



New South Wales

IPWEA

INSTITUTE OF PUBLIC WORKS
ENGINEERING AUSTRALASIA



IPWEA (NSW) ROADS & TRANSPORT DIRECTORATE

IPWEA (NSW Division)
L12, 447 Kent St
Sydney NSW 2000
Tel 02 8267 3001

13 September 2019

Office of Local Government
IPART – Local Government Rating System Report
Locked Bag 3015 Nowra NSW 2541

Email: lgratingsystem@olg.nsw.gov.au

Submission on the IPART Local Government Rating System Report

The IPWEA NSW Roads & Transport Directorate appreciates the invitation to provide this submission to the Office of Local Government. The submission deals with each of the recommendations presented for comment based on a wide range of inputs. We would welcome the opportunity to address the Inquiry to provide further detail on the issues raised within this submission.

Please do not hesitate to contact Mick Savage on tel: 8267 3000 or email mick.savage@ipweansw.org in relation to this submission.

Yours faithfully,

Mr Garry Hemsworth
Director IPWEA NSW Board

Mr Mick Savage
Roads & Transport Directorate Manager

THIS PAGE INTENTIONALLY BLANK

IPART Recommendations on the Review of the Local Government Rating System

Submission by

**INSTITUTE OF PUBLIC WORKS ENGINEERING
AUSTRALASIA
(NSW Division) Roads & Transport Directorate**

13 September 2019

Table of contents

1. Introduction.....	4
2. Background.....	5
3. Responses to Recommendations.....	6
4. Conclusion.....	16
5. Contact.....	16

Introduction

The Institute of Public Works Engineering Australasia NSW Division (IPWEA NSW) is the leading professional association representing Engineers and Public Works Officers engaged in public works and engineering, with the majority of members working in, or providing services to, Local Government (and the NSW Government).

IPWEA (NSW) is a charity with the purpose of advancing the public works excellence in Australia, particularly in NSW by:

- conducting and publishing research into improvements to the processes used in public works and services to enhance NSW Communities
- working with government at all levels to ensure that the interests of the community are represented in regard to the public decision-making process relating to public works and services, and
- providing a forum for all people engaged in the public works to discuss best practice and enhancing the future of NSW Communities

IPWEA (NSW) has made it a mission to enhance the quality of life of NSW communities through excellence in public works and services. This is achieved through our professional association that effectively informs, connects, represents and leads public works professionals for NSW.

The Roads and Transport Directorate was established by IPWEA (NSW) in conjunction with Local Government NSW in 2004 to provide support to its members working in local government across the state. It is supported financially by membership contributions from local councils across NSW.

Its main purpose is to assist Local Government in NSW in the area of road infrastructure and transport related activities by:

- Assisting members in discharging their road management roles in the most effective manner consistent with current legal obligations and the most recent technical practices particularly in the critical area of consistent and cost effective asset management;
- Assisting the IPWEA (NSW), Local Government NSW, individual Councils and members in lobbying for a higher priority to be placed on road infrastructure provision and maintenance and for a more equitable share of resources and funding; and
- Providing for IPWEA members and Local Government a powerful technical and research resource on transport issues at regional, state and national level. The activities would be, as circumstances dictate, either proactive or reactive to achieve the optimum benefit for the region or state.

This submission has been prepared by the NSW Roads & Transport Directorate on behalf of the IPWEA NSW Board.

Background

In 2016, The NSW Government tasked IPART to review the local government rating system in NSW. The purpose of the review was to develop recommendations to improve the equity and efficiency of the rating system, in order to enhance councils' ability to implement sustainable fiscal policies over the long term. The review considered:

- The valuation method used to calculate rates
- Rating categories
- The way in which councils' total income increases as population increases
- The distribution of rates across different ratepayers, and
- The eligibility and design of exemptions and concessions.
-

IPART's recommendations are not designed to increase the average rates paid by current ratepayers, but to allow councils to collect revenue more equitably and efficiently from ratepayers.

In 2019, The NSW Government released the IPART recommendations and is now presenting interested stakeholders the opportunity to comment on specific recommendations to allow them to respond to the recommendations.

Response to IPART Recommendations

The IPWEA NSW Roads & Transport Directorate supports the objectives of the IPART review into the current local government rating system in order to achieve a fairer and more targeted rating system that would allow Councils to grow in line with the growth of their communities. The Directorate is also supportive of recommendations that afford flexibility to councils without imposing restrictive requirements. Providing flexibility in setting rates will allow each local government area to develop a set of rating structures which are appropriate to the unique circumstances within each local government area.

The following are the Directorates responses to the recommendations presented for comment:

- 1. The Local Government Act 1993 should be amended to mandate Capital Improved Value (CIV) as the basis for setting ad valorem rates in the metropolitan council areas as defined by IPART.*

Supported.

Mandating the CIV method for metropolitan councils would be beneficial as the shift to the CIV method of setting rates would help remove any inconsistencies and inequities that may come with the trend towards higher density development. The CIV will enable councils to establish a more equitable distribution of rates between houses and apartment buildings. CIV is widely recognised as a fair and sustainable approach to the valuation process both nationally and internationally, as it is more easily understood by ratepayers. The use of CIV would provide a truer distribution of the rating burden, particularly in those councils with a large number of multi-unit or high rise apartment buildings.

Introducing the option of CIV will allow councils to develop more sustainable and equitable rating strategies that are appropriate for their own particular needs. It will also harmonise NSW's rating basis with that of other Australian states, and many other countries that have had the option to employ CIV.

- 2. The Local Government Act 1993 should be amended to allow non-metropolitan councils to choose between the Capital Improved Value and Unimproved Value (UV) methods as the basis for setting ad valorem rates at the rating category level.*

Supported

As the CIV method may not be applicable to rural and regional Councils, we agree that non-metropolitan councils must be given the flexibility to choose between adopting a UV method or CIV method, based on what will be most beneficial to their local communities.

3. *If Recommendation 1 and/or 2 are supported by the NSW Government, should the Local Government Act 1993 be amended to facilitate a gradual transition of rates to a Capital Improved Value method?*

OLG Comment:

The amount of rates that any ratepayer is liable to pay to the council should increase by no more than 10 percentage points above the rate peg (as adjusted for Special Variations) each year as a result of a council adopting a Capital Improved Value method for setting rates. Councils could apply to IPART to exceed this 10% limit.

Supported.

The proposal to put in place such a transitional arrangement is supported.

4. *If Recommendation 1 and/or 2 are supported by the NSW Government, should section 497 of the Local Government Act 1993 be amended to remove minimum amounts from the structure of a rate, and section 548 of the Local Government Act 1993 be removed?*

Not Supported

Councils should continue to have the option to use minimum amounts as a component of their rating structures. Councils perform detailed modelling of their rates structures and should be able to determine whether the use of minimums is appropriate for their rating structures. Councils should be afforded flexibility to allow them to be able to implement a more equitable rating distribution. We believe that the current flexible approach of allowing councils the choice of retaining minimum rates, base rates and ad valorem rates as valid rating structures should be retained. This better aligns with the principle of allowing a flexible and appropriate choice of rating valuations. The rating system should provide Councils with maximum flexibility to determine its own rating framework – in consultation with its community.

5. *If Recommendation 1 and/or 2 are supported by the NSW Government, should the Local Government Act 1993 be amended so that the growth in rates revenue*

outside the rate peg is calculated using the formula based on changes in CIV, as defined by IPART?

OLG Comment:

For non-metropolitan councils, this formula would be independent of the valuation method chosen as the basis for setting ad valorem rates.

Supported

We support any measure that would allow councils to increase their rates to keep in line with the increasing costs of providing services. That said, we support the recommendation to allow councils the ability to increase general income by the proposed calculation method of growth in CIV through supplementary valuations. This recognises the need for growth councils to provide increased infrastructure and services. However, not all councils may have the capacity to allow the recording of two sets of valuations and this may prove to be a problem with councils who choose to continue with UV. We recommend that the process be carried out by IPART to ensure that there is an appropriate level of oversight.

6. *If Recommendation 1 and/or 2 are supported by the NSW Government, should the NSW Government fund the NSW Valuer General for the upfront cost of establishing the database to determine Capital Improved Values?*

Supported.

We believe that the NSW Government must bear the upfront cost of establishing the database to determine Capital Improved Values.

7. *If Recommendation 1 and/or 2 are supported by the NSW Government, should the NSW Government fund the cost for a non-metropolitan council to set up a Capital Improved Value database for the purposes of implementing IPART's recommended formula for calculating growth in rates revenue outside the rate peg, where the Unimproved Value method for setting rates is maintained?*

Supported

The NSW government should fund the cost for a non-metropolitan council to set up a CIV database.

-
- 8.** *The Local Government Act 1993 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.*

Partially Supported

The proposal to promote and encourage funding partnerships between local and state or federal government is supported. It can be argued that the likelihood for infrastructure to come to fruition increases with funding support from ratepayers. The more willing they are to fund a project, the more likely the project will happen. However, it must be noted that this must not be extended to services or infrastructure that is already funded by other levels of government as there could be a risk of cost shifting. Also, there is a risk of putting more importance on state government infrastructure over Councils own priorities. A mechanism must be put in place to ensure that Council priorities are not lost and that there is a clear link between projects funded by the special infrastructure rate and priorities identified in Council's Integrated Planning and Reporting strategies.

- 9.** *Section 511 of the Local Government Act 1993 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.*

Supported

The proposal is supported as it provides councils with more leeway and flexibility to return to their long-term rates trajectory within a 10-year period in the event of unforeseen short-term downturns or recessions.

In framing this amendment, care must be taken to ensure that the underlying need is identified and documented. Use of this provision in a year leading up to an election must be scrutinised to ensure that such a decision is not unduly politically driven.

- 10.** *The Local Government Act 1993 should be amended to remove the requirement to equalise residential rates by 'centre of population'. Instead, the Local Government Act 1993 should allow councils to determine a residential subcategory, and set a residential rate, by:*
- *separate town or village, or*
 - *residential area.*

Supported

The proposal is supported as it allows councils the flexibility to set rates or establish a rating structure that is more aligned with local conditions. Allowing councils the ability to set a residential rate by residential area would ensure that rates paid by ratepayers are commensurate to the services they receive.

11. The Local Government Act 1993 should outline that:

- *A 'residential area' is an area within a contiguous urban locality that has, on average, different access to, demand for, or costs of providing council services or infrastructure (relative to other areas in that locality).*
- *Councils could use geographic markers to define the boundaries for a residential area, including postcode boundaries, suburb boundaries, geographic features (eg, waterways, bushland) and/or the location of major infrastructure (eg, arterial roads, railway lines).*

Supported

The definition of a 'residential area' is supported.

12. The Local Government Act 1993 should be amended so, where a council uses different residential rates within a contiguous urban locality, it should be required to:

- *ensure the highest rate structure is no more than 1.5 times the average rate structure across all residential subcategories (ie, so the maximum difference between the highest and average ad valorem rates and base amounts is 50%), or obtain approval from IPART to exceed this maximum difference, and*
- *publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers.*

Not Supported

We disagree and believe Councils should have the discretion to determine the most appropriate rate structure and be accountable to its communities through the IP&R process.

The threshold for allowable differences is arbitrary and unnecessary.

13. At the end of the 4-year rate path freeze, new councils determine whether any pre-merger areas are separate towns or villages, or different residential areas.

- *In the event that a new council determines they are separate towns or villages, or different residential areas, 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 in the report.*
- *In the event that a new council determines they are not separate towns or villages, or different residential areas, 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 Special Variations) each year as a result of this equalisation. The Local Government Act 1993 should be amended to facilitate this gradual equalisation.*

Not Supported

Merged councils should be given the freedom to determine their new rating structure through community consultation.

14. Not for consultation

15. Not for consultation

16. Section 556(1)(i) of the Local Government Act 1993 should be amended to include land owned by a private hospital and used for that purpose.

Not supported

Private hospitals operate on a “for-profit” basis and provide shareholders with massive return on investments. Including land owned by a private hospital to the exemption list would be considered unfair and inequitable. Land owned by private hospitals should not be exempt but be subject to full council rates as a tax deductible operational business expense.

17. Not for consultation

18. Section 555(1)(b1) of the Local Government Act 1993 should be amended to remove the current rating exemption for land that is the subject of a conservation agreement and instead require it to be rated using the Environmental Land category.

Supported

This proposal is supported.

19. Not for consultation

20. Not for consultation

21. Not for consultation

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

Not Supported.

Councils should be allowed the opportunity to gain any income or revenue as a result of implementing IPART's recommendations especially since the primary purpose of recommending these exemptions is to enable councils to raise the needed revenue to fund infrastructure and services. There should be a mechanism in place for councils to be able to make a recovery due to revenue loss as a result of previously granted rate exemptions.

23. A council may apply to IPART for a Special Variation to take account of the changes in exemptions using a streamlined process in the year that IPART's recommended exemption changes come into force. The council would need to demonstrate:

- it satisfies the first criteria for Special Variation applications in the OLG guidelines relating to the need for and purpose of a different revenue path for the council's General Fund, and*
- that any subcategory rating structure applied to previously exempt properties is no greater than the average rate structure across the relevant rating category.*

Supported

The proposal to enable councils to apply to IPART for a Special Variation to take account of the changes in exemptions using a streamlined process in the time that IPART's exemption changes take effect is supported.

24. The Local Government Act 1993 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).

Supported

This proposal is supported. We also support the NSW Water Directorate's recommendation that *"Local Water Utilities be required to quantify and report on:*

- *The value of the exemptions from payment of water supply special rates and sewerage special rates; and*
- *The impact of these exemptions on the typical residential bill of other water and sewerage customers".*

25. *At the start of each rating period, councils calculate the estimated value of rating exemptions within the council area. This information should be published in the council's annual report or otherwise made available to the public.*

Supported

This proposal is supported as it is deemed beneficial to ratepayers as it could promote greater transparency and public awareness.

26. Not for consultation

27. Not for consultation

28. Not for consultation

29. *Section 493 of the Local Government Act 1993 should be amended to add a new environmental land category and a definition of 'environmental land' should be included in the Local Government Act 1993.*

Note: Land subject to a state conservation agreement is categorised as 'environmental land' for the purposes of setting rates.

Supported.

This proposal is supported.

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

Supported

This proposal is supported as it would provide councils the opportunity to homogenise or align the property rating categories with the Emergency Services Property Levy. Administration would also be simplified.

31. *Sections 493, 519 and 529 of the Local Government Act 1993 should be amended to add an optional vacant land subcategory for residential, business and mining land.*

Supported

This proposal is supported as it would enable councils to classify or categorise vacant land and thus apply the correct rateable value.

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

Supported

The proposal is supported. Allowing farmland subcategories to be determined based on geographic location would enable councils to establish an equitable farmland rating structure.

33. *Section 518 of the Local Government Act 1993 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 4-year period.
- If a council does not determine a residual category, the business category should act as the default residual rating category.

Supported

This proposal is supported.

34. *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.*

Supported

Councils should be able to determine the rate for mining operations having regard to the damage / use they make of a wide range of community infrastructure.

The same provisions might also apply to commercial timber plantations for similar reasons.

35. Not for consultation

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

Supported

Any proposal to streamline existing processes is supported.

37. Not for consultation

38. Not for consultation

39. Not for consultation

40. *The Local Government Act 1993 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.*

Supported

The proposal to remove postponed rates is supported. Postponed rates is seen to be confusing for most ratepayers and its elimination would simplify the rating system by reducing councils' administrative burden. Transitional arrangements should be put in place for properties with postponed rate arrangements in place under existing regulations.

41. Not for consultation

42. *After the NSW Valuer General has established the database to determine Capital Improved Values for rating purposes, councils be given the choice to directly buy valuation services from private valuers that have been certified by the NSW Valuer General.*

Supported

While most Councils particularly those in the rural and regional areas will likely remain with the Valuer General, the availability of a private sector option will provide competition and drive down rates charged by the Valuer General for its valuation services. We support IPART's recommendation to continue to determine the maximum price the Valuer General can charge councils that do not engage private valuers. We also support that mechanism in place of ensuring data integrity.

Conclusion

The IPWEA NSW Roads & Transport Directorate appreciates the opportunity to provide input to what would be the NSW Government's response to IPART's set of recommendations. The need to examine and revise the existing rating system is long overdue and we support any measures that are in accordance with the key tax principles of efficiency, equity, simplicity, sustainability, and competitive neutrality.

Providing flexibility in setting rates will allow each local government area to develop a set of structures which are appropriate to the unique circumstances within each local government area.

Contact

Please do not hesitate to contact Mick Savage on tel: 8267 3000 or email mick.savage@ipweansw.org in relation to this submission.

Yours faithfully,



Mr Garry Hemsworth
Director IPWEA NSW Board



Mr Mick Savage
Roads & Transport Directorate Man