

IPART Review of the Local Government Rating System

Council is currently preparing a submission in relation to the 2019 review of Local Government for the Local Government Rating System. The purpose of the submission is to present information on the impact of IPART proposes changes to the Local Government Act (“LGA”). This allows the Minister to adequately consider all legitimate factors that affect Council's capacity to deliver services.

The following table outlines a summary of the recommendation that are relevant to Cumberland Council. The final submission is due on Friday, 13 September 2019 to the Minister for Local Government.

Reference	Recommendation	Recommendation Category	Supports	Response/Impact
1	The Local Government Act 1993 (NSW) should be amended to mandate Capital Improved Value (CIV) as the basis for setting ad valorem rates in the metropolitan council areas defined in Box 3.1.	Use the Capital Improved Value (CIV) valuation method to levy local council rates	Agree	Council agrees to the implementation CIV as it will improve equity, simplicity and sustainability of an efficient tax system. The detailed discussion in the report on pages 28 to 40 are supported as Cumberland area has 23,072 strata units, of which 35% of all residents are currently not paying an equitable amount.
3	The Local Government Act 1993 (NSW) should be amended to facilitate a gradual transition of rates to a Capital Improved Value method. – 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.	Use the Capital Improved Value (CIV) valuation method to levy local council rates	Agree	In principle, Council supports “gradual equalisation” of rates as it provides flexibility and equity. Council's finance department does not have a great deal of information on how Capital Improved Value (CIV) would operate. It is anticipated that there would be additional valuation services required and ongoing staff resources to manage capital improved values. Additionally, CIV could be subject to more objections due to the differing views of ratepayers. There is an internal view that it would take three to five years for this to be implemented and harmonised due to inexperience with CIV.
4	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.	Use the Capital Improved Value (CIV) valuation method to levy local council rates	Disagree	In principle, Council supports the removal of minimums if the CIV is fully implemented and equalised. If the LGA was amended to remove the S497 minimum rates from the 23,072 strata rate payers, it then would reduce their rates, from \$595.20 or \$690 down to \$~500, as Council could only use a base rating on unimproved land value if CIV was not yet implemented. Therefore minimum rates need to remain until the end of equalisation for it to be effective.

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5	The Local Government Act 1993 (NSW) should be amended so that the growth in rates revenue outside the rate peg is calculated using the formula based on changes in CIV, defined in Box 4.1. – For non-metropolitan councils, this formula would be independent of the valuation method chosen as the basis for setting ad valorem rates.	Allow councils' general income to grow as the communities they serve grow	Agree	The supplementary rates will allow the rate cap to increase but the value of increase is reduce by the loss of rate income from former use of the land and the difference in rates income does not cater for increased population. As a result, and over time Council will need apply for a SRV as the only way to increase the rate cap.
6	The NSW Government fund the NSW Valuer General for the upfront cost of establishing the database to determine Capital Improved Values.	Allow councils' general income to grow as the communities they serve grow	Agree	The change for the better should not be hindered by the implementation costs and benefits a new and improved system offers. Council are not funded to implement the new changes.
9	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.	Allow councils' general income to grow as the communities they serve grow	Agree	This is a good way to maintain rates on a needs basis and to manage the fluctuation that occur from time to time.
12	The Local Government Act 1993 (NSW) 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 (i.e., 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.	Give councils greater flexibility when setting residential rates	Agree	This policy achieves the equity principle but the challenge in this is what the purpose of rates tax system is. The rates tax principles are not considered a user pay principle but a tax on the ownership of property and any system needs to consider the ability to pay.

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13	<p>"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.</p> <p>It could also choose to equalise rates across the pre-merger areas, using the gradual equalisation process outlined below.</p> <p>– 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.</p> <p>The Local Government Act 1993 (NSW) should be amended to facilitate this gradual equalisation."</p>	Give councils greater flexibility when setting residential rates	Agree	<p>This is in line with Council view a slow transition allows the lowest impact to the ratepayer. Council has difficulty in the areas where we need to increase in areas where there is a high level of disadvantage which is supported by ability to pay analysis recently conducted by Council.</p> <p>The harmonisation issues were created due to the Boundary changes where the business rates were transferred to City of Parramatta. The former policy of Auburn Council and Parramatta Council was for CBD/business rates to subsidise the highly disadvantaged areas where most of the services were delivered. As a consequence of these policy the rates paid per property for the areas transferred to Cumberland where allot lower than they were in the former Holroyd City Council.</p> <p>This rates disparity is very difficult to harmonise in the short term. A separate report to Council will the impacts to Residential ratepayers will be done in September.</p> <p>This policy does not differentiate between residential and business rate payers.</p>

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14	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.	Better target rate exemption eligibility	Agree	<p>There is currently an inequity between state government run housing commission (rateable) and community housing run by not for profit sector (exempt).</p> <p>This is because the LGA currently allows an exemption based on the entity legal status (i.e. Charitable) and not the use of the land which is residential living.</p> <p>Cumberland has in total 1,650 exempt rates payers from all categories, which is 5.58% of all residential land value. We encourage any improvements to Section 555/556 LGA.</p> <p>To further encourage the affordable housing targets council needs an equitable system to encourage investment.</p>
21	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.	Better target rate exemption eligibility	Agree	<p>Issues arises in Industrial areas where spare capacity on weekends and this encourage increase used of land as it will allow reduction in rates for mixed use of the land.</p>
24	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).	Better target rate exemption eligibility	Agree	<p>There is an equity issue for Council as operator of commercial business on crown land will pay rates. Therefore the same rule should apply to water authorities.</p> <p>Also, this will encourage better use of available land and promote the surplus land can be used for open space or transferred to Council.</p> <p>When there is no cost to ownership of the land this cannot occur at present.</p>
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.	Better target rate exemption eligibility	Agree	<p>Exempt land will increase the liability to all other rate payers and therefore it should be transparent for all residents. A good policy would be to segment the data to exempt categories for example Government Owned Enterprises, Charitable, Religious Institutions Schools and Other Authorities etc.</p>

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26	For new and existing eligible pensioners, introduce a rate deferral scheme operated by the NSW Government, where: – Eligible pensioners would be allowed to defer payment of ordinary council rates up to \$1,000 per annum and indexed to CPI, or any other amount as determined by the NSW Government.	Improve assistance for pensioners	Agree	Council has various types of pensioners totalling approx. 11,000, not all pensioners are Aged Pensioners. The NSW Government should fund the principle on a 10 year borrowing rate, interest applicable and become due and payable when property ownership changes. The principle amount of the loan is refunded to Council by State Government as per 28.
27	Give existing eligible pensioners the option to access, either: – the current pensioner concession, or – the rate deferral scheme, as defined in Recommendation 26.	Improve assistance for pensioners	Agree	We assume the rate deferral scheme will forgo \$250 rebate. This then becomes a very expensive for Pensioners.
28	Funding pensioner assistance: – The current pensioner concession funding arrangements would continue. – The rate deferral scheme (defined in Recommendation 26) would be funded by the NSW Government. The loan should be charged interest at the NSW Government's 10-year borrowing rate, and could become due when property ownership changes.	Improve assistance for pensioners	Agree	This will mean Council can invest the money in services. Funding pensioners or pensions is not a Local Government responsibility.
30	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.	Provide more rating categories	Agree	Similar exercise was undertaken for Emergency Service Levy Insurance Scheme. Cumberland believe this is good practise to levy Commercial less than industrial due to ability to pay.
31	Sections 493, 519 and 529 of the Local Government Act 1993 (NSW) should be amended to add an optional vacant land subcategory for residential, business and mining land.	Provide more rating categories	Agree	Council should have the flexibility to levy the land. The implementation of CIV would assist in this case. Currently an exempt entity who develops land cannot receive the exemption during the construction phase as the land is not being used for exempt purposes.

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35	Councils have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.	Recovery of council rates	Disagree	Cost of recovery and target recoveries are lower than council receives
38	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.	Recovery of council rates	Disagree	Already have quarterly instalments and all the
39	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, e.g., via email.	Recovery of council rates	Disagree	Absolutely agree, existing rate payers impact
40	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.	Recovery of council rates	Agree	
41	The valuation base date for the Emergency Services Property Levy and council rates 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.	Other recommendations	Agree	
42	After the NSW Valuer General has established the database to determine Capital Improved Values for rating purposes (see Recommendation 3), councils be given the choice to directly buy valuation services from private valuer that have been certified by the NSW Valuer General.	Other recommendations	Agree	