

**SUBMISSION BY NORTH SYDNEY COUNCIL  
12 MAY 2013**

Issue	IPART Questions (Issues Paper - April 2016)	Suggested Council Submission
Taxation principles	1. Do you agree with our proposed tax principles? If not, why? (pages 13-15)	Council agrees with the proposed key tax principles that IPART will use to assess the rating system - efficiency, equity, simplicity, sustainability and competitive neutrality.
Assessing the current method for setting rates	2. What valuation method should be used as the basis for determining the ad valorem <sup>1</sup> amounts in council rates? Should councils be given more choice in selecting a valuation method <sup>2</sup> , as occurs in other states, or should a valuation method continue to be mandated? (pages 16-20)	Council supports the valuation method - capital improved value (CIV) for the arguments given on pages 18-19 of the Issue Paper. Moving to CIV would redistribute the rating burden on a more equitable basis. Unless the quantum of rates is allowed to increase, North Sydney Council would experience an increase in the number of residential ratepayers paying minimum rates. At present Council has approximately 80% of residential rate payers paying the minimum rate. Another advantage of CIV would be comparable rates for comparable valued properties (market value), as at present similarly valued properties can pay disproportionate rates.
	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)? (pages 16-20)	If equity is one of the key tax principles, then Council supports a comparative valuation system, to ensure equity for all ratepayers in all local government areas in NSW. Therefore NSW councils should continue to be required to use the Valuer General's property valuation as introduction of 'choice' between the state-based Valuer General and private firms could cause inequity. The other side of the argument is that allowing the choice between private valuation firms and the Valuer General would allow councils to have more timely responses to their needs from the firm they appoint (through tender process) e.g. a benefit experienced by Victorian councils.
	4. What changes (if any) should be made to the	Within the North Sydney local government area minimum rates account for 80% of

<sup>1</sup> Definition: according to value. To calculate the ad valorem amount for a particular property, the ad valorem (a fixed percentage) is multiplied by the assessed value of the property.

<sup>2</sup> Three valuation methods are used to calculate the value of property for the purpose of rating across Australian jurisdictions: 1) The **unimproved land value (UV)** method values the property excluding the value of buildings, structures and other capital improvements. 2) The **capital improved value (CIV)** method, which values the property based on the market value, or the value inclusive of all capital improvements; and 3) The **annual rental value (ARV)** method, which values the property based on its rental value.

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	Local Government Act to improve the use of base and minimum amounts as part of the overall rating structure? (pages 20-21)	ordinary rates (as at 2015/16) compared with the 60% of all NSW councils where minimum rates accounted for 15% of ordinary rates, on average. Recommend having a base amount only and do not allow minimums as an option, and allowing the base rate to be for more than 50% of the rate levied.
	5. What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide? (pages 22-23)	<p>In its April 2014 submission responding to the Independent Local Government Review Panel’s Revitalising Local Government: Final Report of the NSW Independent Local Government Review Panel (October 2013), Council stated that:</p> <p>Due to historically low rates, Council is “raising far less revenue than it reasonably could” (Page 40) expect to. Currently 76%<sup>3</sup> of residential ratepayers pay the minimum rate which is \$495.00 (Not including the Domestic Waste Management Charge), while the average rate is \$661.28. If there was a way to differentially rate units then Council could expect to have a higher rating quantum “without imposing an undue burden on residents”.</p> <p>One of the benefits of a change to rating categories would be the ability to allow multiple rating categories which could include sub categories for dwelling type. Therefore Council supports the view of splitting the residential category into detached housing and apartment property categories may provide for more efficient and equitable ratings of multi-unit dwellings.</p> <p>The Issues Paper (page 29) notes the social benefit ‘positives’ of exemptions to education institutions and hospitals. Whilst this has merit, Council recommends that a review of such exemptions occur, for Council maintains the same view put forward in its submission responding to the Panel’s Final Report (October 2013) in that:</p> <p><i>A comprehensive review of the eligibility of rate exemptions for private schools/educational institutions, charities and other government departments is also required. Council is severely disadvantaged by the current arrangements, whereby these organisations have full utilisation of existing services without contributing towards the delivery of these services.</i></p>

<sup>3</sup> Now 80% as at 2015/16.

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		Currently in South Australia education institutions pay 25% of the rates levied.
	6. Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities? (page 24)	Yes. Councils' inability to easily implement overwhelming community engagement decisions which ultimately influences their ability to raise revenue through the rating system to fund community expectations.
	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? (page 24)	Council reiterates its previous submissions to the Panel; in that it believes that rate pegging should be abolished, leaving individual councils to determine the level of rates to be raised in consultation with its community. As suggested on page 24 of the Issues Paper, each council should, in consultation with its community, be able to raise the rates needed to fund the services and projects identified in its Integrated Planning and Reporting framework.
	8. What changes could be made to the rating system to better encourage urban renewal? (page 25)	<p>The current rating system does not allow councils to keep up with increasing development. Currently councils can collect Section 94 contributions, but these are capped at \$20,000 per unit, and are to fund new infrastructure not existing; consideration should be given to such funding being also used to maintain existing infrastructure. Another funding option is Voluntary Planning Agreements; consideration should be given as to whether such agreements should become mandatory rather than voluntary, and if mandatory will require a formula to be introduced also.</p> <p>Councils should be able to charge a higher rate for vacant land to encourage urban infill.</p>
	9. What changes could be made to the rating system to improve councils' management of overdue rates? (page 26)	Whilst the percentage of over due rates to North Sydney Council is relatively low, Council supports the suggestion (page 26) that more flexible payment options, similar to water and energy utility companies, may be a more sustainable and equitable approach. To enable better flexibility section 564 of the Local Government Act needs to be amended so councils can be pro-active rather than re-active. And there needs to be flexibility in how the courts look at individual council statistics, taking into account the differing rating structures between councils. For North Sydney Council, \$2,000 is approximately 3 years minimum rates per property.

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Assessing exemptions, concessions and rebates	10. Are the land uses <sup>4</sup> 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? (pages 27-33)	No. The number of non-rateable entities in the North Sydney LGA is significantly higher than the group average. Exemption criteria needs to be addressed or the ability or discretion of councils to apply exemptions/rebates needs refining e.g. to apply exemptions to State schools but levy private schools i.e. inline with user pays principles.
	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? (pages 29-33)	Council supports IPART's review of both the exemptions councils are required provide (including those that are charged) and those they receive in an effort to identify changes to improve overall efficiency, equity and competitive neutrality. At present, without more information, Council can not comment further regarding to what 'extent' such should be reviewed.
	12. What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved? (pages 33-35)	Section 5.22 of the Issues Paper details the impacts pensioner concessions have on both local councils and other ratepayers. Section 5.2.3 details options for a future NSW rating system. The objectives of a new pensioner concession scheme should align with the proposed key tax principles, should not disadvantage councils and should not disadvantage pensioners with lower value properties and less ability to pay.  Mandatory rebates should be fully funded by either the State or Federal governments, unlike the 45% contribution NSW councils are currently required to make i.e. every other State is full funded. If councils wish to provide a voluntary rebate this should be a separate funding contribution made by the individual council.
Freezing existing rate paths for newly merged	13. IPART have interpreted the rate path freeze policy to mean that in the four years after a merger, the rating path in each pre-merger	Whilst the Council does not support amalgamation, Council does agree with IPART's interpretation, that the rating path in each pre-merger council's area will follow the same trajectory as if the merger had not occurred in the four years after a

<sup>4</sup> Refer to page 28 of Issues Paper for table listing land types.

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councils	council's area will follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation? (page 36)	merger.
	<p>14. Within the rate path freeze period, should merged councils be permitted to apply for new special variations:</p> <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 Environmental Planning and Assessment Act 1979?</li> <li>- To fund new infrastructure projects by levying a special rate? (Pages 37-39)</li> </ul>	<p>Council agrees with IPART's interpretation in that a merged council would not generally be eligible for new special variations during the rate path freeze period. Additionally IPART proposes three circumstances<sup>5</sup> in which discretion to apply for special variations would be permitted with the later being funding new infrastructure projects. Therefore, in Council's view, in accordance with Integrated Planning and Reporting (IPR) requirements, a merged council should only be permitted to apply for a new variation within the rate path freeze period, if that council has adopted a new suite of IPR plans (Community Strategic Plan, Delivery Program and Resourcing Strategy) for that new council; and that the adoption of such occurred following extensive community consultation, that included promotion of the projected cost of expenditure and in turn any required increase in rates. A minimum level of support for the new variation as well as a minimum level of consultation may need to be prescribed by the authority that will assess/determine the variation (if there will be such). Further, if a new council wishes to apply for an SRV they would have to be on a single base state valuation.</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>The history of recent applications and approvals of the merging councils should be considered. Current rating structures should be considered to ensure equity within the merging group. However, it should be acknowledged that the rate path freeze may inadvertently cause a wider disparity between rates at the end of the freeze period e.g. Spofforth St, Cremorne, this is currently a boundary between Mosman and North Sydney Councils where the properties are similarly valued but the rates payable are not comparable.</p>
	16. During the rate path freeze period, should	No. At present North Sydney Council has a rate income break up of 60/40 -

<sup>5</sup> The proposed limited circumstances are:

1. where former Crown Land has been added to their rating base during the freeze period.
2. for development contributions that are 'above the cap' under the Environmental Planning and Assessment Act 1979 (NSW); and
3. to fund new infrastructure projects in their area by levying of a special rate.

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	merged councils only be able to increase base amounts and minimum amounts each year by the rate peg (adjusted for any permitted special variations)? (pages 39-41)	residential/business and this would be altered by the implementation of the rate free path with its affect on the base amounts and minimums. Many councils within the State have similar rate income strategies.
	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)? (pages 39-41)	There should be transitional legislation from Year 2 to equalise rates similar to the legislation that was in place when the water valuations were excised from the land values.  In North Sydney Council’s case, we have one of the lowest residential rates in metropolitan Sydney, proposed to merge with Mosman Council, which has one of the highest residential rates. If such was to occur the new council would likely experience considerable pressures to convince the ratepayers that equity exists.
	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)	One rule does not fit all situations. Council discretion needs to be available to cater for those councils which require rating changes.
	19. What other discretions should merged councils be given in setting rates during the rate freeze period?	More community engagement and consensus, as well as transitional arrangements need to be place, as refer to Q17.
	20. IPART 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? (pages 43-44)	Policy flexibility in this changing environment will provide a better outcome.
Establishing new, equitable rates	21. Should changes be made to the Local Government Act to better enable a merged council	All options should be removed, particularly for the transition period.

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after the 4-year freeze	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? (pages 47-48)	
	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)	Council supports the inclusion of pre-approved special variations, where they are 'special purpose levies' e.g. Crows Nest and Neutral Bay Mainstreet Levies, in the revenue base of a merged council following the 4-year rate paths freeze. As such revenue is for a dedicated purpose for which community consultation has already occurred.
	23. What other rating issues might arise for merged councils after the 4-year rate path freeze period expires?	Land valuation issues and need for a transition period. Ensuring equity within a merged council will be important, for as proposed rate pegging and individual rate capping would both be in existence. For the proposed merger council that North Sydney Council would become part of it will take approximately 7-10 years to achieve parity.