

Manly Council submission to the Independent Pricing and Regulatory Tribunal Review of the Local Government Rating system, Local Government Issues Paper, April 2016

Taxation principles

1. Do you agree with our proposed tax principles? If not, why? (Page 15) Assessing the current method for setting rates

Manly Council agrees with IPART's proposed tax principles for property based taxes such as rates, being:

- *Efficiency – principles that taxes should minimise changes in behaviour and public benefits from the income raised from rates funds infrastructure and services that have the characteristics of public goods.*
- *Equity – sub principles being ability to pay, and the benefits principle; however, this is not always easily applied.*
- *Simplicity – taxes that are easily understood, difficult to avoid and have low costs of compliance and enforcement.*
- *Sustainability – the income generated by the tax should be reasonably reliable, able to withstand volatile economic conditions and grow over time to support the future needs of government; and*
- *Competitive neutrality – while, council supports that businesses competing with each other should be treated in a similar way, fair and efficient competition between public and private businesses promoted; council businesses are not the same as private businesses, and in delivering public goods & services (such as parking, childcare, swimming pools and public facilities) are often priced accordingly to market equivalents.*

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? (page 20)

NSW Councils should be able to choose between either an:

- *Unimproved Value Method; or*
- *Capital Improved Value method as occurs in Victoria, South Australia and Tasmania This is providing that the taxation principles (maintaining benefits, equity, simplicity, and efficiency) as noted above can be applied and valuation methods are standardised and cost effective for NSW Councils.*

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)? (Page 20)

Councils should be able to seek cost effective valuation services that could be supplied from either the NSW Valuer General, or a private firm.

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? (Page 22)

There should be greater flexibility to choose base and minimum amounts as part of the overall rating system. Minimums should be removed as per the intent of the original 1993 legislation. This would increase the use of Base Amounts which was the original intention of the 1993 LGA.

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

There should be more sub-categories based on land uses in NSW as this would enable the capacity of councils to raise revenue from different property rates, and better structure rates to different capacities to pay.

Councils should be able to sub categorise without having to rely on centre of population/activity. Extending the categories to include for example by type of residential accommodation such as high rise or single dwellings. In the case of business land a Council should be able to sub categorise a business property use across the whole of its area rather than have a need to have different sub categories as is the case now. Remove the rural residential subcategory as it is poorly understood & applied, particularly with the restriction on land size and occupation conditions. The Mining category should be expanded to allow for other types of mines than metalliferous and coal.

6. Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities? (Page 24)

In response to the issues paper comments, Manly council agrees with IPART that the rating burden may not be spread evenly across communities. Council has argued that the provisions covering rate exemptions are often vague and difficult to understand, and not in keeping with the changing or growing role that certain institutions play in society and the economy. For instance, the growth in public benevolent institutions, schools and houses owned by statutory authorities and their public charity exclusion clause is emerging as an issue for general rates collections, and councils should be able to levy minimum rates on them.

This is also an issue for Councils in the Sydney Metropolitan area where mergers are proposed, and there are different rating systems in operations for hundreds of years, with resulting different levels of service and infrastructure provision. When these 'different communities' are merged, there should also be no future 'cross-subsidisation' of different ratings systems.

Manly council agrees with IPART that the rates levied by a council should be used to fund the provision of infrastructure and services in that local government area. They should not be used to fund the services provided by councils in other local government areas. Council agrees that the cross-subsidisation would reduce the efficiency, equity, simplicity and sustainability of the rating 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? 25

Council agrees that the current system of rate pegging adversely affects council's revenue raising opportunities.

However, the processes to apply for a special rate variation are complex, and the current requirement to link community consultation for a special rate variation to the processes of community consultation for the community strategic plan are also complicated.

Council would support streamlining the application and approval process for special variations. As well, Council a process of rate benchmarking could be further investigated.

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Also, while Council supports Integrated Planning and Reporting, in particular community consultation required to set strategic goals and directions as part of a new term of Council, via the Community strategic plan, it is considered that this is a different community conversation that is needed about the 'community's willingness to pay a higher amount in rates for new infrastructure or services'. The different community conversations (strategic versus willingness to pay) should be undertaken by respective councils in a manner that is most suited to their community needs and services required. These conversation should be undertaken, when they are needed, and should be noted as different to early strategic directions and goal setting conversations. These methods employed should not be determined or specified by IPART.

8. What changes could be made to the rating system to better encourage urban renewal? (page 26)

We agree with IPART's preliminary view. One suggestion is for the opportunity for a Council to apply a higher ad valorem rate to vacant land than is applied to occupied land.

9. What changes could be made to the rating system to improve councils' management of overdue rates? (page 26)

Council supports the charging of penalty interest on overdue amounts, and the right to pursue legal action on unpaid rates including debt recovery powers and seeking recovery through local court systems. It also should be able to apply special consideration for demonstrated financial hardship reasons, using flexible payment options.

Also an ability to be able to request payment from the mortgagee once 12 months rates are overdue as is the case in New Zealand should be considered.

In regards to the assumption that councils are pursuing relatively low claims it needs to be stated that the claims of \$2,000 or less represents in excess of 2 years rates for some councils.

Councils have a responsibility to their communities to ensure rates are paid in a timely manner in order to maintain a proper cash flow. Amendment of the electronic notice of sale form to allow the capture of e-mail addresses and phone numbers could also assist in debt management. Councils should be able to enter into multiple rates payment options without the restrictions of section 564 of the LGA. Council's should be allowed to issue notices in an electronic format.

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?

All property categorised as residential and occupied should be rateable regardless of ownership as ALL such properties utilise a Councils services – in some cases properties which are currently non rateable provide a greater drain on a Councils resources than rateable properties.

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If subsidies remain, they should be in the form of a partial rebate rather than full exemptions. Such a rebate should be standardised across local government areas to ensure consistency and reduce the likelihood of localised disputes and costly and time intensive negotiations and lobbying. Please refer to our previous submission attached for further commentary on 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? (Page 33)

We are unable to comment but believe if this were implemented all levels of government should be required to pay rates and no longer be exempt.

12. What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved? (page 35)

The objectives of the pensioner concession scheme should be to provide relief to low income/asset poor ratepayers. As in other states the concession scheme should be fully funded by the State Government. The NSW Independent Local Government Review of October 2013 questioned whether welfare measures as being the responsibility of Local Council's where doubts were raised on the appropriateness of funding at the local level.

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 will follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation? (page 36)

Council agrees with IPART's interpretation.

It is important that following mergers, cross-subsidies from one area to another needing more infrastructure services or assets that were never previously funded, do not become a cost or rate burden on new residents.

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?**

A merged entity should be allowed to apply for the types of special variations specified above; however, the merged entity would be required to have moved to a single valuation base date during a specified time period (post rate 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?

If there is a specific need identified by the community within the merged Council then an application should be allowed. Subject to a single valuation base date.

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)? (page 41)

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No (as detailed in the previous 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)? (page 41)

No, this is too simplistic and does not take into account existing council rating structures and how the rating burden is proportioned within individual Councils. Long term financial strategies should be allowed to stay in place.

- 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? (page 41)**

Yes, this option allows councils to apply their rating structures & equitably spread the rating burden.

- 19. What other discretions should merged councils be given in setting rates during the rate freeze period? (Page 41)**

Councils could be able to commence rate equalisation from year two of the merger. There should be transitional legislation implemented similar to that which was in place when water values were excised from land values.

- 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? Establishing new, equitable rates after the 4-year freeze**

We offer no comment except for our response to question 19.

- 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? 48**

Yes. The reference to Centre of population etc. should be removed.

- 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? (page 49)**

No. Approved unapplied SV's should be cancelled from the date of the merger due to not all ratepayers within the newly merged Council did not have the opportunity to be part of the decision yet will be expected to contribute to that decision going forward

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

We are unable to predict what might happen after the expiration of the 4 year rate freeze.