

CITY OF RYDE SUBMISSION

IPART'S

**REVIEW OF THE LOCAL
GOVERNMENT RATING SYSTEM**

**LOCAL GOVERNMENT ISSUES
PAPER**

APRIL 2016

The current rating system in NSW

The Issues Paper provides an overview of the current rating system.

As detailed under 2.4 Rating Categories, the current requirement is that 'residential rates for all properties within a centre of population are calculated the same way'.

It is recommended that, given the Government's intent to maintain each Council's rating structure over the next 4 years on the Merger Proposals, new sub-categories for each rating category will need to be introduced to support this arrangement.

It is also recommended that the definition for a centre of population be reviewed to ensure the definition supports the introduction of sub-categories.

Under Section 2.5, the paper provides an overview of the 'rate peg and special rate process'.

The City of Ryde's policy position is that it opposes rate pegging and also takes the opportunity to reinforce the point that councils should not have to be subjected to a Special Rate Variation process.

Councils are accountable to their communities and after undertaking extensive community consultation on a proposed SRV, the Council itself should be the only determining body on whether the SRV should be approved.

Notwithstanding Council's position on rate pegging and the SRV process, Council has provided its comments on this review, to help achieve the best outcome for communities across NSW.

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

City of Ryde generally agrees with IPART's interpretation on the proposed tax principles.

Council agrees that ratepayers should contribute to the funding of public goods according to their ability to pay based on the vertical equity principle. This requires those who are better off to pay more, proportional to the taxpayer's means.

Question 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?

In responding to this question, it needs to be noted that each Council's rating structure determines what proportion of rate income is derived from each rating category and therefore this has a minimising effect on the impact of valuations and the valuation method.

In noting the above point, the City of Ryde acknowledges that the Capital Improved Value (CIV) is seen to be more closely associated with 'the ability to pay' principle. However, if it was adopted for all properties, it would see higher Valuer General's costs being imposed on Local Government, together with being more complex than the current system.

Also, for NSW with rate pegging, there needs to be consideration on the benefits to be gained from a change in valuation methodology. The change would cause substantial movements in the rates to be paid from properties within the same rating category, with no real increase in Council's overall rate income. Therefore, the effort to change the current system is not supported due to limited benefits to Councils and adding more complexity to the rating system. Such a system would also cause significant concerns for ratepayers and would generate many enquiries and require Councils to undertake substantial and ongoing community consultation with their communities.

However, there are inequities in respect of the rates paid by owners of apartments.

On this issue, not only does the valuation methodology need to be addressed but also the removal of the maximum/minimum rate, as detailed later in this submission.

Council therefore agrees with the Panel, that there needs to be a change to the rating of apartments. Council supports splitting the residential category between detached dwellings and apartments and mandating the use of CIV for apartments. It is believed this system is manageable and is required to be made to correct the current inequity with rates paid between ratepayers of detached dwellings and apartments.

IPART should examine the Queensland rating system in regard to the rating treatment of apartments. There are many aspects of that State's system which could be easily transferred to NSW.

Therefore Council recommends;

1. Maintaining consistency across NSW Local Government by mandating the use of UV for all properties, with the exception of CIV for apartments; and
2. Splitting the residential category between detached dwellings and apartments.

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

Council supports maintaining consistency and transparency of valuation services and for the Valuer-General to continue to provide valuations to all Councils in NSW.

The key point to reinforce on this matter, is to ensure the Valuer General (VG) provides this service at competitive and reasonable rates. As this service is geared to Council’s rates income, it is seen to be appropriate that future increases to the VG’s service be pegged to the Minister’s rate peg amount.

Question 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?

Council believes that the current framework for the use of base amounts up to a maximum of 50% of the total rates from each category is appropriate and should not change. This provision allows appropriate scope for Councils to set a reasonable base charge in each rating category.

However, in respect of the current restriction of the maximum minimum rate set by the Minister, it is recommended that this cap be removed and that Councils be allowed to set a maximum amount of 50% of total rates from each category that can be raised from minimum rates. This mechanism will maintain control on the size of the minimum rate, with the balance of rates being determined by valuations.

The setting of the minimum rate should be at Council’s discretion and it is proposed that Councils be required to set a total percentage of rate income to be achieved from minimum rates. It is suggested that this be up to a maximum of 50%, therefore Councils would in any rating category, not have either their minimum rate or base charge generating more than 50% of rate income, for each rating category.

Therefore, Council recommends the following;

1. Remove the maximum minimum rate; and

2. The maximum rate income from minimum rates for each rating category cannot exceed 50 % of the total rate income for the rating category, similar to the current provisions for a base charge.

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

In response to the State Government's proposal to impose a rate path freeze around Council's current rating structures, this will require legislative changes to allow more subcategories within each rating category to exist.

To achieve this outcome will require 'Centres of Population' to be redefined, to enable a merged Council to maintain each member Council's rating structures.

Council also supports the option in the Issues Paper to split the residential category between detached housing and apartment properties, for the reasons provided earlier in this submission. This will then support applying CIV valuation methodology to all apartment properties.

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

Generally, the amount Local Government across NSW depends on from rate income, is too high and is not sustainable, especially in country areas where there are also higher levels of unemployment. Local Government and its ratepayers is carrying the burden of providing services and facilities for the broader community, especially those users that come from outside their Local Government Area.

This is especially the case where a Council has facilities that attract regional, state or national use. There is no taxation mechanism available to Local Government, to capture this use and receive any benefits to assist Council in the provision of these services and facilities.

For many years, the City of Ryde and Local Government in general, has been stating its case for a share of the GST.

The City of Ryde's position is that there are rating burden inequities across communities, mainly caused by the State Government's rate cap and a lack of an equitable distribution of taxes collected from the GST back to Local Government.

Even though this is not the subject of this review, the subject of the reciprocal taxation/financial arrangements between all levels of Government should be a consideration for a future review.

Question 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 City of Ryde acknowledges the State Government’s position to maintain rate pegging.

However, as stated earlier, the City of Ryde opposes rate pegging on the basis that each Council is accountable to their community and to make decisions in the best interests of their communities. For as long as rate pegging continues to exist in NSW, IPART will continue to receive numerous applications for SRVs each year.

The City of Ryde emphasises that the required consultation process undertaken by Councils with their communities in considering a SRV is not only essential, but very rewarding from Council’s perspective. It requires each Council to have the conversation with their ratepayers and justify/explain the reasons for the SRV. However, the City of Ryde does not believe the final approval needs to be with the Minister for Local Government, based on IPART’s assessment. This determination should be maintained at the local Council level.

Therefore, Council recommends the following:

1. The current rate pegging arrangements, when combined with ongoing cost-shifting from the NSW government, creates a financially unsustainable environment for local councils, especially those located in rural and regional areas of NSW.
2. Removal of the rate pegging arrangement will enable the SRV process to be abolished, or at the very least, severely restricted for use only in highly unique or extenuating circumstances.
3. Should the rate pegging and SRV process continue to exist, Councils should have the authority to finalise any decision to proceed with an SRV after following a regulated community consultation and engagement process.

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

Council has encouraged the urban renewal of its area and has well exceeded the targets set for the City of Ryde in the Sydney Metropolitan Strategy.

It should be noted that the Issues Paper’s reference to Section 495 on Council’s ability to levy special rates needs to acknowledge that any special rate would have to remain within the Council’s Permissible Yield (rate peg), unless it had an approved Special Rating Variation.

The City of Ryde recommends that this is an area to be further explored, in how the rating system can further encourage urban renewal.

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

In general, Councils are considerate of individuals financial position and have in place Financial Hardship policies that support Councils accepting arrangements from ratepayers in accordance with Section 564.

It is recommended to encourage these principles, that the legislation be amended to require that legal action for the recovery of rates cannot be taken unless the provisions of Section 564 have been considered by Council.

Question 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 exemptions of land uses from all rates is a complex area, noting that they have been in place for many years.

As a principle, where an organisation uses any part of the land that is exempt from rates, for any retail or production of products or services for sale purposes, there should be some mechanism to ensure they contribute towards the rates applicable to that property.

This issue also raises the same issue made earlier in the submission on Council's receiving a fair share of taxation, mainly from the GST, given that a number of exempt properties are either under the ownership of the State or Federal Government.

In many cases, the land shown as exempt, like schools, universities and churches generate substantial traffic and various other activities within a Local Government area that results in Councils expending funds in areas of road safety, traffic, community safety, public infrastructure works, sports field provision and maintenance, etc to support the uses on the exempt properties.

However, while Council supports these activities, it receives no rate income or contributions from these land owners.

A practice that previously was used, allowed an organisation exempt from rates such as a university, church etc to pay a voluntary amount as an 'ex gratia payment' in lieu of rates. The amount paid was an agreed amount between the parties. However, today payments of these kind no longer exist. Due to the level of Council expenditure in and around school and university precincts, it is reasonable that contributions from those institutions should be enabled, to assist Council in covering its costs in servicing those institutions.

Therefore, on this issue the City of Ryde recommends;

1. That where rate exempt land is used to sell or produce products or services for sale, that contributions equivalent to at least 50% of rates that would have applied to that portion of land, be paid to Council.
2. That universities, schools and churches be required to pay a contribution towards rates, equivalent to at least 50% of the rates that would have applied to the total land value of the university, school or church.

Question 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?

For the reasons stated in this submission, while Councils receive certain exemptions from certain State taxes, it also is prevented or does not receive a fair contribution from Governments in respect of taxes. Cost shifting by the NSW government also extinguishes any benefit that may be obtained from these exemptions.

However, while the outcome of this issue is likely to maintain the 'status quo', the City of Ryde recommends that the matter of the reciprocal taxation/financial arrangements between all levels of Government be the subject of a future review.

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

Concessions for pensioners have not increased from the current amount of \$250 since 1989 and the reimbursement to Councils has remained at 50% since 1982. All other states reimburse their Councils 100% of the pensioner rebate granted.

Therefore, the City of Ryde recommends that Councils be reimbursed 100% of the amount rebated.

Question 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?

The City of Ryde agrees with IPART's interpretation of the State Government's intended rate path freeze policy.

Question 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?**

The City of Ryde agrees that the merged Council be permitted to apply for an SRV for the 3 reasons detailed in the Issues Paper.

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

Yes, there may be fundamental issues with the merged entities’ overall financial position and ability to maintain services to the standards required by their community.

Where this is the case and the community supports an application for an SRV, then this should be permitted under the legislation.

Question 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)?

On the basis that the current legislation remains in respect of the base charge and maximum minimum rate, the City of Ryde agrees that base amounts and minimum rates should only increase by the rate peg during the rate path period freeze.

However, as detailed in this submission, the City of Ryde is seeking for the minimum maximum rate to be removed.

Question 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)?**

The City of Ryde currently has a rates structure in place where residential ratepayers pay 70% of Council’s total rate income even though they represent 95% of ratable assessments. Businesses, which represent 5% of ratable assessments, pay 30% of Council’s total rate income.

Council therefore disagrees with the two alternatives proposed by the Issues Paper and recommends that Councils should be able to maintain the integrity of the pre-merger rating structure in maintaining the relativity between categories.

Question 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?

Council agrees that councils should be able to set the rates for any category at any level up to the ceiling of the rate path freeze policy.

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

Depending on the changes that come from the consideration of submissions to this Issues Paper, Councils will have compliance issues with maintaining increases within each rating category if general revaluations are allowed to occur during the freeze period.

Therefore, it is recommended that these variations above or below the rate peg amount be permitted during the freeze period. If not, the other alternative is to postpone general revaluations throughout the rate freeze period.

Question 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 to implement the rate path freeze policy?

The City of Ryde’s preferred option is implementing the rate path freeze policy by amending Chapter 15 of the Local Government Act and Local Government Regulation. This process is more transparent and provides greater certainty on the changes.

If IPART’s preferred option of providing the Minister for Local Government with a new instrument making power is supported, the City of Ryde raises concerns on the transparency, involvement and opportunity for Councils to provide their feedback on provisions within the instrument or Regulation, prior to it being enacted.

Therefore, Council recommends providing a consultation component within any instrument making power.

Question 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?

The City of Ryde supports changes to the Local Government Act that will allow a merged Council to transition to a new equitable rating system.

Once all valuations of each pre-Merger Council are combined into one database to set a residential rate within a centre of population, it is anticipated there will be significant variations between individual rating assessments.

Therefore, it is believed that the legislation needs to provide for a safety net, that when transitioning to the new system, changes are restricted to 7.5% per year (5% for a four year period is not regarded as sufficiently high enough to allow the transition process).

The City of Ryde also recommends, on the basis that the protection mechanism is supported, that a clear definition of a 'centre of population' will allow multiple centres of population within the new merged entities' Local Government Area. This provision will provide the opportunity to restore the rating system back to a single residential rate on or before year 9 of the merged entity.

Therefore, providing a revised definition of a 'centre of population', is critical in supporting a successful transition process.

Therefore, the City of Ryde recommends:

1. Establishing a rate increase safety net, restricting increases on individual assessments to less than or equal to 7.5% in any one year, throughout a 4 year transition process in establishing the same residential rate for each centre of population by year 9 of the merged entity; and
2. The need to redefine 'centre of population' to provide the merged entity the ability to differentiate between residential/business areas of the merged entity, throughout the transition period to a new system to be established by year 9 of the merged entity.

Question 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?

Approved special rate variations that are still current for pre-merger Councils should be included in the revenue base of the merged Council, following the 4 year rate path freeze.

This recognises that the approvals granted for the SRVs, were based on the SRVs being ongoing and built into Council's rate revenue base and Long Term Financial Plan.

If any SRVs have not been renewed during the rate path freeze period, these would not be included and it would be an issue for the new entity to assess.

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

There will be significant issues for merged councils after the rate path freeze period, with some of these issues being;

- a. Valuation movements as a result of general re-valuations of the council area;
- b. Changes in valuation methodology and any unforeseen impacts on ratepayers;
- c. There may be significant community concerns leading up to and during the fourth year of the freeze about the future rating policy of the merged council. It is anticipated that this community concern will require Councils to spend significant amounts of

funds and time on community consultation and communications, in explaining the likely impact on ratepayers.

For further enquiries, please contact Roy Newsome, Acting Director Corporate and Community Services on [REDACTED]