GLEN INNES SEVERN COUNCIL

SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF LOCAL GOVERNMENT RATING SYSTEM

Background

On 18 December 2015, the NSW Premier, Mr Mike Baird, tasked the Independent Pricing and Regulatory Tribunal (IPART) with the role of undertaking a review to identify and make recommendations for potential reforms to the rating system for Local Government in NSW.

The aims of the recommendations to be made by IPART are to:

- Enhance the ability of Councils to implement sustainable and equitable fiscal policy; and
- Provide the legislative and regulatory approach to achieve the Government's policy of freezing existing rate paths for four (4) years for newly merged Councils.

In order to achieve the above aims, IPART was asked to consider:

1) The performance of the current rating system and potential improvements, including consideration of:
    a) The rating burden across and within communities, including consideration of apartments and other multi-unit dwellings;
    b) The appropriateness and impact of current rating strategies and exemptions, mandatory concessions and rebates;
    c) The land valuation methodology used as the basis for determining rates in comparison to other jurisdictions;
    d) The impact of the current rating system on residents and businesses of a merged council and the capacity of the council to develop a new equitable system of rating and transition to it in a fair and timely manner;
    e) The objectives and design of the rating system according to recognised principles of taxation.
2) Current examples of municipal best practice rating policies and schemes.
3) The impact of the current and alternative frameworks for the rating system on communities and businesses and their capacity to pay.
4) Any other matter IPART considers relevant.

General Comment from Glen Innes Severn Council

Although Glen Innes Severn Council (GISC), is not facing forced amalgamation, having been declared Fit for the Future in December 2015, and as a result is not impacted by the potential for any freezing of existing rate paths for four (4) years, it is still important for GISC to have an input into this review for reasons that will become apparent below.

Removal of Rate Capping

Public finance theory and practice implies that taxation revenue whether it is at the Federal, State/Territory or Local level is generally used to finance various forms of "public goods, services and community obligations" not necessarily in direct relation to user benefit, but ultimately of benefit to the community as a whole. In this respect, rates are a general purpose levy not linked to user pays principles.

Given the importance of rates to Council as an "Own Source" revenue stream and given that the Own Source Revenue Ratio is one of the key financial indicators used by Government to determine if Council's are financially viable, it is a more than a little ironic that rates are referred to as "Own Source Revenue" but they are then capped by the State Government and in so doing impedes a Council's ability to achieve the benchmark, also set by the State Government with regard to this performance indicator.

It is therefore GISC's strong contention that rate capping should cease and that each local Council should be able to set its own rates each year giving consideration to:

- Understanding the impact of rate and fee increases on the community;
- Maintaining existing services in light of increased costs (often above CPI), for example Building or Construction Price Index's;
- Implementing new initiatives for the benefit of the Community;
- Providing funding to address the existing Infrastructure backlog (for example the additional $400,000 allocated in GISC's draft 2016/17 budget for Road Maintenance). Noting that the infrastructure backlog has been caused in large part by rate pegging.

The removal of the rate peg is particularly important for rural or road heavy Councils such as GISC for the reasons outlined above.

Despite the push for Local Government to be recognised as the third level of Government in Australia in the constitution not proceeding at this stage, it is clear that Local Councils should be more autonomous bodies than is presently the case in NSW with regard to the setting of rates.

Glen Innes Severn Council is at the forefront of providing services to the local community and therefore is best placed to determine the resourcing requirements to fund that service provision and to understand the community's capacity to pay for those services.

Rate Exemptions

In terms of changes to the existing rate exemptions, State Agencies including State Parks & National Forests should not be exempt from contributing their fair share towards the functions of Local Government within which they operate.

Arguably, most exemptions should be removed, but it is understood that there is some sensitivity to organisations such as Churches, Educational Facilities and Public Benevolent Institutions. Perhaps payments based on capacity to pay (i.e. a means test) could be applied to some of the organisations presently exempt from paying rates.

Conversely, it is ludicrous that Councils have to pay themselves rates on their own properties; this is unnecessary and is bureaucracy and red tape at its finest. If any organisation should be exempt from paying rates, Local Government itself should top the list. The wording of the Northern Territory, South Australia or other States' legislation could be looked at to see how this can be achieved easily, for example:

Section 144 (1) (b) of the *Local Government Act (NT)* states that: " land of the council, other than such land leased for a purpose that does not give rise to an exemption under some other provision of this section" is exempt from rates.

Similarly in the *Local Government Act (SA),* Section 147 (2) (f) an exemption is provided for: "land occupied or held by the council, except any such land held from a council under a lease or licence."

Similar provisions apply in Western Australia - refer Section 6.26 (1) (b) of the *Local Government Act (WA)*, Victoria - refer Section 154 (2) (b) of the *Local Government Act (Victoria)*, Queensland - refer Section 93 (3) (g) of the *Local Government Act (Qld)*; Tasmania – refer Section 87 (1) (e) of the *Local Government Act (Tasmania).*

Pensioner Rebates

Pensioner Rebates provide a mechanism to assist Pensioners with the payment of their rates. While there is no arguing the merit of this, it means that Council loses out on a significant amount of revenue each year.

Section 575 (3) of the *Local Government Act 1993* provides that the maximum rebates that apply for eligible pensioners are:

- (a) Ordinary rates and domestic waste management charges up to a maximum of $250.00;
- (b) All water supply special rates or charges up to a maximum of $87.50; and
- (c) All sewerage special rates or charges up to a maximum of $87.50.

The total current concession for this year on the eligible rates and charges for GISC is $400,000. Of this amount, 55% is rebated to Council by the Office of Local Government [through both the State Government (50%) and the Federal Government (5%)].

This means that approximately $180,000 per annum in revenue is forgone to GISC as a result of this section of the Act.

If the State Government, which has legislated this requirement, believes it is so important, they should fund 100% of the pensioner rebates and not further reduce Council's own source revenue in this manner. In other jurisdictions, for example the Northern Territory, Councils only provide a rebate to the extent of the amount funded by the Northern Territory Government unless there is a specific resolution by a Council to provide an additional rebate. For example, the Alice Springs Town Council offers a rebate of $47 in addition to the funded Territory Government Rebate.

Therefore, it is suggested that Section 575 (3) of the *Local Government Act 1993* be amended to reflect the amount of funds provided by the State and Federal Government for this purpose, leaving it to individual Councils to determine whether they will provide an additional rebate, or not.

Proposed change of the basis of rating from Unimproved to Capital Improved Value

Mr John Comrie of JAC Comrie Pty Ltd is a Local Government Consultant who in 2013 produced a document entitled "NSW Local Government Rating and Charging systems and Practices". In this document, he highlighted the disparity of valuation methods used across the States and Territories in Australia and made the following comment:

"Each of the valuation bases has both advantages and disadvantages for local government rating purposes relative to the others and different impacts for individual ratepayers. For example, residents of high-value apartments are likely to pay lower rates than those of an average free-standing house in many districts when applying LV but more when using CIV."

Mr Comrie goes onto say that: "The literature does not present a compelling argument in favour of one particular valuation method. Each has its relative advantages. The preferred method essentially depends on trade-off choices between the weighting of the tax design criteria 'capacity to pay' (which is best reflected by CIV as there is often reasonable correlation between property values and occupiers' incomes) and 'benefits received' (which is best reflected by LV because it better correlates with the relative value of local government services enjoyed by a property). Arguably CIV might be more appropriate in some circumstances (for example where there are a large proportion of high value apartments in the council's area) and LV in others. Providing choice regarding valuation base could therefore enable a council to better address tax design criteria principles, but choice would potentially detract from the simplicity of the overall local government rating system."

From GISC's perspective, Council sees no foreseeable benefit in changing the method of valuation – particularly for rural Councils. While metropolitan Councils may find such a change advantageous, why change the system for everyone for the sake of some?

Councils should be able to determine the method of rating and be able to choose between Unimproved or Capital Improved Value as is the case in some other jurisdictions. This one size fits all and lack of choice for Councils is “big brother” in nature and fails to recognise the autonomy of and professionalism of Local Government in 2016.

Further, as the current NSW Valuer General commented, “developing a database capable of capturing this information – would cost “tens of millions”...” Source: Government News April 26, 2016.

Proposed Freeze on the Rates Trajectory of Merging Councils for Four Years

While this does not impact on GISC directly, there are a number of problems with this proposed action including:

- Which rates trajectory is to be used for the merging Councils? Merging Councils may each have significantly different rate trajectories and this could lead to division between merging Councils;
- What happens at the end of the four (4) years? A significant increase may then be required;
- Won’t this be just like the non indexation of Financial Assistance Grants (which has now just been restored going forward by the Federal Government) and make the affected Councils worse off and cause an accumulated problem of loss of revenue?

Glen Innes Severn Council agrees with the comments of Mr Rhodes, President of LGNSW when he said “It’s understandable that the State Government wants to be seen as the good guys in this exercise – but the reality is that a four-year rate path freeze for amalgamating Councils will only exacerbate the very real problems the review is supposed to help fix.” Source: Government News April 26, 2016.

Conclusion

This review presents a real opportunity to afford Local Government the autonomy and choice that is their right as the third level of Government in Australia and the one closest to the Community. Council trusts that the above suggestions will assist IPART with its review of this important subject matter and contributes to a better outcome for the Local Government industry in NSW.