

# IPART Review of the Local Government Rating System

## Local Government – Issues Paper

April 2016

	Bankstown City Comments	Canterbury City Comments
<i>Taxation principles</i>		
<p>1. Do you agree with our proposed tax principles? If not, why?</p>	<ul style="list-style-type: none"> <li>• In principle, Council supports the proposed tax principles, however there are issues that need to be addressed within those tax principles including;               <ul style="list-style-type: none"> <li>○ Reviewing eligibility for exemptions (refer to questions 10, 11 and 12).</li> <li>○ The concept of equity associated with legislative requirements raised in questions 10 and 11</li> <li>○ The broader issues of rating for properties owned by pensioners (in question 12).</li> <li>○ Exemptions for Commonwealth Lands.</li> <li>○ Equity as applied to minimum rates.</li> <li>○ Hardship and ability to pay.</li> <li>○ The impact on the Valuer General’s (VG) broad valuations in regards to the principles of competitive neutrality and sustainability, particularly across business rates.</li> </ul> </li> </ul>	<p>Canterbury City Council supports Bankstown City Council’s comments.</p>

	<ul style="list-style-type: none"> <li>○ Differentiating how best to determine the method of calculating residential rates (a community focus), compared to business rates (economic focus).</li> <li>● Council also seeks clarity surrounding the definition of 'competitive neutrality'.</li> <li>● Council supports the need to simplify the rating system. Currently, it is highly specialised and cumbersome, with resourcing and educating practitioners an important issue for the future of the sector.</li> </ul>	
<i>Assess the current method for setting rates</i>		
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?	<ul style="list-style-type: none"> <li>● Council supports a move towards a market based (capital improved value) approach across NSW to provide consistency across Local Government Areas (LGAs), and to support the tax principles proposed in section 3 of the Issues Paper.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.
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	<ul style="list-style-type: none"> <li>● Council supports the continued use of the VG's property valuation services as an independent approach to valuation, providing consistency across LGAs.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.

<p>firm (as occurs in Victoria and Tasmania)?</p>		
<p>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>	<ul style="list-style-type: none"> <li>• Council supports the option to apply a base charge up to a maximum 50% base rate as outlined in section 4.2.2. This is in line with the key tax principle of sustainability that is outlined in section 3 of the Issues Paper.</li> <li>• Council should be able to set minimum amounts in anticipation of and/or reflect growth targets in setting its rate structure.</li> <li>• Council does not support the minimum amount that is currently prescribed in the Act. This should be regulated as part of Council's rating structure (revenue policy).</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>
<p>5. What changes should be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide?</p>	<ul style="list-style-type: none"> <li>• Council supports considering the creation of subcategories, as outlined in section 4.3.2 of the Issues Paper.</li> <li>• As a basis, any creation of rating categories and subcategories may be based on the LGA's environmental principles, as contained in their Local Environment Plan or Local Area Plan.</li> <li>• Economic factors, regardless of the introduction of further commercial categories and subcategories, will prevail in the decisions and objectives of businesses to locate themselves in particular LGAs.</li> </ul>	<p>Canterbury City Council agrees with points 1 and 2 of Bankstown City Council's comments, with the additional comments:</p> <ul style="list-style-type: none"> <li>• The current four rating categories works well but a further refinement of the business category would be desirable to allow for more flexibility where community based organisations do not qualify for rate exemption.</li> </ul>

		<p>Rating these properties as businesses is not equitable.</p> <ul style="list-style-type: none"> <li>• If CIV is not recommended as a basis for revenue raising, it may be more equitable to consider a special residential category to differentiate between high density (flat buildings) and single dwelling houses.</li> </ul>
<p>6. Does the current rating system cause any equity and efficiency issues associated with rating burden <b>across</b> communities?</p>	<ul style="list-style-type: none"> <li>• Council recognises the difficulty associated with ensuring consistency across LGAs. It is noted however, that the Integrated Planning and Reporting (IPR) processes of individual councils dictate the objectives that influence the services that councils provide, and the associated rates that are payable to provide that service.</li> </ul>	<p>Canterbury City Council agrees with Bankstown City Council's comments, with the additional comment:</p> <ul style="list-style-type: none"> <li>• Under the current LV rating system, the owners of unit and flat buildings are not contributing a fair share towards the council rates.</li> </ul>
<p>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>	<ul style="list-style-type: none"> <li>• In reference to the three points outlined in section 4.5 of the Issues Paper, although Council does not disagree with the suggestions, Council requests that further information be provided on rate benchmarking as it is important for the mechanisms of the rate benchmarking process to be understood in order to make an informed comment.</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>

	<ul style="list-style-type: none"> <li>• In regards to a special rate variation based on infrastructure backlog, where the backlog is supported by an independent audit process, then councils, in consultation with the community, should be provided the flexibility to increase its rates within parameters set by the State Government, and supported by their IPR process.</li> <li>• In terms of services, where a council satisfies financial industry benchmarks and has earned autonomy, then councils should be able to increase its rates for recurrent services through its IPR process.</li> </ul>	
8. What changes could be made to the rating system to better encourage urban renewal?	<ul style="list-style-type: none"> <li>• The current system, base and minimum rates as well as rating categories, adequately provide councils with flexibility to encourage urban renewal.</li> <li>• Special rates and/or other forms of financing (borrowings) may assist in supporting urban renewal.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.
9. What changes could be made to the rating system to improve councils' management of overdue rates?	<ul style="list-style-type: none"> <li>• Council suggests the following considerations to assist councils in the management of overdue rates; <ul style="list-style-type: none"> <li>○ A broad based state approach through accessing the services of the State Debt Recovery Office.</li> <li>○ Flexibility to impose outstanding debt amounts to the mortgage of the homeowner as is the case in New Zealand.</li> <li>○ Sharing of information between the State and LGAs through a centralised database information system, to assist in identifying rate payers through the</li> </ul> </li> </ul>	<p>Canterbury City Council agrees with Bankstown City Council's comments, with the additional comment:</p> <ul style="list-style-type: none"> <li>• Where Crown Land is leased, the Crown should be liable for rates instead on the lessee. This would reduce Councils exposure to losses</li> </ul>

	<p>collection of specific compulsory information (e.g. valid email address, mobile number) at the point of property sale. (Centralised databases are a key component of recommendations in IPART's review of reporting and compliance on Local Government.)</p>	<p>due to bankruptcy of lessees.</p>
<p><i>Assessing exemptions, concessions and rebates</i></p>		
<p>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>	<ul style="list-style-type: none"> <li>• Council supports the position that should land be used for residential purposes (irrespective of who owns the land), it should be rated accordingly.</li> <li>• Council supports the options raised in section 5.1.2 of the Issues Paper, specifically in regards to; <ul style="list-style-type: none"> <li>○ Replacing exemptions with rebates, especially in regards to land used for religious purposes and schools.</li> <li>○ Narrowing the exemption in relation to Crown Land, and national parks and conservation areas (i.e. in general Crown Land would not be rateable, but should Crown Land (including land located in National Parks) be used for residential or commercial purposes it should be rated accordingly).</li> </ul> </li> <li>• Alternatively, the introduction of an annual charge (and/or rating category) for schools and churches on an area basis could be considered. The charging mechanisms that would be applied could be similar to the current legislative</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>

	requirements for the stormwater levy, using land area as the basis.	
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?	<ul style="list-style-type: none"> <li>• Councils currently pay all required indirect taxes, e.g. Fire Board Levy.</li> <li>• Given the level of indirect costs to councils of servicing exempt bodies (churches and schools), such as traffic management and regulatory functions, this issue should not be looked at in isolation.</li> <li>• The payment of rates to offset these additional indirect costs is currently paid by the resident, which goes to the issue of equity.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.
12. What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?	<ul style="list-style-type: none"> <li>• Council proposes improvements to the current pensioner concession scheme through; <ul style="list-style-type: none"> <li>○ The State Government assuming 100% of the value of the relief, as is current practice in all other States and Territories.</li> <li>○ Centralisation of the rebate through the Federal Government, i.e. Centrelink. That is, rather than eligible pensioners needing to apply to Council, any rebate would be granted by Centrelink using an inter-governmental data matching process.</li> <li>○ The rebate only reflect the State contribution, and consideration be given to reducing the interest costs to a current market based interest rate to assist in cases of hardship. Consideration should</li> </ul> </li> </ul>	Canterbury City Council supports Bankstown City Council's comments.

	also be given to reviewing Section 712 of the Local Government Act 1993.	
<i>Freezing existing rate paths for newly merged councils</i>		
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?	<ul style="list-style-type: none"> <li>• Council supports maintaining its proposed revenue policy as set in its 2016/17 Operational Plan.</li> <li>• Council should use the four year period to firstly apply a consistent valuation across the merged areas, and then transition the rating structure. Council supports a single valuation cycle for the four year period, to remove any major fluctuation.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.
14. Within the rate path freeze period, should merged councils be permitted to apply for new special variations: <ul style="list-style-type: none"> <li>– For Crown Land added to the rating base?</li> <li>– To recover amounts that are 'above the cap' on development contributions set under the</li> </ul>	<ul style="list-style-type: none"> <li>• Council supports all three application scenarios for new special variations.</li> </ul>	Canterbury City Council agrees with Bankstown City Council's comments, with the additional comment: <ul style="list-style-type: none"> <li>• Councils should be able to apply for any special rate variations previously included in its long term financial plan and or Fit for the Future submissions.</li> </ul>



<p><i>Environmental Planning and Assessment Act 1979?</i></p> <ul style="list-style-type: none"> <li>- To fund new infrastructure projects by levying a special rate?</li> </ul>		
<p>15. Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?</p>	<ul style="list-style-type: none"> <li>• Council supports new special variations as specified in section 6.1.1 of the Issues Paper, as well as in exceptional circumstances where adequate justification has been provided.</li> </ul>	<p>Canterbury City Council agrees with Bankstown City Council's comments, with the additional comment:</p> <ul style="list-style-type: none"> <li>• Councils should be able to apply for any special rate variations previously included in its long term financial plan and or Fit for the Future submissions.</li> </ul>
<p>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)?</p>	<ul style="list-style-type: none"> <li>• Should the State Government implement the freeze as suggested on the basis of section 6.1 of the Issues Paper, Council would supports this proposal.</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>

<p>17. During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either:</p> <ul style="list-style-type: none"> <li>– relative changes in the total land value of a rating category against other categories within the pre-merger council area, or</li> <li>– the rate peg (adjusted for any permitted special variations)?</li> </ul>	<ul style="list-style-type: none"> <li>• Council supports a transitional policy which allows councils to gradually merge their rating database systems, and thereby address the core elements of the tax principle of equity (as outlined in section 3 of the Issues Paper); which would form part of the IPR process. For example, varying the proportion of income from each rating category and setting minimum rates and/or base amounts within a council's total yield.</li> </ul>	<p>Canterbury City Council believe the second option to be more appropriate.</p>
<p>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?</p>	<ul style="list-style-type: none"> <li>• Councils should be provided discretion to deal with issues of the 'ceiling'. This issue should be considered in the broader context of the asset management strategies that the new council will need to take into account to address backlog issues and/or to streamline services. This issue should be considered in the context of its IPR framework.</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>
<p>19. What other discretions should merged councils be given in setting rates during the rate freeze period?</p>	<ul style="list-style-type: none"> <li>• Please refer to responses for questions 13 and 17.</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>

<p>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?</p>	<ul style="list-style-type: none"> <li>• Council supports an option which provides a flexible approach to transitioning our rating structures.</li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>
<p><i>Establishing new, equitable rates after the 4-year freeze</i></p>		
<p>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 <b>within a centre of population</b> be changed or removed?</p>	<ul style="list-style-type: none"> <li>• Council supports changes to be made to the LG Act in the following areas; <ul style="list-style-type: none"> <li>○ The VG completes a valuation within three months after the proclamation, and allow councils to develop a transitional policy for the start of the merger period in 2017/18.</li> <li>○ A transitional plan is implemented for the first term of the newly elected council (to include a gradual merging of the rating system). At the end of the merge period/first council term, local government elections are held and the new entity is ready for a second term of council with its new rating structure.</li> </ul> </li> </ul>	<p>Canterbury City Council supports Bankstown City Council's comments.</p>

	<ul style="list-style-type: none"> <li>• The transitional rating policy would also consider the issue of a centre of population, in order to maintain the tax principles as proposed in section 3 of the Issues Paper.</li> </ul>	
22. Should approved special variation for pre-merger councils be included in the revenue base of the merged council following the 4-year rate path freeze?	<ul style="list-style-type: none"> <li>• Council supports this position given that the special rate variation is tied to an outcome that is still expected by the community.</li> </ul>	Canterbury City Council supports Bankstown City Council's comments.
23. What other rating issues might arise for merged councils after the 4-year rate path freeze period expires?	<p>Although the IPART Issues Paper has requested comments on specific issues, Council would also like to raise the following issues as covered under section d) of the Terms of Reference (i.e. any other matter IPART considers relevant) as further examples of improvements to the Rating legislation.</p> <ul style="list-style-type: none"> <li>• Consideration to be given to quarterly billing. Currently, Councils bill annually and collect quarterly and should be able to choose whether to levy and issue rates on an annual or quarterly basis, as is practice in other states and also with Sydney Water. This will assist with ratepayers understanding of the rebate, especially for pensioners whose pensioner rate rebates is applied on a quarterly basis. <ul style="list-style-type: none"> <li>○ For Councils that are developing quickly and located in high growth areas, quarterly billing would allow them to maximise their rate revenue, e.g. a large property which was rated as one property on 1 July and was later subdivided and sold in August,</li> </ul> </li> </ul>	Canterbury City Council supports Bankstown City Council's comments.

	<p>the new properties would commence making a contribution to the Council revenue from the commencement of the next quarter; ensuring all ratepayers were making a contribution to the services being used.</p> <ul style="list-style-type: none"> <li>• Should unimproved land value be rejected as the basis for values, then rating “by occupation” rather than title should be considered. This would ensure that properties such as dual occupancies, un-strata titled residential flats, granny flats, etc would be captured more equitably within the rating structure.</li> <li>• Deletion of sections covering postponed rates (which could be replaced by the VG valuing for actual use rather than potential use) and discounts should be considered.</li> <li>• Allowing other property related sundry debts (e.g. Section 94A charges) to be made as a charge against the land, as debts such as land clearing costs incurred by Council, currently are.</li> <li>• Allowing Councils to add administrative costs specific to certain user charges could be considered. For example, a charge could be added to produce a paper rate/instalment notice rather than sending out an inexpensive electronic notice version. This is particularly relevant given the increases in postage costs, coupled with the slower delivery standards imposed by Australia Post.</li> </ul>	
--	--	--

	<ul style="list-style-type: none"><li>• Ensure that the rating system is retained as being a charge against the land.</li><li>• The current system of rating is highly specialised and cumbersome, and needs to be simplified to ensure legislative and system efficiency. In removing the heavily prescribed aspects of the rating system that exists currently in the Local Government Act to the Regulations, this will simplify the rating system.</li></ul>	
--	--	--