

SENATE COMMUNITY AFFAIRS COMMITTEE
INQUIRY INTO THE COST OF LIVING PRESSURES ON
OLDER AUSTRALIANS

Submission by the Palm Beach and Whale Beach Association Inc

19 July 2007

This submission is in response to the invitation by the Senate Community Affairs Committee in relation to the Inquiry into the Cost of Living Pressures on Older Australians. It was prepared by David James and Peter Cowper (both long-term residents of Whale Beach) following a request by the Palm Beach and Whale Beach Association. Details of the Association are provided in an attached document.

In the Terms of Reference for the Inquiry, various specific cost pressures affecting pensioners and self-funded retirees are noted under items (a) (i), (ii) and (iii). However, these do not appear to exclude submissions relating to other sources of cost pressures. It is also noted that item (e) of the Terms of Reference calls for a review of the impacts of government policies and assistance introduced across all portfolio areas over the past 10 years which have had an impact on the cost of living for older Australians.

The Palm Beach and Whale Beach Association considers that both of these provisions in the Terms of Reference create a basis for making a submission to the Committee on an issue that has already adversely affected - and threatens to affect even further – the cost of living for many pensioners and self-funded retirees in NSW: namely, the practices of various Local Governments in NSW in setting residential property rates to cover the cost of council services under the *NSW Local Government Act 1993*.

The Association notes that this issue is one that can affect older Australians throughout the entire State of NSW, mainly in coastal regions but also in certain types of rural areas (eg where there has been a separation of land and water use titles). The circumstances in other States is not known and is considered to be beyond the scope of the present submission.

Under the provisions of the *Local Government Act*, the basis for rate-setting is the value of land occupied by residents, as determined by the Valuer-General of NSW. Councils are required by State Government to restrict the annual increase in total rate revenue, typically geared to increases in the CPI, and currently in the order of 3.5%

However, Councils do have the power, within various limits, to adopt alternative approaches to the determination of residential rates. This includes the prospect of charging a base rate (shared equally by all ratepayers) of up to 50% of the total revenue raised, to a system under which rates are determined on an ad valorem basis based almost entirely on the relative value of land. Any combination of a base rate between zero and 50% and an ad valorem rate is allowable, at the Council's discretion.

In recent years - especially along the NSW coast but also for sites with attributes that are actively sought in the market-place for residential property – some extraordinary increases have taken place in property values. There are various reasons for this, including the “sea-change” phenomenon, but the causes will not be further analysed here. The main upshot is that local councils have been faced with significant difficulties in determining rate structures that fairly distribute the burden among all members of their respective communities, while adequately covering the cost of council services.

Unfortunately, in Local Government Areas where councils have decided to lean heavily on the ad valorem approach to rate setting, the large differentials in property values that have emerged in recent years – through no fault or intent of their owners - have resulted in severe distortions in rating systems, resulting in grossly unfair burdens being placed on individual property owners who are lucky(?) or indeed unfortunate enough to have established their homes in locations that are now highly valued in the market place.

What has occurred in such situations is that owners of highly valued property are being forced by Councils to heavily cross-subsidise other residents within the same Local Government Area.

Instances can be cited (eg Pittwater Shire) where rates on individual properties have increased by more than 50% in one year; where some property owners are paying three or four times the average rate charged to residents generally by Council; and where 10% of property owners are responsible for more than 30% of the total rates revenue raised. The rates charged by Council to such property owners bear no relation to the owner’s ability to pay or to the value of council services individually provided. It defies all notions of logic and fairness as a means of covering the cost of council services that, if some buyers of property pay what might be considered ridiculously high prices for properties with water access or views, all residents in similar locations must expect to face higher council rates while others actually enjoy a reduction.

In many cases, the worst affected are older Australians who purchased their homes many years ago, raised their families within the area and expected to enjoy the last years of their life in the homes that they established. With restricted incomes, their only options are to incur a significant reduction in their standard of living, reverse-mortgage their homes to supplement their income stream or sell their home and move to another location. Under the provisions of the *Local Government Act*, rate relief can apparently be given by Councils, by way of a pensioner concession. However, it would appear that in NSW the concession is only \$250 – hardly adequate if Council rates are in the order of several thousands of dollars per year.

It is also possible, in cases of hardship, for a property owner to enter into an “arrangement” with Council to defer the payment of rates. Typically, this involves incurring an increasing debt accumulating at compound interest, with the ultimate payment being made to Council if the property is sold by the owner or sold from a deceased estate.

Whether there might be sufficient home equity remaining for an older Australian in this situation to cover the cost of aged-care facilities and services in the last years of

life is a matter of some concern. In extreme cases, it is not inconceivable that such arrangements could see aged persons facing a situation of negative equity, should they need to liquidate their home to provide for aged-care retirement.

The circumstances relating to rates charged by Pittwater Shire for residents of Palm Beach and Whale Beach (and indeed for many residents in other areas of the Shire where property values have escalated enormously) provide a well-documented example of the difficulties involved, and the need for corrective action. It is reasonable to conclude that similar circumstances occur more generally up and down the entire NSW coast.

Pittwater Council recently notified residents of the difficulties that it anticipated in setting rates, due to some extreme variations in the percentage increases in property values resulting from the latest valuations determined by the Valuer General. Well-prepared information was made available to the public by Council, indicating the rate burdens that would result from three different rate-setting options: the existing system, which is essentially an ad valorem approach; a 25% base; and a 50% base. The inequities of the ad valorem approach were clearly evident under the ad valorem approach.

Council invited public submissions on this issue. The submission made by the Palm Beach and Whale Beach Association to Pittwater Council is attached, as well as a submission on behalf of a group of residents of Whale Beach, also attached. The two submissions are self-explanatory and will not be discussed further here. Details of other submissions to Council remain unknown.

It is important to note that, in its meeting in June, Council decided almost overwhelmingly to stay with the existing ad valorem system. The latest rate notices are now being distributed, and they indicate that some residents will be obliged to pay increases in their rates in the order of 50% as a result of this decision. Others may be even more adversely affected, while many others will enjoy the benefits of the resulting cross-subsidisation of the rates burden.

Representations have been made to the Local Government Association of NSW pointing out the inequities of the present system encouraged by the *Local Government Act*, but no response has yet been received.

In summary, the Palm Beach and Whale Beach Association considers that the issue of rate-setting in NSW is a matter of serious concern in terms of existing and potential adverse impacts on large numbers of aged persons in NSW. Any actions or recommendations that the Committee may provide to address this problem would be greatly welcomed by many members of the community.