Blacktown City Council

Growing with Pride

13 May 2016

Mr Hugo Harmstorf
Chief Executive Officer
Independent Pricing and regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Mr Harmstorf,

I am writing to you in relation to the Independent Pricing and Regulatory Tribunal's (IPART) review of the NSW local government rating system.

Attached to this letter is Blacktown City Council's submission to the issues paper released by IPART on 13 April 2016. This submission was endorsed by Council at its Policy and Strategy Committee on 11 May 2016.

If you would like to discuss this matter further, please contact the Director Corporate Services, Wayne Rogers, on [redacted]

Yours faithfully,

[redacted]

Wayne Rogers
Director Corporate Services

Council Chambers • 62 Flushcombe Road • Blacktown NSW 2148
Telephone: (02) 9839 6000 • **Facsimile:** (02) 9831-1961 • DX 8117 Blacktown
Email: council@blacktown.nsw.gov.au • **Website:** www.blacktown.nsw.gov.au
All correspondence to: The General Manager • PO Box 63 • Blacktown NSW 2148

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	Taxation principles	**13 -15**	
1	Do you agree with our proposed tax principles? If not, why?	15	Blacktown City Council (BCC) agrees with the proposed tax principles.
	Assessing the current method for setting rates	**16 - 26**	
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?	20	BCC supports the option to allow councils to choose between a UV and CIV method. The arguments for and against each of the methods outlined in this paper have merit and providing councils with the flexibility to choose the method for their LGA is appropriate. BCC also agrees CIV can be more readily and easily understood by the public. Given that there are several types of CIV methodologies, the basis of the CIV calculation for NSW local councils needs to be defined in more detail. It is therefore assumed that further consultation will take place with councils regarding the introduction of any type CIV method. Further, it is likely that transition to this method of valuation will be costly and BCC would also request that these costs be identified and consideration be given to funding or an ability to recoup them. It is also possible that CIV is more costly on and ongoing basis and again, BCC requests that options to minimize the impact of council budgets are considered. It should be noted that if the introduction of a CIV method is being considered purely to address the inequities of the rates burden that results from strata titles and individual dwellings, consideration should be given to the allowance of the use of CIV method for strata properties only by splitting the 'residential' land use category as recommended by the Independent Local Government Review Panel.
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)?	20	BCC considers that councils should be allowed to choose between the Valuer General and private valuation firms. Any opportunity to provide competition and flexibility is welcomed.
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?	22	BCC does not consider that any changes to the use of base and minimum charges are required. The provisions currently in the Local Government Act 1993, allows councils reasonable flexibility to levy rates to more closely align with the taxation principles and stipulates enough limitations

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			to ensure that the rates levy also relies on the value of rateable property. BCC also requests that existing minimum rates are maintained to prevent large scale variances in the rates levy. Blacktown currently has over 100,000 rateable properties. Over many years BCC has maintained its rating structure of minimum rates. It has not applied any base charging. This has ensured an equitable rating levy across the LGA and it is imperative that Council is able to continue with its preferred rates structure.
5	What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide?	23	BCC supports the principle to allow councils to sub-categorize to enable more equitable distribution of rates within the prescribed categories. In addition to those outlined above, the following example further demonstrates the benefits of sub categorization: Community and registered clubs are currently classified as business properties. This results in small, not for profit clubs paying the same rate in the dollar as large industrial and commercial enterprises. Providing the flexibility to create a sub category would allow for a more reasonable allocation of rates to these types of properties. In supporting the allowance of sub categorization, BCC contends that the fundamental premise of rating based on the usage of the land is maintained. The 'centre of population' concept is too restrictive and does not meet the needs of councils in relation to sub categorization. In the absence of sub categorization, BCC recommends that the categories of rates be changes as follows: • two further categories of residential rates being the split between detached housing and apartment properties and • an additional category for 'Registered Clubs'. Clearly some detail around the way the 'Registered Clubs' category is defined is required and BCC would be prepared to provide input into these definitions as part of any further consultation processes IPART undertakes.

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6	Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities?	24	BCC agrees with the notion that rates levied by Council should be used for services and infrastructure in the council area. An issue which concerns BCC is increase in Department of Housing properties being sole to or vested community housing providers who are exempt from rates. With the predominant use of the land being residential housing, the services used by these properties are the same as those paying rates. This means that the remaining rateable properties would be subject to an increase in rates to offset the loss income which is effectively a subsidy that is being met by other ratepayers.

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?	25	In relation to rate pegging, BCC largely agrees with the Independent Local Government Review Panel's (ILGRP) findings and recommendations. BCC considers the following excerpts from the ILGRP report are relevant and should be considered by IPART in its deliberations on the NSW local government system for rating:
			• "advice received from IPART, over the period 2001/2 to 2010/11, growth in the total revenues of NSW councils was 5.7% per annum, compared to an average of 8.0% for the other mainland states. Taxation revenue (rates) increased by 4.4% per annum in NSW compared to an average of 8.0%. This points to 'revenue foregone' in rates of well over $1bn. The fact that rates in those other states have increased without a strong community 'backlash' suggests that political sensitivities in NSW have been overstated.
			• The Panel's investigations also indicate that rate-pegging has had significant unintended consequences, in particular:
			    ○ Unrealistic expectations in the community (and on the part of some councillors) that somehow rates should be contained indefinitely, even though other household expenditures are rising
			    ○ Excessive cuts in expenditure on infrastructure maintenance and renewal, leading to a mounting infrastructure backlog
			    ○ Under-utilisation of borrowing due (in part) to uncertainty that increases in rates needed to repay loans will be

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			granted ○ Reluctance to apply for Special Rate Variations (SRVs) even when clearly necessary, because exceeding the rate peg is considered politically risky, or because the process is seen as too complex and requiring a disproportionate effort for an uncertain gain. • The Panel's conclusion is that, whilst there is certainly a case for improving efficiency and keeping rate increases to affordable levels, the rate-pegging system in its present form impacts adversely on sound financial management. It creates unwarranted political difficulties for councils that really can and should raise rates above the peg to meet genuine expenditure needs and ensure their long-term sustainability. The Panel can find no evidence from experience in other states, or from the pattern and content of submissions for Special Rate Variations, to suggest that councils would subject their ratepayers to grossly excessive or unreasonable imposts if rate-pegging were relaxed. In response to these findings BCC supports the ILRP position that rate pegging should be streamlined. In this context, providing councils with the flexibility to set rates within a margin of 5% above the rate-pegging limit provided that, as outlined in the report, councils: • Prepare more rigorous Delivery Programs and Revenue Policies, certified by the Mayor and General Manager as meeting all applicable requirements • Ensure the community has been made aware of proposed rate increases and associated expenditures contained in the Delivery Program • Ensure the case for a Special Rate Variation has been endorsed by the council's auditor as being soundly based and warranted to ensure long term sustainability • Lodge its documentation with IPART. Assuming IPART would continue to review and determine applications for SRVs of more than 5% pa above the peg, BCC recommends additional

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			flexibility in the way SRVs can be levied. The following example demonstrates the reasons for the need for more flexibility than that provided by the existing legislation. *BCC is the largest council in NSW and its existing population of 340,000 is expected to grow to 500,000 by 2036. While Council has robust strategic plans in place to deal with this significant growth, the provision of community infrastructure at the level required remains a challenge.* *It is anticipated that the Northwest Growth Centre will grow by 54,000 dwellings and 140,000 people in the next 15 years. Section 94 contributions previously funded community facility/buildings and aquatic centres, however in 2010 community infrastructure funding by Section 94 contributions was no longer permitted where contributions exceeded the $30,000 cap. The consequence of this is that Council has no guaranteed funding source for community facilities/buildings serving future 140,000+ residents. These facilities include community resource hubs & halls (including libraries), new aquatic centres and upgrades to existing pools. The estimated costs to Council is $140 million and although Council has considered a combination of external debt, increased rates, increased user fees and charges and service cuts as funding sources, the magnitude of the funding gap means that there is no alternative other than to implement a special rate variation.* *In assessing options for a special rate, Council has developed the following scenarios:* ***1*** *Special rate is applied to all residential rateable properties over the entire LGA with the increase applied in perpetuity.* ***2*** *Special rate applied to all residential rateable properties in the Northwest Growth sector with the increase applied in perpetuity.* ***3*** *Special rate is applied to all residential rateable properties over the entire LGA with the increase limited to a fixed 10 year period* ***4*** *Special rate applied to all residential rateable properties in the Northwest Growth sector with the increase limited to a*

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			fixed 10 year period *While scenario one complies with the existing processes and legislation, it is clearly unfair that the existing 105,000 residents will pay for facilities for new residents that they are not likely to obtain any significant benefits from. Similarly, scenario two is compliant but is also unfair in that properties which are developed earlier would pay significantly more than those completed at a later date. Additionally, the rate increase is not linked to a contribution plan area resulting in the whole development area paying the same rate without similar benefit.* *Scenarios three and four are not compliant with the existing SRV provisions and result in the most equitable rating structure. As with scenario one, scenario three levies properties that are unlikely to derive benefit from the facilities meaning scenario four is Council's preferred option. In this instance Council;* • *levies the new properties only* • *levies the properties as they come on line and;* • *levies the properties for a defined period (10 years).* BCC therefore recommends that the legalisation be amended to remove the limitation of seven years under section 508A (2). Additionally, councils should be allowed to apply for SRVs that they may not immediately levy. In the example above a long term financial strategy has been identified that requires several different levies being implemented separately. The existing legislation would require council to obtain approval through several SRV applications which gives no certainty to the financial strategy being able to be implemented. Amendments to the legislation should provide for approval of SRVs over the long term where supported by a sustainable financial strategy. In relation to the calculation of the rate peg, BCC strongly recommends that the adjustment for the productivity factor is eliminated. By virtue of the rate peg itself councils are forced to be 'productive' in order to continue to deliver services and infrastructure at the levels the community expect. As referred to above, the ILGRP stated that "advice received from IPART,

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			over the period 2001/2 to 2010/11, growth in the total revenues of NSW councils was 5.7% per annum, compared to an average of 8.0% for the other mainland states. Taxation revenue (rates) increased by 4.4% per annum in NSW compared to an average of 8.0%. This points to 'revenue foregone' in rates of well over $1bn. In this context and with many councils facing the challenge of meeting infrastructure backlogs as well as services and infrastructure delivery, the productivity factor results councils finding it even more difficult to achieve and maintain long term financial sustainability.
8	What changes could be made to the rating system to better encourage urban renewal?	26	Please refer to the response to question seven.
9	What changes could be made to the rating system to improve councils' management of overdue rates?	26	BCC manages its overdue rates through internal debt recovery procedures and resources. It does not consider any changes to the existing system necessary.
	Assessing exemptions, concessions and rebates	**27 - 35**	
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?	33	BCC considers that in the first instance the exemption should be applied based on the predominant usage of the land rather than by ownership. For example, where former Department of Housing properties have transferred ownership to or are vested with Community Housing Providers it is inequitable to have these properties exempt from paying rates. With the predominant use of the land being residential housing, the services used are the same as those who pay rates. Users of council services should not be subsidised by local ratepayers via rates exemptions. BCC supports the principle of providing rebates rather than exemptions and the level of subsidy should be standardised across local government areas to ensure consistency and reduce the likelihood of localised disputes and costly and time intensive negotiations and lobbying. All property categorised and used as residential should be rateable regardless of ownership. It is therefore recommended that the legislation be changed so that rebates are provided based on land use and are applied in a consistent

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			manner through standardisation of the level of rebate applied. Additionally, wherever a commercial enterprise is undertaken, the property should be levied on the portion of land used in profit generating activities.
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?	33	Given the many reports and finding into the financial sustainability and the challenges confronted by local government as a consequence of cost shifting from Federal and State Governments, which is estimated at $15.1 million per annum for BCC, it is recommends that there be no changes to the exemption of certain state taxes.
12	What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?	35	BCC does not support any abolition of Pensioner Rebates but considers pensioners are a State and Federal responsibility and as such the subsidy should not be a local government responsibility. Concessions to pensioners should be fully funded by the state or federal government. BCC does not support the rate deferral scheme or introducing as asset test as these measures do not align with taxation principle of simplicity.