

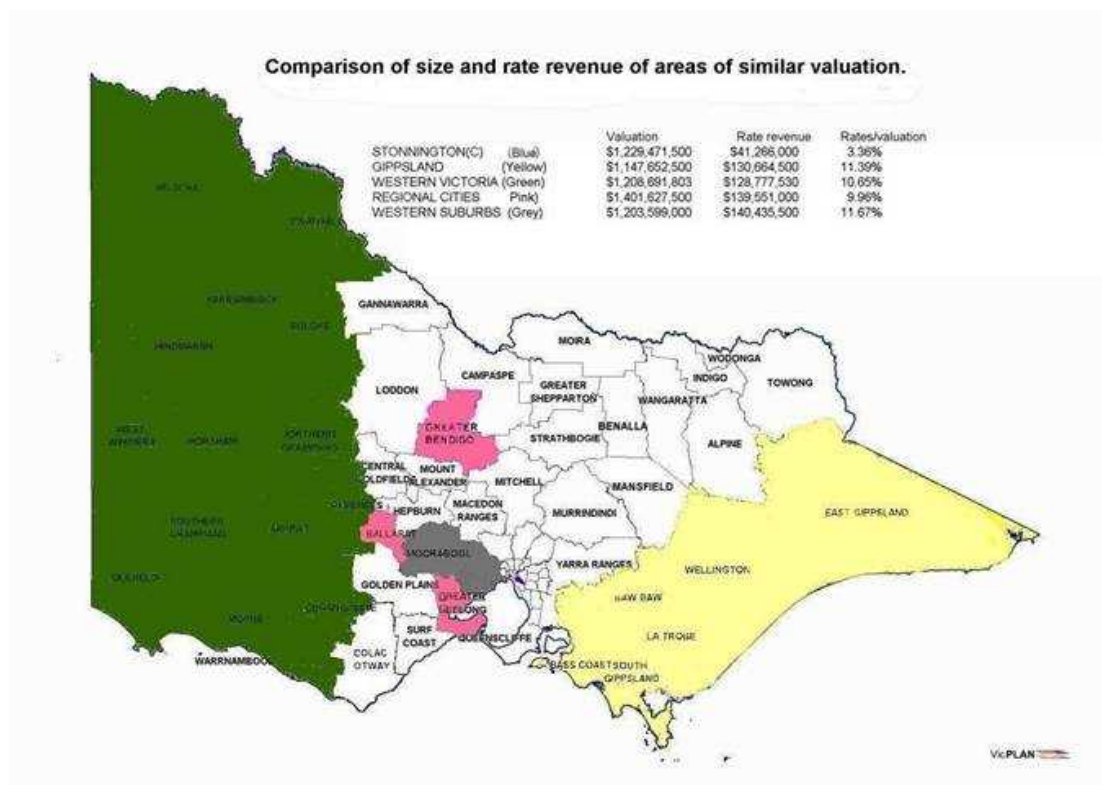
Putting rates in their place.

Prepared by Bruce Evans. 15/06/05

Country people are the victims.

Any form of tax should be fair and readily understood by the taxpayer. A tax should relate to a taxpayer's ability to pay and to the benefit received. Local government rates do not comply with these accepted principles of taxation. (See Appendix 1.)

While rating of land for local government purposes served its purpose for 150 years, the following map demonstrates how grossly unfair it has become in the State of Victoria. The map has been prepared from statistics available on the Victoria Grants Commission (VGC) website which calculates an 'implied rate' for each Council and the amount each Council would collect if the average rate was applied right across the State. This shows the differing impact of rates in various parts of the State.



	Valuation	Rate revenue	Rate revenue/valuation %
STONNINGTON(C)	1,229,471,500	41,266,000	3.36%
GIPPSLAND	1,147,652,500	130,664,500	11.39%
WESTERN VICTORIA	1,208,691,803	128,777,530	10.65%
REGIONAL CITIES	1,401,627,500	139,551,000	9.96%
WESTERN SUBURBS	1,203,599,000	140,435,500	11.67%

The City of Stonnington has the lowest 'implied rate' ¹¹ of all the State's municipalities. It is assumed that Stonnington efficiently delivers all services and facilities expected of local government. It is fair to use that municipality as a benchmark. Stonnington argued the case for more financial assistance before the House of Representatives Cost Shedding Inquiry.

The map puts Stonnington into geographic perspective in relation to the rest of the State - it is the minute shaded area south-east of the Central Business District of the City of Melbourne. Assuming that all municipalities are expected to provide similar services and facilities,^[2] the difference in the rate in the dollar struck by each Council can only be attributed to the cost of delivering these services.

Municipalities in the above map have been grouped to achieve a roughly similar total valuation. Properties within each grouping on average pay rates in the same proportion as the whole group. The figures have been extracted from a table available on the Internet under Victoria Grants Commission (VGC). The table, modified by colour coding metropolitan and non-metropolitan municipalities and sorted in ascending order of the 'implied rate' as calculated by the VGC, follows. Several columns of figures used to calculate the two year averages are hidden.

Standardised rates.

This VGC table titled Standardised Revenue provides a two-year average valuation and two-year average rate revenue for each municipality. From these figures, the Commission calculates an "implied rate" for each Council. This averages out any differential rates, such as a farm or commercial rate, a Council may impose.

It should also be noted Councils strike a rate in the dollar to fulfil its needs after all government grants have been allotted. No purpose can be served by governments reciting what they have done for rural areas in the past because these figures prove that they are not dealing with the fundamental problem. There is a flaw in local government financing if this important arm of government, or any parts of it, cannot provide the essential services to which its ratepayers are entitled at a cost reasonably comparable to ratepayers in other municipalities. Even if rural communities received the same level of services as are available to residents of the metropolitan area, it is nonsense to claim that the cost of delivering such services to country communities is more than double the cost of the actual services.

Statistics available from the Victoria Grants Commission show that 22^[3] municipalities levy an implied rate below the average for the whole of the State, 20 of them are within the metropolitan area, 19 of that 20 are contiguous. One of the two non-metropolitan municipalities below average is Queenscliffe, the only council left intact in the 1995 restructure, the other, Mansfield, is newly severed from Delatite.

"Why is it so?"

The valuation of the City of Stonnington is greater than the total valuation of six municipalities that cover Gippsland - the yellow shaded area on the right of the map. One of these is Cardinia, classified by the VGC as metropolitan. On property of approximately equal value Gippsland's ratepayers pay three times the rates paid by the ratepayers of Stonnington.

Stonnington is valued at slightly more than the combined valuation of 16 municipalities in the west of the State but the latter pay about \$88 million more in rates. It makes the drought relief package look a paltry sum.

The three major regional cities of Ballarat, Bendigo and Geelong combined are valued slightly higher than Stonnington but they pay almost \$100 million more in rates.

What is it about Stonnington that makes it so valuable? An economist should be able to explain why there is such a vast difference in the valuation of land in various parts of the State.

Stonnington does not have any arable land, mountains, lakes or coastline - it has only a few hundred metres of river frontage. It has no coal, gas, oil or water catchments. It has no forests or National Parks - no snowfields or beaches. It produces no crops nor provides any sink for the greenhouse gases it produces. Its assets are artificial – the logical reason why rates should be higher – not lower – than other parts of the State.

A real estate salesman would say that it is “location, location, location”. Stonnington is close to all the facilities that people desire. If that is so, why is it that just a few kilometres away in the western suburbs, the level of local government rating is comparable with rural Victoria?

One thing Stonnington does share with its leafy neighbouring municipalities is an average household income \$10,000 above the average of those who reside in non-metropolitan municipalities. In fact it is almost double that of the poorest municipalities.

It also shares the benefits of a public transport system, massively subsidised by taxpayers to the tune of \$2.146 billion annually. (See Auditor General’s Report Sept. 2005). This subsidy adds value to the land that benefits. The same land also benefits from the construction of freeways that remove the traffic from outer suburbs that would otherwise clog up the streets.

A house does not increase in value but the land on which it is built reflects the availability of publicly provided facilities and amenities, particularly public transport and freeways, the things that should attract a higher rate in the dollar. Instead of paying for the cost of the transport network, users are paying higher rents to their landlords. Ratepayers in the inner city reap the benefits by not having to pay the real costs of getting their employees and/or customers into their shops and offices.

If public transport fare subsidies and freeway construction costs, with an acceptable Community Service Obligation taxpayer contribution, were paid by all metropolitan ratepayers, it would reflect the true cost of city living. The amount they pay would reflect the benefit they receive. In addition, the State government would be freed of an annual outlay of about \$2 billion which then could be re-directed to the needy rather than to placate the greedy.

National Competition Policy argues that subsidies distort the economy and cause a misallocation of resources. There is no better example than the subsidisation of facilities and services in big cities. Non-metropolitan ratepayers pay about \$200,000,000 more in rates every year than they would if they owned property of the same value in the metropolitan area. This is only part of the transference of wealth from the country to the city.

Statistics.

The figures below were extracted from the Department of Infrastructure web site. Municipalities have been sorted in ascending order by the implied rate and colour-coded into metropolitan and non-metropolitan.

Column1 VICTORIA GRANTS COMMISSION Standardised Revenue <i>Metropolitan</i> <i>Non-metropolitan</i> Municipality	Column4 2001 -2002 2 Year Average	Column5 2 Year Average Rate Revenue	Column6 Implied Rate	Column7 Base Standardised Rate Revenue
STONNINGTON(C)	1,229,471,500	41,266,000	3.4	82,374,591
BAYSIDE(C)	880,915,000	33,306,000	3.8	59,021,305
MANSFIELD(S)	41,042,000	1,589,725	3.9	2,749,814
BOROONDARA(C)	1,562,278,500	62,639,500	4.0	104,672,660
MONASH(C)	1,058,429,000	43,458,500	4.1	70,914,743
WHITEHORSE(C)	888,183,500	38,214,500	4.3	59,508,295
DOCKLANDS AUTHORITY	37,394,500	1,641,500	4.4	2,505,432
GLEN EIRA(C)	919,406,000	42,448,000	4.6	61,600,202
KINGSTON(C)	942,027,051	43,839,917	4.7	63,115,812
MANNINGHAM(C)	809,736,000	37,763,000	4.7	54,252,312
PORT PHILLIP(C)	1,024,039,500	48,775,500	4.8	68,610,647
MORNINGTON PENINSULA(S)	1,009,790,500	52,862,000	5.2	67,655,964
BANYULE(C)	628,510,500	33,944,000	5.4	42,110,204
MOONEE VALLEY(C)	722,671,000	39,569,500	5.5	48,418,957
YARRA (C)	746,701,500	42,200,500	5.7	50,029,001
KNOX(C)	650,606,000	39,917,500	6.1	43,590,602
QUEENSCLIFFE(B)	42,778,000	2,590,500	6.1	2,866,126
DAREBIN(C)	739,972,500	45,612,307	6.2	49,578,158
MELBOURNE(C)	1,701,422,000	106,063,500	6.2	113,995,274
MAROONDAH(C)	495,757,500	31,183,500	6.3	33,215,753
MORELAND(C)	717,459,000	45,572,500	6.4	48,069,753
GREATER DANDENONG(C)	632,825,500	40,833,000	6.5	42,399,309
HOBSONS BAY(C)	516,014,000	37,284,500	7.2	34,572,938
MOYNE(S)	111,340,500	8,162,000	7.3	7,459,814
FRANKSTON(C)	429,372,000	31,812,000	7.4	28,767,924
HUME(C)	591,196,685	43,479,990	7.4	39,610,178
SURF COAST(S)	189,195,500	13,923,500	7.4	12,676,099
NILLUMBIK(S)	286,648,500	21,361,500	7.5	19,205,450
WHITTLESEA(C)	503,959,056	39,112,421	7.8	33,765,257
CASEY(C)	635,107,500	51,388,500	8.1	42,552,203
BRIMBANK(C)	603,608,500	49,277,500	8.2	40,441,770
GOLDEN PLAINS(S)	52,037,000	433,250	8.3	3,486,479
BASS COAST(S)	167,963,000	14,151,000	8.4	11,253,521
MARIBYRNONG(C)	383,637,000	33,414,000	8.7	25,703,679
YARRA RANGES(S)	577,152,500	50,121,000	8.7	38,669,218
CARDINIA(S)	182,014,000	16,276,000	8.9	12,194,938
WARRNAMBOOL(C)	122,742,000	11,164,500	9.1	8,223,714
CORANGAMITE(S)	94,171,000	8,665,000	9.2	6,309,457
GREATER GEELONG(C)	785,365,500	72,278,000	9.2	52,619,500
COLAC-OTWAY(S)	109,755,500	10,540,500	9.6	7,353,619
WEST WIMMERA(S)	29,871,000	2,903,500	9.7	2,001,357
CAMPASPE(S)	157,592,500	15,461,000	9.8	10,558,698
INDIGO(S)	55,122,000	5,469,000	9.9	3,693,174
MURRINDINDI(S)	71,506,500	7,094,000	9.9	4,790,936
GREATER SHEPPARTON(C)	241,626,000	24,139,000	10.0	16,188,942
MACEDON RANGES(S)	148,448,000	15,045,000	10.1	9,946,016

WANGARATTA(RC)	100,759,000	10,185,500	10.1	6,750,853
GANNAWARRA(S)	44,223,000	4,593,500	10.4	2,962,941
HORSHAM(RC)	74,822,500	7,792,000	10.4	5,013,108
MILDURA(RC)	224,686,500	23,388,000	10.4	15,053,996
BALLARAT(C)	308,284,000	32,747,500	10.6	20,655,028
MITCHELL(S)	90,777,000	9,805,000	10.8	6,082,059
PYRENEES(S)	30,683,000	3,323,500	10.8	2,055,761
SOUTHERN				
GRAMPIANS(S)	73,167,000	7,896,500	10.8	4,902,189
WELLINGTON(S)	195,391,500	21,069,000	10.8	13,091,231
STRATHBOGIE(S)	49,660,500	5,399,500	10.9	3,327,254
WYNDHAM(C)	357,192,000	39,270,000	11.0	23,931,864
MOUNT ALEXANDER(S)	58,162,000	6,382,000	11.0	3,896,854
BAW BAW(S)	136,250,000	15,135,500	11.1	9,128,750
GREATER BENDIGO(C)	307,978,000	34,525,500	11.1	20,634,526
MOIRA(S)	102,158,500	11,492,500	11.2	6,844,620
MOORABOOL(S)	83,272,500	9,353,000	11.2	5,579,258
BENALLA(RC)	55,881,500	6,362,275	11.4	3,744,061
SOUTH GIPPSI-AND(S)	122,749,000	13,935,500	11.4	8,224,183
HINDMARSH(S)	27,070,000	3,123,000	11.5	1,813,690
TOWONG(S)	28,818,500	3,305,000	11.5	1,930,840
MELTON(S)	181,405,500	21,114,000	11.6	12,154,169
YARRIAMIACK(S)	39,509,500	4,574,000	11.6	2,647,137
HEPBURN(S)	47,645,000	5,561,500	11.7	3,192,215
LODDON(S)	37,702,500	4,502,500	11.9	2,526,068
GLENELG(S)	85,560,303	10,324,030	12.1	5,732,540
WODONGA(RC)	118,483,500	14,472,500	12.2	7,938,395
ALPINE(S)	55,270,500	6,803,000	12.3	3,703,124
EAST GIPPSLAND(S)	159,851,500	19,730,000	12.3	10,710,051
NORTHERN				
GRAMPIANS(S)	48,148,500	5,986,500	12.4	3,225,950
CENTRAL GOLDFIELDS(S)	34,158,500	4,644,000	13.6	2,288,620
ARARAT(RC)	39,021,000	5,708,000	14.6	2,614,407
BULOKE(S)	34,034,500	5,253,500	15.4	2,280,312
SWAN HILL(RC)	64,109,000	9,973,000	15.6	4,295,303
LATROBE(C)	183,433,500	30,367,500	16.6	12,290,045
Totals	28,127,181,595	1,880,045,165	6.7	1,884,521,186

Note. The column, Base Standardised Rate Revenue, shows the amount that would be payable if all municipalities charged the State average “implied rate”. For example, in the case of Latrobe City, its current 2 year average revenue from rates is \$30,367,500. Under a Standardised system, it would have been \$12,290,045, a reduction of \$18,077,455.

Highly Rated.

The Latrobe Valley, which provides resources that allowed metropolitan Melbourne to grow and prosper, is now the most highly rated municipality in the State. Brown coal resources provide the electric power, and in the past, briquettes and Lurgi gas, without which Melbourne could not have grown into the massive city it has become.

By Australian standards, Gippsland is well endowed with resources but instead of assuring the prosperity of the region, they have been sequestered by the State without compensation to the region. Irrigators in Gippsland are restricted in the use of water within the region, and its potential to absorb a far greater proportion of the population, because most of one of its major rivers is diverted for metropolitan use without any compensation to the region.

After 40 years, natural gas from the Gippsland Basin will soon become available to some East Gippsland residents. Governments talk of “world’s best practise” but ignore the fact that other countries provide proceeds from royalties or similar contributions for the benefit of local communities. Royalties are used instead to boost property values in the capital city.

The present system is steadily and ruthlessly destroying non-metropolitan areas economically. It is most noticeable in rural and remote areas where farmers are battling to stay solvent while governments try to think up schemes to attract skilled migrants into country towns. In addition to draining the country of its wealth, our governments are draining the country of its people and more ‘country electorates’ encompass fringes of the metropolitan area.

Country towns are the most efficient of communities but this natural advantage is destroyed because they are expected to share the costs of servicing their hinterland while the metropolitan area escapes this responsibility. Nevertheless, country people are expected to share the costs of providing public transport and other services needed by a big city. The description of Australia as a “Commonwealth” is a misnomer.

Fool’s paradise...

Australians are reputed to be fair minded and compassionate people and our governments claim to reflect these admirable traits. We are living in a fool’s paradise if we believe this myth.

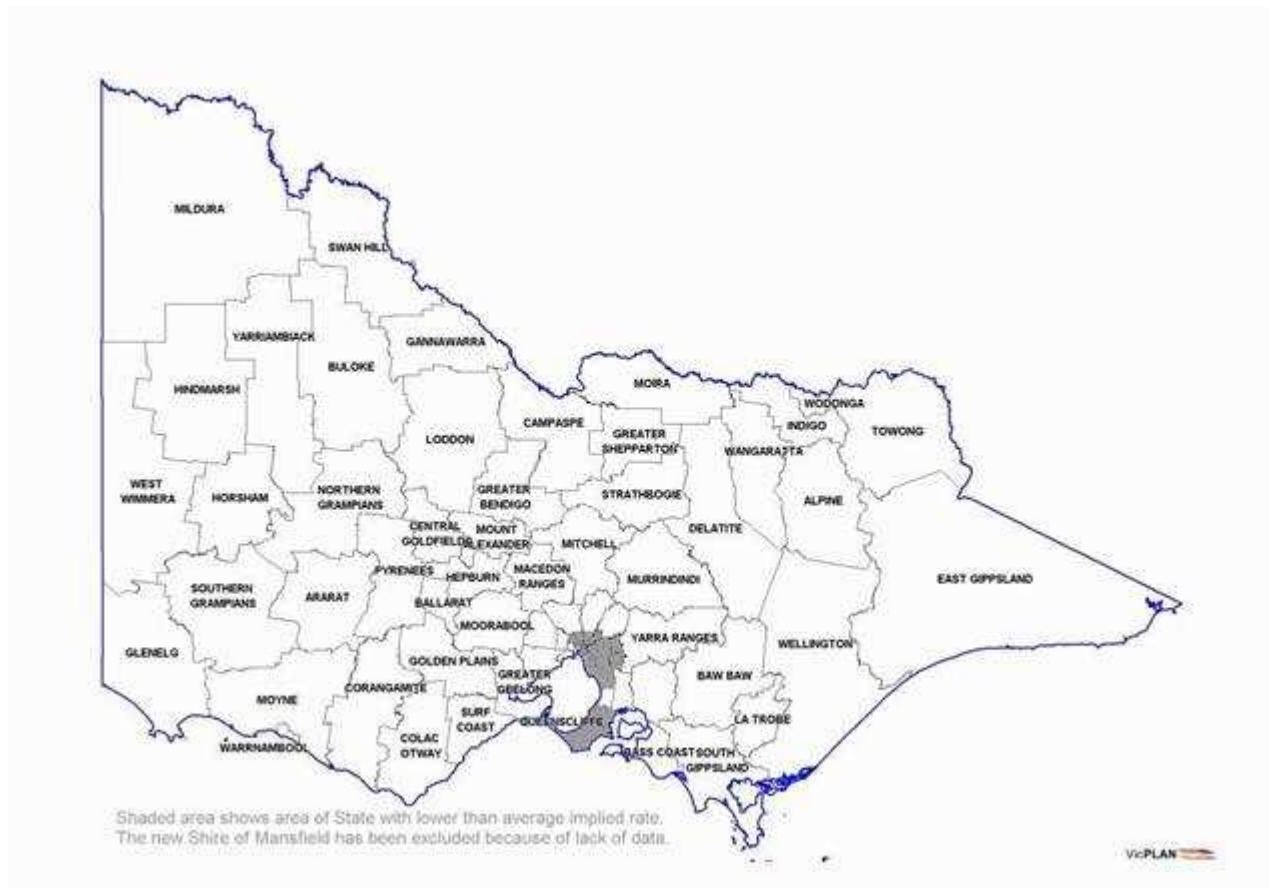
Almost 80% of Australians have crowded into massive cities, insulated from the extremes of droughts and flooding rains, and they have lost touch with the realities of the country in which they live. They believe they have a right to plunder the countryside for the resources needed to sustain a lavish lifestyle. They can see no reason why country people should have any right to share the benefits.

Governments do not seem to comprehend that all Australians live in a big country, not just those who live outside the cities. Country residents are expected to carry the costs of living in a big country while city people reap the benefits.

Ratepayers in non-metropolitan areas pay \$200,000,000 more each year in local government rates on property of equal value than do ratepayers in the metropolitan area.

In the context of ‘value for money’, the comparison between services and facilities provided in the city and country is scandalous. Compared with the wealthiest metropolitan ratepayers, some country ratepayers pay almost five times the rate in the dollar for grossly inferior services.

Mismanagement can be largely discounted by reference to the following map.



If it is good management that results in a below average ‘implied rate’, it is extraordinary that all but two occur in the metropolitan area. It is even longer odds that all but three are contiguous. The fact that the figures prove is that Commonwealth and State governments favour the rich more than the poor.

Approximately 250,000 more Victorians would be better off under a standardised rate. On a per capita basis, those who need it most would benefit the most.

Using the rating structure already in place in the Australian Capital Territory would dramatically increase both the numbers who would benefit and the amount by which the most in need would gain. Conversely, failure to deal with the issue will steadily depopulate rural areas and cause ever growing environmental problems in the capital city.

Appendices.

Appendix 1.

Extract from Microsoft Incarta.

Fairness

Of fundamental importance is that any tax must be fair—that is, citizens should be taxed in proportion to their abilities to pay (a concept that Smith defined somewhat ambiguously as “in proportion to the benefit they derive from the government”). A tax is considered fair if those who have the means to pay are assessed either in proportion to their capacity to pay or, depending on the situation, in proportion to what they receive from the government. Both “ability to pay” and “benefits received”, therefore, are criteria of fairness. When government services confer identifiable personal benefits on some individuals and not on others, and when it is feasible to expect the users to bear a reasonable part of the cost, financing the benefits, at least partly, by taxing the people who benefit is considered fair, as in the repayment of loans to students by subsequent taxation. (Obviously, this method does not apply to such services as public welfare payments.) Taxation in accordance with appropriately applied standards of ability to pay or of benefits received is said to meet the requirements of vertical equity (because such taxation exacts different amounts from people in different situations). Just as important is horizontal equity—the principle that people who are equally able to pay and who benefit equally should be taxed equally.

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Appendix 2.

Australian Capital Territory Rating Structure.

<http://www.revenue.act.gov.au/rates.htm#Rates>

Rates Calculation for 2004-05

The variable factors used to calculate Rates are now determined by disallowable instrument under s139 of the *Taxation Administration Act 1999*. See Disallowable Instrument DI 2004-43 for current amounts and percentage rates.

Calculation of rates for different types of property is as follows:

Standard Properties: $\$330 + ((AUV - \$21500) \times P)$

The amount of rates payable for 2004-05 has two components - a fixed charge of \$330 (except for rural properties) and a valuation based charge for each rateable property. The valuation based charge is calculated using a rating factor or percentage (P) and the average of 2002, 2003 and 2004 unimproved land values of your property (AUV), that exceeds \$21 500 (rate free threshold). You do not pay the valuation based charge on the first \$21 500 of your AUV.

Unit Properties: $\$330 + Q(\text{AUV} \times \text{UE}) - \$21500 \times P$

Rates for units that are part of a registered Unit Title Plan are subject to a similar calculation that is applied to standard properties. Each unit is liable for the \$330 fixed charge together with the valuation based charge. The valuation based charge for each unit is calculated using the average of 2002, 2003 and 2004 unimproved land values (AUV) of the entire Unlit Title Plan which is multiplied by the individual unit entitlement (UE). The rating factor (P) is then applied to the individual unit value that exceeds \$21 500 (rate free threshold). There is no liability for the valuation based charge if the individual unit portion of the AUV is \$21 500 or less.

Rural Properties: $(\text{AUV} - \$21500) \times P$

Rates for rural properties are calculated on a valuation based charge only. The rating factor (P) is applied to the average of 2002, 2003 and 2004 unimproved land values (ALTV) that exceeds \$21 500 (rate free threshold). There is no fixed charge component for rural properties.

Rating Factors (P)

There are differential rating factors for residential, commercial and rural properties that are applied to the AUV of each property that is above \$21 500 (rate free threshold). The rating factors for 2004-05 are as follows:

Residential	0.3870%
Commercial	1.2182%
Rural	0.1935%

Note. Because of the power of veto the Commonwealth Government exercises over territorial governments, it can be assumed that this system of rating is endorsed by both sides of politics. This highlights the inconsistency of an amendment to the Commonwealth's Local Government (Financial Assistance Act) that provides that 30% of Commonwealth funds granted under the Act are to be distributed on a per capita basis to every municipality. This amendment, that has been in place for 30 years, ignores the reality that it is lack of population that adds to the cost of providing services.

Where there are advantages in density of population, such as communications and the supply of other services, metropolitan residents are quick to claim the advantages of "economy of scale" but where there are diseconomies such as the need for freeways, public transport, pollution control, criminal activity to name a few, it is the taxpayer rather than the ratepayer who is called upon to bear the costs.

^[1] See Victoria Grants Commission table: Standardised rates.

^[2] The Commonwealth Grants Commission Act states that: -
S. 12(3) In making a determination the Commission must have regard to the objective of ensuring that the allocation of funds for local government purposes is made, as far as practicable, on a full horizontal equalization basis, being a basis that ensures that each council in the State is able to function, by reasonable effort, at a standard not lower than the average standard of other municipalities in the State, and that takes account of differences in the expenditure required by those municipalities in the performance of their functions and in the capacity of those municipalities to raise revenue.

^[3] Docklands is included as a municipality.