

1 November 2019

Local Government Rating System Review  
Ministerial Panel  
Level 35, 2 Lonsdale Street  
Melbourne VIC 3000



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Dear Sir/Madam

### **Victorian Chamber Submission to the Review of the Local Government Rating System**

The Victorian Chamber of Commerce and Industry welcomes the opportunity to contribute to the review of the local government rating system and identify changes that will improve the fairness and equity of local government rates, while supporting the financial sustainability of councils.

As Victoria's leading business organisation, we inform, service and support more than 15,000 members, customers and clients across the state, encompassing all industry sectors, spanning small, medium and large sized businesses. Our membership also includes a sizeable share of Victoria's 79 local councils.

Our submission has been informed by consultation with Victorian Chamber business operators and local government members located in both metropolitan and regional Victoria.

At the outset we wish to indicate that local government services and infrastructure are essential to supporting healthy and resilient businesses and communities in Victoria. These services need to be paid for and we recognise the important role municipal rates and charges play as the primary revenue source for all Victorian councils.

However, as the review discussion paper notes, the fundamentals of the current rating arrangements have not substantially changed in over a century. The current review therefore provides a timely opportunity to critically assess both the foundation and operation of the rating system.

In our view, the objective of the review must be to ensure the rating system provides a sustainable funding base for Victorian local governments that is consistent with a competitive business environment, encouraging investment and job creation.

#### **Local Government Budget and rate setting processes**

One of the features of the Victorian ratings system is the annual practice by which councils first determine their budget and spending and use this to set their municipal rates and charges. This is the reverse of most businesses and households who determine their budget and spending based on actual or projected income.

While this practice ensures local governments can raise the necessary revenue needed to deliver services and infrastructure, it risks reducing the incentive to reduce costs and pursue continuous productivity and efficiency improvements.

The Chamber notes that Victorian Councils are already subject to revenue raising constraints and encourages continued efforts by councils to publish and consult on rating or income strategies. We also support the adoption of longer-term budgeting by all councils. This suggestion is consistent with reforms proposed under the *Local Government Bill 2019* which will require councils to integrate strategic planning and reporting and adopt a long-term approach, comprising a four-year Council Plan, a four-year Council Budget, a long-term community vision, 10-year financial plan and 10-year asset plan.

The same Bill will require councils to undertake deliberative community engagement processes before adopting their respective four-year Council Plans and Budgets, so communities better inform strategic directions and spending priorities of council.<sup>1</sup>

### Achieving fairness and equity

Victoria needs a rating framework that is equitable and fair in its application between different council areas and different property classes.

The Parliament of Victoria Inquiry into the Sustainability and Operational Challenges of Victoria’s Rural and Regional Councils received submissions from councils highlighting inequality in the rates paid for similarly valued properties in different municipalities. Towong Shire Council provided the Inquiry with a breakdown of the rates paid on an \$800,000 property (see table below) across multiple municipalities, noting:

*“With the current rating system, a similarly valued residential property in one municipality will pay different rates or property tax to that in another municipality ... the rates can vary from \$962 to \$6,990 per annum, depending on the local government area where the property is located. The contrast in the rates as a percentage of median household income is striking – from 1 per cent in the City of Stonnington to 10 per cent for the property owner in the Towong Shire.”<sup>2</sup>*

Difference in rates paid across municipalities

Council	Rates on a \$800,000 residential property	Median annual household Income	Rates as % of median household Income
	\$	\$	per cent
Stonnington City Council	962	89,544	1
Mornington Peninsula Shire Council	1,684	54,808	3
South Gippsland Shire Council	4,339	47,840	9
Buloke Shire Council	6,990	38,584	18
Towong Shire Council	4,201	44,200	10

Source: Towong Shire Council, *Submission 48*, p.8

The Chamber recognises that there is great diversity between councils. Industry, household and other demographic factors all impact on their cost structures, spending needs and revenue raising capacity.

It is important that such differences and local circumstances can be accounted for, however, unless they are significant, there would appear to be a prima facie case for local governments operating in similar geographic

<sup>1</sup> A New Local Government Act for Victoria, The State of Victoria Department of Environment, Land, Water and Planning 2017

<sup>2</sup> [https://www.parliament.vic.gov.au/images/stories/committees/enrc/Rural\\_and\\_Regional\\_Councils/ENRRDC\\_58-06\\_Text\\_WEB.pdf](https://www.parliament.vic.gov.au/images/stories/committees/enrc/Rural_and_Regional_Councils/ENRRDC_58-06_Text_WEB.pdf)

areas to adopt more consistent rating practices.

For some councils, such as sparsely populated rural municipalities, the factors mentioned above can combine to increase service delivery costs and decrease revenue.

Rates can also consume a higher proportion of incomes in rural council areas than in metropolitan municipalities. The same Parliament of Victoria Inquiry referenced above found that despite large discrepancies between the rates in the dollar set by different municipalities, variations in property values mean the average values of rates per property are relatively similar across municipality types, but household incomes and capacity to pay in rural areas is lower.

Percentage of household income consumed by rates

Type of local government	Average household income	Percentage of household income consumed by rates
	\$	per cent
Rural councils	42,659	4.3
Regional councils	64,270	2.8
Interface councils	60,632	3.0
Metropolitan councils	79,622	2.3

Source: Baw Baw Shire Council, Presentation, *Public Hearing*, 9 October 2017, p.9

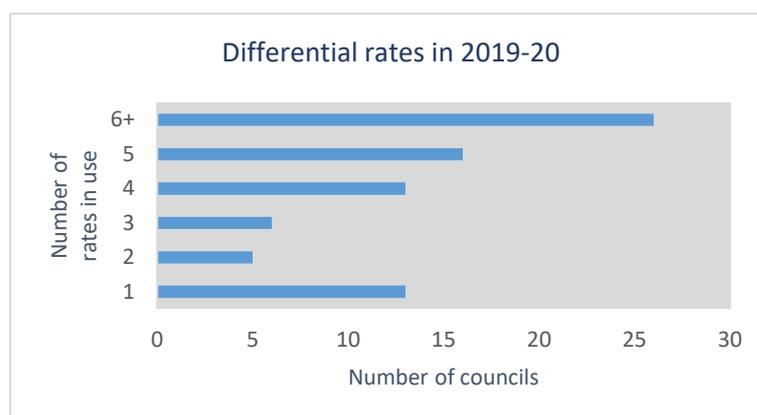
While people in rural areas do not expect the same service levels as those in metropolitan Melbourne, a certain level of services are essential to maintain liveability.

It is therefore important that supportive State and Commonwealth Government funding mechanisms are in place to ensure sparsely populated rural councils can provide services at standards not appreciably different from those provided by larger or more affluent municipalities.

### Differential rating

As outlined in the discussion paper, seventy-four councils use Capital Improved Value (CIV) – the value of land and any improvements - as their rates base. Five councils use Net Annual Value (NAV) – set at five per cent of the CIV for residential properties - as their rates base.

Currently there is no limit on the number of differential rates Victorian councils may levy and the use of differential rates by councils has become relatively widespread. Differences or categories for ‘residential’, ‘farm’, ‘commercial’, ‘vacant’ and ‘industrial’ properties are common. However, there is enormous variation between councils on how many rates categories they use, as demonstrated by the figure below from the discussion paper.



In 2019-20, twenty-six councils will levy six or more rates to different property categories while almost as many will levy three or fewer. While some variation to account for differing characteristics and local circumstances is desirable, the potential to consolidate the number and type of rates categories in use should be explored.

Local government feedback received by the Victorian Chamber indicates that differential rates are important mechanisms to balance some facets relevant to equity and fairness, including asset wealth, income, capacity to pay, proportionate service utilisation/benefit, and social or economic developments such as changing land uses.

For example, Greater Bendigo City Council told the Victorian Parliamentary Inquiry that its rationale for applying a differential farm rate is to 'take account of the restricted access to the many City services' that farmers have and:

- Encourage the continuation of farming pursuits on rural land in support of the strategic objective to support the economic development of the agricultural sector;
- Recognise the size of the landholding required to conduct a farm business is far greater than other nonfarm businesses with similar turnover and (pre-tax) profitability. Therefore farms, in comparison, have a higher valuation and would pay higher rates if a lower differential was not applied; and
- Recognise farm profitability is affected by weather which means that their income is more susceptible and fragile than other businesses.<sup>3</sup>

In relation to proportionate contributions to the services provided and benefits received, it is worth noting that there is enormous variation in the proportion of council budgets allocated to business and economic services.<sup>4</sup> Excluding the City of Melbourne, which spends 47.5 per cent of its budget on business and economic services such as planning and tourism, only 15 of the 78 other councils are spending more than 10 percent on business and economic services.

The Chamber supports the use and application of different rates as a mechanism that enable councils to:

- Fine tune how the tax burden is distributed fairly among ratepayers
- Provide incentives for the establishment and growth of industries and businesses in general or in certain locations according to the priorities and aspirations of their communities.

<sup>3</sup> [https://www.parliament.vic.gov.au/images/stories/committees/enrc/Rural\\_and\\_Regional\\_Councils/ENRRDC\\_58-06\\_Text\\_WEB.pdf](https://www.parliament.vic.gov.au/images/stories/committees/enrc/Rural_and_Regional_Councils/ENRRDC_58-06_Text_WEB.pdf)

<sup>4</sup> <https://www.heraldsun.com.au/news/victoria/roads-rubbish-other-essential-services-languish-as-some-councils-spend-up-on-admin-governance/news-story/c25c7c2827c1f925dbcc9401100b9c3b>

However, care should be exercised in their creation and application to prevent unintended impacts on business viability and jobs.

Constraints on how large the differentials can be are appropriate and should be maintained. Currently, the lowest differential rate within a municipality can be no less than 25 per cent of the highest rate in a financial year.

Our preference is to have clear and consistent definitions or criteria for different rates categories created and applied in similar ways across the state. This could be achieved with best practice guidelines and a requirement to publish, consult and report on rating strategies, as outlined earlier.

### **Service charges**

The Victorian Chamber notes there is also wide variation between councils in the use of municipal service charges. In 2019-2020 a municipal charge was levied by thirty-nine councils, averaging \$194.65 per property. Thirty one of these thirty-nine councils are rural and regional.

Following the introduction of Fair Go Rates there has been some concern about the growth of municipal service charges and increasing budgetary reliance on them. As municipal charges are a fixed amount for all properties irrespective of value, we consider limiting them to 20 per cent of total rates and charges revenue is appropriate. Their use and application should be considered within the broader context of a council rates strategy and service delivery.

Exemptions from multiple municipal charges for the same ratepayer in certain circumstances are also appropriate. It is important that they are transparent and consistently applied across all councils using municipal charges.

### **Exemptions and discounts**

The discussion paper points out that many of the current exemptions are long-standing with some tracing back to the state's first local government legislation, the *Local Government Act 1874*. Exemptions from rates for some properties impose a cost on other ratepayers, as they consume municipal services while not contributing to the cost of providing them.

A current exemption the Chamber considers should be reconsidered is mining land. This exemption was put in place in the 19<sup>th</sup> century, possibly in recognition of the payment of mining royalties. Changes to land use and state royalty regimes since that time mean this exemption should be re-evaluated and mining properties treated the same way as other property used for commercial and business purposes.

Discounts on rates or on interest charges for late or deferred payments and deferment schemes (where rates owed can be paid upon a specified future date such as sale of the property) are other mechanisms to increase fairness and equity by addressing temporary affordability issues. They permit individual circumstances to be considered, including financial hardship and long-term illness.

While all 79 Victorian councils provide financial hardship provisions, deferment schemes are not in widespread use. The Chamber would like to see harmonised policies for circumstances of financial hardship, deferment schemes and discounts used by all local governments.

It is also important that rate exemptions, reductions and other special arrangements are transparent, meet a

clear set of criteria and are benefiting those they are intended to assist. All councils should be required to report on them, and regular reviews conducted to ensure they are meeting their objectives.

The Victorian Chamber would welcome the opportunity to discuss these issues with the Ministerial Panel in further detail.

In the interim, if you require any further information, please contact Dugald Murray, Executive Director – Policy, Trade and Public Affairs, by email at [DMurray@victorianchamber.com.au](mailto:DMurray@victorianchamber.com.au) or by phone on 03 8662 5209.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Mark Stone', with a large loop at the end.

**Mark Stone AM**  
Chief Executive