

Snowy Monaro Regional Council

Submission to IPART Review of the Local Government Rating System

Please find below Snowy Monaro Regional Council's (SMRC) submission to IPART on the review of the Local Government Rating System.

The key points SMRC see as vital in modernising the Rating system are:

- A four year rate path freeze will have a detrimental effect on ratepayers and is contradictory to the philosophy of "fit for the future" Councils.
- All land used for Commercial purposes should be rateable, including National Parks & Forestry
- More flexibility should be given to Councils in setting of rates. This recognises that all Councils and Communities are different.

Taxation principles

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

In order for the community to better understand that Rates are not necessarily tied to services provided Land Rates should be clearly stated as a Property Tax.

Confusion exists within Local Government about the Benefits principle. Local Government set rates according to Benefits principle / Ability to Pay, while at the same time commenting on Rates being a tax and therefore services provided are not directly aligned directly to Rates paid.

"Ability to Pay" is commonly set based on Land Value. This may not accurately reflect ability to pay as it is only Asset wealth and does not take into account levels of income.

Example: Multi unit dwellings have an unimproved low land value however this does not necessarily reflect the ratepayers wealth.

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?

Councils should be able to determine the most appropriate method of valuation – Unimproved Land Value (UV) or Capital Improved Value (CIV) separately for each rating category or sub-category.

CIV alleviates the disparity created with UV in relation to rating categories.

In SMRC, when Land Value is used as a measure of “Ability to Pay”, farmland is disadvantaged compared developed residential and business properties. This disparity is also seen within Residential rating Category where prime locations such as Jindabyne the CIV is substantially higher than the CIV of smaller townships.

CIV is also beneficial for rating of high density development. SMRC has examples of Services apartments that incur minimum Rates based on UV where there CIV is higher than in some single dwelling residential properties that are rated higher under UV. This is also the case for Businesses within shopping areas where a large proportion pay minimum rates.

Example: Lake Crackenback is a resort which is located 16 km’s from the township of Jindabyne. The original land has been developed into a Stata Plan of 166 properties which are on minimum rates with a land value of between approximately \$4,000 and \$55,000. These properties are for sale on the open market between \$295,000 to \$1.2 million. In peak season, accommodation ranges from \$355 to \$965 per night.

Moving from the current system to any new system will be a costly and time consuming exercise for possibly little gain. The real issue is how units are valued and rated and perhaps CIV could apply to that class of property only. Unimproved value (UV) is most likely a better system in terms of the cost and ease of administration compared to capital improved value (CIV).

A mandated system should apply across the state to ensure consistency in application and to benefit the sector in terms of cost savings by having a single system and the efficiencies that goes with it.

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)?

The ability of Councils to choose through a procurement process where they obtain their Land Valuation Services would likely make costs more competitive.

Although a single source generally gives a level of consistency across the state. Once you have a number of different sources there is the possibility of differences across the state.

We already see this with auditors and their interpretations of depreciation and this is being changed to come under the auspice of the Audit Office to gain consistency.

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?

Base or minimum rates should cover the legislative services being provided by Council. The ceiling on the minimum amount should be removed to take this into account.

The < 50% Base rate restriction should be removed, especially for Special Rates.

Minimum rates for Special Levies should be able to be increased in line with the general increase in that rates without application to IPART.

SMRC example is that an Emergency Services Special Levy to cover emergency services costs such as NSW Fire Brigades, SES and RFS, can be seen as of equal benefit to all ratepayers within each rating category/sub-category regardless of value of property. This is similar for the Jindabyne Beautification Special Levy.

Consideration could also be given to reducing the number of options to one rather than two. At the end of the day both the minimum rate and base rate methods aim to achieve the same thing ie spreading the burden to different land values within the category. Given the current flexibility open to Councils in setting a base rate, our preference would be that it should be retained.

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

The benefits from additional and redefined rating Categories and Sub-categories come from redistribution of rate charges to more closely align with the benefit of council services provided to ratepayers.

Additional Sub-Categories

Business – based on industry (eg Tourism), Serviced Apartments, Holiday Dwellings

Residential – based on Density (eg High rise, Single Dwelling, vacant Land)

Farmland – based on use (eg Windfarms, Bed and Breakfast, winery accommodation and sale of produce at the farm gate)

The definition of Rural Residential should be expanded to cover Residential properties in a rural area regardless of size. At present SMRC have properties in rural areas being rated Residential because they do not fit in the 2ha - 40ha definition and are not used for farming or business purposes.

Serviced apartments and Holiday Dwelling are competing with Businesses but their current rating category does not reflect this nor do the rates which are applied to each property.

The rationale for Sub categories should be determined at the discretion of the Council to recognise that all Communities are different. As such, restrictions on the sub categories available for each rating category should be removed. Eg “Centre of Population” Locality sub-categories should be able to be applied to all Categories, not just Residential.

Mixed-use apportionment factors should be able to be applied to all rating Categories. This will capture Farmland also operating as a business eg Windfarms, Winery Accommodation, Bed and Breakfast establishments.

An additional rating category for apartments makes sense in addressing the inequity in the spread of rates to those types of properties. This would tie in with the suggestion in point 2 regarding the use of CIV for these property types.

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

Special Rates for industry types should be introduced. eg – Tourism Levy/Bed Tax – SMRC have a high proportion of Tourism businesses. These attract a large number of visitors

however the rates for these businesses are not reflective of the burden they place on council resources. Consequently ratepayers are left to fund the increased level of services required for the visitors although they gain no direct benefit. The introduction of a modest “Bed Tax” would redistribute the burden from the ratepayer. SMRC have modelled that the introduction of a bed tax of \$1 per person per night would raise approximately \$2.5M annually.

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?

SMRC supports the removal of Rate Pegging arrangements. With the introduction of IPR, including 10 year LTFFP, Councils are able to estimate both funding requirements and the community’s willingness to pay.

If Rate pegging remains:

The catch up provisions should be expanded to include allowance for a catch up where the full rate peg is not taken in preceding years. A time limit of 5 years could be applied to this.

The time limit of 7 years for special variation of general income should be removed.

Special Levies introduced to fund the actual cost of specific services, eg Infrastructure, should be exempt from rate pegging provisions.

Councils should be mandated to conduct a review of the current rates path and make a decision regarding long term financial stability in the first year of their term as part of the IP&R review. This should also include a detailed service level review.

Based on this review a decision should be made as to the need for a SRV over the next four year period and an application made where necessary. There would be a single SRV decision and process each Council term saving on the need to consider it year after year. It would also reduce the annual burden on IPART in having to assess and approve applications.

Given the government’s focus on all councils achieving a break even financial result councils who elect not to seek a SRV that are not projecting an operating profit must explain why they have not increased rates or reduced services to achieve long term financial sustainability.

Smaller annual SRV’s should be subject to less rigour than larger ones. Exactly what that number is still needs to be determined and should take into account the overall impact on a community. There was some discussion about this in the Independent Local Government Review Panel report and suggestions of somewhere between 3% and 5% above the rate peg be allowed with a more streamlined process.

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

The Issues Paper is Sydney focused only and not applicable to us as a Rural Council.

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

At present debt collection is inhibited as the amount overdue after any instalment due date is referred to debt collection. Section 562 of the Local Government Act, 1993, allows payments to be made in full or by instalments with the first due by 31 August. In practice, and from advice from OLG, debt recovery is only taken on the amount outstanding and does not take into account the amounts owed for the further three instalments, even where the ratepayer has not paid the first instalment by 31 August and where they invariably have debts relating to previous years. The Act should be clarified ensure that where ratepayers owe rates from previous years, Council can enforce debt recovery for the full amount of the current years rates where the first instalment is not paid and no payment arrangement has been entered into or maintained.

For sale of land for unpaid rates, amend Section 713 (b) of the Local Government Act, 1993, to reduce the number of years for sale of land from five to three years. This will assist Council with those reoccurring offenders who consistently have arrears and pay within the 5 year period which prevent the sale of land.

SMRC actively pursues all arrears on rates above the amount of \$500. We have a responsibility to ensure that rates and charges are paid to assist in our revenue flow. To increase the minimum recovery amount to \$2,000 impacts on Council significantly. The debt on approximately 50% of the properties within the shire, would accumulate over a two years period prior to any debt recovery action commencing. More information needs to be captured wherever possible especially through the notice of sale process. i.e contact numbers for new owners.

We believe the current system is fine as it is. Local courts are sometimes the only thing that will ensure a resolution to recover outstanding rates. Every effort is made not to get to this stage but it is the only option in some cases. Perhaps a legislated minimum amount of \$500 before it can be sent to court and a higher penalty interest rate might reduce the amount of claims that actually go to court.

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?

Exemptions should be removed for all Business or Commercial activities, irrespective of the Land Owner.

SMRC specifically proposes that the Rating legislation is changed to exclude exemptions for land controlled by government authorities that is used for commercial activities eg National Parks Ski Fields and Forestry. National Parks in the SMRC LGA attract large numbers of visitors however the land used for commercial activities do not attract rates. Consequently ratepayers are left to fund the increased level of services required for the visitors although

they gain no direct benefit. Rating of National Parks for these purposes would provide equity to the community. In the case of ski fields crown land is leased. This is contradictory to other parts of the Act which allow for rating of Leased Crown Land. *Section 555 (a) of the Local Government Act, 1993 states, "What land is exempt from all rates? land owned by the Crown, not being land held under a lease for private purposes"*.

Any additional Rates levied as a result of the above proposed change should be added to the Councils' permissible income. This would in turn reduce future burden on existing ratepayers as this increase in revenue could be used to fund the infrastructure gap, thus reducing the need for special rate variation. It is estimated that rating of land used for commercial activities in Kosciuszko National Park at current business rates would raise approximately an additional \$2M per annum.

Example of costs in relation to ski resorts;

Properties within the National Parks which are used for private purposes are charged an annual fee and in some cases a body corporate fee (as per www.fsre.com.au – properties for sale)

Sale Price \$399,000 – Description – 1 Bedroom + 1 Loft - Body Corporate Fee \$5,081 Bed Licensing - \$6,418

Sale Price \$519,000 – Description – 1 Bedroom + 2 Loft + 1 Car – Body Corporate Fee \$6,579 – Bed Licensing - \$2,600

Sale Price - \$839,000 – Description – 2 Bedroom + 2 Bathroom + 1 Car – Body Corporate Fee \$5,600 – Bed Licensing \$6,400

Thredbo Village has approximately 4350 bed with 740 separate premises. Annually the village attracts approximately 1 million visitors.

At present, National Parks in the SMRC LGA provide their own municipal services (Waste, Water, Sewer). SMRC proposes that these services should be provided by the Council. This would ensure a consistent standard of service.

Currently the waste from;

Thredbo is being transported and disposed of at the Cooma landfill station

Perisher is being disposed at SMRC landfill station

SMRC is happy to volunteer to be a case study when reviewing the impact of tourism on the local council and its services.

Current exemptions for Schools and Churches are also seeing these organisations gaining exemptions for non-core functions, in particular for housing. If the exemption is to remain it should be specific to provision of education or place of worship. All residential property containing a dwelling should be rateable, regardless of ownership, as all such properties utilise Council services.

If subsidies remain they should be in the form of a rebate rather than exemptions with State Government funding all or a proportion of the rebate.

A review of all exemptions that both state government and local government get should be undertaken to see how much benefit each party (local government and state government) actually gets. The aim would be to remove as many exemptions as possible, if not all,

without significant financial impact on either party. It is noted that while the goal would be neutrality at an industry level, there could be some adverse impacts at a Council level.

Local government should not have to fund any state government policy decisions. Eg conservation agreements. It is acknowledged that both the NSW State government and Local Government currently benefits from the exemptions.

Exemptions should not be allowed to be granted at a local level and should only be State wide if at all. This means that organisations operating in multiple local government areas are treated consistently when it comes to rates.

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?

Exemptions for Councils relating to Payroll Tax should remain for non-business activities. This is seen to be equitable as there is no competitive neutrality issues associated with the exemption.

Councils fund State and Federal Government Policies through Rating Exemptions and Rebates.

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

The Pensioner Concession has been fixed at a maximum of \$250 per annum for a considerable number of years. SMRC proposes that this is increased annually in line with CPI.

State imposed concessions, such as Pensioner Concession, should be fully funded to the level determined by State Government. Councils should then have the option of an additional Pensioner Rebate.

In areas with high pensioner population, Councils are currently double whacked with funding 45% Pensioner Rebate and well as being limited on rates able to be raised as ratepayers ability to pay is reduced.

SMRC is opposed to amending the Act to make mandatory the deferral of payment of rates and charges for pensioners due to the impact this will have on our revenue. If the Act is to refer to this, Councils preference in wording would be "may".

Local government should not have to foot the bill for these concessions as is the case in other states. This is a state and federal responsibility not local government.

Freezing existing rate paths for newly merged councils

13 We have interpreted the rate path freeze policy to mean that in the 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?

This interpretation of Rate Path Freeze benefits SMRC Ratepayers initially, however will result in a steep correction after Year 4. This is a result of SMRC Rates being lower than our

potential merger partners. If this interpretation is applied it is likely that SMRC Ratepayers will incur a steep hike in Year 5.

In order for the Merged Council to act as one it is imperative to allow for Rates Harmonisation as soon as possible. Until Rates are harmonised there may still be a multiple Council mindset held by both the Community and Councillors. To this end, SMRC proposes that Rate Path Freeze be interpreted to mean that the combined Merged Council General Income is subject to rate peg freeze. A maximum annual increase of rate in dollar per Rating Category could be applied in order to minimise the impact to any group of ratepayers in any particular year. This would ensure a smooth transition by year four. This would also allow for changes in percentage of Rating Category Land Values.

2015 Average Rate in \$	Farmland	Residential	Business	Total	
SMRC	0.52051	0.67451	0.99092	0.66271	
Cooma	0.50338	0.90498	2.06386	0.83666	26%
Bombala	0.60755	1.41436	1.99850	0.77297	17%
Total	0.53810	0.81345	1.44521	0.75138	13%

Our concern is not so much about the interpretation but rather that a freeze is being implemented at all. As a Council subject to a merger proposal we will be directly impacted by this policy. Based on a report completed by KPMG to look at the benefits of a merger it was forecast that the merged entity would still be faced with an \$8.5M operating deficit in the 2023/24 financial year. This factored in the possible benefits that could be achieved through a merger. As such it will be necessary for the organisation to increase rates above rate pegging. Obviously service levels will need to be reviewed as well and there may be some cost savings possible but rate increase will be needed.

Not being able to commence this for four years will delay a return to surplus for the organisation and possibly subject rate payers to higher increases over a shorter period. Given one of the government's goals was the financial sustainability of the local government sector it does not make sense for further delays in the ability to achieve this.

The rate freeze in relation to rating burden across the categories will also delay the process of rates equalisation and possibly even service equalisation. We already know the merger will create a level of concern in the community and not being able to address equalisation of rates and services will only prolong this.

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?

It is envisaged that within the first year of a Merged Council a new Community Strategic Plan will be developed. The Community will inform Council of the level of service

required and their desire to pay for such. A major component of this is likely to relate to decreasing the infrastructure gap. By allowing for Special Variations to fund infrastructure projects this gives voice to the Community in a timely manner. A four year deferral of a Special Rate to fund infrastructure will also increase the costs required, thus placing an extra burden on ratepayers.

Any Crown Land added to the rating base should be taken into account in determining Permissible Income.

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

If through the IPR process the community identifies a specific need then Special Variations should be allowed. This will cover increased service levels and assist in eliminating discrepancies in service levels within merged councils created as a result of variances in services levels of pre-merged Councils.

Where a merged entity is operating with a significant operating deficit that cannot be solved by efficiency gains or service delivery changes.

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

If Councils are able to apply for Special Variations this should also extend to Minimums.

Councils should still be allowed to maintain the current rating burden across categories by changing base amounts and minimum amounts as necessary. By not doing this it could lead to a requirement for big adjustments to some rate payers when any freeze is lifted.

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)?

The above options should be at the discretion of the merged Council.

Currently SMRC uses Land Value as a measure of Ability to Pay. This is then averaged with Service benefit. It is important that relative changes in the total land value of a rating category against other categories within the pre-merger council area be taken into account in order to preserve this methodology.

Applying the Rate peg increase to the total permissible income of a pre-merged council gives greater flexibility.

SMRC is opposed to the fixed share method as applied to specific rating categories as it doesn't take into account changes in rating categories over time.

If the freeze is to be implemented we believe it should only apply to applications for SRV's and that Councils should be able to commence a process of rates equalisation across the rating categories of the new entity.

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?

This should be at Councils discretion.

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

Councils should be able to commence rate harmonisation from Year Two of the merger. Increases should be subject to a maximum percentage increase per rating category per annum.

Enforcing a four year Rate Path Freeze is an administrative nightmare when Councils are looking at consolidating their rating software systems. It also brings into question when LPI will merge the supplementary rating notifications and the impacts this will have on calculation of the Rate Path Freeze in the first four years.

Enforcing a Rate Path Freeze for four years impacts upon harmonisation of service levels across the merged council. It is unreasonable for some ratepayers to be more or less rates for a similar services that cannot be recovered through User Charges.

A four year Rate Path Freeze may inhibits the implementation Fit For The Future initiatives thus putting the financial sustainability of the merged Council into question or at the very least delaying their ability to achieve the benchmark targets.

Councils should be allowed to continue to change the burden between categories where there is a demonstrated pattern of change over previous years and that they have resolved to continue doing this.

20 We considered several options for implementing the rate path 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 options to implement the rate path freeze policy?

If this does proceed the Minister should only be given powers to enable this freeze and not on an ongoing basis. There is already control on the level of Council rates through rate pegging and as such no need to add any further powers to restrict the ability of local government to increase rates.

The most time effective and flexible method should be utilised.

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 shown above in Question 13, SMRC ratepayers currently pay less in most rating categories than our potential merger partners. If a four year rate freeze were to apply, it would be unreasonable to change rates in one year. This would then have the unintended impact of further delaying harmonisation of rating.

2015 Average Rate in \$	Farmland	Residential	Business	Total	
SMRC	0.52051	0.67451	0.99092	0.66271	
Cooma	0.50338	0.90498	2.06386	0.83666	26%
Bombala	0.60755	1.41436	1.99850	0.77297	17%
Total	0.53810	0.81345	1.44521	0.75138	13%

The requirement to set the same residential rate within a centre of population should be removed as this would give flexibility for Councils to structure rates according to their Community's needs. This recognises that not all Councils are the same.

- 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?

It is imperative that special variations for pre-merger councils be included in the revenue base of the merged council following the 4-year rate path freeze in order to provide continuing financial sustainability of the merged Council.

We believe that the revenue base should include any already approved SRV amounts. Generally rate payers have already factored the increased rates into their household budgets and to not allow them would possibly mean a higher SRV than would otherwise be necessary. This could force the new entity into having to resell something that was already agreed to by the community.

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

If the 4 year rate path freeze is strictly applied, Councils should be given a period of time in which to harmonise rates in order to minimise impacts on ratepayers.