



**Gannawarra Shire**  
**Submission to the Victorian**  
**Local Government Rating System Review**

**October 2019**

## 1. Executive Summary

In response to the Parliament of Victoria's Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils the State Government agreed to undertake an Inquiry into the Victorian Local Government Rating System. The focus of the inquiry is to identify changes *"that will improve fairness and equity"* in the rating system.

For small rural councils like Gannawarra Shire Council, the Municipal Association of Victoria (MAV) adopted a resolution urging the Victorian Government to develop a plan to maintain the liveability and economic strength of regional and rural Victoria. The rating system review needs to be mindful of this plan.

It is arguable that the current rating regime is heavily weighted on most rural Local Government Authorities (LGAs) and this cannot be address by changes to the legislative rating regime alone. In Victoria the State Government has the legislative and constitutional authority to intervene to deliver a fair and equitable match between small LGAs communities' fiscal capacities and their LGA asset and service responsibilities. The rating review is an ideal opportunity to address these issues in part or in full.

It is the Gannawarra Shire's submission that the following changes will enhance and improve the Victorian Local Government rating system's fairness and equity.

1. Rating exemptions should be kept to a minimum – the more exemptions the greater potential to distort the system and undermine consistency, fairness and equity.
2. The option for differential rating should be retained.
3. The current Victorian rating regime's capacity to be understood and to deliver fairness and equity would be enhanced by:
  - Simplifying Rates Notices;
  - Earlier Valuations Return Date; and
  - Penalty Interest Rate To Reflect Market Rates of Interest.
4. The State Government needs to intervene to achieve a fair and equitable match between small rural LGAs' community fiscal capacity and their LGAs' asset and service responsibilities. Reviewing the road and bridge infrastructure responsibilities split between these LGAs and the State Government's Road Authority, Vic Roads, or the creation of a specific Small Rural/Regional LGA Funding Program is of the order of magnitude required.
5. There continues to be a need for a Cultural and Recreational Land Rate.
6. Flexibility in the rating system to adapt to specific and local issues, need to be retained.

## **2. Rating Principles**

The Council supports the framework for developing a fair and equitable rating system on the following basis.

### **2.1 Efficiency**

It is generally accepted that property taxes are an efficient tax.

### **2.2 Equity**

There are examples where the current rating system may not reflect the equity and fairness principles in a perfect manner. These examples include:-

- The shift in council services from a historically property focused LGA service model to a more community based service model.
- Where people are “asset rich in land and cash poor”.
- Irrigation district farms where water has been sold off the land.

Although not perfect from an equity point of view, with a flexible, differentiated rating system, there are options available to councils to minimize the imperfections.

### **2.3 Simplicity**

The ownership of property is relatively easy to determine, as is its value. Property rates are therefore difficult to avoid and generally have low compliance costs.

### **2.4 Sustainability**

LGA rate revenue from property tax is relatively stable and an important component of “Own Source Revenue”.

For small rural LGAs even if there was no Rate Capping the existing mismatch between their fiscal responsibilities and their communities’ fiscal capacity would still be an issue.

## **3. Exemptions**

### **3.1 Rating Exemptions**

Rating exemptions should be kept to a minimum – the more exemptions the greater potential to distort the system and undermine consistency, fairness and equity.

We would not dispute current exemptions for:

- Land used for public or municipal purposes
- Land held in trust and used exclusively by organisations of ex-servicemen and women
- Unoccupied Crown Land and land vested in a Minister, Council, statutory body etc.

We would support a review of the current exemptions on:

- Land used for mining along with some forms of minerals development and exploration (often the precursor to mining), including where it takes place on Crown Land
- Land used as a residence of a practising Minister of religion and or for the education and training of Ministers of religion.
- Land held by a Religious entity and used for commercial purposes or not used for the religious instruction/faith-based services.
- Land used by the RSL or other exempt bodies where the body derives an income from gaming at the property such as poker machines or bingo centres, and
- Crown Land used for commercial purposes.

We are supportive of exemptions for land used for charitable purposes, however there is a need to be clearer and more consistent around what does and what doesn't constitute an approved charitable use.

### **3.2 Mining Land**

The rationale for mining land being exempt from rates while quarrying is not, is not apparent. In other Local Government jurisdictions, mining land is rateable.

### **3.3 Religious and Charitable Land**

When the land and property is used by the Religious body for the purpose of charity works and religious instruction/faith services there is an argument for rates exemption. However, the exemption should be based on ownership and exclusive occupancy for an exempt purpose.

Religious and Charitable land and buildings improvements when they are used for activities that have private or commercial competitors/alternatives such as retirement villages should also not be rate exempt.

### **3.4 RSL Gaming/Gaming Venues on Crown Land**

Many RSL Gaming venues and Gaming venues on Crown Land compete with local businesses e.g. hotels, cafes and restaurants but these Gaming venues are exempt from rates.

### **3.5 Crown Land Used for Commercial Purposes**

Crown Land used for income producing activities which are exempt from rates e.g. timber reserves, port land are justifiably rateable. Commercial activities on these exempt lands do impose costs on the host LGA e.g. road and bridge maintenance and renewal.

## **4. Retention/Enhancements of Differential Rating to Enhance Fairness & Equity**

### **4.1 Differential Rating**

It is desirable for Councils to have flexibility in establishing differential categories and to reflect their local communities' unique community makeups.

For our council, we are an irrigation district and there is strong support for the retention of a sub categorized farmland rate based on dryland and irrigation land.

This type of flexibility allows councils to deal with local issues.

### **4.2 Recreation and Cultural Land**

The option to apply a rating differential to cultural and recreational land provided it is being used for the benefit of the community is supported. The challenge is, like with land used for charitable purposes, to define and measure what constitutes a beneficial use.

Despite those challenges the ability to differentially rate cultural and recreational land is supported.

### **4.3 Solar/Wind Farms and Electricity Generators**

The rating of electricity generating entities is not simple. The *Electricity Industry Act 2000* allows for councils or a generation company to elect to pay rates under PiLoR, rather than under the *Local Government Act 1989*. There are also provisions for alterations on output and then further negotiations on the impact of the generation company on the local area.

These calculations are subject to review by an arbitrator.

There are cases where generating entities are paying more through the Fire Services Levy than they are for PiLoR. For the range of services provided by LGAs this seems to be an inequitable situation.

Our Council is currently working through these issues and the system is complex, involving legal interpretation and advice and time consuming.

The rating of electricity generating entities needs to be simpler and clearer for all parties.

## **5. Enhancements**

### **5.1 Simplify Rate Notices**

LGA Rates notice contains an enormous amount of detail that increases complexity rather than simplifying and improving communications.

### **5.2 Earlier Valuations Return Date**

The annual valuations are generally distributed to councils in March / April each year. In April councils need to present a draft budget to their community for consideration. Pivotal to this community consultation is the rating strategy and ensuring that the council is compliant with the rate cap.

This timeframe is too tight and runs the following heightened risks:-

- Legislative non-compliance with the rate cap;
- Financial risk to the council if there are issues with the valuations or a strong number and amount of objections to the valuations;
- Reputation risk in having to alter rates in the dollar with revised valuations whilst out on public display with the draft budget.

The solution to eliminate these revenue, legislative and reputation risks would be for the annual revaluations to be returned earlier.

### **5.3 Penalty Interest Rates to Reflect Market Rates of Interest**

Penalty interest rates are set by the State Government. The Local Government Act 1989 specifies that penalty interest is to be calculated at the rate fixed under Section 2 of the Penalty Interest Rate Act 1983. It is currently set at 10%.

A rate of interest slightly above the prevailing bank lending rate would address the arguably punitive rate that currently applies.

## **6. Actions to address Rural LGAs Fairness & Equity**

The current Victorian Rating System as a form of taxation places a heavy burden on small Rural Councils.

Reviewing the road and bridge infrastructure responsibilities split between these LGAs and the State Government's Road Authority, Vic Roads, or the creation of a specific Small Rural LGA Funding Program is of the order of magnitude required.