

29 August 2008

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Dr Michael Keating AC  
Chairman  
Independent Pricing and Regulatory Tribunal (IPART)

## **Submission to the Review of the Revenue Framework for Local Government**

Dear Dr Keating

I would like to submit National Seniors Australia's comments to the Department of Local Government and IPART's review of the Revenue Framework for Local Government.

National Seniors's comments relate to the social-economic impacts of rates and charges and to the differences between metropolitan, regional and rural councils.

### ***The socio-economic impacts of rates and charges, including the ability of families and pensioners to meet their rate obligations***

The modest standard of retirement living as developed and maintained by Westpac and the Association of Superannuation Funds of Australia (ASFA) requires a retirement income of \$18,500 p.a. for singles and \$25,500 p.a. for couples.

In contrast, the pension is currently just over \$14,000 p.a. for singles and just under \$24,000 p.a. for couples. The pension, therefore, particularly for singles (on a full rate pension), provides a subsistence income, if it is relied on as the sole income source.

With home ownership among Age Pensioners at around 85 per cent, there is no doubt that council rates almost universally are a major item in pensioners' budgets.

The pensioner rebate maxima for general, water and wastewater rates were set in 1993 at \$250 for general rates and \$87.50 each for water and for wastewater rates. The rebates are funded on the basis of a 55/45 split between the NSW Government and individual councils. Back in 1993, these amounts were adequate. However, since then council general, water and wastewater rates and waste

management charges have gone up by 70 per cent or more and, as a result of non-indexation of the rebates, pensioners' rates have gone up by 115 per cent.

Comparative information published by the NSW Department of Local Government and information about total pensioner rebates paid from the Department's annual reports shows that the average general, water and wastewater rates and waste management charges across NSW were \$996 in 1994/1995. This number had increased to \$1,665 in 2005/2006, an increase of 67 per cent by end of June 2006. Information for the subsequent two years has not yet come to hand, but it will no doubt put the increase at a level in excess of 70 per cent.

The increase in the order of 70 per cent is in itself not unusual, although it is in excess of CPI increases during that period (39 per cent) and increases in the Male Total Average Weekly Earnings (62 per cent), both used in pension indexation.

In 1994/1995, a single pensioner spent 6.5 per cent of their budget on rates, but in 2005/2006 this had gone up to 8.7 per cent, i.e. by more than 2 per cent.

In 1994/1995, a pensioner couple spent 3.9 per cent of their budget on rates, but in 2005/2006 this had gone up to 5.2 per cent, i.e. by more than 1 per cent.

Given that full rate pensioner budgets are extremely tight with little or no room for discretionary spending, particularly in later retirement, it is obvious that pensioners are forced to cut spending on other essentials (food, mostly) to pay their council rates.

Predictably, the Local Government Act 1993, which set the maximum rebates as absolute amounts, has progressively facilitated price gouging of a very vulnerable group of people and will continue to do so unless amended.

Average council rates	General rates and waste charges	Water and sewerage rates	Total Rates and waste charges	% increase total bill	Total pensioner bill	% increase total pensioner bill	% of single pensioner budget	% of pensioner couple budget
1994/95	\$632	\$364	\$996	-	\$571	-	6.5%	3.9%
2005/06	\$915	\$740	\$1,655	67%	\$1,230	115%	8.7%	5.1%

#### ***Differences between metropolitan, regional and rural councils***

From a pensioner perspective, councils located in Sydney Water Corporation's area of operations offer a better deal by default. Sydney Water Corporation has been able to negotiate an almost full reimbursement by the NSW Government for its water and wastewater pensioner rebate. The result is

that Sydney pensioners spend a significantly lower proportion of their budget on council rates and water and sewerage service charges than do their counterparts elsewhere in the state.

The Hunter Water Corporation, although operating in a similar regulatory environment, has not seen fit or has not been able to negotiate a water and sewerage rebate for pensioners in excess of \$175, although the Corporation does waive its annual environmental charge for pensioners. Councils in Hunter Water's area of operation therefore offer their pensioners no better deal.

A Sydney pensioner does not pay water service charges (currently \$75.70 p.a.) and pays only \$76.85, or 16 per cent) of sewerage service charges. This represents a combined and automatically indexed rebate currently worth \$479 p.a., considerably more than the paltry \$175 p.a. offered by councils and Hunter Water Corporation.

Average council rates 2005/06	Current Sydney Water service charges	Total Sydney bill	Council rate rebate	Sydney Water rebate	Total Sydney pensioner bill	% of single pensioner budget	% of pensioner couple budget
\$915	\$556	\$1,471	\$250	\$479	\$742	5.2%	3.1%

It is clear that there is a significant inequity in granting only part of a group of people eligible for general, water and wastewater rebates indexed water and wastewater rebates that are considerably higher and grant them these higher rebates based on where they live.

The differences between councils are stark, with pensioners served by Local Water Utilities (LWUs) paying more than seven times what Sydney pensioners pay in service charges. It is noted here that some LWUs have based their water rebate on usage. In other words, pensioners who save water may not receive the full water rebate.

Annual service charges	Sydney	Gosford	Wyong	Newcastle Hunter	Other councils (2005/06 average)
Total water and wastewater	\$556.01	\$487.88	\$524.83	\$362.63	\$740.00
Pensioner rebate	\$479.16	\$175.00	\$175.00	\$175.00	\$175.00
Pensioners' annual service charges	\$76.85	\$312.88	\$349.83	\$187.63	\$565.00

### ***Recommendations***

Australian pensioners have peculiar retirement funding arrangements. On the one hand, they receive a pension that is painstakingly indexed. On the other hand, they receive concessions which are erratically indexed or not indexed at all.

It leads to a situation where the Australian Prime Minister recently staunchly defended the administration of the pension, ignoring the fact that so many of the concessions (administered expressly for the benefit of pensioners and of just as much importance to them and their standard of living as that perfectly administered, federally paid pension) are, in fact, in a state of maladministration.

The council rate pensioner rebates are a case in point. None of these rebates is indexed, except in the greater Sydney area, where two out of the three are indexed. It really is a matter of overall and of geographical inequity.

The rationale for pensioner rebates is that they ensure a pensioner can continue to afford specific goods or services to which the rebate is tied. It stands to reason that, first, the rebate needs to be increased if the price of those goods and services go up and, second, that the rebate increase must be proportional to the price increase to ensure the value of the rebate in real terms is not reduced and, third, that the rebate is granted equally to all those who are eligible.

Council rate rebates in New South Wales fail spectacularly on all three counts.

National Seniors makes the following recommendations:

1. That the Local Government Act 1993 be amended to set mandatory pensioner council rebates as percentages of the council rates;
2. That these percentages be set at a level to reflect the value-in-real-terms of the rebates as they were set in 1993.

Yours sincerely

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