

Rating by valuation

I believe rating by valuation is no longer a relevant or equitable method of recovering the cost of providing services by local government in Victoria.

This method does not take into account the demand for services a particular property or its occupants may make of such services, nor the ability of owners and occupiers to pay for them.

Furthermore in an inflationary environment, rates become in effect based on “unrealised capital gains” further compounding inequity and less detached from the value of the services provided. This would also occur in a reverse deflationary environment.

Historically, property rates were made at a time when local government services were largely property based with just a handful of human services such as home help and infant welfare, even though they received State subsidy.

Predominantly, because of State involvement and cost shifting, property owners and occupiers are now increasingly bearing the cost of services which are really the State and Federal government’s core responsibilities.

“Optional” or “non core” local government activity, the results of which are often inadequately or unreported, have grown to include many recreational and social activities which arguably should be either not undertaken in the first place or be subject to full cost recovery user charges.

There is a lot of inconsistency in how user’s charges are assessed.

Frequent property revaluation does not really achieve anything other than realignment of cross subsidy which takes place within a municipality. The amount of revenue raised is still as per budget.

The cost of the provision of basic property services remains fairly constant over time and does not relate to or discriminate according to property values.

State and Federal government financial relationships and responsibilities need to be totally reviewed, especially now that taxation reform frequently occurs.

The introduction of the GST means that personal services provided by local government should be fully funded by other government levels if local government is deemed to be the most effective form of delivery. I contend that health and education services amongst others should be transferred to the State government to ensure consistency and continuity in service levels and reduce cost inefficiency through duplication of effort.

I contend that a contemporary “activity based costing model” could be applied to recover the cost of local government services.

Infrastructure costs could simply be calculated based on factors such as land area, lengths of frontages, road access, footpaths and drainage factors.

Personal or human services costs could be based on individual property and occupancy type and land use according to planning scheme provisions such as zoning and overlays.

The above elements are already captured in the comprehensive property databases used by local governments, so the generation of an activity based costing model would require very little in the way of resourcing, and once adopted would provide consistency, transparency and equity in rating.

Annual property valuations are administratively expensive, cumbersome and ineffective and achieve very little.

The model I have suggested would overcome these issues and provide transparency and accountability which is missing from the current method of rating on valuation.

There is no reason why the State government could not apply the same principles for its own purposes such as land tax.