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12 May 2016

Independent Pricing and Regulatory Tribunal of New South Wales
Level 15, 2-24 Rawson Place, Sydney NSW 2000
Submitted via online submission form:
www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission

To whom it may concern:

Review of the Local Government Rating System

Thank you for the opportunity to respond to the Local Government Issues Paper dated April 2016 and provide our submission.

Bega Valley Shire Councils' responses to the issues you have sought comment on are provided in the attached document.

In addition, the key points we wish to bring to your attention are:

- Potential to value properties using UIV and CIC mix similar to the approach utilised in Victoria
- More capacity to utilise a variable base rate which could incorporate like properties across a whole region
- If rate pegging remains it will continue to stifle Council's capacity to provide infrastructure in growth areas and this needs to be addressed in any new rating structure
- If rate pegging remains then consideration needs to be given to applying a different formula across the State using a model potentially based on the Grants Commission formula or some similar, rates formula which includes assessment of "disability" factoring as one size does not fit all
- Special Variation application processes for Fit For the Future Councils needs to be simple and acknowledge the work done to achieve this status
- The Pensioner Rebate needs to be fully State funded as in other States

We trust our submission adequately provides sufficient information in relation to our position on these matters.

We look forward to receiving feedback regarding this process and to a more effective rating system which acknowledges the important role local government plays in providing infrastructure and services to the communities it serves.

Yours sincerely

[redacted]

Leanne Barnes
General Manager

Submission to IPART – May 2016

In response to Review of the Local Government Rating System Local Government Issues Paper (April 2016)

bega valley shire council

1 Do you agree with our proposed tax principles? If not, why?

BVSC has no objections to the principle of taxation as outlined in the Ipart Review.

Efficiency, Equity, Simplicity, Sustainability, and Competitive Neutrality

In relation to Equity and the debate around ability to pay, the review mentions horizontal and vertical equity but does not focus on inter-generational equity?

Who should pay is a very important feature of a good tax system. A Council should be conscious of not burdening future generations for current services and conversely not expecting current generations to solely pay for large, long serving infrastructure. The life of a service or asset should be linked to the funding source of those services or assets. The community that uses the service should have an obligation to pay for it.

2 What valuation method should be used as the basis for determining the ad valorem amounts in council rates? Should councils be given more choice in selecting a valuation method, as occurs in other states, or should a valuation method continue to be mandated?

Council is of the view that as long as the valuation method is consistently applied and is used as a distributary factor there is not much difference between the models.

However, there was mention during the public hearing that rating increases could be linked to growth in valuations, in that case the method of valuation would have a significant impact on rating and a thorough review of the methodology.

If Ipart were to recommend Council use a mix of ULV and CIV then clear definitions would need to be legislated to ensure a fair and equitable distribution of rate yield.

3 Should councils be required to use the Valuer General's property valuation services, or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania)?

Council has no objections to the current process and service through the Valuer Generals oversight.

The current service is outsourced to a local Valuer for the Bega Valley. The question Council would raise is, whether Council could deliver the service cheaper for their community?

BVSC pays close to $12 per property over a valuation cycle. There is no transparency on the tendering process, and the community has no knowledge of the fee paid by the VG to the valuer. As a result it is unknown if there is any margin leak in this relationship?

4 What changes (if any) should be made to the Local Government Act to improve the use of base and minimum amounts as part of the overall rating structure?

BVSC has no need for a minimum rate. The current system allows for reasonable flexibility within the base rate system. Council has the authority to set their base rate according to their community's needs. BVSC has no objections to the current system.

5 What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide?

The current categories do not allow much in the way of flexibility around mixed use properties. Currently to split a property into mixed uses for rating purposes Council has to treat the property as 2 parcels and levy multiple base rates. An ability to levy a different category ad-valorum without a base charge for multi-use properties would allow for more effective levying of rates in line with the use of that property.

Looking at the categories in general, the modern property is changing. Homes are now frequently becoming income producing through short term rentals, work from home properties, etc. The capacity to rate for use through a "business use" category.

In addition, Industry types are requiring differing levels of service based on use not location. The current framework is out of date in terms of the flexibility it provides. The current system calls for a special levy for sub category to be either for the full Shire or for a geographically bound area. A system that allows a rate for a particular use, regardless of its location would allow for industries with specific requirements (such as tourism related infrastructure) to contribute their fair share without the need to create, administer, and report on a special rate.

6 Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities?

Not such a problem in the Regional areas as opposed to the city environments with close proximities to their borders.

7 What changes could be made to current rate pegging arrangements to improve the rating system, and, in particular, to better streamline the special variation process?

While Council supports the removal of rate pegging from NSW Councils, Council acknowledges that is unlikely and as such has provided its views on how to make the current system more efficient and productive for Council while retaining the rate pegging framework.

1. Remove the efficiency factor from the LGCI calculations. Councils are already looking for efficiencies within the growing demands of the services that Council recommends the that the offers in the community. Another 0.20% reduction in revenue artificially limits the Council's ability to deliver the services its community wants. There is no basis for this reduction, other than a broad assumption that Councils are inefficient which is unproven and misleading.
2. Acknowledge the different stages of community development. Metropolitan Council needs are different from a Regional Council, which are indeed different from a Rural Council. One LGCI measure does not fit all Councils nor Communities. The calculated weighting of the LGCI assumes the same profile for each type of Council. The weighting for a regional Council will be skewed towards growth of infrastructure which in turn will require a different indexation to a service based Council. These flexibilities should be considered.
3. Council supports the Rate pegging threshold of up to 3% above LGCI for "fit for future" Councils. Council also proposes a variable rate pegging amount for regional, rural areas focussing on a model similar to the Grants commission which includes a disability function assessment utility.
4. More broadly, the current process of applying for a Special Variation is extremely time consuming and costly. It is estimated that the cost of applying for an SV is in the order of $250k. Rating Special Variations are the only form of taxation increase whereby a level of Government needs to show support before levying it. No level of Government needs to do this. The process needs to be reconsidered to allow a Council the flexibility of meeting the needs of their community while weighing the risk the NSW Government appears to see in Councils controlling the revenue sources of their Councils. The proposal that sees a Council who can

demonstrate good governance and financial stability being granted greater control and flexibility over their revenue sources is a simple and effective method of protecting communities from poor performing councils while rewarding high performing councils who are trying to service the needs of their communities.

8 What changes could be made to the rating system to better encourage urban renewal?

While the review focuses on high density properties in metropolitan Councils, the opposite is in effect for most Rural and Regional Councils. In the case of BVSC, we struggle to service our urban areas with a low density population. For example, a 100m stretch of street in Sydney may have 16 houses on it, while in a Rural town, the same street may only have 6. The costs are the same, but the per capita liability is significantly different.

Also, the distance between communities and the per capita cost of assets that are needed to link those communities far exceed those of the metropolitan Councils.

Any system needs to offer enough flexibility to meet the challenges of all types of communities.

9 What changes could be made to the rating system to improve councils' management of overdue rates?

The current collections method works. The only issue which affects most Councils is a small parcel resumption for unpaid rates. Currently Council can dispose of land for unpaid rates but the cost to do so is substantial, due to the process prescribed in the LGA. For low value properties (whether through small size or value) there is no incentive for the owner to pay as they know Council won't action recovery. It is often the case that the land could be sold to adjacent owners to consolidate a land holding, but in private hands the costs outweigh the benefit. If Council could resume low value land and sell privately to recover costs. A number of issues could be resolved.

Also, a write off threshold would be beneficial. Currently no rates can be written off without notifying the OLG and tabling in the Annual Report. For small debts only, a small debt write-off would allow Council to write off the debts without impacting its notional yields.

10 Are the land uses currently exempt from paying council rates appropriate? If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption?

Current legislation exempts based on ownership then looks at the use of the land. However "use" should be the predominant criteria. One of the underlying principles of taxation is competitive neutrality. By providing taxation exemptions to entities that are in effect trading, Council inadvertently breaches this principle by allowing these owners to commercially operate with a lower cost base therefore providing them with a commercial advantage.

BVSC proposes that "uses" deemed to be supporting the community can be exempted, however by default any trading entity should be taxed for at least the portion of land that is being used to trade. For example, a logging firm operating within NSW State Forests is exempt from rates. However a private logging firm operating on a private plantation is rateable. Both are trading entities, but one is exempt from rates purely due to the owner of the land. The rates exemption of State Forests logged for forestry products by the Government-owned Business Enterprise, Forestry Corporation also provides an unfair competitive advantage against privately owned plantations.

In both cases the landowner is making considerable income on the land holding. They are also utilising community assets in order to achieve that profit, yet they pay no contribution towards the construction and maintenance of those community assets. This situation goes back to the principle of equity in taxation and who should pay.

A model that looks at a Grants commission approach for operating State Forests, National Parks and Crown reserves where commercial activity is undertaken, whereby consideration is given for foregone rates with no detrimental impact on community infrastructure. One size will not fit all.

11 To what extent should the exemptions from certain state taxes (such as payroll tax) that councils receive be considered in a review of the exemptions for certain categories of ratepayers?

BVSC believes that community representative organisations such as Councils, State Government Depts, Emergency Services, Schools, National Parks, State Forests, etc should remain exempt from taxes where they are not partaking in a commercial activity.

BVSC believes there is a growing disparity in the intergovernmental exemption framework. The value of the exemptions provided by Council to other government bodies is increasing as land values increase, the demand on local community assets increases as the commercialisation of government assets increases. However, on the other hand, the value of grants provided by the State and Federal Government are shrinking year on year.

There is now a disparity between the levels of Government and the value of any exemptions provided. The income that would be generated from rating currently exempt government properties would net well in excess of the potential liability from state and federal taxes for BVSC, particularly when considering the scale of government owned lands in the Shire.

12 What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?

The pension concession is a welfare measure and as in all other states should be provided by the government body responsible for welfare management, that being the NSW State Government. Under the current system, the blanket redistribution of pension concessions across the broader rate base does not address the horizontal nor vertical equity distribution positions which form a key principle under the Ipart rating review.

In an ageing population other measures for support of elderly members of our community should be considered. Deferral schemes could offer assistance to elderly ratepayers if managed properly.

13 We have interpreted the rate path freeze policy to mean that in the four years after a merger, the rating path in each pre-merger council's area will follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation?

We are not subject to a merger proposal and therefore offer no feedback.

14 Within the rate path freeze period, should merged councils be permitted to apply for new special variations: – For Crown Land added to the rating base? – To recover amounts that are 'above the cap' on development contributions set under the Environmental Planning and Assessment Act 1979? – To fund new infrastructure projects by levying a special rate?

We are not subject to a merger proposal and therefore offer no feedback.

15 Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?

We are not subject to a merger proposal and therefore offer no feedback.

16 During the rate path freeze period, should merged councils only be able to increase base amounts and minimum amounts each year by the rate peg (adjusted for any permitted special variations)?

We are not subject to a merger proposal and therefore offer no feedback.

17 During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either: – relative changes in the total land value of a rating category against other categories within the pre-merger council area, or – the rate peg (adjusted for any permitted special variations)?

We are not subject to a merger proposal and therefore offer no feedback.

18 Do you agree that the rate path freeze policy should act as a 'ceiling', so councils have the discretion to set their rates below this ceiling for any rating category?

We are not subject to a merger proposal and therefore offer no feedback.

19 What other discretions should merged councils be given in setting rates during the rate freeze period?

We are not subject to a merger proposal and therefore offer no feedback.

20 We considered several options for implementing the rate path freeze policy. Our preferred option is providing the Minister for Local Government with a new instrument-making power. What are your views on this option and any other options to implement the rate path freeze policy?

We are not subject to a merger proposal and therefore offer no feedback.

21 Should changes be made to the LG Act to better enable a merged council to establish a new equitable system of rating and transition to it in a fair and timely manner? If so, should the requirement to set the same residential rate within a centre of population be changed or removed?

We are not subject to a merger proposal and therefore offer no feedback.

22 Should approved special variations for pre-merger councils be included in the revenue base of the merged council following the 4-year rate path freeze?

We are not subject to a merger proposal and therefore offer no feedback.

23 What other rating issues might arise for merged councils after the 4-year rate path freeze period expires?

We are not subject to a merger proposal and therefore offer no feedback.