13 May 2016

Review of the Local Government Rating System

Independent Pricing and Regulatory Tribunal

PO Box K35

HAYMARKET POST SHOP NSW 1240

Re: Review of Local Government Rating System

Thank you for the opportunity to comment on IPART's Review of the Local Government Rating System – Issues Paper (April 2016). Please find our comments below for your consideration.

Unimproved land value is a better method to calculate the value of property

The issues paper discusses the following two methods to calculate the value of property for the purpose of rating in NSW. These are:

1. Unimproved land value (UV) method, which values the property excluding the value of building, structures and other capital improvements
2. The Capital Improved Value (CIV) method, which values the property based on the market value, or the value inclusive of all capital improvements. When considering multiple units, such as a residential flat building, the unimproved land value is split between apartments in multi-unit dwellings.

We encourage IPART to recommend the retention of the UV method for determining the value of property for the purpose of rating, for the following reasons:

1. *UV method encourages productive improvements to land*

Rates (and other forms of taxation) should seek to minimise changes in buyer and consumer behaviour. If rates are increased based on improvements made to a property, such as maintenance or redevelopment, there is a disincentive for the owner to undertake these improvements. Retaining the UV method ensures that value-adding activities are not taxed, only the land. Investments in improving the value of land, such as building and development, are productive and beneficial to the wider economy. The CIV method deters this form of investment.

2. *UV is simpler and easier to implement*

Currently, land valuations across NSW for the purposes of determining rates payable, are estimated by sampling land values for a small number of properties each year. Should a CIV methodology be introduced, 2 estimates will need to be produced – one for land, and one for capital improvements, for individual properties, would be required. Valuations would also be required more frequently when improvements are made, such as buildings constructed or refurbished. Maintaining the database of land values and improvement values would be a costly and time consuming process for government, and if not administered properly could result in some owners not being charged accurately for their properties. Administratively, UV is the simplest method of land valuation. CIV is cumbersome and expensive with a greater risk of error and potential litigation.

3. *Administrative cost of moving to another system*

The administrative cost of moving 152 local councils to a new form of rating would be expensive and time consuming, and for at least a small period of time would result in confusion. Should the state government allow local councils to select from VIC and UV to determine rates, this would create confusion and inconsistency between different government areas. In the interests of ensuring efficiency, transparency and consistency, it is best to retain the UV method.

4. *CIV method does not encourage urban consolidation*

One of the reasons that people choose to live in higher-density dwellings is because the cost of living is generally lower. Generally, apartments are cheaper to own and maintain than free standing homes.

A change to the CIV rating system would be greatly problematic, particularly for the elderly or others on low or restricted incomes, and may deter people from choosing to invest in or live in these dwellings. In addition to this, baby boomers and retirees may be more inclined to stay for longer in their large freestanding homes, instead of downsizing to a smaller dwelling as the cost differences may be negligible. Rents may also rise as this additional cost is passed onto tenants. We advise the IPART to consider the impacts of the adoption of the CIV upon urban consolidation.

Changes to rating should be considered holistically

It is important that changes to local government rating is considered in the context of broader financial reforms, including any changes to infrastructure funding, land taxes, negative gearing and stamp duty.

Local government must manage their finances responsibly

Any changes to rating must be accompanied with mechanisms to ensure fiscal responsibility, sound infrastructure investment and asset management systems. Local government must have sophisticated asset management systems for the whole of life planning, acquisition, registration, operation, maintenance, disposal and renewal of each component of its infrastructure. Adequate funds must be set aside each year for routine maintenance, renewal of depreciating assets and the expansion of the asset stock to meet future needs of the local community. Councils have not dedicated enough of their own budgets to new infrastructure projects, relying too much on voluntary planning agreements (VPAs) with developers to pay for it. These agreements are an onerous financial burden upon the cost of development and drive up the cost of production of housing. Councils are increasingly misusing these agreements to secure a steady, unregulated source of revenue.

Cost Benefit Analysis should be undertaken

Prior to recommending any move to another system, we believe that the IPART should undertake a cost benefit analysis to determine whether this change would be financially beneficial for the government, the community and property owners.

Rate pegging deters urban consolidation

Under the current rate pegging arrangements, IPART determines the maximum percentage by which a council may increase its general income (primarily from rates) each year, known as the 'rate peg'. In 2009, IPART's review of the framework for regulating council rates and charges in NSW found that rate pegging had limited NSW council's rate revenue to a level below that of the other states[1].

Current rate pegging arrangements deter councils from encouraging additional development in their local government area. There is no incentive in local government promoting development in their respective areas without recognition and appropriate monetary returns for the provision of services and infrastructure required to support their evolving communities. It is difficult to encourage councils to

---

[1] Independent Pricing and Regulatory Tribunal (December 2009) *Revenue Framework for Local Government – Final Report*

embrace urban consolidation and support population growth as well as meeting the needs and expectations of their communities, when rate pegging limits the rate revenue associated with this growth.

The Urban Taskforce is always willing to work closely with the Government to provide a development industry perspective on this issue. Please feel free to contact me on telephone number 9238 3927 to discuss this further.

Yours sincerely

Chris Johnson AM
Chief Executive Officer
Urban Taskforce Australia