Mingoola Progress Association Inc.

Submission on Review of Local Government Rating System.

Background The effect of special rates variation on Tenterfield Council.

Tenterfield Council was granted a special rates variation for 2014/2015 being 15% the first year and 10% per year for the next 3 years. They have announced their intention to apply for a future increase of 3% per year above rate cap amount for 7 years from 2018/2019.

The graph attached shows the effect of the rise on different groups of rate payers. The amount on the left indicates the amount of rates being paid by individual rate payers before the start of the rise.

It can be seen the compounding effect of the rise has a devastating and unsustainable effect on rate payers in the top end of the rate scale that is unfair and unethical.

As IPART have been approving large variations for many councils, this will be a state wide problem.

The problem is mainly in farmland and business categories where there is a wide variation in valuations. In Tenterfield council area, this range is from around $35,000 to $4,900,000 giving a rate range in2014/2015 from a minimum rate of $420 to a maximum of $15,346. When you consider all rate payers get treated equally and they receive the same service, whether paying the minimum or maximum and the unimproved capital value of land is not a true indicator of wealth or ability to pay, this is excessive. With such a wide variation in values, a single Ad Valorem rate is unequitable. This could be overcome by allowing a staged system where, for example, the first $100,000 of valuation be calculated at one Ad Valorem rate, from $100,000 to $500,000 be calculated at a lower Ad Valorem rate and so on.

A change to a base rate plus Ad Valorem system would go some way to alleviating this problem. It would also help smooth out large fluctuations in rates caused by swings in valuations. In 2014/2015 much of the shire farmland was devalued by up to 30%, while farmland in the north of the shire had an increased valuation of over 30%. In spite of the 15% rate variation, many ratepayers rates dropped by more than 20%. The resulting drop in revenue was made up by those whose valuations had gone up resulting in some increases of over 50%.

The cap on minimum rates creates a further anomaly when special rate variations are granted. I have provided examples of this on pages 3 & 4. As I don't have access to actual figures I have had to make some assumptions and these are listed on the top of each page. However council's director of corporate services has confirmed this is a problem and they are currently working on ways to rectify it.

We will list our views on the "List of Issues on which we seek comment" on page 5.

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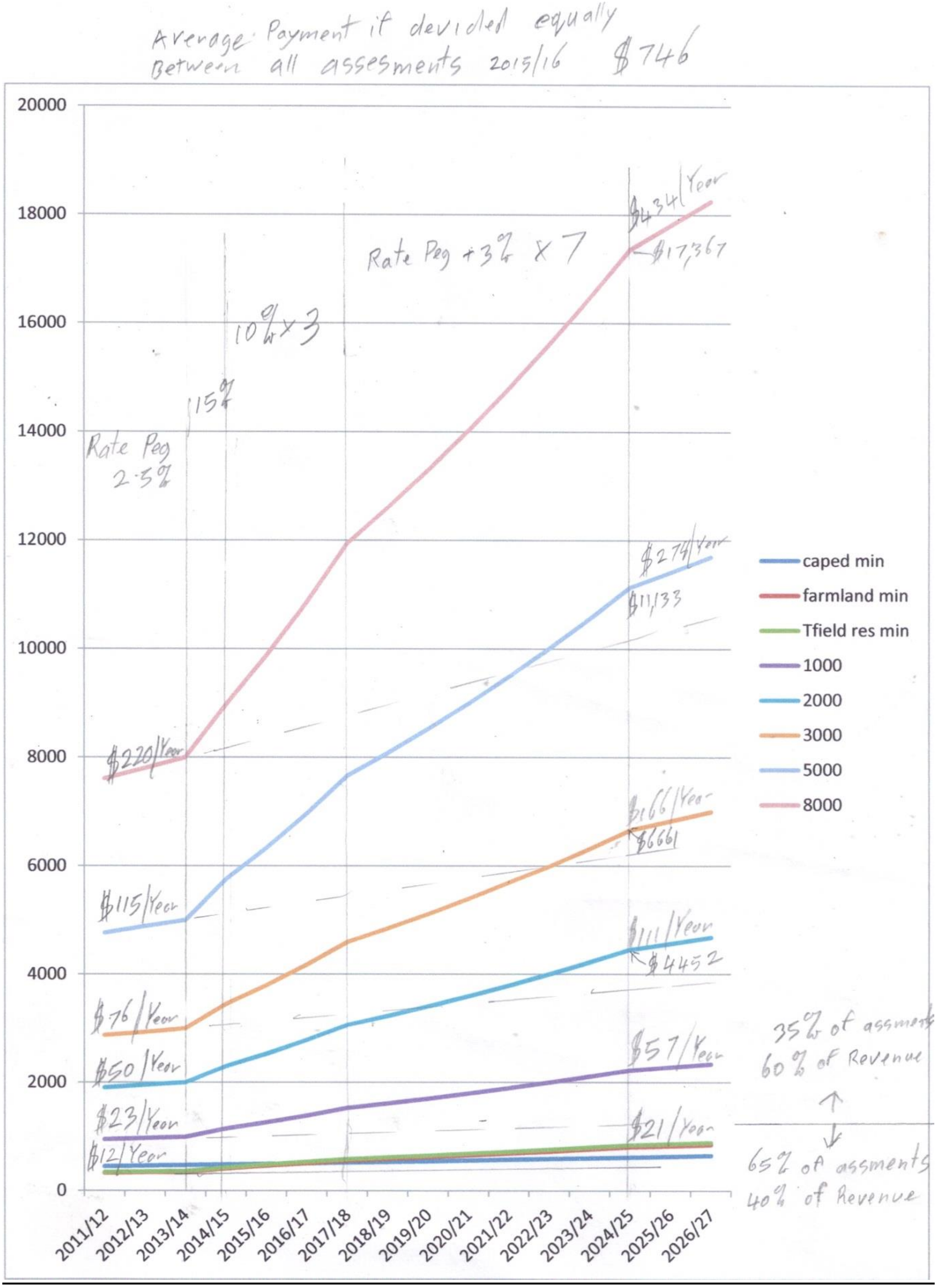

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Submission on Review of Local Government Rating System.

Effect of minimum rate capping out on Tenterfield Residential

Assumptions

The Rate pegging increase will be 2.5%.

The "Spill" from minimum rate payers to Ad Valorem will be 10% in 2016/17 and 15% in 2017/18.

Rational for Assumption.

The average minimum rate, if calculated as Ad Valorem in 2015/16, would be $343.That is $141 lower than the $484 proposed minimum. It would take a rise of 41% in the Ad Valorem rate to bring the average to the minimum, still leaving a substantial no. of assessments below the minimum. It should also be noted the 10% and 15% is the amount of money collected not % of assessments.

Effect on 2016/17 rates.

Minimum capped rate = current minimum x 102.5%. $497 x 102.5% = **$509**

2015/16 minimum + 10% = 484 x 110% = **$532**

Amount exceeding cap **$23**

Assumed no. of assessments min **1127** Ad Valorem **422**.

Total amount unfunded by minimum rates; $23 x 1127 = **$25,921**

Average extra amount picked up by Ad Va. assessments = $25,921 ÷ 422 = **$61**

Making a total rise of **19%** for Ad Va. assessments and only **5%** for Minimum assessments

Effect on 2017/18 rates.

Minimum capped rate = $509 x 102.5% = **$521**

2016/17 minimum + 10% = $532 x 110% = **$585**

Amount exceeding cap **$64**

Assumed no of assessments min **958** Ad Valorem **591**.

Total amount unfunded by minimum rates; $64 x 958 = **$61,312**

Average extra amount picked up by Ad Va. assessments = $61,312 ÷ 591 = **$103**

making an annual increase of **23%** for Ad Va. assessments and only **2.5%** for minimum assessments. After allowing for compounding the Ad Va. rate will go up **42%** in the 2 years while the minimum will only go up **7.6%**

. Effect of minimum rate capping out on Residential Other.

Assumptions

The Rate pegging increase will be 2.5%.

The "Spill" from minimum rate payers to Ad Valorem will be 10% in 2016/17 and 10% in 2017/18.

Rational for Assumption.

The average minimum rate, if calculated as Ad Valorem in 2015/16, would be $228.That is $234 lower than the $462 proposed minimum. It would take a rise of 102% in the Ad Valorem rate to bring the average to the minimum, still leaving a substantial no. of assessments below the minimum. It should also be noted the 10% and 10% is the amount of money collected not % of assessments.

Effect on 2016/17 rates.

Minimum capped rate = current minimum x 102.5%. $497 x 102.5% = **$509**

2015/16 minimum + 10% = 462 x 110% = **$508**

Amount exceeding cap - **$1**

Assumed no. of assessments min **1016** Ad Valorem **290**.

Effect on 2017/18 rates.

Minimum capped rate = $509 x 102.5% = **$521**

2016/17 minimum + 10% = $508 x 110% = **$559**

Amount exceeding cap **$38**

Assumed no of assessments min **914** Ad Valorem **392**.

Total amount unfunded by minimum rates; $38 x 914 = **$34,732**

Average extra amount picked up by Ad Va. assessments = $34,732 ÷ 392 = **$88**

making an annual increase of **22%** for Ad Va. assessments and only **2.5%** for minimum assessments.

Submission on Review of Local Government Rating System.

1 **Taxation Principles.**

Section 3.2.1

We strongly disagree with the statement “Property-based taxes such as rates are generally regarded as equitable, because property value correlates with wealth and the ability to pay.” The reality of today’s property market means many owners of high value properties have very low equity and high mortgages and are struggling to meet repayments.

The Valuer Generals valuations on rural property are based on a small number of property sales and often doesn’t compare like with like, causing large fluctuations in values.

Section 3.5 Competitive neutrality.

Exempt organisation’s competing directly with business should pay full rates. Eg The Local Land Service leases traveling stock reserves in direct competition to rate payers, this is a commercial operation.

2 **Method of Valuation.**

The unimproved valuation (UV) has its problems but is still the best option.

The Capitol Improved Valuation (CIV) would greatly increase the difference between the lowest and highest valuation ie. an undeveloped property would still have the same value ($35,000) While a fully developed property with a UV of $4,900,000 could have a CIV value of around $7,000,000 accentuating the problem listed earlier.

The CIV valuation would discourage rate payers from improving the property, if they renovate and paint their property their rates would increase.

With a CIV all properties would have to be valued and a system put in place for rate payers to object to the valuation and have it reviewed. What would this cost? And who would pay?

3 **Different methods of valuation.**

See above.

4 **What changes needed to Local Government Act**.

The act should be changed to allow a base amount to be levied on a per person bases, or it might be more practical and easier to administer, to have a base amount levied on occupied buildings, this would not disadvantage large families and would go some way to alleviate the problem the current base rate has for rate payers with multiple assessment’s.

5 **Changes to rating categories**.

There should be a separate category for high density dwellings and strata titles.

There should also be a category for Government land

6 **Equity and efficiency of rating burden across communities**.

As stated earlier, there needs to be a staged Ad Valorem rate in categories with a large variation in Valuations.

When government requires councils to do more, (cost shifting), this should be fully funded and not be a further burden on ratepayers.

Tenterfield council General fund charges the waste, sewerage and water funds $1,080,000 administration charge and $150,000 for engineering and management services, that is approximately 25% of these funds total revenue. We acknowledge the need for a reasonable administration charge, but the increases in charges on these funds has been an easy source of revenue, bypassing the rate variation process. We believe this process is widespread. It is impossible to have an equitable rate system while this anomaly exists. There needs to be an amnesty, IPART should then allow councils to reduce the charge on the funds and increase the general rate in an open and transparent revenue neutral way.

7 **Changes to rate pegging and Special Variation process**.

Rate pegging should remain. We adjoin a Queensland council where unpegged rates have gone through the roof.

With a limit on income, councils need to improve efficiency.

Putting more money into any inefficient organisation only fuels the inefficiency it does not increase productivity.

Special variations should only be given as a last resort.

Most rural councils will always be reliant on government grants.

There should be a simple procedure for councils to increase the rates when they experience real growth in the rate base. For example, a property in our area was subdivided around 15 years ago, the original owner was paying around $1000 per year in rates. There are now around 14 or 15 owners paying rates on the same land totalling around $12,000 per year. The rate payers want services for their money but councils total rates collected have not risen by this amount. I have discussed this with many people and most thought councils take would have risen by this amount, all agreed it should.

8 **Changes to encourage urban renewal.**

No change needed to rates. They just need to reduce red tape and development application costs,

9 **Changes to manage overdue rates.**

No changes needed.

10 **Land uses exempt from paying rates.**

There should be a special category for this land.

11 **Exemptions from state taxes.**

12 **Pensioner concessions**.

Pensioner concessions are very reasonable and should remain unchanged.

Thank you for the opportunity to take part in this review.

For more information contact Bob South at [redacted]