

23 October 2019

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Local Government Victoria, DELWP

To the Ministerial Panel for the Victorian Local Government Rating System Review

Golden Plains Shire Council welcomes the opportunity to provide a submission to the Local Government Rating System review.

At its ordinary meeting held on the 22 October 2019, Council resolved to note the opportunity to provide a formal submission to the State Government's review of Victoria's local government rating system until 1 November 2019 and endorsed Golden Plains Shire Council's submission to the State Government's review of Victoria's local government rating system.

Our submission is presented in three sections.

Section One: Summary of Recommendations.

Section Two: Responses to the broad policy questions posed throughout the discussion paper.

Section Three: Ideas and suggestions regarding opportunities to improve the current rating system with some being within the current legislative framework while some requiring change to the legislative framework in order to deliver a more fair and equitable rating system.

We look forward to continuing to be actively engaged in the future consultation process to consider outcomes from the review.

Please do not hesitate to contact Director of Corporate Services, Ms Philippa O'Sullivan at Philippa.osullivan@gplains.vic.gov.au should you wish to discuss our submission.

Yours sincerely,



Cr Owen Sharkey

Mayor of Golden Plains Shire Council

Summary of Recommendations:

Golden Plains Shire Council recommends that the rating system review panel considers:

1. Continued application of differential rates to enable varying rates to be set for different categories. Differential rates provide the ability for Council to recognise the different types of ratepayers in the shire and use rates to influence rate payer's actions.
2. To maintain that the total revenue that can be collected from the municipal charge in a financial year remains at a maximum of 20 per cent of the total revenue from the municipal charge plus the total revenue from general rates. In addition, changing the name of the municipal charge to 'base rate' to provide more clarity on what the purpose of the charge is, being that it provides a base amount of funds that all ratepayers contribute for the services that they have access to across the shire.
3. A continued light handed approach by State Government to enable Councils to collect rates, however more State wide involvement in the communication to ratepayers on how rates work so that a consistent message across the State is provided. In addition, we recommend that State Government provide more clarity on definitions such as the criteria for exemptions, special rates and charges and other special charges applied to properties across the State.
4. Clear definitions and criteria to what properties can be considered for exemptions and clear guidelines on why these properties are considered to be exempt. This criteria to be consistently applied across the state and these properties to be individually reported on as part of the annual reporting process to provide transparency to all stakeholders.
5. Continued application of waivers for certain ratepayers when a clearly defined criteria is met.
6. Special rates and charges to be used when specific services or activities will benefit a clearly identified group of rate payers and that State Government provide clear guidelines on what is considered to be a majority of support from ratepayers to enable a special charge to be applied.
7. Investment in education and whole of state public awareness on how rates are calculated and charged. This to be state driven so it is perceived as independent from Councils and also results in one State wide consistent message on rates.
8. Consideration of setting a maximum increase for all rate payers from the previous years rates to minimise rate shock for ratepayers and as part of this consider that property rates are either the same as the previous year or more than the previous year but cannot decrease. This may need to be achieved by applying two valuations to properties, one being used for valuations and one being used to calculate rates.

Section Two: Responses to Discussion Paper Questions

1. *What types of properties should receive rating exemptions and why would this be fair.*

Golden Plains Shire Council support exemptions when the reason why is clearly defined, is transparent and it is consistently applied and treated across all Councils.

For exemptions to continue to exist requires the development of specific and consistently applied criteria to clearly identify which property owners are exempt. These properties should then be individually reported on as part of the annual reporting process to provide transparency to all stakeholders.

2. *Should some ratepayers lower rates than others?*

Currently specific classes of ratepayers pay lower rates than others via the use of differential rates.

Golden Plains Shire Council currently sets the differential rate lower for farming category to recognise that these properties are providing economic and commercial benefits to the shire. While vacant land that can be developed has higher differential rates which aims to incentivise developers to develop land rather than land bank.

However, when considering simplicity and transparency, differential rates can be complex for ratepayers to understand.

An alternative option could be that the same differential rates apply to property categories across the State. For example; all farming properties are rated at 90%. This may be seen to provide equality and fairness for property owners no matter which area of the state they are based in.

Golden Plains Shire Council supports the use of rates waivers to assist those in hardship and eligible pensioner concession card holders and Department of Veteran's Affairs card holders. Noting that the eligibility process must be transparent, clearly defined and consistently applied across the State.

3. *Should rates be determined by property values?*

When considering an individual's cash flow wealth versus asset wealth, property values can be a misconstrued measure due to increasing market values are based on external factors and therefore impact on residents who have been living in the same house for many years.

An alternative to property value could be income based rate setting, but when considering the original intent of rates being linked to property value as a result of the municipal services they provide, property values would still appear to be the most relevant and logical to use.

4. *Should some municipal services be funded by specific service rates or charges?*

The application of special rates and charges can be beneficial when a particular rate payer base will benefit from specific activity and service which can be easily defined as only providing benefit to that particular rate payer base. In addition, there must be clear guidelines when special rates and charges will apply, how these will be calculated and clear understanding if all or only the majority of rate payers are required to be in favour for the charge to apply. These guidelines should be consistently applied across the state in order to provide transparency to all ratepayers.

5. *How much oversight of council rates should the State have?*

To provide transparency and accountability to each municipal Council, State Government should apply a light handed approach to council rates. Nevertheless, in keeping within the

overall framework of fairness, equity, simplicity and transparency, State Government should set a clear set of criteria to measure each Council's rating strategies against to ensure each Council is compliant. This provides consistency for all rate payers and also enables transparency.

6. Is the rating system clear and transparent for ratepayers?

Golden Plains Shire Council is of the view that the rating system could be simplified so that all ratepayers have a better understanding of how rates are calculated, better sector wide education on how and who undertakes property valuations, what rates are used for and an opportunity to reduce rate shock year on year by smoothing out rate increases over a longer period of time.

Golden Plains Shire Council provides some ideas and suggestions on how the rating system could be improved to provide a clearer and transparent process for ratepayers in Section Two below.

Section Three: Other Ideas and Suggestions

Golden Plains Shire Council has considered a number of opportunities to improve the current rating system while ensuring the key principles of a good tax design are met with those most relevant to rating include **efficiency, equity, simplicity and sustainability**.

Option One (*acknowledgement to Councillor David Evans, Golden Plains Shire Councillor*)

One potential rating structure would consider that that adjustments to rates cannot move greater than 50% of rate cap of 2.5%.

Therefore, all rates maximum increase can be not greater than 3.75%, this would also assume that a property's rates cannot be less than the previous year.

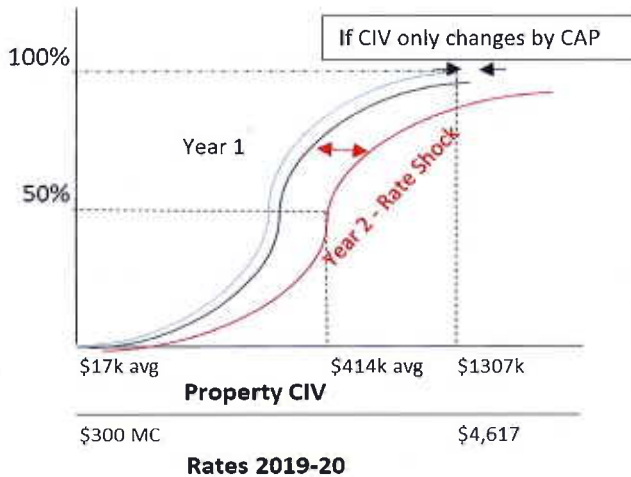
Rates Example

- Example year property's Capital Improved Value (CIV) is \$500k and rates are \$2,009.
- Next year the CIV is revalued by 12%, therefore CIV increases to \$564k and rates to \$2,264 which is a 12% rate increase which can be seen as rate shock.
- 12% exceeds the allowed adjustment of 1.5 times the rates cap or 3.5%
- CIV for rating purposes is $\$500k * 1.0375 = \$519k$ with rates at \$2,106 and as a result minimises rate shock.

Advantages of this approach are that all properties with similar values are clustered, so across the shire it helps smooth some of the effects of localized high values. This approach would include on the rates notice the valuers CIV as normal but would also include the CIV used for council purposes to reduce the impact of rate shock from property values increasing significantly year to year.

The diagram below outlines the principles of this methodology.

RESIDENTIAL RATES



Capital Improved Value (CIV) are adjusted to suit all properties in Shire with all CIV's treated equally. EG.
 Town A at \$500k has 12% valuation increase but **kept to 4%**
 Town B at \$500k has only 2% rise but **moved to 4%**.
 Rate notice will always record property valued CIV plus CIV used to calculate rates.
 This smoothes changes and keeps residents with similar wealth rated the same in any one year.

* MC = municipal charge.

Option Two: (acknowledgement to Councillor David Evans, Golden Plains Shire Councillor)

An alternative option is to consider a property to have two values.

1. The value that is determined by the valuer.
2. The value used by council to set rates.

It is the second value, which is the one that is determined so as to give a discount to a property owner who is a long term resident.

Example: Two identical properties

Value Case 1	Property A	Ownership	Property B	Ownership	
\$300K	\$300k	Original	\$300 k	Original	Initial value year1
\$330	\$330k	New 1	\$304 k	Original	New values year2
\$363K	\$346k	New 1	\$308k	Original	New values year3
\$400k	\$400k	New 2	\$312k	Original	New value year4

Each time a property changes in ownership it is rated value immediately reverts to case one in value. While when a property remains with the original owner, they will see their values rise far less and will reduce their rate liability.

This methodology does not negatively impact on total rate revenue as the rate burden is transferred to the new owners being dwellers, developers or speculators.

This could also have positive aspects as speculators and developers will find Greenfield sites better choices and thus improve housing affordability for the struggling first home buyers.