IPART – Recommendations

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.

   As stated in Council's original submission, Council favours the Capital Improvement Value (CIV) method as it addresses the issue associated with higher density properties which under the Unimproved Value (UV) method pay lower rates compared to low density properties.

   It also provides the best option when trying to link the ability to pay principle to the setting of rates. A property with greater capital improvements are more often than not going to have a better capacity to pay than somebody with less capital improvements.

   Ratepayers also understand the market value of a property which incorporates the land and capital improvements compared to just a land value.

   Council however does not support the proposal that Councils can choose the valuation method. The valuation method should be mandated for consistency purposes across NSW Councils.

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.

   Agree. Council does not currently use minimum amounts and has no plan to use them in the future.

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.

   Agree. This will help better align property growth with additional rate revenue particularly for higher density developments.

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.

   Agree. The recommendation that the special rate income be outside the Council's general income limit is strongly supported with this funding being for the provision of services or infrastructure outside of core local government activities.

   This proposal will also alleviate the need to go through the detailed process of a Special Rate Variation for this specific type of funding.

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.

   Agree. The ability for a Council to adopt a rate increase in a particular year below the rate peg and then have the opportunity within a 10 year period to make up that shortfall is supported. This allows Councils flexibility in the setting of their rates with the knowledge that shortfalls can be recouped when a more suitable environment eventuates.

Give councils greater flexibility when setting residential rates

6. The *Local Government Act 1993* (NSW) should be amended to remove the requirement to equalise 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.

   Agree. There has been some confusion around the application of 'centre of population' so support the removal of this requirement.

   The ability for Councils to use residential subcategories for separate towns or villages and communities of interest is also supported. This provides Councils the flexibility to levy different levels of rates for suburbs or communities which have greater access to services and infrastructure. This is particularly the case in local government areas which have new development as well as older established areas.

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.

   Council agrees that areas should be considered to have a different 'community of interest' and therefore rated specifically to the subcategory in which they fall under. Some areas within a contiguous urban development have different access to, demand for, or costs of providing council services or infrastructure relative to that specific area. These areas (sometimes within a suburb and not the whole suburb) should be rated different to other areas that do not have the same requirements.

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.

   Council disagrees with amending the Local Government Act to ensure the rate structure is no more than 1.5 times the lowest rate structure across all residential subcategories. Whilst an area within a contiguous urban development could/should attract higher rates specific to its needs, Council disagrees that a restriction should be applied to the highest and lowest rate structure as it reduces the flexibility recommendations 6 & 7 provides.

Council agrees with the recommendation to publish the different levels of rates determined as part of the new residential subcategories on its website and in the rates notice. This provides a higher level of transparency with the information being readily available as a result of the analysis completed in originally forming the subcategories.

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.

Agree. Providing the options of continuing rate paths on an ongoing basis for both pre-merger Council areas, setting different rates for the pre-merger areas or using the gradual equalisation process gives the new entity additional flexibility with their rate revenue collection.

- In the event that a new council determines they are not separate towns or villages, or different communities of interest, or it chooses to equalise 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.

Council agrees that the amount a resident is liable to pay to the new council should increase by no more than 10% points above the rate peg each year as a result of the equalisation. The Local Government Act should be amended to facilitate this more equitable gradual equalisation for new councils.

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.

Agree. Council believes that the use of the land is more relevant to the rates than the ownership. The example of land owned by an exempt organisation but the property is being used for separate commercial activities confirms this point.

Subsequently Council also agrees that land used for residential and commercial purposes should be rateable unless explicitly exempted.

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.

Agree to the first two. Council does not have a strong opinion either way on the last two.

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.

    Agree. Council believes that a private hospital is providing a service to the community and therefore should be included in section 556(i) of the Local Government Act 1993 – which simply states "land that belongs to a public hospital". This section could be modified to state "land that belongs to a hospital".

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)).

    Council does not have a strong opinion either way on this recommendation.

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.

    Council does not have a strong opinion either way on this recommendation.

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.

    Agree. This is similar to existing residential and business mix development land uses.

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.

    Disagree. Determining how often it is used for non-rateable activities would be too difficult to administer.

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

Agree.

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).

Council does not have a strong opinion either way on this recommendation.

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.

Agree. This would be similar to other inclusions in the annual report for example financial assistance provided to external organisations.

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.

Agree. An issue raised by this Council a number of times over the years is the $250 pensioner concession level which has been in place for some time. This is obviously decreasing in real value with annual inflation increases. Council has previously suggested the concession should be increasing in line with inflation and the increase being entirely funded 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.

Council does not have a strong opinion either way on this recommendation.

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.

Council supports the proposal to introduce a new rating category call "Environmental Land". This would allow Councils additional rating flexibility for properties with development restrictions etc. However, under a CIV method, it is believed the need for the additional category is somewhat reduced compared to under the existing UV method.

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.

Council does not see the need to create a new vacant land category. It is believed the proposed CIV valuation method will address any equalities.

An example is given that incentives are required to ensure vacant land in the Sydney Metropolitan area are developed to encourage urban renewal. Council believes the level of rates is not going to be a critical element in the decision making on whether land is developed or not, particularly in the Sydney Metropolitan area.

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

    If there is sufficient flexibility in the rating categorisation, then the need for a particular residual rate category will be minimised.

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.

    Support. This just adds additional flexibility to rating categorisation and is also consistent with the categorisation required with the new Emergency Services Property Levy (ESPL).

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.

    Council does not have a strong opinion either way on this recommendation.

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.

    Council does not have a strong opinion either way on this recommendation.

Recovery of council rates

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

    Whilst there are already a number of options for Councils to use for the external recovery of overdue rates, the inclusion of the State Debt Recovery Office does provide a further option should Councils require it.

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.

    Disagree. There are enough legal recovery avenues available to Councils without needing to rely on this method of recovery to any great extent.

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.

Not supported. The recovery process for each individual Council should be addressed via their Rates Policy. This should provide information regarding processes to occur before the legal action point is reached, minimum amount outstanding before legal action can be taken etc.

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.

    Not supported. Again this issue should be addressed via each Councils Rates Policy.

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.

    Supported. Council has been in discussions with its Rates Mailing House regarding this rates delivery option for interested ratepayers. The discount offered however should not exceed savings identified from the use of electronic formats.

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.

    Council agrees with this recommendation.

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.

    Council agrees that the valuation base date for the ESPL should be the same as what is used for Council rates for consistency purposes.

    Council also agrees that the levy should use the CIV method should it become available as there is a better correlation between an increase in capital value of a property and the utilisation of the service being represented by the ESPL.

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

    Not supported. Council believes for consistency purposes that the Valuer General should be responsible for the provision of valuations.