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Contact: Matthew Saunders
Telephone: (02) 4732 7756

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Review of Local Government Rating System
IPART
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir/Madam

Review of Local Government Rating System

Penrith City Council welcomes the opportunity to make this submission in response to the Issues Paper released in April 2016 for the Review of the Local Government Rating System.

These responses are in relation to the list of issues commencing on Page 5 of the Issues Paper.

Taxation principles

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

Penrith City Council agrees with the taxation principals as described by IPART.

Council believes that a taxation system for local government should find the right mix between a property owners' ability to pay and the benefit they receive from local Councils, and changes to the Local Government Act should allow flexibility for councils to effectively establish this mix based on their own local government areas.

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?

Penrith City Council does not support the move to a Capital Improved Value as it is Council's view that land value proves the best nexus for the ability to pay for ratepayers. We would recommend the continued use of the Unimproved Land Valuation method.

The drawback with the unimproved valuation method is the restrictions that it imposes on Councils being able to equitably rate owners of strata properties when compared to owners of similarly market valued freestanding houses. Council recommends other measures be introduced to provide Council's with an equitable way of rating strata title properties such as enabling sub-categorisation of strata titled properties.



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)?

We agree that the current system of receiving valuations from the Valuer General is working and that there would be little to gain by changing the system. The present system has a rigorous procurement process which should bring about better economies of scale for pricing, than if individual councils had to procure their own contract valuer.

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?

Councils should be able to choose which method best suits their rates base and both systems should be retained, and in addition an equitable method of rating strata properties should be enacted.

Penrith City Council has used an ad valorem and minimum rating structure for many years, as we see this as the most equitable way to suitably rate residential strata properties. The drawback with this method is that lower valued freestanding homes have been charged the same minimum rate but generally may have a lower capacity to pay. We have looked at moving to a base rates structure to try to find a way of equitably rating rural ratepayers, however any change would also reduce rates for higher valued urban residential properties who generally may receive more benefit. The base rates structure also diminished rates growth from residential strata development and would have meant a rates decrease (when moving from the ad valorem with minimum rates structure) for the higher and lower valued properties, but a majority of our average ratepayers would have increased.

Council believes that either rates structure can work, but modifications to rating categories and sub-categories are needed to enable councils to adopt a rating category mix to reflect their council area, particularly for councils like Penrith City Council that have a mix of urban and rural properties and where there may not be a direct correlation between valuation, capacity to pay and benefits received.

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

Council endorses the current rating categories. The introduction of any further categories may put added pressure on Council's in maintaining the accuracy of rating categories and would add further scope for appeals to the court from property owners in relation to their category.

Council would recommend some changes within the categories to further strengthen the criteria of each category and to allow further sub-categorisation than is presently allowed.

For residential, Council would recommend the ability to sub-categorise strata title properties to allow an equitable way of rating strata title properties. Also, the existing allowance to subcategorise residential properties if they are "rural residential" properties is restrictive as it sets size and occupation limitations to meet the rural residential criteria. Council recommends that councils be able to sub-categorise according to being rural or urban, without these limitations. This would allow councils that have a mix of rural and urban properties to determine an equitable way of rating their rural and urban properties.



For Farmland, Council recommends strict criteria be placed on eligibility such as minimum land area and or actual grazing numbers required for grazing properties.

For Mining properties, the description of mining should be expanded to allow for other types of mining, not just metalliferous and coal mining as it stands and provisions be made to allow sub-categorisation according to the mining type.

For the Business category, sub-categorisation should be allowed for land use, such as industrial, commercial or retail, rather than as centres of activity.

Also, an allowance needs to be made for locally listed heritage properties in some way as there is no provision in the current Act that allows Councils to provide rates relief to these properties. This could be done as a separate sub-category (eg: Residential – local heritage) to allow a different rate to be applied to heritage items. It is inequitable for state significant heritage properties to receive rates relief (through heritage valuations which replace land valuations) which is subsidised only by the ratepayers of the council area in which the property is situated but this rates relief is not afforded to locally listed heritage properties. It would seem more beneficial and equitable for the ratepayers of the local council area where the local heritage property is situated to be subsidising those properties.

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

IPART has asked to review the rating burden across communities which IPART understood to mean across local government areas. Based on this assumption Council agrees that the rates levied by a local council should be used to fund the provision of infrastructure and services in that local government area, and should reflect the costs of this provision. There may be more efficient ways to deliver services in and around the boundaries with joining Council.

The current rating system, particularly in relation to rates exemptions for non-locally beneficial public benevolent institutions such as community housing providers creates some inequities across boundaries and is requiring communities to bear a burden that should more appropriately be borne by more than just the local government area in 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?

Penrith City Council does not support rate pegging, however if a system of rate pegging is to be maintained, Penrith City Council supports the streamlining of rate pegging as proposed by the Independent Local Government Review Panel in relation to allowing Councils (subject to conditions) to be able to raise rates to 3% above the rate-peg without having to go through a special rate variation application process.

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

Current provisions within the Act provide some ability for Council's to achieve urban renewal through the rating system however other mechanisms should be explored to better achieve these outcomes.



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

Any legislation should be in favour of encouraging ratepayers to pay their rates on time and not discourage them. Action such as court action for the recovery of rates should continue to be allowed.

Whilst interest charges for overdue rates should continue, councils should also be able to impose and recover overdue charges such as a charge for the issuing of a reminder notice or a charge for tracing property owners where they have relocated without advising of a change of address.

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?

Council supports exemptions from rates in some cases where the benefits of an exempt activity are largely confined within the local government area.

However, if the benefits are distributed beyond the local council area, it may be more equitable for the state government to share the funding costs of the exemption, or provide no exemption in these circumstances.

Council recommends that the exemption provisions in relation to public benevolent institutions, particularly for community housing providers, be removed and or subsidised by other levels of government as there is no direct benefit to the ratepayers of the Council involved to be wholly subsidising the exemptions.

If exemptions are to be granted, Councils should be given the discretion to decide if the use of the property provides local benefits and warrants an exemption.

Partial exemptions could also be introduced, with Councils given the ability to grant partial exemptions rather than full exemptions, with the current exemptions list expanded to accommodate ownership or use which are presently not entitled such as owners of heritage properties.

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?

Any changes to taxes that may become payable by Councils would only add to the Council's cost which may result in a requirement for rates to be increased to accommodate these increases.

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

Penrith City Council supports a pensioner concessions scheme, however any such scheme should be fully funded by other levels of government as a welfare measure as the existing scheme affects government areas with greater population of retirees.



Freezing existing rate paths for newly merged councils

For Councils that merge as part the Fit for the Future process, the NSW Government announced a policy of freezing their existing rates paths for four years.

Although Penrith City Council is not one of the councils subject to the proposed mergers, a response will be included in relation to the rates freezes for merging Councils issues listed in the Issues Paper as any decision may affect any merger proposals that Penrith City Council may consider in the future.

13. Response for Items 13 - 23

Council believes that the rates freeze policy should not be mandated for four years as it will diminish the merging council's ability to start to streamline the rating system for the merging Councils. It may also limit the ability for the merged Council to address emerging priorities and issues. If a rates freeze policy is to be adopted, it should only be until the merged Council is able to demonstrate through the current Integrated Planning & Reporting framework that a rates increase is required to meet the needs and wants of the ratepayers and residents of the merged council. The merged Council should then use the same mechanisms currently available to apply for rate increases.

Penrith City Council thanks IPART for this opportunity to make this submission and we look forward to a modernised rating system that is efficient, equitable and sustainable.

Yours faithfully



Matthew Saunders
Rates Coordinator