

Submission - Local Government Rating System Review

1. Purpose

To provide a snapshot of the current rating system as it applies to ratepayers in Northern Grampians Shire Council, including the need for consideration of local factors to deliver meaningful reform to ensure we have a fair and equitable rating system that supports small rural communities.

2. Background

Located in the Wimmera Region of Central West Victoria, Northern Grampians Local Government Area covers 5,918 square kilometers and includes the towns of Stawell, St Arnaud, Great Western, Halls Gap, Marnoo, Glenorchy, Stuart Mill and Navarre.

Our region is underpinned by an economy based on agriculture, health and social services, manufacturing, mining, renewable energy generation and tourism. However, we also face challenges of changing weather and climate impacts, poor health and social outcomes, higher infrastructure, waste management and maintenance costs and an aging population.

3. Challenges

Northern Grampians Local Government Area features most of the key risk factors linked to higher infrastructure and service costs and revenue pressures, these are:

- Geographic - expansive area, population density and the size of the asset base;
- Population - size, age and level of disadvantage;
- Environmental - changing weather conditions due to climate change;
- Economic - diversity of employment opportunities and vulnerability to drought and natural disasters (impacting on agricultural production and tourism);
- Poor health, education and social outcomes.

Council has been responsive to these challenges by developing and getting underway a massive pipeline of key infrastructure projects and programs that will address these issues and grow opportunities for our community.

This includes significant town revitalisation projects in Stawell, Halls Gap and St Arnaud, major upgrades to community infrastructure, local sporting facilities and vital maintenance of our massive rural road network.

Council has developed strategies to develop new premium housing and attract new migrants to live, work and enhance our small rural towns and communities.

Council has been proactive in attracting new investment and innovation such as the creation of the Stawell Underground Physics Laboratory (SUPL) to conduct ground-breaking research to detect dark matter. SUPL is generating a lot of interest nationally and internationally and is an unexpected but exciting story for our region.

4. Demographic Profile

The resident population of Northern Grampians is 11,439 *2016 Australian Bureau of Statistics Census.

Across the last three Census' the resident population has decreased by 475 persons (largely attributed to attrition of an aging population).

The median age of 48 years sits well above the Victorian and Australian median age of 37 and 38 years respectively.

On almost every measure of the highest level of educational attainment including and above Year 12, population of Northern Grampians sits well below the Victorian and National figures as a proportion of the population. For example: Bachelor Degree level and above - Northern Grampians 9.8%, Victoria 24.3% and Australia 22%.

Median weekly incomes by household are: \$931 Northern Grampians, compared to \$1419 Victoria and \$1438 Australia.

5. Our current rating system

Northern Grampians Shire Council has a general rate for all rateable properties, a farm land differential rate for eligible farm properties, and a concession rate for eligible rateable recreational properties. The eligibility criteria for each category is:

- a general rate of 0.6697% (0.6697 cents in the dollar of CIV) for all rateable properties;
- a farm rate of 0.3156% (0.3156 cents in the dollar of CIV) for all rateable farm properties; and
- a general rate of 0.4115% (0.4115 cents in the dollar of CIV) for all rateable recreational properties.

Notwithstanding Northern Grampians' general rate in the dollar being the second highest in the state, rates and charges deliver only 45% of council revenue. In contrast 75% of Victoria's 79 councils have the capacity to generate a larger percentage of their total revenues from rates and charges.

While policies such as the State Government's Fair Go Rates (rate capping) system has contributed to the range of cost shifting pressures that place an unfair burden on remote and regional councils with limited revenue capacity to absorb these pressures - clearly working within the current model where the only lever available to councils is to increase costs to ratepayers, is not sustainable.

The Essential Services Commission fact sheet measuring compliance against the first three years of rate capping identifies: *"Between 2014-15 and 2017-18, Northern Grampians Shire Council reported an average adjusted underlying result of -6 per cent. An ongoing negative result suggests that without the receipt of one-off grants or increases in ongoing revenue, the council may not have sufficient revenue to continue to fund the range and level of services it has been providing."*



This assessment is not new, with the 2010 Whelan Report identifying Northern Grampians Shire Council as one of a number of small rural councils at risk of financial unsustainability due to limited capacity to raise revenue.

6. Grant Income

In 2018/19 around 55% of Council revenues came from recurrent and non-recurrent state and federal government grant funding.

Recurrent untied funding such as the Federal Government's Financial Assistance Grants is most welcome as it enables us to use this allocation toward services for our residents such as: family and child health, home and community care, road maintenance, waste management, leisure, sport and recreation, libraries, business attraction and livability.

The funding formula for Financial Assistance Grants is equitable, the problem is the funding pie is not large enough, leaving a massive shortfall that we need to make up through competitive federal and state government funding programs.

This wasn't always the case. During a recent briefing from the Victoria Grants Commission, Council was advised that at the time of the introduction of the Financial Assistance Grants program in 1974, this funding addressed 40% of the assessed relative need to local government but now this sits at 16% of the assessed relative need.

This situation leaves Council to compete in the competitive funding environment where it faces the sunseting of suitable federal and state government grant funding programs, caps on allocations and restrictive criteria such as the arbitrary 'lines on a map' approach.

It is a situation that is not fair, equitable or sustainable - with Council left to face an uncertain future each and every year as it competes for funding just to avoid being forced into the position to cut critical services and infrastructure investment.

7. One State, One Rate Proposal

Following the consistent grim outlook for Northern Grampians Shire Council from the assessment of several reports into the financial sustainability of small rural shire councils, Cr Jason Hosemans proposed a 'One State, One Rate' campaign to call for the adoption of a uniform statewide Capital Improved Value (CIV) rate in the dollar for all councils and rating categories.

By dividing the total rates and charges revenue in the State by the combined value of all rateable properties. Council determined that a uniform state rate would be approximately **0.002432844425**.

This was then used to calculate the percentage change in rates across the general and if applicable, farm or primary production property rates in each municipality in Victoria [*see attachment](#).

A potential model based on the uniform state rate would be the central collection of a uniform statewide CIV rate, and dispersal to councils via the Victoria Grants Commission.



While this model would not collect any additional revenue for local government from ratepayers, it would put an end to the unfair disparity whereby general ratepayers in a local government area such as Northern Grampians which has a statewide SEIFA Index of Relative Socio-economic Disadvantage of 6, pay rates that are over 670% higher than the CIV rate in the dollar relative to property value than ratepayers in the LGA with a SEIFA rank of 77. This situation is further compounded by reports that local governments in areas of least disadvantage have sufficient revenues to spend on foreign aid!

There is no other form of revenue that is collected by government that is designed so disproportionately that those who have the least pay the most relative to the value of their income or assets.

While such a significant reform may not be achievable due to significant stakeholder backlash, it does demonstrate how without significant reform the existing rating system has left rural ratepayers behind.

8. Payment of Rates

The existing *Local Government Act 1989* provides councils with the flexibility to charge rates as instalments only, or a lump sum and instalments.

Northern Grampians Shire Council took the decision in the late '90s to offer the instalments only option to our ratepayers to assist Council to better manage cash flow.

Under the proposed *Local Government Bill 2018*, it was to change to lump sum and instalments as the option. This would make it more difficult for a small municipality to manage cash flow as rates would be received in a more ad hoc manner whereby rates could arrive in a lump sum in February or over installments throughout the year.

Potentially Council's largest individual source of income may only come in once a year in February when it is our only major source of raising capital. Therefore it is Council's preference to maintain the current options available to councils to determine the method for the charging of rates.

9. Valuations

With changes made by the Victorian Government to take effect from 2019, property valuations are now conducted annually by the Valuer-General instead of every second year. The objective of these changes were to make valuations more consistent via a centralised arrangement.

For some property types, annual valuations have returned significant increases in the rateable value of the land.

The result of these valuations is not disputed, as in many cases they align with local sale prices, however, year-on-year significant valuation increases can have a direct impact on the ability of ratepayers to factor in this increased cost.

In Queensland, the levying of rates by local government subject to significant valuation increases are guided by the principle of predictability. This states that there should be a reasonable level of predictability in the amount of rates levied on parcels of land.



Several mechanisms are available to councils to use in their rating strategies including using an averaged value of land over a number of financial years to effectively smooth out the impact of significant changes in property values from year-to-year.

This mechanism is contained in the *Local Government Regulations 2012* which provides further protection to ensure if this method of calculating rates is used, that the lower valuation be used should the value for the current financial year be lower than the average value.

The principle also cautions councils that care must be taken to ensure that the levying of rates using such mechanisms, does not result in similarly valued properties, used for the same purpose, paying significantly different amounts of rates.

10. Debt Collection

The Act is not specific that council can recover all of its enforcement costs for debt collection. The only exception is Section 181 of the Act whereby a council can sell a property to recover rates or charges (including enforcement costs and interest).

It is always preferable that Council is able to resolve any dispute before it gets to that, however, as the Act is not descriptive in this area of dispute resolution and cost recovery, Council is not assured that it has grounds to recover incurred costs in its efforts to resolve rating disputes in the best interests of all parties.

This situation leaves all other ratepayers and the community to wear the burden of cost recovery in rating disputes.

11. Charitable Purposes

The Act specifies that land used for charitable purposes is not ratable. While the Act appears to attempt to provide clarity by stating *“any part of the land is not used exclusively for charitable purposes if ... it is separately occupied and used for a purpose which is not exclusively charitable”* the exempt purposes have been interpreted very broadly.

There are a number of properties owned by registered charities that are used for purposes that are not directly charitable but used for the purpose of raising substantial revenue from activities that are in direct competition with private businesses.

In this municipality this includes premium accommodation that is advertised for rent to holiday makers in direct competition with private operators. In other regions this is reported to include aged care facilities and full fee child care centres.

In contrast, the Act is extremely specific that land used for retail purposes for the sale of goods is rateable regardless if it is owned and operated by a charitable organisation.

This typically includes opportunity shops which offer quality, affordable, reused, recycled and repurposed practical goods such as clothing and furniture to those that are needy in the community. Council uses its discretion to make a contribution via a community grant to offset the rates burden to charities that operate opportunity shops in our retail precincts to recognise this important service in the community.



This issue is one of the most significant priorities for reform for many in the local government sector who share the view that if a recognised charity is operating a property based business in direct competition with other local businesses, then that activity should be rateable.

12. Conclusion

Council congratulates the Local Government Rating System Review Panel for conducting this important work.

The focus on fairness and equity is critical and we support the many provisions of the *Local Government Act* that provide flexibility to councils. This includes the ability to declare differential rating charges such as imposing farm rate differential, which recognises that farm profitability is affected by the vagaries of weather and international markets and agricultural producers are often unable to pass on increases in costs like other businesses.

In recent years local governments have had to adapt to significant reform and decisions of federal and state government, including the consequences of the indexation freeze on Financial Assistance Grants, rate capping, annualised property valuations, and the proposed modernisation of the *Local Government Act*. In the future, consideration should be given to temper the immediate impact of such decisions on ratepayers and small councils that have limited capacity to absorb further cost pressures or manage major change management.

Council echoes the sentiments of many in the sector that the CIV model is accepted as the best means of determining rates as a measure of capacity to pay. The issue is not the rating formula but the structure that prohibits the fair collection and distribution of revenue to those most in need.

This leaves a failure to provide a consistent and adequate pathway to underpin revenues for small rural councils that have huge asset pressures. Significant reform to address relative need via federal and state government assistance grants is one practical instrument that would be available to support small rural councils to reduce the impact on residents and businesses of high rating charges.

This would help bring property based rating charges relative to value in line with metropolitan areas, meeting community expectations and delivering a truly fair and equitable rating system.

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Council	Category	Average Total Rates and Charges Revenue (\$m) 2016-17 2017-18	Percent of Revenue	Population	2018 CIV Total	Current General CIV Rate	Percentage Change	Current Farm CIV Rate	Percentage Change
Alpine Shire Council	Small Shire	17.4	53%	12,639	4,205,145,800	0.004424	▼ -45.01%	0.00323	▼ -24.68%
Ararat Rural City	Small Shire	16.3	50%	11,757	3,334,905,000	0.006649	▼ -63.41%	0.003657	▼ -33.47%
Ballarat City Council	Regional City	107.7	47%	105,438	20,105,346,200	0.004159	▼ -41.50%	0.002858	▼ -14.88%
Banyule City Council	Metropolitan	95.7	62%	129,125	50,434,255,100	0.00211213	▲ 15.18%		
Bass Coast Shire Council	Large Shire	53.8	64%	34,390	16,199,227,100	0.003117	▼ -21.95%	0.0024936	▼ -2.44%
Baw Baw Shire Council	Large Shire	52	58%	50,687	12,730,037,000	0.003433	▼ -29.13%	0.003089	▼ -21.24%
Bayside City Council	Metropolitan	87.3	67%	104,274	72,047,075,000	0.00114831	▲ 111.86%		
Benalla Rural City	Small Shire	16.5	53%	13,975	2,700,488,000	0.005079	▼ -52.10%	0.003309	▼ -26.48%
Greater Bendigo City Council	Regional City	108.3	48%	114,111	22,147,388,000	0.00399849	▼ -39.16%	0.00339871	▼ -28.42%
Boroondara City Council	Metropolitan	169.4	72%	179,640	131,342,717,383	0.0014041611	▲ 73.26%		
Brimbank City Council	Metropolitan	147.9	68%	207,009	51,055,967,920	0.002055	▲ 18.39%	0.001804	▲ 34.86%
Buloke Shire Council	Small Shire	12.9	44%	6,206	1,653,529,900	0.007699	▼ -68.40%	0.006314	▼ -61.47%
Campaspe Shire Council	Large Shire	40.1	46%	37,602	7,661,088,700	0.0043019	▼ -43.45%	0.0038717	▼ -37.16%
Cardinia Shire Council	Interface	81.7	41%	102,425	25,702,423,750	0.002777	▼ -12.39%	0.002361	▲ 3.04%
Casey City Council	Interface	208.7	43%	365,600	77,149,802,386	0.002630182	▼ -7.50%		
Central Goldfields Shire Council	Small Shire	13.8	41%	13,148	1,987,538,000	0.00495	▼ -50.85%	0.00396	▼ -38.56%
Colac Otway Shire Council	Large Shire	29.4	52%	21,432	6,457,367,000	0.004069	▼ -40.21%	0.003052	▼ -20.29%
Corangamite Shire Council	Large Shire	20.5	43%	16,212	5,057,017,800	0.0037456	▼ -35.05%	0.0033523	▼ -27.43%
Greater Dandenong City Council	Metropolitan	130.2	58%	163,514	50,358,647,500	0.0017001956	▲ 43.09%	0.0013601564	▲ 78.87%
Darebin City Council	Metropolitan	121.4	70%	158,745	61,329,278,366	0.00212679	▲ 14.39%		
East Gippsland Shire Council	Large Shire	53.9	52%	46,142	10,135,236,000	0.00403615	▼ -39.72%	0.00332982	▼ -26.94%
Frankston City Council	Metropolitan	115.4	64%	140,739	39,902,683,001	0.00232	▲ 4.86%	0.001856	▲ 31.08%
Gannawarra Shire Council	Small Shire	12	40%	10570	1,713,033,600	0.00633	▼ -61.57%	0.004342	▼ -43.97%
Greater Geelong City Council	Regional City	212.1	51%	245,751	65,210,818,621	0.00216185	▲ 12.54%	0.00172948	▲ 40.67%
Glen Eira City Council	Metropolitan	102.7	57%	151,439	74,664,290,200	NAV			
Glenelg Shire Council	Large Shire	23.5	45%	19,695	5,276,013,000	0.005027	▼ -51.60%	0.005027	▼ -51.60%
Golden Plains Shire Council	Large Shire	21.1	49%	22,574	4,981,286,000	0.002956	▼ -17.70%	0.00266	▼ -8.54%
Hepburn Shire Council	Small Shire	19	50%	15,629	4,917,489,000	0.003285	▼ -25.94%	0.002135	▲ 13.95%
Hindmarsh Shire Council	Small Shire	8.2	41%	5,718	1,492,468,700	0.005242	▼ -53.59%	0.0047178	▼ -48.43%
Hobsons Bay City Council	Metropolitan	101	72%	95,078	37,850,742,400	0.002128	▲ 14.33%		
Horsham Rural City Council	Regional City	25.3	45%	19,889	4,525,694,500	0.005263	▼ -53.77%	0.003527	▼ -31.02%
Hume City Council	Interface	168.2	38%	215,260	49,024,887,800	0.0033056	▼ -26.40%		
Indigo Shire Council	Small Shire	15.4	47%	16,335	3,463,655,400	0.003266	▼ -25.51%	0.00245	▼ -0.70%
Kingston City Council	Metropolitan	132.2	61%	161,056	66,983,065,004	0.0019763	▲ 23.10%		

Knox City Council	Metropolitan	108.1	63%	161,842	53,606,185,000	0.0017571	▲ 38.46%		
Latrobe City Council	Regional City	75.2	52%	74,921	16,736,366,001	0.0046607	▼ -47.80%	0.00349553	▼ -30.40%
Loddon Shire Council	Small Shire	10.3	31%	7,507	2,125,990,900	0.004704	▼ -48.28%	0.003585	▼ -32.14%
Macedon Ranges Shire Council	Large Shire	45.2	51%	48,430	13,904,514,300	0.0024765	▼ -1.76%	0.0019812	▲ 22.80%
Manningham City Council	Metropolitan	94.8	64%	124,262	60,574,458,500	0.00173238	▲ 40.43%		
Mansfield Shire Council	Small Shire	12.9	53%	8,797	4,138,982,200	0.002804	▼ -13.24%	0.001851	▲ 31.43%
Maribyrnong City Council	Metropolitan	94.4	67%	89,361	34,818,613,152	0.00294654	▼ -17.43%		
Maroondah City Council	Metropolitan	83.7	59%	116,332	39,344,613,500	0.00210025	▲ 15.84%		
Melbourne City Council	Metropolitan	266.9	54%	158,923	124,042,468,734	NAV			
Melton City Council	Interface	102.7	35%	148,644	32,784,274,600	0.0025968	▼ -6.31%	0.0018697	▲ 30.12%
Mildura Rural City Council	Regional City	65.9	51%	55,151	9,215,668,395	0.0064303	▼ -62.17%	0.00488703	▼ -50.22%
Mitchell Shire Council	Large Shire	39.3	49%	42,910	9,310,441,000	0.002851	▼ -14.67%	0.002281	▲ 6.66%
Moira Shire Council	Large Shire	34.8	57%	29,655	6,181,646,700	0.00352	▼ -30.89%	0.00352	▼ -30.89%
Monash City Council	Metropolitan	114.5	62%	196,789	86,310,754,000	0.0015835	▲ 53.64%	0.00179606	▲ 35.45%
Moonee Valley City Council	Metropolitan	107.3	66%	125,415	54,031,503,400	0.00190878	▲ 27.46%		
Moorabool Shire Council	Large Shire	31.7	52%	33,448	7,191,519,000	0.003424	▼ -28.95%	0.002671	▼ -8.92%
Moreland City Council	Metropolitan	139.9	63%	176,971	63,428,647,000	0.0024387	▼ -0.24%		
Mornington Peninsula Shire Council	Interface	159.5	68%	163,847	84,942,653,700	0.0016462	▲ 47.79%	0.0005762	▲ 322.22%
Mount Alexander Shire Council	Large Shire	21.9	57%	19,298	4,717,483,640	0.003555	▼ -31.57%	0.003555	▼ -31.57%
Moyne Shire Council	Large Shire	21.2	38%	16,794	8,615,798,000	0.00205	▲ 18.68%	0.00205	▲ 18.68%
Murrindindi Shire Council	Small Shire	19.5	55%	14,234	5,583,776,000	0.003052	▼ -20.29%	0.002137	▲ 13.84%
Nillumbik Shire Council	Interface	63	66%	64,626	20,636,926,900	0.002728	▼ -10.82%	0.002319	▲ 4.91%
Northern Grampians Shire Council	Small Shire	16.6	45%	11,518	2,766,506,000	0.006697	▼ -63.67%	0.003156	▼ -22.91%
Port Phillip City Council	Metropolitan	119.2	52%	110,634	71,104,101,067	NAV			
Pyrenees Shire Council	Small Shire	9.4	38%	7,359	2,388,255,000	0.003998	▼ -39.15%	0.003161	▼ -23.04%
Borough of Queenscliffe Council	Small Shire	6.9	62%	2,960	2,768,170,525	0.0021856	▲ 11.31%		
Greater Shepparton City Council	Regional City	73.2	52%	65,565	10,743,090,700	0.00507319	▼ -52.05%	0.00456587	▼ -46.72%
South Gippsland Shire Council	Large Shire	40.5	57%	29,324	8,351,618,500	0.00488919	▼ -50.24%	0.00342243	▼ -28.91%
Southern Grampians Shire Council	Large Shire	19.4	39%	16,125	3,860,961,000	0.004469	▼ -45.56%	0.003575	▼ -31.95%
Stonnington City Council	Metropolitan	106.7	57%	113,737	98,961,424,543	0.000999	▲ 143.53%		
Strathbogie Shire Council	Small Shire	18.3	57%	10,485	3,373,317,000	0.0050194	▼ -51.53%	0.0040155	▼ -39.41%
Surf Coast Shire Council	Large Shire	48.8	53%	31,324	17,639,637,300	0.0021129	▲ 15.14%	0.0015847	▲ 53.52%
Swan Hill Rural City Council	Large Shire	26.3	50%	20,850	4,077,916,200	0.00603384	▼ -59.68%	0.00464141	▼ -47.58%
Towong Shire Council	Small Shire	8.1	42%	6,040	1,783,878,500	0.004155	▼ -41.45%	0.00374	▼ -34.95%
Wangaratta Rural City Council	Regional City	30.2	47%	28,857	5,723,446,000	0.004834	▼ -49.67%	0.003142	▼ -22.57%
Warrnambool City Council	Regional City	35.1	43%	34,571	6,860,537,000	0.003726	▼ -34.71%	0.002297	▲ 5.91%
Wellington Shire Council	Large Shire	58.1	57%	43,807	11,041,799,600	0.00514	▼ -52.67%	0.004112	▼ -40.84%

