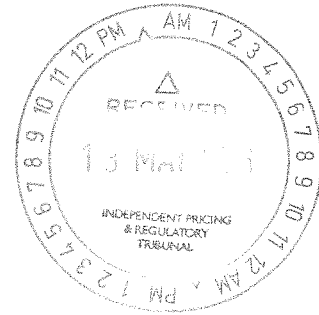


Review of Local Government Rating System  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop NSW 1240



7 May 2016

Dear Sirs

I thank the Tribunal for this opportunity to participate in a review of the Local Government Rating System and do so, on behalf of inter-family members covering a number of rural and urban shires from Tumbarumba to Trundle, Taree and Willoughby.

I was chairman of Gundagai District Council of the NSW Farmers' Association 2000 to 2007 with local government high on the agenda. Members were generally supportive while others thought that change was unachievable, so were not prepared to try. The Victorian Farmers Federation (VFF) on the other hand had a very good policy statement, but lacking in implementation.

The LGSA NSW in 2006 issued the report "Are Councils Sustainable?" with 8 options. Gundagai DC submitted a 9<sup>th</sup> option, but the Directors deemed it radical although clearly based on the UK system. The Productivity Commission (PC) gave a summary of my submission P100 proving my original option 9 had merit.

One can conclude, that Government and institutions such as your selves, are not always receiving the information helpful to decision making, due to the variants in human behaviour and experience.

Yours sincerely

J A Beale

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### Introduction

To answer some of the questions in the Issues Paper, the following conditions in which Local Government operates in the 21<sup>st</sup> century is taken into account.

#### **Local Government's environment.**

Geography of the State with its variations:

High and low rainfall

Tyranny of distance

Land types, including soil types.

Productive capacity, Population density, Wealth disparity all varies.

Rates cannot be based on income, but to pay the tax income is essential.

152, 112, or 56 shires: area stays the same, the infrastructure required stays the same, while attention to detail and control is lessened.

New considerations since 1904:

Environment, number and size of national parks, Crown forestry, carbon efficiency, water.

Two types of shires; productive and consuming.

Shires are no longer self sufficient and independent but are inter-dependent with one another.

Shires are deemed to have capacity to raise rates on theoretical grounds, but in practice, not achievable due to other financial or limiting factors such as cost shifting, RBA interest rates, increasing cost of roads.

The fact that Tumut Shire Council has 61% unrateable land sets it aside from other rural councils, but the criticism and invective aimed at councillors has been unjustified, because councillors in Tumut , or any other shire, are subject to rules laid down by the State Government.

This Review, thankfully, asks questions exposing why the present system of Local Government organisation has resulted in;

- a back log of increasing infrastructure costs;
- so many councils deemed unfit for the future,
- no attention given to the drain of funds out of rural areas that benefit city dwellers
- no recognition that an expansion of some functions of local government would result in equity for rural and city.

The answers to the questions try to cover these concerns and endeavour to provide constructive alternatives.

#### Answers to questions

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

Do not agree because the theory does not work in practice. From 2.1 over view of how councils rate are set in NSW, any discussion would appear to be locked into this restriction to an ad valorem base thus restricting scope for improvement.

3.1.1 The theory sounds good but in practice, rates have caused dramatic changes in behaviour in rural shires. Proximity to large population centres subjects smaller rural holdings to the greater pressure. The County of Cumberland and Illawarra have changed from rural production to urban, with that change starting cc 1960s to 70s then producing two billion dollars worth of food on Sydney's door step, halved three decades on and now—unknown.

This would not have occurred in the UK or EU. The housing would have been consolidated. At Tumut in the 1950s there were over 80 dairies and a butter factory, now due to rates there are two dairies and the milk is processed 100k away in Wagga.

Tumut's farming community has lost earning capacity and many farms are reliant on off farm income.

From the farmer's view in Cumberland, the ever increasing rates brought on by ad valorem meant retirement or relocation. There would have been other pressures such as smell and noise forcing them out, but ad valorem applied to rates assisted developers in an unequal competition for land. From the councils in the County there would have been an increase in revenue offset by increased expenditure on infrastructure and services.

Under UK consolidation, there would be greater income and increased use of existing services and assets.

Environmental considerations should be taken into account.

The Henry Tax Review may have proved that local rates are efficient, but is the base for those rates the most efficient?

Not by European standards.

### 3.1.2 Benefits principle

Falls short of its ambition, not only because of its difficulty to apply as stated, but also and more importantly, benefits supplied by one LGA cannot be paid for by the receiving LGAs. That should be clear when producing shires supply consuming shires. See Table 3 of the Panel report Broken Hill v Woollahra.

3.2.1 Ability to pay. To accept that “property-based taxes such as rates are generally regarded as equitable, because property value correlates with wealth and ability to pay”, may well be true for cities, but with 60 % of rateable land in rural areas, equity is a nice concept but does not exist.

The horizontal equity principle does not hold good in the case of a dairy at Tumut paying \$18,000 with ten assessments covering the same area of land as a similar sized dairy in Wagga City Council paying \$3,000.

The value of the land is based on speculation that a buyer with accumulated wealth will buy.

The perceived value in the Tumut case is there because a large family farm was split up for inheritance purposes and buyers were professional people who would subsidise any rural production with their off farm income.

The tax is on potential not actual wealth of the existing landholder.

Equity cannot exist whilst farms are the only sector taxed on the value of their working capital.

Manufacturing and commercial pay tax on where their business is, not on their capital.

In the UK land is a tradeable commodity, but because rural land is for rural use only, no building or development is allowed. Existing buildings can be revitalised but surrounding land is used for agriculture or forestry. Land in the UK at one stage was reported as being worth 100,000 pounds per acre, but the owner pays tax through other channels.

In Australia land values have stayed relatively low because land is plentiful and comparatively cheap, but available for builders and developers to exploit.

Ad valorem is based on the anticipated wealth of other people, not on the current use and earning capacity of the land.

### 3.3 Simplicity

“If a tax is easy to understand and is fair, compliance is generally high.” Fairness does not exist for self funded and fixed income retirees, or farmers, but the tax is paid under penalty. The council apparently has no discretion, being ruled by edict from head office.

### 3.4 Sustainability

Evidence goes to show that the contention, as stated, is delivering. The Mayor of Bourke stated on radio during a drought period cc2006 that “He was pleased rural landholders kept paying their rates”. What he did not know was that the landholders were increasing their bank overdraft, thereby jeopardising the future viability of their livelihood.

Therefore, not a suitable system for vast areas of the State.

### 3.5 Competitive Neutrality

With rates varying across the State on similar land types, further complicated by varying rain patterns and land values producing similar product; National Competition Policy cannot exist. At the time of collecting data 1980 to 2000, variations in differing shires rates on a per acre basis were: Tumut \$6.00, Gundagai and Wagga \$3.00 and Wakool \$1.00.

CSR Ltd at Tumut, with at the time 3 factories paid \$5,000. This farm paid \$6,000, a neighbour \$9,000. Comparing CSR Ltd with farms is not like with like, but is mentioned to show the disparity in the present rating system.

2 What valuation method should be used as the basis for determining of the ad valorem amounts in council rates?’

It depends on which of the main rating categories are involved. Mining, which may be located in more than one shire, or having influence in neighbouring shires, farmland covers many rural shires and is heavily influenced by Crown Land, ie forestry, reserves,, national parks while the many residential , business and manufacturing shires in Sydney’s case share the three small parks by comparison with the vast inland parks and forest reserves.

A common denominator is needed, with ad valorem in a minor role as in the UK system. Revealed in PC research report, the ATO can give general wealth distribution data as a guide, thus aiding the Valuer General’s Dept. The UK system is based on the living area of the dwelling and its position to give guidance for VFI, along with 8 defined levels to determine ability to pay. Those who cannot pay do not pay; perhaps, because the UK welfare system differs from Australia.

In making any analysis as to what method should be used, those operation problems listed under local government’s environment, require a reassessment of the way local government is utilised, for the benefit of its State wide community.

For mining, it may be better not to levy a direct rate payable to the shire, but have a component in the royalty that covers the cost to the shire, or shires involved.

Great store is set in the virtue of shires being able to set their rates. The evidence is that they are incapable of doing it fairly, especially where rural, manufacturing and residential are in the same shire.

The biggest problem is getting receiving shires to pay their fair share to producing shires, Evidence shows that shires cannot use information fairly. In 2006 Wagga Wagga City Council raised rates telling citizens it amounted to the cost of a Mars Bar per week, but the chairman of Wagga DC of the NSW Farmers’ Association said for Members, it was a family meal at an exclusive restaurant every week.

Horsham City needed an increase in rates levying \$46.00 on 8,000 city rate payers and \$640.00 on 500 farms.

At Tumut prior to the last alteration in the Act, 75% of rates came from 25% of the population on rural land. Now it is 40% of rates from rural land.

City urban councils with properties having large curtilage, require longer length of water, sewage etc services and comparatively under used in contrast to high rise suburbs.

Industry and commerce present further complications in that it is not desirable to tax working capital by using CIV, while the land on which the business exists has to be serviced.

In Summary: individual shire should no longer set rates because of their overall operating environment and necessity to comply with tax principles. CIV on an adaptation of the UK system holds the best option.

#### 5 Changes to rating categories

Tumut Shire Council has proved over decades of not being capable of distinguishing the capacity of landholders to pay the rates.

There are 7 land categories for land types, but it is the size and earning capacity of the holding that enables the rates to be paid, often requiring off farm income to retain the farm. If rural councils cannot use rating categories fairly, it is conceivable that other councils have the same problem. The remedy is in giving councils more information on which they can make fair and equitable rates, or find a common denominator suitable for Australian conditions.

#### 6

The current rating system causes a wide divergence in equity and efficiencies. See P41 table3 and council-by-council services and cost variations.

Tumut Council provides services directly to the timber, pulp, and tourist industries, but the indirect benefits that flow to the nation are borne by Tumut rate payers with the farm sector paying the most in proportion.

Gundagai lost rural land to Forestry with a shortfall of \$30,000 in rates while the nation prospered. Rural rate payers in Tumut Shire pay 40% of the rate revenue, but suffer the indirect effects from weeds and animals coming off public land.

While attention is being given to council revenue raising capacity the indirect effects are not receiving the recognition showing the inter-dependence of all councils.

Under 4.4 the view of IPART does not work out in practice. Tumut is a good example and reflected in other councils where services are provided to industry, that in turn provide for the nation. Because Tumut has always had good services for housing, schools, hospitals, industry has been attracted, not like North coast saw mills that had the expense of building houses and providing water for their employees.

Therefore, while rates should not be used to fund the services provided by councils in other LGAs, indirect benefits do flow and have created our inter-dependent councils. See PXXXII of PC Rates incidence Fig 4 and "The incidence of rates is higher for rural councils etc".

Rural roads are used by the population of the State.

#### 7 Changes to rate pegging

Rate pegging has assisted farmers in containing rate increases and offsetting the anomalies under rate categories.

See PC PXXXIII "New South Wales appears .....have other State Governments". P XXVIII has further comment. Under such unfavourable comment from the PC, NSW should align with the other States, but the revenue raising effort Fig 3 P XXVII, rural and remote are limited by the droughts, variability of commodity prices and paying excessive rates. 8% of all rates raised in NSW came from rural land occupied by less than 2% of population.

## 8 Changes to rating system to encourage urban renewal

From agriculture's view, urban renewal is long overdue as too much rural land is divided up into uneconomic holdings, raising rates due to ad valorem. County of Cumberland and Illawarra are examples, but rural towns and cities are also affected, such as Wagga Wagga and Orange. The rewards for rural councils, where they provide and maintain streets that carry water, sewage, power etc, comes from having more houses and units per street, less roads, greater usage and less cost.

In Sydney where other authorities own the assets in water, sewage etc; increasing the density of rateable properties would increase revenue for councils. The long term effect should be to reduce the unit cost of rates to the community and thereby increase the purchasing power of the community.

10

From the preamble 5.1.1 the first paragraph, care should be taken in the use of the word "Subsidy" because often the subject is providing a service for which the only payment is via a rate exemption. How can the use of, Land for religious purposes or schools be defended as only used by those in that shire?

Under "Efficiency": "however, the provision of rate exemptions narrows the base, increasing the level of taxation for remaining rate payers. This would have negative impact on economic efficiency as all else being equal, a higher rate of tax will cause larger changes in behaviour", and under equity it is claimed that "exemptions are subsidised by local ratepayers". True to a point, but in reality the local ratepayer is paying for the benefit of the State, or nation and suffers the collateral disadvantages of the utility exempt. (weeds and animals).

Tumut Council is presenting a case for logging operations on Crown Land to lose its exemption status. The other side of the argument, backed by experience of the UK Government in 1928, is that it is highly desirable to avoid taxing inputs and therefore being anti-inflationary.

Experience in the timber industry shows that if Forestry Corporation has to pay rates then they have to increase royalties. The processors can react by increasing the price of goods (losing international competitiveness), or retrench staff by putting in new machinery. Either way it is inflationary.

What suits Tumut and Gundagai, could be anathema for the other forest industries of the State. One of the big disadvantages of MIS forestry on private land was the obligation to pay rates over such a long establishment cycle.

It being the case, that many exemptions throughout the State, for forests, rail national parks etc, provide the benefits for all, but only the local shire ratepayer foot the bill. This situation needs remedy.

EG. The Friends of National Parks persuaded the State Government to close down the 72 million dollar per annum timber industry on the Murray River. The local councils would suffer the ongoing loss, take the risk of mega fires in a decade or two, while the members of that organisation pay nothing.

The fact that the majority of Friends of National Parks have no knowledge of tree morphology, leaves them unaware that what they have facilitated is, the opposite of how that forest should be managed, using Aboriginal and commercial practice, actively providing the finance and incentive to manage the forest in perpetuity without mega fires.

The above examples prove the case for Crown Land to be exempt from rates.

The situation for private rural land where vegetation laws prevent tree clearing to comply with the Federal Government's commitment to the Kyoto Agreement have a legitimate case for exemption as the landholders are paying rates for the benefit of the nation. See Box 1 PC re VFF. The VFF statement would be universal among farmers generally. Equity must be achieved, not just for farmers, but for ratepayers throughout the State.

Therefore, taking advantage of the example set in the UK and all the complications associated with rural land holdings revealed above, rural land should be exempt from rates and used for rural and forestry use only, as in the UK.

To comply with Henry Tax Review and achieve its goals, it is time to accept that local government provides an integrated service to the State, at an overall cost that should be equally shared. The common denominator is: all the dwellings in the State sharing the total cost, as stated above.

It should also be appreciated that an expanded local government could share the cost of environmental work on weeds etc and also LLS funding, which like local government is there for the benefit of all in the State, not farmers only.

The 20% extra cost of power to rural areas needs the same treatment for the same reasons.

Questions pertaining to mergers

The answers given so far cover the causes leading to consider mergers and if addressed would facilitate merged and stand alone equally.