



Dr Cathy Alexander
Chair
Ministerial Panel for the Victorian Local Government Rating System Review
Submission via email rating.review@delwp.vic.gov.au

11 November 2019

Dear Dr Alexander

The Victorian Local Governance Association (VLGA) is pleased to contribute to the Victorian Local Government Rating System Review.

The VLGA is an independent, member based organisation supporting councillors and councils in good governance. We do this through our strategic engagement and advocacy with key stakeholders, including government agencies and departments.

Please find below our submission to the review of the Victorian rating system.

Please do not hesitate to contact me on 9349 7999 or kathryn@vlga.org.au if you have any queries regarding any issues raised in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Arndt', written in a cursive style.

Kathryn Arndt
Chief Executive Officer
Victorian Local Governance Association

Consider a different rating system for rural councils

As the Panel is aware, strategic financial management is a key aspect of council governance that councillors have legislated responsibility for under the Local Government Act (1989). Rates revenue is a major source of income for Victorian councils. However, this varies across councils. While metropolitan councils can derive 60-70% of their total revenue from rates, the rate burden for rural and regional councils can be as low as 30-40% of their total revenue, mainly due to a smaller number of rateable properties.

This is further complicated by the fact that small rural councils do not have ability to raise or increase their revenue from other sources. For example, there would be limited user charge options and other sources of revenue such as paid parking. Furthermore, rural communities have limited capacity to pay for ongoing rate increases. Rural councils therefore have a self-imposed rate cap, reflecting the financial realities of their communities. Rural councils are particularly reliant on grants from State and Federal governments.

Despite these difficulties, rural councils are still responsible for delivery of a suite of core services to their communities as well as maintaining and improving their assets. The VLGA recognises recent effort made by the State government to improve the financial sustainability of rural councils, such as the \$20 million Rural Council Transformation Program. However, it is evident that small rural councils do not have the capacity to self-fund their services and other obligations. The VLGA believes that a different model or rating system for these rural councils should be considered. This proposal addresses several principles of taxation outlined in the Review's Terms of Reference, such as equity, capacity to pay and sustainability.

A greater role for council audit and risk committees

The VLGA contends that the rating system is not often well understood by councillors, even though it underpins their major source of revenue. Council budget discussions can often revolve around expenses and outputs – projects and initiatives. Council revenue from other sources such as user fees, waste charge and paid parking are often adjusted for inflation. However, issues such as council's rating strategy and rating system are often not discussed at length.

While these issues can be partially addressed through councillor education and training, there is an opportunity for council audit and risk committees to examine this as a strategic risk issue. These committees comprise suitably qualified members and are independently chaired. The VLGA believes that an annual review of the rating strategy by the independent audit and risk committees will be beneficial to councils. As part of their review, these committees can make formal recommendations to councils for actions addressing any risks, concerns or suggestions for improvement on council's current rating system.

Simplified rating system and wording

There is very little information available to the public on the rating system and how council rates are used to fund services. A common misconception in the community is that rates reflect services residents can opt out of – one example being apartment owners seeking a reduction in their rates as they have their own rubbish collection via their body corporate. Another example is where rate payers mistakenly apply the rate cap percentage to their previous year's assessment notice, only to discover their new rates notice exceeds the rate cap, without realising the rate cap is applied to the total amount of rates that councils collect. While councils do their best to inform and educate their residents on council rates and their typical expenditure, it is not always easy to convey a complex financial system. Council rates are a form of taxation, and not simply a collection of fees associated with discrete council services such as rubbish collection, libraries and support for community groups.

The VLGA contends that local governments, as established under the Local Government Act, being responsible for administering policies of the State government, should be provided with adequate resources and tools by the State government to fully discharge their duties. Specifically, local governments should be provided with templates, consistent wording and messages regarding the rating system that are easily understood by the community. This proposal will create consistency for all 79 Victorian councils. This will, in turn, increase awareness of the rating system and facilitate ongoing engagement between councils and their rate payers.

The State government to provide clearer legislative guidance to councils

The VLGA is of the view that the State government needs to provide clearer legislative guidance to all councils on two specific but related issues relating to the rating system: definition of financial hardship, and recovery of unpaid rates (including penalty interest).

Financial hardship is not defined under the Local Government Act, and the Act does not provide guidance on the structure or implementation of such policies, other than to state that councils must have a hardship policy in place.

This is further complicated by the different processes adopted by councils in their recovery of unpaid rates and associated penalty interest. These two related issues have resulted in varied interpretation and application of hardship policies between councils.

As a minimum, the VLGA would welcome the following:

1. Financial hardship to be clearly defined in the Local Government Act.
2. Better practice notes to be provided to local government on financial hardship policies covering issues such as
 - a. Process for penalties and interest;



- b. Exceptional circumstances council must consider, such as rate payers who may be “asset rich but cash poor”, those experiencing sudden loss of income etc.; and
- c. Process for debt recovery by third parties and court proceedings.

Clear guidance to councils issued by the State government will increase community awareness and engagement and provide a fairer rating system.

Other matters

The VLGA supports the expansion of rateable properties, particularly to those used for commercial operations on the basis of fairness and equity. Similarly, the VLGA supports the ongoing operation of differential rates used by councils to levy additional rates (and/or to provide rate discount) to certain rate payers depending on land use.

Municipal charges represent a regressive form of taxation in that a flat charge will disproportionately affect rate payers with reduced capacity to pay. The VLGA would welcome the minimal use of municipal charges by councils on the basis of equity for all rate payers. The discussion paper outlined the average municipal charge of \$194.65 per property for the 2019-2020 financial year, and the average of that amount to constitute just over 10% of total council revenue for the 39 councils that levy the charge. The VLGA notes and welcomes the proposed 10% municipal charge cap on total council revenue as proposed under the lapsed Local Government Bill 2018. The VLGA further notes that 31 of the 39 councils with municipal charges are from rural and regional Victoria. This seems to strengthen our initial call for a different rating system for rural councils.

Conclusion

The VLGA once again thanks the Review Panel for the opportunity to contribute to the review. We hope the panel will give due consideration to our proposals outlined above to facilitate a rating system that is fair, equitable, simple, efficient and sustainable for all Victorians.