



11 May 2016

IPART
Review of Local Government Rating System
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Dear Sir/Madam,

Port Macquarie-Hastings Council Submission regarding Review of Local Government Rating System

Further to the release of the issues paper regarding the Review of the Local Government rating system, we are pleased to have the opportunity to lodge a submission.

Our responses are numbered according to the numbered questions in the issues paper.

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

Port Macquarie-Hastings Council (PMHC) agrees with the taxation principles as identified in the issues paper. However we do not agree with the following assertion:

- Page 14 "Property based taxes such as rates are generally regarded as equitable, because property value correlates with wealth and ability to pay".
In our view, asset wealth does not necessarily correlate with ability to pay.

We also consider that rate pegging does not completely align with the principle of sustainability. Rate pegging does not necessarily allow the source of income to Local Governments to grow over time relative to costs, to support the future needs of government.

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?

In accordance with the taxation principles, the rating methodology should:

- Be based on the benefits principle - i.e. be proportional to the benefits received;
- Be equitable - Based on ability to pay; and
- Ensure that taxes minimise changes in behaviour.

We believe that Councils should be provided with the flexibility of being able to choose which option best suits their circumstances.

- 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)?**

PMHC believes that the use of the Valuer General is appropriate as it is consistent, and unbiased.

- 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?**

The use of a minimum rate is not considered to align with the taxation principle of being "equitable". PMHC considers that it is essential for a base amount to apply in order to avoid an unfair impost on "asset rich, cash poor", and to also ensure that the rating system align to the benefits principle.

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

Council would like the option to have more subcategories within Farming, Residential and Business. This would allow Council to investigate, analyse and implement the most equitable methods of rating.

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

PMHC notes that different communities have different needs and therefore may require differing levels of rate income. On this basis, PMHC believes that one local government area should not cross-subsidise another. This would be in direct contrast to the taxation principles. Inequities should be dealt with using other mechanisms such as grants.

- 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?**

Rate pegging when combined with cost shifting has significantly adversely impacted Councils' ability to continue to deliver services to their communities and on the provision of adequate infrastructure and maintenance of infrastructure. PMHC has been impacted by approximately \$6-8m per annum in cost shifting.

A flat cap does not consider the individual circumstances of various Councils and nor does it reflect community preferences.

In order to streamline the system, it is considered that the current rate pegging system is not appropriate.

It is our view that, at a minimum, there should be a significantly streamlined process for special rate variations within a certain level eg 4-5%.

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

No comment.

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

Council's should be required to ensure all recovery actions are explored prior to the instigation of legal action for overdue rates. This is ensuring that Council's make full use of Sections 564, 567 and 601 of the Local Government Act 1993.

Councils should be required to have an active hardship policy which includes aspects such as:

- flexible payment options; and
- flexible treatment of interest charged on overdue accounts for cases of hardship.

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?**

Entities which are exempt are recipients of Council services. On this basis, other ratepayers are subsidising their use of various services which is not considered equitable.

It is felt that definitions should be tightened, and commercial activity should be excluded.

It is noted that there has been a growth in public benevolent institutions. Similarly there has been a growth in private school exemptions, and Community Housing organisations. All of these transfer the burden to other ratepayers.

On this basis, we believe that the definition needs to be refined to at least reduce, if not remove, exemptions altogether.

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

PMHC is firmly of the view that the current exemptions are necessary in order to be able to provide services.

Any net reduction in exemptions we receive would significantly impede our ability to service the community.

This has been noted with the impact of cost shifting.

12) What should the objectives of the pensioner concession scheme be?

How could the current pensioner concession scheme be improved?

The objectives of the scheme should generally align to taxation principles, and also ensure that self funded retirees are not penalised.

PMHC disagrees with the accrual scheme due to its administrative burden and impact on cash flow, and also disagrees with the asset test as this can also be unfair to the asset rich cash poor, and does not align to the benefits principle.

PMHC agrees with pensioner concessions and believes that these should be extended to self funded retirees in order to be equitable. It is considered that other ratepayers should not bear this burden, particularly given that certain communities have a disproportionate amount of retirees.

It is also strongly agreed that this scheme should not be a local government funded scheme. The scheme should be funded by the State Government. This is particularly important to ensure that local government areas with a high pensioner composition in their rate base are not disadvantaged.

Rate Freeze For merged Councils

Whilst PMHC has not been identified for merger, PMHC is firmly of the view that a four year freeze places a huge impost upon these Councils and could significantly impact their ability to maintain adequate services.

Trusting the above is to your satisfaction. Should you require any further information, please do not hesitate to contact me on (02) 6581 8111 or by email at council@pmhc.nsw.gov.au.

Yours sincerely



Craig Swift-McNair
General Manager