

Submission to IPART review of the rating system  
12 May 2016

Dr Peter J Boxall AO  
Chairman  
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Dear Dr Boxall

Thank you for sending senior IPART representatives to meet with the Fit for the Future Ministerial Advisory Group (MAG) on the current Review of the NSW Local Government Rating System on 28 April 2016. The discussion was very informative, and the MAG decided subsequently to write to you to register the major issues of its members.

The MAG welcomes the Rating Review and IPART's release of its discussion paper. The review of the rating system was a key recommendation of the Independent Local Government Review Panel Report and there is general recognition that the rating system is overdue for a comprehensive review. The review presents the opportunity to improve equity and efficiency of the NSW rating system and to provide for financial sustainability of councils.

MAG organisational members would like to provide the attached submission to your Review.

I hope that the views are of assistance and MAG members look forward to continuing to work with IPART on the review of the rating system.

Yours sincerely

Peter Achterstraat AM  
Independent Chair MAG

**Submission to IPART review of rating system from organisational members of the MAG (Local Government NSW, United Services Union, Local Government Professionals Australia, NSW)**

**1. Rate pegging is unnecessary and should be removed.**

The primary reasons for this are that:

- rate pegging has been made redundant/obsolete by the implementation of Integrated Planning & Reporting (Community Strategic Plan, Long Term Financial Plan etc.);
- rate pegging has contributed to the infrastructure renewal backlog and weakened the financial sustainability of NSW councils;
- rate pegging distorts the operation of a land valuation based rating system as it means that valuations do not raise net revenue but merely redistribute the rate burden within an LGA;
- councils are democratically accountable and this keeps rates in check; and
- historical experience of other jurisdictions without rate pegging showed that rates did not blow out.

Many of the current exemptions are inappropriate. Several are a legacy of 19th century norms that are not part of 21st century reality. The principle should be that all land used for commercial or residential purposes should be subject to rates regardless of tenure. Exemptions need to be better targeted and the potential use of partial exemptions or the use of rebates may be tools to assist with this.

The provision of pensioner concessions to those in need is supported and it is generally agreed that they be increased to more realistic levels. However, as a welfare measure these concessions should be fully funded by the NSW and Commonwealth Governments. Pensioner concession recipients are not evenly spread across the state and this places an inequitable burden on communities in local government areas that have higher than average ratios of pensioners in their populations.

Freezing the rate paths and a freeze on Special Rate Variations (SRVs) for newly merged councils is contrary to the objectives of Local Government reform and will be ultimately damaging for affected communities. Councils have expressed the view that it is counterproductive and that it will make the complex merger process even more difficult.

The freeze on rating structures and the freeze on SRVs need to be considered separately as each has different consequences.

**2. Freeze on SRVs**

While amalgamating councils will still receive normal rate pegging adjustments, this will only assist in providing for maintenance of the status quo in terms of infrastructure and services. It will not allow the new council to fund and provide improved or additional services or to take corrective action to address infrastructure renewal backlogs.

Given the significant costs of the forced amalgamations and recognising that few if any savings are achieved in the first four years of amalgamation, it is more likely that infrastructure, service provision and financial sustainability will deteriorate at a faster rate than would have been the case without the merger.

Without the ability to raise additional rate revenue during the freeze period, the new councils will be faced with the need to seek a larger and more sudden increase at the end of the freeze. This is contrary to the objectives of the FFTF program and is clearly not in the interests of the communities, councils or the NSW Government. It would be preferable from a policy position to abandon the freeze on SRVs and allow the new merged councils to apply for SRVs when they are able to satisfy the normal SRV criteria.

### **3. Freeze on Rate Structures**

In the presence of rate pegging, the freeze in rate structures and policies primarily raises equity issues. Councils are concerned that it is potentially very divisive. The freeze instantly polarises the community by creating winners and losers - those locked into lower rates and those locked into higher rates.

At the same time, many ratepayers are going to expect that service levels are equalised to the highest level previously offered by any pre-existing councils. This will create a dilemma for the new councils in the absence of increased rate revenue; i.e. do they:

- maintain differential service levels for different parts of the community for the duration of the freeze?; or
- do they reduce service levels in some parts of the community to allow subsidisation of increased services levels in other parts in an attempt to achieve sub optimal equalisation?

Provision needs to be made to allow for phased rate and service level harmonisation to commence well within the first four years of the new council.