REROC

RIVERINA EASTERN REGIONAL ORGANISATION OF COUNCILS

RESPONSE TO Review of the Local Government Rating System

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RESPONSE TO
REVIEW OF THE LOCAL GOVERNMENT RATING SYSTEM

The Riverina Eastern Regional Organisation of Councils (REROC) is a strategic alliance of eleven local government bodies located in the eastern Riverina region of NSW. Originally formed in 1994 the aim of the organisation is to assist councils to operate more efficiently and effectively through working together to achieve economies of scale and scope and present a better informed and representative voice for its members.

The members of REROC are the councils of Bland, Coolamon, Gundagai, Greater Hume, Junee, Lockhart, Snowy Valleys, Temora and Wagga Wagga as well as Riverina Water and Goldenfields Water County Councils. The REROC region covers an area in excess of 40,000 sq kms and a population base of approximately 140,000 people.

In previous submissions on the issue of local government rating, REROC has expressed its opposition to the imposition of rate pegging on NSW councils. The policy is based on political not fiscal drivers and is inconsistent with the goals of the IP&R process which supports and encourages to communities to make decisions about what services and facilities they want and how much they are prepared to pay to receive them.

Half of the original REROC member councils are affected by proposed forced mergers and consequently there is concern with regard to the Government's four-year rate freeze policy and how it is likely to impact on the harmonisation of council functions and processes and a smooth transition to a new council entity. REROC does not believe that the freeze policy is sound policy it would be far more constructive to freeze rates on their current path for a period of one year and then allow councils three years to transition to a harmonised rating regime.

We also wish to express our concerns about the way in which exemptions reduce the rate yield, which artificially forces down the quantum of rates by failing to recognise the value of the land owned by the exempted organisation. REROC argues that the value of the land that the exempted organisation owns should be included in the calculation of the rate yield because the value of the exemptions would be transparent and is counter to principles of taxation.

This submission responds to the questions raised in the Issues Paper:

Taxation Principles

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

REROC agrees with the proposed principles of efficiency, equity, simplicity, sustainability and competitive neutrality.

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?

REROC has the benefit of the diverse experiences of its member councils in responding to this question. It is clear from the varying approaches that have been taken across our region that councils do need more choice in what valuation method should be applied.

REROC believes that councils should have the choice to determine the approach that best fulfils the tax principles for its LGA. The choice could be drawn from a mandated set of options which includes Unimproved Value, Capital Improved Value with the capacity to utilise an *ad valorem* amount which may be subject to a minimum value or a base amount with an *ad valorem* amount added.

We believe that councils should be able to choose to use both Unimproved and Capital Improved Values within their rating mix. Our members agree that multi-unit dwellings, strata and community title developments result in unfair outcomes when Unimproved land values are used to determine rates. Ratepayers in single dwellings are in fact subsidising the use of council services and infrastructure by people living in these developments because the same quantum of rates is levied on the land but residents of multi-unit dwellings divide the quantum amongst many.

Therefore where councils determine it is a more equitable outcome, they should be able to apply Capital Improved Values to the multi-unit, strata and community title residences. The overall rating burden should increase to reflect the increased rate base in order for the change to have a positive effect on a council's ability to implement sustainable and equitable fiscal policy.

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)?

Our members agree that the current system is working well, provides a consistent and accountable approach to the valuation process. However, they also believe there is room for councils to have the option of using a private valuation firm providing that private valuers utilise an agreed standard of valuation that provides a consistent result across the State.

We note that the Valuer General uses the services of private valuation firms now. We assume that they are guided by an agreed standard established by the Valuer General, therefore it should not be difficult to extend the current system to one that allows councils to use private valuation firms.

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?

In rural areas where land values can be highly disparate the ability to use base and minimum amounts as part of the overall rating structure is an important tool in ensuring an equitable distribution of the rating burden.

Rates pay for council services and infrastructure, a ratepayer living in a very low value property does not necessarily use fewer services or make less use of infrastructure than a ratepayer in a higher value property. In addition the ability to use base rates and minimum rates recognises the fixed costs that councils must pay in order to remain sustainable and fiscally sound.

Cootamundra Shire (now part of the new Gundagai Council) as part of this Review provided an example of the impact the removal of their Base Rate would have on rates in one of their residential rating sub-categories. The Council has calculated that while the average rate of $596 would not change (because the number of ratepayers and the quantum of rates collected would not change), the lowest rate payable would move from $195 per year to $39 per year while the highest rate payable would increase from $1,253 per year to $1,509. Council argues and REROC agrees that it is difficult to justify that $39 per year is an appropriate levy for the provision of council services and infrastructure. In fact a levy at this level sends a price signal that clearly undervalues the services and infrastructure that council provides.

The utilisation of Base Rates and Minimum Rates allows councils to smooth out the vagaries and inequities that will always be created through the use of a levy that is based on a valuation.

Our members argue that the 50% cap should be removed. Councils should have the option of choosing a Base Rate above 50% where this provides a more equitable spread of the rating burden. In many rural and regional LGAs, populations are spread across extremely large expanses of land. In some cases a population centre will enjoy a particular benefit that drives up the land valuation significantly for instance it is close to a regional city or a recreational lake or river. While in other population centres within the LGA land values may be falling. The disparity that arises can be very significant and as a consequence councils use Base Rates and Minimum Rates to create a more equitable distribution of the rate burden. REROC believes that achieving an equitable outcome should not be hamstrung by the 50% cap of the Base Rate.

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

Our members agree that councils should be able to create sub-categories within the four main categories that reflect local land use circumstances. More flexibility to sub-categorise properties by type rather than by locality would provide more equitable results in distributing the rating burden. It would also address the challenges rural and regional councils which have populations spread over large geographic areas face in trying to distribute the rate burden.

In addition sub-categorisation by type may better address the inequities that are arising with multi-unit dwellings, strata and community title properties. Just as there are planning zones for high density housing there could be a rating could have a high density housing sub-category. It may also provide for better outcomes for rating farmland where sub-categorisation could be based on geographic area such as a defined locality.

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

Our members agree that rates should not be used as a method of equalisation across communities. Communities have an opportunity to give direct feedback on the rates they are charged for the

provision of local services and infrastructure they need and want their councils to supply. The IP&R process underpins the consultation process that councils undertake to determine the services and infrastructure that their communities want. Where communities want services above what can be paid for through the current rate burden they are consulted about a Special Rate Variation and councils are expected to demonstrate that they have community support for an SRV.

We believe that it is very important that the nexus between rates and service provision is not lost, that communities continue to tie service and infrastructure provision to the rates that they are prepared to pay. Ratepayers will continue to look over their fence and form an opinion that the resident who lives in the neighbouring LGA is either better or worse off than they are. However this just demonstrates that every LGA is different and that IP&R will deliver different outcomes to different communities. It would be inappropriate and unproductive to change the rating system in order to create an artificial even playing field.

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?

REROC believes that rate-pegging should be removed. It is counter to the IP&R process which encourages communities to determine the services and infrastructure that they want their councils deliver, only to find that councils are unable to fulfil those demands because of the impact of rate-pegging. We recognise that councils are able to submit a SRV which has as its foundation the IP&R consultations but we question why councils should ask permission from the State to raise their rates, when the communities they serve have already agreed to the rise.

However, we appreciate that rate-pegging is a political rather than fiscal issue and consequently it is unlikely to be removed. Therefore we believe that the process could be streamlined if the recommendation made by the Independent Panel were adopted allowing councils to raise their rates by up to 3% on top of the rate-pegged amount, to achieve IP&R outcomes, without the need to seek an SRV. Where councils want to raise their rates beyond the 3% then the current SRV process should remain in place.

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

This is not an issue that our members wish to comment on.

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

Our members are concerned that IPART considers that councils are overly reliant on the court system and that councils are chasing debts that are of low value. This fails to recognise the systems that are currently in place to assist ratepayers to pay their debts.

All councils offer, as standard practice, the opportunity to pay rates by instalment. In addition where a ratepayer is having trouble meeting instalments they can make alternative arrangements with council. Court is used by councils as a last resort.

We believe that it is inappropriate to judge councils as failing as a model litigant because they act early and for amounts that are less than $2,000. Given the average rate paid in NSW is less than

$1,000 per year, the sum of $2,000 means that at least 50% of the debt has been in arrears for 2 years or longer. We believe that it is both prudent and fair that the proceedings are started earlier rather than later, if a ratepayer cannot pay a $250 per quarter instalment how are they to find the money to pay a debt in excess of $2,000?

Our members agree that the sale of land provisions should be reduced from the current 5 years to three years in arrears. This would better reflect the time it takes to exhaust all other avenues of collection and it would also reduce the ratepayer's level of indebtedness before the sale of the asset.

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?

Our members agree that rating should be based on the use of the land, not its ownership. This approach would support the principle of competitive neutrality by ensuring that the same land uses were rated the same way regardless of the ownership of the property.

Our members do not believe that it is appropriate that ratepayers in the LGA pay for the exemptions that are provided to organisations that are carrying on income generating activities. The business activities of charities and the residents of community housing create demands for council services and infrastructure, the cost of which are being met by other ratepayers.

In some instances the exempt enterprises are in direct competition with private providers, for example two nursing homes may operate side-by-side, the one operated by the private provider is paying rates, the one operated by the registered charity is not. Only one received the exemption, yet both have comparable demands on council's services and facilities and both are competing for market share.

We do not believe that the exemptions as they currently stand meet the principles of equity, simplicity, sustainability or competitive neutrality.

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?

REROC supports the general principle that the three tiers of government should not tax each other.

We note concerns raised that if local government levies rates on the State then the State may demand that councils pay State taxes like payroll tax. However, the State's payroll tax exemption does not apply to local government water, sewerage, saleyards, cemeteries, aged care facilities or any other activities where those activities are operated as a business. Local government is, in fact, paying payroll tax on wages that are used to generate what can be characterised as a commercial income.

We believe the same approach should be adopted for State Government enterprises. Where the State operates an enterprise as a business, then rates should be paid on the land used to generate the business enterprise's revenue.

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

REROC believes that the pensioner concession is a form of welfare assistance and consequently the cost of the concession should be 100% met by the State Government. The State legislates for this welfare payment and we believe it is unfair that ratepayers must subsidise its cost.

We do not support the introduction of a postponement approach as it is inconsistent with the principles of simplicity and sustainability.

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?***

REROC agrees with this interpretation. However we do not agree with the policy.

We believe that this policy is counter-productive and will result in mergers taking longer to bed-down. We believe that after four years, all other areas of the merged council's operations are likely to be close to harmonisation and that the community angst that results from forced amalgamations may have begun to subside, only to rise again when the freeze ceases.

We believe it would be far more productive to impose the freeze for a period of one year and then give councils 3 years to transition to harmonisation. This would allow councils to gradually introduce changes to rates at the same time as they are introducing other changes that will result from the mergers. It would provide for a more consistent approach to the post-merger operations of the new council.

However, we understand that the freeze policy is a political rather than a fiscal issue and therefore it may be beyond the Review's brief to suggest an alternative approach.

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?***

REROC agrees that the merged councils should be able to apply for SRVs. We also believe that they should be able to request SRVs for new services as well as new infrastructure. Merged councils may be faced with the need to roll out new services in order to harmonise service delivery across the LGA and where this requires new spending the council should be able to seek an SRV.

Councils are required to seek the approval of their communities, through a consultation process, in order to obtain an SRV therefore if the community has agreed to an SRV the council should be able to apply or it.

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

As stated above where a council has through its IP&R process identified that an SRV is required and the community has agreed to it, then the council should be permitted to apply for the SRV. New councils must be able to meet the demands of their residents, must remain fiscally responsible and sustainable a blanket ban on SRVs is inconsistent with achieving those goals.

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)?***

REROC does not agree with the rate freeze policy, therefore we believe that merged councils should not be limited in the way that they determine the rating burden.

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)?***

REROC does not agree with the rate freeze policy, therefore we believe that merged councils should not be limited in the way that they determine the rating burden.

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?***

REROC does not agree with the rate freeze policy, therefore we believe that merged councils should not be limited in the way that they determine the rating burden.

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

REROC does not agree with the rate freeze policy, therefore we believe that merged councils should not be limited in the way that they determine the rating burden.

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?***

REROC does not agree with the rate freeze policy. It is inconsistent with sustainable and responsible fiscal practice and will be counter-productive in achieving a smooth transition to the new council entity.

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?

As stated above REROC believes that a better approach would be to freeze rates for one year and then allow a 3 year transition to rate harmonisation. We believe that this would be a far more productive way to deal with the issue because changes to rating would be occurring at the same time as other changes are being introduced by the merged council.

As stated above REROC believes that in large rural and regional LGAs there is enormous disparity in the value of properties and that councils should be able to create sub-categories within the rating system to better reflect land uses. An approach that forces councils to levy the same rate based on locality is inconsistent with the creation of sub-categories.

We believe it is unlikely that there will be any significant cost savings in the first four years of operation as the biggest cost councils have is staff and in rural areas legislation requires that they be retained for the entire rate freeze period.

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?

REROC agrees that the approved SRVs for pre-merger councils should be included in the revenue base of the merged councils.

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

REROC has no other comments.

Conclusion

REROC welcomes the opportunity to provide feedback on the Review. We trust that the Review will lead to positive outcomes for the local government sector.