

Review of Local Government Rating System

Principles of Taxation

An extremely important principle of equity is to consider the costs imposed on society when taxes and charges are set. The system should allow additional charges or levies on industries or premises that create significant costs for the rest of the community, e.g. health-hazardous pollution or disproportionate traffic congestion generated by a transport depot or multi-level carpark. The levies and charges should be used to remedy the problem, e.g. address traffic bottlenecks or monitor and remediate air pollution.

An important example of significant costs imposed on the community is the use of domestic wood heaters. A consultancy report for the NSW EPA estimated the health costs of domestic wood heaters at over \$8 billion over 20 years¹, equivalent to an average cost of more than \$22,000 for every wood heater in NSW. Local councils are expected to manage this problem but lack adequate resources.

Only 5% of households use wood heaters in Sydney, so the air is relatively clean. PM2.5 is the most health-hazardous air pollutant, considered to be responsible for the majority of premature deaths due to air pollution. In 2015, most monitoring sites in Sydney recorded 1 or 0 exceedances of the PM2.5 standard, compared to 34 in Armidale, where over a third of households have wood heaters.

In a submission to the Federal Government in 2013 on wood-heater regulation, Armidale Dumaresq council stated: *“It is estimated that Council has committed more than \$300,000 (excluding wages) in the past 10 years on wood smoke abatement measures”*. Much more money will be needed to solve this problem and satisfy National Air Quality Standards. It seems grossly unfair that the entire

community has to bear this cost, rather than the households that use wood heating.

In Sydney, the latest emissions inventory (compiled by the NSW EPA for 2008) lists 5,457 tonnes of PM2.5 emissions from residential wood heating, more than all other sources – 1,552 tonnes from on-road vehicles, 1,935 from industry, 952 from off-road vehicles and 184 tonnes from other sources.

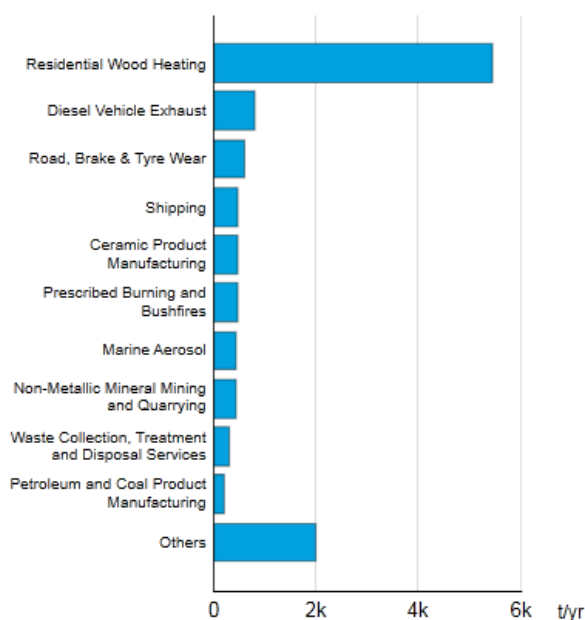
The NSW EPA consultancy report recommended licencing fees for wood heater use. Assuming the money raised is used to fund woodsmoke reduction programs, the estimated net benefit was \$1.28 billion.¹,

As part of its review of the rating system, IPART should therefore consider whether councils should be allowed to levy licencing fees such as those recommended by the NSW EPA consultancy report (modelled on an annual charge of \$20 which was expected to raise \$11 million and reduce health costs by \$1.27 billion). The current system is grossly unfair and ineffective – the entire community suffers billions of dollars of health damage because councils lack the funds for effective woodsmoke-reduction programs and households using wood heaters have no price signals to remind them of the significant health costs offsetting their personal benefit of slightly cheaper fuel costs.

Region: Sydney
Substance: PM2.5
Sector: (All)
Unit: tonnes per year

Pie Chart Top N

Emission by Activity (2008)



Current method for setting rates

Several speakers at the public meeting (discussing the Rating Review Issues paper) pointed out that the current system of basing rates on the unimproved value (UV) of land creates equity problems because wealth is more closely related to total property values (i.e. the value of land plus buildings, also called capital improved values or CIV) than the value of the land. Nonetheless, the NSW Valuer General pointed out that in Victoria, where rates are based on CIV, there is “a highly sophisticated database with substantial information about individual improvements for properties which has been built up over many years.” Any transitioning to CIV would require a substantial amount of time and

perhaps a period where both UV and CIV are used. One interesting suggestion at the public meeting was that the last sale price of a property could be used as its valuation, which could be subject to periodic updating according to the average change in property prices in the area. Ideally, any transition would be phased in gradually over, say 10 years, with the 90% of the rates based on the UV in the first year and 10% on the CIV, 80% on UV and 20% on CIV on the second year, and so on. Alternatively, the change from a UV to a CIV could be made when a property is sold and the CIV based on the sale price of the property.

Use of base and minimum rates amounts

As discussed in the Issues Paper, under an equitable rating system, owners of low-value properties should pay less than owners of high-value properties. This, presumably, is why there is a legislated ceiling (set at \$497 in 2015-16) on the minimum rate. Legislated ceilings should remain. However, it is important to note that some councils have base rates for some land categories that are above the minimum rate ceiling. This would appear to be contrary to the spirit of the legislation, because the base rate is then the minimum rate for that category. In an equitable rating system, all base rates would be below the minimum rate ceiling.

Sustainability

Local governments should not be considered to be unsustainable if they rely on grants from other levels of government for a substantial proportion of their funding. If other levels of government have recognised a need and are prepared to address it, this should not be a reason to question the sustainability of the council. Moreover, amalgamations do not remove specific needs (which should continue to be funded by the appropriate level of government, not ratepayers of other local government areas, many of whom might not have supported the amalgamation).

Exemptions to paying rates

The issues paper notes (5.1.1) that: “if the benefits are distributed beyond the local council area, it may be more equitable for the state government to share the funding costs of the exemption.” This principle is fair and equitable and should be adopted.

Freezing existing rate paths for newly merged councils

Section 6.1 of the Issues paper states: “We interpret the Government’s policy to mean that for the four years after a *Fit for the Future* merger, rates would continue to be set in each pre-merger council area so that the rate path in that area follows the same trajectory as if the merger had not occurred. That is, this rate path should comprise the pre-merger council’s general income in the year the merger takes place adjusted by the following two external factors:

1. the rate peg OR any special variation approved for the council prior to its merger, and
2. the expiry of any temporary special variations that applied to the council prior to its merger.”

Some councils approved special rate variations to ensure their financial viability in the hope of avoiding forced mergers. It is to be hoped that the Boundary Commission will not approve forced mergers that are not supported by a majority of residents. However, if mergers are instigated against the will of the residents, ratepayers of councils that set unsustainably low rates should not be subsidized by for the next 4 years by other households in the merged council area. Instead all residents should pay the amount they would have paid if the merger had not gone ahead.

Cited Information

1. NSW OEH, *Economic Appraisal of Wood Smoke Control Measures*, 2011, AECOM Australia Pty Ltd. Prepared for the Office of Environment and Heritage. Available at: <http://www.epa.nsw.gov.au/woodsmoke/smokecontrolopts.htm>.