Our Reference:S25.11.3

10 May, 2016

**Review of Local Government Rating System**
Independent Pricing and Regulatory Tribunal
PO Box K35
**HAYMARKET POST SHOP NSW 1240**

Dear Sir/Madam,

**Re: Review of Local Government Rating System**

**I refer to the abovementioned matter and provide the following information noting** IPART's Rating Review Fact Sheet, 6 of the most important issues to be addressed:

**1.** Should councils have greater flexibility with the valuation method used to levy rates? (The NSW Government mandates using a property's unimproved value (excluding capital), whilst other state governments provide more choice).

The current system of the use of "unimproved value" works well, and largely in rural New South Wales in conjunction with the use of the Rating Categories provides for an equitable distribution of the rate burden.

It is noted that some in the social services arena argue that the use of " improved values" can better spread the rate burden across the community, as ratepayers with a higher level of capital investment on their land and subsequently a perceived higher capacity to pay, pay a higher rate. This, however, is not always the case and can in fact disadvantage ratepayers who are seeking to improve their socio-economic standing.

The use of "improved values" can also act as a significant disincentive for ratepayers to undertake capital improvements on their properties, negatively impacting neighbourhoods and the local economy.

In addition to these matters, the major difficulties that would be faced by New South Wales Council's of moving to an alternate valuation method as stated by the Valuer General is the very substantial multi-million dollar cost (could be in the several hundred million dollars across the State) that would be associated with such a move. Given the lack of suitable existing data to develop "improved capital" or other values, it would be expected for example that a cost for Inverell Shire Council, being a large rural Council, would be several million dollars. Council simply does not have access to these funds or the staff/resources to undertake

such an initiative. The costs of such a change could only be met by a very substantial and unwarranted, and damaging special rate variation. This would come at a time when Council's are dealing with the financial, service and infrastructure cost issues associated with the Fit for the Future Program.

It would be very unlikely that Council's ratepayers would agree to a 20% - 40% or maybe more temporary special rate variation, to implement an unnecessary and unwarranted valuation methodology change that would largely only benefit the organisation/contractors appointed to provide the valuations. A review of the special rate variations approved by your organisation will clearly show that ratepayers are interested in the provision of services and the maintenance, renewal and upgrade of infrastructure and not legislative or system changes that cost huge sums of money for little to no local community or economic benefit.

**2.** Are the current rating categories (residential, business, mining and farmland) appropriate ?

The current rating categories are appropriate, however, noting the rapid shift to high density housing particularly in metropolitan areas, and the burden that this places on Councils and their services, it is proposed that an additional category being "High Density Residential" should be established.

The definition for "high density residential" would need to establish a threshold for residential developments so that after the number of flats/units exceeded the threshold, the land was no longer categorised as "residential" but rather "high density residential". It is proposed that this threshold should be relatively low and in the range of 2 to 4, and that the category would provide for a unit charge for each additional unit established.

There should be a phase in period of say two to four years attached to this "High density residential" category.

**3.** What changes to the rating system could be made to improve councils' long term financial sustainability and encourage urban renewal?

Council is of the view that with the introduction of the Integrated Planning and Reporting requirements, the Fit for the Future Reforms, and the subsequent high level of accountability attached to these reforms that Rate Pegging should be removed.

If this is not to occur, then as discussed in the early stages of the Fit for the Future Reform Package, Councils that are declared Fit for the Future should have the ability to raise their rates by up to 5.0% per annum (inclusive of the Rate Peg amount) without requiring the approval of IPART. It is proposed that would be subject to a maximum of three special 5.0% increases over a five year period after which IPART approval would be required. Councils on the whole are highly

cognisant of their Communities capacity to pay and the need to balance this with their Communities service, infrastructure, economic and social well-being needs and expectations.

In respect of the existing Rate Peg and Local Government Cost Index, it is advised that the current calculation is flawed in that the index refers to the ABS State wage data and not the Local Government State Award Increases. Using the 2016/2017 Rate Peg as an example the ABS State wage data increase is 2.4% but actual 2016/2017 NSW Local Government State Award increase is 2.8%. In Inverell Shire Council's case the use of the lessor ABS State wage data in the Rate Peg Index will cost Council $21K in 2016/2017 putting more pressure on Council Services. It is requested that the Index be varied to reference the NSW Local Government State Award increases and not the ABS State wage data. A review of this matter over the last five years clearly highlights this major deficiency of the Rate Peg Local Government Cost Index.

It is also noted that the current practice of reducing the Rate Peg by an Efficiency Factor, deprives Councils of the ability to generate discretionary funds for new or improved services and infrastructure. This occurs as the funds generated from efficiencies in one year, then need to be allocated to funding increases in a Councils fixed cost increases in the next and subsequent years due to the reduced Rate Peg.

In respect of the need for Rate Pegging to be removed or significantly changed under the Fit for the Future Reforms IPART's own assessment criteria for Fit for the Future Councils is noted. IPART, in respect of Scale and Capacity highlight the need for Councils to have a, " More robust revenue base and increased discretionary spending". Neither of these have been or can be provided for under Rate Pegging.

**4.** Should there be changes to the current categories of land use that receive exemptions or concessions from paying council rates? Exempt land uses include charities, education institutions and some government enterprises.

All land owned by organisations that receive rate exemptions should be ratable for General Rates and Charges where these organisations or others are conducting commercial activities on the land, for the period the commercial activity is continued.

In respect of Rate Exemptions, Council is concerned at the quantum of Rural Land being converted to National Parks and therefore becoming exempt from rates. It is a fact that when this occurs, the users of these parks then utilise Council Road Infrastructure Assets to access the Park Areas without the National Parks providing any financial contribution towards the maintenance and renewal costs of the Councils supporting Road Infrastructure Assets. While it has been proposed that the existence of a National Park positively impacts the local economy, this does not provide any direct funding to the Council.

Further, in respect of rate concessions, it is proposed that Pensioner Rate Concessions should be fully funded by the Federal Government and not by Councils, as this is a Welfare issue. Under the current New South Wales arrangements, Councils with a lower socio economic index are significantly impacted by aging populations. The current one-size fits all Rate Peg does not help in this matter.

**5.** What is the best way to implement the Government's rate path freeze policy for merging councils ?

Under the existing four year freeze proposal, the new Councils will not be able to address inequities in the merged Council's rating structures and bring the existing rate structures into conformity until after the Council elections in 2020.

The existing four year rate path freeze is considered to be too long, will negatively impact merging Councils medium and long term sustainability, and possibly wipe out any real financial gains achieved from the mergers. Where the merging Councils have other than minor differences in their rate structures, the annual compounding effect will be substantial.

The major issue is that the four year rate freeze ignores the differing levels of service and standard of infrastructure that exists between the merging Councils. It is a fact that communities that have enjoyed lower rates but also corresponding lower levels of service and infrastructure, will in fact expect to be provided immediately with the highest levels of service and infrastructure that exist at the point of merger in the merging Councils. Any failure to fully address this matter will result in the community losing faith in the new Council and the proposed benefits of the merger. This will come at a time where Councils and Council services have been significantly impacted by the three year Federal Government freeze on the indexation of Finance And Assistance Grants and the resulting service delivery difficulties.

The proposed four year freeze will also, no doubt cause disharmony and angst within merged communities, as ratepayers effectively in the same Rating Category (eg Farmland Category) will be paying different rates and yet be expecting the highest level of service that existed pre-merger as noted above. Those paying the higher rates will feel they are subsidising those paying the lower rates and the newly elected Council will not be able to address the matter.

It is proposed that a two year rate path freeze is adequate in this matter based on the vast industry experience gained over the time through past mergers. This will allow the newly elected Council in September, 2017 to address the rating structure and rate equity issues of the new Council. During any rate path freeze period, any rate path freeze policy should act as a ceiling only, with the new Council being able to address the above issues by standardising the rates of the merged Councils so that each ratepayers in a category is paying the same base/minimum and ad valorem rates.

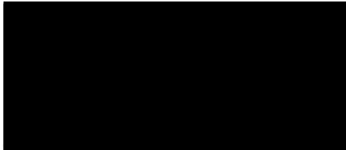
**6.** What changes to the rating system could be made to allow merged councils to establish and transition to a new equitable rating system in a timely manner ?

As stated above, the maximum period for any rate path freeze should not exceed two years, with the Council to be elected in September, 2017 then having the ability to immediately address the rating structure and equity issues needing to be implemented to ensure the sustainability of the new Council and community harmony. The new Council should not be impeded in this matter.

It is proposed that any pre-approved Special Rate Variation must be maintained for merging Councils. Further, the merged Council should be able to apply for Special Rate Variations from 2019/2020 on, as the Fit for the Future Assessments for merging Councils, have on the whole, identified viability and sustainability issues that need to be addressed in the short term and not at a later time after 2020. Failure to address this matter will result in some new Communities having their economic and social well-being negatively impacted.

Community cohesion will be critical to the success and ongoing sustainability of a merged Council.

Yours faithfully,



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