

09 February 2021

Office of Local Government, NSW Department
of Planning, Industry, and the Environment
Towards a Fairer Rating System
Locked Bag 3015
Nowra NSW 2541

To whom it may concern,

***Towards a fairer rating system* and Exposure Draft of the Local Government
Amendment (Rating) Bill 2020**

The Property Council welcomes the opportunity to provide comments to the Office of Local Government (OLG) on the Exposure Draft of the Local Government Amendment (Rating) Bill 2020 and the consultation guide "*Towards a Fairer Rating System*."

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers, and developers of property across many asset classes. This includes commercial offices, residential development, industrial development, tourist accommodation and retirement living facilities.

We note that this Exposure Draft is first step in the implementation phase of the NSW Government's Final Response¹ to the Final Report of the Independent Pricing and Regulatory Tribunal (IPART) Review of the Local Government Rating System.

Previous Property Council submissions on the issue of Local Government ratings

The Property Council has considerable interest in reform of the local government rating system. Submissions were made to IPART in response to the Issues Paper (April 2016), the Draft Report (October 2016) and most recently to the OLG on the final reports of the IPART, "*Review of Local Government Rating System Report*" released in June 2019.

There are two key points that the Property Council has made consistently when it comes to Local Government ratings, namely:

1. That there should be no move to the use of Capital Improved Value (CIV) as the basis for setting council rates or any other property taxes, including the mooted future property tax.
2. That Government should move away from the rate peg.

¹ <https://www.olg.nsw.gov.au/wp-content/uploads/2020/06/IPART-Rating-Review-Government-Response.pdf>

Why it is important not to move to CIV.

We said in those earlier submissions, and still maintain that any such move to the enforce or enable the widespread use of CIV, would amount in simple terms to a tax on jobs. This would undermine much of the good work that has been undertaken by the NSW Government around the Productivity Agenda e.g. "Kickstarting the Productivity Conversation" and "Continuing the Productivity Conversation".

We maintain that the business community carries a disproportionate amount of the rates burden and we would caution strongly against allowing changes to the policy that will further exacerbate this issue. A tax that increases the burden on businesses will ultimately be reflected by reduced levels of employment and/or increased costs of goods and services.

We also note the considerable, if not insurmountable, costs associated with transitioning away from the current NSW system that has been in place for many decades and the lack of a reliable and robust evidence base for a capital improved value shift.

Why Government should move away from the rate peg.

As we have stated in many previous submissions to the OLG or the IPART on this issue, rate pegging was designed to encourage and indeed force councils to manage their capital and service expenditure in the context of a constrained and relatively inflexible revenue stream.

However since its introduction the role and operating environment for Councils has changed markedly, driven by strong population growth, community expectations about the provision of a wider range of services and infrastructure and cost shifting to local government.

Key features of the Draft Bill

Aligning rating income growth with population growth

This feature seeks to link rates growth with population growth. We support the Government in moving to align rating income growth with population growth. This is sensible and welcome. It also consistent with the recommendations of IPART, and further it is consistent with the NSW Productivity Commissioner's view in the Final Report of the Infrastructure Contributions Review² that Government amend the local government rate peg to reflect population growth.

Minister Hancock in her media release of 21 December 2020, rightly says that,

"Some councils, particularly in Sydney's growth corridors, have faced a substantial increase in population while their rating bases have come under significant pressure with higher demand for new or upgraded local infrastructure and services."

We agree with this position and support the moves outlined above to recognise population growth in the rate peg methodology.

The IPART Rating Review Submission Summary and Analysis (February 2020)³ showed that there is broad support for the Government's move to align ratings income growth with population growth.

As stated in previous Property Council submissions, the rate peg has not been reflective of the rapid population growth experienced by many Councils and/or the consequent increased infrastructure requirements.

² <http://productivity.nsw.gov.au/sites/default/files/2020-12/Final%20Infrastructure%20Contributions%20Review%20Report.pdf>

³ <https://www.olg.nsw.gov.au/wp-content/uploads/2020/03/IPART-Rating-Review-Submission-Summary-and-Analysis.pdf>

Property Council Position

According to the circular to Councils issued by the Office of Local Government to explain the changes in the Exposure Draft Bill⁴, the key points of the Bill are laid out below. The Property Council position is also set out under each measure:

1. allow those new councils created in 2016 that have not already harmonised their rating structures to do so gradually over four years: support in principle.
2. allow councils to levy special rates for infrastructure jointly funded with other levels of government outside the rate peg without IPART approval, The Property Council supports this proposal in-principle subject to further detail of its implementation and inter-relationship with the NSW Government response to the recommendations of the Productivity Commission's review of infrastructure contributions.
3. create a new rating category for environmental land, support in principle.
4. create more flexibility for councils to create rating subcategories for residential land, business land and farmland, including vacant land, support in principle.
5. amend exemptions that apply to water and sewerage special rates and to land subject to conservation agreements, support in principle.
6. require councils to report the value of exemptions they grant each year, support in principle.
7. narrow scope to postpone rates and let councils choose whether to write them off, further consideration required.
8. allow councils to sell properties for unpaid rates after 3 years rather than 5 years. further consideration required.

Key points arising from the 'Towards a Fairer Rating System Consultation Guide.'

Intent of Government reforms

Coming off the back of a freeze on rates for 4 years following mergers, it is timely that Government considers how best to ensure equity for ratepayers and tools for Councils to distribute the burden appropriately. We support the need for Councils to be agile and reflective of local needs and demands.

Overview of Property Council position

In reiterating the broad position of the property industry it is important to stress that careful consideration must be given to how any reform measure will impact on the future development of new and emerging property asset classes such as 'Build to Rent'.

⁴ <https://www.olg.nsw.gov.au/wp-content/uploads/2020/12/20-42.pdf>

Build to Rent

The State Government is currently finalising a policy and tax framework to support the development of a purpose-built build-to-rent sector in NSW. It is important that any change to the approach to rates does not negatively affect measures designed to support the growth of this sector. We encourage you to ensure this is the case.

Should you have any questions or seek further clarification on any item raised in our submission, please do not hesitate to contact Senior Policy Advisor, Sean Conway on 0438 065 924 or sconway@propertycouncil.com.au

Yours sincerely,



Jane Fitzgerald
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Property Council of Australia