

**SUBMISSION BY COFFS HARBOUR CITY COUNCIL  
TO THE REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM  
May 2016**

IPART is seeking comment on 23 specific issues identified in the issues paper for the Review of the Local Government Rating System, as well as any other issues stakeholders may identify as relevant to the terms of reference.

Issues 1-12 relate to taxation principles, assessing the current method for setting rates and assessing exemptions, concessions and rebates. Each of these issues is listed below with comments.

Issues 13-23 relate to merged councils. As these matters have no direct impact on Coffs Harbour City Council no comment is provided on these issues.

*Taxation principles*

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

**Comment:** The five proposed tax principles of efficiency, equity, simplicity, sustainability and competitive neutrality are accepted. It is noted that sometimes the achievement of one principle may conflict with another and therefore judgment is required to establish the most appropriate policy position.

*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? 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?

**Comment:** As an overall comment, Councils should be considered generally competent and therefore their rating powers should be broad and flexible within an overall state framework. Conversely, regulatory restrictions on rating powers should be minimised with Councils allowed to be responsive to their community's needs.

Specifically, a choice of valuation method for determining ad valorem amounts, particularly Unimproved Land Value (UV) and Capital Improved Value (CIV) should be permitted. This would broadly align with Victoria, South Australia and Tasmania.

Not only does CIV provide an arguably more equitable contribution to the general rate income for multi-unit dwellings, as discussed in the issues paper, it also potentially increased the equity in contribution between rural land and other land types.

Annual Rental Value (ARV) is considered an overly complex method which largely mimics CIV. Also, ARV has sometimes required special rules, such as a minimum percentage of CIV, which show that it is problematic.

A further issue which should be examined by IPART in concert with the valuation method is the frequency of the valuation cycle which is currently three years. It is known that property values can fluctuate significantly and differently by centres of population when a new valuation is recorded. This may cause temporary skewing impacts in the allocation of the rate burden that are subsequently corrected at the next valuation three years later. The development and application of value growth indices by rating category

and locality, say on an annual basis, would assist in removing these value change distortions and provide a more predicable rating path for property owners.

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)?

**Comment:** The issues paper only provides a passing comment on this issue. It would seem anti-competitive and less efficient to require the use of a monopoly provider for valuation services. Data for this service is able to be readily sourced by multiple suppliers and spreading the workload also assists in the timeliness of this service being provided. Therefore Councils should be able to use other suppliers as occurs in Victoria and Tasmania.

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?

**Comment:** The current provision for the use of base or minimum amounts is supported. It is understood that limits need to be in place on both these mechanisms to ensure the rating burden is not overly flattened and therefore equity is maintained. An improvement may be to express the minimum limit as a percentage, as is the base, to remove the need for a changing regulated dollar value.

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

**Comment:** The current four rating categories are considered adequate; however, an expansion of subcategories would provide increased flexibility and arguably improved equity in the rating system. Potential examples include distinguishing residential dwelling types, business uses such as commercial and industrial and farmland uses such as intensive greenhouse horticulture from grazing. A sensible set of defined sub-categories in addition to centres of population or activity would provide a common understandable framework for rating purposes.

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

**Comment:** The issues paper makes the point that rates levied by a local Council should be used to fund the provision of infrastructure and services in that local government area, and should reflect the cost of service provision. Council wholeheartedly concurs with this position and does not support cross-subsidisation of other Councils through the rating system.

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?

**Comment:** As stated above, Councils should be considered generally competent and therefore their rating powers should be broad and flexible within an overall state framework. The paternal nature of rate pegging imposed by the state government on local government is therefore anachronistic. Councils should be accountable for their decision making in all matters, including their revenue policy, to the community they serve; not to another tier of government. To improve this accountability, common benchmarks could be published for all Councils.

Alternatively, if rate pegging is to remain, at the very least a mechanism should exist for Councils to demonstrate its responsible revenue policy approach to provide a method to be released from the rate pegging regime. Again, common benchmarks could be used for this assessment.

In any case, there is no doubt that the current process to apply and approve special rate variations is unnecessarily onerous and could be streamlined through a set of more focused criteria to support an application.

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

**Comment:** The ability to levy special rates, as Coffs Harbour City Council has done to fund the renewal of its Central Business District (CBD), is adequate from Council perspective.

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

**Comment:** The current provisions for the management of overdue rates are considered generally adequate. Although claims are required to be proved through the Local Court, as noted in the issues paper, less than 1% of all claims for unpaid rates are defended, and therefore the process is straightforward. However, Council supports any legislative change that could further streamline the process.

The issue of deferring rates is raised in the issues paper under the discussion of pensioner concessions. However, Council considers it worthwhile to explore this concept, similar to the South Australian Postponement of Rates Scheme, for all retirees who are asset-rich and cash-poor, to provide a mechanism to manage such outstanding debt. However, due to the cashflow impacts that may affect Council, strict criteria would need to be applied to access such a scheme.

#### *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?

**Comment:** The current exemptions in place represent a direct cost shift from state and federal governments to local government. Examples include schools, universities and hospitals. An efficient and simple approach would be to abolish such exemptions. This would also provide appropriate transparency and accountability for the true cost of service provision. The argument presented in the issues paper that the tax base of state and federal governments may be less efficient than council rates in funding public goods, even if sustained, penalises local government if say, grants of equivalent value are not provided. Also, exemptions for national parks and conservation areas should be reviewed to remove areas where commercial activities occur.

Current exemptions for public charities and land used for religious purposes are further examples where the exemptions should be narrowed. Recent case law in relation to public charities show that this exemption is quite broad and can, for instance, be applied to public housing. Again the exemption for land used for religious purposes should be restricted to places of worship, as in other jurisdictions, with land used for other related activities not exempt.

The method of applying exemptions, to the extent they remain, should be in the form of a partial rebate rather than full exemptions. Such a rebate should be standardised across local government areas to ensure consistency and reduce the likelihood of localised disputes and costly and time intensive negotiations.

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?

**Comment:** Any review of the application of state taxes may be relevant, but not as part of this review. Rather the reform of state and local government financial relations are should be conducted through a comprehensive and holistic approach to all related taxes, levies and charges between both tiers of government. This type of reform has already occurred in other jurisdictions to remove cross-subsidies, provide transparency and increase efficiency by removing exemptions from both sides.

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

**Comment:** The most efficient method to provide the assistance to pensioners would actually be to increase pensions paid by the federal government and remove the necessity for a concession system. However, in light of the current cost-shifted arrangements, Council considers the current pensioner concession scheme should be retained with the maximum indexed to maintain the relative value of relief. It is noteworthy that New South Wales is the only state that cost-shifts the funding of this concession on to local government. This should be corrected.

As stated in 9 above, in addition to the pensioner concession scheme, Council considers it worthwhile to explore a rate deferral scheme similar to the South Australian Postponement of Rates Scheme, for all retirees who are asset-rich and cash-poor, to provide a mechanism to manage such outstanding debt.