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Susan Pardy
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Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir / Madam,

RE: *Review of Local Government Rating System*

Cootamundra Shire Council provides written comment on the recently released *Issues Paper* concerning IPART's review of the local government rating system.

Should you require further information or wish to discuss the matter please contact Susan Pardy, Revenue Officer, or the undersigned on (02) 6940-2100.

Yours faithfully

Ken Trethewey
General Manager

10 May 2016



AR Bluett Award Winner for Most Progressive
Rural Council in NSW – 1992 & 2014

COOTAMUNDRA SHIRE COUNCIL SUBMISSION IN RESPONSE TO IPART'S REVIEW OF THE
LOCAL GOVERNMENT RATING SYSTEM ISSUES PAPER APRIL 2016

Section 3 – Establishing principles of taxation

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

Council is satisfied with the proposed tax principles outlined.

Section 4 – 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?*

As a rural Council, it is unlikely that moving from unimproved land value (UV) to capital improved land value (CIV) for the purposes of rating, will have a noticeable effect on equity or increase urbanisation. That being said, Council makes the following observations:

- The source data needs to be further scoped with a mutually agreed definition and calculation methodology for 'capital improved value'.
- If CIV is taken to mean 'market value', the basis of land valuations may be easier to understand by ratepayers, but could be more susceptible to changes in market conditions and therefore objections.
- Data capture may prove difficult and costly as it is not presently available from a single source.
- If the objective of changing land valuation methodologies is to decrease inequities related to high density properties, other alternatives such as the introduction of a strata residential sub-category may provide a simpler and more suitable solution.

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)?*

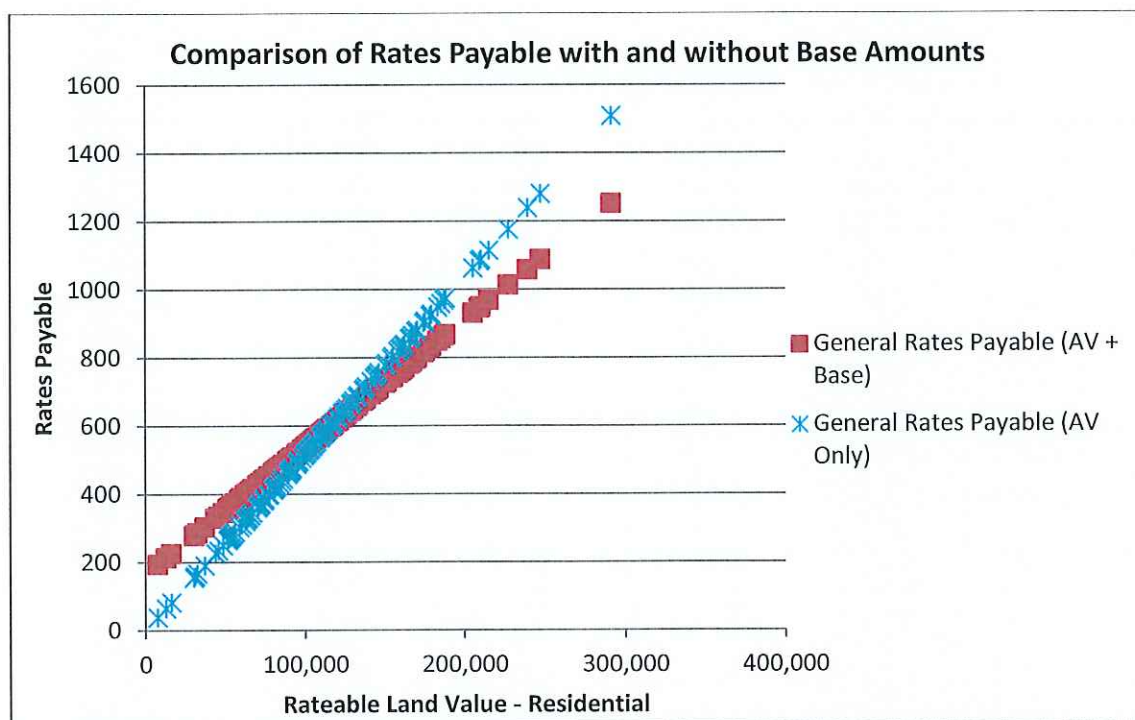
Council's should be free to use the most cost effective valuation services provided an agreed standard of valuation is used throughout the State.

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?*

Council strongly objects to the suggestion that removing base amounts may increase equity. Base amounts are presently used in conjunction with ad-valorem amounts to better

distribute the rating burden within a sub-category where the land valuations are highly disparate, as is often the case in rural areas.

As an example Council has examined the effect on rates payable if the base amount was removed from its present residential outskirts sub-category (based on the assumption that total revenue should remain unchanged). In removing the base amount, the average rate levy would remain static (\$596), however, the lowest rate payable would reduce from \$195 to \$39 per year, while the highest rate would increase from \$1,253 to \$1,509. It is difficult to reconcile this degree of disparity, and difficult to justify that \$39 per year would be an acceptable annual levy for the provision of Council facilities and services. The graph below visually demonstrates the use of base rates in 'evening out' the rates levied.

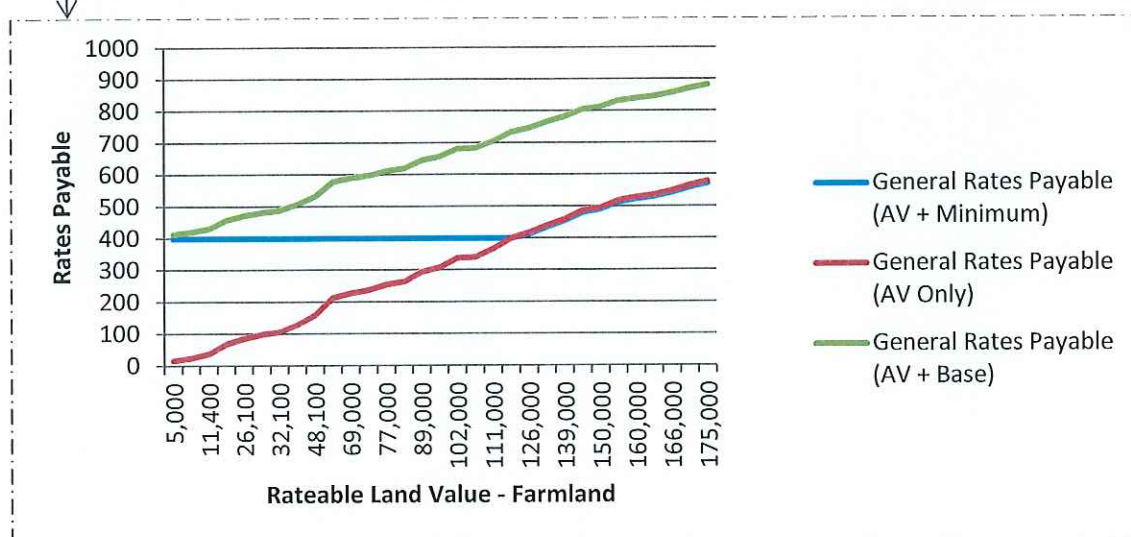
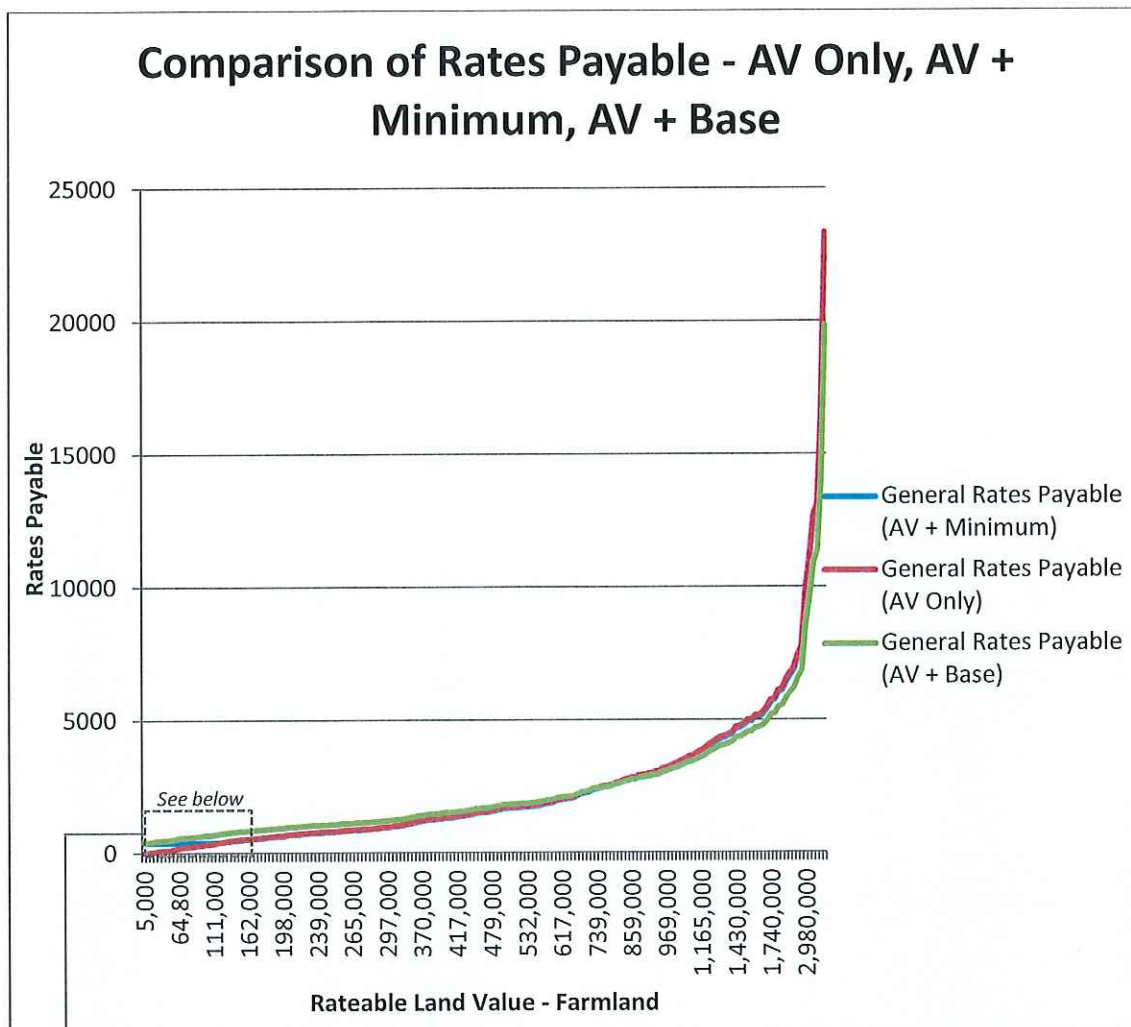


The same issues arise in Farmland where the rateable land values are extremely disparate. Therefore, using a minimum amount allows for a more equitable distribution of rates payable, while setting a threshold which all ratepayers are required to meet.

Using Cootamundra's rating structure and based on the assumption that Council seeks to collect the same revenue from the Farmland category:

- Using only an ad-valorem: the lowest rate payable would be \$17 and the highest would be \$23,345.
- Using an ad-valorem with a base of \$400: the lowest rate payable would be \$414 and the highest would be \$19,860
- Using an ad-valorem with a minimum of \$400: the lowest rate payable would be \$400 and the highest would be \$23,114

The following comparison illustrates this disparity.



Accordingly, Council proposes that if any changes are made to the Local Government Act to improve the use of base and minimum amounts, they should increase flexibility rather than decrease it. This would include:

- Allowing councils to continue using base and minimum amounts, if they so wish.
- Removing the 'cap' on the revenue from a minimum amount being set at 50%.

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

In an attempt to increase equity, Council suggests the following changes to rating categorisations:

- The introduction of a separate rating category or sub-category for multi-unit properties, so that the contribution of a multi-dwelling property is more commensurate with its impact on Council's facilities and services.
- There is a strong need for the reconsideration of exemptions, in particular not-for-profit or public benevolent institutions. Council suggests that exemption should be determined based on the *use of the land*, and not the *ownership of the land* as is currently regulated.
- At present, the sub-categorisation of farmland is difficult to interpret, monitor and administer. Instead, farmland may be more suitable to being sub-categorised based on a geographical area such as a defined locality.

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

The rating system does create equity and efficiency issues communities that are intersected by council boundaries. By design, each council adopts a rating structure independent of the rating structure of its neighbouring councils.

As a result, ratepayers with similarly valued properties in two or more local government areas are likely to bear disparate methods of calculation and actual rates payable. This is very common in rural areas where farming properties and enterprises often exist in two or three council areas.

Councils will still continue to provide amenities to visitors, without receiving any contribution to council's revenue. These apparent inequities are unlikely to be reconcilable with the current methodologies of local government revenue raising.

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

Council has no comment to make on this issue.

8. *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?*

As a general principle Council believes that rate pegging arrangement should be abolished. However, Council accepts that this is not the NSW Government's intention.

Presently, as part of the Integrated Planning and Reporting (IP&R) framework, councils are held accountable to and by their communities in determining the desire, willingness and

capacity to pay for services and facilities. Accordingly, where a council is able to prove accountability and responsibility, autonomy in determining the rate pegging amount (that is, a complete exemption from the IPART determination) should be granted.

Council suggests that this right to autonomy should be earned, with IPART acting as the determinant. Being granted autonomy should be merit-based, with each council being benchmarked against itself and its own objectives and results, rather than being graded against any other council (or collective councils).

If autonomous determination of the rate peg amount is introduced, the need for special variations will be eliminated. Alternatively, any suggestions to streamline the special variation application process (such as the utilisation of existing reports and a reduction in duplication of effort) would be welcomed.

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

Council believes that all councils have an obligation to collect all overdue rates to fund service delivery, and to be fair to those ratepayers who do pay on time.

Most councils actively pursue flexible payment arrangements with their ratepayers and offer additional assistance under hardship provisions. The suggestion that councils are overly reliant on the court system and should offer '*more flexible payment options*' fails to acknowledge the attempts made by councils to avoid legal action, which is only pursued as a 'last resort'.

Council objects to the introduction of setting a 'minimum' amount of overdue rates claimable, despite the findings that some councils are pursuing relatively low value claims. Setting a minimum would be irresponsible as it would fail to consider each individual's capacity to pay and would disadvantage those with higher rates payable.

Council is also of the view that early intervention to reduce overdue payments is in the interest of the ratepayer, and often alleviates long term and unmanageable accumulation of debt.

Section 5 – 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?

Council accepts the need for competitive neutrality and therefore suggest that the use of the land should determine eligibility for exemption, rather than ownership. If exemptions were more tightly controlled and defined based on land use, a fairer and more equitable collection of rates and increased transparency would be achieved. For example, at present,

two nursing homes may exist in one local government area with one owned by a registered charity, the other privately. Only one receives the exemption, yet both have comparable impost on council's facilities and services, and both are competing for market share.

Further identifiable outcomes would include that *all* properties used for the purposes of a residence become rateable, and that businesses operating within the confines of a National Park would no longer be exempt.

To enact these changes to exemptions, Council suggests that the Local Government Act's definitions need clarification, not removal. Council would not agree with each council being granted discretion over the level of exemption, as this would prove problematic and would result in inconsistencies across local government areas.

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

Council supports the general principle that the three levels of government should not tax each other.

However, Council does not believe this principle should be applied to any genuine business activities undertaken by any level of government. For example, NSW Payroll tax exempts local government in general, but limits that exemption to non-business activities. The payroll tax exemption does not apply to local government water, sewerage, saleyards, cemeteries, aged care hostels, and other business activities in circumstances where those activities are operated as a business.

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

Council believes that the State Government should be liable for 100% of the pension concession as the pension concession is a welfare measure.

As the proportion of pensioners is increasing, the strain on Council's budget (presently costing Council \$182,000 p.a.) and its continued ability to provide services which benefit the whole community is compromised. Council generally supports the review of eligibility, but this must result in outcomes that increase efficiency rather than decrease it.

An asset test (of sorts) is generally supported, however, to take account of inconsistencies across rating structures in different local government areas, it would be beneficial to consider the rebate amount as a proportion of the rate levy, rather than the value of the asset.

Council does not support a rate deferral scheme as this would negatively affect cash flow and service delivery.

Section 6 – Freezing existing rate paths for newly merged councils

13. *We have interpreted the rate path freeze policy to mean that in 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?*

Cootamundra Shire Council generally agrees with IPART's interpretation that the rate freeze policy implies the rating path in each pre-merger council's area will follow the same trajectory for the four years after a merger.

However, Council does not accept that the intent of the rate freeze policy is to 'lock in' the rate burden of each category and sub-category as it currently exists within each pre-merger Council for the next four years. To do so would be to assume that a council's current rating structure should, and can, remain static. A council may currently be in the process of gradually redistributing the rating burden between categories or sub-categories as part of their long-term planning. Therefore, it stands to reason that a rate burden redistribution which is presently being undertaken would be impeded if the ability for a council to redistribute the rating burden was removed.

Council proposes that the intent of the rate freeze policy should be redefined, and suggest that no ratepayer in a pre-merger Council should be required to subsidise any other pre-merger Council during the four year period. In short, any increase to total allowable income as a result of rate peg should be contained to each pre-merger council, rather than being added in aggregate to the total allowable revenue of the merged Council, while still allowing the flexibility of changes of the rate burden within the categories of those pre-merger councils.

Council believes that ratepayers understand that mergers and the requirement for rate equalisation will result in changes to rates payable, and there will inevitably be 'winners and losers'.

Council suggests that any inequities that currently exist across two or more councils will only be further compounded in absolute terms if existing rating structures are locked in for four years. This will impede the goal of rate equalisation and the new council's ability to operate as 'one' council if it cannot commence the process of integration immediately. Merged councils need to use this four years as a transitional period. Neither the 'relative share method' nor the 'fixed share method' will therefore be appropriate.

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?*

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

Council agree that councils should be permitted to apply for new special variations, and that the process must be more streamlined and accommodating to merged councils.

However, Council suggest that an assessment of each newly formed council will identify service gaps across the new council, particularly when comparing services provided by the previous councils. If this occurs and consultation with the ratepayers identifies a willingness for service equalisation and a willingness to pay, then the new council should be allowed the provision for a special variation. Importantly, this should not be limited to Crown Land additions, 'above the cap' development contributions and new infrastructure projects using a special rate. The merged council may see a need for a general increase to fund, for example, roads, tourism or general beautification of the council where linking direct benefits (as is required with the implementation of a special rate) will prove problematic. Accordingly, the ability for a merged council to apply for a new special variation should not be limited as proposed.

Questions 16 – 20

- Merged Councils should not be limited to only increasing the base amounts and minimum amounts each year by the rate peg.
- Councils should not be limited to only allocating changes to the rating burden across rating categories based on changes in land value or the rate peg.
- While councils should be permitted to set their rates below the 'ceiling', any supposed savings of a merged council are illusionary and so any suggestion that a council will elect to set their rates below the 'ceiling' is fanciful.
- Council agrees with IPART's preferred option that the Minister for Local Government is provided with a new instrument-making power as required.

Section 7 – 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?*

The impact of a merger on residential rates would not affect Cootamundra based on the present legislation. The inclusion of a 'centre of population' as a basis for sub-categorisation is fundamental for a regional council as rural councils differentiate between towns and villages.

However, to propose that the residential sub-categorisation option be removed would prove extremely difficult to reconcile. Council would not object to the removal of the mandatory requirement for residential rates being based on centres of population, but would object to its availability being removed as it should, at least, remain optional.

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?

The special variations for a pre-merger council should be included in the revenue base of the merged council following the 4-year rate freeze, as total revenue projections and long term planning would already be determined and any special variation already be accounted for.

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

Council is very concerned that the farmland category has not been given consideration in IPART's *Issues Paper*. At present, many rural and regional councils elect not to use sub-categories of farmland and so are faced with the potential need to combine multiple councils using singular ad-valorem amounts. For Cootamundra the pre-merger farmland rate burdens of the potential merger councils range from 31 to 74%. Such highly disparate rates payable must be equalised in the long term and Council suggests that to achieve this:

- movement towards rate equalisation must be allowed during the first four years of a council merger, and
- allowance should be made to introduce farmland sub-categories based on a geographical boundary, which would reduce the immediate need for rate equalisation.

Finally, Council is also concerned that:

- water and sewer has not been considered by IPART and this is another area in which equity must be achieved over time where there are different systems, costs and structures. Council recommends that IPART increase its scope to also consider the impact of water and sewer funding, and
- there has been no indication as to how reporting, compliance and enforcement will occur, and that any additional reporting and auditing requirements will only add to the current compliance burdens, rather than decrease them.