7.1 RATING STRATEGY REVIEW – STEERING COMMITTEE REPORT
(FIN 76:MK: DW)

Rating Strategy Review Steering Committee

RECOMMENDATION

That:

1. Council resolves to change to CIV with a differential rate of 1.25 times the general rate on Commercial/Industrial properties, for the financial year beginning 1 July 2010 and commence formal public consultation on the Rating Strategy change under S223 of the Local Government Act 1989;

2. Council determines that consideration of the introduction of a pensioner subsidy for eligible pensioners is deferred until the financial year 2011/12;

3. In accordance with Section 157 of the Local Government Act 1989, public notice of the preparation of the proposed change will be published in The Age, Waverley Leader, Oakleigh Monash Leader, Chinese Media Group, Neos Kosmos and Il Globo newspapers and the Council’s web site: www.monash.vic.gov.au as soon as practicable;

4. Council appoints a Committee of Council, comprising all Councillors to consider submissions received on the proposed change to the valuation system;

5. Any written submissions on any proposal received by the Council by 5 pm, 6 November 2009, in accordance with Section 157 of the Local Government Act 1989, be considered by the Committee of Council at 7.30p.m. on Tuesday 24th November 2009;

6. Any requests for verbal submissions received in accordance with Section 223 of the Local Government Act 1989 be heard by the Committee of Council at 7.30p.m. on Tuesday 24th November 2009 in the Council Chambers at the Civic Centre, 293 Springvale Road Glen Waverley;

7. Subject to the consideration of any written or verbal submissions received in accordance with Sections 157 and 223 of the Local Government Act 1989 and any decisions made, Council adopt its method of valuation on 8th December 2009; and

8. Council gives public notice of its decision to adopt its method of valuation in accordance with Section 157(2) of the Local Government Act 1989.

INTRODUCTION

The Rating Strategy Review conducted by the Council has aimed to meet a key objective of the Local Government Act 1989, which amongst other objectives, directs that Councils must have regard to:

“Ensure the equitable imposition of rates and charges”
The proposed change to the Monash Rating System will have regard to the following considerations in meeting this objective:

- Equity
- Efficiency
- Simplicity

The consultation process identified that a change from Site Value (SV) to Capital Improved Value (CIV) would ensure:

- More equity in the distribution of rates across sectors;
- Flexibility in collection of rates to deal with changing needs; and
- An increased opportunity to raise revenue to provide facilities and services to meet a growing and changing community, through supplementary valuations.

The review findings demonstrate that the current method of SV as the basis for charging rates has a significant impact on residential properties that is inequitable, as it does not take into account the improved value, particularly for high density and high value dwellings and/or commercial and industrial properties. A key issue for SV is that it does not reflect the landowners ability to pay rates where ability to pay is defined by the value of improvements to the property. As medium density development becomes more prevalent in Monash the rating inequity between single dwellings and unit developments will be increased.

The concept of CIV as a basis for rating is that this system more closely reflects the capacity to pay, where capacity to pay is linked to the value of improvements to the property. CIV valuations include the combined value of the land and its improvements.

The analysis by MacroPlan (Council’s Consultant) compared several rating strategies of selected Victorian metropolitan local authorities. The analysis suggests that Monash’s current rating system is not the most effective compared to other Councils. In particular, there are inequities that are demonstrated by its high reliance on the residential sector bearing the burden for the amount of rates collected against that of high levels of business activity.

BACKGROUND

Council commenced a preliminary public consultation process for the review of Council’s Rating Strategy in July 2009 to consider the following Options:

Option 1 - No change (i.e. retention of Site Value (SV)).

Option 2 - Straight transition to Capital Improved Value and a uniform rate.

Option 3 - Transition to Capital Improved Value (CIV) with a differential rate for Commercial / Industrial Properties of 1.5 times the general rate; and

The consultation process also included consideration a further option for a Council funded rebate for eligible pensioners, of either $50 or $100.
In considering the outcome of the initial community consultation and extensive research of the impact of the Options canvassed through the initial consultation process, Council has determined to adopt a modified Option 3 to that originally proposed. That is to change to CIV as the basis of charging rates for all rateable properties and to include a differential rate of 1.25 times the general rate for commercial and industrial properties.

The modified differential rate has been selected because at 1.25 the general rate, commercial property in Monash will on average pay rates at the midpoint of Council’s neighbouring municipalities. Council considers this is the ideal point at which to base the commercial rate so that Monash retailers and businesses are neither at the upper end or lower end when compared to similar councils. Council also considers that a higher differential, such as 1.50 times the general rate, which was included as Option 3 of the consultation process, would be too onerous and would position Monash at the higher end of commercial rates among like councils.

A move to CIV, with a 1.25 times differential rate on commercial and industrial properties, will benefit 64% of properties with a reduction in rates, based on the current valuation of properties (as shown in Table 1). The effect of applying the 1.25 differential to commercial and industrial properties is to increase the number of residential ratepayers by 10% who would be better off when compared to what they currently pay under SV.

Table 1. Change to CIV plus 1.25 times the general rate for a Differential rate on Commercial and Industrial properties.

<table>
<thead>
<tr>
<th>Category</th>
<th>Properties That Pay Less Rates</th>
<th>Properties That Pay More Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Decrease</td>
<td>% Decrease</td>
</tr>
<tr>
<td>Residential</td>
<td>44,840</td>
<td>69%</td>
</tr>
<tr>
<td>Commercial</td>
<td>286</td>
<td>7%</td>
</tr>
<tr>
<td>Industrial</td>
<td>563</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45,689</strong></td>
<td><strong>64%</strong></td>
</tr>
</tbody>
</table>

*All figures are based on the rates and charges from the 2009/10 Rating database*

Further Council will reconsider a subsidy for eligible pensioner ratepayers as part of the change to CIV in the financial year 2011/12. The reason for delaying the decision to apply a further pensioner subsidy is to enable a better understanding of the impact of the change to CIV on all properties including the differential rate on commercial and industrial properties and to better understand the impact of the 2010 revaluation of properties in the city. It is estimated that 82% of eligible pensioners will be better off with the proposed change to CIV including the differential rate on commercial and industrial properties (as shown in Table 2).
Steering Committee Review of Rating Strategy 2009

Table 2. Impact of the change to CIV plus Differential rate for commercial and industrial properties on eligible pensioners

<table>
<thead>
<tr>
<th>Eligible Pensioners</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paying Less Rates</td>
<td>10,502</td>
</tr>
<tr>
<td>Paying More Rates</td>
<td>2,365</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,867</strong></td>
</tr>
</tbody>
</table>

All figures are based on the rates and charges from the 2009/10 Rating database

1. Initial Consultation Process

The initial consultation process was commenced to enable comprehensive input and debate by the community. The initial consultation process conducted by Council included:

- A rating strategy brochure sent to all ratepayers to inform them of the proposed Rating Strategy Options, providing examples of indicative rates that would apply under each option;
- Distribution of 72,000 brochures with the 2009/10 Rates Notice;
- Establishment of a 1300 telephone hotline for enquiries and advice regarding the impact of each of the Options for individual ratepayers (1,697 telephone calls were logged with 101 recorded enquiries on the rate calculator);
- Information advising of the consultation process and progress of the forums in the July and August editions of the Monash Bulletin;
- Information on the time and location of the Forums was advertised in the local papers and the Monash Bulletin;
- Distribution of 5,500 brochures targeting Commercial/Industrial properties (in addition to the brochure with the rate notice). These were posted/delivered to the property address of each premises;
- Provision of a "Have Your Say" page on the website to inform ratepayers of the three Options being considered and inviting of submissions on the proposed Options for the Rating Strategy. The “Have Your Say” site included a pro-forma document for people to download and send back to Council.
- Copies of the forum’s power-point presentation have also been posted on the web site to view/download information.

At each forum, facilitated by Brian Haratsis from MacroPlan, Council provided translation services for Italian, Greek, Mandarin and Cantonese speaking attendees. Further, in addition to information on the Options, process and timeframe, each attendee was able to access the rate calculator to see the impact of each Option on their property based on the current valuation, effective date 1 January, 2008. There were 224 attendees at the Forums.

Four forums were conducted at the following venues for residential ratepayers at:

- Mulgrave Community Centre, 10 August (24 attendees),
- Civic Centre, Council Offices, 12 August (80 attendees),
• Oakleigh Seminar & Training Centre, 13 August (23 attendees); and
• Mt Waverley Community Centre, 17 August (75 attendees).

Two sessions were conducted for Commercial and Industrial property ratepayers at:

• Civic Centre, Council Offices, 20 August (14 attendees); and
• Oakleigh Seminar Training Centre, 13 August (8 attendees).

In addition to the forums, ratepayers also provided feedback directly to Council via email and letters. Over 200 items of correspondence were received, some of those seeking clarification on the Options as well as other rate related issues, however most advised of a preference for a particular option. The feedback via this correspondence has been mostly in support of Options 2 and 3 (a change to CIV).

A petition containing the names and addresses of 38 ratepayers was submitted expressing a preference to remain on Site Value.

Results of the views expressed via the ‘Have your say’/correspondence preferences and 1300 number are as follows:

Table 3. “Have Your Say” - email/letter preferences

<table>
<thead>
<tr>
<th>Preference</th>
<th>with a $50 Rebate</th>
<th>with a $100 Rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1 - SV</td>
<td>81</td>
<td>5</td>
</tr>
<tr>
<td>Option 2 - CIV</td>
<td>47</td>
<td>6</td>
</tr>
<tr>
<td>Option 3 - CIV + differential</td>
<td>50</td>
<td>7</td>
</tr>
<tr>
<td>Other *</td>
<td>29</td>
<td>0</td>
</tr>
</tbody>
</table>

*Other – identification of several preferences for alternative options that cannot be considered under the current legislative framework.

Table 4. Hotline - 1300 Number - recorded preferences

<table>
<thead>
<tr>
<th>Preference</th>
<th>$50  Rebate</th>
<th>$100 Rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1 - SV</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Option 2 - CIV</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Option 3 - CIV + differential</td>
<td>50</td>
<td>5</td>
</tr>
</tbody>
</table>

Despite the significant number of calls to the hotline, due to the limited number of people who were willing to express their view, the results are not conclusive.

2. Consultation Workshops / Feedback

The format of the forums consisted of a presentation on the draft Rating Strategy by Brian Haratsis (MacroPlan) and the potential impact of each of the Options. Presentations were tailored for both Residential and Commercial/Industrial Forums. Following the presentation, questions and comments were invited from attendees before
forming smaller groups to workshop ideas and provide feedback on the Options to the forum.

Overall, there appeared to be a high level of understanding of the impacts of each option, including the impact of the pensioner rebates for eligible pensioner concession cardholders on all ratepayers. The eligible pensioner rebate Option did not feature as a “hot issue” at any forum, apart from a relatively strong view expressed that Council should provide assistance to self funded retirees as well as eligible pensioners if this option was proceeded with. A view was also expressed that given the significant number of eligible pensioners who would benefit from a change to CIV that the necessity of a further subsidy was questionable.

Further, unit owners expressed concern at the significant impact the proposed changes would have for them, however the general view was held by the forums was that as unit owners have enjoyed a considerable benefit to date and a change to CIV would simply bring them into line with what is a fairer and more equitable contribution to the overall rate burden. It was widely recognised by the forums that homeowners on single blocks would still bear a significant proportion of the rate burden despite the increase in contribution of unit owners if either Options 2 or 3 were chosen.

2.1. Consultation Feedback – Commercial/Industrial

Feedback from the Commercial/Industrial forums indicated an understanding of the inequities of the SV system, particularly as it relates to medium and high-density development and the level of services Council provides to these properties. Comments and issues from Commercial/Industrial ratepayers included:

- No significant support for Option 3 (change to CIV with a differential on Commercial/Industrial);
- The current economic climate is causing hardship to this sector and therefore a change to CIV should be deferred or remain with the current system;
- Some concern expressed for pensioners but no overall support for pensioner rebates;
- Little understanding/appreciation of services provided by Council to this sector; and
- A view that Council should explore a greater focus on “user pay” for services as a means of reducing the rate burden for all ratepayers.

2.2. Consultation Feedback – Residential

Feedback from the Residential forums also indicated an understanding of the inequities of the SV system particularly as it relates to medium and high-density development. Resident comments/issues included:

- General support for a change to Option 2 (Straight move to CIV) or Option 3 (a 150% differential on Commercial/Industrial properties);
- Concern regarding the adverse impact the current economic climate may be having on Commercial/Industrial properties in the context of both profitability and employment risk;
• Council should recognise “long-standing” residents with some acknowledgement/ benefit based on years of residency, i.e. 30-50 yrs plus;

• Several requests for flatter tax systems (e.g. Poll Tax or introduction of a Municipal Charge); and

• General support for pensioner rebates for eligible pensioners of $50 (however, pensioner rebates, although covered in the presentation, generated limited discussion at the residential forums).

The consultation indicated a strong desire for a change from SV to CIV primarily based on the view that SV is inequitable in relation to the impact of rates on:

• Houses vis a vis units/apartments; and
• Pensioners/superannuates who primarily reside in detached dwellings.

Participants at both the residential and commercial workshops shared this view. The point of difference between the workshops was the shift in burden between the residential and commercial industrial sectors, although there was a clear recognition that given most municipalities use CIV, that businesses would not be at a competitive disadvantage. The clearest support emerged for a change from SV to CIV.

Representation has also been made by the Managers of several Retirement Villages on behalf of their residents who would pay significantly more under CIV. Whilst this is correct, under CIV the residents of Retirement Villages who are eligible pensioners will also be able to claim an increased pensioner subsidy from the State Government than they are currently eligible for, due to their low threshold under SV.

3. Further Analysis – Pensioners

It should be noted that the majority of eligible pensioner ratepayers live in detached houses (83%). Of those living in detached houses 9,964 (93%) would pay less with a move to CIV plus a 1.25 times the general rate differential on commercial and industrial properties (as shown in Table 5).

Table 5. Eligible Pensioner Ratepayers by Land Use

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>TOTAL</th>
<th>TOTAL %</th>
<th>CIV RATE</th>
<th>CIV + Diff.125%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>LESS 9%</td>
<td>MORE 13%</td>
</tr>
<tr>
<td>Detached House</td>
<td>10,681</td>
<td>83%</td>
<td>9,350</td>
<td>1,331</td>
</tr>
<tr>
<td>Units/Townhouses/Flats/Other</td>
<td>1,709</td>
<td>13%</td>
<td>427</td>
<td>1,282</td>
</tr>
<tr>
<td>Retirement Village Unit/Complex</td>
<td>477</td>
<td>4%</td>
<td>8</td>
<td>469</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,867</td>
<td>100%</td>
<td>9,785</td>
<td>2,365</td>
</tr>
</tbody>
</table>

All figures are based on the rates and charges from the 2009/10 Rating database

CONCLUSION

For Council to resolve to change its rating methodology, a formal community consultation process is required under section 157 of the Local Government Act 1989 (including the S223 process). Council must adopt a preferred option for statutory consultation. Following this second phase of consultation, Council must finally determine its position based on the option consulted upon through the S223 process.
Following consideration of submissions Council must formally resolve to change (refer to Table 6 - Rating Strategy Timetable).

In considering the outcome of the initial community consultation and extensive research on the impact of the options Council has determined to adopt a modified Option 3 to that which was originally proposed. That is to change the Monash rating system to CIV as the basis of charging rates for all rateable properties and to include a differential rate of 1.25 times the general rate for commercial and industrial properties.

Further, Council will reconsider a subsidy to eligible pensioner ratepayers as part of the change to CIV in the financial year 2011/12. The reason for delaying this decision to apply a further pensioner subsidy is to enable a better understanding of the impact of the change to CIV and to better understand the impact of the 2010 revaluation of properties. It is estimated that 82% of eligible pensioners will be better off with the proposed change to CIV plus the 1.25 times the general rate differential on commercial and industrial properties, based on the current valuation of properties.

**Table 6 – Review of the Rating Strategy Timetable**

<table>
<thead>
<tr>
<th>Date</th>
<th>Rating Strategy Task</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 October</td>
<td>S223 Local Government Act 1989 Statutory Meeting - Adopt preferred Strategy (basis for rating and commence community consultation process and mail out to Residents)</td>
</tr>
<tr>
<td>8 October</td>
<td>Advertise the resolution of the Council to adopt CIV and the commencement of the consultation process in The Age, Local and Ethnic Newspapers. Post advice on the Internet</td>
</tr>
<tr>
<td>12 October</td>
<td>Mail out to all ratepayers advising of the proposed change and the commencement of the formal consultation process</td>
</tr>
<tr>
<td>6 November</td>
<td>Close Submissions from Section 223 Process</td>
</tr>
<tr>
<td>24 November</td>
<td>Special Meeting of Council to consider and hear Submissions in accordance with S223 of the Local Government Act 1989</td>
</tr>
<tr>
<td>8 December</td>
<td>Final Adoption of the basis for the Rating Strategy effective from 2010/2011</td>
</tr>
<tr>
<td>9 December</td>
<td>Give public notice in accordance with S157 (2) of the Local Government Act 1989</td>
</tr>
<tr>
<td>December 2009 - June 2010</td>
<td>Commence development of the 2010/11 Budget based on CIV and a 1.25 times the general rate differential for Commercial and Industrial properties (Subject to final adoption by the Council).</td>
</tr>
</tbody>
</table>