



16 May 2016

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Via email

Dear Dr Boxall,

Review of the Local Government Rating System

The NSW Business Chamber and Sydney Business Chamber (“the Chambers”) welcome the opportunity to provide a joint submission to the *Review of the Local Government Rating System*.

The Chambers, which combined represent more than 19,000 businesses across NSW, have been consistent advocates of the need for local government reform. The Sydney Business Chamber in particular has played a leading role in calls around the structural reform of Sydney councils.

Simply put, the current governance structure of 41 local councils within metropolitan Sydney is failing to support the needs and aspirations of a modern and growing city. Change is both inevitable and long overdue for local government and as a result we have strongly supported the proposed reduction by Government of councils, especially those in metropolitan Sydney.

It should be emphasised however that structural reform of local government is just one part of ensuring local councils can appropriately support communities into the future.

Examining councils rating system is also fundamental. This review is therefore both welcome and timely. We do however continue to hold concerns that the scope of this Review is too narrow. As the Chambers indicated at the Review’s Public Hearing:

rates are only one part of a council's revenue. A lot of the difference...between councils in determining their rating structure comes from their reliance or decision to rely on rates or on user fees and charges.

While we appreciate the constraints of the Tribunal set out under the Terms of Reference for the review, absent a discussion on what a council’s core functions, service delivery and infrastructure responsibilities should be, discussing a single council revenue mechanism to deliver these functions and services does seem moot. The Chambers will be raising these concerns further with the Government as we believe a fundamental opportunity for reform is being missed if such matters are not considered as part of the ‘Fit for the Future’ process.

These comments notwithstanding, set out below is feedback on some of the key issues upon which IPART seeks comment:

Do you agree with our tax principles?

The Chambers agree that the IPART's emphasis on efficiency, equity, simplicity, sustainability and competitive neutrality are the appropriate principles on which to base the assessment of the rating system.

The Chambers do however have concerns in relation to the principle of equity and the concept of ability to pay. While we agree that property-based taxes such as rates are generally equitable (as property value correlates with wealth and ability to pay), the ability of councils to develop rating structures that target specific ratepayers, such as owners of land classified business or commercial, needs to be examined as this can often lead to situations where an inequitable rates burden is being shouldered by the business community to make up funding shortfalls.

Furthermore, while the NSW Government made legislative changes in 2014 to simplify the registration of non-resident business voters to participate in council elections in the City of Sydney¹ the voting and registration requirements for these voters in other councils are yet to change. As a result, the vast majority of non-resident business ratepayers in NSW remain disenfranchised in local council elections in the area in which their business is located. The fact that these ratepayers experience *taxation without representation* should be acknowledged and further oversight of council decisions around rating structures should be undertaken (potentially by the IPART).

What valuation methodologies should be used as a basis for determining ad valorem amounts in council rates?

The Chambers note the suggestions made by the Independent Local Government Review Panel (ILGRP) in its 2013 *Future Directions for Local Government* review that the calculation of rates should be based on the capital improved value of land. The Chambers remain unconvinced that the move to a capital improved system of valuation provides a fairer assessment of value and opposes any move away from these calculations being based on the unimproved value of a property.

The Chambers did however welcome the proposed land valuation system improvements suggested by the NSW Parliament's Joint Standing Committee 2013 review of the Office of the Valuer-General² particularly around those initiatives that

¹ See *Local Government (Elections) Act 2014*

² Joint Committee on the Office of the Valuer General Land Valuation System – *Report on the Inquiry into the land Valuation System and the eighth general meeting with the Valuer-General* 2 May 2013

would allow for simplified valuation appeal processes as appropriate mechanisms to improve the system.

What changes could be made to the current rating system to better encourage urban renewal?

As noted above, while there were suggestions by the ILGRP that a move to capital improved value for valuation purposes for rates would be appropriate and a more “*equitable rating of apartments and multi-unit dwellings*”³ should be pursued as a means to strengthen local government’s revenue base, the Chambers believe that such a move would discourage urban renewal by introducing a disincentive for people to live in apartments.

Apartments lower costs for the delivery of critical council infrastructure (e.g. water and sewer service connections) and services (e.g. waste collection) so it is appropriate that rates for such properties reflect this lower cost to serve. Where councils have a significant number of apartments in their area, consideration by the council of appropriate adjustments to user fees and charges to cover off on increased demand for other council services should be considered.

Are the land uses currently exempt from council rates appropriate?

The Chambers do not have a specific view on current exemptions from rates. As we commented at the IPART forum, we believe the general approach that was introduced via the *Local Government Amendment (General Rate Exemptions) Act 2010* is correct in that land owned by a body with a general rate exemption (for example a public benevolent institution or charity) should only be exempted from rates on that area of land for which they are carrying out their charitable purposes and not be generally applied across a whole parcel of land.

The Chambers note the detailed work undertaken by Deloitte Access Economics on behalf of Local Government NSW in their 2013 *Review of Local Government Rating Exemption Provisions*⁴ and would suggest this be a starting point for the IPART in its closer examination of these issues.

Do you agree with IPART’s interpretation of the Government’s proposed rate freeze path for newly merged councils?

As the Chambers indicated at the forum, while we are in broad agreement with the interpretation that the IPART has taken in relation to the Government’s proposed

³ See Revitalising Local Government ILGRP

⁴ http://lgsw.org.au/files/imce-uploads/127/deloitte-access-economics-review-of-local-government-rating-exemption-provisions-2013_0.pdf

rate freeze path, we hold strong concerns in relation to this policy and its potential impact on the ability of the, currently 19, newly merged councils in NSW to start developing a sustainable financial future.

In short, the rate freeze path will restrict newly merged councils from determining a new rating structure for the new council area for a period of four years. The policy as stated by Government and interpreted by IPART suggests that a ratepayer whose council has merged will only see their rates increased in line with their former council's rate structure over the first four years of the merged councils operation. This means that newly merged councils may continue to run up to four different rates structures for next four years. While this may provide confidence in the community that rates are set over the short term, it significantly hampers the ability of councils to start better managing the financial structure of the council and bring alignment between the formerly separate council entities.

This situation is further complicated by partial mergers where only a boundary adjustment has been made. For example where a council has been partially merged into two or more areas, rates may continue at a higher level in one portion, funding improved infrastructure in the other raising significant questions of equity and cross subsidisation. The Chambers believe a more ambitious path to bring alignment in newly merged councils rating structures should be pursued and we will be raising these views with Government.

As we stated at the outset of this submission, we do believe that there is a clear error in the terms of reference for this review in examining only one source of council revenue. A rates freeze does not necessarily mean a freeze on council revenues. A wider examination of rates, fees and charges and government grants to councils should be undertaken so that an improved revenue framework can be developed for local government to sustain their operations into the future.

Thank you for the opportunity to participate in this consultation. If you have any further questions in relation to this submission, please feel free to contact Mr Luke Aitken, Senior Manager, Policy on 9458 7582 or luke.aitken@nswbc.com.au .

Yours sincerely



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