

Our ref: 2015/79116

13 May 2016


Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Office Shop NSW 1240

Dear Sir/Madam

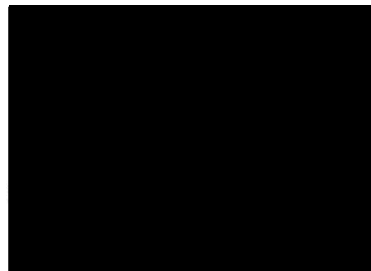
### **Review of Local Government Rating System**

Attached please find Sutherland Shire Council's submission on the Review of Local Government Rating System.

As Sutherland Shire Council is not subject to the proposed mergers, it has elected to make submission only on those items relevant to it. For this reason the submission only contains commentary on questions 1 to 12.

If you have any enquiries in relation to this matter, please do not hesitate to contact Council's Manager-Finance, Mr Greg Hayes 

Yours sincerely



Scott Phillips  
General Manager

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

Generally, the principles outlines are agreed, however the following is provided for consideration:

- The benefits principle and the equity principles are not necessarily applied under all rating systems, particularly when based on land values where high value strata units are charged on the basis of land value entitlements;
- The concept of competitive neutrality is not relevant as there is no private sector competition;
- Rates are a tax on assets and not always easily understood.

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?*

The Capital Improved Value (CIV) method should be available to councils. There are a number of benefits to such a system:

- The CIV method support the principles of taxation by providing a significant improvement in equity within the rates levy in areas currently considered inconsistent with these principles including but not limited to:
  - High value strata units;
  - Vacant land.
- Elimination of the impact of postponed rates (Section 585 of the Local Government Act 1993) and the requirement to write off rates after a five year period which has negative impact on council's rate revenue;
- More easily understood by the ratepayer and public.

The information required for implementation of the CIV method should be readily available to the valuer general through insurance and sales databases. The introduction of the Emergency Services Levy will further necessitate the availability of this information as this levy cannot equitably be applied against land values. This levy is a replacement of the insurance component of the emergency services funding which is currently levied on buildings not on the land component. Introduction of this levy complements the use of the CIV for rating purposes.

Given the alignment of benefit associated with creating a database of CIV for properties, consideration should be given to joint funding for implementation of the new valuation method if introduced.

Councils should be given the option of which valuation method they wish to use as the CIV method may not be as applicable in rural areas as it is in metropolitan councils.

3. *Should councils be required to use the Valuer General's property valuation service, or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania)?*

Councils should be given the option of engaging a private valuer and this is expected to hasten the provision of information to councils. Direct contracting of these services by councils is expected to improve competition and minimise risk to councils through accountability for provided valuations. Currently, the provision of a valuation which is subsequently appealed by the property owner can have significant ramifications for a council's income. Allowing the relationship between councils and the valuers to be contractual would provide some form of professional indemnity against such events and minimise the current financial risk associated with Councils use of the Valuer General as experienced by some Councils.

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 initial intention of the 1993 Act was to remove minimum rates. Although currently used by this Council, removal could be overcome by the introduction of base charges or the CIV method. If minimum rates are removed, the maximum level of rate revenue applicable to the base charge (currently 50%) should also be increased to improve flexibility and equity in rating. If they are to be retained, again an increase in the maximum levels should be considered.

Irrespective of the determination in regard to minimum rates, consideration should be given to a more flexibly base charge system. Councils should be able to link the level of base charge with agreed service levels for core business services in line with its Integrated Planning and Reporting framework. Such a system would be more closely aligned to the equity principles.

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

This is significantly dependent upon the valuation method to be applied. If the CIV method is introduced, many of the requirements for the expansion of the categories and subcategories will be eliminated, however, to ensure urban renewal, a separate category for vacant land may be necessitated.

If the current land value methodology is to continue, then there is a requirement to expand the categories, outside the current centre of population/activity, to include residential types such as high rise/high density development. Allowing the creation of categories or subcategories based on zoning and/or property type, and not necessarily geographically contiguous, would streamline processes significantly.

Consideration should be given to allowing councils to apply the Mixed Use Apportionment Factor (MUAF) for properties with part residential and part business

use. Use of the MUAF will allow more accurate and equitable rating than reliance on current dominant use.

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

The equity issues have been outlined elsewhere within this submission.

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?*

Currently, requirements for the application for a special rate variation include community consultation. A more streamlined process could be introduced whereby this community consultation is considered satisfactory within limited parameters (for example a maximum 5% special variation) without also requiring IPART approval.

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

Other than the preliminary view expressed by IPART in the Review, and again depending on the valuation methodology to be applied, consideration should be given to the inclusion of a category for vacant land to allow a higher ad valorem rate to be applied to that of developed or occupied property to encourage urban renewal.

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

Introduction of the New Zealand approach of requiring payment from the mortgagee after rates being outstanding for more than twelve months would improve management of outstanding rates. This is currently precluded for privacy reasons.

Further considerations to enhance the debt management process would be:

- Amendment of the electronic notice of sale form to allow the capture of additional information such as email addresses, phone numbers and date of birth (clarity in relation to recovery action);
- Reducing the timeframe for selling properties for unpaid rates;
- Allowing councils to recover rates from the property owner and not the lessee in the case of Government Authorities. In lease property situations it is not uncommon for the tenancy advise to be received late in that tenancy and often by the time notification is received the lessee can have terminated and not be traced;
- Removal of Section 712 of the Local Government Act which limits proceedings for recovery of rates and charges within twenty years. This section does not consider rate deferment arrangements which can extend past this timeframe.

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?*

Rateability should be based on usage and not ownership. All properties categorised as residential and occupied should be rateable to promote equity, regardless of ownership, as these properties utilise a council's services in the same manner as rateable properties. This is particularly relevant in relation to rateability of Public Benevolent Institutions (PBI).

Currently, legislation requires properties owned by Housing NSW to be rateable, however, properties owned by PBIs and provided for affordable housing are potentially non-rateable. Consumption of a council's services would be at least similar in both instances and comparable to that of a rateable residential property, and therefore should be rateable. It is government's responsibility to fund public housing, however, under current legislation this burden is being placed on local government ratepayers. As PBIs become successful there is an increasing risk of further burden being transferred to ratepayers. In Sutherland Shire there are 594 community/public housing properties with rates totalling in excess of \$2 million. Transfer of these properties and granting non-rateability would result in a subsidisation of around \$25 per rate paying property.

The same analogy applies to nursing and aged care facilities where ownership determines rateability, irrespective of the consumption of council services. The total valuation of non-rateable aged care facilities in the Sutherland Shire is \$83.8 million which represents subsidisation in excess of \$180,000 or around \$2.20 per rate paying property.

Private schools tend to draw a significant level of students from outside the local government area, however, again these schools utilise council facilities and consume council resources provided by the community's ratepayers. These schools have major funding but do not contribute through rates.

Narrowing the current definition for non-rateability could be compensated with councils having the capacity to grant differential rate rebates depending on the nature of the activity and the expected consumption of services. These rebates would be advertised and ultimately determined by the community. The rebates would be standardised across a local government area to ensure consistency and eliminate bias and lobbying. An example would be that all private schools are rebated 75% of the rates, as determined by the community. For this to occur, all newly rateable properties would need to be in addition to the notional rate yield or rebates adjusted against the yield so that further erosion of the rate income did not occur.

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?*

The proposal to narrow exemptions pertains only to usage as outlined above. Elimination of current council exemptions from state taxes could only be introduced if all level of government paid rates and the exemptions that these entities currently benefit from were also removed, such as hospitals, public schools and public utilities. To do otherwise would only represent further cost shifting to local government.

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

The objective of the pensioner concession scheme is to provide relief and assistance to low income/limited income ratepayers. Currently New South Wales is the only state that does not have full State Government funding of the pensioner concession scheme. Full State Government funding should be introduced allowing individual councils to determine what, if any, further assistance should be given – Sutherland Shire Council currently provides an additional \$105 voluntary rebate. The current system implies responsibility for welfare matters upon local government when it is appropriately the responsibility of higher levels of government.

### *13-23 Rate path freeze*

As Sutherland Shire Council is not subject to the current merger proposals it is considered inappropriate to comment on the rate path freeze.