

20 October 2016

Review of Local Government Rating System
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Att: Dr Peter J Boxall AO, Chairman

Dear Dr Boxall

IPART – Review of the Local Government Rating System

Thank you for the opportunity to provide a submission to IPART on the Review of the Local Government Rating System. Waverley Council is strongly supportive of increased flexibility in the rating system and looks forward to the potential for application of several of the recommendations in the future. Many of the recommendations noted will help to provide Councils with the ability to select those options which are equitable and most suitable for application in each specific local government area.

Waverley Council's submission will address each of the draft recommendations listed in section 1.7, page 9 of the Local Government – Draft Report, August 2016.

Allow councils to use CIV as an alternative to UV in setting rates

- 1. Councils should be able to choose between the Capital Improved Value (CIV) and Unimproved Value (UV) methods as the basis for setting rates at the rating category level. A council's maximum general income should not change as a result of the valuation method they choose.***

The recommendation is supported as it would allow CIV as an option for rate setting and will provide for more equity between house and unit property owners. Waverley Council has considered the technical implications of collection and storage of CIV information and considers that this will potentially be labour intensive, particularly if both CIV and UV methods are employed. These concerns have not been fully explored in the report, but there could be significant information system configuration or enhancement work to be undertaken. There will also likely be a requirement to update CIV information more frequently than UV's if they are to be current and up to date.

- 2. Section 497 of the Local Government Act 1993 (NSW) should be amended to remove minimum amounts from the structure of a rate, and section 548 of the Local Government Act 1993 (NSW) should be removed.***

Waverley Council has participated in extensive rates modeling over the past four years, as we prepare for possible amalgamation and consider alignment of rating structures and the implication of amalgamation on rates for the community. To this end the recommendation is not supported as removing the minimum does not promote the greatest flexibility in rate setting structures. As such, other options should be considered including the introduction of CIV and removing the maximum of 50% cap on the base rate.

Allow councils' general income to grow as the communities they serve grow

3 The growth in rates revenue outside the rate peg should be calculated by multiplying a council's general income by the proportional increase in Capital Improved Value from supplementary valuations.

– This formula would be independent of the valuation method chosen by councils for rating.

The use of CIV and the provision for a mechanism to allow for growth in the rates base is supported, but would require modelling. Annual CIV assessment may be required to retain fairness in the system otherwise comparison CIV over 4 year measures may prove to show large differentials which may be difficult to accurately implement. Council acknowledges that where councils choose to continue with UV's, that an administrative overhead would exist for data to be collected, stored and maintained.

4 The Local Government Act 1993 (NSW) should be amended to allow councils to levy a new type of special rate for new infrastructure jointly funded with other levels of Government. This special rate should be permitted for services or infrastructure that benefit the community, and funds raised under this special rate should not:

- form part of a council's general income permitted under the rate peg, nor**
- require councils to receive regulatory approval from IPART.**

Recommendation supported particularly as it encourages the premise of partnering with all levels of government for infrastructure development. It is noted that there is a risk that Councils smaller in population or less affluent may be less able to take advantage of opportunities however each Council would assess this potential for themselves and would advocate for the needs of their community.

5 Section 511 of the Local Government Act 1993 (NSW) should be amended to reflect that, where a council does not apply the full percentage increase of the rate peg (or any applicable Special Variation) in a year, within the following 10-year period, the council can set rates in a subsequent year to return it to the original rating trajectory for that subsequent year.

Recommendation supported.

Give councils greater flexibility when setting residential rates

6 The Local Government Act 1993 (NSW) should be amended to remove the requirement to equalize residential rates by 'centre of population'. Instead, councils should be allowed to determine a residential subcategory, and set a residential rate, for an area by:

- a separate town or village, or**
- a community of interest.**

The recommendation is supported on the basis that it allows for further flexibility and that Council can take into account the needs of specific areas within the LGA allowing for Council to apply its discretion in balancing the needs of the community and the provision of Council services.

- 7 An area should be considered to have a different 'community of interest' where it is within a contiguous urban development, and it has different access to, demand for, or costs of providing council services or infrastructure relative to other areas in that development.**

Recommendation supported.

- 8 The Local Government Act 1993 (NSW) should be amended so, where a council uses different residential rates within a contiguous urban development, it should be required to:**
- ensure the highest rate structure is no more than 1.5 times the lowest rate structure across all residential subcategories (ie, so the maximum difference for ad valorem rates and base amounts is 50%), or obtain approval from IPART to exceed this maximum difference as part of the Special Variation process, and**
 - publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers.**

Recommendation supported in principle on the basis that it provides flexibility in the rates system and enhances the ability of Council to tailor the rates structure, aligning it to costs, services and infrastructure provision.

Some risks and issues should be further considered including the wide property value differential that can occur across an LGA and whether, therefore, 1.5 times is the appropriate amount, acknowledging that ensuring an ability to pay principle is paramount. In our particular LGA and in that of our merger partners, wide property value differentials exist. This particular situation will mean that the 1.5 times amount is not particularly useful and could be unduly restrictive.

Council and IPART could potentially develop an LGA appropriate differential through an application process.

- 9 At the end of the 4-year rate path freeze, new councils should determine whether any pre-merger areas are separate towns or villages, or different communities of interest.**
- In the event that a new council determines they are separate towns or villages, or different communities of interest, it should be able to continue the existing rates or set different rates for these pre-merger areas, subject to metropolitan councils seeking IPART approval if they exceed the 50% maximum differential. It could also choose to equalise rates across the pre-merger areas, using the gradual equalisation process outlined below.**
 - In the event that a new council determines they are not separate towns or villages, or different communities of interest, or it chooses to equalize rates, it should undertake a gradual equalisation of residential rates. The amount of rates a resident is liable to pay to the council should increase by no more than 10 percentage points above the rate peg (as adjusted for permitted Special Variations) each year as a result of this equalisation. The Local Government Act 1993 (NSW) should be amended to facilitate this gradual equalisation.**

Recommendation supported.

Better target rate exemption eligibility

10 Sections 555 and 556 of the Local Government Act 1993 NSW should be amended to:

- *exempt land on the basis of use rather than ownership, and to directly link the exemption to the use of the land, and*
- *ensure land used for residential and commercial purposes is rateable unless explicitly exempted.*

Recommendation supported.

11 The following exemptions should be retained in the Local Government Act 1993 (NSW):

- *section 555(e) Land used by a religious body occupied for that purpose*
- *section 555(g) Land vested in the NSW Aboriginal Land Council*
- *section 556(o) Land that is vested in the mines rescue company, and*
- *section 556(q) Land that is leased to the Crown for the purpose of cattle dipping.*

Recommendation is supported.

12 Section 556(i) of the Local Government Act 1993 (NSW) should be amended to include land owned by a private hospital and used for that purpose.

Recommendation not supported. Private hospitals are commercial operations and as such should be required to pay rates to Council at the full amount.

13 The following exemptions should be removed:

- *land that is vested in, owned by, or within a special or controlled area for, the Hunter Water Corporation, Water NSW or the Sydney Water Corporation (Local Government Act 1993 (NSW) section 555(c) and section 555(d))*
- *land that is below the high water mark and is used for the cultivation of oysters (Local Government Act 1993 (NSW) section 555(h))*
- *land that is held under a lease from the Crown for private purposes and is the subject of a mineral claim (Local Government Act 1993 (NSW) section 556(g)), and*
- *land that is managed by the Teacher Housing Authority and on which a house is erected (Local Government Act 1993 (NSW) section 556(p)).*

Recommendation is supported.

14 The following exemptions should not be funded by local councils and hence should be removed from the Local Government Act and Regulation

- *land that is vested in the Sydney Cricket and Sports Ground Trust (Local Government Act 1993 (NSW) section 556(m))*
- *land that is leased by the Royal Agricultural Society in the Homebush Bay area (Local Government (General) Regulation 2005 reg 123(a))*
- *land that is occupied by the Museum of Contemporary Art Limited (Local Government (General) Regulation 2005 reg 123(b)), and*
- *land comprising the site known as Museum of Sydney (Local Government (General) Regulation 2005 reg 123(c)).*

The State Government should consider whether to fund these local rates through State taxes.

Recommendation supported.

15 *Where a portion of land is used for an exempt purpose and the remainder for a non-exempt activity, only the former portion should be exempt, and the remainder should be rateable.*

Recommendation supported.

16 *Where land is used for an exempt purpose only part of the time, a self- assessment process should be used to determine the proportion of rates payable for the non-exempt use.*

Recommendation is supported however appropriate oversight and guidance from IPART would be required in order to ensure fairness.

17 *A council's maximum general income should not be modified as a result of any changes to exemptions from implementing our recommendations.*

Recommendation supported.

18 *The Local Government Act 1993 (NSW) should be amended to remove the current exemptions from water and sewerage special charges in section 555 and instead allow councils discretion to exempt these properties from water and sewerage special rates in a similar manner as occurs under section 558(1).*

Waverley Council's position is neutral in relation to this recommendation given it falls outside the remit of Council and its responsibilities.

19 *At the start of each rating period, councils should calculate the increase in rates that are the result of rating exemptions. This information should be published in the council's annual report or otherwise made available to the public.*

Recommendation supported.

[Replace the pensioner concession with a rate deferral scheme](#)

20 *The current pensioner concession should be replaced with a rate deferral scheme operated by the State Government.*

- *Eligible pensioners should be allowed to defer payment of rates up to the amount of the current concession, or any other amount as determined by the State Government.*
- *The liability should be charged interest at the State Government's 10-year borrowing rate plus an administrative fee. The liability would become due when property ownership changes and a surviving spouse no longer lives in the residence.*

Recommendation for a rate deferral scheme is not supported.

The role of the State Government in holistically examining pensioner support is acknowledged however, any change to the current system should not lead to pensioners being in anyway worse off nor add administrative burden to Councils.

An alternative may be that the current scheme remain in place and be 100% funded by the State Government. If a concession system was retained it should be indexed to the rate peg, or the increase in rates across the LGA, if another method is used.

Provide more rating categories

21 Section 493 of the Local Government Act 1993 (NSW) should be amended to add a new environmental land category and a definition of 'Environmental Land' should be included in the LG Act.

Recommendation supported, particularly as it encourages and supports flexibility for the system but alignment with other new initiatives such as the Emergency Services Property Levy (ESPL) is also important given the system changes and associated costs that changes such as this introduce.

22 Sections 493, 519 and 529 of the Local Government Act 1993 (NSW) should be amended to add a new vacant land category, with subcategories for residential, business, mining and farmland.

Recommendation supported.

23 Section 518 of the Local Government Act 1993 (NSW) should be amended to reflect that a council may determine by resolution which rating category will act as the residual category.

- **The residual category that is determined should not be subject to change for a 5-year period.**
- **If a council does not determine a residual category, the Business category should act as the default residual rating category.**

Recommendation supported.

24 Section 529 (2)(d) of the Local Government Act 1993 (NSW) should be amended to allow business land to be subcategorised as 'industrial' and or 'commercial' in addition to centre of activity.

Recommendation supported.

25 Section 529 (2)(a) of the Local Government Act 1993 (NSW) should be replaced to allow farmland subcategories to be determined based on geographic location.

As the Waverley Council area does not contain land categorised as farmland, the position on this recommendation is neutral.

26 Any difference in the rate charged by a council to a mining category compared to its average business rate should primarily reflect differences in the council's costs of providing services to the mining properties.

Waverley Council's position is neutral in relation to this recommendation given Waverley Council does not contain mining properties.

Recovery of council rates

- 27 Councils should have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.**

Recommendation supported given there is significant potential for the State Debt Recovery Office to play a role provided that the communication with the community can be conducted with appropriate consideration and sensitivity.

- 28 The existing legal and administrative process to recover outstanding rates should be streamlined by reducing the period of time before a property can be sold to recover rates from five years to three years.**

Recommendation is supported with application in extreme circumstances only.

- 29 All councils should adopt an internal review policy, to assist those who are late in paying rates, before commencing legal proceedings to recover unpaid rates.**

Recommendation supported.

- 30 The Local Government Act 1993 (NSW) should be amended or the Office of Local Government should issue guidelines to clarify that councils can offer flexible payment options to ratepayers.**

Recommendation supported.

- 31 The Local Government Act 1993 (NSW) should be amended to allow councils to offer a discount to ratepayers who elect to receive rates notices in electronic formats, eg, via email.**

Recommendation is supported. Council embraces the vision of a digital business model for dealing with Council. Consideration should be given to whether residents receiving electronic notices should have discount applied or whether those receiving paper copies should be charged an additional charge.

- 32 The Local Government Act 1993 (NSW) should be amended to remove section 585 and section 595, so that ratepayers are not permitted to postpone rates as a result of land rezoning, and councils are not required to write-off postponed rates after five years.**

Recommendation supported. Removing postponement of rates will increase efficiency of the system.

Other draft recommendations

- 33 The valuation base date for the Emergency Services Property Levy and council rates should be aligned.**

- **The NSW Government should levy the Emergency Services Property Levy on a Capital Improved Value basis when Capital Improved Value data becomes available state-wide.**

Partially supported.

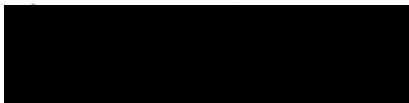
Whilst there is still some concern regarding the full impact of the Emergency Services Property Levy, the valuation base data used as the basis for collecting revenue for the Emergency Services Property Levy (ESPL) and collecting council rates should be aligned given the potential for administrative overhead and the resource implication of maintaining the data sets.

34 Councils should be given the choice to directly buy valuation services from private valuers that have been certified by the Valuer General.

Recommendation not supported. In our experience the Valuer General plays a critical role as the first and only port of call for valuations, recognising that the Valuer General utilises contracted valuer services at its discretion. The centralised role that the Valuer General maintains is an essential feature of the system and the entry of private valuers could lead to reduced services and service quality.

This submission was endorsed by Council at its meeting held Tuesday 18 October 2016.

Yours sincerely

A solid black rectangular box used to redact the signature of Peter Brown.

Peter Brown
General Manager