

13 May 2016

Review of Local Government Rating System
IPART
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir/Madam,

IPART Review of Local Government Rating System

Please find below the joint submission from the Central Coast Council previously known as Wyong Shire Council and Gosford City Council. The rating issues that our Council will experience from this merger will be consistent with those on the urban fringe of Sydney where two Councils have varying land values and varying degrees of urban development.

It is critical for the ratepayers of the Central Coast region that any changes to the existing Local Government Rating System during this merger period allow our new Council the autonomy to define their own rating structure with reasonable safeguards that do not inhibit it from coming together at the earliest possible time. Excessive restrictions will only extend merger transition costs, both implicit and explicit, eroding some of the *modelled gains predicted*.

Our submission is aligned to the issues seeking comment under Section 1.5 of the Issues Paper by IPART. The questions themselves do not however allow for full discussion of fundamental issues that should have been raised and resolved in advance of any Local Government Rating Review. As such we have included some brief discussion that our Council consider critical to the success of any changes to the Local Government Rating System and how they would contribute to the Fit-For-The-Future Reforms, council sustainability and equity for ratepayers.

Responses to questions contained Section 1.5 of the IPART Issues Paper

Taxation principles

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

Yes. The principles proposed are relevant to and appropriate for local government rating functions.

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?

Whilst some form and degree of valuation based rating is appropriate, other approaches have been considered and assessed against the proposed tax principles.

Method	Efficiency	Equity	Simplicity	Sustainability	Competitive Neutrality
Ad valorem	3	5	5	5	3
Base Amount/Fixed Charge	5	3	5	5	4
Minimum Rate	4	3	4	5	4
Maximum Rate	4	3	3	5	3
Per capita charge	4	4	1	3	5
Developed floor space	2	4	1	3	4

Scale of 1 (undesirable) to 5 (desirable)

The scoring above was determined through extensive internal consultation with key staff. On the basis of the above assessment, continued availability to both minimum/ad valorem and base amount/ad valorem mechanisms is preferred.

However consideration to including other mechanisms as options could "future proof" the legislation against improved capacity to capture and manage data that may currently render such options unsuitable due to the lack of simplicity they offer.

The unimproved land value (UV) method is generally well understood by the community and is a relatively simple and cost efficient valuation method. Further there is an extensive existing database and network of valuer's who have built up significant intelligence under this valuation method.

Alternative Valuation based approaches (Capital Improved Value and Annual Rental Value

Alternative valuation approaches, such as capital improved value (CIV) or annual rental value (ARV) would involve high implementation costs as the full reliable data does not currently exist and higher ongoing costs that would ultimately be borne by the ratepayer in each council area.

Whilst other methods may be equally well, or better understood these would likely require frequent adjustment of individual property valuations as property capital improvements change through known processes such as development applications.

Other capital improvements not requiring some form of approval (internal renovations, landscaping, fencing etc.) may not be properly reflected in individual property capital values and result in perceived inequities between ratepayers.

Also as markets move within revaluation cycles there is a higher likelihood of disquiet among ratepayers that the "current" value is not used for rating (than if the UV method was continued).

Market volatility between valuation cycles would also lead to significant volatility in rates charged for individual properties at each valuation cycle.

For these reasons it is not clear that these more expensive valuation methods would necessarily deliver better outcomes in terms of the tax principles.

Modification of existing Unimproved Land Value method to achieve tax principles are able to be better achieved through changes in other aspects of the rating system including:

- Categories,
- Relaxation of the limits for base amounts and minimum rates
- Capping of rates and/or rate increases on individual properties
- Rate exemptions and improved concession provisions.

The UV valuation method should be mandated and applied consistently throughout NSW. We do not support different valuation methods being applied in different council areas, optional or otherwise. Such an approach could create confusion within the community, increase the risk or perception that councils are making rules to suit political or personal agendas (rather than setting policy to deliver fair and equitable rating). It would also make it extremely challenging to draw meaningful comparisons between council areas.

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)?

Continued use of the Valuer General's property valuation services is preferred. The use of a statutorily appointed valuation service minimises risk and/or public perception of a lack of impartiality in the valuation process. It also provides a consistent approach across all local government areas.

Use of a private valuation service would add an additional administrative burden and cost for councils through the procurement and contract management processes.

Under current arrangements, fees for the valuations services delivered by the Valuer General are subject to determination by IPART and as such ensure efficiency by the valuing authority. On this basis it is not expected that a private valuation service provider would offer lower costs for the ratepayer.

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?

Increasing base amount revenue limits above 50% and increasing the allowable maximum minimum rate would enable greater equalisation of rates particularly across newly merged but also within existing council areas with widely variable property valuations and varied degrees of urban development.

Consideration to a maximum rate option for single dwelling residential property together with an option to cap and phase in individual rate increases arising from revaluations or rating structure changes is warranted.

A maximum rate would assist council's in achieving a balance between the tax principles of Efficiency (Benefits principle) and Equity.

A cap on rate increases for individual properties would assist in transitioning ratepayers to a higher rating burden that results from factors outside their control or those of council or from changes aimed at achieving better outcomes for the community as a whole.

Following cyclical revaluations, inevitably many individual property values increase significantly above the average revaluation increase and result in a shift away from achieving the Equity (Ability to pay) principle for these properties – effectively overnight.

Similarly, if a council decided to alter the rate structure, in order to achieve better alignment with the tax principles for the community as a whole, again there is a high likelihood of a shift away from achieving the Equity (Ability to pay) principle for certain groups of properties.

A capped rate increase for individual properties could allow significant rate increases to be phased in over several years.

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

The dominant use principle should remain as the basis for categorisation of developed and/or occupied land.

Multi Dwelling Units and Strata Complexes

Currently, units within strata complexes (particularly larger complexes) attract relatively low levels of rates that do not reflect the owners/occupants demand on council services or their ability to pay.

The ability to sub categorise individual properties within multiple dwelling / occupancy properties (strata units) would enable the levying of higher rates on these properties that better align with the Efficiency (Benefit's principle) and the Equity tax principles.

Limited Use

Whilst current legislation allows a residential sub category (and lower differential rating) for flood prone land similar flexibility is required for other land with limited use potential. Some flexibility to categorise or sub categorise vacant, undeveloped, environmentally protected and other unused land, or land with low potential use, should be available.

Vacant Residential Land

Further consideration should be given to subcategorising vacant residential land in an attempt to discourage land owners from 'land banking'. This would increase the holding cost of vacant land promoting a stimulus effect boosting building and construction, increasing housing supply and ultimately help with housing affordability.

This approach would enable councils to apply differential rating so as to provide a suitable balance between tax principles and planning objectives.

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

Subject to the proper IPR processes being complied with, we agree with IPART's view that rates levied within each LGA should reflect the cost of service provision to those communities.

Within each LGA there will be varying degrees of benefit from or access to council services. However, where such delineation is evident the use of Special Rates or differential rating through categorisation and sub categorisation would enable the cost of service provision to be apportioned more in line with the benefit principle.

The Rating System should allow for the future introduction of more 'user-pay' revenue systems as technology and data gathering improve, Councils in the future will be better able to direct their charges to the customers more accurately to those who use their services. These other revenue systems would then offset against their notional income requirements which are shared across the whole community.

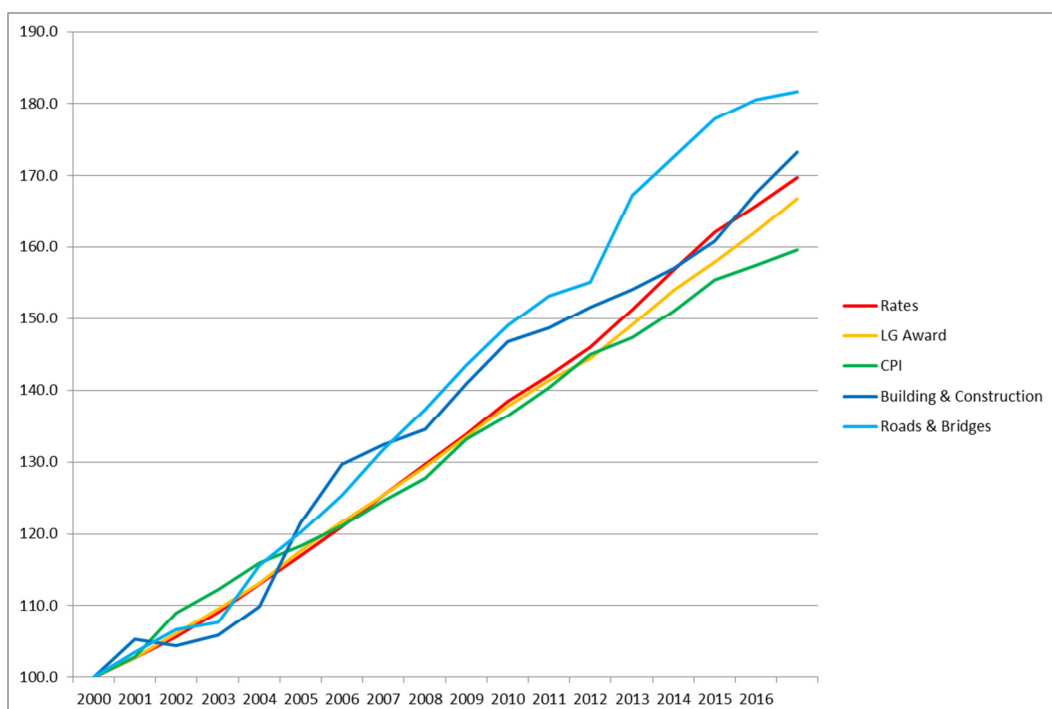
Further maximum rate caps for individual properties as a multiple of the average ratepayer should be considered to correct alignment where rates on high value residential properties do not reflect usage of service and in some instances capacity to pay.

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?

The Premier's Terms of Reference asks that IPART's recommendation aim to;

"Enhance the ability of councils to implement sustainable and equitable fiscal policy...."

Council's ability to fund services has historically been limited by rate-pegging, the requirements to undertake additional regulatory functions and the cost shifting associated with those additional demands on council resources. A depiction of the variance between cost indexes and the rate peg is shown below. It clearly shows the rates peg has not kept pace with cost indices for Roads & Bridges – a big component of Local Government's capex programs.



Rate pegging increases over the past 4 or 5 years has been assessed against the Local Government Cost Index (LGCI) taking into account the average cost increases incurred by council's across NSW. Whilst this provides improved transparency in the setting of the annual rate peg, the approach does not necessarily take proper account of the different cost bases of individual councils. The LGCI approach effectively weights the LGCI according to the cost bases of larger and metropolitan based councils.

In turn this can add further disadvantage to smaller councils or those outside the Sydney metropolitan area as the cost mix for individual councils, particular regional and rural council areas may vary significantly from the LGCI averages due to variations in factors such as;

- Geographical – size and location in relation to major cities/centres
- topographical characteristics
- population density
- demographics of the community
- services expected/provided in different council areas
- availability and cost of suitably skilled labour
- Current state of infrastructure and type of spend required (e.g. Construction Price index is higher than LGCI and Councils building roads will be disadvantaged).

THE IPR framework is intended to ensure councils align service delivery with community expectations.

As such it is imperative that alternatives to rate pegging be considered so as to provide council's with the ability and autonomy to provide communities with services in line with the IPR framework.

A streamlined process allowing for scaled level of increases, without requiring prior SRV approval, should be available to Council, based on each council's compliance with IPR requirements and its financial position.

The need to engage the community through the IPR framework should remain however councils who perform well should be able to self-manage sustainable and equitable fiscal policy to a greater degree than those councils that are in a weaker position.

This would improve alignment with the stated terms of reference.

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

Improved flexibility in the use of categories as discussed under Q 5 above.

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

In order to protect the community and council from financial uncertainty and risk, council rates and charges must remain as a priority property related debt.

Consistent with the NSW Revenue Professionals group, we agree that similar mechanisms employed in New Zealand should be established allowing the Council to recoupment of overdue rates from the Mortgagee.

Access to ratepayers' superannuation funds should be provided as an alternative or pre-requisite to exercising sale of land provisions. This would assist to incentivise ratepayers to engage with council and deliver better outcomes for both individual rate payers and council through avoidance of costly land sale activities and interest charges.

In respect to the conduct of Council's across the state in respect to their actions in recovering overdue rates and charges, changes to the rating system and by the Office of Local Government is required.

Transparency needs to be enforced with key performance indicators e.g. legal action (statement of claims) issued per set number of residents. This would highlight Councils that require improved credit management processes that are not reliant on legal process. There currently exist poor incentives to overuse legal process as a debt recovery tool which comes at significant cost to the ratepayer. Outsourced agents acting on behalf of Councils have an incentive to actively engage in recovery processes that generate higher levels of statement of claims to maximise their own revenue. The Office of Local Government should mandate Councils cannot exceed certain legal process benchmarks.

Further consideration should be given to allowing commission to be charged to ratepayers as an alternative to legal process. Charging commission to ratepayers in most instances is a cheaper alternative to legal process without impeding on their credit rating. This will provide the correct incentives to external agents so they actively engage with ratepayers to set up and monitor affordable payment arrangements that manage down overdue rates.

To assist Council's and ratepayers reduce the incidence of rate arrears the following changes are suggested:

- Compulsory inclusion on property transfer notices of additional owner information that validly identifies the purchaser, such as;
 - date of birth and drivers licence information – along the lines of the details required to establish a person's identity when opening a bank account or initiating other significant financial transactions
 - alternative contact details e.g. email address, mobile phone number

Together with measures suggested above, this additional information would assist Councils to address overdue rates directly with ratepayers at an early stage as well as assist with the correct identification of ratepayers when responding to enquiries or with establishing online accounts.

Provisions should also be made for the delivery of rates notices through any manual or electronic method that a ratepayers elects to use i.e. not be limited to specific delivery methods.

Assessing exemptions, concessions and rebates

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?

The current approach to exemptions does not support the principle of equity. Further the current approach does not provide a transparent view of the cost shift to rateable properties arising from exempt properties.

Former Wyong and Gosford ratepayers were paying \$1.5m and \$2.4m respectively more in rates due to the presence of exempt properties. We have taken the conservative view that these properties would attract residential categorisation where in fact a material number operate as businesses.

Former Wyong Shire Council Exempt Properties:

Exemption Description	Rateable Value	Count	Residential Rate @ 0.5615 Min Rate \$300	Business Rates @ 0.9736 Min Rate \$300
Aboriginal Land Councils	\$14,001,600	40	\$79,305.84	\$136,796.46
Public Cemetary	\$614,500	4	\$3,638.12	\$6,087.99
Charities	\$26,855,760	60	\$150,823.43	\$261,465.01
Community Plan Common Property	\$55,000	1	\$308.83	\$535.47
Eductional Institutions	\$75,857,000	54	\$425,937.11	\$738,536.22
Public Hospitals	\$9,938,000	2	\$55,801.87	\$96,755.38
Public Libraries	\$397,000	1	\$2,229.16	\$3,865.15
Religious Institutions	\$49,155,466	89	\$276,008.15	\$478,572.69
State Government Owned/Crown Land	\$96,120,432	401	\$566,552.25	\$957,198.34
	\$272,994,758	652	\$1,560,604.76	\$2,679,812.71

Former Gosford City Council Exempt Properties:

Exemption Description	Rateable Value	Count	Residential Rate @ 0.3597 Min Rate \$496	Business Rates @ 0.5526 Min Rate \$505
Section 1r	\$39,209,250	98	\$237,520	\$387,292
Housing	\$11,127,600	38	\$65,457	\$108,337
RMS	\$26,095,240	99	\$155,453	\$256,586
Crown	\$9,648,218	42	\$65,087	\$94,439
Nat Park	\$16,481,980	124	\$125,778	\$171,577
Religious Bodies	\$66,687,821	103	\$375,444	\$650,276
Education	\$158,287,500	58	\$888,784	\$1,541,071
Darkinjung	\$11,589,000	29	\$67,552	\$113,839
State Rail	\$4,532,400	12	\$26,937	\$45,137
Charity/PBI	\$35,600,490	43	\$199,897	\$347,613
Health	\$34,113,000	37	\$192,537	\$332,626
Zoo	\$464,000	1	\$2,605	\$4,517
	\$413,836,499	684	\$2,403,052	\$4,053,311

If we included non-valued Crown land (e.g. national parks and state forests not surveyed and consequentially valued) which requires Council services and applied a conservative arbitrary valuation (\$1,380 per km²), the value of exemptions paid by ratepayers across the Central Coast rises to \$5.2m per annum.

The same tax principles should apply to all properties that create demands on council services, regardless of ownership. In other words, regardless of what organisation owns a property, it should bear the same burden as like properties based on the dominant use principles applied for categorisation. Essentially exemptions are in conflict with the competitive neutrality principle as it allows groups of ratepayers an advantage over others.

If State or Federal governments consider that organisations deliver a community benefit, or are otherwise deserving of rate assistance, they should provide this assistance through State or Federal grants or other forms of assistance.

As an alternative Council, through the provisions of s 356 of the Local Government Act 1993, Council could replace exemptions through financial contributions to any individual or group of ratepayers. This would require all exemptions to be removed for ordinary rates and allow Councils the discretion to offset (in part or fully) any rating impost on any ratepayer in consideration of the degree of community benefit provided within the council area. Of course such funding would need to be provided for from the council's operational budget and be factored into the council's rate revenue requirements. This would be a more democratic process with appropriate safeguards to prevent misconduct. This would provide greater transparency to the entire community such that they would understand the value of rates that they are funding on behalf of community organisations.

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?

The Henry Tax review identified that welfare losses associated with state and federal taxes were far greater than those associated with council rates. Simply put the imposition of council rates does not impact consumer behaviour as much as state and federal taxes e.g. payroll taxes. On this basis there is an argument that exemptions to state and federal taxes should continue to exist like those that councils receive on payroll taxes.

Further the cost of these exemptions can be apportioned across a much broader base, being socialised to a much greater degree and are not contained to a limited geographical area. This is opposed to exemptions to council rates which are borne by the ratepayers of the council itself.

In terms of whether Councils should specifically continue to receive exemption from payroll tax, there may be an argument that Local Government should not be exempt. We note that this benefit largely assists metro Councils as regional Councils incur payroll tax on their Water and Sewer operations already. Former Wyong and Gosford Councils collectively incurred payroll tax annually of around \$2m. Removing this exemption for Local Government would place great focus on its labour costs which forms approximately a third of each Council's cost base. Given that councils, particularly in regional and rural areas, are often the largest single employees, such additional pressures to reduce labour costs could have significant impacts on the local economies within those areas.

We note that any introduction of payroll tax for Local Government operations would increase our collective payroll tax expense by \$7m to \$9m annually. Should the removal of this exemption be considered it must be done so with broader reforms including the removal of rates exemptions for all ratepayers and full funding of pensioner concessions in mind.

All landowners, regardless of their operations, benefit from these services and infrastructure provided by Local Government and should therefore contribute toward their cost. In addition Pensioner concessions should be fully funded by the State as they are in other jurisdictions across Australia or alternatively by the Federal Government.

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

The objective of a concession scheme should be to provide relief to low income/asset poor ratepayers in line with the principals of other social security mechanisms.

Any proposal to provide a rates deferment scheme for pensioners is not supported. Such a scheme does not actually provide a concession to pensioners. Although deferment would provide week to week cash flow relief, with interest charges added to any deferred balance, pensioners would actually be disadvantaged over time.

A deferment scheme would add further layers of administrative complexity for council to manage. It is considered that if deferment of rates is desired by any pensioner it is more appropriate that they access one of the many reverse mortgage products available in the open market.

A concession arrangement along similar lines to the existing provisions is preferred with improvements to funding and adjustment for inflationary factors.

The current concession provisions leave councils with 45% of their cost that must be passed onto the remainder of ratepayers within that council area. In other jurisdictions concessions are fully funded by the relevant State Government. In this way the cost of concessions would be more evenly shared between the ratepayers of the state.

Under the current funding model, where there is a disproportionate level of eligible pensioners within a council area there is a disproportionate financial impost on other ratepayers within that Council area.

This can be a significant issue in regional and rural areas as younger people migrate to larger centres for career reasons, and retirees are attracted to regional and rural areas by environments and lifestyles better suited to retirement living and by lower housing costs.

The numbers of Pensioner Concessions on the Central Coast are:

Former Councils	Number	% of Ratepayer	Value of concession	Value paid by other Central Coast ratepayers
Wyong	14,037	21.6%	\$3,475,625	\$1,564,301
Gosford	14,230	20.0%	\$3,309,372	\$1,489,217

For the Central Coast Council the annual cost of funding pensioner concessions exceeds \$3m per annum which places a significant strain on other ratepayers on the Central Coast. Further it is funding that could have otherwise been spent addressing Infrastructure backlogs.

Pensioner concessions are an extension of social security principles that are appropriately administered through federal legislation. Given social security is largely the responsibility of Federal government the cost of concessions can be argued that it should be funded by that level of government.

Concessions are currently calculated at 50% of the amount of ordinary rates and domestic waste charges to a combined maximum of \$250. As this maximum concession value has not been adjusted for over three decades, the real value of concessions has decreased significantly in that time.

If the State Government want to maintain equity for pensioners it may be appropriate to increase the maximum rebate amount and then to increment this annually by the Local Government Cost Index or other inflationary value such as CPI or in line with pension payment increases.

Freezing existing rate paths for newly merged councils

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 follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation?

We agree with the literal interpretation of the undocumented rate path freeze policy. We note that this policy whilst adhering to the "trajectory" is supported by the underpinning of the Local Government Act. As such we broaden the definition of the rate path freeze to allow Councils to stick to its "trajectory allowable within the provisions of the Local Government Act".

The interpretation by the community however is of concern as there is evidence that this is being regarded as "no rate increases". It was not directly apparent from this statement that the intent was to lock in rating structures etc. at a category and sub-category level within each existing area for a period of four years from proclamation. The outcome of this is that Council's control of the rating policy is reduced, impacting our ability to deal with inequities in the new community. This will add pressure to the transition period where council will be seeking to harmonise services and pricing strategies without the ability to harmonise rating.

The outcome of transitioning to a single rating structure toward the end of the four year period is that inequalities may be exaggerated over that period; transition in this regard is then made more difficult. Any changes to the rating legislation that would have allowed for more equitable rating may be unavailable.

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?**

Councils should be able to continue with the existing application process for administrative processes such as crown lands added to the rating base and amounts above the cap on development contributions set under the Environmental Planning and Assessment Act 1979.

Special variations incorporated in the notional income should continue to be facilitated through the revised SRV framework suggested at point 7 above. Denying ratepayers the ability to raise additional funds to deliver on services/infrastructure that they want is overly restrictive and undemocratic.

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

As outlined in the response to question 14, it should not be the State's role to dictate that a community is unable to require additional services/infrastructure. This would take place through the existing IP & R framework. The merged Council would need to demonstrate the need to the community and this should not be prevented for four years after a merger proclamation. If the rules around the IPR framework need to be tightened than that should be considered rather than negating this process through restrictive rating legislation.

Nonetheless to comply with the IPR framework and taking into account timings around merger proclamations and the election of a new merged Council, a Council could not introduce a SRV until 2018/19 towards the end of the four year freeze period.

Further it may be necessary for merged councils to apply for a special rate variation to manage the inequities of the new community. Those council's considered 'financially unfit' (without a special rate variation) if required to continue on the same 'trajectory' as if the merger had not happened will continue on a path that will result in a worse financial position over the freeze period if the newly merged Council position is less than a special rate variation.

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)?

Councils are in the midst of merging should be allowed to start transitioning their rating structures as soon as practically possible if that is their decision. Giving Councils the autonomy to move forward without restriction on merging rating bases would help to realise the slated merger benefits modelled. This means allowing the new council the ability to increase base and minimum amount in line with current policy and rate yields where appropriate. For example councils who apply a maximum minimum they should retain that option based on rate peg (if kept).

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)?

As discussed in question 16, Council should have the autonomy to make decisions that may bring their two rating bases together rather than prolong two different rating systems. If there needs to be safeguards on year on year changes, that should be considered but Councils should not be restricted to applying only the defined rating methodologies of the relative change method or rate peg.

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?

The existing Notional rating base acts effectively as a ceiling. The change in language in this question is seen to imply that Councils are unnecessarily overcharging and can do with less. As the cost of implementing these mergers will exceed the grants being offer, Councils will require their full revenue to compensate for this shortfall. The focus on merger activities is likely to impair business as usual activities that may have an impact on service delivery and existing infrastructure backlogs. Consequentially Council are likely to require their full permissible notional incomes and the language around a "ceiling" is likely to arouse ratepayer angst unnecessarily.

As discussed in the following sections, revenue requirements for Local Government should only be conducted after reassessing Local Governments current scope as a service/infrastructure provider to the community. Once its scope is adequately determined, with cost shifting issues aside, then its revenue requirements can be appropriately valued.

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

Councils should be able to differentiate between different local council areas rather than having to refer to "centres of population" definition within the Act. Allowing Councils the flexibility to deliver long term transition path or maintain the 'status quo' is important. This may be relevant where two Councils merging have completely different rating bases and infrastructure needs that are not going to harmonise for decades. The result would be one former Council area being a constant drain on the other neighbouring Council.

Alternatively as raised in other responses Council should be allowed to push forward with transitioning to a merged rating base within the four year period.

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 offer no comment as to how the Minister of Local Government might achieve the Government's policy objectives or as to what legal mechanisms they employ. We do however request that the changes be delivered expediently with extensive communication and consultation and in a manner that allows Council to focus on effective delivery of any outcomes for the community. Further we expect the ability to structure rates to best serve the needs of the community.

Further we request that as part of this process consideration is given to how the Valuer General undertakes future valuations cycles for the merging Councils. The valuation base date must be in sync to reduce confusion by the community, eliminate unnecessary additional administrative work and reduce the number of impacts this has on the rates burden being shifted across the community due to changing relative valuations.

For the Central Coast Council this would require a delay to the next valuation for lands in the Wyong region so it aligns with the Gosford region. This would be allowable within the existing provisions of the Valuations of Lands Act.

Establishing new, equitable rates after the 4-year freeze

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?

As discussed in previous responses, Councils should be given the autonomy and flexibility to set varying residential rates within a centre of population. This would allow Councils with the ability to ensure a smooth transition for different rating paths over a longer or shorter period of time. Continued enforcement of the same residential rates within a centre of population will result in an immediate rate adjustment should property values differ between merging Councils. This would give rise to unnecessary ratepayer dissatisfaction that can be better managed if Councils are given the autonomy and flexibility with its rating system.

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?

If the Community has been through the IPR process than to prevent it would be to deny the community of the benefits they originally expected. In some instances Councils have 'forward funded' capital expenditure associated with its special variation rate increase. The inability to recoup the additional special variation rate income would mean a cessation of capital works the community was promised and expect.

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

Safeguards should be considered to manage transitioning rating paths such as employing mechanism such as capping rates increases year-on-year, maximum cap's for residential properties as a multiple of the standard ratepayer and lifting the restrictions around maximum base and minimum amounts.

If the restrictions are lifted on Council and they have the flexibility to apply a rating system that best suits their ratepayers, rating issues in the future after the 4 year rate path freeze can be appropriately managed.

Other Discussion points not covered by IPART Issues Paper

Lack of consideration of critical fundamental issues regarding Local Government prior to a review over the Rating System

Whilst there is benefit in reviewing the current land value based system that has been in place since 1993 (or even as early as the 1919 Local Government Act), more critical decisions around the role of local government should have taken precedence. Ultimately the revenue system itself should be there to fund the services/infrastructure the community expect and provide regulatory functions that are most appropriate to be delivered at the local level. In recent years there has been considerable “cost-shifting” from State and Federal Government to Local Government. It would have been appropriate to work through these areas to address whether these costs unfairly disadvantage local government.

There might be other more practical ways to fund local government. Vehicle registrations could be increased to cover state-wide road funding. This would be more akin to a user pay scheme rather than charging all residents regardless of whether they own a vehicle. Consequentially Council would not need to levy the amount of Ordinary rates it currently does from the community. This would be more akin to “zero-based budgeting” where the Community needs are assessed, valued and shared appropriately. The current Ordinary Rates system based around the concept of “notional income” is simply static, indexed and subject to property number increases that is in no way connected with delivering what the Community want.

Inconsistent Communication from NSW Government when ratepayers will see price increases driven by other NSW Government policy

The NSW Government has indicated that the “rate path” for merged Councils will be frozen. There will be considerable confusion in the community whom will not accept or understand the increases to their rates bill (in nominal terms) given the current communication, comments and proposals made publically. Customers will expect that their total bill will not change. Further confusion will exist over increases to annual charges (domestic waste, water, sewerage and drainage) and the floated introduction of the Emergency Services Property Levy (“EPSL”).

Refer to Annexure 1 for the typical bill that a ratepayer in the former Wyong Shire Council or Gosford City Council will receive over the next two years that demonstrate the impact of the Emergency Property Services Levy and “freezing the rates path”.

Former Wyong and Gosford customers will see increases to their total bill of 13% respectively from 2016/17 to 2017/18. With the exception of the rate peg increases the main drivers of the price increases customers will experience are driven by NSW Government decision making – namely the Emergency Services Property Levy and increased EPA levies in the Domestic Waste Management Charge.

This is in complete conflict with the communication around Fit-For-The –Future reforms and “freezing the rate path”.

The imposition of the Emergency Property Services Levy, if modelled on the Victorian scheme, is estimated to add a further \$180 to the typical ratepayers bill. Whilst the charges will be removed from insurance premiums, ratepayers will be sceptical that insurance companies will simply increase prices to absorb this gap. Clear communication is required to inform and appease ratepayers otherwise there will be resentment towards this new fee particular when their Council bills have not indeed been "frozen". It will be Councils whom have not had any part in the decision making process over whether to introduce the Emergency Property Services Levy that will bear ratepayer complaints.

Further for other Councils in regional areas, annual service charges for Water, Drainage and Sewer form part of their annual Council rates bill. Communication that these reforms won't impact these annual charges needs to be made clear for ratepayers in these areas. The Central Coast Council has previously separated these annual charges from its Local Government related annual charges but there will be an expectation, albeit to a lesser extent for us than our regional council counterparts, that these prices too will be frozen. Our annual charges and usage charges for Water, Drainage and Sewerage are determined by you and ratepayers need clarity that this process to freeze rate paths will not have a bearing on these annual charges.

Should you have any questions or which to discuss this submission further, please contact either:

[REDACTED]

Yours Faithfully

[REDACTED]

Rob Noble
Interim General Manager
Central Coast Council

Annexure 1 – Typical Ratepayer bill for former Wyong and Gosford ratepayers

Wyong Shire Council								
<i>Average Land value</i> \$190,000	2015/16	% of Total	2016/17	% of Total	2017/18	% of Total	2016/17 to 2017/18 \$	2016/17 to 2017/18 %
Ordinary Rates	\$ 1,066.85	67%	\$ 1,099.74	67%	\$ 1,121.00	60%	\$ 21.26	2%
Stormwater Management Charge	\$ 25.00	2%	\$ 25.00	2%	\$ 25.00	1%	\$ -	0%
Domestic Waste*	\$ 499.00	31%	\$ 514.00	31%	\$ 529.00	29%	\$ 15.00	3%
EPSL**	\$ -	0%	\$ -	0%	\$ 180.00	10%	\$ 180.00	100%
Total	\$ 1,590.85		\$ 1,638.74		\$ 1,855.00		\$ 216.26	13%
*Domestic Waste Management Charge estimated to increase based on actual historic increases over past 3 years. Prices increase driven by NSW Gov't EPA Levy increases								
**EPSL proposed to be introduced from 1 July 2017 - another initiative of the NSW Gov't. Estimate Residential charge based on Victorian system								
Wyong Water								
<i>Average Water usage</i> 150kL	2015/16	% of Total	2016/17	% of Total	2017/18*	% of Total	2016/17 to 2017/18 \$	2016/17 to 2017/18 %
Water Service Charge	\$ 168.79	15%	\$ 164.63	15%	\$ 164.63	15%	\$ -	0%
Drainage Service Charge	\$ 119.50	11%	\$ 128.32	11%	\$ 128.32	11%	\$ -	0%
Sewer Service Charge	\$ 482.51	43%	\$ 483.28	43%	\$ 483.28	43%	\$ -	0%
Water Usage	\$ 339.00	31%	\$ 343.50	31%	\$ 343.50	31%	\$ -	0%
Total	\$ 1,109.80		\$ 1,119.73		\$ 1,119.73		\$ -	0%
*IPART pricing determination extending by one year due to merger. Assumes pricing held constant in nominal terms								

Gosford City Council								
Average Land value \$312,000	2015/16	% of Total	2016/17	% of Total	2017/18	% of Total	2016/17 to 2017/18 \$	2016/17 to 2017/18 %
Ordinary Rates	\$ 952.85	65%	\$ 1,121.55	68%	\$ 1,143.00	61%	\$ 21.45	2%
Special Rate*	\$ 67.04	5%	\$ 71.33	4%	\$ 72.00	4%	\$ 0.67	1%
Domestic Waste**	\$ 443.08	30%	\$ 466.73	28%	\$ 480.00	26%	\$ 13.27	3%
EPSL***	\$ -	0%	\$ -	0%	\$ 180.00	10%	\$ 180.00	100%
Total	\$ 1,462.97		\$ 1,659.61		\$ 1,875.00		\$ 215.39	13%

* Special rates relates to Water Safety and expires in 2018/19

**Domestic Waste Management Charge estimated to increase based on actual historic increases over past 3 years. Prices increase driven by NSW Gov't EPA Levy increases

***EPSL proposed to be introduced from 1 July 2017 - another initiative of the NSW Gov't. Estimate Residential charge based on Victorian system

Gosford Water								
Average Water usage 150kl	2015/16	% of Total	2016/17	% of Total	2017/18*	% of Total	2016/17 to 2017/18 \$	2016/17 to 2017/18 %
Water Service Charge	\$ 173.54	14%	\$ 197.72	15%	\$ 197.72	15%	\$ -	0%
Drainage Service Charge	\$ 113.20	9%	\$ 124.64	9%	\$ 124.64	9%	\$ -	0%
Sewer Service Charge	\$ 641.14	51%	\$ 672.42	50%	\$ 672.42	50%	\$ -	0%
Water Usage	\$ 339.00	27%	\$ 343.50	26%	\$ 343.50	26%	\$ -	0%
Total	\$ 1,266.88		\$ 1,338.28		\$ 1,338.28		\$ -	0%

*IPART pricing determination extending by one year due to merger. Assumes pricing held constant in nominal terms