

# Review of the Local Government Rating System

## Submission by Armidale Dumaresq Ratepayers Association Inc.

### 1.5 List of issues on which we seek comment

#### Taxation principles

1 Do you agree with our proposed tax principles? If not, why? 15

Yes. We agree with the proposed tax principles of efficiency, equity, simplicity, sustainability and competitive neutrality.

#### Assessing the current method for setting rates

2 What valuation method should be used as the basis for determining the ad valorem amounts in council rates? 20

We prefer the unimproved land value (UV) method, which values the property excluding the value of buildings, structures and other capital improvements as is the current method. The reason for this is that changing to a CIV method could change the behavior of landowners in developing their properties to the best standard (with a view to re-sale value). There may be a case for introducing a CIV method for the residential category where multi-unit apartments pre-dominate. There could be a high density residential sub-category included in the rating schedule.

Should councils be given more choice in selecting a valuation method, as occurs in other states, or should a valuation method continue to be mandated? 20

We believe that a valuation method should continue to be mandated.

3 Should councils be required to use the Valuer General's property valuation services, or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania)? 20

Yes, Councils should be required to use the Valuer General's property valuation services in the interests of equity and because it is the simplest method. It is funded by the State Government and would not become another financial burden on Council.

4 What changes (if any) should be made to the Local Government Act to improve the use of base and minimum amounts as part of the overall rating structure? 22

We believe base rate amounts should only be applied to the residential category where residents receive a high level of services, such as within a centre of population. This is in line with the benefit principle. A limit of 50% is appropriate. It should also apply to Mining where Councils have to service roads and provide other infrastructure. They should not be used for farmland or business. The minimum rate (with a legislated ceiling) plus ad valorem should be applied to these other categories and may be adjusted by councils to maintain fairness and ability to pay. In rural and regional areas small business needs to be encouraged to maintain employment opportunities and population levels.

5 What changes could be made to rating categories? Should further rating categories or subcategories be introduced? What benefits would this provide? 23

There needs to be change in the Farmland category. We would suggest that an Environmental category could be added. This category would include Bush blocks which are unproductive or which generate a low income. (The amount may need to be mandated and amended regularly). Currently the only recourse for these landowners is to seek a covenant which excludes them from paying rates. Councils lose valuable revenue as a result. Farmland should only include land with Primary Producer taxation status where owners are able to claim rates as a deduction. We would recommend removing the mandated 40H limit between Rural Residential and Farmland in the Act because the capacity of land to generate revenue is highly variable across the State. This would allow councils to generate revenue more fairly based on the earning capacity of the blocks.

6 Does the current rating system cause any equity and efficiency issues associated with the rating burden across communities? 24

In rural areas droughts often cause a dramatic drop in income for not only farmland ratepayers but also all the businesses which are associated. There needs to be a system of delaying payment of rates without penalty for such periods. Applying very high base rates in areas which receive minimal services is also inequitable.

7 What changes could be made to current rate pegging arrangements to improve the rating system, and, in particular, to better streamline the special variation process? 25

There appears to be a disjunct between the annual rate pegging and the sudden government requirement for an improvement in standards without accompanying funding. The annual rate peg is fine for allowing councils to provide basic services. However problems occur when councils have to suddenly find a large amount of money to upgrade a facility like a dam wall because the standards have been changed. Another case of this was when councils were required to upgrade infrastructure to a higher standard without any funding being offered to assist. State Government interference (such as the recent amalgamation proposals) are a big financial burden on councils and their ratepayers. Any new requirements need to be partnered with a way of raising the revenue required without the need to apply for an SRV. Councils are businesses. They need to ensure their income meets the cost of their services.

The SRV process is cumbersome and an expensive operation for rural councils. Community consultation is a requirement yet some councils pay lip service to this. The community should be given the right to vote on an SRV with a minimum percentage of ratepayers required (perhaps 50%) before council can submit an application. This would then alleviate the need for written submissions which many ratepayers do not feel confident about and which require bureaucrats to sift through – another expensive exercise.

8 What changes could be made to the rating system to better encourage urban renewal? 26

Urban renewal is a matter for metropolitan councils. Regional centres have their own problems in maintaining a CBD, such as parking, planning and safety issues. The best way to raise extra revenue is to apply an infrastructure levy on the residential category. City and rural residential residents are the main beneficiaries of town infrastructure and should pay for it.

9 What changes could be made to the rating system to improve councils' management of overdue rates? 26

We do not believe that Councils should resort to the Courts for unpaid rates. This is an expensive and possibly counter-productive method of retrieving unpaid rates. A legal warning letter sent annually with the arrears plus penalty is sufficient. We believe the forced selling of property once the arrears amount to a substantial percentage of the property is probably the fairest way to deal with this. Hardship cases should be dealt with differently.

## Assessing exemptions, concessions and rebates

10 Are the land uses currently exempt from paying council rates appropriate? If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption? 33

We believe that land used for religious purposes, schools, land vested in a Aboriginal Council and land used for oyster cultivation, mineral claims, public charities and universities should not be exempt from rates. These exemptions allow many rorts to take place. Individuals associated with all of these categories benefit from Council facilities and services and should contribute accordingly. Our Local Government Area has a university, many private schools, public schools, large amounts of land and businesses owned by religious groups and several National Parks. It is estimated that about 35% of the land is exempt from rates. This situation is crippling our council and denying it the chance of sustainability. These entities also receive exemptions at the Federal and State level. There is no need for them to be exempt at the local level.

11 To what extent should the exemptions from certain state taxes (such as payroll tax) that councils receive be considered in a review of the exemptions for certain categories of ratepayers? 33

Councils should continue to receive exemptions from certain State taxes as they are a level of government.

12 What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved? 35

Pensioners should continue to receive the rebate up to \$250 p.a. but the concession should be wholly funded by the State Government as is the situation in all other States and Territories. This is an important consideration for our LGA where an aged population is on the increase. The concession is having a marked effect on the ability of our council to raise sufficient revenue to meet the cost of services. An asset test would be the fairest way to administer the concession.

## Freezing existing rate paths for newly merged councils

13 We have interpreted the rate path freeze policy to mean that in the four years after a merger, the rating path in each pre-merger council's area will follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation? 36

No. We believe the rating path will include the rate peg but will exclude any Special Rate Variations that may have been planned by the individual councils.

14 Within the rate path freeze period, should merged councils be permitted to apply for new special variations:  
– For Crown Land added to the rating base?  
– To recover amounts that are 'above the cap' on development contributions set under the Environmental Planning and Assessment Act 1979 ?  
– To fund new infrastructure projects by levying a special rate? 39

We believe that Special rate variations which had been planned and approved by the people should be allowed to go ahead for essential infrastructure only such as roads and bridges. Several rural councils have a major infrastructure backlog. This situation would be made worse if the SRVs did not go ahead. Due to the great variation in rates between Councils there would be the scenario where some Councils would be forced to subsidise the infrastructure backlog of another LGA. We do not believe that special rates should be introduced to fund new infrastructure projects until after the rates path freeze period.

15 Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period? 39

We do not know of any other situations that would apply.

16 During the rate path freeze period, should merged councils only be able to increase base amounts and minimum amounts each year by the rate peg (adjusted for any permitted special variations)? 41

Councils should have the discretion to vary base amounts between the categories depending on circumstances. It is only the total rate yield which should not vary apart from an increase as the result of a rate peg or a permitted SRV.

17 During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either:  
– relative changes in the total land value of a rating category against other categories within the pre-merger council area, or  
– the rate peg (adjusted for any permitted special variations)? 41

The rate peg and permitted SRVs should only apply to the total yield. Councils should have flexibility to adjust base rates and ad valorem amounts within the categories.

18 Do you agree that the rate path freeze policy should act as a 'ceiling', so councils have the discretion to set their rates below this ceiling for any rating category? 41

Yes, Councils should be permitted to set rates below the 'ceiling' for any rating category if they wish. This should only happen if there is an issue of equity and fairness involved.

19 What other discretions should merged councils be given in setting rates during the rate freeze period? 41

Councils should not be permitted to impose any extra levies during the freeze period.

20 We considered several options for implementing the rate path freeze policy. Our preferred option is providing the Minister for Local Government with a new instrument-making power. What are your views on this option and any other options to implement the rate path freeze policy? 44

We agree that the Minister for Local Government should be provided with a new instrument-making power in the interests of simplicity. The Local Government Act is complex enough without adding to the complexity. A section devoted to mergers and rates freezing would be helpful.

## Establishing new, equitable rates after the 4-year freeze

21 Should changes be made to the LG Act to better enable a merged council to establish a new equitable system of rating and transition to it in a fair and timely manner? If so, should the requirement to set the same residential rate within a centre of population be changed or removed? 48

In rural areas mergers often occur between councils with large population centres and those with smaller centres. It would be unfair to set the same residential rate for different types of population centres. Currently many councils have variable rates for villages. This should also extend to townships. The requirement for the same residential rate for all the centres of population should be removed.

22 Should approved special variations for pre-merger councils be included in the revenue base of the merged council following the 4-year rate path freeze? 49

Yes. Approved special rate variations for pre-merger councils should be included in the revenue base of the merged council. However, at the time of application the pre-merger councils identified where the extra money would be spent in their Operational Plans, often for infrastructure maintenance in their LGA. The new merged Council must abide by those plans and not divert any SRVs for the benefit of another former LGA.

23 What other rating issues might arise for merged councils after the 4-year rate path freeze period expires? 49

Rate equalization in the newly merged council may create enormous difficulties. Councils need to be prepared to consult widely with their ratepayers and listen to their concerns before any new system is introduced.

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