



# Council Rates – Going up....!

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By David Spearritt,  
Director *ORION* Consulting Network

**P**ressures are looming on Councils to increase rates over the term of new Councils. Many residents are demanding increased services and infrastructure to cope with the rapid population growth, putting more cost-pressures on Councils. As well, the property boom is upsetting the rating appecart. How the Councils handle these issues will decide the rate increases in store.

There are other cost pressures in Councils. New, improved asset and accounting systems are alerting many Councils to spend more repairing their existing assets before they break down. State and Federal Governments have boosted their budgets by shifting costs to Councils, as shown in the recent National Inquiry. Governments have also imposed stricter environmental and quality controls, raising the costs of town water, sewerage, and waste management. Workplace safety laws have increased the cost of services like roadworks. Interest rates on Council loans are likely to increase. Insurance premiums have skyrocketed with the collapse of HIH and increased damages claims.

Some Councils have compounded their problems by endorsing uncompetitive employment agreements without demanding offsetting productivity gains. Many Council pay rates are now out of kilter with the private sector. Hence a professional brain-drain looms, with underpaid professionals leaving in droves. Pressure is building to cut costs by outsourcing

more activities to external suppliers. All this creates daunting challenges for the newly elected Councillors when deciding rate levels.

Rates on land value have always been contentious. Yet every Inquiry has found no better system for Councils<sup>1</sup>. In fact, economists have long argued that this is one of the best taxes in existence. Unlike most other taxes it can't be evaded, the visible up-front payment increases accountability of the taxing authority (Council), and it encourages rather than hinders economic development. If ever there ever was a good tax, this is it – but it's badly misused, and misunderstood. The biggest misuse of rates comes from the tax-sharing arrangements between the three tiers of Government. Roads are the main Council service funded from general rates. The best way to finance local roads is from the existing fuel taxes. But, instead of going to state and local Governments for roads, most fuel-tax revenue disappears into federal coffers. Hence Councils must get this money from rates – which have little relationship to road usage or costs.

Many Councils have used rates for services which can be better funded by user charges. For instance, Brisbane City Council used to fund water and sewerage from rates on land value, instead of charging for actual use. User charges encourage people to avoid wasteful use, which keeps costs down. Still, many more services could be funded from user charges instead of rates to help keep the lid on rates rises.

Rates based on land value are widely misunderstood. One view of fairness is that rates should be linked to direct benefits from Council services. Another is that it's fair for wealthier ratepayers to pay more. And here's where the confusion is: Rates are neither directly linked to the benefit ratepayers get from Councils, nor directly related to ratepayers' income. Yet rates share enough features of both tests of fairness to cause widespread confusion. Rates are partly a benefit-tax because many Council services are reflected in the land value on which the rate is based. Properties without Council services (e.g. water, sewerage, garbage, sealed roads, drainage, buses, parks, and libraries) attract relatively low property values. Council town planning also affects the property value. Imagine the drop in value if an abattoir is allowed next door instead of a park. Of course land values are influenced by other factors such as views, and non-Council facilities (shops, schools, trains etc), never mind the property boom.

Rates also reflect ability-to-pay when increased land values add to a ratepayer's wealth. But initially ratepayers are only wealthier on paper. The increased value is not usually cashed in until the property is sold, although many homeowners have found ways to access

this additional paper wealth for investments. However, no ratepayers who have experienced higher property values would want to exchange their properties for those with lower land value just to get lower rates. We all want our extra cake but don't want to eat it by paying tax on it! Rates based on land value are better for local Government than other taxes. But they are best used to fund services in local areas which improve land values. It would also help if rate payments were made more flexible and timed to be friendlier to weekly household budgets.

Councils need to be very determined to restrain costs and use their rating powers wisely. Councillors will face tough choices – such as the choice between outsourcing and local job losses versus in-house operations and higher rates. Some may succumb to 'quick-fixes', like borrowing to balance the budget rather than for essential infrastructure or equipment. This will only defer the inevitable rate increase.

Let's hope those elected are up to the task ahead. Astute leadership is needed to resolve these tensions without creating a battlefield. Otherwise local Government as we now know it, together with today's rate levels, will soon be referred to as 'the good old days'.

<sup>1</sup> David Spearritt was the researcher for the 1989 Chalk Rating and Valuation Inquiry.