



10 May 2016

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

Dear Dr Boxall

Subject: Submission on Review of Local Government Rating System

Thank you for the opportunity to comment on your *Review of the Local Government Rating System Issues Paper*. At its meeting of 9 May 2016, Lake Macquarie City Council resolved to make this submission to you on the matter.

Background on Lake Macquarie City Council's Rating Structure

Lake Macquarie City Council is the fifth largest council in NSW by population. Council currently levies rates on 81,458 properties, which are assessed in the four rating categories currently available (Table 1). Growth in the number of rate assessments is approximately 1.0% per annum. Council does not currently have any sub categories of the ordinary rate, or any special rates.

Table 1 – Distribution of Lake Macquarie City Council Rates

Rate Category	Number of Assessments
Residential	77,725
Business	3,668
Farmland	47
Mining	18
Total	81,458

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"Quality Lifestyle"

Council has a large pensioner population, granting rate rebates valued at \$4,450,000 in 2015/16.

There are currently 660 rate exempt properties in the City (excluding Council owned properties). The property value of these exempt properties is currently \$314,637,751. Council estimates the forgone revenue from rate exemptions for these properties (based on the Business rate) at \$3,850,000 for 2015/16. The Crown, Aboriginal Land Councils, charities and public benevolent institutions, educational institutions and religious organisations own the majority of rate exempt properties.

Response to Specific Issues Raised in the Issues Paper

Please find below Council's response to the specific questions you raise in the Issues Paper.

Taxation principles

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

Yes. Council supports, in general terms, application of the taxation principles of efficiency, equity, simplicity, sustainability and competitive neutrality to assess the rating system. However, it is not clear how IPART intends to apply these principles to the task at hand. For example, will a multi-criteria assessment process be applied that seeks to optimise the outcome against all five criteria? Will some criteria be weighted more highly than others? How will each criterion be measured? It would be useful if IPART could describe in its draft report the methodology it has applied to assess rating options against these taxation principles. In particular, it would be useful to describe how preferred approaches will be identified where the principles are in competition with each other, and to recognise that a ratepayer's capacity to pay may limit the applicability of a system that otherwise has higher benefit under the proposed taxation principles.

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?

Council is of the view that the method of setting rates is relatively immaterial in circumstances where rates are capped. Removal of the rate cap in NSW to return this State to the same standing as other Australian jurisdictions would provide councils with greater flexibility to deliver services that meet community expectations and willingness to pay.

Regardless of whether rates continue to be capped in NSW, Council supports application of a common system for determination of individual rates (such as applies in NSW and QLD at present) rather than a variable system (as applied in VIC, SA, WA and TAS). Application of a common system reduces confusion for ratepayers, particularly those with landholdings in more than one local government area (LGA).

Detailed modelling of the cost to produce and maintain a capital improved value (CIV) database and the impact of CIV on the development industry, compared to the current unimproved value (UV) method, is necessary to determine the relative merits of the two methods.

In the absence of that information, Council does not see a compelling reason to change from UV to CIV, particularly as the Valuer General has identified significant technical barriers to the application of CIV in NSW (Simon Gilkes, pers. comm.)

Council acknowledges the equity issues around rating of multi-unit dwellings, but considers that these issues can be better addressed through the use of higher base amounts (see response to Question 4) and introduction of a wider range of rating sub-categories (see response to Question 5).

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)?*

The current arrangement whereby the Office of the Valuer General estimates UV every three years has the benefit of being perceived as independent from local government. This benefit may be eroded by the introduction of private property valuation services.

A disadvantage of the current system is that the Office of the Valuer General is perceived to have a monopoly on valuations for rating purposes. In practice, the Office of the Valuer General contracts private firms to provide valuation services. The tender process around procurement of these services should address value for money concerns and oversight of valuation outputs by the Valuer General should address consistency.

On balance, Council supports the centralised procurement of private valuers by the Office of the Valuer General. This approach provides consistency across the state and should generate economies of scale.

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 supports continued application of a combination of base and ad valorem contributions to rates. Council does not support the use of minimum amounts.

The restriction of base amounts to a maximum of 50% of the rate unnecessarily constrains councils' ability to equitably distribute the rate cap across the rate base, particularly where there is a large proportion of multi-unit dwellings. Council supports removal of the restriction on the maximum percentage of the base rate and removal of the rate cap.

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

Yes. Council supports introduction of an Environmental category for rates, with sub-categories to be determined by local councils. For example, sub-categories might include:

- National Parks and Nature Reserves
- Environmental Conservation
- Environmental Management
- Environmental Living

Council also supports introduction of a wider range of sub-categories, providing that the use of those categories is not mandatory. In particular, introduction of sub-categories based on land use zoning within the Residential and Business categories would be useful, similar to the sub-categorisation of the Farmland category. These sub-categories should be additional to the centre of population and centre of activity sub-categories and determined at the discretion of individual councils. For example, this land use zone sub-categorisation could more closely reflect the standard Local Environmental Plan template (eg Table 2), which has now been universally applied in NSW and provides a consistent basis for sub-categorisation.

Table 2 – Suggested Rating Sub-categories for Business and Residential Land

Category	Sub-category
Residential	Rural Low Density Medium Density High Density
Business	Neighbourhood Centre Local Centre Commercial Centre Industrial Centre

These changes would provide councils with more flexibility to address equity in response to changing land use profiles across an LGA and would more effectively target changes in rates to relevant users of Council services.

Council supports continuation of the special rate variation process whereby a levy is applied to some or all of a community for a particular purpose, following an appropriate community engagement and regulatory review process.

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

Yes. There are many circumstances where council services are provided to those who do not contribute to the funding of those services, for example visitors to national parks and beaches, out of area school students, users of regional centre services. Council is not in a position to quantify the impact of these externalities, and would welcome analysis by IPART of the impact of the current system.

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?*

Council does not support the rate cap and recommends that it be removed in favour of a method of setting rates that is more closely aligned with the Integrated Planning and Reporting Framework. Under this model, councils would engage with their communities to determine the level and range of services for which each community was willing to pay, much like the special rate variation process.

In the event that the NSW Government does not support removing the cap, Council would support an earned autonomy model whereby councils that are able to demonstrate strong performance and community acceptance of higher rates are able to access a streamlined rate variation process, as proposed by the Independent Local Government Review Panel (ILGRP).

Council notes that ILGRP's first preference is to remove the rate cap entirely and replace it with a rate benchmarking system, but that the ILGRP acknowledges that a streamlined rate variation approach is likely to be more acceptable to the NSW Government.

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

Council does not consider rating to be a major barrier to urban renewal compared to the impact of property taxes, section 94 contributions and limitations on infrastructure delivery forced by the rate cap.

Council supports the concept of special rates for specific locations where infrastructure investment by a council (or other levels of government) provides a financial benefit to landowners through increases in amenity, economic efficiency, transport accessibility, or land value.

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

In Council's experience, the proportion of landowners in rate arrears that are subject to Court action is a small percentage of total number of landowners in arrears. This outcome has been achieved through application of a proactive system to deal with arrears, which includes a range of repayment options that can be applied to suit the circumstances of the individuals concerned.

Generally, Court action is initiated in circumstances where landowners do not have the financial capacity to honour their repayment plan. Council supports introduction of the New Zealand system, where councils are able to claim payment of the overdue rates annually from the mortgagor. These costs, after being paid to Council by the mortgagor, are then added to the mortgage debt to be paid by the mortgagee (ratepayer). This approach would reduce both council debt and the Court workload, while affording an efficient recovery process that is activated on property exchange. It also supports the ageing to stay in their own homes for longer, which has social and economic benefits for both the individual and the health care system.

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?

No. Council does not support any exemptions from rates, as all landowners consume council services in one form or another. Should higher levels of government wish to subsidise the costs of land ownership for one or more sectors of the community, then a system of rate rebates, funded by that level of government, such as operates in South Australia, would be more equitable. Such a rebate system would spread the subsidy across the whole tax basis rather than a single LGA. A rebate system would also make it easier to capture the cost of rates foregone, which is currently extremely difficult to determine.

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?

Council supports a broad-based application of taxes, commensurate with the responsibilities of each level of government. Taxes such as pay roll tax should be applied to local government in the same way that they are applied to other levels of government.

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

Council is of the view that the provision of pensioner concessions is the responsibility of higher levels of government. The Australian Government should manage the provision of concessions to eligible pensioners through the existing social services system. Rates concessions to pensioners should be fully funded by the NSW Government, in line with the practice in all other Australian jurisdictions.

Council supports the indexation of pensioner concessions at the rate applied to Australian Government pensions.

Freezing existing rate paths for newly merged councils – Questions 13-20

The NSW Government has not made a merger proposal for Lake Macquarie City Council. On this basis, Council considers that its views are not material to the debate on the arrangements for merging councils.

Establishing new, equitable rates after the 4-year freeze – Questions 21-23

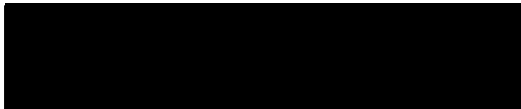
Council does not seek to comment on the specific questions raised by IPART in relation to the rating structure for councils after the proposed 4-year rate freeze for merging councils, except to the extent that neither merging nor non-merging councils should be disadvantaged by the rating system once the freeze period has expired.

Other matters

Council notes the NSW Government's intention to abolish the current Emergency Services Levy on insurance policies and replace it with an Emergency Services Property Levy (ESPL) collected via the rates system. Council asks IPART to engage with the NSW Government on the proposed design of the ESPL as part of its review of the rating system and to consider the implications of the proposed ESPL design for the rates system.

Should you require further information, please contact me on 4921 0220.

Yours sincerely



Brian Bell
General Manager

cc: Ms Donna Rygate, Chief Executive, Local Government NSW
Mr Roger Stefan, Chief Executive Officer, Hunter Councils Inc