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Your ref:
Our ref: A03/1401-2

Independent Pricing and Regulatory Tribunal (IPART)
Fit for the Future panel
PO Box K35
Haymarket Post Shop
NSW 1240

Dear Sir/Madam,

Review of Local Government Rating System

Please find attached advice that I would like considered in the review process. The advice is a general overview of changes considered relevant to land rating across NSW and is presented in two parts;

- Part 1: General rating and changes to establish a levy across all dwelling units
- Part 2: Mine and other approved development types.

I understand that rating of land is a complex issue and that it is one of the main cost factors that revolve around local government. The proposals as submitted have considered in detail the current system and it has been concluded that the unimproved capital value of land is the simplest method of rate calculation. By not taking in the cost of a structure or the income of the resident or other methods of calculation it allows all people to be treated equally.

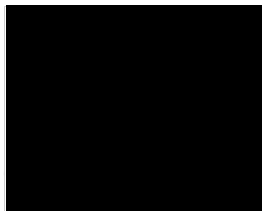
I propose a minor change to the calculation process to address the costs of operating a council (cost to open the doors) and to share this cost across dwelling units to make it a fairer system of cost allocation. This levy to cover the operational costs plus the retention of a base rate and advolorem amount assists to balance the cost distribution.

I also request that the review establish the rating classifications to coincide with the land zone classifications. This will reduce confusion to the community and provide a greater breakdown in land use criteria for rate classification. This is particularly important in the rural land areas that have restricted classifications that no longer meet the land use restrictions.

The changes proposed to mining and development approved industries needs to be reviewed based around the current boom and bust of mining and the time restrictions placed on developments such as wind farms. It is requested that these developments are not part of the general rate category and are treated as separate and external rate items or an annual levy paid to the council whilst the development is undertaken.

Thank you for the opportunity to make comment on the rate system in NSW and should you require any further information please contact me.

Yours sincerely



Glenn Wilcox
Interim General Manager

General Overview

This information has been prepared in two sections.

Part 1 addresses the issues around rating generally and includes a proposed change to how rates are raised, whilst Part 2 examines a need to consider areas such as mining and other development consent projects as being separate to the general rating categories and inclusion in the total rates pool.

In summary, Part 1 asks for a change to the general rating structure. This includes removal of all development application or state government approved industries. It also indicates that general rating should include a levy that covers the operational cost of a council opening its doors and that this levy is applied equally to all rate assessments. The levy, a base rate and an advalorem rate would then make up the total rate assessment.

Part 1 also looks at a need to coordinate rate descriptions to that of the NSW planning scheme. This will ensure rateable properties can be assessed on the residential density available and that rural land uses are extended into differential categories that meet modern trends in agriculture, environmental management and other land uses.

Rating generally

Introduction

This document has been prepared to talk generally about the issues around rating of land across NSW and a need to consider some areas of change to allow communities and councils to make provision for social and community needs into the future. The IPART review will allow all Councils and members of the public to participate in the review process and to look logically at the future directions and needs of Local Government to meet long term needs.

Rating is a land tax. The current system of rating is based around the unimproved capital value of land and although a Council has two options in the way it raises the tax through the straight Advalorem method or the base rate plus advalorem method, each method has variations that do not allow the community to openly assess what they will be charged, how this figure is established and make any provision for bracket creep as land values rise. These methodologies have suited past actions of councils to raise money to provide services to its community, however with changes in agriculture, new technologies, mining developments and demographic changes a revised system of rating should be considered.

This document has been split into Part 1 and Part 2 to address the overall general rate changes and to address mining and technology or approved development changes.

PART 1

1.0 Rate Structures up to 2016

As identified from the relevant sections of the *Local Government Act 1993*, rates may be of an ordinary or a special rate type (cl 492 and s514). The rate is then broken into one of 4 categories being;

- Farmland
- Residential
- Mining, or
- Business (cl493)

These categories may, at a council's discretion, be divided into sub-categories in accordance with section 529.

The Council at its discretion (cl 497) may structure the rate as;

- a) an ad valorem amount (which may, in accordance with section 548, be subject to a minimum amount of the rate), or
- b) a base amount to which an ad valorem amount is added.

Cl 498 advises that;

1. The ad valorem amount of a rate is an amount in the dollar determined for a specified year by the council and expressed to apply:
 - a. in the case of an ordinary rate—to the land value of all rateable land in the council's area within the category or sub-category of the ordinary rate, or
 - b. in the case of a special rate—to the land value of all rateable land in the council's area or such of that rateable land as is specified by the council in accordance with section 538.
2. The ad valorem amount of a rate is to be levied on the land value of rateable land, except as provided by this or any other Act.

3. An ad valorem amount specified for a parcel of land may not differ from an ad valorem amount specified for any other parcel of land within the same category or subcategory unless:
 - a. the land values of the parcels were last determined by reference to different base dates, and
 - b. the Minister approves the different ad valorem amounts.

Land value is defined in the Dictionary for this Act. Generally, it is a value determined specially for rating purposes by the Valuer General under the [Valuation of Land Act 1916](#). A value other than land value may be used, for example, under section 127 of the [Heritage Act 1977](#).

Under S499 a Council may specify a base amount of a rate and this amount may vary across rate categories or within sub categories. CI500 advises that *“The amount specified as the base amount of a rate (or the base amount of the rate for a category or sub-category of an ordinary rate) must not be such as to produce more than 50 per cent of the total amount payable by the levying of the rate (or of the rate for the category or sub-category concerned) on all rateable land subject to the rate (or the rate for the category or sub-category concerned)”*.

Councils under clauses 515, 516, 517 and 518 are provided with definitions on land categorisation of land. The descriptors of this land form part of this review as modern forms of agriculture, business and rural living need to be further explored.

Farmland

Land is to be categorised as **farmland** if it is a parcel of rateable land valued as one assessment and its dominant use is for farming (that is, the business or industry of grazing, animal feedlots, dairying, pig-farming, poultry farming, viticulture, orcharding, bee-keeping, horticulture, vegetable growing, the growing of crops of any kind, forestry or aquaculture within the meaning of the [Fisheries Management Act 1994](#), or any combination of those businesses or industries) which:

- has a significant and substantial commercial purpose or character, and
- is engaged in for the purpose of profit on a continuous or repetitive basis (whether or not a profit is actually made).
- Land is not to be categorised as farmland if it is rural residential land.

Residential

1. Land is to be categorised as **residential** if it is a parcel of rateable land valued as one assessment and:
 - a) its dominant use is for residential accommodation (otherwise than as a hotel, motel, guest-house, backpacker hostel or nursing home or any other form of residential accommodation (not being a boarding house or a lodging house) prescribed by the regulations), or
 - b) in the case of vacant land, it is zoned or otherwise designated for use under an environmental planning instrument (with or without development consent) for residential purposes, or
 - c) it is rural residential land.

1A. For the purposes of this section, a **boarding house** or a **lodging house** means a building wholly or partly let as lodging in which each letting provides the tariff-paying occupant with a principal place of residence and in which:

- a) each tariff charged does not exceed the maximum tariff for boarding houses or lodging houses for the time being determined by the Minister by order published in the Gazette for the purposes of this subsection, and
 - b) there are at least 3 tariff-paying occupants who have resided there for the last 3 consecutive months, or any period totalling 3 months during the last year and includes a vacant building that was so let immediately before becoming vacant, but does not include a residential flat building, licensed premises, a private hotel, a building containing serviced apartments or a backpacker hostel or other tourist establishment.
2. The regulations may prescribe circumstances in which land is or is not to be categorised as residential.

Mining

1. Land is to be categorised as **mining** if it is a parcel of rateable land valued as one assessment and its dominant use is for a coal mine or metalliferous mine.
2. The regulations may prescribe circumstances in which land is or is not to be categorised as mining.

Business

Land is to be categorised as **business** if it cannot be categorised as farmland, residential or mining.

Vacant land

If vacant land is unable to be categorised under section 515, 516 or 517, the land is to be categorised:

- a) if the land is zoned or otherwise designated for use under an environmental planning instrument—according to any purpose for which the land may be used after taking into account the nature of any improvements on the land and the nature of surrounding development, or
- b) if the land is not so zoned or designated—according to the predominant categorisation of surrounding land.

Dwelling Unit:

The Australian Bureau of Statistics defines a dwelling unit, a residential building and a building as follows. It is considered that a building used for Human occupation should be considered as a dwelling unit and this may include a shop, a factory, a farm house, a residential building of various types and any other building as defined below. A residential flat building may contain many dwelling units.

- A **dwelling unit** is defined as a self-contained suite of rooms, including cooking and bathing facilities and intended for **long-term** residential use, and
- A **residential building** is defined as a building predominantly consisting of one or more dwelling units. Residential buildings can be either **houses** or **other residential buildings**; and
- A **building** is defined as a rigid, fixed and permanent structure which has a roof. Its intended purpose is primarily to house people, plant, machinery, vehicles, goods or livestock. An integral feature of a building's design, to satisfy its intended use, is the provision for regular access by persons. (Australian Bureau of Statistics)

Advolorem and Base Rating

This proposal has considered a need to look at alternatives to the use of advolorem and base rating of the unimproved capital value of land. It is considered that adjustments can be made to the rating system that if implemented will rationalise costs to land owners who have high land values due to the natural yearly increases of land whilst passing some of these costs back to higher intensity land uses that can afford to pay more, that have an ability to grow higher yield crops and to produce higher levels of production from natural resources.

In all cities, towns and villages across NSW, Councils can identify the person that lives on their own in a house they have owned for fifty years and due to the location, pays a high level of rates due to land value increases, whilst others with multi residential apartments in a lower value location pay fewer rates.

This submission does not advocate that the rich or the lucky people living on the edge of Sydney Harbour should pay less; it is about equity across a community and ensuring that a council can provide services as required by the community and that all residential, business and rural rate payers are contributors as equally as possible.

It is recommended that the unimproved capital value of land remains the underlying principle to rating in NSW and that changes are made to only permit a Levy to cover the councils operational cost of opening the doors, plus a base rate plus an advolorem amount. This levy should be paid by all dwelling units (see definition) to ensure that all residents pay an equal share towards the operational costs of a community.

The limitations on Base Rating that have been applied under the Act, being a maximum of 50% do not provide a true representation of cost distribution especially in rural NSW Councils. To provide a true method of cost a levy should represent the cost of operating a council (all overheads of staff, insurance, electricity, gas etc.). In rural NSW the operational cost of opening the doors of a council is much greater than that of a city area. Rural councils retain many of the costs of insurances, staffing and operational costs around loans, plant and assets but generally have a lower rates base to draw payment from. Rural and regional councils also have a disadvantage that the unimproved capital value of land in small villages or rural areas is very low and a base rate of 50% may only generate \$50 to \$300 as the land values can be very low.

For these reasons, a council should be able to establish a Levy (flat rate) that divides the open the door operational costs against the total number of rate assessments (dwelling units) e.g. Lets say a council has 5000 rate payers (dwelling units) and the cost to open the doors of the council is \$3.52 million out of a current rates pool of \$4.2million. If an across the board levy was applied then the cost per rateable property would be \$704 plus the base rate and advolorem rate for a total of all rateable properties. A fairer system of allocation.

Example: small council

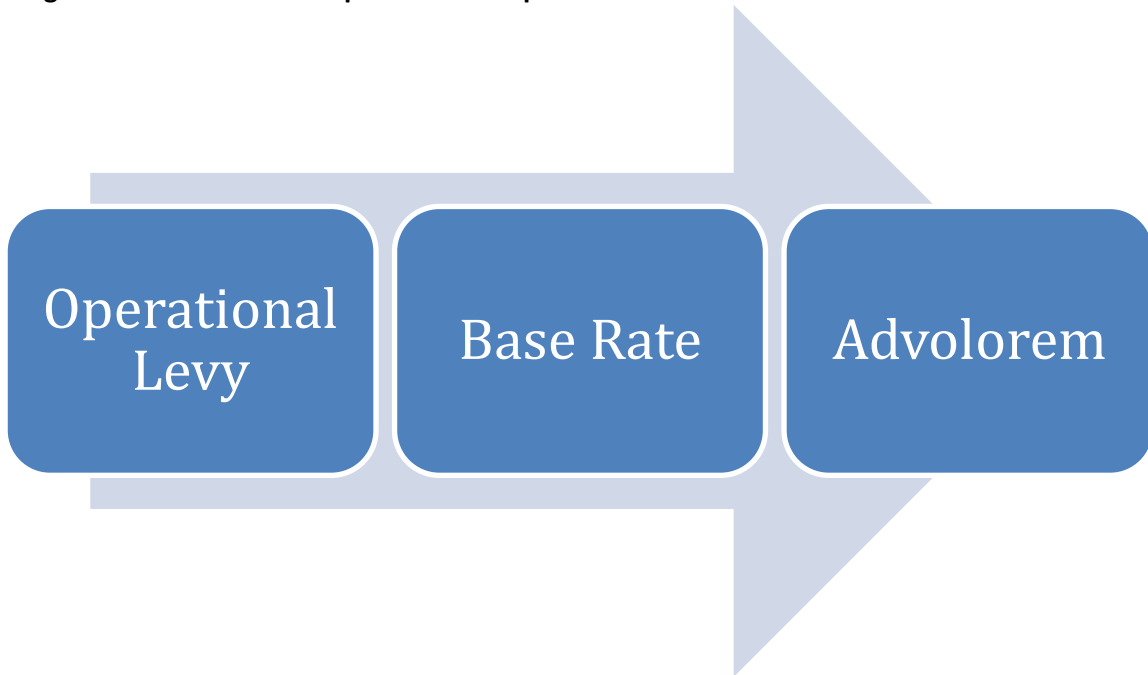
Number of (Dwelling Units) Rateable Properties(A) in Council area	Base cost of Council Operations (B)	B/A = C
5,000	3,520,000	3520000/5000 = \$704.00/ assessment

This would ensure that all rateable properties would contribute to the operational costs of a council equally as the principle of a council is to provide services for the community. The community can regulate this flat rate levy by requiring its council to become more efficient, share services, pool insurances, reduce staff numbers, install solar electricity etc. This will retain costs or lower costs accordingly.

Base Rates and Advolorem

Once the operational Levy is set by the Council to ensure that it has covered the costs of opening the doors for business, the remaining rates pool should be divided along the lines of the current base rate and advolorem system less the levy. The base rate should remain at 50% of the pool to ensure that rates equalisation can take place so that unimproved capital value of land does not cause unequal distribution of rating. The base rate is used to flatten the rates share by reducing high value land and raising lower value land. This is important in rural areas as large rural properties are being disadvantaged by hobby farm values and increases around them. The change in rural density is impacting traditional farm land values and rating of properties is impacting on the long term productivity of farming. Base rating rebalances the rating seesaw.

Diagram: Total Rate made up of three components



Residential Land Use Types

As with rural land use that is subjected to small land holdings and increased overall unimproved capital value, the reverse is happening in areas of increased residential density. The rating relates to the unimproved capital land value and the density ratios cause an increase in the traditional land use.

It is proposed that a review of rating should include the land zoning criteria as the basis for UCV so that the development of land reflects the potential land use as well as the UCV.

As shown in the table following the residential unit (single house, flat, duplex etc.) should attract a levy for each dwelling unit plus a proportional base rate and advolorem rate based on the UCV of the land. This will ensure that a three bedroom multi story unit pays for the council to open the doors at the same rate as a single dwelling duplex or a traditional dwelling house. The residents of a unit have the same demands as a traditional dwelling house as does a business premises.

Table: Residential Category Model

Land Classification	A Number of rateable properties in grouping	B Base rate amount in rates pool	Base Rate = B /A x0.5
R1 General residential	12800	\$4.5million	\$4.5million / 12800 x0.5 = \$175.78 per assessment
R2 Low Density Residential	1300	\$250,000	\$250,000 / 1300 x 0.5 = \$96.00per assessment
R3 Medium Density Residential (senior living developments)	400 (self contained units or titles)	150,000	\$150,000 / 400 x0.5 =\$187.50 per assessment
R4 High Density Residential	25 (self contained units or titles)	\$50,000	50,000 / 25 x0.5 =\$1000 per assessment
R5 Large Lot Residential	475	\$1,250,000	1,250,000 / 475 x 0.5 =\$1315.79 per assessment

In the table above on residential density, it appears that discrepancy occurs in areas of medium and high density residential. Concentration of people in one small area does increase costs of localised services and a demand for more footpaths, car parking, public facilities etc. If in this example a seniors living community was developed or a number of senior living communities, a greater demand for foot paths that meet accessibility needs arise, bus stops and shelters and general access improvements.

The R5 Large lot residential areas are also a high area of demand due to a reduced density of properties and a need to increase road lengths, to undertake repairs and maintenance and costs to service generally. If this was compared to a rural category, then the demands of rural land owners is greatly reduced and costs are considered lower.

Again, the levy is applied to each residential dwelling unit and this would support the costs to open the doors of council and the remaining rates would be collected as a base rate plus an advolorem rate and would allow reasonable adjustments across the category to reflect the UCV of the land.

Issues around Categorisation of Land

The present description of land categories under the Act and Regulations and the supplementary advice from the Office of Local Government have not kept pace with changes that are occurring across NSW. A number of these changes will be discussed in Part 2 of this advice around mining, petroleum and other emerging industries.

Under the general categorisation areas the current descriptions of land use do not address the changes that society have demanded from its land use planning to allow development of residential uses in what was traditionally farmland areas, by large increases in senior living areas, the development of businesses such as wind turbines on farmland that have a very low use footprint but high value output, the changes to protection of the environment at a personal level that is neither farmland use or forestry and so on.

It is considered that all future rating classifications should be linked to the NSW planning classifications for land due to the NSW Government adopting a Standard Local Environmental Plan Template. This State wide template will ensure that all land owners across NSW can relate the rating land classification back to the planning classification and reduce the confusion that exists by having multiple unrelated terminologies. A copy of the NSW Planning classifications is attached.

Residential Classifications

As discussed above, the classification of ratings against the planning classification for land will reduce confusion as to land use and rating.

The NSW State Template identifies residential zones and classifies the types of use. The anomaly to this is the need to include from the rural land use zone the Village category into residential.

Residential Zones

R1 General Residential

R2 Low Density Residential

R3 Medium Density Residential

R4 High Density Residential

R5 Large Lot Residential

RU5 Village

Across NSW regional communities many residential uses will fall under the general residential classification being the standard dwelling house, dual occupancies, residential flat buildings etc. The Village zones in rural centres are similar to the residential nature of general residential but would allow a variation to occur that recognises a potentially lower level of service provision.

As the density levels increase, then new provisions need to be considered to adequately distribute the costs of service provision to the community. This needs to be addressed in land use options around other complementary legislation that permits, Strata Titles, Senior living or Community Title developments. It must be noted that senior living and community title developments can occur across a number of land zone categories but as they relate to residential use in most developments then they should appear as a category and described as per the relevant legislation. It is acknowledge that community title can relate to business classifications, environmental classifications etc. and they would be identified by the individual council in each circumstance.

The present system of unimproved capital value relates to the property in total and does not address the relationship to the number of individual occupancies that may exist and an increased pressure on the provision to maintain services in a community. As shown in the table following, a council should have an ability to set a base rate for each strata or community title occupancy plus a proportion of the advalorem rate for the entire property based on the unimproved capital value of the land.

Agriculture high value cropping e.g. intensive, irrigated rural lifestyle

As indicated previously, rural land use is changing in role and function and like the areas of residential land classification, the rural rating areas need a wider diversity in classification by land zone type. Many rate payers confuse the land zoning with the land rating classification. If the land rating and land use classifications could line up then less confusion will result. In NSW Councils are restricted in rating classification for rural land use and this is resulting in issues around land that has restriction on it such as environmental zones, irrigated agriculture, high density production and industrial processes such as wind farms. If all councils could classify the rating based on their approved planning documents (Local Environmental Plans) then the rural land use diversity could meet long term trends without a need to adjust rating structures.

Current NSW Planning land uses for rural land include;

Rural Zones

- RU1 Primary Production
- RU2 Rural Landscape
- RU3 Forestry
- RU4 Primary Production Small Lots
- RU5 Village
- RU6 Transition

Environment Protection Zones

- E1 National Parks and Nature Reserves
- E2 Environmental Conservation
- E3 Environmental Management
- E4 Environmental Living

Special Purpose Zones

- SP1 Special Activities
- SP2 Infrastructure
- SP3 Tourist

By using the planning land use types it allows a greater flexibility for a council to correctly identify a property and to categories all land into a rating zone based on true land use criteria rather than the current assumption that all land is rural or not.

PART 2

Rating of Mining, Petroleum Extraction and Renewable Energy

Introduction:

It is important for the review into rating to consider the localised impacts of mining, petroleum production and wind farm developments on communities and to address the short term nature of these developments on the rating capacity of local government.

The developments identified by this paper are based on regulatory approval processes and have limited tenure due to the resource being reduced by mining activity or extraction processes and due to wear and tear considerations on wind turbine components or solar panel break down. The tenure of the mining and extraction developments are also subject to international market demands that cause production close downs or reduced service requirements as staff levels are reduced.

A proposal has been developed in this submission to reduce the burden on ordinary rate payers from the commencement to the closure of these forms of developments.

2.0 Current Legislation and Classification Problems

Under the current Regulations a restriction exists that does not recognise the term of a development and an assumption exists that areas such as mining, gas extraction and wind or solar farms are permanent developments and should therefore be rateable as considered for an unimproved parcel of land.

In reality, mining, gas extraction and wind or solar farms have a defined period of existence. In the case of mining, initial approvals are for a period up to 21 years and wind farms are based on the life of the turbine blades and generators which may be up to 25 years.

In considering the actualities; mining, gas extraction, exploration and wind or solar farms are developments and have very little relevance to the land, if you consider land as defined to be in existence before and after the removal of the associated development and available for use on the basis of other surrounding land uses e.g. agricultural. The disregarding of developments on the land for rating purposes is in principle the basis of the unimproved capital valuation of land, whereas mining, exploration, gas and wind or solar farms are capital undertakings.

As highlighted in the Regulations S493 -494, and 529, mining (as defined under the mining act) is recognised as a rating category, whereas Gas (petroleum production onshore) and Wind or Solar Farms are not recognised. Mining is identified as an ordinary rate, whereas gas production and wind farms may be considered a business or agricultural activity for rating purposes. It must be noted that natural gas, coal seam gas or shale gas is not mining by definition and is subject to the definition of Petroleum, under the Petroleum (Onshore) Act 1991.

In all instances, the longevity of the development is not considered which historically impacts on the general or ordinary rate categories across a council area.

As every Council is aware; under Section 494 of the Act, Council must make and levy each year an Ordinary rate on all rateable land in their area. This includes the classification of mine lands but excludes gas and wind or solar farm lands or developments specifically. Advice from the Office of Local Government has indicated that wind farms, power generation or gas cannot be a nominated sub category but may be included under a location or business or agricultural basis as shown below. These classifications are where the problems of legislation commence to generate impacts on the general rate base of Councils.

- **494 Ordinary rates must be made and levied annually**
 - (1) A council must make and levy an ordinary rate for each year on all rateable land in its area.
 - (2) Each category or subcategory of ordinary rate is to apply only to land of the same category or subcategory.

- **493 Categories of ordinary rates and categories of land**
 - (1) There are 4 categories of an ordinary rate and 4 categories of rateable land:
farmland; residential; mining; and business.
 - (2) These categories may, at a council's discretion, be divided into sub-categories in accordance with section 529.

- **529 Rate may be the same or different within a category**
 - 1) Before making an ordinary rate, a council may determine a sub-category or sub-categories for one or more categories of rateable land in its area.
 - 2) A sub-category may be determined:
 - a) for the category "farmland"—according to the intensity of land use, the irrigability of the land or economic factors affecting the land, or
 - b) for the category "residential"—according to whether the land is rural residential land or is within a centre of population, or
 - c) for the category "mining"—according to the kind of mining involved, or
 - d) for the category "business"—according to a centre of activity.
 - 3) The ad valorem amount (the amount in the dollar) of the ordinary rate may be the same for all land within a category or it may be different for different sub-categories.
 - 4) Land may be taken to be irrigable for the purposes of subsection (2) (a) if, and only if, it is the subject of a water right within the meaning of the Valuation of Land Act 1916.

Therefore Council can break mining up into sub categories that include coal, gold, silver or use generic sub categories such as metalliferous or coal. No subcategory exists to define rates attributable to gas extraction or wind farms.

2.1 Mining (Coal and Metalliferous)

The NSW *Local Government Act 1993* section 517 identifies mine rating as:

- (1) Land is to be categorised as **mining** if it is a parcel of rateable land valued as one assessment and its dominant use is for a coal mine or metalliferous mine.
- (2) The regulations may prescribe circumstances in which land is or is not to be categorised as mining.

This is the start of defining what land is subject to mining and how you determine rateable land.

- In 1994 The NSW Department of Local government and Cooperatives developed Practice Note No.4 to assist Councils to determine rateable Mining land. This Practice Note allows councils to better form an opinion as to mine rateable land.
- The Practice Note further describes the land as;

"on or below the surface or partly below the surface, used or held for any mining purpose".

Mining purpose is not defined in the *Local Government Act 1993* as they are common terms.

Based on the Practice Note definition it may be considered that mining activities can still be regarded as under way even when no actual mining is taking place. Such activities cover operations beyond extraction of ore and could include the surveying of a proposed mine or plant maintenance above and below ground, and work connected with the protection and safety of the mine and mining rights and rehabilitation.

The expression 'mining purpose' or 'to intend or determine to do something' also has a meaning beyond the working of a mining property. It could reasonably include engineering and building works for the purpose of searching for or extracting minerals.

The word 'mine' as used in the LG Act 1993, is clearly not limited to underground operations. The definition given in the Mining Act 1992 is helpful:

"any place, pit, shaft, drive, level or other excavation, drift, gutter, lead, vein, lode, reef or salt-pan (whether occurring naturally or artificially created) in, on, or by means of which any mining operation is carried on."

Therefore, 'Mining' covers the extraction of a mineral, or the ore which contains it, and its processing into a final product. The phrase 'coal mining operations' therefore includes not only the cutting of coal from the seam, but its removal from the pit to the surface, and its storage there in a disposable form. It may even extend to the rehabilitation of the land affected by mining.

2.1.1 Dominant Use

The 'dominant use' of a particular parcel of land for mining activities is not determined merely by the proportion of its area which is given over to mining. In some cases the emphasis may be on the intensity of the mining activities e.g. impact zones around a mine site. As most communities will advise, the mine area may be made up of mine area and agricultural area. The mine rate is applied to the mine area only however the mine impact zone will be outside that area.

As shown by the definitions, any land used for the purpose of mining including exploration can be determined to be mining. This is based on the "Land being used or held for mining purpose". The NSW Government has issued approvals for exploration in coal areas that allow the extraction of large volumes of ore that is tested, processed and sold. Bulk sampling does not activate a rateable area under the currently assumed extent of exploration.

As the mining rate is an "Ordinary Rate" under the Act, this limits Councils ability to increase its overall ordinary rate pool of funding above the Rate Cap.

A Mining Rate based on Ordinary Rating, forms part of the bucket of money Council is allowed to collect annually. The mine rate can not increase the bucket of money above its rate cap capacity.

Example: The Local Government area has three Coal Mines, have a mining rate presently and although Council can increase the AD Valorum rate for mining; lets say from its current rate of 12 cents to 25 cents in the Dollar, then Council must reduce all other ordinary rates across the shire to come back to the original bucket of money plus the rate cap percentage allowable.

It is considered that the existing coal mines are established within the Ordinary Rate class and it would be very difficult to have the Valuer General consider their removal and creating a supplementary rating category above the current ordinary rate.

In consideration of mine rate separation from the ordinary rate, a transition period across say 5 to 10 years should be considered to raise ordinary rates to a level above the current situation whilst separating out the mine rate.

In consideration of this separation, the Valuer General would need to review the level of ordinary rate required by a community if mining was no longer in that community e.g. if mining moved out of Muswellbrook, Singleton, Upper Hunter and Gunnedah Shire areas, a very large proportion of the community would leave and the expansion that mining creates would contract proportionally and a demand for services would like wise contract. A demand for asset renewal and maintenance would remain and a reduced level of community services would be required. This should establish the basis of ordinary rates or a base for land only valuation (not to be confused with base rates) and mining should meet the demands over and above such base valuation. This experience is very evident at Broken Hill where the Council has inherited assets and costs as mining has downgraded or closed.

Mine rates should reflect the impact of mining activity, whereas, ordinary rates should address the long term community needs for assets, services and community benefits.

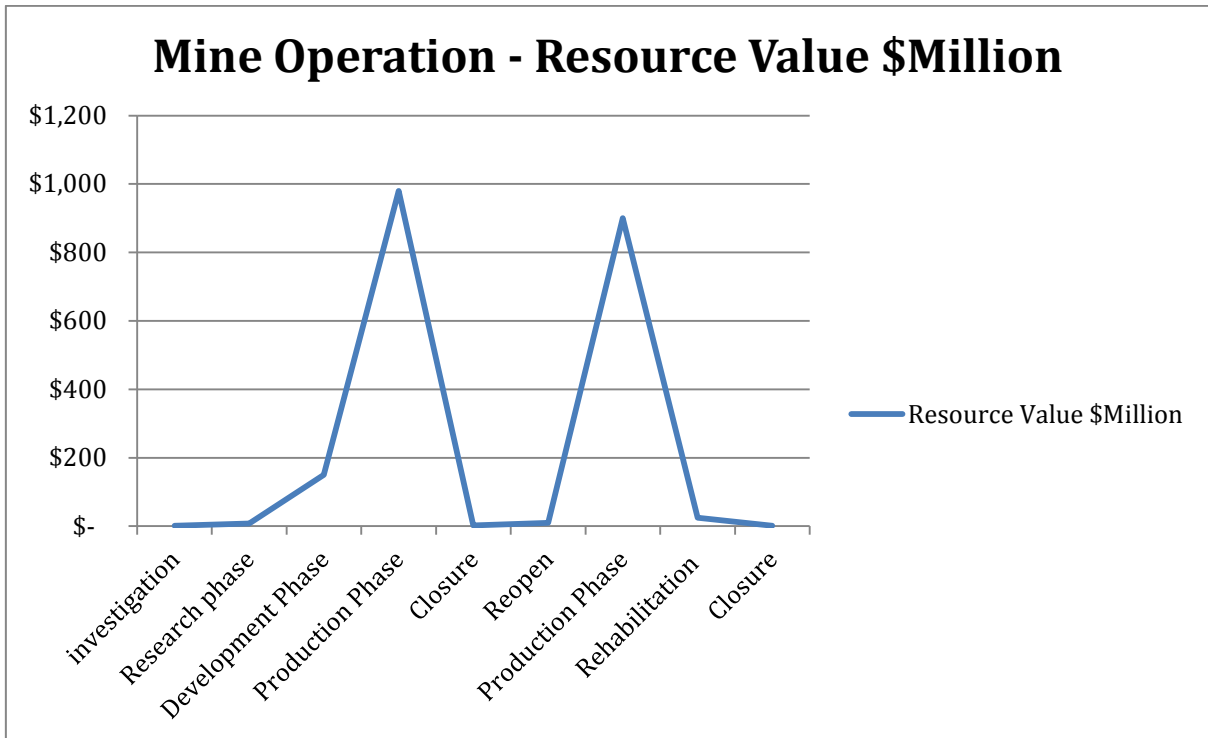
2.1.2 Mining Valuations, Mine Closure or downgrading

In determining rates for mining it is important to note that the life of a mine may be 100 years such as at Broken Hill or it may be as short as 2 to 5 years as occurs at Cobar due to world commodity prices. The mining rate link to the Ordinary Rate pool results in the potential fluctuation of mine rates during the mining venture and a dramatic reduction in rates when a mine shuts down or closes. This has been shown at Blayney Shire where the mine rate rose by 260% requiring the general or ordinary rate to fall by over 50%. This issue was resolved by a Special Rate Variation however if mine rates are not linked to the general rates base it would be adjusted only in that category.

The valuation of mining land for rating purposes is handled in the same way as to the valuation of other land, under section 6A of the Valuation of Land Act, 1916, and provides a uniform basis for rating.

The value of a mine is affected by a number of factors, including the value of the mineral while still in the ground (the 'in situ' value of the mineral). A valuation for a particular mine can be derived by considering for comparison sales of other land bearing the same mineral, or the sale of mineral leases, or – where appropriate – by calculating the capitalisation of future royalties. Clearly, as time goes on and the mineral resource is exhausted, the value of that resource and of the mine which contains it will drop.

Other important factors in valuation are the location of the mine, and especially its proximity to transport links such as rail lines, roads and ports. The long term price history of the mineral concerned and any special features of a particular mine can also be taken into account in the valuation.



Mines are subjected to international trade and economic changes as Australia reduces its industrial presence in the areas of steel and other non ferris metal value adding. The coal mining industry has just been through a ten year period of record high coal prices and extraction of coal has grown to meet international demand.

From 2014, although production was high, the value of coal was lowering, with many mines across NSW reducing their workforce, cutting production and closing, as seen at Lithgow and the Hunter Valley. The reduced production from a coal mine impacts on the rating determination by the Valuer General and reduces the income to the Council. Metalliferous mines are rated on resources but this form of valuation is being challenged and may cause substantial community impacts at Broken Hill and across all councils who rely on rates from this form of mining.

As mining is less stable than that of the past, the valuation of mines and the inclusion as part of the general rate funding under the “Mining Category” requires review to protect the general income base of councils and to reduce fluctuations both positive and negative across sub categories.

2.2 Petroleum (Coal Seam and Shale Gas) Production

The production of coal seam and future shale gas fields is a relatively new area of activity in New South Wales and has not been addressed at a point for land valuation or activity status to the extent of Mining developments.

There are a small number of coal seam gas developments in the Sydney basin, in the Narrabri Shire and soon to occur in the Gloucester Shire area. The State Government has identified a need for future resource harvesting of coal seam gas to ensure residential and industrial areas have an energy source to meet future economic growth.

The *Local Government Act 1993* does not define petroleum (gas) production and this is identified under the *Petroleum (Onshore) Act 1991* which defines it as;

Petroleum means:

(a) any naturally occurring hydrocarbon, whether in a gaseous, liquid or solid state, or
(b) any naturally occurring mixture of hydrocarbons, whether in a gaseous, liquid or solid state, or
(c) any naturally occurring mixture of one or more hydrocarbons, whether in a gaseous, liquid or solid state, and one or more of the following, that is to say, hydrogen sulphide, nitrogen, helium, carbon dioxide and water, and includes any substance referred to in paragraph (a), (b) or (c) that has been returned to a natural reservoir, but does not include coal or oil shale or any substance prescribed to be a mineral for the purposes of the Mining Act 1992., and

petroleum deposit means any naturally occurring accumulation of petroleum on or below the surface of the earth.

This description establishes that petroleum or gas is similar to that of a mineral resource such as coal, gold, silver or other metals and as such should be valued under Section 6A in a similar fashion. The valuation should be based on the resource available and the time period through which the resource diminishes as it is extracted.

Unlike a coal or metalliferous mine, a large area of disturbance is not created but many areas of low disturbance for small pump sites, small water storage areas and the interconnection of pipelines. These areas of disturbance or impact on the use of land for agriculture are minimal in comparison to mining but as it is a development across many square kilometres under the surface of the earth it should be considered to the same degree as an underground mine for rating purposes.

As Mine rating is about the commencement and continuation of an approved development, then all forms of gas extraction need to be considered on the same basis. Coal and shale gas extraction, purification and transportation are approved developments that have an infinite resource basis and generate both positive and negative impacts on the community, and its assets in the same way that mining has.

2.2.1 Dominant Use

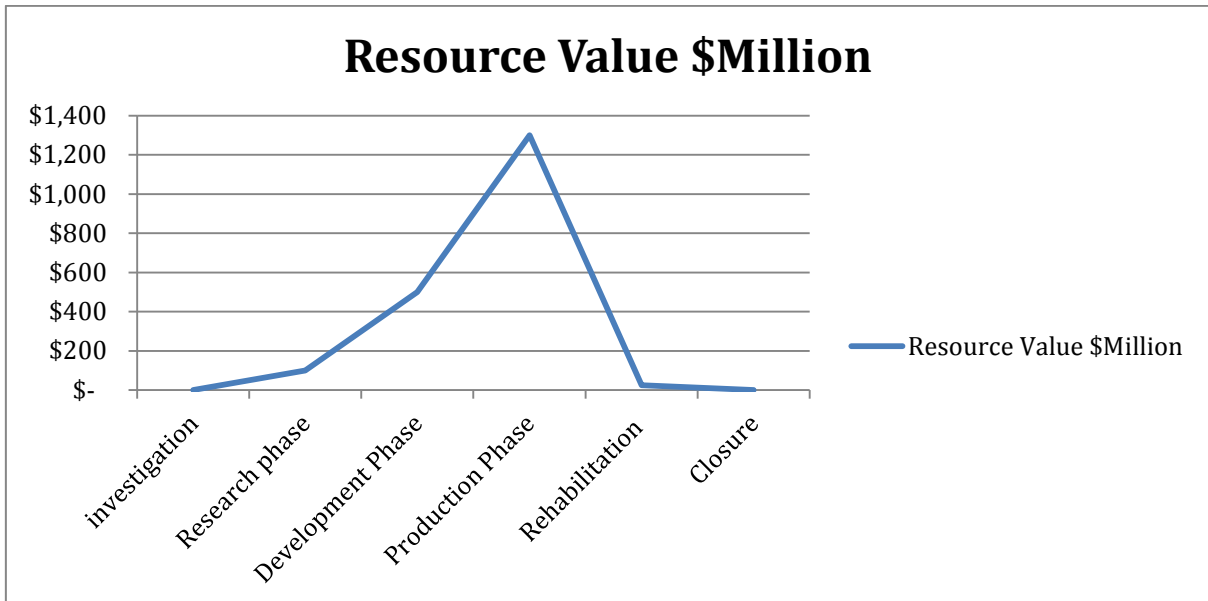
As with mining, the production of petroleum products has a small footprint of visual disturbance, however the effective area of the production network and its impacts on assets and natural resources may be far greater than that visualised.

As stated under dominant use for mining, rating of gas developments should be determined as a separate category that is not linked to the ordinary rate pool. Gas developments, like mining is important as the community needs, asset replacement and maintenance and community service outcomes are linked directly to the development of the gas extraction and delivery process.

2.2.2 Petroleum Valuations and Term of Production

The valuation of petroleum or gas production is a new area that needs to be considered by government, as it is an area of extractive industry similar in outcome to mining.

Like mining developments, the term of extraction is limited by the available resource in the ground and the life of a gas field can be from 5 to 20 years. If rating of gas is linked to ordinary rates, the value of the gas reserve will cause a fluctuation in this rate category and reduce the categories of other rates across a council area. Once the gas production has reduced then the ordinary rates across all other categories will need to rise to offset the ordinary rate loss.



Where this happens, the levels of rate payer hardship arise especially in the group of government payment recipients and self-funded retirees.

Again it is considered that Petroleum (gas) rates should reflect the impact of the development activity, where as ordinary rates should address the long term community needs for assets, services and community benefits.

2.3 Wind or Solar Farm (Renewable Energy) Developments

Similar to petroleum (gas) production, the *Local Government Act 1993* did not need to consider future development types that have both a social and economic benefit for the community and a need to apply a rate category that was specifically needed to address what has now developed into a major industry across New South Wales.

Without repeating the same story for mining and petroleum (gas) developments, wind and solar farms are an approved activity similar to that of the other two areas however the resource is not evident and can only be identified by the production output not the resource availability.

The value of a wind or solar farm development would require the Valuer General to identify potential output or generation capacity of the turbines and /or panels, rather than look at the area or footprint that the turbine or solar farm takes up on the land.

Under the current Act, the rate categories do not allow councils to directly identify wind turbines, solar farms or renewable energy as a sub category and as such they are required to be identified as a business category or agriculture or they may be grouped with other locational activities.

As with mining and petroleum developments, the wind turbines and solar panels have a life span of up to 25 years and then they may be removed or replaced. For this reason it is again suggested that they are provided with a rating category that is not linked to the ordinary rate.

Blayney Shire has had wind turbines for a period of 20 years and these where rated as power generation as a sub category, however a review of sub categories has identified this to be outside the current classification rules and they are now included as business. This has changed the business rate lowering all rates in that category. Further, this council has been advised that the turbines are now at

the end of their life and in the future the business rates will have to again rise to reflect the removal of this business from the ordinary rates.

This can be avoided to the same extent as mining and petroleum where the rate category for renewable energy types are not tied to the ordinary rate.

Since the Blayney wind farm development of 20 years ago, there have been many new developments across New South Wales and there will be major changes to ordinary rates in the future if we continue to assess wind farms as we currently undertake.

3.0 Developing a Rating System to allow Current and Future Developments

As stated in the lead up to this section, the *Local Government Act 1993* continued the true and proven method of rate categorisation and did not create any ability to allow new development types such as petroleum (gas) and wind farms to be identified as separate and distinct development types. The Act also continued to establish mining as an activity that would continue forever without taking into account a change in local and regional economics, in which Australia would reduce its industrial manufacturing and become highly reliant on the world markets to generate resource demand and set price structures.

Local Government has been locked into a system of rate categorisation that in 2014 no longer meets the changing development environment in the areas of mining, petroleum and renewable energy activity.

It has been considered that the current Act may be amended to reflect the need to address rating changes required for the categories being discussed, but it has to allow them to remain separate and not continue to draw rates back to the connection to Ordinary rates. It is possible to request supplementary valuations or use special rates to separate mining, petroleum and wind farms from the ordinary rates, but as time proceeds, these valuations are linked back to the ordinary rate and will not reflect the required separation to allow a transition to mine closure or life of development required, and the reduction in the need for community services or assets generated by such developments. It has also been considered that new subcategories could be provided, however the links back to the ordinary rate are again going to occur.

The rates system for these three areas and any unknown developments that may occur into the future, should be subject to a review of legislation that allows development of these types to be outside the ordinary rate and be based around the increased costs associated with these developments on a community.

3.1 New Developments

To address the future of mining, petroleum and renewable energy developments, new rate categories are required to be established that are not linked into the Ordinary rate classifications with the exception of the value of the land as existed at the time of the development as shown in the table.

Land Description	UCV \$	Classification	Sub Classification	Rates c/\$	Ordinary Rate Total \$	Resource Valuation Rate	Rates c/\$	Total \$
0001 Mine	12,000,000	Agricultural	Gold/ copper	0.04	480,000	75,000,000	0.06	4,500,000
0002	8,500,000	Agriculture	Gold	0.04	340,000	48 million	0.05	2,400,000
0003 Gas	1,200,000	Agricultural	Irrigated	0.06	72,000	1.3 billion	0.002	2,600,000
0004 Wind	600,000	Agricultural	N/A	0.04	24,000	20,000,000	0.008	160,000

Although the table is simplistic in form, council would be able to separate the ordinary rates component from the Resource rate component. As shown, the resource component is only required by the Council when the mine, the gas field or the wind farm has commenced and a valuation can be established. Further if the two areas (Ordinary rates and Resource rates) are identified by legislation as being two separate and distinct rate groupings; then to allow a council to be granted approval to seek funding under the resource group of rates, they must provide through the IP&R process a detailed list of infrastructure, asset and community service outcomes to be achieved by the funding and in agreement to by the company operating the development. This funding program should not include any cross subsidisation from the Ordinary Rate pool but be linked to works in and around the resource area (mining, gas or wind) being undertaken.

In establishing the rate in the dollar, the detailed program of works included in the IP&R documents should dictate the rate that allows the cost of works to be undertaken. Further that it should be a requirement to report to the community annually if these targets have been achieved or agreed funding changes made between the development operator and the Council.

The Resource Rate offsets the impact of the development on the community and only applies to identified develop needs, asset upgrades or services. It does not translate into the general rate pool which is based on the unimproved capital value of land.

3.2 Existing Developments (slow transition to rate separation)

Existing developments in mining have caused concern to rural councils due to the boom and bust impacts that have occurred over the past twenty years as a result of resource values and changes in international market needs. Examples of this boom and bust action occur regularly at Cobar, and are starting to appear in the traditional stable coal fields in NSW.

When the value of a resource changes or the development closes, the rates for this developments fluctuate, driving the Ordinary rate for other categories down, or if closure occurs can substantially cause the Ordinary rate to rise sharply. At Blayney Shire, a Special Rate Variation had to be implemented to offset the impact of a sharp rise in resource valuation so that ordinary rates would not be halved. If the mine was to cease operation then a sharp fall in Ordinary rates would occur requiring all other categories to increase their amounts to cover the loss created in the mining sector. This generates confusion across a community and the financial impacts are most felt by pensioners and lower income groups as rates rise dramatically to cover the loss of income from a resource development.

A review of how we deal with existing mines, gas fields and wind or solar farms is required and a transition or phase to a resources rate as shown above should occur.

As with a new resource development, an existing development generates impacts when it is operating. This includes the start-up phase the production years and the downgrade and rehabilitation phases. Each phase generates activities for councils from increased maintenance, social welfare and long term inheritance of infrastructure and assets when the development closes. It is important for Councils to again provide infrastructure, assets and community services through this process and establish separate and distinct programs with the current companies to offset the impacts of developments as per section 3.1.

To reduce the long term reliance on an elevated Ordinary Rate and to ensure that Ordinary rates are providing required services, asset renewals and community needs, a transition period of 5 to 10 years may be required to slowly separate the resource component from the ordinary rate

component. The transition will be dependent on the number of resource developments; there current value in the ordinary rate and the impacts on the rate payers who's rates will rise progressively to cover the removal of the resource sector. This needs to be assessed as an area such as Lachlan Shire or Bland Shire in Western NSW may be able to transition rapidly due to having one dominant mine and a very high proportion of rural rate payers, whereas an area such as Muswellbrook or Singleton that have a very high volume of mines may take 10 years to complete the transition.

The transitioning of the mine, gas or wind farm resource out of the ordinary rate will establish the land component that will exist for ever and allow the resource component to be considered through the life cycle of the development.

3.3 Unknown Development Types

What to do with unknown developments is a contradiction, but in 1993 the development of wind farms, solar farms and gas fields was not recognised in the Local Government Act. In the next twenty years, solar farms, uranium power generators or ocean blankets may be developed that allow a community benefit.

It is for this reason that the issue of unknown future resource or development projects be included under any new legislation being developed. A category again outside the ordinary rate group that allows for the impacts and longevity of the development to be rated. As previously stated it will occur on land or water that is currently rated under the Ordinary rates and this component should continue to be isolated from the development side of the land.

4.0 Conclusion

This summary has been provided to allow the Councils to think about rating of Development Types separate from that of the unimproved capital value of land. It is currently recognised in the *Local Government Act 1993* that mining is a development and as such sits outside the current UCV process. It has also been proposed that development types such as petroleum (gas) and renewable energy developments also sit outside the UCV of land due to the required approval process from the regulators.

The removal of development types (mining, petroleum and renewable energy) from the ordinary (General) rate pool will prevent the current fluctuations in rates that can occur as developments are brought online, revalued and included in the ordinary rate under current classifications. It will also stop the dramatic reduction and reliance of development rates that presently occur. Apart from the UCV of the land that a development sits within, the development part of the resource rate should remain a separate and distinct part of the rates make up.

As indicated, the resource rate component to prevent it from being part of a long term ordinary rate should be linked to prescribed works under the IP&R process, agreed to by the company operating the development and provided only to offset the development impacts on assets, community needs and services.

To address the current inequities of rate fluctuations both positive and negative, it is suggested that the current resource components be transitioned from the ordinary rate to a resource rate allocation over a time period that reflects the current reliance on rates and meets a social impact standard that does not escalate the ordinary rate above the level a community can afford.