

13 May 2016



Office of the General Manager

Reference File: 16/90267

Dr Peter Boxall AO  
Chairman  
NSW Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop  
NSW 1240

Via online submission: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

Dear Dr Boxall

**SUBJECT                      Review of the Local Government Rating System – Issues Paper**

Thank you for the opportunity to respond to the Issues Paper. Blue Mountains City Council (BMCC) agrees with the importance of improving Local Government's strength and effectiveness so that we can enhance our ability to implement sustainable and equitable fiscal policy.

**In principle BMCC supports the majority of the discussion included in the Issues Paper.**

Our detailed response to each relevant issue can be found in the table in Attachment 1 below.

BMCC supports the NSW State Government in its reform of the Local Government Rating System, and is keen to work in partnership and support this important review so that the best way forward to ensure fairness across the whole local community is agreed.

Yours faithfully

  
ROBERT GREENWOOD

General Manager

Topic	Issue	BMCC Response
Taxation principles	1 Do you agree with our proposed tax principles? If not, why? (P 15)	<p><b>BMCC position on the proposed Principles:</b> Agree</p> <p><b>BMCC Comment:</b> Rates should be considered as an asset tax and therefore be predominantly driven by the value of the asset being taxed. The value of the asset provides a measure of capacity to pay because land owners presumably purchase a property they can afford to maintain. The benefit principal is therefore a secondary consideration, however all ratepayers should benefit from services and infrastructure in proportion to their land values, and therefore in proportion to the dollar amount of their tax contributions based on these land values.</p> <p>Any form of flat charging is regressive taxation and contravenes these basic principles (refer to later comments on Issue 4 re base and minimum amounts).</p>
Assessing the current method for setting rates	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? (P. 20)	<p><b>BMCC Comment:</b> Capital Improved Values (CIV) should be made available as an option to NSW Councils. This form of valuation is more easily understood by the public, and strata units will pay a fairer share of tax based on their CIV. Councils should be given a choice on what valuation method they choose to use because some LGAs (eg. with high portion of strata developments) will be more suited to use CIV values and other LGAs (eg. rural based) will be more suited to Land Value (LV).</p>
	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)? (P. 20)	<p><b>BMCC Comment:</b> The Valuer-General currently provides a good comprehensive valuation service for what seems a reasonable cost, however given the lack of competitive cost comparisons, private valuation services could be made available to Councils.</p>

Topic	Issue	BMCC Response
	<p><b>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? (P. 22)</b></p>	<p><b>BMCC Comment:</b> Base amounts should be maintained as an option for NSW Council's. However the limiting amount of income from base amounts should be lowered to 30% (or even 25%).</p> <p>High Base amounts are also a regressive form of taxation. By introducing a higher flat charge amount, less income is calculated in proportion to the property land value, thereby reducing the effect of the capacity to pay principle as outlined above.</p>
	<p><b>5 What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide? (P. 23)</b></p>	<p><b>BMCC Comment:</b> Councils should be able to sub-categorise land based on types of use and not rely on centres of population or activity. For example this would allow sub-categories with possible different tax rates for vacant land, shopping centres, holiday lets, retail shop fronts, single dwellings, multiple-occupancies, strata units, serviced apartments and other types of development. The benefit is greater overall fairness and equality because developments of the same type pay the same tax rate, regardless of their site location. It also allows for the land value to remain the predominant influencing factor for the amount they actually pay.</p> <p>Rural Residential as a sub-category should be removed completely because the arbitrary land area size requirements are inequitable and confusing.</p> <p>Mining category should be extended to include all types of mines and should also extend to quarrying and even perhaps to old-growth forestry and any other non-renewable resource industries.</p> <p>At the least, clarity should be provided for categorising Bed &amp; Breakfasts, holiday lets, serviced apartments and all other business operations with a residential component as a defined category that should be taxed taking into account the commercial component for fairness and equity.</p>

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	<p><b>6 Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities? (P. 24)</b></p>	<p><b>BMCC Comment:</b> Mandatory rating exemptions shift the rating burden from properties which attract a high rate of visitors from outside of the local government area (LGA). eg large schools, large churches, national parks, public transport etc. These properties, due to their visitor numbers, cause above average strain on Council infrastructure and yet do not contribute at all to the construction or maintenance of this local infrastructure.</p> <p>Indirectly, the current rating system allows Councils to set different tax rates for different centres of population and activity. This means that Councils may offset high land valuations in a centre of population by reducing the tax rate for that centre of population and vice versa. This can cause inequity and inefficiencies across communities <b>within an LGA</b> and may contradict basic taxation design principles (ability to pay and benefit).</p> <p>Also high minimum rates and base amounts can shift the rating burden disproportionately onto lower land values <b>within an LGA</b> (see earlier comments).</p>
	<p><b>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? (P.25)</b></p>	<p><b>BMCC Comment:</b> If Local Government is a serious autonomous level of government in NSW, then it needs the power to set its own income limits in response to strategic planning under IP&amp;R which includes robust consultation with community in defining affordable and acceptable levels of service.</p> <p>The IP&amp;R legislation introduced to the Local Government Act in 2009 ensures that Councils are planning for long-term sustainability and are more accountable to communities. It includes assessment and monitoring requirements to determine and report on whether strategies/ programs/ activities/ actions are effectively achieving their outcomes. Year on year Councils are strengthening the integration, connectedness and evidence behind the plans, in particular with the introduction of the new auditing requirements of Special Schedule 7 – Report on Infrastructure Assets.</p> <p>BMCC advocates for the abolishment of rate pegging, and instead suggests that Councils are given the option to identify the need for any significant increase to rates through their 4-yearly IP&amp;R review process. The need for a significant increase to rates must be identified at the beginning of the 4 year IP&amp;R cycle and community must be consulted on options as part of the normal cycle of community engagement</p>

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		<p>on the update of IP&amp;R. This would reduce the complexity and resourcing burdens associated with the current special variation process and would be a significant efficiency gain for both local and state government, and a further incentive for local governments to do robust medium to long term planning.</p> <p><u>Alternatively</u>, the Council would advocate that the Council could increase its rates by a State Government defined percentage limit above the rate peg using the above process.</p>
	<p><b>8 What changes could be made to the rating system to better encourage urban renewal? (P. 26)</b></p>	<p><b>BMCC Comment:</b> All reference to postponed rates starting with Section 585 should be removed from the Local Government Act 1993. Postponed rates provide a taxation concession to land owners who are permitted to develop their land but choose not to develop. NSW Councils also lose rating income when postponed rates are written off.</p> <p>Other changes to the rating system will have little effect on urban renewal because the amount paid in Council rates is relatively low when compared to other development expenses. This would be true even if Council rates were based on capital improved values.</p> <p>Determining rating sub-categories by actual use may enable Councils to use flexible tax rates to encourage/discourage certain development (eg taxing vacant land at a higher rate or reducing certain business rates to promote economic growth), but this influence would be negligible given the relative small dollar amount of Council rates in the first place.</p> <p>Blue Mountains City Council agrees with IPART's preliminary view and comments on special rates and partnership projects.</p>

Topic	Issue	BMCC Response
	<p><b>9 What changes could be made to the rating system to improve councils' management of overdue rates? (P. 26)</b></p>	<p><b>BMCC Comment:</b> Each Council has a responsibility to their communities to ensure that rates are levied and collected in a timely manner.</p> <p>BMCC's suggestions are: Empower Councils to issue orders for payment from mortgagees once 12 months of arrears rates have accumulated on an account as is the case in New Zealand.</p> <p>Increase the pension rebate amount and have the state government fully fund it as occurs in other states.</p> <p>Allow local governments to access State and Federal Government customer contact data (eg MyGov, Centrelink etc). Perhaps even centralise customer contact information across all tiers of government and departments.</p>
<p><b>Assessing exemptions, concessions and rebates</b></p>	<p><b>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? (P. 33)</b></p>	<p><b>BMCC Comment:</b> Land uses currently exempt from paying council rates are not appropriate.</p> <p>All land used for residential or commercial purposes should be rated regardless of ownership. Commercial purposes should be clearly defined and include private and independent schools and leased areas within National Parks.</p> <p>Partial rebates are more appropriate than full exemptions since most currently exempted properties place above average strain on local infrastructure by attracting large visitor numbers and therefore should contribute to infrastructure maintenance, renewal and upgrade. These rebates should be standardised across LGAs to avoid local disputes which can be costly for local councils. Providing discretion to individual Councils should therefore be avoided.</p> <p>If the current system of rating exemptions continues then the exemptions should be funded by the state government and not the local communities.</p>

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	<p><b>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? (P. 33)</b></p>	<p><b>BMCC Comment:</b> Any tax paid by a local Council is in essence and indirectly a tax paid by the local ratepayers. It may be more efficient for governments to collect tax directly from taxpayers than to have different tiers of government duplicating, double-handling and reporting tax payments and collections (eg the state Emergency Services Property Levy).</p> <p>If local government tax exemptions were to be removed Blue Mountains City Council would advocate that all government rating exemptions also be removed. This option, however, is a less efficient form of tax collection than the current system of government rating exemptions.</p>
	<p><b>12 What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved? (P. 35)</b></p>	<p><b>BMCC Comment:</b> To assist low income and/or asset poor ratepayers by providing a reasonable level of rebate to their Council rates and charges. The current pension rebate systems need an overhaul.</p> <p>The pension concession scheme should be fully funded by the state government, as it is in other states, because social welfare is not part of the charter of local government.</p> <p>If the current scheme continues, the current rebate amount should be increased in order to provide genuine assistance to those in need.</p>
<p><b>Any other issues that BMCC feel are relevant to the terms of reference</b></p>	<p><b>State Emergency Services Property Levy</b></p>	<p><b>BMCC Comment:</b> The state Emergency Services Property Levy (ESPL) will impose financial strain on local government and will introduce duplication and inefficiency across tiers of government. Collecting rates revenue is challenging enough for local councils without the imposition of collecting state revenue on the state's behalf.</p> <p>This is a role more suited for the Office of State Revenue.</p> <p>Furthermore, opportunities for increasing Local Government revenue is eroded by the State Government imposing itself on the traditional revenue stream of Local Governments' land valuation based taxation system.</p> <p>Local Government does not have the same opportunities as State Government for diversifying taxation revenue streams and the ESPL diverts a Local Government's predominant source of funding (land based taxation) away from the local community where the revenue is needed most.</p>



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		<u>Alternatively</u> , if Councils are required to collect the State Government levy, it should be on the basis of full cost recovery for the service.

**Note: As BMCC are not proposed for merging, we will not submit comment on questions 13 to 23.**