

20 May 2016

Dr Peter Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal of NSW
Level 15
2-24 Rawson Place
Sydney NSW 2000

By Email: [REDACTED]

Re: Review of the Local Government Rating System

Dear Peter,

The Urban Development Institute of Australia (UDIA) NSW is the leading property industry group promoting the responsible growth of this State. We have around 500 company members and more than 3,000 of their employees attend our events, sit on our committees, undertake training or are involved in the activities of the organisation on an annual basis. Our organisation is the oldest property development advocacy group in the country, having been established in 1962.

UDIA NSW is governed by a 13-person Council that is elected annually by the membership. We have 8 policy committees that meet monthly and they actively advise the council on policy positions. UDIA NSW aims to secure the viability and sustainability of urban development for our members and therefore the communities that they create. Our policy agenda has three key themes, namely the delivery of more new homes for NSW, the provision of quality, affordable infrastructure to support development and the creation of more jobs closer to where people live.

Local Government is the engine room for growth in NSW. With this in mind it is critical that local government is empowered to raise sufficient revenue, in order to support and service its existing and future residents. Attached is UDIA NSW's responses to IPART's Review of the Local Government Rating System Issues Paper.

Should you wish to further discuss any of the above please contact Justin Drew, General Manager, Policy & Strategy on [REDACTED]

Yours sincerely

A large black rectangular redaction box covering the signature of Stephen Albin.

Stephen Albin
Chief Executive

Urban Development
Institute of Australia
NEW SOUTH WALES

PO Box Q402,
QVB Post Office NSW 1230
Suite 2, Level 11, 66 King Street
Sydney NSW 2000
e udia@udia-nsw.com.au
t 02 9262 1214
w www.udiansw.com.au
abn 43 001 172 363

UDIA NSW'S RESPONSE TO IPART REVIEW OF THE LOCAL GOVERNMENT

RATING SYSTEM ISSUES PAPER

List of Issues	UDIA NSW Response
<p>Taxation Principles</p> <p>1. Do you agree with our proposed tax principles? If not, why?</p>	<p>Yes</p>
<p>Assessing the current method for setting rates</p> <p>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?</p>	<p>The Capital Improved Value method should be used as the basis for determining the ad valorem amounts in council rates. CIV would broaden the tax base for a council and provide greater equity to ratepayers when compared to the unimproved land value method.</p> <p>By using CIV it will also make it easier for tax increment financing to be implemented in funding major infrastructure works and projects.</p> <p>CIV should be mandated across all NSW councils.</p>
<p>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)?</p>	<p>Councils should have the choice between using the Valuer General's property valuation services or a private valuation firm.</p>
<p>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?</p>	<p>UDIA NSW supports removing the restriction that revenue generated from the base amount cannot exceed 50% of the total revenue from any particular rating category.</p>
<p>5. What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide?</p>	<p>Rating categories should be expanded in order to increase councils' capacity to raise revenue from property rates.</p>
<p>6. Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities?</p>	<p>Rate pegging constrains councils in their ability to raise sufficient revenue to fund infrastructure works programmes, placing an inequitable burden on new development through Section 94 Contributions and Voluntary Planning Agreements to raise required revenue.</p> <p>Councils will be encouraged to support growth by removing rate pegging.</p>
<p>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?</p>	<p>UDIA NSW supports the immediate removal of rate pegging. NSW councils have the lowest rates in Australia to the point where many councils struggle to raise sufficient revenue to fund staff costs, infrastructure provision,</p>

	<p>maintenance of existing infrastructure and open space.</p> <p>Consequently, it is often new development that is unfairly encumbered with funding expenses often outside the scope of its nexus.</p> <p>As long as rate pegging exists, councils will struggle to support growth and the housing affordability issue will continue to be an issue, as costs that should be borne by the existing rate base are inequitably placed onto new development.</p>
<p>8. What changes could be made to the rating system to better encourage urban renewal?</p>	<p>Tax increment financing (TIF) should be looked at to support urban renewal. TIF has long been used throughout the USA to fund urban renewal of areas/precincts affected by urban blight. Land within a designated precinct is taxed on its improved capital value as a result of government intervention. The landowner pays an annuity (be it quarterly, half-yearly or annually) over a defined period (anywhere between 15-30 years).</p> <p>This is an equitable and efficient way of taxation as the avoidance of a lump sum taxation payment, such as stamp duty, allows for landowners to contribute in a pro rata fashion.</p> <p>IPART encourages councils to partner with other levels of government to provide services to its communities. UDIA NSW recommends IPART prepare case studies on what and how this would work. Special attention should be paid to infrastructure with joint governance arrangements (i.e. stormwater/waterway management).</p>
<p>9. What changes could be made to the rating system to improve councils' management of overdue rates?</p>	<p>UDIA NSW supports councils using the Small Claims Division of the Local Court as the primary means of recovering overdue rates (less than \$10,000) as professional costs are capped.</p> <p>For debts over \$10,000, UDIA NSW recommends maintaining the recovery status quo.</p>
<p>Assessing exemptions, concessions and rebates</p>	

<p>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?</p>	<p>UDIA NSW supports the replacement of exemptions with rebates. However, thought needs to be given to the potential impact rebates will have on the cash flow of businesses, not-for-profits, churches etc. that are currently exempt.</p>
<p>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?</p>	<p>UDIA NSW welcomes a holistic approach to exemptions given and received by councils.</p>
<p>12. What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?</p>	<p>N/A</p>
<p>Freezing existing rate paths for newly merged councils</p> <p>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?</p>	<p>Yes</p>
<p>14. Within the rate path freeze period, should merged councils be permitted to apply for new special variations:</p> <ul style="list-style-type: none"> - For Crown Land added to the rating base? - To recover amounts that are 'above the cap' on development contributions set under the <i>Environmental Planning and Assessment Act 1979</i>? - To fund new infrastructure projects by levying a special rate? 	<p>Yes.</p> <p>Given the level of growth occurring it should be explored whether these clauses can be used by councils to accelerate services to accommodate growth (particularly in urban renewal areas).</p> <p>For new infrastructure projects the nexus between the project and beneficiaries should be closely scrutinised but as a general rule the broadest base of beneficiaries possible should be targeted.</p>
<p>15. Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?</p>	<p>UDIA NSW notes for the record that the situation where a council may need to apply a special levy to fund infrastructure is a result of the legacy created by 40 years of rate pegging. Many councils struggle to fund recurring expenditure due to being hamstrung in their ability to raise revenue through their rate base.</p> <p>Rate pegging should be abolished as a priority.</p>
<p>16. During the rate path freeze period, should merged councils only be able to increase base amounts and minimum amounts each year by</p>	<p>Rate pegging should be removed as a priority in order to allow councils to raise sufficient revenue to meet recurring expenditure and infrastructure works programmes.</p>

the rate peg (adjusted for any permitted special variations)?	
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)?	Merged councils should be able to allocate changes to the rating burden across rating categories by relative changes in the total land value of a rating category against other categories within the pre-merger council area.
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?	Councils should be prohibited from setting their rates below the maximum rates that merged councils can charge in each pre-merger council area during the freeze period. Generally speaking, councils in NSW are underfunded. By allowing councils to set rates under the ceiling it becomes a political bargaining chip at a local government level where councillors will seek to keep rates low to win political capital at the expense of council being able to raise adequate revenue through its rate base.
19. What other discretions should merged councils be given in setting rates during the rate freeze period?	
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?	Providing the Minister for Local Government with a new instrument-making power appears to be the simplest way of implementing the policy.
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?	UDIA NSW considers changes are not required. There should be a greater emphasis placed on whether the rate base of newly merged councils will be able to meet their recurrent expenditure and capital works programmes rather than how much rates may go up or down for landowners.
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?	Councils may find themselves with insufficient funds and reserves or conversely have excessive monies. Councils should be given

	flexibility to adjust rates, up or down, at the end of the 4-year period depending on the financial needs of the council.
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