

Local Government Rates Review Submission



Executive Summary

- Councils now are very largely providers of **PEOPLE** based services rather than property based services.
- Evidence shows that in the Rural City of Ararat, the farming community pay **NINE** times as much in rates per person as do people in residential Ararat. This is **NOT EQUITABLE**
- Evidence shows that rates based on land valuation alone are a **VERY POOR** estimate of wealth.
- Capacity to pay has been shown to be **VERY POORLY** correlated with land value
- Rural people suffer significantly from a **DECREASED** range of services when compared with the residents of the Rural City of Ararat
- The current model of local government taxation is **UNFAIR** and **INEQUITABLE**
- **FAIR and EQUITABLE** alternatives would be an increase in **GST** or adoption of the **HOUSE and CURTILAGE** model
- Victorians need and should be entitled to a fair and equitable local government taxation system.

Introduction

The functions and services provided by Councils have changed dramatically over the past 20 years.

Prior to amalgamation in 1994, Rural Councils were primarily involved in property services such as maintaining roads, footpaths and drainage and as such funding to carry out these functions was appropriately gained by charging rates based on the valuation of the property. As most properties were of a similar type eg mostly residential in a town or mostly farms in a shire, the cost of rates was proportional to the value of the property and importantly the productivity of the property. Also the percentage of income spent on rates was a fraction of that being charged by councils today. Now most Council services are PEOPLE based services which require higher Council staff numbers, more infrastructure and greater funds to administer. Thus the percentage of income now spent on rates is much higher and since amalgamation has been increasing at about 9% cumulative each year. For the farming sector, rates are now one of the top three items of expenditure. This change in Council function from “property based” to “people based” now requires a new and fairer system for local government taxation. Further, the amalgamation of rural shires with large towns such as Ararat has led to increasingly disparate rating practices between the predominantly residential properties of the towns and the rural farming areas.

Whilst Councils may be able to make some of their services “user pays” other services will have “public benefit” attributes and as such will need to be paid for out of general funds. Having defined the change in purpose of Council functions, it then becomes necessary to define the onus on people serviced by Council to contribute equally and fairly to Council funds by way of rates or an alternative taxation method. The Australian Way is to regard all people as equals and thus for Councils to arbitrarily divide ratepayers into sectors on the basis of where they live or where they work should be totally unacceptable. Whilst it is reasonable to assume that people living in higher value properties within a group of similar properties with similar purpose eg residential, farming or commercial/industrial could pay a greater percentage of rates than people living on lower value properties in that same sector, the major difficulty arises when Councils try to arbitrarily adjust for different land uses. This has the most serious effect on farming families when Councils make token adjustments in differentials without any evidence to support their actions.

The Local Government Taxation System Based on Rating of Property Values is Deeply Flawed

The following analyses provide evidence that Council claims pertaining to wealth, capacity to pay, benefit and fairness and equity are unsubstantiated and thus require the development of a new fair and equitable local government taxation system.

1. Equity and Fairness

Since amalgamation of rural shires with large towns in 1994, some Councils such as Ararat have increasingly used the small and declining population of the rural sector to subsidise the largely residential sector in Ararat as shown in the following table.

Comparison of rates contributions by different rating sectors in Ararat Rural City

Rating Sector	No of Properties	Rates levied	% of Total Rates	Average Rate
Residential	5018	\$6,785,200	48.4	\$1352
Commercial/Industrial	331	\$1,232,900	8.7	\$3725
Farm	450*	\$6,085,800	43.2	\$13524

Source: Rural City of Ararat Budget 2019-20: * Best estimate of number of commercial farming properties

If Australia can be regarded as a fair go country where people are generally regarded as equal, then the above data shows a total inconsistency with this concept. But as a farm is both workplace and residential location, to be fair, the rates on a workplace and a residential property should be calculated on a per person or per family basis for both. In this case most of the residents of Ararat will pay rates on their home and work at one of the commercial or industrial properties which is also paying rates. Likewise the farmers will work on their farm where the rates will cover both their house and their workplace. Using the above data, the rates paid by each for both their residence and their workplace can be calculated

Comparison of rates paid by residential plus work places and farmers in Ararat Rural City

Rating Sectors	No of properties	Rates levied	Average rate
Residential plus Comm / Ind	5018	\$8,018,100	\$1498
Farmers	450	\$6,085,800	\$13524

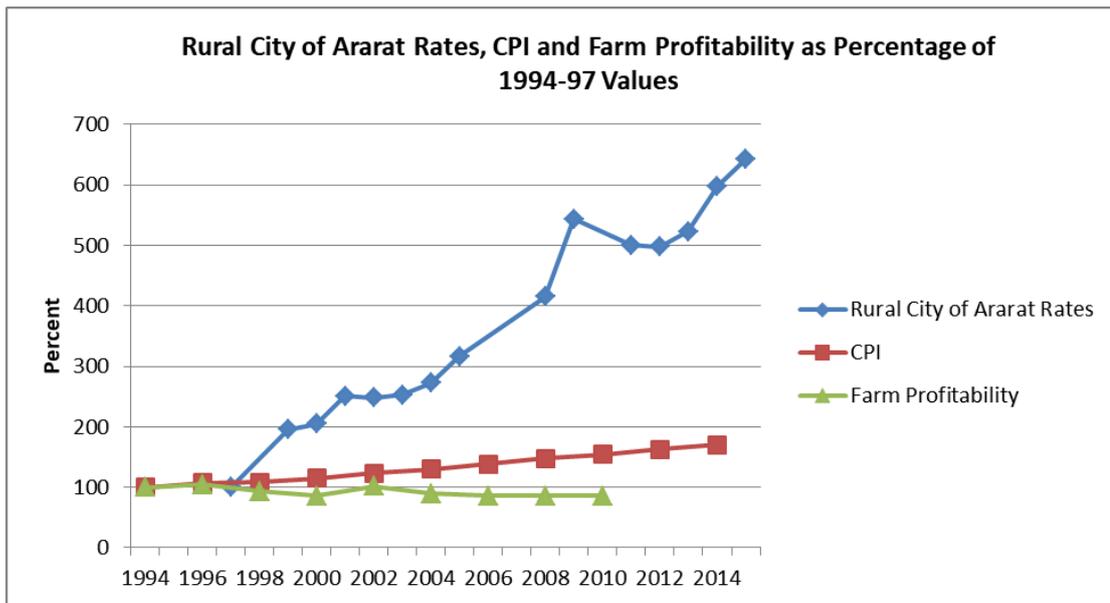
This table shows that farmers are paying rates at **NINE** times the rate that residential people working at a commercial or industrial business in Ararat do for the same or less in services. Clearly this is **NOT** fair or equitable

2. Wealth

Valuation of real property (as a measure) is a very poor indicator of a person's wealth. It has been shown that Victorian real property value outside greater Melbourne is only 43% of total wealth held in that same area (Koops,T; 2018, Ararat Rural City Council Rating Strategy Issues paper part 3 Fig 1. p10). Koops also showed that the relationship between income and wealth is tenuous. (Koops,T; 2018, Ararat Rural City Council Rating Strategy Issues paper part 3 Fig 2. p14). Considering this information, a valid argument has been raised that if valuation of real property is to be used as a parameter for setting local government taxes, then it should also include the value of *ad valorem* assets such as superannuation and bank balances, cars, boats, jewellery and art works etc. Further, making rate calculations on the value of a property does not consider the equity in that property. For example an occupier may have limited equity in a business property but is required to pay rates on the total value of the property while the owner of the property (bank or mortgagor) pays nothing.

3. Capacity to Pay

Councils frequently cite value of property as an indicator of a person's ability to pay. However, it has been shown that there is a very poor correlation between value of a property and the occupier's capacity to pay. This is most evident when examining the rates paid by farmers and their income compared with the CPI over a long period . From data presented by Koops, the correlation between wealth and income was calculated as $R=0.46$ ie a very poor correlation (Koops,T; 2018, Ararat Rural City Council Rating Strategy Issues paper part 3). This is most evident for the farming sector who pay about nine times as much in rates per person as non-farmers do. The following graph clearly shows the diverging increase in rates while farm incomes remain almost static.



Source: ABS;DAFF;Rural City of Ararat

Further, when the income of farmers is compared to the income of Ararat residents, there is a significant difference in favour of the Ararat residents when compared with the rural residents in the municipality.

Median per family weekly income for Residents in Ararat and the main farming areas of Willaura, Lake Bolac and Tatyoon

Ararat	\$1284
Rural areas	\$1103

Source: ABS 2016 Quickstats

These figures show that the rural sector is on average earning LESS than residents in Ararat and so have a lower capacity to pay.

4. Benefit

The benefit principal argues that those who benefit most from council expenditure should pay a higher rate. But for most farmers, the benefits are considerably lower than for Ararat residents and many benefits are simply not available outside Ararat. The main benefit sought by rural people is road maintenance but it is noted that outside Ararat this has dropped to less than 30% of the maintenance conducted by the former Shire of Ararat prior to amalgamation.

5. Effects

The effects of local government taxation based on levying of rates on the value of real property alone clearly does not adequately allow for the varying effect of wealth, capacity to pay, benefit and most importantly fairness and equity. In the Rural City of

Ararat the consolidation of rural properties due to economic pressures has led to a large fall in the rural population which Council has not compensated for by changes to the rating strategy. This is largely the reason rural ratepayers are now paying nine times as much in rates as the residential ratepayers in Ararat. If Council wanted to achieve a semblance of fairness and equity, they could have used the existing rules of differential rating (using the maximum ratio of 1:4) and setting the municipal charge at a level that covered the overhead costs of managing the Council. To do this the municipal charge would have had to be in the range of 15% to 20% of all rates raised and the highest differential rate at 120%. But the issue is that as successive Councils failed to make any incremental adjustments to compensate for the changes over the past 25 years, a single large step now could be unpalatable to Council. So it is incumbent on this review to develop a local government taxation system that is fair and equitable to all sectors of the community and to develop it with strict protocols such that wayward Councils cannot manipulate the rating strategy.

6. Possible local government taxation systems and their merits

6.1 Rates determined by land value alone with the possible application of differentials (current system).

This system fails on all counts because it does not properly consider wealth, capacity to pay, benefit or fairness and equity issues and is too subject to manipulation by Councils

6.2 Rates set at a flat rate by the Victorian government and based on CIV

This system too, would suffer from the lack of consideration of wealth, benefit and capacity to pay between the different sectors and as such could not provide a fair and equitable system. However, it would transfer some of the rate burden from highly valued city properties to struggling rural Councils.

6.3 Rates collected as a fixed surcharge on GST (estimated at 2%)

This system would have many merits.

It would collect rates by small ongoing payments rather than one large payment. The funds collected by the Commonwealth would then be handed to the Victorian government to distribute to the Victorian Councils

It would be progressive in that the more one spends, the more rates they would pay ie there would be a much better correlation with capacity to pay and not linked to very poor wealth correlations.

It would collect payments from all users of Council services, not just property owners.

It would be simple to administer – the GST would be 12% instead of 10%.

There would be no need to constantly increase the rate levy as it would automatically increase with the general increase of prices.

There would be no large shift in annual payments by some sectors on introduction as there would be if the present system is balanced to a more equitable and fairer system.

The only disadvantage would be that the Australian government does not yet recognise local government.

6.4 Rates collected on the CIV value of the residence(s) only and up to two hectares of curtilage surrounding them. (House and Curtilage model)

This system would acknowledge that PEOPLE are the main users of Council services rather than the size or value of surrounding business property.

It would be a much fairer system than the current system as like would be compared with like. The rates on a large country homestead would be the same as a large city property of the same value and the rates on a small rural cottage would be the same as a small town cottage.

A variation of this model is the rating strategy used by the Mornington Peninsula Shire which has a mixture of House and Curtilage and a farm rate that is currently one fifth that in Ararat. This model could be used as a phase in model to the full house and curtilage model.

A Broader and Fairer View of Rating Options

Of the above models the fairest and most equitable would be to increase the GST. For the above reasons it would be the simplest, least cost and would satisfy land owners. There may be some initial opposition from people who currently do not pay rates but why shouldn't these people contribute something for the services they use? By spreading the burden of local government taxation over more people, the burden on each is markedly reduced.

The house and curtilage model would also provide a system that met the requirements for fairness and equity. It would still retain the need for costly periodic revaluations but these could be shared with the Victorian government for calculations of stamp duty and land taxes. Adoption of this model would avoid the need to negotiate with the Australian government that would be required if the GST model was adopted.

The worst possible outcome would be tinkering at the edges of the current rating on CIV of the whole property. In the past decade or more we have seen various Council manipulations of their rating strategy to favour various sectors to the detriment of other sectors. Things like the rate capping direction have been widely flouted and in

the Rural City of Ararat last year this resulted in a general rate rise of 14.9% for the farming community.

Victorians need, and should be entitled to, a local government taxation system that is genuinely fair and equitable

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