Submission to Legislative Council
Environment and Planning Committee
Inquiry into Rate Capping Policy

David Hucker

The Victorian government proposal to impose rate capping on municipal and shire Councils is one part of taxation reform that will have some merit in limiting the punitive and unfair system of taxation imposed by local government on different sectors of the community, especially the farming community. For this reason I implore the government to adopt realistic rate capping as an urgent priority but recognise that rate capping alone will not be sufficient to manage the inequity and sectarianism practiced by many Councils.

In many country municipalities amalgamation in 1994 forced many shires to include large country towns which were formerly municipalities in their own right. Unfortunately this restructure has matched like with unlike and the requirement to pay local government taxes based on property values has produced huge inequities between the farming community and the town community. These new larger municipalities were given the right to adjust for this inequity by using differential rates but most municipalities refused to make anything more than a token adjustment on this basis. In general the result is that ratepayers in the old shires are now paying between 500 and 800% more in local government taxes per person than the residents of the towns they were forcibly amalgamated with in 1994. In my municipality, The Rural City of Ararat, the rates for the 471 primary producer businesses in 2014-15 are now an average of $4182 per person while the non-farming sector pays only $718 per person for the total of workplace and residential rates. This, coupled with the rapidly declining rural population has meant that fewer and fewer rural people are being expected to provide a similar proportion of the total rate revenue to that of some years ago. The situation has now reached the stage where some rural people pay more in local government rates than they do in federal income tax and GST combined. This highlights the inequities of a taxation system based on values only rather than productivity.

Since amalgamation, the rates for one of my properties have risen by nearly 500% on primary production grazing land with no improvements while there has been only a 70% rise in the CPI (Figure 1.). This is an average increase in municipal rates of more than 25% per year or 9.3% cumulative. This must be looked at in the context of farm profitability and the capacity of the farming community to pay. A rate cap that would reduce the 9.3% increase in rates I have experienced for the past 20 years to that of CPI would be most welcome.
In December, the Rural City of Ararat passed a motion at the monthly Council meeting to “Commence work on a rate rise for 2015-16 no higher than the CPI”. The Australian Bureau of Statistics shows the CPI for Melbourne as 2.7% for 2013-14 but a Council staffer advised me that as this figure was not high enough they went looking for another year and decided they would use 3.2% as the CPI but they may also use a “local government cost index” for CPI. By the time they added 1% for “infrastructure” and separated out other charges, the increase in rates and charges for 2015-16 will be 4.95% - nearly double the Council’s motion for a CPI rise. This raises a very important point in relation to the use of CPI. Will any rate cap on local government rates apply to ratepayer’s rate bill or will it only apply to the charges deemed to be rates and allow Councils to move costs previously passed to ratepayers as rates to other charges exempt from the rate cap? If the latter is allowed then a rate cap will be doomed to failure as unscrupulous Councils rapidly recategorise their charges. Also allowing Councils to use a “Local Government Cost Index” as suggested by the MAV would be a total disaster as this would encourage rampant rate increases and inefficiency as Councils used one year of poor management and high rate increases to justify an increased rate for the next year.

Whilst controlled rate capping may stem the 9% plus yearly rate rises, the real solution to local government management is to review the whole local government taxation system to that of a fair and equitable system as required by the local government act section 3C(2)f. The following systems may be options that this committee could consider in its report to alleviate the sectarianism and inequity generated by Councils.
1. Adopt a curtilage system for valuing property for the purpose of calculating rates for each property in the municipality. This means abolishing rates on all business properties and charge rates on the value of each residence and its surrounds up to 2 acres. This would have the advantage of eliminating the variation in rates charged per worker due to the value of the workplace. For example a factory may be valued at $2 000 000 but employing 100 workers versus a farm property providing for only one worker but also valued at $2 000 000. In this instance the farm worker has to generate rates on the $2 000 000 while each factory worker has to generate rates on only $20 000. This would also allow Council to charge people owning a higher value residence more as they could be expected to have a greater capacity to pay.

2. Increase the GST to a level that would fund local government. This would be fair as people with greater capacity to pay would be paying a greater proportion towards local government. It would also be simple to implement and would not burden Councils with costly valuations every two years.

3. Extend rates to include *ad valorem* assets such as bank accounts, superannuation funds, life insurance policies, pension lump sum equivalent amounts, shares etc along with property. This would have the benefit of lowering the rate in the dollar currently charged as rates by a significant amount.

For each of the above alternatives there may still be a need to make some provisions for hardship and handicapped people.

Summary

- Implementation of rate capping will have some benefit so long as it can be enforced on Councils
- The whole taxation system for local government funding is in urgent need of review as amalgamation in 1994 has led to increased sectarianism and inequity of rating of the different community sectors.
- Rate capping will be only a small part of the changes needed by local government taxation review
- I support this committee’s work

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10.07.15