



ISSUES PAPER FOR THE REVIEW OF LOCAL GOVERNMENT RATING SYSTEM

Preface

Gunnedah Shire Council's review of the issues paper has taken into account the proposals being made by the NSW Rating Professionals and are incorporated in our response. We generally support the proposals made, however we also note our view where we feel further issues need to be considered.

Gunnedah Shire Council is supportive of legislative change that will make the levying and collection of rates less prescriptive and allow flexibility amongst NSW Council's to determine their rating structures that best meets taxation principles based on fairness and equity within its Local Government Area.

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

Response:

Council agrees with the IPART tax principles.

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?

Response:

From our consultation with other councils, both country and metropolitan we have formed the view Council should be given the choice how properties in its local government area are valued.

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)?

Response:

Gunnedah Shire Council would like the choice to either use the Valuer General's services or tender the service out to engage a local provider.

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?

Response:

Gunnedah Shire Council currently applies the minimum rate concept to its rating categories. To demonstrate the impact of moving to the base amount approach we provide the following examples.

Table 1 (Attached) Residential Gunnedah – Minimum Rate \$417.00.

The table demonstrates the change in dollar terms if Gunnedah introduced a 50% base amount plus ad-valorem concept into its rate structure. The base amount would be \$442.10

Table 2 (Attached) Demonstrates the impact of the change on average rates in valuation range.

Table 3 (Attached) Demonstrates the impact of implementing a 50% base amount plus ad-valorem in the Business sub-category.

Table 4 (Attached) Demonstrates the impact of implementing a base amount (\$447.69) similar in value to the residential base amount (\$442.10) into the business rate category which equates to 9%.

It is the writer's experience that base amounts work well in the residential rate categories but is more difficult to apply in the other rate categories. The residential category contains more properties that have similar land values both high and low to spread the base amount over, whereas for instance within the business properties the spread of land values may be less and extremely disproportionate from low to high.

Tables 1 and 2 demonstrate the impact of moving our current residential structure for Gunnedah to the base amount concept. Table 3 demonstrates the impact of implementing a 50% base amount in the business rate category. The resultant changes would not be acceptable based on equity and fairness. Table 4 demonstrates a more acceptable level of change, however the base amount is only accounting for 9% of the total rate levy.

The issue we have is that criteria for determining the level of the base amount contained in section 536 conflicts with principle of equity and fairness. The main driver for determining the level of base is the impact it would ultimately have on the ratepayer. We recommend a review of section 536 be undertaken.

We note the proposal from the Revenue Professionals that the minimum rate be discarded from the act in lieu of the base amount concept. We do not agree with this proposal. Council has gained community support for its current rate structure through a consultation process prior to approval of our SRV. Based on our circumstances the minimum rate concept works well in our rating structures.

We believe both concepts can coexist and add flexibility to council setting its rating structure. As with base amounts the same principle should also apply to the minimum amount of rate and council set the minimum rate applicable to its rating structure.

Where council's wish to go above the 50% level of base amount or minimum rate the justification for doing so should be subject to scrutiny by an independent body for assessment.

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

Response:

The main issues arising in rating structures are being caused by some of the criteria available to council to make decisions on how a property can be categorised or subcategorised. The criteria we consider inappropriate is as follows:

- The business definition - Land is to be categorised as "business" if it cannot be categorised as farmland, residential or mining.
- The criteria for the sub categorisation of residential according to whether the land is rural residential land or is within a centre of population, or
- The criteria for the sub categorisation of business - according to a centre of activity.

By example it is the writer's experience previously working in a large city council that land determined to be a paper sub division with a residential zoning was placed in the Business "Ordinary" category. The reasons for the land being placed in the Business category are as follows:

- A dwelling house could not be built on the land.
- It provided rate relief to the land as the rate in the dollar was set well below the residential rates.
- The rate category shown on the rate notice was Business "Ordinary" and not Residential which stopped ratepayer complaints about the rate category saying residential but no building rights.

The same council had subcategorised its business rates according to a centre of activity, but also in some instances, according to the permitted use allowed by the zoning, i.e. properties zoned heavy industrial were grouped into one sub category regardless of where that property was located in the city. Although the rating structure was considered non-compliant with the Act it was considered to be fair and equitable.

Council proposes the following amendments enhancements be made to the rate category and sub category provisions contained in the Act:

- Rate category be aligned to the Council's Local Environment Plan.
- That the current category of Farmland and Mining remain.
- That sub categories can be determined according to the zoning of the land i.e. land can be placed into a sub category regardless of its location in the Council's area.
- The criteria for the sub categorisation of residential land be removed.

Adopting these criteria would result in the following rate categories

- Rural
- Residential
- Business
- Farmland
- Mining

The dominant use of the land would continue to play a role in which category land would be categorised.

The LEP zoning together with other appropriate criteria may be used to determine subcategories that result in a logical rating structure and is fair and equitable.

For instance the LEP for residential contains the following zones:

- R2 Low Density Residential
- R3 Medium Density Residential
- R5 Large Lot Residential

This subcategory process would allow residential strata's to be grouped (R2 Medium Density Residential) regardless of where the strata is located in the council's area.

The LEP for Rural land contains the following zones:

- RU1 Primary Production
- RU3 Forestry
- RU4 Primary Production Small lots

- RU5 Village
- RU6 Transition.

The following process could be undertaken to categorise rural land:

- Is the land Farmland – if yes, it is placed in the “Farmland Rate” Category
- If the land is not Farmland and not zoned RU5 does a dwelling house exist on the land – if yes it could be placed in a sub category of “Rural Residential”.
- If the land is zoned RU5 it is placed into the subcategory “Rural Village” but also subject to further sub categorisation according to location if required.
- The remaining land would be categorised “Rural Land”.

Where a number of uses coexist on the land the ability to separate out the portion of land appropriate to each use and apply a different rate to each (as per mixed development factors currently in use) should remain.

We would be happy to provide further detail if required as to how the other rate categories and sub categories could be developed.

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

Response:

Where ratepayers have a single parcel of land containing a number of residential dwellings their contribution to Council’s rate income is disproportionate to ratepayers who have a residential property with one house. Examples are as follows:

- Council has approved a retirement village containing 67 individual units. The property will be rated as one parcel of land, however the occupants of the village will use Council’s services the same as other residential ratepayers.
- Similarly non-strata unit complexes are treated this way.

Council suggests that provision be made in the Act to seek individual land values for each unit built on the land i.e. value on occupation.

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?

Response:

Council endorses the suggestion contained in the final report of the NSW Independent Local Review Panel dated October 2013 – Box 12 – *Streamlining Rate-Pegging*.

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

Response:

Gunnedah Shire Council is unable to offer any input into this question.

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

Response:

Council considers the current instalment payment method prescribed by the Local Government Act contributes to the accumulation of rate debt and unnecessary collection costs to all ratepayers. The provision in the Act for ratepayers to make payment arrangements only after they are in arrears is also inefficient and may lead to the accumulation of rate debt.

Where ratepayers do not pay their annual rate bill in full on or before 31 August they may pay by four instalment payments due 31 August, 30 November, 28 February and 31 May over the financial year.

Where a rate instalment is not paid by the due date Council policy and process provides for the issue of:

- A Reminder Letter

Where the overdue rates are not paid after issue of a reminder letter:

- A Letter of Demand

Where rates remain unpaid after the issue of a Letter of Demand a decision is made, based on the amount outstanding, as to whether or not to proceed with legal action. Currently Council will not proceed with legal action through the local court system where an overdue rate amount is less than \$500.00. Our decision considers the cost to the ratepayer that the average legal cost to file process at the Local court for overdue rates is \$570.

Legal costs incurred by Council pursuing overdue rates are added to the ratepayers rate account.

An overview of our residential rating structure including charges is shown over the page to provide a view of the approx. amount of rate instalment payable in 2015/16:

Town/Village	Residential Rate Category	Number	Average Land Value	Average Rate	Other Charges	Total	Ave Rate Instalment
Gunnedah	Gunnedah	3411	90,319	884	1129	2,013	503
Rural	Rural	393	164,866	892	527	1,419	355
Breeza	Village	57	10,343	257	71	328	82
Curlewis	Village	241	32,530	586	1239	1,825	456
Carroll	Village	94	22,658	414	357	771	193
Emerald Hill	Village	3	5,000	244	71	315	79
Kelvin	Village	4	7,400	244	71	315	79
Mullaley	Village	38	13,147	270	381	651	163
Tambar Springs	Village	62	10,223	258	431	689	172

The table demonstrates the variance in rate instalment amounts payable in each town and applying our rules Gunnedah is the only town where legal action may be commenced where the first instalment is overdue. The table also demonstrates that in some instances it will be well over a year before overdue rates are actioned through the local court in some of the towns.

Analysis of the cost to Council for overdue rate collection has not been undertaken for our response. However we if you require further details we will provide this information.

Our proposal to administer the collection of overdue rates and charges in an efficient and cost effective way is outlined as follows:

- Where any rate instalment is not paid by the due date the provision to pay rates by ongoing instalments is cancelled and the balance remaining becomes due and payable within a prescribed time frame. Referring to our table and the town of Curlewis, if the first instalment (\$456) is not paid on time then the full amount (\$1,825) becomes due and payable within a prescribed time frame.
- In this instance our current process to wait for two rate instalments to become overdue is changed to taking legal action to recover all of the remaining rates and charges outstanding for the financial year in the one action.

In conjunction with our proposed change for the payment of rate instalments, provisions in the act for ratepayers suffering financial hardship to make a payment arrangement with Council at any time during the collection process would need to be incorporated as well.

Sale of Land

We propose the following:

- The provision for land to be sold for overdue rates after five years is reduced to three.
- Further, the ability to sell land for overdue rates should the ratepayer become bankrupt or subject to external administration notwithstanding how long the rates have been outstanding.
- A review be undertaken of the relevant sections 713 to 726 of The Act to seek improvement to the overall process.

This is a brief outline of our proposal for your consideration. Further detail and analysis can be provided if requested.

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?

Response:

Council is of the view that where a commercial use forms part of the activities carried out on exempt properties then the level of exemption comes under review.

For example a facility currently non rateable in Council's LGA provides aged care services to the community. The facility consists of a nursing home and a number of independent residential units that require the occupants to buy into. The facility is of enormous benefit to the community, however the occupants of the independent units do utilise Council services and facilities.

In this instance Council is of the view that we assess the level of exemption that is applied to the facility in recognition of the other benefits provided to the community.

Similarly this approach could be applied to other exempt properties where a commercial character exists.

We would strongly recommend that where exemptions remain in the Act the wording of such exemptions be clearly understood to reduce the litigation that has previously taken place from the not granting of exemption applications.

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?

Response:

Local councils have a responsibility to collect rates as its own source of funding to fund local infrastructure, services, activities and facilities to its community. State taxes are collected to fund the activities performed by the state government. These exemptions should remain on the basis that the state does not fund local government functions.

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

Response:

Council agrees with the Independent Local Government Review Panel's view that pensioner concessions are a welfare measure and form of tax relief. Land rates are based on capacity to pay through the land valuation process and as such improvements to the system should be aligned with this principle with via a process of asset testing.

Council also agrees with the Independent Local Government Review Panel that in line with the other states the state government should fully fund pensioner concession rebates.

Consideration should also be given to an inflationary adjustment being made on an annual basis to the rebate to maintain the relevance and proportion of the rebate to the properties annual rates levy.

Table 1

Residential Gunnedah Change from Minimum (\$417) to Base Amount @ 50% \$442.10

Ratable Value Range	Rate Increase						Rate Decrease														Grand Total
	0/\$20	\$20/\$50	\$50/\$100	\$100/\$150	\$150/\$200	\$200/\$250	-0/\$20	-\$20/\$50	-\$50/\$100	-\$100/\$200	-\$200/\$300	-\$300/\$400	-\$400/\$500	-\$500/\$600	-\$600/\$700	-\$700/\$800	-\$800/\$1,000	-\$1,000/\$2,000	-\$4,000/\$5,000		
0>20,000			18	20																38	
20,000>30,000				96	70															166	
30,000>40,000					101	105														206	
40,000>50,000						247														247	
50,000>70,000				360	244	27														631	
70,000>90,000	1	127	241	93																462	
90,000>120,000	58						102	119	411	81										771	
120,000>140,000									609	12										621	
140,000>160,000										94	2									96	
160,000>180,000											62	2								64	
180,000>200,000												53								53	
200,000>250,000													17	17	1					35	
250,000>300,000															11	3				14	
300,000>350,000																		3		3	
350,000>400,000																		2		2	
450,000>500,000																		1		1	
1,000,000>1,500,000																			1	1	
Grand Total	59	127	259	569	415	379	102	119	411	690	106	64	55	17	17	12	3	6	1	3,411	

Table 2**Residential Gunnedah - Results of implementing a 50% Base Amount (442.10)+ Ad-Valorum into the Structure**

Ratable Value Range	Number of Properties	Average of 2015/16 Rate	Average of 2015/16 Rate Base + Ad Valorum
0>20,000	38	417	514
20,000>30,000	166	417	565
30,000>40,000	206	417	615
40,000>50,000	247	437	663
50,000>70,000	631	593	744
70,000>90,000	462	756	827
90,000>120,000	771	1,022	963
120,000>140,000	621	1,208	1,057
140,000>160,000	96	1,403	1,157
160,000>180,000	64	1,607	1,261
180,000>200,000	53	1,846	1,383
200,000>250,000	35	2,132	1,528
250,000>300,000	14	2,487	1,709
300,000>350,000	3	3,135	2,039
350,000>400,000	2	3,487	2,219
450,000>500,000	1	4,659	2,816
1,000,000>1,500,000	1	9,990	5,533
Grand Total	3411	884	884

Table 3

Business Gunnedah Change from Minimum (414) to Base Amount @ 50% \$2847.19

Ratable Value Range	Rate Increase												Rate Decrease														Grand Total			
	0/\$20	\$20/\$50	\$50/\$100	\$100/\$150	\$150/\$200	\$200/\$250	\$250/\$500	\$500/\$750	\$750/\$1,000	\$1,000/\$2,000	\$2,000/\$3,000	-0/-	-\$20/\$50	-\$50/\$100	-\$100/\$200	-\$200/\$300	-\$300/\$400	-\$400/\$500	-\$500/\$600	-\$600/\$700	-\$700/\$800	-\$800/\$1,000	-\$1,000/\$2,000	-\$2,000/\$3,000	-\$3,000/\$4,000	-\$4,000/\$5,000		-\$5,000/\$10,000	-\$15,000/\$20,000	
0>20,000										4																				4
20,000>30,000										2																				2
30,000>40,000									5	3																				8
40,000>50,000									5																					5
50,000>70,000										27																				27
70,000>90,000										45																				45
90,000>120,000									16	47																				63
120,000>140,000								21	9																					30
140,000>160,000							20	9																						29
160,000>180,000		3	5	2	4	5	8																							27
180,000>200,000	3										2	2	3	9	1															20
200,000>250,000															7	8	2	8	4	8	10									47
250,000>300,000																					4	15								19
300,000>350,000																						10	9							19
350,000>400,000																							11							11
400,000>450,000																								10						10
450,000>500,000																								4						4
500,000>550,000																										1	1			2
550,000>600,000																											2			2
600,000>700,000																											2			2
700,000>800,000																											1			1
800,000>900,000																											1			1
1,000,000>1,500,000																												1		2
Grand Total	3	3	5	2	4	5	28	30	25	129	9	2	2	3	9	8	8	2	8	4	8	14	25	20	14	1	7	2	380	

Table 4

Business Gunnedah Change from Minimum (414) to Base Amount @ 9% \$447.69

Ratable Value Range	Rate Increase							Rate Decrease												Grand Total
	0/\$20	\$20/\$50	\$50/\$100	\$100/\$150	\$150/\$200	\$200/\$250	\$250/\$500	-0/-20	-20/\$50	-50/\$100	-100/\$200	-200/\$300	-300/\$400	-400/\$500	-500/\$600	-600/\$700	-800/\$1,000	-1,000/\$2,000	-2,000/\$3,000	
0>20,000			1			1	2													4
20,000>30,000							2													2
30,000>40,000							8													8
40,000>50,000							5													5
50,000>70,000							27													27
70,000>90,000						25	20													45
90,000>120,000					35	28														63
120,000>140,000				28	2															30
140,000>160,000			27	2																29
160,000>180,000	8	13	6																	27
180,000>200,000	3							9	8											20
200,000>250,000									7	15	25									47
250,000>300,000											6	13								19
300,000>350,000												1	15	3						19
350,000>400,000														10	1					11
400,000>450,000															5	5				10
450,000>500,000																4				4
500,000>550,000																	2			2
550,000>600,000																	1	1		2
600,000>700,000																		2		2
700,000>800,000																		1		1
800,000>900,000																		1		1
1,000,000>1,500,000																			2	2
Grand Total	11	13	34	30	37	54	64	9	15	15	31	14	15	13	6	9	3	5	2	380