

Rating System Review 2019

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### **Submission to the Rating System Review 2019**

Maribyrnong Ratepayers Group welcomes the opportunity to make a submission to the Rating System Review 2019. We apologise that this submission was not completed in time for the 1 November deadline, and hope our contribution can still be useful to the Panel's deliberations.

Maribyrnong Ratepayers Group (**MRG**) was established by residents and residential ratepayers in early 2019 concerned about a significant rise in residential rates set by Maribyrnong City Council (**MCC**). MRG enables community dialogue and action on rates, services, costs and quality of life in the MCC municipality. MRG currently has in excess of 700 followers and contributors on its Facebook page and is an unfunded group run by volunteers.

We are an affiliate of Ratepayers Victoria (**RPV**). MRG assisted RPV to make an interim submission during the public hearings period and we endorse the contents of that submission.

### **General points**

We provide responses to the questions posed in the Discussion Paper released by The Review. As stated in RPV's interim submission, we find that residential rates as they are currently raised are neither efficient, equitable, simple nor sustainable, and as such cannot be considered satisfactory as a means of raising funds for local government operational requirements. In considering the rating system framework, the principles of equity and fairness are central to the considerations given by MRG when engaging with our council and relevant state-wide reviews.

We note the questions are asked specifically in relation to the existing regime, namely a tax levied based on property value. However, there may be other more equitable ways of securing the funds that Local Government requires to efficiently deliver core services and support the cultural life of the local community.

A number of anomalies exist within the current system. For example, residents who are ratepayers, but cannot vote because they are not citizens have limited opportunity to challenge Council expenditure decisions. Renters can vote, but so can landlords who may not live in the municipality. Property owners who do live in the municipality and who own

multiple properties are able to vote multiple times according to the number of properties they pay rates on. This creates an uncomfortable hybrid that is out of step with common democratic expectations.

Residents who are asset rich but cash poor, such as pensioners or low income people who have inherited the family home, have provided MRG with examples of where they are unfairly targeted with high rates against properties assessed as high value. In some circumstances, the home has had to be sold, despite a strong emotional attachment to place and community.

In responding to the questions posed by The Review, we shall, as appropriate, offer an alternative view were the revenue gathering system to be applied differently.

## **Responses to Discussion Paper questions**

### ***SHOULD ALL PROPERTY OWNERS PAY RATES?***

- **What types of properties should receive rating exemptions? Why would this be fair?**

We generally hold the principle that all users should pay something towards the services provided. This is aligned with income tax policy where we all pay towards childcare, healthcare and military expenditure, even if we do not have children, have full private health insurance, or have a fundamental objection to armed conflict. There may be a reduced rate that is applied to a property owned by a charitable organisation with little or no income that provides a community service. A register should be kept of such organisations and associated properties and this should be reviewed annually.

Privately owned clubs, for example, may be operated by volunteers and have very low cash flows, or they may be flourishing businesses with healthy balance sheets that can and should contribute to council revenue.

Waivers or deferments are available to those struggling to pay their rates, and there is a view that older residents occupying valuable parcels of land should take advantage of the deferment option. Council eventually gets its rates when the property is sold but this forces older people who have paid off their mortgage and are living modestly on a fixed income via the aged pension to start accumulating debt again. Under this scenario, council is offering to effectively re-mortgage their homes in a forced bequest program. The reason for their escalating rates is, in part, because developers and real estate agents think their property, if it were to be sold, is worth a hypothetical amount. This issue is covered in more detail in the section on property values.

- **Does your council report on rate exemptions granted, and/or their estimated value?**
- **Should councils be required to report on rates exemptions? Why?**

Transparency is essential for good governance. It is important for stakeholders, including residential ratepayers, to be able to scrutinise the operations of the council. Exemptions or significant reductions for associations, clubs and religious bodies should be reported against the entity receiving the benefit.

Exemptions or waivers to private individuals should be reported, but generally be aggregated to protect privacy for those experiencing hardship.

### **SHOULD SOME RATEPAYERS PAY LOWER RATES THAN OTHERS?**

- **How does your council allocate differential rates? Why?**
- **What types of properties should pay more through differential rates? Why?**

MCC operates a differential rating system. MRG agrees that commercial and industrial properties should pay a higher rate than residential properties. Businesses can offset their outgoings against their reportable taxes, whereas private individuals cannot. It should be noted, however, that large businesses should not be treated the same as the small, local trader.

Businesses should also be classed based on their impact on the municipality. Noxious industries should attract a higher rate to compensate residents for the negative impact on neighbouring properties.

However, if the rating system was radically altered, perhaps with a user-pays approach for those living in and using the services of a municipality, the same basic rule would apply, in that businesses would be expected to pay a higher rate as their operating interest is to make a profit, unlike residents who use the property as their home.

- **What types of properties should receive rates waivers? Why?**

All properties should pay some rates, even if modest, as a contribution to their community.

- **If councils provide rate discounts what criteria should apply?**

Non-profit community organisations, social enterprises and volunteer groups could be given consideration for lesser rates. Wealthy private clubs would ordinarily not qualify by default. In all cases, discounts and exceptions should be transparent and published with clear reasons so that ratepayers understand the rationale.

- **Should cultural and recreational land and electricity generators have alternative rating arrangements? Why?**

No comment at this stage.

### **SHOULD RATES BE DETERMINED BY PROPERTY VALUES?**

- **Should property values determine rates? If not, then what should?**

Property valuations to inform rates notices are determined by the Victorian Valuer-General through application of the *Valuation of Land Act 1960 (the Act)*. Specifically, properties are rated on the “highest and best use to which the land might reasonably be put at the relevant

*time and any potential use*". MRG submits the primary consideration, particularly for family homes, should be "the use to which such land is being put at the relevant time".<sup>1</sup>

The current interpretation of the Act is to the advantage of real estate agents and developers and does not respect the current use of the property, which for many residential ratepayers is the family home.

It is open to the Panel to consider if this interpretation was the intent of the Act as it is currently written. It may be that the intent was to assist in facilitating planning and development, with the unfortunate consequence that long term residents are forced out of their homes.

**Case study:** Residents of a small residential pocket of Paisley Street, Footscray are long term residents and renters. They are not wealthy people. In recent years, Maribyrnong City Council rezoned one half of the street to be within the business activity zone, while the other side of the street is classed as neighbourhood residential. As a result, rates rocketed up there by 50% or more in one year alone.

While this skewed interpretation of the Act could be fixed by amendment to force primary consideration of current use, this by itself it won't solve the rates problem. It would, however, be a big lever to change the way our homes are valued while we are actually living in them.

MCC charges residential rates across a very wide range, currently \$553 - \$9311 per residential property. All ratepayers have access to the same services made available to them by council, regardless of the value of the property.

Property values have no link to household income. The assumption appears to be that if you have a larger home then you have a larger income. This is incorrect, particularly for longer-term residents (those who purchased before property values increased dramatically) and elderly residents on fixed incomes.

We submit that this proves the inequity of the property value system and alternative approaches are needed to close the gap.

### ***Alternatives to property values***

MRG has considered alternatives such as an individually applied council tax on residents of the municipality, a flat rate system for residential properties, and a tiered system similar to vehicle registrations. Under a tiered system, the following rates could be applied:

- High Density - \$1000
- Medium Density - \$1500
- Town House - \$2000
- Single Dwelling - \$2500

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<sup>1</sup> *Valuation of Land Act 1960 s5A cl 3(a)*

Informal application of the tiered system as described above to the current residential properties in the MCC municipality would generate something similar to the current income but with a more even spread across all properties.

**Case study:** Jo and Steve have lived in the MCC municipality for over twenty years. They live in the home they bought in Yarraville in 2001 which they share with their three teenage children.

When Jo and Steve's neighbours sold up because their kids had left home, the property market was booming. For surrounding neighbours, because that property fetched a high price when it was put on the market, all surrounding properties were increased in value, and therefore had increased rates.

In 2001, Jo and Steve's rates were \$1,830.48. Their combined household income today is approximately \$85,000. However thanks to property values rising sharply in recent years, their much loved family home is now valued at \$2.5 million, and in 2018 their annual rates bill was \$7,238.51, an increase of 295%.

Jo said "Due in part to the renovation of our home added to the jump in local property sales, our valuation increased and so did our rates. Not a positive reward for beautifying our home - in fact, it's a disincentive. But our homes are our homes. We're not doing this to make a buck, we are raising a family and working in our community."

### **Rate Capping**

The Victorian Parliamentary report into rate capping policy said in the Chair's foreword:

*"Rates are a significant impact on the budget of households and businesses and there is every reason to constrain unnecessary and wasteful growth in the rates levied by local councils."*<sup>2</sup>

Arguments in the report presented in favour of rate capping included "protecting ratepayers against excessive rate rises", as well providing a watchdog function "against local government excess."

Since the rate cap was introduced in July 2016, Jo and Steve's rates (see case study above) increased sharply by 20%. Maribyrnong City Council has not reduced any costs despite outcries from residents over unsustainably high rates.

The response by MCC at their 2019-2020 budget meeting was to cap increases for individual residential ratepayers to 30%.

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<sup>2</sup> [https://www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate\\_Capping/First\\_Report/EPC\\_58-04\\_Text\\_WEB.pdf](https://www.parliament.vic.gov.au/images/stories/committees/SCEP/Rate_Capping/First_Report/EPC_58-04_Text_WEB.pdf)

- **What services should be funded by their users (in line with the user pays principle) rather than through general rates?**
- **When should councils use special rates and charges? Why?**

Special rates and charges should only be applied for a set time period, for a specific task or matter. They should not be ongoing and must have a sunset factor.

- **How does your council set charges for waste and other services?**

Some councils apply this as a separate charge. Such charges should be set transparently, so that ratepayers can be confident they are paying a fair fee for service.

### **HOW MUCH OVERSIGHT OF COUNCIL RATES SHOULD THE STATE HAVE?**

- **Does your council have a clear rating strategy?**

It is the experience of some ratepayers that their council's strategy appears to be "spend and raise" rather than "raise what ratepayers can afford, and spend accordingly".

- **Should all councils apply consistent rating practices? Why/why not?**

Generally, residents and ratepayers should expect the same approach to rating no matter where they live. Returning to the example of income tax, this is applied via a simple formula and all taxpayers can understand their tax obligations.

- **Does the Local Government Act 1989 (and other requirements) provide clear rules and guidance to councils to set and levy rates?**
- **What could be improved?**

It is very difficult for residential ratepayers to challenge a rates notice they think is unfair or excessive. The first stage is an internal mechanism via an objection to the valuation. This is a slow process, somewhat opaque and relies on the very problem that has driven a high valuation in the first place - a flawed interpretation of the *Valuation of Land Act* (refer earlier comments). Should this approach fail to deliver a result that is acceptable to the ratepayer, the next step is to take the case to the Victorian Civil and Administrative Tribunal (VCAT). While VCAT was intended to be a less adversarial forum than a court, the reality is that it operates very much like a court, in that appellants and defendants may engage legal representation where the value of the matter is more than \$10,000. In the case of a property valuation, this will naturally lean towards allowance of representation, placing the ratepayer at a disadvantage, because the Council or Valuer-General Victoria have access to legal representation as a cost of doing business, while the ratepayer may be forced to self-litigate. This is a classic barrier to justice and requires reform to enable ratepayers to object to an external authority without the disadvantage of associated cost.

Similarly, ratepayers wishing to appeal their rates notice must take their case to the County Court. It is unlikely that lower income property owners would take this route, given the costs involved, particularly if their case was unsuccessful because they were unable to afford representation.

There is also the issue of burden of proof - the ratepayer must prove the valuation is inaccurate, or the rates notice unfair, rather than council or the Valuer-General Victoria being required to prove their actions are appropriate.

Significant problems in the domestic building sector were tackled in part by the establishment of the Domestic Building Dispute Resolution Service.<sup>3</sup> This provides a free and fair alternative to court, although proceeding to VCAT should the dispute be unresolved is still an option.

**RECOMMENDATION:** Residential ratepayers require an alternative dispute resolution option, preferably an Ombudsman. This should, in accordance with the key criteria set by ANZOA, be independent, accessible, fair, accountable, efficient and effective.<sup>4</sup> For consumers, in this case ratepayers, this means the service should be free to use (for ratepayers), fast and fair. This function could be provided by an existing Ombudsman service, such as the Victorian Ombudsman<sup>5</sup> or Energy & Water Ombudsman Victoria.<sup>6</sup> Use of an existing ombudsman avoids start up costs, and builds on sector expertise - the former in the role of local government, the latter in the delivery of essential services that are overseen by the same regulator, the Essential Services Commission.<sup>7</sup>

### ***IS THE RATING SYSTEM CLEAR AND TRANSPARENT FOR RATEPAYERS?***

- **Does your rates notice have the information you want?**
- **If not, what would you like to see on your rates notice?**

Ratepayers should be able to understand what each charge is for, and how it is calculated. Examples include the waste management charge and the municipal charge. While it might be easy to understand the why of a charge for waste management, the how, the who and the what also need to be transparent. Ratepayers need reassurance that if council is not delivering the service itself, but have chosen to contract out, the service provider meets all reasonable standards and is charging a comparable market rate. Council will also be held more accountable if it explains in plain English why it needs to contract a service out.

The municipal charge is somewhat mysterious, and if no adequate explanation for its existence can be provided, it would be reasonable to conclude it is a fee for no service and should be scrapped.

**Example: MCC Rates Notices.** These notices contain a lot of information, most of it on the reverse in very small type and little of it immediately informative. For example, a pie chart on the front side would provide a visual reveal of cost distribution (staff, executive, buildings, services etc) and show where the budget will be spent in the coming year. An example notice can be provided on request.

<sup>3</sup> <https://www.dbdrv.vic.gov.au/>

<sup>4</sup> <http://www.anzoa.com.au/>

<sup>5</sup> <https://www.ombudsman.vic.gov.au/>

<sup>6</sup> <https://www.ewov.com.au/>

<sup>7</sup> <https://www.esc.vic.gov.au/>

- **How convenient is it to receive your rates notice and make payments?**

Councils get the valuations months before the rates notices are issued. Ratepayers should be able to access their revised valuation as soon as it is available to Council, or at a minimum three months before the issuing of rates notices for the next financial year. This gives the ratepayer much more time to investigate a valuation and challenge it before the budget is set and rates notices are issued.

It is also very difficult to get objection forms - these should be available, at a minimum, on the council website to download, and from council-operated properties, such as libraries, in hard copy.

- **Do you engage with your council in setting rates through the annual budget consultation?**
- **If so how easy/difficult is it to do? If not, why not?**

Ratepayers may be offered the opportunity to engage with their council on rates and the budget, but this is unlikely to be anything beyond an information session, where council informs ratepayers about what it will be spending and how it will raise the necessary revenue.

MRG's experience with MCC was very much in this vein - there was no attempt to co-design or test ideas on budget setting. The public forums held in late 2018 and early 2019 in response to a record number of objections to rates notices were primarily focused on explaining the why, rather than investigating the what. MCC more or less dictates to ratepayers where their monies are to be spent and has been their approach every year.

The forums did not appear to operate on a genuine consultative basis. The experience of participants was that their contributions has no material impact on the decisions of council and were left with the impression that they were merely window dressing.

The experience of ratepayers, either as individuals or organised groups, is that it is very difficult to have any impact on the budget at all stages of the budget process. MRG attempted a full engagement, but felt their concerns and suggestions dismissed by Council staff and Councillors alike. At more than one stage, the challenge was issued to MRG to nominate which services we wanted cut to reduce the budget. This was a highly unsatisfactory experience, and displays a significant disconnect between the community, council staff and the councillors that are elected to serve their community.

Council budgets should be presented in a clear and consistent manner, using a standard financial reporting template and explanatory notes. There should be a multi-stage process for budget setting, enabling ratepayers to engage with council staff and their elected councillors at various stages. Councillors, as the elected officials, have a special responsibility to ensure their constituents are aware of the budget ambition, understand the reasons for the various decisions, and seek feedback before the final stage of review and approval.

## **CLOSING COMMENTS**

Residents choose to live in communities. These decisions will often predate, sometimes by decades, the attractiveness of the area to developers. As development attention falls on an area, a cycle of property value rises begins, forcing out older people, young low income people and families, and rolling out the red carpet to negatively geared investors.

Ratepayers and residents alike are generally prepared to pay for essential council services and the cultural life of the community. Victoria's rating system appears to be broken and needs a complete overhaul to make it fair, efficient, sustainable and easy to understand.

The Essential Services Commission or other appropriate regulator must be empowered to audit councils and set baselines to ensure that councils do not operate in isolation. Baselines enable regular reviews of operating costs by both councils and regulator.

Options for a fairer system could include standardising rates for units, apartments, free standing homes in a tiered system, as described earlier in this submission. This would simplify the rating system significantly and would reduce the disparity between the upper and lower end of rateable residential properties dramatically. The cost of service delivery is similar regardless of the size or location of the property within the municipality. A further advantage of this approach is it would enable comparisons between municipalities and allow for adjustments by the regulator.

Maribyrnong Ratepayers Group thanks the Review Panel for the opportunity to make this submission.

For more information or to discuss any of the matters raised above, please contact Denise Boyd, Maribyrnong Ratepayers Group, at [maribyrnongratepayers@gmail.com](mailto:maribyrnongratepayers@gmail.com) or call on 0490 090 660.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'DB', written in a cursive style.

Denise Boyd  
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**Maribyrnong Ratepayers Group**