

## IPART Issues Paper - Review of Local Government Rating System

No	Issue on which comment is sought	Pages	Comments
	<b>Taxation principles</b>	<b>13 -15</b>	
1	Do you agree with our proposed tax principles? If not, why?	15	Marrickville Council agrees with the proposed tax principles.
	<b>Assessing the current method for setting rates</b>	<b>16 - 26</b>	
2	What valuation method should be used as the basis for determining the ad valorem amounts in council rates? Should councils be given more choice in selecting a valuation method, as occurs in other states, or should a valuation method continue to be mandated?	20	<p>Marrickville Council recommends the continuing use of Unimproved Value (UV) methodology and this should be mandated as the only option until the economic and social benefits demonstrate otherwise. Although there are flaws with the current methodology, these flaws could be addressed through addressing rating structures rather than changing valuation methodologies. The primary issue with changing to either a Capital Improved Value (CIV) or Annual Rental Value (ARV) methodology would be the initial setup costs associated and ongoing costs in managing these revised process changes when implementing a new system.</p> <p>If the CIV methodology were adopted, it would require a large amount of development related information collection (initially and on an ongoing basis) to ensure that rates are levied correctly. This would result in higher administration costs for Councils to manage their internal systems and in which the VG which will ultimately be pass on to Council in additional costs. As the current Land Tax regime is on the UV methodology, a change would require two valuation methods to be used unless the Land tax Regime was brought into line. Council acknowledges that there may be some benefits relating to equitable rate distribution if this was implemented but suggests that rating structures (such as adjusting the cap for base rates) who be economically beneficial using whole of life costing.</p> <p>At the public meeting, it was noted that the representative from the VG's office stated that there is no existing system in place to easily obtain capital improvement information and a large investment in process and infrastructure would be required to make it work seamlessly.</p>

			Further to this, it is suggested that IPART should consider the social and economic benefits of shifting to a new valuation methodology based on the experiences of the Tasmanian or Victorian models before recommending a change.
3	Should councils be required to use the Valuer General's property valuation services, or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania)?	20	<p>Marrickville Council recommends that the VG continues its monopoly of Local Government valuations on the basis that it operates at arm's length, provides a single point of truth and that it is administratively streamlined. Private valuers would allow for potential discrepancies in valuations (depending on the valuer). There would be an additional administrative burden on Councils to procure these services. Appeals may then need to be managed directly by Councils adding a further administrative burden.</p> <p>Notwithstanding the fact the Council endorses a centralised approach of the VGs managing the valuation process, there are some issues Council has experienced the with the valuation process of certain areas that need to be reconsidered by the VGs. When valuing a commercial property, the VG should consider the profitability of a land parcel where the current methodology does not is not an accurate depiction of land property growth in a certain area. An example of this is currently occurring in the Marrickville Local Government Area is that Commonwealth Land (that is currently being leased for commercial purpose) had an average UV growth of approximately 10% over the past 3 years where the UV of surrounding lands had growth almost triple that amount. These discrepancies in valuation processes potentially undermine the fundamentals of the taxation principles (mentioned earlier), in particular those relating to inequity and competitive neutrality</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?	22	<p>Marrickville Council would like to see the following changes:</p> <p><b>Minimum amounts</b> – Councils should have the power to determine and increase the minimum rate without having to formally apply through the special rate variation process determined IPART. Council can currently alter its rating mix, but cannot increase its minimum rates more than the allowable rating peg. With the amount of multi-unit dwellings increasing in the inner west, Council should be able to adjust its minimum rates as it see fits to ensure an equitable contribution is made by all ratepayers without the determination of IPART.</p> <p><b>Base amounts</b> – Although Marrickville Council does not use the base amount methodology, giving Council the capacity to increase the maximum base from 50% that would see a relatively equitable distribution</p>

			of rates across all rating categories. If the cap was increased to 80% (arbitrarily decided), the remaining 20% of rates would be levied on an ad valorem basis to the 20% highest valued land holders and ensure that multi-unit dwellings contribute more equitably.
5	What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide?	23	Rating categories and sub categories are currently sufficient for Marrickville Council. If more rating categories or sub categories were introduced, it is imperative that the criteria to determine a category or sub category would have to be clear to ensure that there is no confusion for ratepayers. A separate residential category for multi-unit dwellings would overcome the current problem with the control on minimum rates and could be considered. The Business Category can currently be subdivided by Centre of Activity and no change to this is considered necessary.
6	Does the current rating system cause any equity and efficiency issues associated with the rating burden <b>across</b> communities?	24	Within the Marrickville Council there are perceptions that multi-unit dwellings do not pay their fair share in rates relative to those who live in stand-alone dwellings or businesses.
7	What changes could be made to current rate pegging arrangements to improve the rating system, and, in particular, to better streamline the special variation process?	25	<p>The Local Government Cost index has some major flaws in how it calculates the rate peg. Examples of this include:</p> <ul style="list-style-type: none"> <li>- Using the State's public sector wage index where Local Government has its own award base and this has varied significantly from the NSW public sector index adding a significant productivity impact on the rate peg limitation.</li> <li>- Using Information Technology lease costs to determine the cost of ICT based drivers, where the majority of ICT costs are application based.</li> </ul> <p>A suggestion to IPART to assist in determining the rate peg is that it samples a number of Councils and based on core services, speak to their suppliers of key services (i.e. ICT applications, Civil infrastructure companies,) to determine how much costs are actually increasing. The current methodology of cost indexing is not relevant and the cost drivers do not relate to Local Government expenditure.</p> <p>Rate pegging does not effectively deal with growth in the number of ratepayers and the additional burden it has on fixed services. Where there is a significant increase in the number of residential properties each year, there is an increased demand on services which means services need to be expanded to cater for the demand. The current rate peg does not recognise the actual increase required to cover additional servicing costs</p>

			that the increased population requires.
8	What changes could be made to the rating system to better encourage urban renewal?	26	Council funds part of urban renewal through various capital grants and contributions. These grants and contributions are non-recurring sources of revenue that are often restricted to be spent on embellishments works. Once the embellishment works are complete, Councils are required to maintain embellished works that sit within the public domain, in particular maintaining service levels of infrastructure built to ensure that assets or services are functioning correctly. Currently, Council has no capacity to charge for these additional services and greater flexibility is required for Councils to charge a levy to ensure urban precincts are maintained to a satisfactory level. Allowing Councils to vary their permissible yield outside of a SRV process will allow Councils to guarantee a service levels for maintenance the maintenance of public domain assets and service in newly developed urban precincts that will ultimately create a positive feel for the community.
9	What changes could be made to the rating system to improve councils' management of overdue rates?	26	The alignment of overdue rate and charges should be increased to be in line with the commercial charges that financial institutions charge on their credit cards. This would ensure that ratepayers prioritise their debt in line with their credit card debts.  Marrickville Council proposes no changes to the current arrangements relating to debt recovery and is satisfied with current arrangements.
	<b>Assessing exemptions, concessions and rebates</b>	<b>27 - 35</b>	
10	Are the land uses currently exempt from paying council rates appropriate? If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption?	33	Marrickville Council's has no issues with the current position of exempt rating categories and suggests that some of the definitions need to become more prescriptive, in particular regarding churches and the prime function of a charity. Council also suggests that additional scrutiny is required regarding the commercial revenue generating activities that occur on non-rateable properties. Council's should be able to partly rate a non-rateable property if it is generating commercial revenue even if it is held primarily for charitable purposes using the same process for mixed developments. Currently Council forgoes over \$3 million in revenue per annum due to current exemptions.
11	To what extent should the exemptions from certain state taxes (such as payroll tax) that councils receive be considered in a review of the exemptions for certain categories of ratepayers?	33	The current exemptions should be maintained and no costs further costs should be shifted from the State Government onto Local Government. This would add an administrative burden to administer which would be passed on to ratepayers. The cost of payroll tax to Marrickville Council

			would be approximately \$2.8 million per annum.  All increases in State Government contributions that are paid by Councils should be capped to the rate peg.
12	What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?	35	The concessions for eligible ratepayers should be determined and fully funded by either the Federal or NSW Government. The rebate should be increased in line with movement in the Consumer Price Index (CPI).
	<b>Freezing existing rate paths for newly merged councils</b>	<b>36 - 44</b>	
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?	36	Yes; However, this will simply make the reality that residential rates will increase for some ratepayers simply because land values in merger-partner Councils are lower than theirs. The freeze is simply aimed to disguise the impact of mergers.
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 <i>Environmental Planning and Assessment Act 1979</i>?</li> <li>- To fund new infrastructure projects by levying a special rate?</li> </ul>	39	Crown Land – Yes; Council should be able to be permitted to apply for new special variations as the revenue to service the additional demand generated by the additional demand that the Crown Land may generate.  Development Cap – Yes; The Development Cap has not been indexed since its introduction. At a minimum, the State Government should consider indexing the cap with inflation. Council's position on the cap, in particular in the midst of a property boom, is that the cap should be removed altogether and be allowed to be calculated based on actual costs of development.  New Infrastructure Projects – If Council has consulted extensively in building its new Community Strategic plan, and there is evidence that ratepayers are happy to pay for infrastructure related services, Councils should be allowed to use the Special Rate variation process to ensure the community's needs are serviced and not deferred until after the freeze period.
15	Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?	39	If Council has consulted extensively in building its new Community Strategic plan, and there is evidence that ratepayers are happy to pay for non-infrastructure related services, Councils should be allowed to use the Special Rate variation process to ensure the community's needs are serviced and not deferred until after the freeze period. This will be particularly important where there are significant disparities between service levels across merger parties.

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)?	41	No. Not allowing Councils to increase their base and minimums each year will cause a compounding affect for those Councils who will seek a variation when the rates freeze expires. At that point in time, Councils will be seeking relatively larger variations to their rate base which will cause ratepayer angst.
17	During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either: <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>	41	Yes. Council under the current legislation is within its rights able to move the burden between rating categories. This should continue during the proposed rate freeze period. A merged Council may wish to use the freeze period to begin to align the proportion of the rates burden create by the old rate categories from the previous Council areas.  Issues arise where the actual use of a property changes. For example where a number of commercial properties become residential. The relative funding proportions of each rating category should change to match this move. Alternatively, an adjustment of the rate in the dollar to ensure the same level of contribution is received from each rate category would be required.
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?	41	No; The rate freeze should not fetter the discretion to shift the rate burden between rating categories.
19	What other discretions should merged councils be given in setting rates during the rate freeze period?	41	Councils should retain all existing discretions, and in addition, should not be tied to the rate peg during or after the proposed freeze 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?	44	Council disagrees with rate freeze policy; IPART's proposal for a new ministerial instrument is an acceptable. It first preference would be to deal with this via the proclamation to guarantee it is not extended beyond the four years past the date of proclamation.
	<b>Establishing new, equitable rates after the 4-year freeze</b>	<b>45 - 49</b>	
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?	48	Yes. As mentioned in pervious responses there is room to improve the legislations and regulations to make the rating system fairer and transparent. As there are a number of different rating methodologies, the State Government should consider streamlining these to ensure that Councils rate in a similar manner (i.e. either have minimums or base values not both). This will ensure consistency across the Local Government industry and a consistent method of taxing ratepayers regardless of where they live. In saying this, the requirement for the same residential rate should not be removed as it creates different classes of ratepayers that may promote inequity and social divisions.

<b>22</b>	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?	49	Yes; Each of the Councils has an established rate base for 2016/17 and any special variations approved should be carried through the freeze period.
<b>23</b>	What other rating issues might arise for merged councils after the 4-year rate path freeze period expires?	49	The valuation cycle needs to be unified to ensure that there is no rating discrimination between pre-merger entities when a new rating structure is implemented. Council systems will need to be unified and valuations years aligned.