

Local Government

Rating System Review

Each of the 79 councils in Victoria are quite unique and it is important in developing any rating system that there should be flexibility to deal with these unique characteristics. It is noteworthy that there is some danger in comparing or benchmarking rating systems between shires because of their essential differences.

In making decisions on rating the unique characteristics of a shire should be known. For instance:

- How big is the area of the shire?
- How many ratepayers are there in the various rating categories of commercial, farming and residential?
- What is the socio-economic status of the area and does this differ across the Shire?

Comment

It is accepted rate are a land not income based tax. In any event shires have no access to income or revenue figures to enable an assessment of relative ability to pay. Shires can only make crude assessment of the relative position by social economic information as between categories. So:

- What is the capacity to pay rates by category?
- How big is the responsibility of the Shire to the roads and bridges etc. that feed the roads serviced by Vic Roads? How extensive are they and what is the cost to maintain them?
- What is the nature of exempt property in the Shire by area and what is its potential loss of rates?
- In relation to farming, what are the various kinds of farms? What area is devoted to housing and the surrounds as opposed to broad acres on the operating part of the farm?
- What industries does shire have that generate economic activity?

- What is the demographic mix of people and their needs?

In making decisions about rates, shires are allocating resources and influencing behaviour.

How does a shire establish rates, user fees and fines to fund its activities?

Does the Shire establish appropriate objectives then fix rates to cover the expenditure or does the Shire look at the capacity of the various categories of ratepayers to pay rates and then fix expenditure against the capacity to pay? What is the strategic link?

With expenditure, why does not a Shire establish what is core, what is secondary and what is discretionary?

- Clearly a shire cannot allocate resources to everything and nor can it say double its rates.
- So what is its relationship between expenditure and the capacity of ratepayers to pay reasonable rates?

The Act makes a lot of noise about giving ratepayers the opportunity to review the rates as part of the budget process and councils are required to give ratepayers a considerable amount of information.

Unfortunately with the approach established by East Gippsland Shire Council (EGSC) as an example where the five-minute democracy involving a ratepayer having the right, apart from making a written submission, to have five minutes in any oral presentation.

It is clear that this process is fake and councils are going through the motions and not really interested in the views of ratepayers.

Like any business there is expenditure at the margin and income at the margin and it is important rate payers can make some contribution to those marginal decisions but much better information is needed from shires to do this.

But when a Council gives no sense of proportion between the various categories of expenditure, the reasons therefore and does not create priorities, it makes it more difficult to make judgement as to what rates or amount of rates are justified.

In other words there is no strategic link between expenditure and rates. There is simply a mass of expenditure in various utopian but well-meaning categories, a bunch

of and income streams struck relative to expenditure incurred. We want to spend X and your rate payers will cover Y% of this.

Whilst there is a government website benchmark where rates and other matters can be compared between councils these benchmarks are superficial in the sense that they're not measured against uniqueness of an individual shire.

If a shire has relatively speaking, not many ratepayers and the average income of such ratepayers is low and the Shire includes a lot of farming activity but insufficient industry to meet further rates, what are the consequences?

- Does this mean the Shire simply asks ratepayers to pay rates that are way beyond the average of ratepayers in other shires? or,
- Does the Shire put controls on its expenditures so that shire rates do not become excessive?

In East Gippsland since 2005 rates have gone up 48.6%, double the rate of inflation 19%, prices 20% and wages 24%. .

Is this fair? Is it not putting an unfair strain on ratepayers particularly ratepayers like farmers that are in a situation of deep distress?

In order to make a judgement about the fairness or otherwise of rates, in my view you need a great deal more information from a shire. Not only do you need to understand shire priorities but also its revenue pressure. Some shires have a huge amount of exempt land. EGSC for instance has a huge amount of forests and its share of other exempt entities like schools, hospitals and other activities. But the reality is very little is known about this.

The writer is attempting to get some of this information to form a view about a shires need for revenue but was rebuffed (see attached).

The reality is that with a modest amount of time by data analyst, a lot more information in this and other areas could be made available to ratepayers on the subject of expenditure and rates. It is important therefore to understand the nature of the information that a Shire has and the ability of a data analyst to produce a lot more data and insight on the question of fit between expenditure and rates.

Whilst the inquiry terms seem to preclude this kind of discussion, the reality is that rate setting could be much more informative if the information made available was of a much higher quality.

Much more information is needed to form a strategic view about the relationship between rates and expenditure.

It is acknowledged that the capacity to pay is very difficult to build into a rating system but there is information available to demonstrate that some categories are more effected than others. See the earlier material written.

Panel Discussion Paper

The discussion paper released by the Panel is excellent and lays out a lot of very valuable and helpful material. My papers do not fit within the panels request for submissions for good reasons.

An issue which needs to be addressed is the economics or structure of individual shires. Each year under Section 223 the community is given the opportunity on making a submission on the annual budget and business plan. A key component on the revenue side of the budget is the differential rates and the rate in the dollar struck for the various components. You have outlined the issues relevant to that decision.

It is very difficult for rate payers to have a view about that because in the case of East Gippsland Shire Council (EGSC) and I assume other councils, there is inadequate information to make an intelligent contribution. I have been trying to understand these issues and wrote to EGSC for further information (attached) and this was rejected.

My view is that a competent data analyst could produce the information in hours but alas.

It seems difficult to separate a rating decision from how the shire is presenting information on expenditure. The methodology currently being used does not enable you to determine any sense of proportion or priority.

Clearly shires cannot fund everything. So shires need to establish priorities in terms of need and cost. For example, what is basic, secondary and what is discretionary and what are the timelines. It is only when you see where the shires outflows are, that you can make judgements on the inflows and make rating decisions.

It is likely that the discretionary and maybe some secondary expenditures will influence rating decisions. You will not get a complete answer to a fair rating system which could be very different in all councils unless expenditure aren't appropriately segmented and costed. It is not sufficient to say council has the power to differentiate rates unless it is established the basis upon which that is undertaken.

