

IPART
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Council Reference: 8923E (D16/136903)
Your Reference: Rating Review

Attention: IPART

Review of Issues Paper for the Review of Local Government Rating System

List of Issues on which comment is requested.

Taxation Principles

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

Yes Council agrees with the proposed principles of taxation:

- *Efficiency – given they are a wealth tax on land or property values*
- *Equity – given they are based on the property value, therefore increase with greater land value or implied greater wealth.*
- *Simplicity – they are easily understood, they are difficult to avoid, as property is immovable*
- *Sustainability, they are enduring and should grow with economic development.*
- *Competitive neutrality should be maintained as Councils have the ability to establish rates based on levels of service and based on similar amounts in like business areas.*

They are reasonably stable, visible and accountable.

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 valuation method, as occurs in other states, or should a valuation method continue to be mandated?

The valuation method currently in use ie unimproved land value (UCV), does not adequately cover undeveloped land and land with multi-story buildings. To cover for

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these examples and other development / property or rating anomalies the capital improved value (CIV) may be a better basis for rates calculations, and is more readily understood by the public.

The use of CIV adding value to a number of issues is raised throughout this paper.

Important to note that if the same valuation method is not mandated then neighbouring councils may implement very different models for their ratepayers and hence drive behaviours across council borders, causing competitive neutrality issues, along with inequities and inconsistencies, particularly when comparing the basis of rates for different council areas.

The negative in using a CIV is a possible detrimental impact on investment within the Local Government area.

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)?

Most valuations are done by local firms on behalf of the Valuer General, so making a change to who can do these valuations may not make a significant difference to the work being carried out. Given that most of these valuations are now a desk top review, as opposed to field work, a review of the costing structure might also be timely. In conjunction with this more regulation over the increases to valuation might be opportune to keep these within a "rate peg" structure. Any objections to valuations would still need to go through the Valuer General Department.

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?

The use of a base or minimum rate ensures that all rate payers are paying the same amount to cover public good or those which provide collective benefits ie parks, roads etc.

However the maximum of 50% towards base rate could be more flexible in terms of allowing a slightly higher proportion of rates to be collected as a base to cover public goods provided and less reliance on the ad valorem driving incremental income which is based on the wealth of the landowner. Ie if land values go up higher in one area over another there will be a greater shift in rates, with a higher ad valorem.

But overall no significant issues to this remaining as is.

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

There are a couple of issues with rating categories which needs to be addressed:

- a. *Currently bed and breakfast, serviced apartments and holiday accommodation is rated within either the business or the residential rating category, depending upon whether the definitions can be established. However to have clarity or further definitions around these type properties would benefit when trying to rate these dwellings, therefore a separate category/ies for Bed and Breakfast/Service Apartments/Holiday accommodation is recommended, with clarity around the definitions to enable ease of*

definition and therefore rating. Some of the criteria which could be used in determining these type dwellings would be:

- I. The property is advertised for use*
- II. They have 3 beds or more available for use*
- III. They are utilised for more than 100 nights per year*
- IV. They are registered as business with an ABN*
- V. They can be managed or owned*
- VI. Links to the ATO data for level of income ie over \$20,000 from these type activities.*

These properties would be rated within this category in the first instance and then have an option to appeal if they can prove they are residential or business

- b. Everything that does not fall into the Residential, Farming or Mining categories falls by default into the Business category, however some things do not fit within this category ie grave sites, jetties, non-descript small parcels of land of low value would be unfairly rated if a base or minimum rate were to be applied. Another category for low value, low usage land would improve equity of these ratings.*
- c. The Centre of Activity wording for the basis of a rate sub category can also cause issues as some categories would be better placed being based on the type of activity or population as opposed to where they are located, eg industrial properties might be scattered in a number of different locations within the Local Government area as opposed to one location, therefore 2 (or more) sub categories would be required, as opposed to one for the like type businesses.*
- d. The Rural Residential Rate Sub Category causes a lot of confusion with ratepayers and councils alike particularly with the definition surrounding the restriction on land size and occupation conditions. Either the conditions need to be reviewed and amended or this Sub Category should be removed.*
- e. There could be some merit to a "vacant land" category also, (only applied if UCV is maintained and Developer Allowances removed) to allow a lower rate to be charged where land is not in use. However, this may increase speculative holding of lands, and may increase incentives to hold lands and by default discourage development.*
- f. The Mining category should be expanded to allow for types of mines other than that of metalliferous and coal (including sand mining).*
- g. Separate categories for Crown land/Reserves, Defence, Private Schools / Universities or Government Organisations which may be valued at a subsidised level to other rating categories. Much of this land would need to have new valuations done by the Valuer General, as currently many of these properties are not valued. Rates should be charged at full commercial rates where the State/Federal Government are operating commercial activities eg State Forests.*
- h. A full review of the criteria defining non rateable properties is required as Section 555 & 556 are outdated and onerous. ie a building occupied by a teacher or caretaker, land belonging to a school being a government school or a non – government school, land belong to a public benevolent institution or charity particularly given the current concerns with CHP's having such a large impact on council revenue etc etc*

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

With the current system and the proposed merger of councils one of the key issues raised has been the level of rates in one LG area to the other merger proposal area. This is obviously driven by the level of service provided in each council, along with differing land values in each Local Government area. However there will be significant issues when trying to bring the two disparate systems together into one rating system. Given that the Shoalhaven is a major tourist attraction during the summer season, Council spends significant monies during these months to cater for tourists, at the expense of local rate payers. This is not something which can be fixed through the rating system, however Grant funding from State and Federal Government (currently via FAGS) should cater for this cross subsidisation.

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?

In terms of the rate peg the IPART calculations for the Local Government Cost Index do not take into consideration key variations to costs within specific Councils, see examples below for Shoalhaven City Council:

- a. *The award increase for wages will be 2.8% for 2016/17. The LGCI used 2.4%*
- b. *Step changes for employees were not considered which are 2.5% for approx. 50% of the employee base ie an additional 1.25% increase in wages*
- c. *Contracted electricity increases at a maximum of 27% over the next three years. The LGCI used a reduction of 6.6%*
- d. *The requirements to maintain expenditure on roads and infrastructure at 3% incrementally year on year, as well as try to increase the overall maintenance carried out across Council. The LGCI used 1.3% for Road, footpath, kerbing, bridge and drain building materials*
- e. *Increases in depreciation due to revaluation of assets, which can add millions to Council's cost structure, thereby affecting the operating result before capital grants, which is one of the key measures for Fit for the Future.*
- f. *Emergency Services Levy at 1.5%, whereas the increase for Shoalhaven for Emergency services was \$811k, an increase of 79% on the out year budget.*

It would be more beneficial to allow Councils to make the calculation as to what the rate peg should be, taking into account Council specific costs and then putting a proposal to IPART to approve the recommended adjustment to rates.

Perhaps a template to capture this data would be appropriate for comparative purposes with other Councils. The requirement to submit this document might only apply if the increase to be requested is over a certain threshold ie > 2% of average household income.

With regard to Special Rate Variations, there are a number of factors to consider – there is considerable effort involved in applying for a special rate variation from both a Council and an IPART perspective, a simpler approach is required.

If a Council has included the Special Rate into their IP&R documentation, held community consultation and the increase is within the 2% of average household income then there should be no need for further approval, as covered above.

If the increase is above this amount the process could be streamlined to the following:

- a. Confirmation the proposed rate increase is included in IP&R documentation*
- b. Confirmation that community consultation has been carried out*
- c. Completion of the Local Government Cost Index (LGCI)*
- d. Acceptance of proposal by IPART*

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

By utilising Capital – Improved Value, it may assist mums and dads and Developers until developments are up and running or homes completed, as they would be rated on land value which will be lower than the improved value. Administering this process could be difficult although some suggestions are:- at practical completion of the project or occupancy certificate (interim or final) stage for a residential dwelling or when bins are being ordered for a property a CIV is requested from the VG or Council apply a higher ad valorem rate to vacant land (no base rate) or two valuations are granted for vacant land with the second valuation being a proposed valuation for a developed site based on surrounding CIV which the property owner could have the option of objecting to based on VG criteria for objections.

Incentives might be better placed in the contributions plan for Developers.

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

Agree the current process of accumulating interest at 8.5% does deter somewhat from speeding up collections. It also is a constant issue with rate payers the high level of interest charged. The rate is so far out of alignment to current interest rates also, given that returns from banks on large investments are in the high 3's.

The recent increases in legal costs to take overdue rates through court are as a deterrent for Councils.

Any pensioner deferral policies in place also make it difficult to manage debts.

One area for improvement would be coordinating with Centrelink to take rates payments out of all pensions before payment to the individual. This would speed up collection processes, spread payments out for pensioners and reduce outstanding. If this were to happen, a review of the current cost per transaction would need to be carried out, given that the current charge is .90 cents per transaction per month.

Another ongoing issue for Council is electronic serving of rates notices, this needs to be addressed in any changes to the rating system, such that the guidelines are very clear. This should by default speed up delivery and payment of rates if using electronic means and be more cost effective based on the increasing cost of postal services.

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 properties categorised as residential or business and occupied should be rateable regardless of ownership as ALL such properties utilise Council services, and in some cases provide a greater drain on Council resources than rateable properties. See below examples of issues with the current arrangement which need to be addressed to relieve the burden on local ratepayers within the LG area.

- a. Defence land being non rateable where there is significant impact on local infrastructure, eg the Beecroft Weapons Range in Currarong, NSW (Land holding of \$2.8m). Defence are carrying out works within the range which results in substantial road activity by large truck and trailer combinations. This causes the condition of the road to deteriorate, requiring Council to allocate funds for its repair. Defence should work with Councils in areas of substantial activity to devise a long term plan to upgrade roads and maintain them accordingly. To upgrade roads to cater for increased activity would possibly be funded by Grant funding, however from an ongoing perspective Defence should be accountable for paying rates to maintain the road quality. This area is also a tourist site and attracts large numbers of tourists to the area who utilise (but do not pay for) Council resources.*
- b. Burrill Lake Tourist Park is owned by Royal Australian Navy Central Canteen Board. They have been receiving non rateable status from at least 2002. The current land value on the property is \$1,500,000. Although the park gives priority to Defence Force personal the park is very popular with the general public and is regularly booked to capacity generating presumably very high returns . The returns from this investment are taken out of the community and result in increased rates for local residents. Any Commercial enterprises, regardless of owner should be rateable.*
- c. Department of Housing currently does not gain exemptions from rating, however when they vest these properties to Community Housing Organisations, these organisations are requesting non-rateability, although the houses are being used for the same or similar purpose. This issues revolve around the definition of benevolent associations, but from a Council perspective to change these properties from rateable to non-rateable would impact significantly on Councils rating income. Regardless of ownership these properties should continue to be rateable.*
- d. From a Department of Housing perspective also they only pay rates when the property in question is occupied. They are very quick to let us know when a property has no tenants but not so quick informing Council when a new tenant has been placed in the property. This results in less revenue for Council. There is no incentive to turn these properties over quickly, so the rateable/non rateable status should not exist.*
- e. For private schools to be non-rateable they must not be operating commercial activities, where they do have commercial operations than they should be rated accordingly.*
- f. Land uses for religious or charitable purposes, if there is a portion of their operations which are profit generating then they should pay rates for this portion.*

- g. *Oyster farmers have the ability to earn income from commercial operations so should not be exempt from paying rates. The value of their properties need to be included in the Capital Value and rates charged accordingly.*
- h. *Private hospitals and Universities both are commercial operations, so should not be exempt from paying rates, but perhaps are charged under another category at a lower rate.*
- i. *National Parks and Crown hold vast areas of land in the Shoalhaven area and need to be rated even if at a reduced rate.*

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?

No comment

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

The financial contribution from Councils to support this scheme increases as the population of the Local Government area ages. The effect on this is further burden on less tax payers, so is neither sustainable nor equitable.

In addition to these limitations, the Council Rebate for water and sewer is a fixed concession for eligible pensioners jointly funded by the NSW State Government and Local Councils. The rebate a pensioner in an area not serviced by Sydney Water or Hunter Water is based on the following as contained within the Local Government Act:

- *50% of a water charge up to a maximum \$87.50 concession*
- *50% of a sewerage charge up to a maximum \$87.50 concession*

So an eligible pensioner in these areas can receive a maximum of \$175 off their total water and sewer charges.

These maximum available concessions have been in place for many years, without any adjustments. Therefore, as water and sewerage bills have increased in real terms over time, pensioner rebates decline in value relative to the total water and sewerage bills. Councils contribute 45% of these concession costs, through lost income to the water and sewer funds.

The pensioner rebates for eligible Sydney Water customers are calculated in a different way, and are far greater. Those rebates are 100% of the water access charge and 83% of the sewer access charge. These rebates are funded from the state government as CSOs. It is noted that in the 2008 IPART pricing determination for Sydney Water, the following was stated by IPART:

"IPART considers that customer-impact mitigation is primarily the responsibility of the Government as part of its broader social policy. IPART recommends that the Government evaluates the current suite of social programs, along with the enhancements proposed by Sydney Water in its initial submission, to ensure that appropriate measures are in place to assist financially disadvantaged customers....."

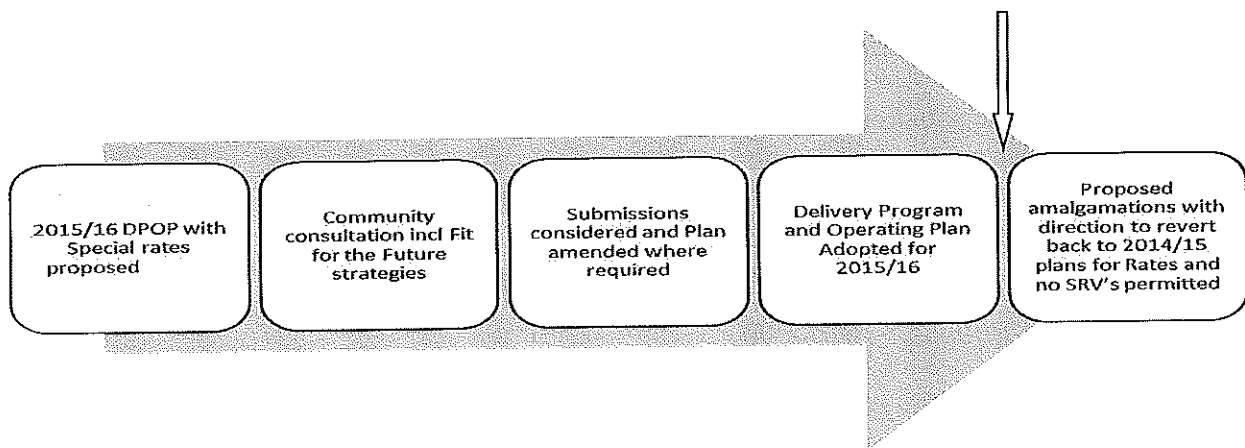
The Pension Rebate should be increased with CPI or in line with the Rate Peg and should only apply to aged pensioners or those on disability pensions, therefore not include unemployed or sole parents unless asset tested.

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?

Yes we agree with that interpretation. The issue is where one interprets the starting point of the trajectory from. The current information stated publically indicates the starting point is if an IPART SRV has already been approved. This is not the starting point of the trajectory for the rating path. If a Council has undertaken the necessary planning, has consulted with the community, included the proposed rate increases in their DPOP and their Fit for the Future applications then these rate increases are clearly on the Council's rating path and should be permitted in the merged Council. These strategies included a Special rate over 2 years to achieve the desired outcomes. These had been communicated to the community as part of the Delivery Program from 2015/16. However, these plans seem to have been totally ignored from an OLG/IPART perspective and in their place the OLG/IPART have reverted to plans from 2014/15. If Council is to merge or not then the trajectory from 2015/16 plans should allowed to be followed.

Below is a diagrammatic of the process followed and the point at which the process has been aborted.



14. Within the rate path freeze period, should merged council's 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?

Yes, no further comment.

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

Merged Councils should also be able to apply for a new special variation under the additional scenarios below:

- a. *If it was in their Long Term Financial Plans and community consultation had been previously carried out*

- b. *If it is for new infrastructure projects where a special rate is required to be levied ie paper subdivisions*
- c. *If an extraordinary situation arises that requires Council to take immediate action to increase the rating base ie a natural disaster or community or global crisis, where funds need to be raised to rebuild infrastructure.*
- d. *In circumstances where a local community wants an additional service and is prepared to pay an additional special rate – i.e. Sussex Canal development area to pay a special rate to replace Jetty fees.*

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)?

No, pre-merged Councils should still have the ability to make changes within each individual councils rating structure to account for reallocation of service costs, or more equitable distributions of the rating burden within each of the individual councils. These type changes are made on an annual basis within an individual council and this process should not be stymied.

If a revaluation occurs during the “freeze” period, which for Shoalhaven Council it will then dependent upon how the land values are affected, the current rating structure may need to be reallocated to maintain a fairer rating system.

17. During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either:
- a. *Relative changes in the total land value of a rating category against other categories within the pre-merger council area, or*
 - b. *The rate peg (adjusted for any permitted special variants)?*

See response to question 16. above.

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?

Agree but don't see this as a practical option for our Council, given the deficits we will be running if a special rate is not permitted. The current rating path trajectory includes a SRV rate increases of at least 7.5%

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

If Councils advance in their merger proposal and start to bring the disparate rating systems onto one system, then Councils should be able to start aligning rates for the two councils into the one structure earlier than the expiration of the “freeze” period. Council should also be permitted to include any catch-up from previous rating years into their rating base.

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?

Preferred option would be the one:

- a. With the least administration requirement*
- b. Which can happen in the shortest timeframe*
- c. One which can be reverted back easily if/when required.*

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

Being able to levy rates within a centre of population will allow Councils to levy rates on two or more distinct pre-merged council areas, so this requirement should be acceptable although not mandatory as it may be more practical to base the rates on like type activities or use which would be more flexible and reduce the need for multiple categories.

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 any special variations approved either prior to the merger or after the merger should be included in the revenue base for the merged council. These increases should only apply to the Council which had them in their plans.

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

Aligning rates from the two disparate councils will require significant consultation and if a decision is made to align the rates into one residential rate as opposed to two rates for the separate centres of population, then one rate goes up and the other down and if this is the case then a full review of service levels would also be required in both LG areas. If two different residential rates prevail then the argument will always be there with regard to the different levels of service provided.

Any review of the services provided by either council with a view to include, eliminate or modify services will be a costly and time consuming exercise, given that a lot of community consultation will have to be undertaken. A poor decision by council will have a very negative effect on the ratepayers which will reflect badly on the new council.

If you need further information about this matter, please contact Pamela Gokgur, Corporate & Community Services Group on [REDACTED] Please quote Council's reference 8923E (D16/136903).

Yours faithfully

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Pamela Gokgur
Chief Financial Officer
12/05/2016