

29 October 2019

Dr Kathy Alexander
Chair, Ministerial Panel for the Victorian
Local Government Rating System Review

Online submission

Dear Dr Alexander

Thank you for the opportunity to provide feedback on the Local Government Rating System Review.

The City of Boroondara is highly dependent on rate revenue which comprises 63.5% of Council's total budgeted 2019-20 income. Council believes a rating system should provide Local Government with a sustainable revenue base as well as deliver equity and fairness for ratepayers. Officers have reviewed the material released by the panel conducting the Review in the preparation of this submission.

While we support the focus in the discussion paper released on taxation principles of efficiency and equity, we strongly believe the Panel's review should place greater emphasis on reviewing the sustainability of the current rating system. The State Government's decision to exclude rate capping and inter-governmental funding from the scope of this review means serious questions regarding the funding and financial sustainability of Victorian Local Governments will not be addressed. This represents a serious gap in the scope of your panel's review and Council encourages your panel to note this limitation in your closing report and urge the State Government to conduct a thorough review of Local Government Financial Sustainability.

We would also encourage the panel to take note of the broader context of Local Government budgeting and financial management during the conduct of this review.

By way of example, the Municipal Association of Victoria (MAV) has published material noting State Government property taxes in Victoria increased by 114% over the 2010-11 to 2017-18 period compared to 52% growth in local government rates. Similarly, the growth in State Government property tax revenue since 2015-16 (when rate capping commenced) of 33% far outstrips the growth in local government rates of 9%.

Property values are used for taxation and rating in different ways by State and Local Government. When property values increase, as they generally do over time, the State Government receives higher revenue as the same tax rate is applied to the higher property value in determining the tax paid. Land Tax and Stamp Duty on property transfers are examples of this, and these have contributed to the increase in State Government property tax revenue noted above. For Local Government however, property values are simply used to determine how rate income is distributed across ratepayers. Higher property values do not lead to higher rate revenue for Council.

Councils prepare draft annual Budgets which are released to their communities who are given a month to review and provide feedback. Community members are invited to attend a Council meeting and make a submission on the draft Budget. Every member of our community who provides feedback on Council's draft Budget receives a response. This level of transparency and community input is not mirrored by the State Government.

The attached submission highlights the following key matters:

a) As all properties benefit from the services and infrastructure provided and maintained by Local Government, taxation principles of equity and fairness would be best upheld by a rating system which starts from the principle all land is rateable. This would include land owned and controlled by State and Commonwealth Governments and their agencies. Individual Councils could then apply differential rating to further any local policy aims and desired community outcomes. Such an approach would also better reflect the fairness principle of matching consumption of Council services and infrastructure to financial contribution.

b) After considering the base principle noted above along with principles of benefit and capacity to pay, Council supports the retention of rating exemptions for:

- Places of religious worship and gathering.
- Places where charitable organisations provide direct care, aid and welfare assistance.

Council does not support the retention of rating exemptions for:

- Commonwealth and State Government land.
- Commercial scale operations run by charitable organisations.
- Private schools and universities.

c) The current wording of the *Cultural and Recreational Lands Act 1963* which requires Council to determine a charge having 'had regard to' services provided and 'community benefit derived' is difficult for Councils to interpret and apply on a consistent basis. Councils would benefit from revocation of the CRLA and the inclusion of these lands within the general rating system.

d) Council's application of an 'early payment discount' provides an additional payment option to ratepayers and has also been successful in smoothing out Council's annual cash-flow cycle. Council strongly considers the ability to allow early payments with a discount should continue to apply.

e) Council currently levies a Waste Service Charge to fully recover the costs associated with waste and litter services. Recent experience has shown these costs have increased by more than CPI, due to the wider recycling issues and the cost of efforts to reduce waste to landfill. Council believes the cost recovery principle for this service is appropriate and strongly advocates for the setting of Waste Charges to recover costs associated with waste and litter management continue to remain outside the State Government's Rate Cap.

There are some comments within the Discussion Paper which appear to confuse the relationship between property values and rates. On page 13, the comment is made:

"Property values fluctuate over time, especially in the short term, but this does not result in volatility in rates".

While this is true for rate income as a whole, it is not correct for individual property rates which can vary significantly each year due to the movement in the individual property value relative to the movement in property values for the City as a whole. Following the State Government's introduction of annual property valuations, individual ratepayers may now in fact experience greater annual volatility in their individual rate bill compared to the previous two yearly revaluation cycle.



The Discussion Paper also goes on to suggest increases in property values provide “a reliable and predictable revenue base for Councils”. This comment seems to misunderstand the role of property values in the current rating system. As noted earlier, property values are simply used to apportion the total rates raised by Council. The movement of property values up or down has no impact on total rate revenue. The actual total rate revenue to be raised is determined by Council’s budgeting processes operating within constraints imposed by the legislative rate cap.

Council officers have also reviewed the discussion paper released by your panel and commentary is provided in the attached table on questions posed within the Discussion Paper.

Should Panel members require any clarification on matters raised above and within the attached table Mr Chris Hurley, Manager Commercial and Property Services, can be contacted on 9278 4320.

Yours sincerely



Cr Jane Addis
MAYOR



Local Government Rating System Review - City of Boroondara

	Consultation question	Council Response
1.	What types of properties should receive rating exemptions? Why would this be fair?	<p>The current exemptions include:</p> <ul style="list-style-type: none"> • State and Commonwealth Land (Crown Land) where it is either unoccupied or it is used exclusively for public or municipal purposes. • Crown land leased to a rail transport operator. • Land used exclusively for charitable purposes. • Land used as a residence for ministers of religion. • Mines. • Returned Services League (RSL) Clubs. <p>All properties benefit from services and physical infrastructure provided and maintained by Council including but not limited to urban planning, economic development, local and amenity laws, roads, drains, footpaths, traffic treatments, street trees and car parks.</p> <p>As a base principle, taxation principles of fairness and equity suggest those who consume Council's services and infrastructure should make a contribution to the cost of providing these services and infrastructure. Any change to the number or type of rate-exempt properties would not change Council's total rate revenue. Rather, it would impact on how the total rate amount is allocated across properties within the municipality. It is recognised any removal of rate exemptions from properties that are currently exempt may have a flow on impact in those land owners seeking to pass the rate costs on to their customers or user base. The 'downstream' impact of any changes to the current exemptions would therefore need to be considered.</p>

Local Government Rating System Review - City of Boroondara

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		<p><u>Example within Boroondara</u></p> <p>Private school and university land is currently exempt from rates as they have been held by the Courts to fall within the definition of 'charitable purposes'.</p> <p>There are 69 rate exempt Private School properties representing 30 private schools in Boroondara. These properties have a Capital improved value (CIV) of \$969,430,000. Using Boroondara's 2019-20 uniform rate in the dollar these properties are exempted an amount of \$1,361,236 each year in general rates. This is the equivalent of 0.94% of the general rate for all residential properties in the municipality.</p> <p>There are seven exempt properties owned by Universities in the municipality with a CIV of \$204,755,000. Using Boroondara's 2019-20 uniform rate in the dollar these properties are exempted an amount of \$287,509 each year in general rates which is the equivalent of 0.20% of residential rates.</p> <p>If the above schools and universities were to pay rates, the rating liability for current ratepayers would be reduced on average by \$21.22 per annum (based on Council's 2019-20 Budget).</p> <p>These properties benefit from Council services and infrastructure including urban planning, local and amenity laws, roads, drains, footpaths, traffic treatments, street trees, car parks and the provision of school crossing supervisors.</p>

Local Government Rating System Review - City of Boroondara

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		<p>Their activities also contribute to Council incurring costs to provide these services and infrastructure assets as the volume of vehicle and pedestrian activity is often very high in a school precinct.</p> <p>Considering the above factors, a key argument for private school and university land not being rate exempt is the benefit these properties (as with others that are rateable) receive from Council services and infrastructure.</p> <p>Arguments made for these properties continuing to be non-rateable include the social and educational benefits that the functions undertaken on these properties provide to the community. In a Boroondara context, it is also noted many students attending these schools come from outside the municipality. Similar arguments for and against apply to other property classes that are currently exempt from rates.</p> <p><u>Consideration of rate exemptions</u></p> <p>Consideration of whether rate exemptions should apply can be undertaken by considering the 'benefit' and 'capacity to pay' principles, and weighing up the arguments for and against rates applying.</p> <p>Regarding the benefit principle, relevant considerations are the benefits the property owners receive from local government services, costs local governments incur due to the activities within these properties, and the extent to which the property's activities benefit the community either within the municipality or more broadly.</p>

Local Government Rating System Review - City of Boroondara

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		<p>Capacity to pay considers whether the property owners have financial capacity to pay rates, for example through commercial activities, and whether paying rates would restrict their ability to provide broader community services. Taxation principles of equity and fairness would be upheld by a rating system which starts from the principle all land is rateable. This would include land owned and controlled by State and Commonwealth Governments and their agencies. Individual Councils could then apply differential rating to further any local policy aims and desired community outcomes. Such an approach would reflect the fairness principle by matching consumption of Council services and infrastructure to financial contribution.</p> <p>Council supports the retention of rating exemptions for:</p> <ul style="list-style-type: none"> • Places of religious worship and gathering. • Places where charitable organisations provide direct care, aid and welfare assistance. <p>Council does not support the retention of rating exemptions for:</p> <ul style="list-style-type: none"> • Commonwealth and State Government land. • Commercial scale operations run by charitable organisations. • Private schools and universities.
2.	Does your council report on rate exemptions granted, and/or their estimated value?	No.
3.	Should councils be required to report on rates exemptions? Why?	Such a requirement would provide transparency as to the aggregate value of the “subsidy” these entities are effectively receiving from the broader ratepayer base.

Local Government Rating System Review - City of Boroondara

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4.	How does your council allocate differential rates? Why?	Council does not declare any differential rates. Uniform rate declared for all property types.
5.	What types of properties should pay more through differential rates? Why?	Council has a uniform rate. Council considers a uniform rate more directly achieves the desirable principles of equity, fairness and transparency when applied as a property based tax in the Boroondara context. In some situations Councils may choose to apply differential rating to achieve local policy aims. This flexibility should be preserved. For example, should Council see a need to introduce a levy on vacant land or vacant properties, differential rating provisions should exist to accommodate this need.
6.	What types of properties should receive rates waivers? Why?	Where financial hardship exists, Council provides the option in cases of demonstrated financial hardship for ratepayers to enter into arrangements or defer rates until the property is sold. These alternatives provide an option for individual ratepayers experiencing financial difficulty and are considered a more appropriate way of addressing capacity to pay issues than rate waivers.
7.	If councils provide rate discounts what criteria should apply?	<p>Council has applied an early payment discount for many years. The discount provides an additional payment option to ratepayers and has been successful in “smoothing” Council’s annual cash-flow cycle, enabling Council to avoid short term borrowing at “low cash” points in the annual cycle.</p> <p>Currently the early payment discount of 2% applies if all rates and charges are paid in full by 31 August.</p> <p>Council strongly considers the ability to allow early payments with a discount should continue to apply.</p>

Local Government Rating System Review - City of Boroondara

	Consultation question	Council Response
8.	Should cultural and recreational land and electricity generators have alternative rating arrangements? Why?	<p>Council has no electricity generators in the municipality.</p> <p>Council does not believe cultural and recreational land should have alternative rating arrangements outside of the <i>Local Government Act 1989</i>. The provisions of the <i>Cultural and Recreational Lands Act 1963</i> are ambiguous and difficult to apply.</p> <p>The CRLA should be revoked. Properties deemed to be Cultural and Recreational lands should be rated under the provisions of the <i>Local Government Act 1989</i>.</p>
9.	Should property values determine rates? If not, then what should?	<p>Council believes property values are the most practical, simple and efficient method of distributing the rating liability. Relevant data is easily obtainable, usable and up to date. Using property values provides a consistent base with which to achieve taxation principles of fairness and equity.</p> <p>While the capital improved value (CIV) is believed to be a reasonable indicator of “capacity to pay”, Council recognises circumstances can arise where a ratepayer is “asset rich” but has limited cash flow. Council offers a number of options under its financial hardship policy to support such ratepayers.</p>
10.	What services should be funded by their users (in line with the user pays principle) rather than through general rates?	<p>Council believes the rating system should preserve the flexibility for a Council to levy a service charge to recover the costs of waste and litter refuse collection, disposal and management across the City.</p> <p>Council has an adopted Pricing Policy which seeks to achieve an appropriate balance between competing obligations of Community Service obligations, maintaining infrastructure and ensuring ratepayers are not unduly subsidising services used by some community members</p>

Local Government Rating System Review - City of Boroondara

	Consultation question	Council Response
		<p>with no broader public benefit. The Pricing Policy notes 5.7% of Council's income is raised through user fees and charges and 7.2% through statutory fines and charges.</p> <p>Council believes fees are appropriately charged where a participant attends an event or activity, uses a recreational facility, or derives singular personal benefit from an activity or application.</p>
11.	When should councils use special rates and charges? Why?	<p>A special rates and charges scheme may be appropriately applied where there is:</p> <ul style="list-style-type: none"> • A narrow, easily identifiable group of beneficiaries. • A specifically identifiable benefit to the group. • An identifiable group of financial contributors. <p>For example, Council raises special rates and charges to raise funds for promotional activities of incorporated Shopping Centre Associations. The funds are used by the Associations to promote the individual shopping strips.</p> <p>No other special rates and charges are used by Council.</p> <p>The current relevant provisions of the <i>Local Government Act 1989</i> would benefit from review and clarity. For example, the current provisions require calculation of 'Community benefit percentage'. Guidance and clarity on how to calculate this would be welcomed.</p>
12.	How does your council set charges for waste and other services?	Full cost recovery for waste collection and disposal. An element of user pays exists as Council offers different bin sizes with different bin charges.
13.	Does your council have a clear rating strategy?	Yes. Council adopted the rating strategy on 26 June 2017.

Local Government Rating System Review - City of Boroondara

	Consultation question	Council Response
14.	Should all councils apply consistent rating practices? Why/why not?	<p>Current practices include a base level of consistency as rates are calculated based on property value.</p> <p>Currently, flexibility exists for individual councils to apply differential rates to achieve certain policy aims. Given the variety of circumstances experienced across the 79 Councils, suggest the flexibility to raise differential rates be maintained to allow Councils to respond to local community needs and issues.</p>
15.	Does the Local Government Act 1989 (and other requirements) provide clear rules and guidance to councils to set and levy rates? What could be improved?	Council officers have not encountered any major difficulties administering the current legislative provisions.
16.	Does your rates notice have the information you want? If not, what would you like to see on your rates notice?	Council believes the current valuation and rate notice is comprehensive and informative. We are continually looking at the information provided on the rates notice itself, along with accompanying material, to ensure it is user-friendly and easy to understand.
17.	How convenient is it to receive your rates notice and make payments?	<p>While this is more a question for ratepayers, we note that Council provides the option for ratepayers to receive notices either in paper form or electronically.</p> <p>Council offers a variety of payment options as follows:</p> <ul style="list-style-type: none"> • Internet via Councils web page • Telephone and counter via Post Billpay • Direct debit • Mail (Locked box and Council) • BPay • In person at Council's customer service centres

Local Government Rating System Review - City of Boroondara

	Consultation question	Council Response
18.	Do you engage with your council in setting rates through the annual budget consultation? If so how easy/difficult is it to do? If not, why not?	We note this is a question for ratepayers to address in their responses to the discussion paper.