IPTI Xtracts

Property Tax and Assessment News from Around the World

AUSTRALIA – August 2020

CONTENTS

'Canary in the coal mine': Signs house prices will drop 40%

Australians looking for hints on where property values will go next should keep an eye on Mandurah's performance, a property analysis has said, while flagging value falls of more than 40 per cent.

Digital Finance Analytics principal and housing expert Martin North said the Western Australian city of Mandurah is a "canary in the coal mine" for Australia's housing performance during the Covid-19 downturn. North conducts monthly analysis of housing stress across the country, and believes the pandemic crisis will trigger large scale value falls of more than 40 per cent.

"Not every property, not every city and not every suburb will see the same thing, but typically the starting point here is that our property in Australia in absolute terms is more than 40 per cent overvalued relative to long-term norms," North said.

"We're over-leveraged and we're over-priced, so prices will come back. It could be as much as 40 per cent or more in some places where all of the fundamental supports of price growth have gone away."

North identified those as population growth or migration driving demand and strong employment figures.

“I come back to Mandurah in Western Australia, where I’ve been watching mortgage stress rise over the last four or five years. Mandurah has seen a 38 per cent fall in home prices from their previous peak, they’ve seen more than 20 per cent of households in negative equity,” North said.

He said he’s concerned that Mandurah is the “canary in the coal mines” for other outer-suburban regions that have seen large-scale expansion without the infrastructure investment and associated economic support to back them up.

“Those are the sorts of things I’m worried about.”

North said the pandemic has only sped up a housing problem Australia was already heading towards, claiming fractures in the housing market were forming before the Global Financial Crisis.

“We’ve had a long-term problem of too much debt and too easy lending standards. The cracks were already showing prior to the pandemic, but because we’ve had the pandemic, we’ve had the economic shock as well.

“That has directly fed into the critical linchpin which is unemployment, because if people are still in work then the machine can continue until the point where unemployment starts to rise.”

When that happens, all of the factors that were previously positively reinforcing become negative.

“That’s where we are at the moment, in my view.”

North’s words come after a Reserve Bank of Australia (RBA) report suggesting a 40 per cent house price fall was an “extreme but plausible” scenario. However, the RBA said Australia’s banking system was strong enough to withstand most shocks.

NAB chief executive Ross McEwan also warned earlier this month that while economic conditions should start to improve in 2021, some borrowers should consider selling their properties now.

"As [banking regulator] ASIC said, we’ll take every reasonable step to keep people in homes and keep them moving, but there unfortunately will be some situations where it’s better off for people to actually sell up and start again, so that they can take some equity out of the situation," McEwan said.

Property research firm CoreLogic will on Tuesday release its latest housing figures, tracking Australian house price growth over August. July saw property values fall 0.6 per cent, the third consecutive fall.

The RBA will also hold its monthly board meeting on Tuesday.

Council gives Lamb House owner three months to pay outstanding rates

The owner of Brisbane’s derelict, still-striking Lamb House will be given three months to pay more than $321,000 in unpaid rates or her home will be auctioned.

Brisbane City Council and the Queensland government have expressed interest in buying Lamb House – known correctly as Home - for the people of Brisbane.

The declining condition of the Queensland heritage-listed property at Kangaroo Point has been the subject of intense interest from the Brisbane community, Brisbane City Council and the Queensland government for 12 months now.

Lamb House was originally built over 12 months from 1901 for Queen Street draper John Lamb in Kangaroo Point, Brisbane’s first "suburb". The Lamb family called the house Home.

On August 3, Brisbane business figure Steve Wilson AM – who has won awards for several restored properties – accused both Brisbane City Council and the Queensland government of neglect in allowing the heritage-listed property to deteriorate.

Brisbane City councillors will next Tuesday debate asking owner Joy Lamb to pay her outstanding rates or the home will be auctioned.

Council’s finance committee chair, Cr Adam Allan, said council had been working in good faith with Ms Lamb for many years.

"But now we must take steps with the property owner for them to repay the significant amount they owe the city in unpaid residential rates," Cr Allan said.

"Ultimately the owner, just like every other Brisbane ratepayer, has a responsibility to pay rates," he said.

"It is unfair on every other resident doing the right thing for the debt to continue accumulating."

The Lamb House submission goes to Brisbane City Council’s Civic Cabinet on Monday, then to the full council on Tuesday, Cr Allan said.

"Council will consider a submission next week and issue the owner with a notice that if the debt isn’t settled within three months an auction process will proceed to recover the costs," he said.

Brisbane Times was last night unable to speak with Ms Lamb, who is believed to have shifted recently.

Brisbane City Council has allowed the rates to be paid by friends on occasions.

However, talks between the Queensland government and Brisbane City Council have recently tried to prevent Lamb House from being demolished.

Brisbane City Council in June 2019 put temporary planning guidelines in place preventing major development on the Kangaroo Point block of land for two years.

In June 2020 Queensland’s Environment Minister Leeanne Enoch placed a 60 business-day stop-work order over Lamb House when officers received advice it could be party demolished.

Ms Enoch extended that order for second 60 days on August 24.

Mr Wilson on Wednesday night said asking Ms Lamb to pay the outstanding rates was the "logical next step".

He said he was still interested in acquiring Lamb House.

"I'd look at it seriously. My main interest is in preservation and if that meant buying it, then yes."

Lindar Butler lives next door to the Kangaroo Point property and hopes it can be preserved, like her timber home.

"I honestly believe it is of significant heritage value to the city," Ms Butler said.

"It has a majestic uninterrupted view to the city," she said.

"The Council, maybe in conjunction with the state government, could take the house on, see to its renovations and give it back to the city in some way."

Ms Butler said Ms Lamb and her family should be recognised.

"I think the Council and the state government should step in and broker a deal to allow Ms Lamb - who is a very proud lady - to see out her days comfortably," she said.

"They should let her know that her husband's family legacy will be revered in Brisbane's history."

ACT tax rebate for landlords extended

The ACT Government scheme which awards a land tax rebate to landlords who slash their tenants' rents by 25 per cent has been extended until December.

Over 750 landlords are currently involved in the scheme.

“We understand this is a difficult time for many Canberrans, particularly those who have suffered a significant reduction in their income,” ACT Attorney-General Gordon Ramsay told reporters this week.

“We are pleased so many landlords are taking advantage of these rebates so Canberrans who are struggling financially are not left without a home.

“However, I want to remind people that this is not a licence for tenants to completely forgo their rental obligations. If you are not impacted financially by COVID-19 and can pay your rent, then you are required to do so.”

This is in addition to a freeze on rental increases, a moratorium on evictions, and the ability for tenants to terminate their agreement by providing their landlord with three weeks’ notice and evidence they have been impacted by COVID-19.

NSW Government 20 year 50% discount on land tax for developers

The NSW Government has confirmed it will be introducing an unprecedented land tax discount for all new build-to-rent (BTR) projects across the state.

As well as reducing land tax, the Government will be granting BTR developers an exemption from foreign investor surcharges.

As the policy basis for these incentives, the Treasury's media release cited the capacity of BTR projects "to provide more housing options, greater surety for renters, boost construction and support jobs during the COVID-19 recovery."

Discount details

Applying to BTR projects from 1 July 2020 until the year 2040, the discount will equate to a reduction in land tax of at least 50%, calculated by reference to the unimproved land value.

To be eligible, metropolitan developments must consist of a minimum of 50 units. The full suite of eligibility criteria, which is expected to prescribe a different unit threshold for regional projects, is due to be unveiled in coming weeks.

Promoting an emerging market

A recent entrant into the Australian market, BTR is a flourishing sector overseas, especially in the United Kingdom and United States. In providing a model under which tenants may be offered benefits such as greater freedom to personalise and keep pets in their home, elimination of bond payments and the option to enter into longer-term leases, BTR is favoured for promoting better housing quality, flexibility and affordability.

For all these reasons, removal of barriers to BTR's expansion in Australia has been the subject of extensive lobbying, including by the Property Council of Australia. In announcing the above incentives, the Government's response has been welcomed as a positive step towards increasing options for buyers, especially young people and families, who are seeking greater residential continuity but are unready to buy a home.

New Housing Diversity SEPP

To support the roll-out of these new initiatives, the NSW Government is exhibiting a proposed Housing Diversity State Environmental Planning Policy to provide development standards and design guidance tailored to BTR to ensure its smooth and effective expansion.

The Policy will be exhibited until 9 September 2020.

Melbourne and Sydney continue to lead property price decline

Australia's largest cities are continuing to lead the property market downturn, with new figures showing price falls accelerated in both Melbourne and Sydney last month.

Australian housing values dropped 0.6 per cent in July, according to the latest CoreLogic Home Value Index, released Monday, marking the third consecutive month of prices falls amid the coronavirus pandemic.

Melbourne recorded the largest drop, with the median dwelling value falling 1.2 per cent over the month to $678,334. It was followed by Sydney with a decline of 0.9 per cent to a median of $866,110.

CoreLogic's head of research Tim Lawless said despite the declines, overall, Australia's housing markets had remained relatively resilient through the COVID-19 pandemic so far.

"The impact from COVID-19 on housing values has been orderly to date, with CoreLogic's national index falling only 1.6 per cent since the recent high in April – and housing turnover has recovered quickly after its sharp fall in late March and April," he said.

CoreLogic Home Value July Index Result

Low interest rates, government support and loan repayment holidays for distressed borrowers have helped to insulate the housing market from a more significant downturn."
CoreLogic head of residential research Australia Eliza Owen said values in Melbourne and Sydney were now down 3.5 per cent and 1.7 per cent respectively, since March.

"Generally, we've seen an acceleration in the rate of decline for Sydney and Melbourne, but not across other capital cities with the exception of Hobart … which has been a little volatile … after such a strong growth rate for the five years to 2019."
Both cities, but Melbourne in particular, had been more heavily impacted by the coronavirus pandemic than other capitals, Ms Owen said, and had markets that were more reliant on overseas migrations, which had been brought to a standstill.

"I don't see how Sydney and Melbourne can avoid an acceleration of their downturns right now, while international borders are still closed," she said.

The second lockdown in Victoria and move to stage four restrictions in Melbourne would only put increased downward pressure on prices, Ms Owen said.

"The restrictions will see a more immediate shock to transaction activity; already we're seeing more properties withdrawn from auction, we're seeing fewer new listings coming onto the market and fewer reports generated for real estate agents [for properties which may come onto the market]," Ms Owen said.

"Both the physical limitations of selling property and uncertainty generated by another six weeks of lockdown is going to see fewer people trying to sell their property – but that could keep some stability in the market."
The figures also showed the top end of the market was still leading the downturn.

In Melbourne, values at the top end of the market were down 5.2 per cent while lower values declined 1.2 per cent. In Sydney, the upper quartile fell 2.5 per cent, while lower values remained virtually flat with a fall of 0.1 percent.

Importantly, Ms Owen noted, the top end had recorded the most significant rise in values throughout the second half of last year and into early 2020.

Ms Owen said markets with higher concentrations of investors and more recent purchasers would be hardest hit, but added that the extension of mortgage repayment holidays and JobKeeper and JobSeeker payments, albeit at a reduced rate, would limit forced selling.

She said it would not be until March when the market was really put to the test.
Across the rest of the country, prices edged down slightly in Brisbane, Perth, Hobart and Darwin, falling 0.4 per cent, 0.6 per cent, 0.2 per cent and 0.3 per cent respectively over the month.
Canberra and Adelaide posted a rise in dwelling values over the month, with prices up 0.6 per cent and 0.1 per cent.

Ms Owen said both cities had benefited from low coronavirus case numbers and eased social distancing restrictions. She added that Adelaide was a relatively slow and steady market, with the traditionally low transaction and investor volumes, while Canberra's job market had been less impacted by the coronavirus pandemic due to the higher proportion of public sector employees.

Regional markets were generally showing more resilience to falling values. Across the combined regional areas, values were unchanged in July compared with a 0.8 per cent fall across the combined capital cities index. Regional Victoria and regional Western Australia were the only regional markets to record a fall in values, with prices down 0.5 and 3.2 per cent.

Ms Owen said regional areas typically lagged behind capital cities for price movements and typically saw less price fluctuations, with smaller gains and smaller declines.

Domain senior research analyst Nicola Powell said the property market was holding up extremely well given the economic impacts of the coronavirus pandemic, particularly markets outside of Sydney and Melbourne.
"[However] we are just at the start of this downturn … the weakness in the market is going to be there while we see our economy struggling through job losses, rising unemployment and lockdowns. The declines will continue, and I think will continue to be focused in Sydney and Melbourne, while other capital cities continue to hold up well."

Dr Powell said that just as with the first lockdown, many Melbourne homeowners had decided to hold off buying and selling during the city's second lockdown, resulting in a pullback in new listings and slow down in transactions, creating a shortage of stock which helps support prices. However, she added that more sellers were comfortable with online auction the second time around.

Anger as Melbourne councils refuse to freeze rates despite surpluses

Councils across Melbourne are pushing ahead with rate rises, despite recording surpluses, as businesses and homeowners struggle to make ends meet amid the coronavirus pandemic.

All but five of Melbourne's metropolitan councils are proposing 2 per cent rate increases this year, the maximum amount allowed under state law, despite mounting anger in some of the municipalities.

Councils say lower parking fine revenue and the closure of facilities such as pools and community centres, which still need to be maintained, have put a dent in their budgets, while community needs have increased.

Analysis of council budgets, some of which are still drafts, shows municipalities that are forecasting large operating surpluses this financial year are among those raising rates, including Wyndham ($157 million surplus), Whittlesea

($132 million), Hume ($119 million), Casey ($79 million) and Cardinia ($92 million). Operating surpluses include the impact of property valuations and income tied to specific uses such as developer contributions.

Of Melbourne's 31 metropolitan councils, at least 17 are increasing rates despite recording a surplus.

Yarra Council's draft budget, to be finalised next week, projects a $3.94 million deficit with $30.54 million earmarked for capital works – almost $7 million below last year's expenditure.

Yarra councillor Stephen Jolly said the council should not be dumping capital works projects, nor raising rates.

"Every other government in the world from Donald Trump down is borrowing," Cr Jolly said.

The council is deferring capital works as a result of the pandemic. The Age understands that includes one project for "safety around schools", as well as the design of protected bike lanes.

The four-bin system, to collect food waste, will also be pushed out of this year's plans. The rollout of the new glass bins will continue.

Yarra mayor Misha Coleman said the council was prioritising delivery of essential services and support packages.

"We have deferred consideration of some discretionary capital projects until the full community and financial impacts of COVID-19 are known," she said. "Yarra has committed to a detailed mid-year budget review where we will revisit projects and priorities."

Michael Glynatsis, who runs the Aegean Greek Restaurant on Brunswick Street in Fitzroy, said it was not the time for Yarra Council to raise rates and urged struggling ratepayers to complain before Tuesday's budget vote.

"They will close everyone up," said Mr Glynatsis, who is living off JobKeeper. "It will be a sorry state for everyone in Brunswick Street, Bridge Road, Victoria Street. Everything's going to be up for lease."

Mr Glynatsis is concerned that his restaurant, which has been there for decades but has been completely closed during the pandemic, might not survive.

Homeowners and businesses experiencing hardship in some municipalities can apply for an interest-free deferral because of COVID-19, while pensioners can apply for rebates. There have also been food relief and council grants for those in hardship.

Darebin Council is among those raising rates by 2 per cent, clawing $2.6 million back for a $5.7 million surplus, despite losing $15 million in revenue because of COVID-19.

Councillor Gaetano Greco, who stressed he was not speaking on behalf of Darebin, said it felt out of step to postpone capital works while other governments pumped money into the economy.

"That's a lot of jobs, and now that's not going to happen," said Cr Greco, who disagreed with the rate rise.

Stonnington Council has recorded a $22.19 million surplus, despite a $9.6 million decline in revenue from the 2019-20 forecast.

Chapel Street traders are outraged at the proposed increase, which will be voted on at the end of August.

A Chapel Street Precinct Association survey found all of its 2200 members were against the hike, with most reporting they were struggling to stay afloat. Fourteen businesses had already folded.

“This increase during a pandemic is completely unethical,” general manager Chrissie Maus said. “I’m hearing from people who can't actually afford to feed their family."

In Victoria, about 975,000 people are relying on the federal government's JobKeeper scheme for employment.

Ms Maus said an offer to waive the increase if ratepayers paid upfront would only benefit those who did not have cash flow issues and were not already in financial distress.

Council spokesman Jim Carden said the revenue loss combined with delivering critical services, including increased demand on waste collection and park infrastructure as more residents stayed home, meant it couldn’t afford to freeze rates.

“We are constrained by the state government’s cap on rate rises, meaning we are expected to do more with less year on year,” he said. “We are also not immune to the impact of the pandemic.”

Mr Carden said the council had stood down hundreds of staff and set aggressive internal savings and efficiency targets.

Port Phillip has taken an estimated $19.3 million hit in 2020-21 because of the pandemic, recording a $15.95 million deficit.

The COVID-19 Financial Impact Index shows its suburbs Elwood, St Kilda and St Kilda East are among the hardest hit financially by the pandemic in greater Melbourne.

Campbell Spence, of Ratepayers of Port Phillip, said the council had spent more than $100 million a year more than neighbouring councils Stonnington and Hobson Bay.

“We believe the council has no respect for the ratepayers,” he said. “They are a massive bureaucracy. It doesn't serve the community and it wants to grow year on year. There's money wasted everywhere.''

Port Phillip councillor Dick Gross defended the rates system, arguing it took significantly less from residents than state and federal taxes.

“It attracts disproportionate scrutiny,” he said. “It’s a very, very fair tax. Wealthier people pay more than poor people.”

Cr Gross said the state government had imposed the cap while passing on costs, and that it was important not to be reckless with council finances by getting into too much asset-poor debt.

“We have a reduced capacity to be generous, but an increased demand,'' he said. ''We're doing extraordinary efforts in trying to house the homeless and feed the hungry.”

Constituents in Kingston and Melton have pressured councillors to follow the City of Melbourne's lead and freeze or cut rates in their 2020-21 budgets. Maribyrnong Council has also implemented a freeze.

Melbourne City Council voted to freeze its rates after suffering a $101 million loss in revenue sending it into the red for the first time in 30 years.

Monash Council's rates will go up by 2 per cent, but its ratepayers will be provided with a 10 per cent waiver, meaning rates will decrease by about 8 per cent.

Ratepayers Victoria president Dean Hurlston said councils should prioritise freezing or cutting rates over non-essential capital works projects.

“We live in times of severe financial distress for many businesses and residents who simply don't know how they will make their rates payments,” he said.

No councils have applied to the Essential Services Commission to breach the 2 per cent cap, set by the Andrews government in December last year.

Wyndham Council mayor Josh Gilligan said the municipality’s $157 million operating surplus included footpaths, roads and parks.

"The assertion put by [Ratepayers Victoria] that suburban councils are somehow cash cows and can afford to freeze rates could not be further from the truth," he said.

"The idea that somehow we could flog off parks or even footpaths in return for cash to offset a rate increase is utter lunacy."

Councillor Gilligan said the focus should be councils increasingly taking on the gaps left by state and federal governments, rather than rates.

Opposition local government spokesman Tim Smith called on all councils to freeze or cut rates.

“And if they won't do it, the Andrews Labor government must intervene to ensure that pressure is taken off ratepayers immediately,” he said.

Greater Geelong is lifting rates by 1.9 per cent, with mayor Stephanie Asher saying ratepayers could apply for hardship support if they were struggling to pay their rates.

"We will remain flexible on how we do that; we are taking a compassionate view," she said.

In Ballarat, the city council voted for a zero rate rise in its 2020-21 budget. It has also frozen increases on fees and charges, including car parking fees.

Victorian councils were granted an extension this year to August 31 to adopt the 2020-21 budget.

NSW, Victoria ready proposals to fix 'train wreck' tax system

NSW and Victoria are developing detailed proposals on cutting stamp duty and reforming payroll tax for other states and the federal government to consider as part of a national tax reform blueprint.

The two largest states in coming weeks will lay out proposals to the Council on Federal Financial Relations, which is the meeting of the federal and state treasurers who the Prime Minister has charged with developing tax reform options.

NSW Treasurer Dominic Perrottet is spearheading the push to eliminate stamp duty on property transactions and to gradually replace it with an "opt-in" land tax for future residential property buyers.

Victoria is understood to be working on ideas to make payroll tax more consistent across the states, to make it easier for national companies to comply with.

Currently, payroll tax is subject to different definitions about which workers it applies to and different payroll thresholds and various rates across the states and territories.

Walking the talk

The Australian Financial Review reported on Monday that the Prime Minister and federal Treasurer Josh Frydenberg are privately throwing the pressure back on Mr Perrottet to “walk the talk” on state tax reform after more than a year of publicly floating potential changes.

Australian National University's Tax and Transfer Policy Institute chairman of tax policy, Robert Breunig, said all levels of government must accept the tax system is "broken" and "commit to working together to fix it".

"Our slow-burning train wreck of a tax system harms Australia in real ways but we don’t feel the pain because we don’t see or understand the alternative," he said.

"We must accept that the system is complicated and that reform will involve adjustments to many parts of the system and begin a process to achieve solutions in a way that brings together all parties."

Mr Morrison was asked on Monday if the federal government needed to lead tax reform or if it was up to the states.

He said "state taxes are a matter for state governments".

"And so it is important that if states wish to make changes in that area, that they form a common view about what they would like to see happen.

"Otherwise, you can distract yourself from other important priorities by going down a path that may lead absolutely nowhere."

"Last time around, when there was reform in this area, I think there was some scepticism that followed with the time it took for many of the state taxes to go when the GST was introduced."

Mr Perrottet has said increasing or broadening the 10 per cent goods and services tax should be on the table, has backed axing stamp duty in favour of land tax, and expressed interest in overhauling payroll tax.

The NSW Treasurer has said federal government financial incentives for states, similar to those paid by the Keating government for competition reforms and the Abbott government's support for infrastructure privatisations, should be replicated.

The federal financial relations review for the NSW government by businessman David Thodey this month recommended considering raising more money from the GST to make states less reliant on other tied federal government grants, abolishing property stamp duty and gradually replacing it with land tax.

Robert Carling, Centre for Independent Studies senior fellow and former official at the Commonwealth and NSW treasury departments, said there are are substantial reforms states could do on their own.

"But it is difficult to get them to agree among themselves without the federal government steering the process."

"And of course anything involving GST or state income tax sharing requires federal involvement.

"Those things don’t have to be part of tax reform, but they do often feature in many big tax reform plans."

To boost housing construction, NSW on Monday announced it was extending the temporary stamp duty exemption for first-home buyers of new homes to properties worth up to $800,000, from $650,000.

Stamp duty and payroll tax ... have the effect of creating a bias in the property market which slows down property transactions and payroll tax is simply a tax on employment.

Stamp duty relief will also apply, on a scaled basis, to newly-built homes valued between $800,000 and $1 million as well as to vacant land worth up to $400,000.

Urban Taskforce chief executive Tom Forrest said "this will make a big difference to the struggling property market and to new buyers".

“The problem with stamp duty and payroll tax is they are distortionary.

"They have the effect of creating a bias in the property market which slows down property transactions and payroll tax is simply a tax on employment – it is nuts.

Mr Forrest said national cabinet's success on health decisions needed to be adopted in relation to the vexed issue of tax reform.

"The NSW government has been at the forefront of calling for taxation reform," he said.

"The Urban Taskforce has publicly called for the abolition of stamp duty and its replacement with a broadly based land tax or an extension of the application of the GST.

"The GST was supposed to apply to all goods and services, thus creating enough revenue to fully compensate the unemployed, the poor and those on social security benefits as well as enabling the states to get rid of high inefficient taxes like stamp duty and payroll tax."

Councils renew calls for state government to ditch rate pegging

Councils are renewing calls for the state government to remove rate pegging after a paper by the NSW Productivity Commission said the system acts as a financial brake on local governments accepting developments within their boundaries.

The peak body for NSW councils says the state's four-decades-old policy of rate pegging undermines their financial sustainability and has led to a shortage of paths, parks, drainage and other local infrastructure.

Local Government NSW has seized on the commission's issues paper, which raised concerns that rate pegging served as a financial disincentive for councils to allow development because their rates revenue did not rise as population and land values increased.

"This contrasts with both the state and the Commonwealth, which are both able to expand their revenue with rising population and asset prices," the paper into a review of infrastructure contributions said.

It said rate pegging increased councils' dependence on other revenue sources, such as infrastructure levies on developers.

Under the existing system, the state's pricing regulator determines the annual rate peg, which was set at a rise of 2.6 per cent this financial year, following an increase of 2.7 per cent previously.

Councils can apply to the regulator to raise their income above the rate peg through a special variation process. However, the commission's paper said this process "can be difficult" for councils, given their four-year election cycle.

Local Government NSW president Linda Scott said the issues paper reinforced councils' belief that enforced rate pegging stymied growth as well as infrastructure and services.

"This restriction means councils don't have the flexibility they need to fund the vast range of infrastructure and services they are expected to provide for the public good," she said.

Rates are the largest source of revenue for councils, accounting for about two-thirds of their income. The rest comes from user charges, state and federal government grants, and councils imposing levies on developers for infrastructure.

But Local Government Minister Shelley Hancock said the government remains committed to an independent process for setting the local council rate peg.

"The rate-pegging system protects households and property owners from excessive rate rises, yet allows councils to deliver the services and infrastructure that communities expect," she said.

"With individuals, families and businesses across the state battling the impacts of drought, bushfires and the COVID-19 pandemic, now is not the time for rating upheaval."

The commission's paper described the existing infrastructure contributions system as complex and beset by a "perceived lack of transparency and efficiency".

Furthermore, it said limitations on other funding sources were placing greater pressure on the contributions system to raise the funds needed to meet rising infrastructure costs.

Cr Scott, a City of Sydney councillor, said the commission had rightly identified the existing contribution system as "incredibly complex" and one that potentially hindered local developments.

But she said any changes to infrastructure contributions needed to deliver better outcomes for councils and communities. "Increased rate flexibility should not be seen solely as a mechanism for replacing infrastructure contributions," she said.

The commission is due to hand its final report on the review of infrastructure contributions to Planning Minister Rob Stokes by October.

TASMANIA

Tasmanian council wins right to appeal in airport rate dispute in Federal Court

The Northern Midlands Council has won the right to appeal a decision which could change how rates and fees are charged for Launceston Airport's lessee.

The Federal Court on Thursday granted an appeal to the council against Justice David O'Callaghan's decision in October which had dismissed the council's claim for unpaid rates from the Australian Pacific Airports Corporation.

The council claimed they were owed about $1.7 million.

The council does not have the power to apply rates and charges on the airport, owned by the Commonwealth government, due to constitutional laws.

When federal airports were privatised in the 1990s, long-term leases were put out to private enterprise.

As part of the contract, lessees were required to make ex-gratia payments to relevant councils in lieu of rates.

A dispute between Northern Midlands Council and APAC started after the airport site was revalued by Tasmania's Valuer-General in 2014 which saw a steep increase in what the APAC would be required to pay in equivalent rates.

The company argued rates shouldn't apply to areas outside shops and hospitality venues within the airport.

The argument was supported by the airport's owner, the Commonwealth Government.

APAC paid the council rates according to an independent assessment by valuer Herron Todd White.

That assessment excluded departure and arrival lounges, baggage claim areas, toilets, and waiting areas.

The Northern Midlands Council has previously claimed due to this methodology, the tally of unpaid rates from the airport owners grew by $285,000 a year

Justice O'Callaghan's decision was set aside by a panel of three federal court judges on Thursday.

The matter will now go back to him for a final determination.