of its introduction on Woollahra ratepayers, we are unable to produce any direct evidence that would support the introduction of CIV.

Point 2 above is of particular relevance given the very serious concerns Council has raised about the proposed merger with Waverley and Randwick Councils and the significant impact the merger would have on Woollahra ratepayers due to the disproportionately higher land values in the Woollahra LGA.

As Councillors will recall, this specific problem was referred to by IPART as 'The Woollahra Issue' in earlier discussions between Council officers and IPART and it was hoped that a solution to the problem would be identified through this IPART Review of the Rating System.

It is disappointing therefore that nothing in IPART's Draft Report provide any assurance to Woollahra ratepayers that they will be protected from the inevitable and significant rate rises that will result from the proposed merger with Randwick and Waverley Councils. Put simply, there is no evidence that the recommendations in IPART's Draft Report address 'The Woollahra Issue'.

Whilst theoretically CIV may provide some relief under the merger through a redistribution of a greater proportion of the rate burden onto apartment owners, capital improved valuation data is not available to undertake the modelling necessary to conclude the extent to which, if any, the introduction of CIV would mitigate inequitable rate rises for Woollahra ratepayers under the merger.

Another section of the IPART report which we consider to be deficient relates to Recommendations 6 and 7.

Recommendation 6 proposes that a residential sub-category for the purpose of rating should be allowed for 'a separate town or village' or 'a community of interest'. Potentially this recommendation could be used to address 'The Woollahra Issue' through the creation of a

residential 'community of interest' sub-category based on property valuations – potentially either CIV or UV.

However, Recommendation 7 as drafted would not permit this. A 'community of interest' for the purpose of Recommendation 7 is defined as an area within a contiguous urban development which *'has different access to, demand for, or costs of providing council services or infrastructure relative to other areas in that development'*.

Council's submission contends therefore that Recommendation 7 should be amended to enable councils to determine a community of interest for the purpose of creating a residential rating sub-category that would protect owners of disproportionately higher valued properties from excessive rate increases.

4. Conclusion:

IPART have released aits Draft Report on the Review of the Local Government Rating System. The Draft Report contains 34 recommendations with IPART seeking submissions by Friday 14 October 2016.

A Draft Woollahra Council submission to IPART has previously been forwarded to Councillors by email and this report is presented to Council seeking endorsement of the submission for lodgement on Friday.

Of greatest concern to Council is that the report fails to address what has been referred to by IPART as The Woollahra Issue – where under the proposed merger with Randwick and Waverley Councils, Woollahra ratepayers will inevitably pay significantly higher rates due to disproportionately higher land values in Woollahra compared to our proposed merger partners.

Whilst IPART's Draft Report proposes the introduction of CIV as an option for the valuation method used to set rates, particularly to address the current inequities regarding the rating of apartments, there is currently no data available on which reliable CIV modelling can be undertaken to determine the extent to which, if any, the introduction of CIV would mitigate inequitable rate rises for Woollahra ratepayers under the proposed merger.

It is therefore recommended that the Mayor write to the Premier, the Hon. Mike Baird MP and to the Minister for Local Government, the Hon. Paul Toole MP highlighting that none of the recommendations in the IPART report present any assurance to Woollahra ratepayers that they will be protected from the inevitable significant rate rises that will result from the proposed merger with Randwick and Waverley Councils.

It is also recommended that the letters to the Premier and Minister include a request that any final decision on the proposed merger of Woollahra with Randwick and Waverley Councils be deferred until such time as CIV data is made available to councils and reliable modelling is undertaken to assess the impact of the merger on rates under both the CIV and UV rate setting methods.

Annexures

1. IPART Rating Review Submission October 2016