

THE HILLS SHIRE COUNCIL

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Review of Local Government Rating System
 Independent Pricing and Regulatory Tribunal
 PO Box K35
 Haymarket Post Shop NSW 1240

Dear Sir/Madam,

REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM – COMMENT ON IPART ISSUES PAPER

Please see below Council's response to questions from IPART concerning the Review of the Local Government Rating System.

Taxation Principles

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

- No.

Rates are a broad based levy or fee for service provision, not a tax for income redistribution.

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?

- The Hills Shire has a large number of multi-unit properties (strata's) both residential and commercial. The current NSW legislation (the Local Government Act 1993 & the Valuation of Land Act, 1916) cultivates an inequity in the rating of strata's, in comparison to single dwelling properties as it is based on the unimproved land values (UV). It is considered that the majority of strata owners pay much lower rates than people with a single dwelling, or a singularly valued commercial property.
- It has long been considered that the *Capital Improved Value* (CIV) method would be the most equitable and efficient for valuing strata's and calculating ad valorem rates, combined with the creation of a sub-category of the *Residential & Business* categories for strata's.
- The CIV method would be preferable for apartments as it is the most equitable, simplistic and sustainable valuation method for our demographic,

provided the difference in rates between CIV and UV is added to notional income.

- A mandated valuation method is preferred as will allow consistency across all Local Government areas.

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)?

It is preferable to use the services of the Valuer General, as it will be consistent across all Local Government areas, unless:

- that the supply of valuations to Councils by private valuers adhere to current legislation and is timely.
- restrictions are placed on the valuation fees charged to NSW Councils by private valuers to keep the fees charged to a reasonable and equitable level and;

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 mainly use base and minimum amounts to spread the rating burden resulting from disproportionate ad valorem rates calculated on the UV method, particularly those for strata's. The ad valorem rate levied on the large majority of strata's is very low and although the occupants of the strata may use the same, or more Council services than the occupants of a single dwelling house, their rates are usually much lower. Levying a higher base charge spreads the rate burden more evenly amongst the ratepayers.
- The cost of levying rates on a per capita basis would be very high, difficult to administer and the task of obtaining the data required would also be extremely difficult, cumbersome and possibly inaccurate.
- If a CIV was used for all rating purposes rather than a UV, it would not be necessary to have such high base amount.

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

- Rating categories in general work well and are a lot less cumbersome to administer than a system based upon land use – unless it was at a higher level of use, such as stated in the points below.
- The optimal solution would be to allow a greater use of sub-categories. A change in sub-categorisation of the **Residential** category, from the current *centre of population* to permit the use of sub-categories based on high level land use only, (being: - detached houses, residential strata's, serviced apartments, bed & breakfasts, rural residential land and vacant land) is preferred, as it would be far more equitable than the current legislation, particularly for city councils.
- Again a change in the **Business** category from *centre of activity* to permit the use of sub-categories based on a high level land use only, (being: - retail, commercial, industrial and vacant land) would be more equitable.
- The current determination of sub-categories for *Farmland & Mining* works well.

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

- Difficult to calculate.

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?

- IPART's two suggestions of introducing earned autonomy, where certain councils demonstrating consistent high performance could earn complete exemption from rate pegging, and streamlining the application and approval process for special variations; would greatly improve the current system.
- In regard to rate pegging there is currently a provision for councils to catch up on lost income due to properties becoming non-rateable. However, there is no provision to catch up lost income due to changes in rating category e.g. where income is lost as a consequence of a property being re-categorised from Business to Residential. This should also be considered.
- Similarly, councils are able to recoup lost income for previous years due to valuation objections under Section 511A. However there is no provision for recouping lost income due to revaluations, which can be substantial and have significant effects on Council's forward revenue.

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

- Agree with IPART's view that the current provisions of S495 of the Local Government Act for special rates, allows councils to collect additional revenue to meet the costs of delivering additional services, or infrastructure required.

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

- Council currently offers weekly, fortnightly, monthly, bi-monthly & ad hoc arrangements to pay overdue rates and charges, as well as direct debit & Centrelink payments. It also offers a many other varied payment options. Council implements legal recovery action only as a last resort for collecting overdue rates and charges. However, there are a large number of ratepayers who ignore repeated requests and then demands to pay, &/or decline to make an arrangement to pay and regardless of interest accruing on their overdue rates, still refuse to pay. Apart from the provisions of Sections 569 and 712 of the Act, Council's only other option to recover overdue rates and charges, is to pursue legal action. Unlike other utilities & service organisations, Council cannot simply cut off supply as a deterrent to overdue rates, so there are not many other options available.

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?

- S559 of the Act - determination as to whether a body is a public benevolent institution (PBI) or public charity for the purposes of section 556 or 558, needs to be clearer and made more specific. It is too open to interpretation.
- Various housing groups registered as PBI's have taken over a large number of Department of Housing (DOH) properties. DOH properties are rateable (S560 (4)) and therefore contribute to the local community. However, the housing groups are claiming exemption from rates and the rest of the local community must pay. The Act has not kept pace with such changes & this is a very important area that needs addressing. S560 should be amended to include such land owned, or under the control of these PBI's.
- Land not leased by the Crown is exempt from rates. However, various Crown authorities are claiming non-rateability even though there is a lease, or agreement in place. In most cases the Lessees make use of Council services and amenities and are not contributing. The Act needs to be tightened to ensure this does not occur.
- Section 555(g) should be clarified and the list of "declared properties" in Schedule 1 should be easily identifiable.
- Postponed rates S 585 are cumbersome, time consuming and costly to administer. It would be far more preferable to give a straight allowance for the attributable portion of the rate, similar to a Section Allowance (e.g.14T VLA) for each Base Date, until such time as the property ceased to meet the requirements for the allowance. Rates would simply be levied on the net rateable valuation each financial year.
- Alternatively, exemptions could be based upon intensity of land use used for the purpose of the exemption and not ownership and / or overall land use of the property.

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?

- Most NSW councils, including the Hills Shire would be disadvantaged by such an approach as there would be changes on a very small level in regard to exemptions in comparison to the cost to Council of losing various tax exemptions.

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

- Introducing an assets test that limits eligibility for the concession where the property is over a certain value, is a positive option and is much more preferable than deferring pensioner rates. Deferral would be costly to administer would be a financial burden for councils with a large pensioner base.

As essentially this is a welfare payment, any changes or increases should be funded by the federal government.

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?** No, as the major cost in any Contribution Plan is land, and the cap should be lifted to provide the necessary infrastructure for that area. Currently the Developers make a larger profit as the Market price determines the selling price of a block of land/House and is not dependant on whether there is a cap or not.
 - **To fund new infrastructure projects by levying a special rate?** Yes
- Any of the above could mean a large drain on Council's revenue and Council should be able to recoup the lost income.
- 15. Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?**
- The most important have been covered by IPART in this review.
- 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)?**
- Yes – assuming pre-merge Base Date Land values remain frozen as well through the freeze period, until new values for the merged council are received. If land values did change it is usually necessary to use the base amount to spread the burden of valuation increases/decreases under the present legislation.
- 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)?**
- The Hills Shire Council is a large growth council and over a four year period the land values are likely to shift. Councils should be given the discretion to use either method during the freeze period dependent upon how much change there is. However, if discretion is not an option, the relative change method would be preferable for the Hills Shire.
- 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?**
- Yes as Council should have the discretion if needed.
- 19. What other discretions should merged councils be given in setting rates during the rate freeze period?**
- Nil.
- 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?**

- Option 1 is the preferred option. Options 2 and 3 would require a longer time frame, would not be as flexible as option 1, may involve duplication, nor would they be able to be quickly amended if needed. There is also the concern that the legislative amendments would be rushed and ill-considered if they had to commence before the merger proclamation.

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?

- Yes changes are necessary to the Act in this area and not only for merged councils. The requirement to set the same residential rate within a *centre of population* should be removed. As previously stated, *centre of population* is not a fair means of rating residential properties in a city area. *Centre of population* does not allow differential rating for detached houses, residential strata's, serviced apartments, bed & breakfasts and vacant land. It simply does not allow for a more equitable rating system.
- Further, The Hills Shire & Hawkesbury Council will merge to form a very large area with different demographics and needs. As local considerations may be very different over such a broad area, amendments to the Act, such as in the above point needs to consider this in regard to residential rating as well.

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?

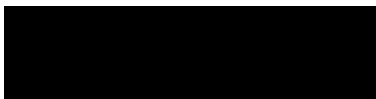
- Yes.

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

- The major concern will be setting equitable residential and business rates under the present legislation, particularly with *centre of population* being the determining factor for residential categorisation. If the present Act remains unchanged in this area, Hills Residential ratepayers will incur significant rate increases.

Once the freeze is over there still should be a limitation on an increase in rates because of the disparity in valuations.

Yours faithfully,



Dave Walker
GENERAL MANAGER