

Taxation Principles

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

Response:

Council is satisfied with the proposed tax principles outlined.

Assessing the current method for setting rates

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:

Council favours the continuation of the UCV valuation method. In a rural area like ours, there is unlikely to be a huge change in relativities by the introduction of CIV for example, therefore there is little point in changing.

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:

Council's should be free to use the most cost effective valuation services provided an agreed standard of valuation is used throughout the State.

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

Council strongly objects to the suggestion that removing base amounts may increase equity. Base amounts are presently used in conjunction with ad-valorem amounts to better distribute the rating burden within a sub-category where the land valuations are highly disparate, as is often the case in rural areas.

In lower rated assessments, the absence of base rates will result in a very low rate payable which would not be a sufficient contribution to provide for Council's facilities and services. At the other end of the scale, the base rate results in a smaller disparity between the lower and upper rates payable per assessment.

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

Response:

In an attempt to increase equity, Council suggests the introduction of a separate rating category or sub-category for multi-unit properties, so that the contribution of a multi-dwelling property is more commensurate with its impact on Council's facilities and services.

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

Response:

The inequity of the rate burden across communities is apparent in our shire. There are two main communities – Lockhart and The Rock. Each are similar in population, however, valuations in The Rock, on average, are double those in Lockhart. Council's principle is to provide a similar basket of services to each town, and accordingly uses differential rating to equalise the average rates payable by its residents in each town. This causes dissent by some members of the Lockhart community, who believe their rate burden should be less than that payable at The Rock, as their valuations are lower.

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:

As a general principle Council believes that rate pegging arrangement should be abolished. However, Council accepts that this is not the NSW Government's intention.

Presently, as part of the Integrated Planning and Reporting (IP&R) framework, councils are held accountable to and by their communities in determining the desire, willingness and capacity to pay for services and facilities. Accordingly, where a council is able to prove accountability and responsibility, autonomy in determining the rate pegging amount (that is, a complete exemption from the IPART determination) should be granted.

Council suggests that this right to autonomy should be earned, with IPART acting as the determinant. Being granted autonomy should be merit-based, with each council being benchmarked against itself and its own objectives and results, rather than being graded against any other council (or collective councils).

If autonomous determination of the rate peg amount is introduced, the need for special variations will be eliminated.

In addition, through the FFF process, we have been lead to believe that, if a special variation was required in our Improvement Plan, that a reduced level of governance would be applied to those applications. Council would urge that this expectation is met.

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

Response:
No comment

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

Response:
Council believes that all councils have an obligation to collect all overdue rates to fund service delivery, and to be fair to those ratepayers who do pay on time.

Most councils actively pursue flexible payment arrangements with their ratepayers and offer additional assistance under hardship provisions. The suggestion that councils are overly reliant on the court system and should offer '*more flexible payment options*' fails to acknowledge the attempts made by councils to avoid legal action, which is only pursued as a 'last resort'.

Council objects to the introduction of setting a 'minimum' amount of overdue rates claimable, despite the findings that some councils are pursuing relatively low value claims. Setting a minimum would be irresponsible as it would fail to consider each individual's capacity to pay and would disadvantage those with higher rates payable.

Council is also of the view that early intervention to reduce overdue payments is in the interest of the ratepayer, and often alleviates long term and unmanageable accumulation of debt.

Assessing exemptions, concessions and rebates

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 accepts the need for competitive neutrality and therefore suggest that the use of the land should determine eligibility for exemption, rather than ownership. If exemptions were more tightly controlled and defined based on land use, a fairer and more equitable collection of rates and increased transparency would be achieved. For example, at present, two nursing homes may exist in one local government area with one owned by a registered charity, the other privately. Only one receives the exemption, yet both have comparable impost on council's facilities and services, and both are competing for market share.

Further identifiable outcomes would include that *all* properties used for the purposes of a residence become rateable, and that businesses operating within the confines of a National Park would no longer be exempt.

To enact these changes to exemptions, Council suggests that the Local Government Act's definitions need clarification, not removal. Council would not agree with each council being granted discretion over the level of exemption, as this would prove problematic and would result in inconsistencies across local government areas.

11. To what extent should the exemptions from certain state taxes (such as payroll tax) that councils receive be considered in a review of exemptions for certain categories of ratepayers?

Response:

Council supports the general principle that the three levels of government should not tax each other.

However, Council does not believe this principle should be applied to any genuine business activities undertaken by any level of government. For example, NSW Payroll tax exempts local government in general, but limits that exemption to non-business activities. The payroll tax exemption does not apply to local government water, sewerage, saleyards, cemeteries, aged care hostels, and other business activities in circumstances where those activities are operated as a business.

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

Response:

Council believes that the State Government should be liable for 100% of the pension concession as the pension concession is a welfare measure.

As the proportion of pensioners is increasing, the strain on Council's budget (presently costing Council \$83,000 p.a.) and its continued ability to provide services which benefit the whole community is compromised. Council generally supports the review of eligibility, but this must result in outcomes that increase efficiency rather than decrease it.

Council does not support a rate deferral scheme as this would negatively affect cash flow and service delivery.

Freezing existing rate paths for newly merged councils

13. We have interpreted the rate path freeze policy to mean that in four years after a merger, the rating path in each pre-merger council's area will follow the same trajectory as if the merger had not occurred. Do you agree with this interpretation?

Response:

Council generally agrees with IPART's interpretation that the rate freeze policy implies the rating path in each pre-merger council's area will follow the same trajectory for the four years after a merger.

However, Council does not accept that the intent of the rate freeze policy is to 'lock in' the rate burden of each category and sub-category as it currently exists within each pre-merger Council for the next four years. To do so would be to assume that a council's current rating structure should, and can, remain static. A council may currently be in the process of gradually redistributing the rating burden between categories or sub-categories as part of their long-term planning. Therefore, it stands to reason that a rate burden redistribution which is presently being undertaken would be impeded if the ability for a council to redistribute the rating burden was removed.

Council proposes that the intent of the rate freeze policy should be redefined, and suggest that no ratepayer in a pre-merger Council should be required to subsidise any other pre-merger Council during the four year period. In short, any increase to total allowable income as a result of rate peg should be contained to each pre-merger council, rather than being added in aggregate to the total allowable revenue of the merged Council, while still allowing the flexibility of changes of the rate burden within the categories of those pre-merger councils.

Council believes that ratepayers understand that mergers and the requirement for rate equalisation will result in changes to rates payable, and there will inevitably be 'winners and losers'.

Council suggests that any inequities that currently exist across two or more councils will only be further compounded in absolute terms if existing rating structures are locked in for four years. This will impede the goal of rate equalisation and the new council's ability to operate as 'one' council if it cannot commence the process of integration immediately. Merged councils need to use this four years as a transitional period. Neither the 'relative share method' nor the 'fixed share method' will therefore be appropriate.

14. Within the rate path freeze period, should merged councils be permitted to apply for new special variations:
- For Crown Land added to the rating base?
 - To recover amounts that are 'above the cap' on development contributions set under the *Environmental Planning and Assessment Act 1979*?
 - To fund new infrastructure projects by levying a special rate?

Response:

Council believes that no new special variations should be permitted if a rate freeze is in place, but that those already in existence should run their course.

As pointed out previously, Council does not believe a rate freeze should be imposed, as it limits the ability of the new Council to act in a proper manner.

15. Are there any other situations where merged councils should be able to apply for new special variations within the rate path freeze period?

Response

Refer previous comments in 14.

16. During the rate path freeze period, should merged councils only be able to increase base amount and minimum amounts each year by the rate peg (adjusted for any permitted special variations)?

Response:

Refer previous comments

17. During the rate path freeze period, should merged councils be able to allocate changes to the rating burden across rating categories by either:
- Relative changes in the total land value of a rating category against other categories within the pre-merger council area, or
 - The rate peg (adjusted for any permitted special variations)?

Response:
Refer previous comments

18. Do you agree that the rate path freeze policy should act as a 'ceiling', so councils have the discretion to set their rates below this ceiling for any rating category?

Response:
Refer previous comments

19. What other discretions should merged councils be given in setting rates during the rate freeze period?

Response:
Refer previous comments

20. We considered several options for implementing the rate freeze policy. Our preferred option is providing the Minister for Local Government with a new instrument-making power. What are your views on this option and any other option to implement the rate path freeze policy?

Response:
Refer previous comments

Establishing new, equitable rates after the 4-year freeze

21. Should changes be made to the LG Act to better enable a merged council to establish a new equitable system of rating and transition to it in a fair and timely manner? If so, should the requirement to set the same residential rate **within a centre of population** be changed or removed?

Response:
The inclusion of a 'centre of population' as a basis for sub-categorisation is fundamental for a regional council as rural councils differentiate between towns and villages.

However, to propose that the residential sub-categorisation option be removed would prove extremely difficult to reconcile. Council would not object to the removal of the mandatory requirement for residential rates being based on centres of population, but would object to its availability being removed as it should, at least, remain optional.

22. Should approved special variations for pre-merger councils be included in the revenue base of the merged council following the 4-year rate path freeze?

Response:

Yes

23. What other rating issues might arise for merged councils after the 4-year rate path freeze period expires?

Response:

If the freeze period becomes reality, the new Council will have to start harmonising its rating structure which in turn may take several years. It will also have to struggle with service delivery variances between the pre-existing areas and attempt harmonisation. This will cause stress to the current rating system