

3 July 2023

Independent Pricing and Regulatory Tribunal
Level 16, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Sir/Madam

Draft report - Review of the rate peg methodology

Thank you for the opportunity to make a submission to this review.

Urban Taskforce welcomes this review and sees it as another important step forward in addressing the myriad of issues created and maintained by rate pegging.

Council rates are a form of land tax and are widely recognised as one of the most efficient forms of taxation. Distorting a “good tax” is as bad as promulgating a “bad tax”, thus Urban Taskforce’s long-standing opposition to the productivity and equity impacts of rate pegging.

Urban Taskforce is firmly of the view that a rate peg does more harm than good. It is politically expedient but economically inefficient. Further, in the midst of a housing supply crisis, a peg on rates forces councils to look for targeted sources of incomes with a narrower base.

This shifts the incidence of a significant proportion of the costs of local councils from existing rate payers, onto new and future ratepayers. By artificially depressing this significant source of revenue for councils, it forces them to seek other means of raising revenue. Too often, these shortages are bolstered by the development community through fees and charges levied on the delivery of new homes. This has become more and more commonplace as the impact of decades of rate pegging have flowed through the system.

Whilst rate pegging may be politically convenient for the State Government, it raises issues around fairness and equity, as new and future entrants to a local government area are slugged with contributions even before they turn the key to the door of their new home.

Increasing the rates paid by the tax should be a matter for democratic processes to determine, not IPART reviews (no matter how worthy they are).

While not related to the recurrent budgets of local Councils, it should be further noted that there is collectively around \$3.2 billion in unspent developer contributions in NSW council bank accounts. This would seem to indicate that some greater fiscal discipline could be entered into by Councils.

Further, there are a number of councils which have been shielded from economic reality of the deliberately small rate payer base. Lifting the cap may encourage a broader discussion amongst ratepayers over the advantages that accrue through the economies of scale of council amalgamations.

The peg creates budgetary pressures for Councils, who then need to restrain recurrent expenditure, often at the expense of planning resources and staff. Removing the peg who allow Councils to levy rates at an appropriate level to meet their ongoing costs. The understaffing in many Councils' planning departments is as a result of rate pegging. Invariable, Council looks to meet their costs through fees and charges passed onto developers, who in turn pass these costs onto new home buyers.

The NSW Productivity Commission's White Paper recognised this, noting that while the role of Local Government was expanding, its rate based was artificially depressed through the peg and deterred growth:

"The NSW rate peg has had significant impacts. While councils' rates revenue has grown over time, it has not grown as quickly as other revenue components. As a result, rate revenue has declined as a proportion of total revenue."

NSW Productivity Commission White Paper 2020, p.257

The White Paper goes onto note that this state of play generally leads to three consequences – lower services, seeking of additional income (namely developer contributions) as well as an increased incentive to oppose development (Productivity Commission, 2020, p.258).

Productivity impacts were exacerbated as the peg artificially depressed what is a broad land-based tax, forcing desperate councils to seek other sources of revenue such as developer contributions, which imposes a disproportionate contribution on a narrower set of taxpayers. With tight margins in the development and construction industry, these costs are passed onto new home purchasers, who in effect subsidise the provision of a broad range of goods and services by Councils.

The new State Government has an opportunity to express confidence in local government and grant it more autonomy in charting its own fiscal course. and that the State Government needs to open the doors of democracy and allow local Councils greater latitude in setting rates. This reflects recommendations not just in the NSW Productivity Commission Green and White Papers, but earlier such as in the Henry Tax review, which recommended that the States should allow local councils greater autonomy to set the tax rate applicable to property within their local government area.

IPART notes that Councillors are representatives of their community and play a key role in holding council management to account. After all, Local Government is operated along democratic lines and any council or councillors are answerable to their constituents every four years. Should ratepayers believe that a council is being fiscally reckless, then it can vote for change. Alternatively, a prudent Council and/or councillors would be rewarded at the ballot box.

Improvements to the rate peg methodology

While there is a strong argument that the review is nothing more than window dressing on a failed policy, Urban Taskforce nonetheless supports any amendment to the methodology for setting council rates that better reflects actual costs. As such, the changes proposed by the IPART, replacing the Local Government Cost Index (LGCI) with a Base Cost Change, as well as creating separate Base Cost Change models for three councils groups are broadly supported.

Recommendation 1 – that the NSW Government accepts, as an interim measure, rate pegging reforms currently proposed by the IPART in its *Review of the rate peg methodology*

State Government review of NSW Councils financial model

Urban Taskforce supports the IPART's recommendation of an independent investigation into the financial model for councils in NSW.

The broadest possible examination into the way in which Council gain revenue is well overdue and needs to focus on the current inequities and distortions cause by placing an artificial cap on rates. Such a cap would not be countenanced if it were State Government or the Commonwealth.

The NSW Productivity Commission noted in its White Paper that should it become clear that recommendation 3.1 of its *Review of Infrastructure Contributions*, which allowed council revenue to increase along with population growth (a recommendation accepted and adopted by the NSW Government in 2022) still generates insufficient revenue, then local Councils should be able to hold plebiscites to test support for abolishing the rate peg (NSW Productivity Commission, p.259).

Recommendation 2 – that the State Government appoint a suitable qualified and independent person to review the financial model for NSW councils, and include in any terms of reference, the impacts (costs and benefits) of abolishing the rate peg altogether.

Should you wish to discuss this submission, please contact the Urban Taskforce's [REDACTED], on [REDACTED] or by email [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]