Shellharbour CITY COUNCIL

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11 May 2016

Review of Local Government Rating System
IPART
Box K35
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Dear Sir/Madam

**REVIEW OF LOCAL GOVENRMENT RATING SYSTEM**
**SHELLHARBOUR CITY COUNCIL SUBMISSION**

Thank you for opportunity to make a submission on the Review of Local Government Rating. The council makes the following points and is able to provide further information if required.

## Taxation principles

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

*Generally, Council agrees with the principles mentioned, however it should be recognised that Council has some pensioners who live in properties with a high land values. This is primarily in the in beachside suburbs which were unfashionable and relatively inexpensive 40-50 years ago. In these circumstances, the property value does not necessarily correlate with wealth and ability to pay.*

## 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 favours the Capital Improvement Value (CIV) method as it addresses the issue associated with higher density properties which under the Unimproved Value (UV) method pay lower rates compared to low density properties.*

*It also provides the best option when trying to link the ability to pay principle to the setting of rates. Rate payers who own a property with greater capital improvements are more often than not going to have a better capacity to pay than somebody with less capital improvements.*

*Ratepayers also understand the market value of a property which incorporates the land and capital improvements compared to just a land value.*

*Another option is to continue using the UV method but allow councils to set a new rating category for multi-unit apartments, and mandating the use of a CIV method for that category, as the Panel suggested. The new rating category should also include all strata units and other types of non-detached housing such duplexes/flats. The only negative with this option is continuing with the UV method for all other properties doesn't address the ability to pay principle in regards to asset rich, cash poor pensioners.*

*Council is of the view that the valuation method should be mandated for consistency purposes across all 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)?

*Again for consistency reasons, Council staff believe we should continue using the Valuer General's property valuation service.*

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?

*If an expansion to rating categories is permitted, this may reduce the reliance on base amounts being applied to ensure that strata properties etc., are paying a higher share of residential rates. It would allow councils to reduce the base amount percentage so that the impact on lower-valued properties will be decreased.*

*In regards to potentially increasing the 50% maximum for Base Rates, Council staff believe it should remain at the ceiling point of 50%, to ensure the rate calculation is mainly determined by land valuation and thus meeting the principle of ability to pay.*

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

*As outlined earlier, the option of having a new rating category for multi-unit apartments, and mandating the use of a CIV method for that category, is one that could be considered. This category should also include all strata units and other types of non-detached housing such as duplexes/flats. This could reduce the reliance on the base amount being used to ensure that strata properties are paying a higher share of residential rates. It would allow councils to reduce the base amount percentage so that the impact on lower-valued properties will be lessened.*

*The requirement that if a property does not fit into the Residential, Farmland or Mining categories then it must be classified into the Business category is not always appropriate. The option to use an additional category would assist in this regard.*

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

*By the State and Federal Governments not paying rates, local communities are faced with shouldering the whole rate burden. This is particularly in the case of state owned parks whereby a council may be required to upgrade and maintain significant infrastructure in order to enable communities to access those places.*

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 concurs with the panels suggested options of either streamlining the application and approval process for special variations or introducing earned autonomy, where certain councils demonstrate consistent high performance could earn complete exemption from rate pegging.*

*There should also be consideration given to removing rate pegging legislation altogether similar to other states, with Council consulting with the community in determining appropriate annual increases.*

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

*A more efficient way of encouraging urban renewal would be a direct grant from either the Council, State or Federal Government. The rating system should be as simple and practical as possible.*

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

*Council is of the view that no changes are required.*

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?

*One issue for most NSW Councils regarding current exemptions is for land being used for Public Benevolent Institutions (PBI's). There has been a large growth in the number of PBI's in recent years with previously owned Public Housing properties (who are rateable) being handed over to various Community Housing Groups. These groups are normally registered as PBI's. The original exemption under the LG Act for PBI's was not intended to cover such properties and thus other ratepayers have to pay additional rates to cover the exemption.*

*Council also agrees that some of the exemptions on land used for commercial activities should be considered for removal.*

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?

*These exemptions should not be considered as any impact is passed down to the community and therefore not achieving the original objective of the proposal.*

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

*The objective of the scheme should be to provide rate relief to pensioners without requiring other ratepayers to subsidise the concession*

*The paper considers the appropriateness/impact of existing mandatory pensioner concessions in NSW, which are equal to a 50% discount on rates/waste service charges up to a maximum of $250 per annum. The cost of this concession is funded 55% by the State Government and 45% Local Council.*

*An issue raised by this Council a number of times over the years is the $250 level which has been in place for some time. This is obviously decreasing in real value with annual inflation around the 2.5% mark. Council has previously suggested the concession should be increasing in line with inflation and the increase being entirely funded by the State Government.*

*The paper details the level of the pensioner concession in each other state along with how it is funded. It is interesting to note that NSW is the only state whereby Councils have to fund a component of the concession.*

## 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?

*Council agrees with this interpretation.*

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? *Yes*

– To recover amounts that are 'above the cap' on development contributions set under the *Environmental Planning and Assessment Act 1979*? *Yes*

– To fund new infrastructure projects by levying a special rate? *Yes*

15 Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?

*Council believes that special variation guidelines should be the same as Councils not merging.*

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)?

*Council agrees with this argument.*

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)?

*Council believes that both methods should be available for use.*

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?

*Council agrees with this comment.*

19 What other discretions should merged councils be given in setting rates during the rate freeze period?

*No further discretions identified.*

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?

*Council staff have no strong opinions either way.*

## Establishing new, equitable rates after the 4-year freeze

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? *Yes.* If so, should the requirement to set the same residential rate **within a centre of population** be changed or removed?

*Council agree with the panel's suggestion to allow merged councils to gradually equalize rates.*

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?

*Yes, as these special rate variations were for specific works within the existing LGA. A merger does not change the need for those works to occur.*

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

*Council has identified nothing further.*

Council staff would be happy to provide further information if required and are available for discussion with IPART staff.  Please contact Council's Chief Financial Officer Mr. Rob Owens on [redacted]

Yours sincerely

[redacted]

Lee A. Furness
**Director Corporate Policy**