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BM

13 May 2016

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir/Madam

REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM

Western Plains Regional Council would like to take the opportunity to provide comment on the Local Government – Issues Paper, April 2016, regarding the review of the Local Government Rating System.

In relation to the Issues Paper and the workshop held on 26 April 2016, Council believes that the review appears to have a strong focus on the impact on metropolitan areas of the state and that regional NSW faces different issues that also require addressing as part of the Review of the Local Government Rating System.

Please see attached our responses to the questions asked in the Issues Paper.

Yours faithfully


Craig Griffin

Director Organisational Services – Dubbo Branch


Attachment/s: 1. Response to Issues Paper

IPART
Review of the Local Government Rating System

Local Government – Issues Paper
April 2016

Question 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 valuation method should remain as Unimproved Land Value (UV). Council agrees that the Capital Improved Value (CIV) method might correlate better with the benefits received from council services and may be more easily understood by the public, however, changing the valuation methodology would incur substantial costs.

In addition to the initial costs incurred in changing to CIV, ongoing administration expenses for councils and the Valuer General would increase, leading to higher annual fees for valuation services. Councils are not able to recoup increased valuation expenses due to rate pegging.

Whilst the Valuation Register would capture capital improvements on land when issued to councils in a General Revaluation, the register would either require frequent updating via supplementary valuations as properties are developed, or the valuations would become inequitable with improvements such as new dwellings not being reflected in the valuation, and therefore the rates, until the next General Revaluation is applied for rating.

Should the methodology for determining land valuations be changed from UV to CIV during the next 4 years, councils that were the subject of a merger will be required to levy rates to meet the required 'rate path freeze'. The requirements for meeting the 'rate path freeze' have yet to be determined. While councils will be able to comply with the requirements for implementing a rate path freeze for their total yield, or at a category or sub category level, changing the valuation methodology during this period will have a significant impact on rates levied for individual properties.

Should the change in valuation methodology occur at the end of the 4 year 'rate path freeze' period, coinciding with post-merger rate equalizations by merged councils, a change to CIV will further impact on the anticipated changes to rates levied on individual properties.

Question 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)?

Valuation services for NSW should remain under the Valuer General's property valuation services. The benefit of engaging a private valuer is unlikely to cover the administration costs of undertaking a Tender.

Question 4

What charges (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?

Base rates and minimum amounts should remain in the Local Government Act. Regional NSW has different issues to metropolitan councils and has sub-categories which contain properties with substantial differences in land valuations. Should minimum rates be abolished some properties would not make a suitable contribution and other properties would pay substantially higher rates. The limit on revenue that can be raised for a rate category or sub category from the base amount, being not more than 50 per cent, can result in properties with very low land valuations not making a contribution reflective of the level of service provided.

Question 5

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

The ability to sub categorise residential properties based on a centre of population should remain within the Local Government Act as regional councils have distinct centres of populations including cities, towns and villages throughout their local government areas. Whilst this ability should remain, Council believes that sub categories should also be possible within the Residential category based on the type of residential property. This would allow for the sub categorisation of non-strata multi dwelling properties, for example retirement villages, seniors living complexes and non-strata apartments. Council has retirement villages for the over 55's that contain a substantial number of self-contained dwellings on the one parcel of land where the ordinary rates levied do not reflect the level of benefits received by the property or the ability to pay principle. For example one parcel of land being 12.69 hectares in size currently contains 104 villas, with additional villa's currently under construction, and development approval for 217 villas in total. The ordinary rates levied on this parcel equate to \$128.35 per villa for the current financial year. It is expected that average contribution per dwelling will continue to decrease as the number of dwellings within the complex increases. Another similar retirement village currently contributes an equivalent of \$108.10 per villa in ordinary rates. This is inequitable when compared to the current average residential rate, being \$986.00, or the minimum residential rate of \$630.15, which is applicable to the majority of strata units.

The requirements within the Local Government Act and the Local Government General Regulations regarding properties that must be categorized as Residential should also be reviewed. The requirement for serviced apartments to be categorised as Residential, while hotels are categorised as Business is an example. In a regional city serviced apartments are an accommodation alternative to a hotel for short stays by tourists. Council has examples where serviced apartments are on adjoining parcels of land to hotels with both properties owned by

the same owner. One property is rated Business and the other as Residential in accordance with section 122 of the regulations.

Council believes the Business category should also allow for the sub categorisation of business properties based on the type of business undertaken e.g. heavy industrial or shopping center, rather than the current requirement that a sub category may only apply according to a centre of activity. This would allow councils to ensure that rates can be levied reflecting the 'benefit principle' and the 'ability to pay' principle for properties of a similar business nature that are not located within a centre of activity such as a business centre or industrial estate. An example of restrictions of the current sub categorisation criteria is a shopping centre constructed on a single parcel of land located within a residential area pays substantially lower rates than a similar shopping centre within a business centre that has been sub categorised.

The Mining category should be expanded to allow for other types of mines in addition to metalliferous and coal to be categorised as Mining.

Question 6

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

The current rating system causes equity issues in relation to the requirement to categorise serviced apartments Residential when they run in direct competition to hotels. If a serviced apartment it to be categorized as Residential it should be a requirement that the apartments have long term tenants.

Community Lifestyle Retirement Villages containing self-contained villas under Leasehold title rated as one rate assessment are not equitable. The ordinary rates levied on the parcel do not reflect an adequate contribution from the property owner towards the level of services provided by the council within the community to the large number of residents living in fully self-contained villas within the complex. (Please refer to response to question 5 for additional details).

Question 9

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

The Local Government Act needs to be updated regarding the service of notices in an electronic format.

Council's should be able to offer ratepayers the ability to pay their rates by periodical payments (weekly, fortnightly) without the restriction of section 564 that the rates must be 'due and payable'. Agreements with ratepayers should be possible prior to the instalment date passing.

Question 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 residential properties should be rateable regardless of ownership as all residential dwellings utilize Council services. Public charities and Public Benevolent Institutions should not be exempt from the payment of rates for residential properties.

Should it be determined that subsidies are to remain they should be in the form of a partial rebate rather than a full exemption.

Question 12

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

Council believes that the objective of providing rate relief to low income ratepayers is met by the current eligibility criteria of the Local Government Act.

Council believes the current pension concession scheme is appropriate and that the current level of funding of 55% by the State Government should continue.

Question 13

We have interpreted the rate path freeze policy to mean that in the four years after a merger, the rate 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 IPART's interpretation that "this rate path should comprise the pre-merger council's general income in the year the merger takes place, adjusted by the following two external factors:

- 1.0 the rate peg OR any special variation approved for the council prior to its merger, and
- 2.0 the expiry of any temporary special variations that applied to the council prior to its merger" (p. 36).

Council does not agree with IPART's interpretation "under our interpretation of the rate path freeze policy, the rates payable on each parcel of land should only change as a result of external factors (e.g., rate peg), and **not** as are result of the council merger. In other words, the pre-merger council's existing rate paths for all categories and sub categories of land will **also** follow the same trajectory as if the merger had not occurred" (p. 39).

Each pre-merger council's total rating yield should be permitted to increase each financial year in accordance with the announced rate peg. The existing processes for calculating Notional General Income should apply for each pre-merger council area.

If the rate path freeze is to apply to the pre-merger council's existing rate paths for all categories and sub-categories, whereby the rates payable on each parcel of land should only change as a result the rate peg, clarification needs to be provided around how additional valuations resulting from subdivisions, changes to categorisation based on use of the property, and changes to the rateable status of properties are to be administered throughout the 4 year 'rate path freeze' period. A 'rate path freeze' should not result in a council's Notional General Income not increasing during the 4 year period due to growth, or prohibit councils from making changes to a properties categorisation. Councils should not be restricted from recovering catchup or income lost through valuation objections when determining an appropriate rating structure. These processes are currently undertaken by councils to ensure maximum permissible income is achieved and result in Council's total Notional General Income increasing by the rate peg not each category or sub category.

Question 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?*
- *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 rates?*

The process for applying for a Special Variation involves community consultation and Long Term Financial Planning. Councils should be able to apply for special variations to fund new infrastructure, or fund projects to address identified infrastructure back logs, if it can be shown that there is community support for the proposed Special Variation increase.

Question 15

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

Councils should be able to apply for special variations to fund new infrastructure or fund projects to address identified infrastructure back logs if it can be shown that there is community support for the proposed Special Variation increase.

Question 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)?

Councils should be able to increase base amounts and minimum amounts each year above the rate peg as long as their total yield, or their total yield per sub category (should the rate path

freeze apply at sub category level) does not increase by the rate peg. This may be required to commence transitioning properties towards the new rating structure post 'rate path freeze' should an existing sub category have low base amounts or minimum rates.

Question 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 per-merger council area, or*
- *The rate peg (adjusted for any permitted special variations)?*

Councils should be able to allocate changes to the rating burden across categories as they deem appropriate. Both methods suggested by IPART present significant challenges to councils in determining a rating structure that is fair and equitable depending on timing within the valuation cycle.

Based on current valuation trends within our Council area, under the relative change method, the Residential rating category would incur the majority of the increasing General Income for the 4 years, unless new valuations were applicable due to a General Revaluation. This would result as the majority of subdivisions, resulting in increased valuations, occur within the Residential rating category. The Business category would bear a small percentage of the increase and the Farmland category would remain reasonably static.

The Fixed Share Method would result in rates for each category of land being increased by the rate peg, irrespective of changes in land value. This would result in Council not being able to reflect changes in land valuation resulting from a General Revaluation.

Question 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 able to allocate changes to the rating burden across rating categories and sub categories as they deem appropriate as long as the total pre-merger councils Notional General Income is only increased by the rate peg. The rate path freeze should not act as a 'ceiling' per rate category. Councils should have the flexibility to begin implementing a fair and equitable rating system in the lead up to the end of the freeze period without having to forgo permissible rating income if they were to set rates for a sub category below the maximum permissible amount.

A rating structure that is inflexible for a 4 year period will result in a greater impact on ratepayers at the end of the 4 year period when the merged council needs to correct disparities in the rating structures of the pre-merger council areas and implement a new rating structure that is accepted as fair and equitable to the community.

Question 19

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

Councils should be able to commence rate equalization from year two of the merger. A rating structure that is inflexible for a 4 year period will result in a greater impact on ratepayers at the end of the 4 year 'rate path freeze'. There should be transition legislation implemented for equalizing rating structures.

Question 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?

Whilst Council agrees with the IPART issues paper that issues in equalization for Residential properties are less likely to arise for rural councils that merge due to the ability for residential land in separate towns and villages to be sub categorised as a discrete centre of population, Council does foresee equalization issues arising for properties within the Residential rating category that are not within a sub category based on a center of population. The removal of the requirement for sub categories to be for a centre of population would assist post-merger.

Regional councils may be faced with difficulties in setting an equitable rating structure post-merger is for properties categorised within the Farmland rating category. In accordance with section 529 of the Act, a sub category may be determined for the category "farmland" according to the intensity of land use, the irrigability of the land, or economic factors affecting the land. The adopted rating structures for the pre-merger council areas may vary significantly for the Farmland category. The rates payable on a Farmland property with the same land valuation within each pre-merger area may vary substantially, with a 'rate path freeze' for the first 4 years post-merger only set to compound this problem.

Rate equalization at the end of the 4 year 'rate path freeze' for properties categorized as farmland would create substantial rate increases for some Farmland assessments and commensurate decreases for others. The current requirements for sub categorisation of Farmland within section 529 of the Act do not provide opportunities to address this problem.

Question 23

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

Merged council areas should have a re valuation in year two to ensure all properties are on the same valuation base date.