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1 November 2019

Dr Kathy Alexander
Chairperson
Victorian Rating System Review Panel
Rating.review@delwp.vic.gov.au

Dear Kathy

Submission to the Victorian Local Government Rating System Review

Southern Grampians Shire Council ("Council") has prepared a submission in response to the Local Government Rating System Review – Discussion Paper.

Thank you for the opportunity to make this submission to the Victorian Local Government Rating System Review Panel.

I also thank you on behalf of Council for the engagement session held in Hamilton for both the Council and the community. Whilst small in number the Council in particular appreciated the opportunity to hear from the panel and then make some commentary and have a discussion on the challenges and opportunities, so thank you again.

Finally you will see we don't have all the answers, I think we all know the issues, it is now some thinking and comparison with other models to achieve the best outcome for the community, the most effective and efficient model to administer therefore reducing or at the very least holding costs whilst meeting State Government objectives, good luck!!

Please do not hesitate to contact my office on telephone 55730412 if you require anything further or we can be of any assistance in the deliberations and discussions.

Yours sincerely

MICHAEL TUDBALL
CHIEF EXECUTIVE OFFICER

Local Government Rating System Review – Discussion Paper

Southern Grampians Shire Council Submission

November 2019

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Introduction

Southern Grampians Shire Council ("Council") has prepared this submission in response to the Local Government Rating System Review – Discussion Paper.

Council welcomes the State Government's review of the system and agrees that a full review of such an important system is due.

Council thanks the State Government for the opportunity to review the discussion paper and actively participate in the process.

Should all property owners pay rates?

Discussion paper key points:

- Victorian legislation allows for a number of exemptions and they lack clear definition
- Some exemptions have not been examined since they were first put in place in the 19^{th} century
- Exemptions from rates for some properties impose a cost on other ratepayers as exempt properties continue to consume municipal services while not contributing revenue for them.
- The panel is interested in whether the current rate exemptions reflect the community values and how exemptions from rates in the future should be considered.
- **What types of properties should receive rating exemptions? Why would this be fair?**
- **Does your Council report on rate exemptions granted and/or their estimated value?**
- **Should councils be required to report on rate exemptions? Why?**

Fundamentally the answer to this is yes. Then there should be guidance for local circumstances to decide locally on any exemptions and the process to enact this locally-made decision.

Many of the properties which qualify for exemptions (such as schools and hospitals) still require a level of service to be delivered from councils. For example, services could include infrastructure access (roads, kerbs, footpaths etc.) and parking monitoring and management, however they do not contribute to the cost of providing them.

There are some “grey” areas which could be further refined, such as the exemption for Returned Services League (RSL) Clubs where some clubs have significant revenue and expenditure flows and could be deemed as profitable, however retain “charitable” status. The social impact of gambling – which many RSL clubs are involved in – is also a cost to all levels of government service provision.

Ownership vs occupation by a charitable body should also be clearly defined as to rate exemption applicability, such as religious or charitable properties used for commercial purposes – or subleased for a commercial purpose.

Clarification around why mining is exempt from rateability is also questionable. Whilst it is recognised there are other taxation and royalty structures in place (not necessarily income streams for local government), councils are still required to deliver basic services to the property as stated in the points about charitable and exempt properties.

Rather than providing mandatory exemptions for these types of property, the use of differential rating to recognise some contribution to the council economy could be beneficial. This of course could only be achieved if the current restriction on differential rates (no more than 4 times the lowest differential) was removed.

Alternatively revising the current “municipal charge” to be applicable to these types of properties could be implemented.

Council is also concerned that the proposed new Local Government Act sees the municipal charge limited to 10 percent instead of the current 20 percent. This Council currently has a municipal charge of approximately 10 percent, however this amount only covers the cost of high level administration for the proper running and governance of the shire and does not go anywhere towards making a contribution towards any of the services provided.

Other exemptions that Council supports the removal of:

- Electricity providers – the current Payment in Lieu of Rates (PiLoR) is substantially lower that if they were to be rated using CIV (which is how they are treated for fire services property levy calculations)
- Universities & Private Schools – these are commercial businesses
- Religious uses and places of worship these have paid staff and income streams whilst still utilising local services
- RSL Clubs (especially revenue raising facilities)
- Any Crown Land used for commercial purposes.

Should some ratepayers pay lower rates than others?

Discussion paper key points:

- Many councils use differential rates to support those who are perceived as having lower capacity or pay, based on the assumption that some types of property are closely associated with a higher or lower capacity to pay by the owners.
- **How does your Council allocate differential rates? Why?**
- **What types of properties should pay more through differential rates? Why?**
- **What types of properties should receive rates waivers? Why?**
- **If councils provide rate discounts what criteria should apply?**
- **Should cultural and recreational land and electricity generators have alternative rating arrangements? Why?**

Council currently has one differential rate which is 80% of the general rate. This rate is levied on properties which are outside the immediate Hamilton area and those which are of a farming nature (i.e. >40 hectares).

The purpose of the levying of the differential rate is to recognise the following:

- The different **standard** of municipal services provided to the residents and ratepayers in different areas of the Shire;
- The different **range** of municipal services available to the residents and ratepayers in different areas of the Shire;
- Differences in the **accessibility** to municipal services for the residents and ratepayers in different areas of the Shire.

The use of rate waivers and/or discounts have been used in the past to attract large businesses to the region, however this has only been provided on a short term basis with the return to normal rating once the business is established and generating profits.

Council currently provides a 2 percent discount to ratepayers who choose to elect to pay their rates & charges in full by the due date of the first instalment – 30 September. This incentive has been in place for many years and 50 percent of ratepayers take up this opportunity. This early receipt of cash enables council to take advantage of paying many annual costs early in the financial year (some to achieve discounts) such as WorkCover, insurances, registrations etc. whilst still being able to earn interest revenue from these funds. The cost to Council is approximately $165k to achieve $9m of revenue rather than $4.5m being the quarterly instalment amount.

Council also provides for relief via a Hardship Policy however very few take up this options as not only is it involved, it is sometimes difficult in smaller towns to be seen ‘putting your hand up’ and seeking a form of welfare through rate relief. In most cases the rates end up being a charge on the property and once there is a sale or estate the rates are then collected.

There is potential for a standard hardship and waiver policy to be developed across all Councils and for the State to play a role in also waiving any associated fees to lessen the impact on the local Council such as Fire Services Property Levy and EPA Levy on waste as two examples. There should also be consideration given to State Government support back to Councils based on a revised State – Local Government Agreement and a hardship policy incorporated into that agreement.

Should rates be determined by property values?

Discussion paper key points:

- Property rates are a longstanding method of raising municipal revenue in Victoria and around the world.
- Reasonable reliable methods exist for valuing land for rating purposes and there are a number of economic benefits to property-based rating.
- However, a property's market value is only a proxy for a ratepayer's wealth, not an exact measure.
- **Should property values determine rates? If not, then what should?**

The current use of CIV assumes that the amount of rates paid is directly related to the value of the property. It also assumes that the value of the property is directly related to the ratepayer's capacity to pay. The third assumption is that use of council facilities and services is also linked to the value of the property and financial capacity of the ratepayer. All of these assumptions are far from the truth. Asset ownership and capacity to pay are not linked just as the use or requirement for council services in not linked to capacity to pay. A clear example of this is where a lower than average socio economic level (SIEFA index) can actually mean a higher than average reliance on council provided services and a clear capacity to pay problem.

Whilst the current system has flaws, Council is not able to offer another comparable/more equitable/fairer basis of rating without increasing substantially the ability and cost to collect revenue. Capacity to pay would not be able to be administered by Councils, due to this type of data held at federal level i.e. via ATO or Centrelink.

The underlying issue of rate variability from one year to the next is of great concern to Council. Under the previous biennial valuation structure, at least every second year, Council was able to demonstrate stability and modest increases in individuals rate accounts. The volatility of the property market from year to year means that individual ratepayers can see massive increases and decreases in the bottom line of the rate notice each year – regardless of movements in the other elements on the rate notices.

One alternative for consideration may be to have a flat Municipal Charge on every assessment and then another kind of either user-pays or other alternative to levy the remainder.

For example Southern Grampians Shire Council with 10,975 overall assessments with a 'municipal charge' or 'flat rate' of $1500 totals $16,462,500 and based upon the current rating and valuations model Council receives $16,821,782 a difference of only $359,282 less.

Whilst this approach also has challenges with some larger increases for low value residential properties in smaller towns the inequity of the current system whereby the rural sector currently makes up 27.6% of the assessments (properties) they currently pay 53.75% of the rates total. In comparison to residential sector that make up 66% of the total assessments (properties) and contribute only 39.54% of the rate income. Arguably residential property owners in township utilise far more services than those in rural and outlying locations.

Whilst we don’t have the perfect model the ability to apply a different model locally and left to the elected members to determine within State guidelines should be investigated.

Another model provided through consultation and elected member input was the ability to have multiple or many differentials to enable a ‘flattening out’ of the peaks and troughs so that nobody would receive a reduction in rates and everyone could be applied the rate cap as used to occur in non-valuation years prior to the introduction of annual revaluations.

Finally there needs to be an equity test across any differential that includes capacity to pay but also that no one property would decrease and then either stay the same or small increases. For the 2019/20 year in Southern Grampians based on a 2 percent rate cap and one differential of 80 percent we have 6,399 properties experiencing a decrease in real terms and 4,569 properties experiencing an increase in real terms.

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

Discussion paper key points:

- Council rating revenue is a mix of both rates and charges. General rates are set as a percentage of property values while municipal charges are a fixed dollar amount for all ratepayers.
- Service charges for waste are intended to contribute to the cost of providing those particular services.
- **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?**
- **How does your council set charges for waste and other services?**

Council currently levies a municipal charge of $200 per property. This amount equates to approximately 10 percent of rate revenue ($1.8m). It also approximately equates to the costs of maintaining the Councillor, Executive and Governance functions of council operations. These are the "unavoidable" or fixed costs of maintaining a council at its highest level.

Council has a long term waste management plan which has guided Council in setting its service charges to ensure the rateable component is used for refuse collection and contributes to the management of that waste component with user fees covering waste delivered to waste sites, making the whole waste service approaching cost neutrality.

This Council also maintains a detailed pricing policy and register which allocates the basis of a fee or charge, ranging from full cost recovery to minimal contribution based specific social measures. Officers are constantly exploring opportunities to achieve revenue growth within this framework.

Special rates and charges are proposed where a distinct group of ratepayers will achieve a level of service beyond that which Council can offer under existing conditions. E.g. where a specific road may not meet council criteria for sealing, however those ratepayers who utilise the asset wish to have the higher level of service.

Capital works are funded via an amount equal to depreciation (the amount required to maintain the existing asset portfolio in the same condition), and specific grant funding for new or upgraded assets, recognising that savings will need to be made to support these new assets.

These robust revenue strategies, combined with active grant seeking, ensure Council is allocating its rate revenue and Financial Assistance Grants to those services which truly operate at a deficit.

It also demonstrates a service by service analysis to ensure the appropriate range of revenue options are considered to fund each individual service.

Refer to previous section regarding a ‘flat rate’ or higher Municipal Charge with less or no reliance on valuations.

How much oversight of council rates should the State have?

Discussion paper key points:

- The State Government sets rules about how council can set rates through legislation.
- To minimise the red tape, these rules should be clear and straightforward.
- The panel is keen for understand how the community views the trade-offs between local discretion (by councils responding to local circumstances) and state-wide inconsistency in rating practices (arising from councils adopting different rating practices).
- **Does your council have a clear rating strategy?**
- **Should all councils apply consistent rating practices? Why/why not?**
- **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?**

This Council strongly believes that councils should have full autonomy in setting levels of rating and does not agree with the concept of rate capping as per the submission to the Essential Services Commission in 2015. All councils have a different mix of residents, socio economic conditions, physical landscapes, attractions and challenges,

This council has been able to utilise higher levels of rating during particular time periods for the advancement of particular capital works or operational matters. This has been offset by periods of low rating when there was little to no growth in the revenue in the region. Who – other than the direct service provider – is better placed to know the intricacies of their own community?

Local government elected members and officers are out and about with these community members every day. In constant contact with their needs, desires and preferences. This occurs through formal measures, utilising community engagement techniques as well as informal such as visiting the library, leaving children in care, notifying customer service of a matter or paying an account at the local office.

In this Council, every fortieth person you interact with is a councillor or staff member which represents a very close relationship between the council and community.

How can it be demonstrated that either the State or Federal governments are in a position to know the needs of this community better than their own council?

This Council has two distinct sectors, a vibrant large rural city together with a traditional rural sector. The ability to recognise these two communities as having a different standard, range and access to services, is the basis for differential rates. The ability to plan further differential rating as these communities evolve and diversify, possibly needing adjustment and reviewing of their contribution to the rate bases should surely be a decision of the council who knows and supports these needs.

It also needs to be recognised that our neighbours and fellow councils also deserve the right to customise their rating practices to meet their unique community's needs and preferences.

Is the rating system clear and transparent for ratepayers?

Discussion paper key points:

- The review may unearth opportunities for improvements in presenting rates notices, billing practices and customer service for ratepayers.
- There may also be opportunities to simplify processes for ratepayers to appeal rates and council decisions.
- **Does your rates notice have the information you want? If not, what would you like to see on your rates notice?**
- **How convenient is it to receive your rates notice and make payments?**
- **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?**

It has always been difficult to explain the rating system to ratepayers, however the inclusion of the Fire Services Property Levy (FSPL) and the now annual movements of valuations make it more difficult.

The prescriptive nature of the current rate notice is problematic. The amount of information required to be provided means the notice looks overcrowded and font is very small. Modernisation to only key points being required with further information to other means would be advantageous.

Being able to segregate the FSPL with subtotals and additional wording could alleviate some angst around increases as many people look at the bottom line and attribute the increase for both components to council.

The ability to disclose previous information if councils wish, may also assist, e.g. previous year valuations or rates levied etc. similar to the way utility companies provide information on accounts.

Reviewing the annual valuations structure could also be a mechanism to soften the volatility of markets the resulting highs and lows for properties. E.g. capping valuation increases applicable in any one year on individual properties.

Another matter which adds to confusion is the role councils play in the valuation objection process. The state government now controls all aspects of valuation preparation and supply of values to councils, however leaves council to deal with the customer in the first instance, only referring the objections onto the valuer later.

Other Matters

With the current proposed Local Government Bill, Councils are anticipating the need to prepare 4 year budgets, the setting of the rate cap for this same 4 year period would enable councils to more accurately develop their budgets, rating strategy and longer term financial plans.

The timing of valuation returns are problematic in the budget development cycle. With valuations not required to be returned until the end of April each year, the ability for an appropriate level of rate modelling to review differentials and other adjustments is severely limited when trying to achieve the other prescribed requirements (exhibition of documents, hearing of submissions, adoption by Council etc.) before 30 June timeframe. This has led to some significant issues with compliance around the rate capping regime and its inflexibility.

The rating system and frameworks need to be flexible and responsive to deal with specific or emerging trends and issues from other areas of government and regulation. For example, the current situation where “Airbnb” providers are largely unregulated, however quite often impact on the amenity and good order or high tourism areas. Councils receive no additional revenue from these providers, but have to deal with additional traffic management/parking, public nuisances and general complaints from neighbours.