

# IPART REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM

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GOVERNMENT RESPONSE

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# Contents

<b>EXECUTIVE SUMMARY</b>	<b>2</b>
Background	3
The Review Process	4
Interim Response	5
<b>THEME 1: USE OF THE CIV VALUATION METHOD TO LEVY COUNCIL RATES</b>	<b>6</b>
Current situation	6
What IPART recommends	6
Government response	6
Use of minimum rate	7
Differential residential rating subcategories	7
<b>THEME 2: ALLOW COUNCILS' GENERAL INCOME TO GROW AS THE COMMUNITIES THEY SERVE GROW</b>	<b>8</b>
Current Situation	8
What IPART recommends	8
Government response	8
<b>THEME 3: GIVE COUNCILS GREATER FLEXIBILITY WHEN SETTING RESIDENTIAL RATES</b>	<b>9</b>
Current Situation	9
What IPART recommends	9
Government response	9
Rates Harmonisation	9
<b>THEME 4: BETTER TARGET RATE EXEMPTION ELIGIBILITY</b>	<b>10</b>
Current Situation	10
What IPART recommends	10
Government response	10
Land subject to a conservation agreement	10
<b>THEME 5: ASSISTANCE TO PENSIONERS</b>	<b>11</b>
Current Situation	11
What IPART recommends	11
Government response	11
<b>THEME 6: RECOVERY OF COUNCIL RATES</b>	<b>12</b>
Current Situation	12
What IPART recommends	12
Government response	12
<b>TABLE 1: LIST OF RECOMMENDATIONS AND GOVERNMENT RESPONSE</b>	<b>13</b>

# Executive Summary

The NSW Government understands the need to provide local councils with a flexible rating system, whilst ensuring rates are applied fairly and more equitable to local communities.

Any review of the rating system, like any taxation system, inevitably results in strong, often opposing views from various stakeholder groups.

IPART provided the Government with a substantial [final report](#) that recommends significant reforms addressing a number of complex issues, including the current structure of the rating system. IPART's recommendations, if implemented in full, would substantially change our system of local government and impact directly upon communities. Having consulted extensively with the sector and the community, and carefully considered IPART's findings and recommendations at length, the Government has decided on the following way forward:

Position on recommendations	Total Number
Support	13
Support in principle	6
Support in part	1
Noted	21
For further consideration and analysis	1

A complete list of IPART's recommendations and the Government's response can be found at Table 1 at the end of this document.

The Government has already ruled out, in its interim response of 21 June 2019, implementing major recommendations made by IPART related to pensioner concessions and rating exemptions where these would adversely impact vulnerable members of the community or have a substantial financial impact upon taxpayers or the broader community.

The Government also remains unconvinced of the merits of moving to a system of valuation based on Capital Improved Value (CIV) at this time, given the significant potential impact to local residents, substantial implementation costs and the inconclusiveness of extensive public consultation. Feedback received indicates both support and opposition to such a change. Additionally, it is unclear how the introduction of CIV may unfairly impact particular groups of ratepayers or result in unintended, real-life consequences for families and businesses.

The Government will focus on providing greater flexibility in the current rating system through the creation of additional rating categories and sub-categories, and ensuring councils can align income growth with population growth.

Through the Office of Local Government, the Government will make the current rating system easier for councils to navigate, highlighting the variety of mechanisms already available to councils in designing a fairer and more equitable rating structure for their local government area (LGA).

We look forward to working with the Local Government sector and the community to deliver fairer, and more equitable rates to residents and business.

## Background

In NSW, council rates generate over \$4.3 billion each year. This equates to around 38 per cent of the annual operating revenue for all NSW councils although, in general, councils in metropolitan areas have larger rating bases and receive more of their income from rates. Even though rates are commonly considered a fee for service, they are in fact a form of taxation.

Under the *Local Government Act 1993*, a rate may consist of:

- » an ad valorem amount (i.e. a percentage – which may be subject to a minimum amount)
- » a base amount to which an ad valorem amount is added.

In NSW, an ad valorem amount is a variable charge set as a proportion of the unimproved land value of the property – that is, the value of the property without any buildings, houses or other capital investments.

A minimum amount, where applied, is a flat charge which applies instead of the ad valorem amount, when it is greater than the ad valorem amount. A base amount, where applied, is a fixed

charge that is levied equally against all rateable properties within a given rate category, or subcategory of land use.

Councils may vary the way they calculate rates for different categories of property. For example, they can use a different percentage of the unimproved land value to calculate the ad valorem amounts, apply different minimum amounts, or add different base amounts.

The *Local Government Act 1993* sets out a process regulating the amount by which councils increase their general income, the main component of which is rates revenue from ordinary and special rates.

Each year, the Independent Pricing and Regulatory Tribunal (IPART), determines the maximum percentage by which a council may increase its general income in the coming year, known as the ‘rate peg’. The rate peg does not apply to stormwater, waste collection, water and sewerage charges.

The rate peg is based on the Local Government Cost Index measured by IPART, which measures price changes over the previous year for the goods and labour an average council will use, adjusted for any improvements in productivity.

Once the rate peg is known, councils set their rates for each rating category so that their annual general income does not increase in percentage terms by more than the rate peg for that year. This gives councils some flexibility to vary the increase in rates across categories (e.g. to increase residential rates by a higher percentage than farmland rates), as long as the total increase in revenue does not exceed the rate peg.

Councils can apply to IPART for a ‘special rate variation’ to allow them to increase general income above the rate peg for a range of reasons. OLG sets guidelines for this process, but the process is administered independently by IPART.

## The Review Process

In 2013, the Independent Local Government Review Panel recommended the Government commission IPART to undertake a further review of the rating system focused on:

- » options to reduce or remove excessive exemptions and concessions that are contrary to sound fiscal policy and jeopardise councils' long-term sustainability (recommendation 6.2); and
- » more equitable rating of apartments and other multi-unit dwellings, including giving councils the option of rating residential properties on Capital Improved Values, with a view to raising additional revenues where affordable (recommendation 6.3).

On 18 December 2015, the (then) Premier, the Hon. Mike Baird MP provided IPART with terms of reference for the Review, framing it as a key component of the Government's Fit for the Future reforms. The two broad aims of the Review were to:

- » explore options to redistribute the rating burden within council boundaries 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; and
- » explore options for a legislative or regulatory approach to support the Government's rates path freeze policy.

The Terms of Reference specifically excluded consideration of the rates peg.

IPART carried out significant public and stakeholder consultation during conducting the Review, including public hearings in Sydney and Dubbo between April and October 2016. A draft report was released for comment in August 2016. IPART received over 300 submissions in relation to this Review.

IPART delivered its final report to the (then) Minister for Local Government in December 2016, which was publicly released on 21 June 2019 together with an interim Government response. IPART made 42 recommendations in total. The Office of Local Government (OLG) undertook further public consultation on 28 of these recommendations. Consultation feedback was open for 12 weeks and closed on 13 September 2019. A total of 110 submissions were received.

OLG released a summary of submissions on 28 February 2020.

The final report of the Review restates the major proposals outlined in the draft report, with some minor adjustments. IPART's key proposals are that:

- » councils be allowed to shift to a Capital Improved Value (CIV) system of calculating rates, which considers the value of capital improvements (in contrast to the current system which uses the unimproved value of the land);
- » exemptions from the rating system be based on the use of land rather than the ownership (for example, that aged care facilities owned by charitable organisations would pay the same rates as their commercial competitors);
- » changes to pensioner rate concessions enable rate payments to be deferred and recouped from the pensioner's estate at a later date; and
- » restrictions on council differential rating powers be lifted to enable improved rates harmonisation across council areas.

## Interim Response

The Government released an interim response concurrently with the release of the three IPART reports on 21 June 2019. In it, the Government has ruled out accepting recommendations that have adverse impacts on vulnerable members of the community, affect regional jobs and economies, and/or substantially increase costs for taxpayers and the broader community.

In NSW, rate exemptions are based on a mix of land ownership and land use. Changes to the rating exemptions framework would redistribute the rating burden within a community and removal or change will be sensitive with many interest groups, such as charities, not for profit social housing providers, churches, schools and universities.

During IPART's public consultation process the issue of rating exemptions prompted significant public and stakeholder comment. Most exemptions still have a strong and abiding public interest and concern remains about the significant impact removal of exemptions may have on the operations of these entities.

The *Local Government Amendment Act 2019* was assented to on 24 June 2019 and several provisions came into effect on 25 June 2019. This included amending the *Local Government Act 1993* to enable the Minister to extend the rates path freeze for an additional 12 months for those councils formed in 2016 that need more time to consult with communities about rating harmonisation. This may also allow some of those councils to factor in the Government's response to the Review when developing their rates harmonisation strategy – some recommendations deal specifically with rates harmonisation.

# Theme 1: Use of the CIV valuation method to levy council rates

## Current situation

Currently, NSW councils are required to use the unimproved land value (UV – the value of the land without improvements) of a property to calculate rates. This is the value of the property without any buildings, houses or other capital investments.

## What IPART recommends

IPART recommends that the Government mandates the use of Capital Improved Value (CIV) for metropolitan councils while retaining it as an option for non-metropolitan councils.

IPART recommends a gradual transition to CIV entailing an annual limit of 10 per cent above the rate peg to any rates increase resulting from a move to CIV. Individual rating amounts may still increase beyond 10 per cent depending on the impact of other factors such as changes in land valuations.

## Government response

The NSW Government continues to strongly support rate pegging for local councils across NSW. It believes this is the best model to ensure that councils keep a focus on efficiency and ensuring that residents are not paying more rates than necessary. The Special Rate Variation framework enables councils to make the case for a larger rise than the current rate peg to their community and then to IPART.

The NSW Government notes that many local government stakeholders support the introduction of CIV. However, it also notes that many residents and property owners do not support any change.

Introducing CIV within the current rate pegging framework will bring about a redistribution of the rating burden rather than an increase in rates and therefore council income. It will also come with significant disruption and because there is no overall database of CIV data within NSW, it is not possible to model the impacts on different types of property owners. Implementation would take several years before a potential improvement to the equitable distribution of rating revenue would be evident.

Given the unclear distributional impacts along with the high cost of implementation and prolonged transition timeframes, the NSW Government does not believe there is a clear case in support of implementation and further development of CIV at this time.

The Government will focus on providing greater flexibility in the current rating system through the creation of additional rating categories and sub-categories, and ensuring councils can align income growth with population growth, in order to improve the distribution of the rating burden at significantly less cost, and low impact to the community.



## Use of minimum rate

Many councils use minimum rate amounts in relation to apartments and other strata complexes to more accurately reflect the use of council services because the UV of individual apartments is often very low. However, this can mean that most apartments in a council area are paying a very similar rate amount irrespective of the property value. An example of the use of minimum rates is Sutherland Council below.

### Example – Sutherland Council

Sutherland Council applied to IPART to increase its general income by 8.76 per cent in 2019-20, including the rate peg, which is to be applied to minimum ratepayers only, through an increase in the minimum rate from \$602.30 in 2018-19 to \$900.00 in 2019-20. This increase will be retained permanently in the rate base, affecting around 25 per cent of the ratepayers in Sutherland and bringing their rates closer to the average residential rate charged across the LGA.

Based on the Council's application, ratepayers on the minimum rate will have a rate increase of \$298 in 2019-20, while rates for ratepayers who are not on the minimum will increase by the 2.7 per cent rate peg, reducing the gap between rates paid by minimum ratepayers and other ratepayers to better reflect equity in the services received.

The previous minimum rate (\$602.30) was 59.2 per cent lower than the average residential rate of ratepayers who were paying above the minimum (\$1,476). According to IPART, the new minimum rate is the 9th highest residential minimum rate compared to the current minimum rate charged by other councils in the Sydney metropolitan area and 14.5 per cent higher than the estimated average (\$786) of councils in the Sydney metropolitan area.

It is recognised that not all metropolitan councils could apply a similar process due to differences in housing mix and socio-economic factors. However, the Government believes that councils should be willing to explore different options to improve the equity of their rating distribution, in consultation with their communities.

## Differential residential rating subcategories

The NSW Government supports the potential to enable greater use of differential rating within urban residential rating.

This issue is further discussed below.

# Theme 2: Allow councils' general income to grow as the communities they serve grow

## Current Situation

In NSW, councils are subject to a rate peg that determines the maximum percentage amount by which a council may increase its total general income for the year. The main component of general income is rates revenue. IPART is responsible for determining the rate peg each year. As long as the total general income remains within the set maximum increase, councils have discretion to determine how to allocate the rate peg increase between different rating categories. Councils can seek additional increases in general income beyond the annual rate peg by applying to IPART for a special rate variation (SRV).

The increase in income generated by a supplementary valuation process using UV ("growth outside the rate peg") often does not allow councils to maintain current service levels due to increasing demand for council services and the upfront costs of new residential developments. IPART contends that current ratepayers are shouldering an unfair proportion of the rating burden compared to new residents.

## What IPART recommends

IPART examined options to assist councils experiencing high levels of population growth to more equitably fund services to these new ratepayers, and made the following recommendations:

- » using a CIV-based formula to calculate increases to council general income outside the rate peg that is proportional to the increase in costs of providing services;

- » introducing a new type of special rate for joint delivery of infrastructure projects. Income raised from this special rate would be on top of general income within the rate peg and would not require approval from IPART. Such a special rate category would make it clear that councils could co-fund infrastructure or services that are the responsibility of state or federal government, as long as the projects benefit the local community; and
- » removing minimum rates

## Government response

With the Government decision not to support a move to CIV at this time, the NSW Government will implement recommendations to facilitate council income growth outside the rate peg, while preserving the policy objectives of the rate capping system. This will include better aligning council income growth with population growth and reforms to the infrastructure contributions framework to enhance councils' ability to implement sustainable fiscal policies over the long term.

This reflects that for many councils one of the key challenges they face is population growth, which often is not easily captured within the existing rate pegging framework.

The NSW Government, in conjunction with the broader work around developer contributions, will examine options to establish an equitable and effective funding framework for infrastructure associated with development. It is important that as communities grow, they have adequate and effective infrastructure to support that growth.

# Theme 3: Give councils greater flexibility when setting residential rates

## Current Situation

Councils levy rates using four different categories depending on the primary use of the land: residential, farmland, mining and business. These categories can be further split into subcategories.

A long-standing issue with the current rates framework is the difficulty of metropolitan councils to set different residential rates. This is due to the requirement for councils to set equal rates across the one “centre of population”. Non-metropolitan councils can do this based on the different townships in their area but for metropolitan councils with a single contiguous population centre, the current legal framework is difficult to apply with certainty. This can result in potential cross subsidies where demand for services may vary across an LGA but only a single ad valorem amount applies to all residential properties.

## What IPART recommends

IPART recommends adding a fifth rating category, ‘environmental land’, which they define as land that cannot be developed due to geographic or regulatory restrictions. They also recommend introducing the following changes to increase flexibility when determining council rating structures:

- » ‘commercial’ or ‘industrial’ subcategories for business land;
- » a vacant land subcategory option for residential, business and mining land;
- » the ability to subcategorise farmland based on geographic location; and
- » allowing councils to determine which rating category should act as the ‘residual’ category.

IPART argues that providing more flexibility will allow councils to be more responsive to local needs and enable a more equitable and efficient distribution of the rating burden, while also encouraging urban renewal.

To facilitate rates harmonisation, particularly for metropolitan councils, IPART proposes to remove the “centre of population” requirement for residential rates and instead have councils equalise rates based on separate towns or villages or “residential areas”. An LGA could have multiple residential areas using geographic markers to define their boundaries.

## Government response

The NSW Government recognises the challenges that come from the current legal framework and the limited capacity to apply a differential rating structure. However, it is also cognisant of the view of some stakeholders that they are paying higher rates than they should, with councils effectively using them as a ‘golden goose’.

This emphasises the importance of councils undertaking strong and effective community consultation when they implement and modify their rating framework. It is also important that the NSW Government, when expanding the ability to establish differential rating structures, builds in effective safeguards to ensure that the community retains confidence in the local government rating system.

## Rates Harmonisation

The NSW Government is currently supporting new councils created in 2016 during the forthcoming rates harmonisation process, to be implemented at the end of the rates path protection in either mid-2020 or mid-2021 (depending on the choice of the individual council).

As part of this process, in addition to practical implementation support, the NSW Government is assisting new councils identify options specific to their LGA to undertake rates harmonisation following the end of the rates path protection. IPART’s recommendations regarding residential rates equalisation and gradual harmonisation of rates is integral to this process.

# Theme 4: Better target rate exemption eligibility

## Current Situation

In NSW, rate exemptions are based on a mix of land ownership and land use. There are numerous exemptions from paying local council rates such as for land owned by charities, not for profit social housing providers, churches, schools and universities.

Consideration needs to be given to the public benefits that some exempt landowners provide. Most exemptions still have a strong and abiding public interest and concern remains about the significant impact removal of exemptions may have on the operations of these entities.

## What IPART recommends

The central recommendation is to amend the *Local Government Act 1993* so that exemptions are based on land use only rather than ownership. In addition, all land used for commercial activities or residential purposes should be rateable, unless it is explicitly exempted. In this regard, IPART recommends private hospitals be exempted in the same way public hospitals are. Conversely, IPART recommends the removal of exemptions for land owned by a number of entities, including certain residential care facilities, certain sporting and cultural organisations and certain water utilities, and land subject to a conservation agreement.

## Government response

In its interim response, the Government has already ruled out implementing recommendations related to exemptions, where these would adversely impact vulnerable members of the community or have a substantial financial impact upon taxpayers or the broader community.

The NSW Government does not support wholesale reform of the exemptions framework as it considers the abiding public interest is to keep the existing exemptions framework largely in place, with anomalies being addressed on a case by case basis.

The NSW Government, after considering feedback from stakeholders and the community, will undertake further work on the existing conservation rating exemption.

## Land subject to a conservation agreement

Traditionally, most conservation agreements have been entered into in relation to environmental issues under section 69C(1)(a) and (e) of the *National Parks and Wildlife Act 1974 (NPW Act)*. The use of conservation agreements for these environmental purposes has now largely been replaced by the provisions for Conservation Agreements, Wildlife Refuge Agreements and Biodiversity Stewardship Agreements under the *Biodiversity Conservation Act 2016 (BC Act)*. Some programs established under the BC Act provide funding to assist with conservation efforts while others do not. For example, landholders who are successful under the Conservation Management Program are eligible for annual conservation management payments to undertake agreed conservation management activities such as pest and weed control, and fencing. However, there remain a number of agreements which exist in perpetuity and for which funding is not provided.

Conservation agreement provisions in the NPW Act remain a significant mechanism for conserving Aboriginal cultural heritage and historic heritage of national significance that is located on privately owned land. Unlike for environmental conservation, there are very limited other financial incentives available to private landholders to act to conserve and protect Aboriginal Cultural Heritage or nationally significant historic heritage on private land.

Given the issues above, further consultation and assessment will occur to ensure that the issues associated with protection of Aboriginal cultural heritage and historic conservation agreements are adequately considered and addressed, while recognising there may be potential to address anomalies with the existing exemption brought about by the introduction of the BC Act.

# Theme 5: Assistance to pensioners

## Current Situation

Under the *Local Government Act 1993*, eligible pensioners are provided concessions on their ordinary rates and domestic waste management services charge. The cost of providing these concessions is shared between the State Government (55 per cent) and local councils (45 per cent). Councils can provide concessions above the regulated amount, but this must be funded by the council alone.

## What IPART recommends

IPART recommended the implementation of a rate deferral scheme to be operated by the NSW Government. This would allow new and existing eligible pensioners 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 (becoming due when ownership changes). This would be mandatory for new pensioners and would be optional for existing pensioners (who could choose to defer or opt for the existing concession).

## Government response

The NSW Government has made it clear that it will not take any action that would disadvantage pensioners in its response to the IPART Rating Review.

Given this, and the experience of other jurisdictions that have established a rate deferral scheme where take up is reportedly low, the Government does not believe the case for wholesale change to the existing rates concession framework has been made. Therefore, the NSW Government will not support the introduction of a state-wide rate deferral framework.

# Theme 6: Recovery of council rates

## Current Situation

NSW councils collect rates and charges each year in line with relevant provisions of the *Local Government Act 1993*. Councils receiving funds on time are in a better position to be financially sustainable and continue to deliver the services and facilities local communities need and expect. The volume of overdue rates and charges across NSW councils varies markedly primarily based on circumstances within individual councils and communities.

Likewise, unpaid debt also places an unreasonable burden on both the community and potentially the local court system. There are a range of existing powers available to councils under the *Local Government Act 1993*.

## What IPART recommends

IPART suggested several changes to the practice of councils and the regulatory framework to improve the management and processing of overdue and unpaid rates and charges. The goal of such changes is to improve the efficiency and effectiveness of local government debt management and therefore removing undue burden on local councils and ultimately local courts.

## Government response

The NSW Government released the [Debt Management and Hardship Guidelines](#) in November 2018 for local councils to provide best practice advice on how to manage debt recovery and hardship within their community.

The Guidelines assist councils to develop proactive measures to ensure prompt payment, minimise default, follow up ratepayers, recover debts fairly, assess hardship claims and monitor debt. Each council should adopt robust, fair and transparent policies and procedures outlining how they will communicate with ratepayers, collect monies owing, assess hardship claims and, where necessary, recover overdue payments to manage debt.

The Guidelines, which are part of the NSW Government's Civil Justice Strategy, have been issued by the Office of Local Government under Section 23A of the *Local Government Act 1993*. This means all NSW councils must take them into account when developing and implementing debt management and hardship policies and procedures.

The NSW Government is committed to local councils having best practice debt management and hardship policies and frameworks for the recovery of all debts, including rates. Also, NSW councils can now use the Revenue NSW to recover their debts should they elect to do so.

The Government will continue to monitor the effectiveness of the Guidelines and associated regulatory and legislative framework.

# Table 1: List of Recommendations and Government Response

	<b>Recommendation</b>	<b>Government Response</b>
<b>1</b>	The <i>Local Government Act 1993</i> 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.	Noted.  Given the lack of a clear case in support of introducing CIV, the significant implementation costs involved and the strong stakeholder views, the Government will not implement CIV as a basis for setting ad valorem rates at this time.
<b>2</b>	The <i>Local Government Act 1993</i> 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.	Noted.
<b>3</b>	The <i>Local Government Act 1993</i> should be amended to facilitate a gradual transition of rates to a Capital Improved Value method.	Noted.
<b>4</b>	Section 497 of the <i>Local Government Act 1993</i> should be amended to remove minimum amounts from the structure of a rate, and section 548 of the <i>Local Government Act 1993</i> (NSW) should be removed.	Noted.
<b>5</b>	The <i>Local Government Act 1993</i> 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.	Noted.
<b>6</b>	The NSW Government fund the NSW Valuer General for the upfront cost of establishing the database to determine Capital Improved Values.	Noted.
<b>7</b>	The NSW Government fund the cost for a non-metropolitan council to set up a Capital Improved Value database for the purposes of implementing our recommended formula for calculating growth in rates revenue outside the rate peg, where the Unimproved Value method for setting rates is maintained.	Noted.

	Recommendation	Government Response
8	<p>The <i>Local Government Act 1993</i> 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:</p> <ul style="list-style-type: none"> <li>» form part of a council’s general income permitted under the rate peg, nor</li> <li>» require councils to receive regulatory approval from IPART.</li> </ul>	<p>Support.</p> <p>The Government will examine how this recommendation can complement current reforms being made to the infrastructure contributions framework.</p>
9	<p>Section 511 of the <i>Local Government Act 1993</i> 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.</p>	<p>Support (already adopted).</p>
10	<p>The <i>Local Government Act 1993</i> should be amended to remove the requirement to equalise residential rates by ‘centre of population’. Instead, the <i>Local Government Act 1993</i> should allow councils to determine a residential subcategory, and set a residential rate, by:</p> <ul style="list-style-type: none"> <li>» separate town or village, or residential area.</li> </ul>	<p>Support in principle</p>



	Recommendation	Government Response
11	<p>The <i>Local Government Act 1993</i> should outline that:</p> <ul style="list-style-type: none"> <li>» 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).</li> </ul> <p>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).</p>	Support in principle
12	<p>The <i>Local Government Act 1993</i> should be amended so, where a council uses different residential rates within a contiguous urban locality, it should be required to:</p> <ul style="list-style-type: none"> <li>» 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</li> <li>» publish the different rates (along with the reasons for the different rates) on its website and in the rates notice received by ratepayers.</li> </ul>	Support in principle

Recommendation	Government Response
<p><b>13</b> 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.</p> <ul style="list-style-type: none"> <li>» 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 below.</li> <li>» 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 <i>Local Government Act 1993</i> should be amended to facilitate this gradual equalisation.</li> </ul>	<p>For further analysis and consideration, as part of the development of a rates harmonisation framework.</p>

	Recommendation	Government Response
14	<p>Sections 555 and 556 of the <i>Local Government Act 1993</i> should be amended to:</p> <ul style="list-style-type: none"> <li>» exempt land on the basis of use rather than ownership, and to directly link the exemption to the use of the land, and</li> <li>» ensure land used for residential and commercial purposes is rateable unless explicitly exempted.</li> </ul>	<p>Noted.</p> <p>As per the interim Government response, the Government has ruled out implementing recommendations that would adversely impact vulnerable members of the community, such as pensioners or charities, or have a substantial financial impact upon taxpayers or the broader community.</p> <p>The Government will continue to examine exemptions over time to address clear anomalies and inequities.</p>
15	<p>Land that is used for residential care as defined in Section 41-3(1) of the <i>Aged Care Act 1997 (Cth)</i> be proportionally rateable according to the share of places whose maximum Refundable Accommodation Deposit is above the level set by the Minister for Health and Aged Care (currently \$550,000).</p>	Noted.
16	<p>Section 556(1)(i) of the <i>Local Government Act 1993</i> should be amended to include land owned by a private hospital and used for that purpose.</p>	Noted.

	Recommendation	Government Response
17	<p>The following exemptions be removed:</p> <ul style="list-style-type: none"> <li>» land that is vested in, owned by, or within a special or controlled area for, the Hunter Water Corporation, Water NSW or the Sydney Water Corporation (<i>Local Government Act 1993</i> section 555(1)(c) and section 555(1)(d))</li> <li>» land that is below the high water mark and is used for the cultivation of oysters (<i>Local Government Act 1993</i> section 555(1)(h))</li> <li>» land that is held under a lease from the Crown for private purposes and is the subject of a mineral claim (<i>Local Government Act 1993</i> section 556(1)(g)), and</li> </ul> <p>land that is managed by the Teacher Housing Authority and on which a house is erected (<i>Local Government Act 1993</i> section 556(1)(p)).</p>	<p>Noted.</p> <p>As per the interim Government response, the Government has ruled out implementing recommendations that would adversely impact vulnerable members of the community, such as pensioners or charities, or have a substantial financial impact upon taxpayers or the broader community.</p> <p>The Government will continue to examine exemptions over time to address clear anomalies and inequities.</p>
18	<p>Section 555(1)(b1) of the <i>Local Government Act 1993</i> 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.</p>	<p>Support in part.</p> <p>Subject to further consultation on implementation issues with respect to the range of agreements in force and the preservation of environmental, historical and Aboriginal cultural heritage outcomes.</p>

Recommendation	Government Response
<p><b>19</b> The following exemptions not be funded by local councils and hence should be removed from the Local Government Act and Regulation:</p> <ul style="list-style-type: none"> <li>» land that is vested in the Sydney Cricket and Sports Ground Trust (<i>Local Government Act 1993</i> section 556(1)(m))</li> <li>» land that is leased by the Royal Agricultural Society in the Homebush Bay area (<i>Local Government (General) Regulation 2005</i> reg 123(a))</li> <li>» land that is occupied by the Museum of Contemporary Art Limited (<i>Local Government (General) Regulation 2005</i> reg 123(b)), and</li> <li>» land comprising the site known as Museum of Sydney (<i>Local Government (General) Regulation 2005</i> reg 123(c)).</li> </ul> <p>The NSW Government should consider whether to fund these local rates through State taxes.</p>	<p>Noted.</p> <p>As per the interim Government response, the Government has ruled out implementing recommendations that would adversely impact vulnerable members of the community, such as pensioners or charities, or have a substantial financial impact upon taxpayers or the broader community.</p> <p>The Government will continue to examine exemptions over time to address clear anomalies and inequities.</p>
<p><b>20</b> Where a portion of land is used for an exempt purpose and the remainder for a non-exempt activity, only the former portion should be exempt, and the remainder should be rateable.</p>	<p>Noted.</p> <p>As per the interim Government response, the Government has ruled out implementing recommendations that would adversely impact vulnerable members of the community, such as pensioners or charities, or have a substantial financial impact upon taxpayers or the broader community.</p> <p>The Government will continue to examine exemptions over time to address clear anomalies and inequities.</p>

	<b>Recommendation</b>	<b>Government Response</b>
<b>21</b>	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.	<p>Noted.</p> <p>As per the interim Government response, the Government has ruled out implementing recommendations that would adversely impact vulnerable members of the community, such as pensioners or charities, or have a substantial financial impact upon taxpayers or the broader community.</p> <p>The Government will continue to examine exemptions over time to address clear anomalies and inequities.</p>
<b>22</b>	A council's maximum general income not be modified as a result of any changes to exemptions from implementing our recommendations.	Noted.
<b>23</b>	<p>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 our recommended exemption changes come into force. The council would need to demonstrate:</p> <ul style="list-style-type: none"> <li>» 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</li> <li>» that any subcategory rating structure applied to previously exempt properties is no greater than the average rate structure across the relevant rating category.</li> </ul>	Noted.

	Recommendation	Government Response
24	The <i>Local Government Act 1993</i> 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).	Support.
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.	Support.
26	<p>For new and existing eligible pensioners, introduce a rate deferral scheme operated by the NSW Government, where:</p> <ul style="list-style-type: none"> <li>» 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.</li> </ul>	Noted.
27	<p>Give existing eligible pensioners the option to access, either:</p> <ul style="list-style-type: none"> <li>» the current pensioner concession, or</li> <li>» the rate deferral scheme, as defined in Recommendation 26.</li> </ul>	Noted.
28	<p>Funding pensioner assistance:</p> <ul style="list-style-type: none"> <li>» the current pensioner concession funding arrangements would continue.</li> <li>» 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</li> </ul>	Noted.

	Recommendation	Government Response
29	<p>Section 493 of the <i>Local Government Act 1993</i> should be amended to add a new environmental land category and a definition of 'environmental land' should be included in the <i>Local Government Act 1993</i>.</p> <p>Land subject to a state conservation agreement is categorised as 'environmental land' for the purposes of setting rates.</p>	<p>Support in principle.</p> <p>Refer to recommendation 18.</p>
30	<p>Section 529(2)(d) of the <i>Local Government Act 1993</i> should be amended to allow business land to be subcategorised as 'industrial' and or 'commercial' in addition to centre of activity.</p>	<p>Support.</p>
31	<p>Sections 493, 519 and 529 of the <i>Local Government Act 1993</i> should be amended to add an optional vacant land subcategory for residential, business and mining land.</p>	<p>Support.</p>
32	<p>Section 529 (2)(a) of the <i>Local Government Act 1993</i> should be replaced to allow farmland subcategories to be determined based on geographic location.</p>	<p>Support in principle.</p> <p>Subject to further consultation and analysis with respect to implementation and potential unintended consequences.</p>
33	<p>Section 518 of the <i>Local Government Act 1993</i> should be amended to reflect that a council may determine by resolution which rating category will act as the residual category.</p> <ul style="list-style-type: none"> <li>» the residual category that is determined should not be subject to change for a 4-year period.</li> <li>» if a council does not determine a residual category, the business category should act as the default residual rating category.</li> </ul>	<p>Support.</p>



	Recommendation	Government Response
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.	Support.
35	Councils have the option to engage the State Debt Recovery Office to recover outstanding council rates and charges.	Support. Already adopted.
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.	Support.
37	All councils adopt an internal review policy, to assist those who are late in paying rates, before commencing legal proceedings to recover unpaid rates.	Support. Already adopted.
38	The <i>Local Government Act 1993</i> should be amended or the Office of Local Government should issue guidelines to clarify that councils can offer flexible payment options to ratepayers.	Support. Already adopted.
39	The <i>Local Government Act 1993</i> should be amended to allow councils to offer a discount to ratepayers who elect to receive rates notices in electronic formats, eg, via email.	Support. Already adopted.
40	The <i>Local Government Act 1993</i> 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.	Support in principle.

	<b>Recommendation</b>	<b>Government Response</b>
<b>41</b>	<p>The valuation base date for the Emergency Services Property Levy and council rates be aligned.</p> <p>» 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.</p>	Noted.
<b>42</b>	<p>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.</p>	Noted.



