



# Social Housing and Funding for Council Services

Issues Paper

July 2021



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*The MAV thanks John Nevins for his assistance with the analysis and research. We also extend our thanks to Local Government Finance Professionals (FinPro) and the executive members who contributed their time and guidance in the development of this paper.*

## Table of contents

|   |  |    |
|---|--|----|
| 1 | <i>Executive summary</i> .....   | 2  |
| 2 | <i>Introduction</i> .....  | 3  |
|   | 2.1 <i>Defining social housing</i> .....   | 4  |
|   | 2.2 <i>Public sector financing for social housing</i> .....                                  | 5  |
|   | 2.3 <i>Report methodology</i> .....  | 5  |
| 3 | <i>Revenue impacts for councils</i> .....  | 6  |
| 4 | <i>Issues arising</i> .....  | 9  |
|   | 4.1 <i>Uneven impact across the state</i> .....  | 9  |
|   | 4.2 <i>Disproportionate impact on people living in poverty</i> .....                         | 11 |
|   | 4.3 <i>Inequitable payment distribution outcomes within municipalities</i> .....             | 12 |
|   | 4.4 <i>Complex rate exemption determinations</i> .....                                       | 14 |
|   | 4.5 <i>Property taxes versus general revenue sources</i> .....                               | 14 |
| 5 | <i>Conclusion</i> .....  | 16 |
| 6 | <i>Further information</i> .....   | 17 |
|   | <br><i>Attachment 1 - Number of social housing dwellings by LGA as at 30 June 2020</i> ..... | 18 |
|   | <i>Attachment 2 – Data sources and analysis methodology</i> .....                            | 22 |

## 1 Executive summary

The Victorian Government's \$5.3 billion [Big Housing Build](#) to construct and create 12,000 new social and affordable housing dwellings over the next four years has been welcomed by all Victorian councils. Not only does it fill a long-standing policy and funding vacuum, it also provides an important stimulus for Victoria's post-COVID social and economic recovery.

Within this large-scale and rapid infrastructure build, a range of complex planning and logistics issues have arisen which need to be worked through quickly to meet the four-year targets set out in the November 2020 State Budget.

One of these is that exemptions from paying council rates is currently being considered for all social housing provided by the Victorian Government and community housing organisations. Councils have been advised at DFFH forums that this is intended to apply to new social housing dwellings being built. In addition, consideration is also being given for retrospective application to all social housing owned and operated by the Victorian Government, comprising nearly 70,000 dwellings. More than 85,000 dwellings would be exempt if community housing organisation dwellings were included.

If this proposal were to proceed, it will have significant implications for local government. An estimated \$136.8 million per year in revenue will be lost to subsidise the funding of what has historically been a state government responsibility. The Victorian Government also receives substantial funding from the Commonwealth Government through national and bilateral funding agreements.

In just 10 years the amount of rates foregone for councils would compound to a total, estimated amount of \$1.6 billion. Essentially, that means that local communities will miss out on \$1.6 billion of investment in local services and infrastructure over the decade.

This would be a serious and damaging intervention by the Victorian Government into the funding available to councils to finance local services for people living and working in their municipalities. In effect, ratepayers, who are the main revenue source for local services provided by councils, will be asked to provide additional millions of dollars each year to subsidise a state government service which delivers benefits to all residents and taxpayers across Victoria's 79 council areas, or have decreased levels of local services.

Analysis in this report concerningly reveals that the councils most impacted are located where many households and homeowners are classified as being in poverty.

Many questions arise from the analysis and issues raised in this paper, including:

- The evidence base for the assumption that social benefits from increased social housing will offset the cost of service provision in the communities where social housing is located – councils' experience is that increased local services will be required to support social housing tenants, not less.
- How rate-payers will be expected to make up the shortfall in funding if all housing owned and operated by the Victorian Government is exempt from rates. Will there be a need to lift the rates cap where social housing is located, or is it assumed services provided by councils in these locations will need to be reduced?
- Defining eligibility for rate exemptions for social and affordable housing, particularly where private sector consortia are involved in developments on public land owned by the Victorian Government.
- The consultation mechanisms the Victorian Government proposes to properly canvas this proposal and its impact with councils, their ratepayers, and residents and businesses in their communities.

## 2 Introduction

The Victorian Government's \$5.3 billion [Big Housing Build](#) investment in new social and affordable housing announced in the November 2020 state budget delivers four main activities:

- redevelopment of existing public housing estates
- a pipeline of building on surplus government-owned land
- establishment of a Social Housing Growth Fund
- spot purchase and ready-to-build dwellings in 21 priority local government areas.

There will be a mixture of improvements and extension of existing Victorian Government and community housing organisation owned dwellings (social housing), as well as options for affordable housing being created in private sector developments.

Homes Victoria is the new entity which has been established within the Department of Families Fairness and Housing (DFFH) with the main oversight of these projects. Its remit includes affordable housing provided and facilitated by the Victorian Government. This includes public housing owned and managed by Homes Victoria, and other social housing managed by community housing associations. Homes Victoria is also leading policy development on social housing, such as developing the Victorian Housing Strategy.

A discussion paper seeking input for a [10-year Victorian social and affordable housing strategy](#) was released earlier this year. The strategy aims to drive ongoing investment and develop new policy settings to ensure that the Big Housing Build becomes part of a sustainable social and affordable housing program. The MAV made a [submission](#) to this strategy in April 2021.

A number of Parliamentary inquiries have also recognised the need for governments at all levels to respond to issues of homelessness. The [Victorian Parliamentary Inquiry into Homelessness](#) highlighted that even with the significant increase in social housing dwellings being built through this latest initiative, Victoria will still not meet the national average of social housing as a percentage of total dwellings. The Victorian Government has six months in which to respond to this report. The [Interim report](#) of the Federal Parliamentary inquiry into homelessness in Australia (released in October 2020) outlines a range of issues relating to the role of the Federal Government, but recommendations have not yet been provided and are still to be finalised.

In respect of local government financing, in December 2020 the Victorian Government responded to the final report of the Ministerial Panel it commissioned to review the [Local Government Rating System](#). In its [response](#), the Victorian Government reiterated it did not support significant reforms to general rates due to the potential for increased uncertainty and risk due to the pandemic. It particularly cited that it did not support considering exemptions from rates that would increase risks to businesses and investment certainty, and their potential to negatively impact on the broader community.<sup>1</sup>

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<sup>1</sup> Victorian Government's Response to the Local Government Rating System Review Final Report, December 2020, p1

## 2.1 Defining social housing

“Social housing” refers to short and long-term rental housing that is owned and run by the Victorian Government and not-for-profit agencies. It is made up of two types of housing, public housing and community housing. It is for people on low incomes who need housing, especially those who have recently experienced homelessness, family violence or have other defined needs. A shared social housing waiting list (the Victorian Housing Register) is used by both public housing managers within Homes Victoria and community housing organisations to offer long term rental housing.

There were 85,111 social housing dwellings in Victoria in 2020. Of these, 68,284 were public housing owned and operated by DFFH<sup>2</sup>, and 16,827 dwellings were owned and operated by community housing providers<sup>3</sup>.

**Figure 1: Number of social housing dwellings owned by DFFH and community housing organisations**

| Council Category | Number of councils | Total DFFH-Owned Housing | Total Community Organisation-Owned Housing | Total Social Housing Dwellings |
|------------------|--------------------|--------------------------|--|--------------------------------|
| Metropolitan     | 22                 | 38,592                   | 9,166                                      | 47,758                         |
| Interface        | 9                  | 8,204                    | 1,981                                      | 10,185                         |
| Regional City    | 10                 | 13,886                   | 3,957                                      | 17,843                         |
| Large Shire      | 19                 | 5,800                    | 1,456                                      | 7,256                          |
| Small Shire      | 19                 | 1,802                    | 267  | 2,069                          |
| <b>TOTAL</b>     | <b>79</b>          | <b>68,284</b>            | <b>16,827</b>                              | <b>85,111</b>                  |

The number of social housing dwellings for each Local Government Area (LGA) are set out in Attachment 1.

<sup>2</sup> Following Machinery of Government changes announced on 1 February 2021, Homes Victoria (located within the Department of Families, Fairness and Housing (DFFH)) is now the entity responsible for the policy development and provision of social housing owned and operated by the Victorian Government. Prior to these changes, the responsible entity was the Department of Health and Human Services (DHHS). “DFFH” is used to apply to both past and current Victorian Government-owned and operated housing cited in this report.

<sup>3</sup> DHHS Housing Assistance Additional Service Delivery Data 2019-20, p26

## 2.2 Public sector financing for social housing

The Victorian Government is expected to provide \$1.0 billion for housing assistance in 2021-22.<sup>4</sup> This amount includes \$426 million<sup>5</sup> which will be provided by the Commonwealth Government through the [bilateral agreement](#) with Victoria under the [National Housing and Homelessness Agreement](#) which came into effect from 1 July 2018. The funding provided by the Commonwealth Government is to assist the state provide crisis and transitional accommodation, long term social housing, regular upgrades, maintenance, builds and acquisitions along with a range of assistance to prevent homelessness and support people to access and maintain housing.

The National Agreement also specifies the roles of Commonwealth, state and local governments, with housing and homelessness services clearly marked as a state government responsibility. Local government is identified as being responsible for building approvals, local urban planning and development approval processes, and rates and charges that influence housing affordability.

## 2.3 Report methodology

This paper has derived an indicative assessment of the rates and charges paid by the Victorian Government for the dwellings it owns and operates across the state. It has also estimated the number of dwellings and rates paid by community housing organisations.

The analysis has taken a conservative approach where assumptions have needed to be made. For example, municipal and garbage charges have been exempted from the data utilised to derive state-wide averages.

Publicly available data has been utilised for the financial analysis undertaken in this paper. The specific data sources and analysis methodology are outlined in Attachment 2.

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<sup>4</sup> Victorian Budget Paper No 3, p201

<sup>5</sup> Victorian Budget Paper No 5, p187

### 3 Revenue impacts for councils

The direct impact on councils of foregoing rate income from social housing managed by Homes Victoria (within DFFH) and community housing organisations is estimated at a minimum to be \$136.8 million per annum. Figure 2 illustrates the impact on different categories of councils. Individual council areas will be variously impacted, depending on the number of social houses in particular locations.

**Figure 2: Rate exemption revenue implications per annum by council type**

| Council Category  | Indicative DFFH-owned TOTAL Rates & Charges Payment | Indicative Community organisation Owned TOTAL Rates & Charges Payment | Indicative TOTAL Social Housing Rates & Charges | Indicative DFFH-owned Housing Total RATES ONLY Payment <sup>1</sup> | Indicative Community organisation-owned Total RATES ONLY Payment <sup>1</sup> | Indicative Total Social Housing RATES ONLY Payment <sup>1</sup> | Indicative Social Housing RATES ONLY Payment Average per Category LGA |
|---|---|---|---|---|---|---|---|
| Metropolitan (22 councils)  | \$66,484,564  | \$15,408,561  | \$81,893,125                                    | \$59,522,257  | \$13,873,432  | \$73,395,689  | \$3,336,168   |
| Interface (9 councils)  | \$14,549,702  | \$3,461,708   | \$18,011,411                                    | \$12,688,686  | \$3,021,362   | \$15,710,048  | \$1,745,561   |
| Regional City (10 councils)   | \$24,833,765  | \$7,064,043   | \$31,897,808                                    | \$19,012,242  | \$5,386,728   | \$24,398,970  | \$2,439,897   |
| Large Shire (19 councils)   | \$10,157,477  | \$2,613,688   | \$12,771,165                                    | \$7,298,366   | \$1,817,187   | \$9,115,553   | \$479,766   |
| Small Shire (19 councils)   | \$3,078,019   | \$440,514   | \$3,518,533                                     | \$2,135,444   | \$303,853   | \$2,439,297   | \$128,384   |
| <b>TOTAL</b>  | <b>\$119,103,528</b>                                | <b>\$28,988,514</b>   | <b>\$148,092,042</b>                            | <b>\$100,656,995</b>  | <b>\$24,402,561</b>   | <b>\$125,059,556</b>  |   |
| DFFH "rates to Local Authorities" at state average residential 2019/20 LGA rate in the \$ for the \$5.3 billion Big Housing Build                                   |   |   |   |   |   | \$11,699,121  |   |
| <b>Indicative total residential rates payable for all social housing to local government Inclusive of \$5.3 billion Big Housing Build, based on 2019/20 average</b> |   |   |   |   |   | <b>\$136,758,677</b>  |   |
| 1. Based on Average Resident Rates Charge, with special municipal and waste charges excluded  |   |   |   |   |   |   |   |

**LEGEND:**

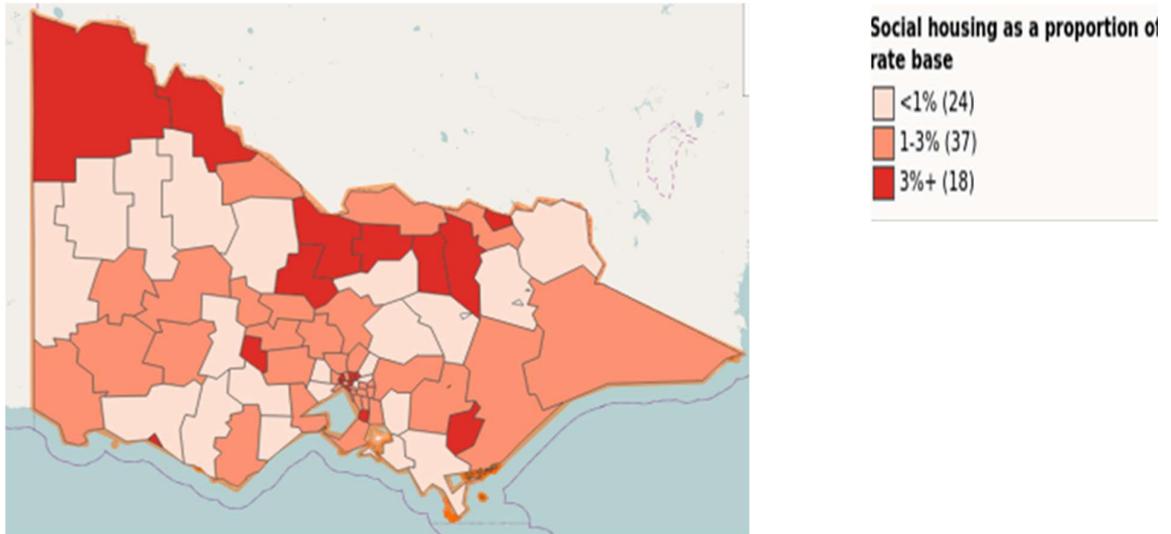
Council classifications are based on Local Government Victoria's 'Victorian Local Government Comparator Groups' - Metropolitan (M), Interface (I), Regional City (RC), Large Shire (LS) and Small Shire (SS)

State-wide, this represents an indicative 2.4%-plus rise in rates and charges year after year. This would be in addition to the annual increases approved by the Minister for Local Government to adjust for CPI and other sector-specific cost increases.

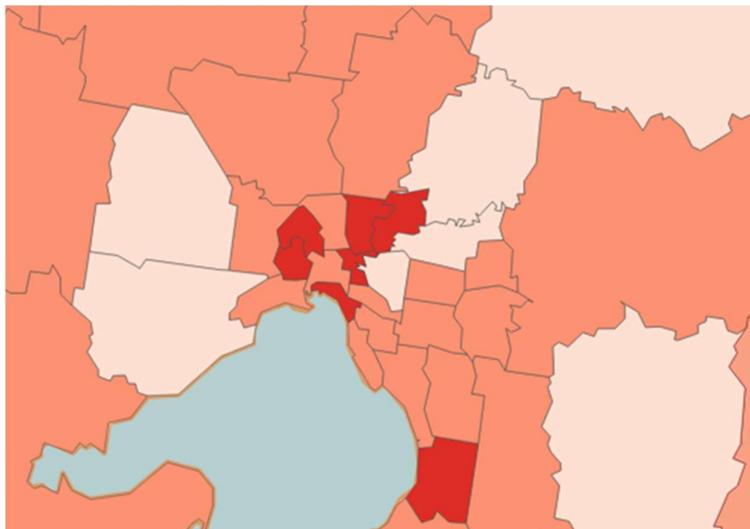
Figure 3 illustrates that all councils are impacted to some extent, with 65 of the 79 councils estimated to be impacted by over 1%. Eighteen councils are particularly impacted, with rates foregone impacts over 3% each year.

**Figure 3: Percentage impacts on Victoria's councils**

**Victoria-wide:**



**Metropolitan Melbourne:**



If DFFH and community housing organisation owned social housing were to be exempted from rates, the annualised rate revenue value of exempted social housing dwellings would escalate by the annual rate cap increases over time.

For example, if for the next ten years the annual rate increase approved by the Minister for Local Government on advice from the Essential Services Commission was 1.5% per annum every year, over ten years the annualised rates only revenue loss to councils from all existing community housing dwellings would increase from \$125.0 million per annum to \$145.1 million per annum.

If the \$11.4 million per annum revenue foregone from rates on new social housing built through the Big Housing Build is factored in, this rises to \$1.56 billion over 10 years. This is illustrated in Figure 4.

**Figure 4: 10-year compounding impact of foregone rate revenue**

| Year         | % CPI increase | Rates forgone from current social housing | Rates foregone with current and new social housing |
|--------------|----------------|---|--|
| 0            |                | \$125,059,556                             | \$125,059,556                                      |
| 1            | 1.50%          | \$126,935,449                             | \$126,935,449                                      |
| 2            | 1.50%          | \$128,839,481                             | \$128,839,481                                      |
| 3            | 1.50%          | \$130,772,073                             | \$130,772,073                                      |
| 4            | 1.50%          | \$132,733,654                             | \$144,433,654 *                                    |
| 5            | 1.50%          | \$134,724,659                             | \$146,600,159                                      |
| 6            | 1.50%          | \$136,745,529                             | \$148,799,162                                      |
| 7            | 1.50%          | \$138,796,712                             | \$151,031,149                                      |
| 8            | 1.50%          | \$140,878,663                             | \$153,296,616                                      |
| 9            | 1.50%          | \$142,991,843                             | \$155,596,066                                      |
| 10           | 1.50%          | \$145,136,720                             | \$157,930,006                                      |
| <b>Total</b> |                | <b>\$1,483,614,340</b>                    | <b>\$1,569,293,372</b>                             |

\* Incorporates \$11.7 million for new social housing at Year 4, by which time it is expected that dwellings have been built and occupied

## 4 Issues arising

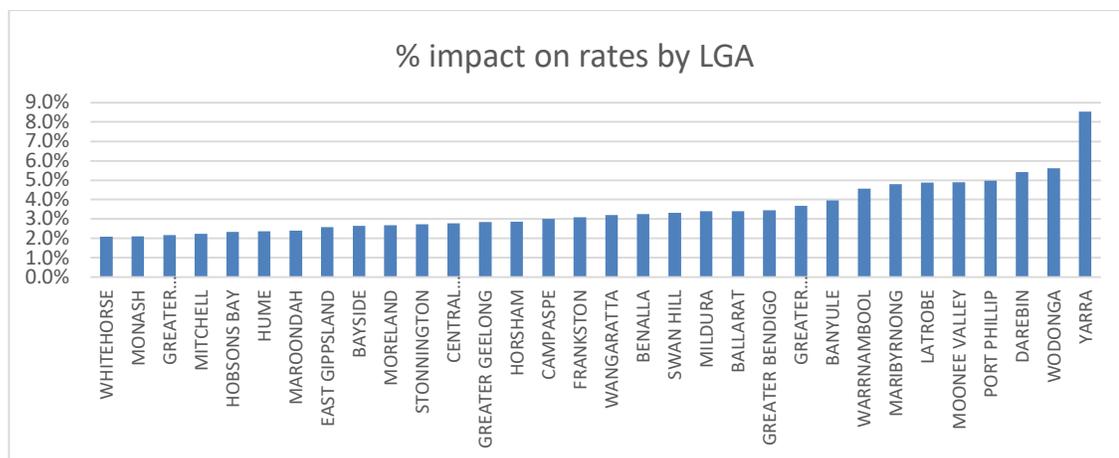
Fundamental questions arise about the proposal to exempt social housing owned and operated by DFFH from being obligated to pay rates to the council where the dwellings are located.

### 4.1 Uneven impact across the state

Exempting social housing means that only ratepayers in municipalities where there is social housing will pay more to subsidise social housing than other taxpayers and residents in areas where there is less social housing. This is the despite benefits of social housing accruing to all Victorians, regardless of where they live or whether they own their own home.

The impacts will be experienced differently for individual councils, with some more impacted than others. It is estimated forty-one of Victoria's 79 councils face impacts from revenue foregone of over 2%. Figure 5 estimates the councils most impacted.

**Figure 5: Councils impacted more than 2% from revenue foregone**



Some municipalities are particularly heavily impacted. Figure 6 lists those councils likely to experience 2% or more from rate revenue foregone if Victorian Government-owned and community housing organisation dwellings were to be exempted from paying rates. Of concern is that sixteen of the 32 most impacted LGAs are ranked in the bottom percentiles for communities experiencing disadvantage under the Socio-Economic Index for Areas (SEIFA) index.<sup>6</sup> This includes eight councils with ratings of 1 and 2, which means their residents and landowners are among the most disadvantaged in the state.

Not only does this mean that these councils will have limited means to compensate lost revenue through additional rates and charges, they will also have to redirect services to meet the needs of this community cohort at the expense of other services.

<sup>6</sup> The SEIFA is prepared by the Australian Bureau of Statistics to rank areas in Australia according to relative socio-economic advantage and disadvantage based on census data. An indicator of 1 indicates most disadvantage, and 10 indicating highest levels of advantage.

**Figure 6: Councils with highest rate impacts**

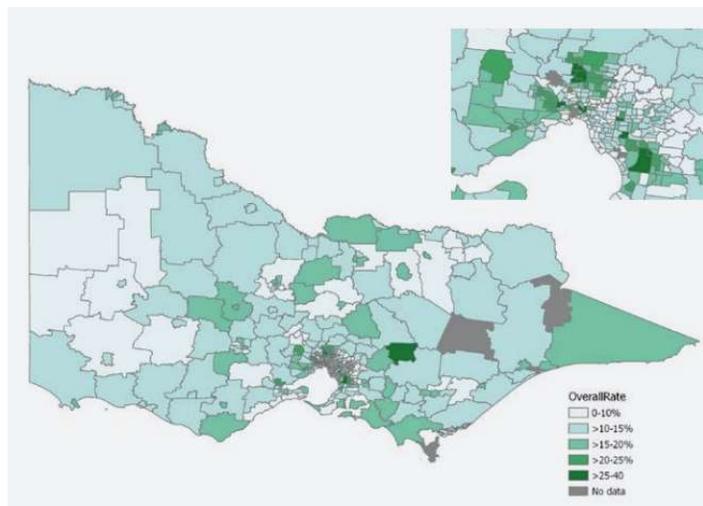
| Council            | No of ratepayers | % impact on council rate revenue | SEIFA index |
|--------------------|------------------|----------------------------------|-------------|
| YARRA              | 55,820           | 8.54%                            | 8           |
| WODONGA            | 20,063           | 5.61%                            | 4           |
| DAREBIN            | 72,392           | 5.41%                            | 7           |
| PORT PHILLIP       | 73,168           | 4.98%                            | 10          |
| MOONEE VALLEY      | 58,120           | 4.89%                            | 8           |
| LATROBE            | 38,884           | 4.88%                            | 1           |
| MARIBYRNONG        | 42,031           | 4.79%                            | 6           |
| WARRNAMBOOL        | 17,609           | 4.56%                            | 5           |
| BANYULE            | 55,655           | 3.97%                            | 9           |
| GREATER SHEPPARTON | 31,626           | 3.69%                            | 2           |
| GREATER BENDIGO    | 59,927           | 3.45%                            | 4           |
| BALLARAT           | 54,674           | 3.41%                            | 4           |
| MILDURA            | 29,688           | 3.40%                            | 1           |
| SWAN HILL          | 12,041           | 3.31%                            | 2           |
| BENALLA            | 8,086            | 3.26%                            | 2           |
| WANGARATTA         | 15,840           | 3.21%                            | 4           |
| FRANKSTON          | 63,264           | 3.08%                            | 6           |
| CAMPASPE           | 20,935           | 3.01%                            | 3           |
| HORSHAM            | 12,545           | 2.84%                            | 4           |
| GREATER GEELONG    | 129,002          | 2.84%                            | 6           |
| CENTRAL GOLDFIELDS | 8,493            | 2.77%                            | 1           |
| STONNINGTON        | 65,404           | 2.73%                            | 10          |
| MORELAND           | 82,504           | 2.67%                            | 7           |
| BAYSIDE            | 45,584           | 2.65%                            | 10          |
| EAST GIPPSLAND     | 32,086           | 2.56%                            | 3           |
| MAROONDAH          | 51,042           | 2.41%                            | 9           |
| HUME               | 92,334           | 2.37%                            | 2           |
| HOBSONS BAY        | 42,884           | 2.33%                            | 7           |
| MITCHELL           | 21,808           | 2.23%                            | 6           |
| GREATER DANDENONG  | 66,643           | 2.18%                            | 1           |
| MONASH             | 81,319           | 2.10%                            | 9           |
| WHITEHORSE         | 75,537           | 2.08%                            | 9           |
|                    |                  |                                  |             |

## 4.2 Disproportionate impact on people living in poverty

Rates foregone by one class of dwellings may need to be made up by increased rates on other home and landowners, including people who are also experiencing poverty. The National Centre for Social and Economic Modelling (NATSEM) and VCOSS report found that a majority of people experiencing poverty live in owner-occupied homes (51.4% or 397,900 people)<sup>7</sup>. [Poverty maps](#) indicate many locations across the state where landowners and ratepayers will be experiencing poverty.

The proposal for exemptions on Victorian Government-owned dwellings means that poorer homeowners could well in effect be subsidising the Big Housing Build.

**Figure 7: Spatial distribution of poverty rates for Victorian Statistical Area 2's<sup>8</sup>**



### Housing and poverty at the community level

Housing shows a very clear pattern across local areas: broadly, the further from the centre of Melbourne, the higher the proportion of people living in owner-occupied homes.

The contrast between areas can be striking. For instance, in Southbank the majority of people experiencing poverty live in privately rented homes (60%), but a few kilometres north in Collingwood, the majority live in public housing (50%).

Some outer suburbs and regional towns show high proportions of mortgagees among the population in poverty, comprising a majority in suburbs like Lynbrook and Lyndhurst (73%), the southern part of Golden Plains Shire (71%), or the rural villages surrounding Swan Hill (64%). Some areas have significant proportions of people living in poverty who own their homes outright, like Burwood East (30%), Keilor (32%) or Orbost (36%).

*Extract from NATSEM/VCOSS report "[Every suburb Every town Poverty in Victoria](#)" by Robert Tanton, Dominic Peel and Yogi Vidyattama, November 2018, p34*

<sup>7</sup> NATSEM/COSS report "[Every Suburb Every town Poverty in Victoria](#)" by Robert Tanton, Dominic Peel and Yogi Vidyattama, November 2018, p32

<sup>8</sup> As above, NATSEM/VCOSS report, p13.

### 4.3 Inequitable payment distribution outcomes within municipalities

The level of revenue councils charge through their rates collection is influenced by the service levels they need to provide to deliver their Council Plans which need to be developed in consultation with their communities, and the rate cap set each year by the Minister for Local Government. The amount they need to raise from rates is then distributed across all rateable properties, with a rate in the dollar multiplied by the value of the property to establish the amount to be paid by each property owner.

The level of rates payable to individual property owners is not influenced by the income or capacity to pay of the local home or land-owner. Although land ownership is assumed to imply a certain wealth, there are also many costs associated with home and land ownership, and there are many people who have limited ability to pay increased fees and charges to councils.

Removing 85,111 properties from the rates revenue base of many councils is significant, with an estimated \$136.8 million cost. Of this total, DFFH-owned housing is by far the greatest source of impact, with at least \$100 million which would need to be paid for by other ratepayers each year if this revenue were to be made up by other ratepayers, and provision was made to enable councils charge above the approved general rates cap. If rates were not to be increased above the amount which also factors in other cost increases incurred by councils, then there would be a serious diminution of local services available to the whole community.

Resident and commercial landowners in most of Victoria's regional cities will also be particularly impacted, with six regional cities and seven rural shires being included in the list of councils likely to be most impacted if DFFH and community housing organisations are exempt from paying rates. The Ministerial Panel report on the Local Government Rating System Review released in March 2020 found that on average landowners in rural councils paid a larger proportion of their income on rates compared with their metropolitan counterparts.<sup>9</sup>

Commercial and industrial occupancies across all municipalities are likely to be more heavily impacted by additional rate imposts given they often pay more for rates than residential landowners. The recent review commissioned by the Victorian Government on the Local Government Rating System found that different business types are rated differently, with commercial and industrial occupancies contributing greater effort to the total rates collected by councils.<sup>10</sup>

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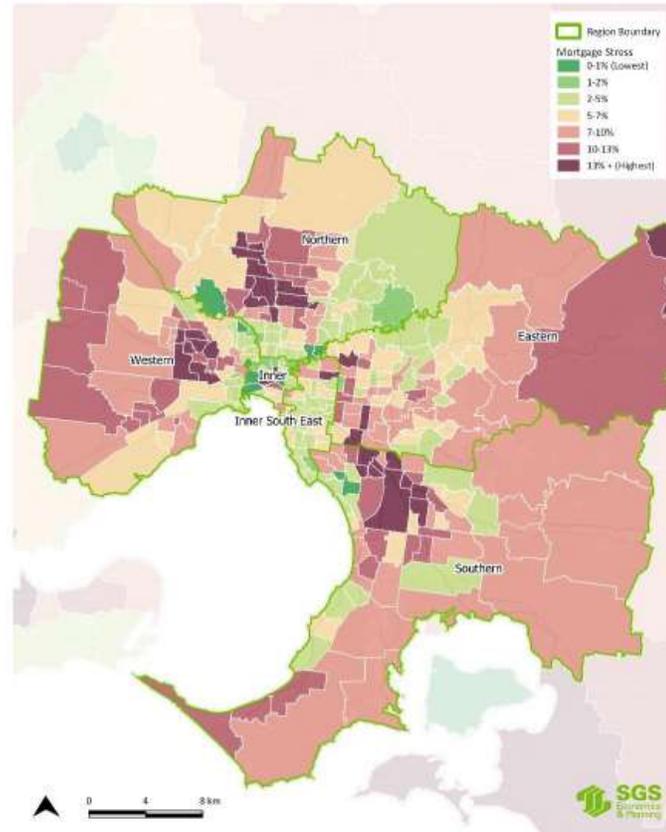
<sup>9</sup> Report of the Ministerial Panel "Local Government Rating System Review", March 2020, pp45-46

<sup>10</sup> Ministerial Review Panel [Local Government Rating System Review Report](#), March 2020, p57

An SGC consultancy report commissioned for Infrastructure Victoria in 2019 found that many parts of greater Melbourne had households identified as being under mortgage stress.<sup>11</sup>

**Figure 8 – Example of locations with landowners most impacted by mortgage stress**

FIGURE 6D: MORTGAGE STRESS ACROSS METROPOLITAN MELBOURNE, BY SA2 (2016)



Source: SGS Economics and Planning, derived from ABS Census 2016

Questions will also arise for councils about how they provide the additional service needs that tenants in social housing will require from their councils, particularly with the scale of new social housing that will be created through the Big Housing Build over the next four years.

Prioritisation of services to ensure they reach those in the community with highest needs will impact other services provided to the broader community if councils have less available revenue.

<sup>11</sup> SGS Economics, Social and Environmental Profile: Metropolitan inter-regional Report, 2019, pp51-52 and p57

#### **4.4 Complex rate exemption determinations**

The Victorian Government is exploring many alternatives and options with various consortiums to maximise the number of new social and affordable housing dwellings which will be created through the Big Housing Build initiative. The rebuilding of some existing DFFH housing stock will involve private sector and community organisation consortiums, particularly if affordable housing is created which can be privately owned and reduce costs to the provision of dwellings which will be owned and operated by the Victorian Government.

Serious equity issues arise if some private landowners are exempt from paying rates if their dwellings also become rate-exempt just because they are located on Victorian Government-owned land.

Questions also arise for how all social housing dwellings will be serviced, such as paying for waste management services, and the many local services that these tenants will require.

#### **4.5 Property taxes versus general revenue sources**

Despite establishing a cap on rates on property charged by councils, the Victorian Government has made exponential inroads into increasing taxes on property owners in Victoria in recent years. This trend is forecast to continue.

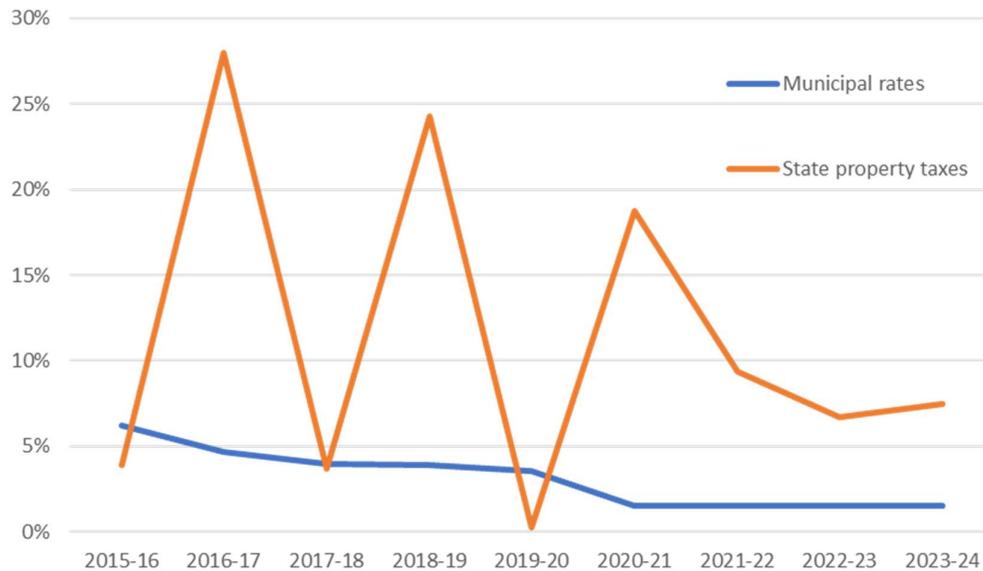
This year's State Budget particularly highlighted exponential increases in property taxes collected by the state. These include:

- Land transfer duty being forecast to increase by 12.7% to \$6.7 billion in 2021-22 after a fall of 3.1% in 2020-21 due to COVID-19, driven by the strong recovery in property transaction prices and volumes flowing through to revenue and the introduction of a premium rate on land transfer duty for high-value properties. Strong growth is expected to continue in 2022-23. Land transfer duty is expected to grow by an average of 6.2% a year over the forward estimates.
- Land tax revenue is forecast to increase by 15.2% to \$4.2 billion in 2021-22 and is then expected to grow by an average of 9.0% a year over the forward estimates to 2024-25.

In contrast, council sources of revenue from rates will be capped at 1.5% for 2021-22, with this expected to remain in the order of 1.75% to 2.25% over the forward estimates, 2022-23 to 2024-25.

As Figure 9 shows, taxes on property are increasing, with the Victorian Government collecting an ever-increasing share compared with local government rates on properties.

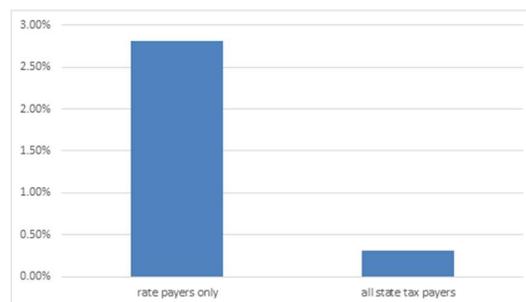
**Figure 9 – State and local government share of property taxes<sup>12</sup>**



General taxation revenue is also expected to grow over the forward estimates. Total revenue for the general state government sector is expected to increase by 4.4% to \$74.6 billion in 2021-22, with growth projected to average 4.6% a year over the forward estimates to 2024-25. State taxation revenue is forecast to increase by 13.2% in 2021-22, as it recovers from suppressed levels in 2019-20 and 2020-21 due to the impact of the pandemic.

Spreading the funding burden across all taxpayers across all municipalities will not only be more equitable for who pays, it will also spread the burden across a broader cohort with less individual impact.

**Figure 10: State/local revenue % impact on local communities**



<sup>12</sup> [ABS Taxation Revenue 2019-20](#) and revenue estimates in the Victorian Budget 2021-22 Budget Paper No 5, 167

## 5 Conclusion

Exempting tens of thousands of Victorian Government-owned dwellings from the need to pay rates for local services provided to their tenants by councils is a major and concerning development. The impact of a \$136.8 million annual state-wide reduction in revenue will seriously impact local services and infrastructure, or it will require higher rates on a small proportion of people.

Such a decision should not be taken unilaterally without consultation with councils and their communities.

It also works against the principles underpinning the Victorian Government's 10-year strategy for social and affordable housing, in particular the principle of developing the capability and capacity of all of the organisations which play a role in planning and delivering social and affordable housing.

Councils need the capability to adequately support their communities, including the tenants occupying dwellings owned and operated by the Victorian Government. They are keen to working with the Victorian Government in the Big Housing Build, and to share and partner in achieving more social housing being available across many communities.

Some councils will have financial capacity to contribute and/or facilitate rate exemptions for a small number of social housing dwellings. There will be others who will struggle, to the detriment of people living in their municipalities reliant on their services. The critical point is that it should be councils who have the discretion to decide which properties should be rate-exempt, not have a significant class of exemptions unilaterally determined to be implemented without full community consultation.

Spreading the cost of local service provision for social housing owned and operated by the Victorian Government across all taxpayers offers a far more equitable outcome than some particular locations having to contribute more than others.

There are a range of options which could be utilised to inform rates and local service provision for the new social housing dwellings which will be built through the Big Housing Build. The MAV and FinPro encourage the Victorian Government to explore these options in a more transparent and detailed way. The amounts are small in the scheme of its expenditure on social housing, but very large in their impact on individual councils, their communities and ratepayers.

A detailed analysis of the cost-benefit ratio and the impact on councils and their communities should first be undertaken, with the results shared and communities consulted.

We strongly encourage the Victorian Government to continue to honour its long-held obligation to provide housing for those most in need and at risk of homelessness. It must urgently consider alternative mechanisms to fund ongoing maintenance of social housing to enable the benefits social housing provides for local communities to be realised.

Regardless of individual council decisions about dwellings they are willing to make rate exempt, there is far less justification for all social housing provided by the Victorian Government to be exempted.

## 6 Further information

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## Attachment 1 – Number of social housing dwellings by LGA as at 30 June 2020

| Council            | DFFH House | DFFH Medium Density Attached | DFFH Medium Density Detached | DFFH Low-Rise Flat | DFFH High-Rise Flat | DFFH Movable Unit | DFFH Multiple Unit Facility Unit | DFFH Other | Total DFFH Director Owned | Community Organisation Owned | TOTAL Dwellings |
|--------------------|------------|------------------------------|------------------------------|--------------------|---------------------|-------------------|----------------------------------|------------|---------------------------|------------------------------|-----------------|
| ALPINE             | 50         | 30                           | 6                            | 0                  | 0                   | 0                 | 0                                | 0          | 86                        | 7                            | 93              |
| ARARAT             | 83         | 56                           | 4                            | 0                  | 0                   | 4                 | 0                                | 0          | 147                       | 7                            | 154             |
| BALLARAT           | 1,040      | 812                          | 48                           | 1                  | 0                   | 19                | 0                                | 6          | 1,926                     | 575                          | 2,501           |
| BANYULE            | 557        | 922                          | 200                          | 234                | 0                   | 18                | 0                                | 18         | 1,949                     | 330                          | 2,279           |
| BASS COAST         | 72         | 202                          | 1                            | 0                  | 0                   | 5                 | 0                                | 5          | 285                       | 95                           | 380             |
| BAW BAW            | 196        | 145                          | 21                           | 31                 | 0                   | 4                 | 0                                | 4          | 401                       | 58                           | 459             |
| BAYSIDE            | 166        | 552                          | 6                            | 426                | 0                   | 11                | 0                                | 3          | 1,164                     | 45                           | 1,209           |
| BENALLA            | 210        | 90                           | 16                           | 0                  | 0                   | 3                 | 0                                | 0          | 319                       | 26                           | 345             |
| BOROONDARA         | 96         | 276                          | 13                           | 149                | 0                   | 4                 | 0                                | 4          | 542                       | 169                          | 711             |
| BRIMBANK           | 926        | 511                          | 47                           | 6                  | 0                   | 36                | 0                                | 9          | 1,535                     | 529                          | 2,064           |
| BULOKE             | 18         | 48                           | 0                            | 4                  | 0                   | 1                 | 0                                | 0          | 71                        | 7                            | 78              |
| CAMPASPE           | 295        | 291                          | 21                           | 8                  | 0                   | 10                | 0                                | 5          | 630                       | 172                          | 802             |
| CARDINIA           | 173        | 145                          | 4                            | 0                  | 0                   | 9                 | 0                                | 3          | 334                       | 76                           | 410             |
| CASEY              | 1,130      | 625                          | 36                           | 0                  | 0                   | 109               | 0                                | 16         | 1,916                     | 264                          | 2,180           |
| CENTRAL GOLDFIELDS | 113        | 106                          | 2                            | 0                  | 0                   | 11                | 0                                | 1          | 233                       | 42                           | 275             |
| COLAC OTWAY        | 186        | 110                          | 0                            | 0                  | 0                   | 7                 | 0                                | 2          | 305                       | 53                           | 358             |
| CORANGAMITE        | 59         | 97                           | 5                            | 0                  | 0                   | 3                 | 0                                | 0          | 164                       | 16                           | 180             |
| DAREBIN            | 679        | 1,434                        | 174                          | 672                | 120                 | 50                | 0                                | 24         | 3,153                     | 422                          | 3,575           |
| EAST GIPPSLAND     | 278        | 245                          | 20                           | 22                 | 0                   | 11                | 9                                | 2          | 587                       | 336                          | 923             |
| FRANKSTON          | 756        | 655                          | 93                           | 42                 | 0                   | 46                | 0                                | 14         | 1,606                     | 419                          | 2,025           |
| GANNAWARRA         | 90         | 47                           | 5                            | 0                  | 0                   | 3                 | 0                                | 0          | 145                       | 9                            | 154             |

| Council            | DFFH House | DFFH Medium Density Attached | DFFH Medium Density Detached | DFFH Low-Rise Flat | DFFH High-Rise Flat | DFFH Movable Unit | DFFH Multiple Unit Facility Unit | DFFH Other | Total DFFH Director Owned | Community Organisation Owned | TOTAL Dwellings |
|--------------------|------------|------------------------------|------------------------------|--------------------|---------------------|-------------------|----------------------------------|------------|---------------------------|------------------------------|-----------------|
| GLEN EIRA          | 33         | 425                          | 7                            | 68                 | 0                   | 4                 | 0                                | 0          | 537                       | 195                          | 732             |
| GLENELG            | 185        | 140                          | 3                            | 0                  | 0                   | 7                 | 0                                | 0          | 335                       | 43                           | 378             |
| GOLDEN PLAINS      | 0          | 0                            | 0                            | 0                  | 0                   | 4                 | 0                                | 0          | 4                         | 4                            | 8               |
| GREATER BENDIGO    | 854        | 830                          | 99                           | 3                  | 0                   | 45                | 0                                | 4          | 1,835                     | 651                          | 2,486           |
| GREATER DANDENONG  | 732        | 1,303                        | 92                           | 35                 | 0                   | 41                | 11                               | 25         | 2,239                     | 434                          | 2,673           |
| GREATER GEELONG    | 1,676      | 1,332                        | 259                          | 77                 | 0                   | 70                | 14                               | 43         | 3,471                     | 1,029                        | 4,500           |
| GREATER SHEPPARTON | 574        | 410                          | 38                           | 2                  | 0                   | 15                | 6                                | 9          | 1,054                     | 588                          | 1,642           |
| HEPBURN            | 49         | 75                           | 0                            | 1                  | 0                   | 2                 | 0                                | 0          | 127                       | 32                           | 159             |
| HINDMARSH          | 11         | 14                           | 0                            | 0                  | 0                   | 1                 | 0                                | 0          | 26                        | 4                            | 30              |
| HOBSONS BAY        | 212        | 512                          | 54                           | 58                 | 184                 | 13                | 0                                | 5          | 1,038                     | 335                          | 1,373           |
| HORSHAM            | 165        | 177                          | 16                           | 0                  | 0                   | 7                 | 0                                | 1          | 366                       | 69                           | 435             |
| HUME               | 1,144      | 720                          | 54                           | 54                 | 0                   | 73                | 0                                | 29         | 2,074                     | 417                          | 2,491           |
| INDIGO             | 34         | 63                           | 5                            | 0                  | 0                   | 3                 | 0                                | 0          | 105                       | 22                           | 127             |
| KINGSTON           | 284        | 783                          | 23                           | 73                 | 0                   | 18                | 6                                | 3          | 1,190                     | 266                          | 1,456           |
| KNOX               | 546        | 508                          | 14                           | 94                 | 0                   | 37                | 0                                | 6          | 1,205                     | 288                          | 1493            |
| LATROBE            | 923        | 618                          | 132                          | 40                 | 0                   | 18                | 6                                | 7          | 1,744                     | 363                          | 2,107           |
| LODDON             | 7          | 28                           | 2                            | 15                 | 0                   | 3                 | 0                                | 0          | 55                        | 17                           | 72              |
| MACEDON RANGES     | 123        | 59                           | 6                            | 0                  | 0                   | 14                | 0                                | 1          | 203                       | 139                          | 342             |
| MANNINGHAM         | 58         | 132                          | 5                            | 9                  | 0                   | 9                 | 0                                | 0          | 213                       | 118                          | 331             |
| MANSFIELD          | 55         | 16                           | 2                            | 0                  | 0                   | 0                 | 0                                | 0          | 73                        | 0                            | 73              |
| MARIBYRNONG        | 441        | 1,265                        | 88                           | 31                 | 113                 | 7                 | 0                                | 22         | 1,967                     | 521                          | 2,488           |

| Council              | DFFH House | DFFH Medium Density Attached | DFFH Medium Density Detached | DFFH Low-Rise Flat | DFFH High-Rise Flat | DFFH Movable Unit | DFFH Multiple Unit Facility Unit | DFFH Other | Total DFFH Director Owned | Community Organisation Owned | TOTAL Dwellings |
|----------------------|------------|------------------------------|------------------------------|--------------------|---------------------|-------------------|----------------------------------|------------|---------------------------|------------------------------|-----------------|
| MAROONDAH            | 255        | 632                          | 67                           | 11                 | 0                   | 29                | 8                                | 1          | 1,003                     | 305                          | 1,308           |
| MELBOURNE            | 105        | 434                          | 77                           | 396                | 1,849               | 0                 | 0                                | 107        | 2,968                     | 1,011                        | 3,979           |
| MELTON               | 220        | 200                          | 8                            | 0                  | 0                   | 18                | 0                                | 3          | 449                       | 229                          | 678             |
| MILDURA              | 453        | 438                          | 109                          | 4                  | 0                   | 6                 | 0                                | 7          | 1017                      | 261                          | 1,278           |
| MITCHELL             | 264        | 137                          | 11                           | 0                  | 0                   | 19                | 0                                | 1          | 432                       | 63                           | 495             |
| MOIRA                | 200        | 144                          | 6                            | 0                  | 0                   | 9                 | 0                                | 0          | 359                       | 46                           | 405             |
| MONASH               | 441        | 805                          | 52                           | 136                | 0                   | 35                | 0                                | 5          | 1,474                     | 345                          | 1,819           |
| MOONEE VALLEY        | 80         | 523                          | 38                           | 1,142              | 803                 | 9                 | 0                                | 5          | 2,600                     | 337                          | 2,937           |
| MOORABOOL            | 178        | 57                           | 24                           | 30                 | 0                   | 22                | 0                                | 1          | 312                       | 30                           | 342             |
| MORELAND             | 402        | 937                          | 126                          | 213                | 121                 | 21                | 1                                | 3          | 1,824                     | 390                          | 2,214           |
| MORNINGTON PENINSULA | 643        | 461                          | 17                           | 60                 | 0                   | 41                | 0                                | 4          | 1,226                     | 202                          | 1,428           |
| MOUNT ALEXANDER      | 49         | 121                          | 18                           | 8                  | 0                   | 5                 | 0                                | 0          | 201                       | 41                           | 242             |
| MOYNE                | 28         | 39                           | 2                            | 0                  | 0                   | 4                 | 0                                | 0          | 73                        | 32                           | 105             |
| MURRINDINDI          | 22         | 22                           | 16                           | 0                  | 0                   | 5                 | 0                                | 6          | 71                        | 12                           | 83              |
| NILLUMBIK            | 37         | 82                           | 0                            | 4                  | 0                   | 7                 | 0                                | 0          | 130                       | 10                           | 140             |
| NORTHERN GRAMPIANS   | 81         | 75                           | 0                            | 0                  | 0                   | 1                 | 0                                | 0          | 157                       | 55                           | 212             |
| PORT PHILLIP         | 57         | 703                          | 80                           | 925                | 822                 | 1                 | 60                               | 1          | 2,649                     | 1,394                        | 4,043           |
| PYRENEES             | 3          | 17                           | 0                            | 0                  | 0                   | 2                 | 0                                | 0          | 22                        | 0                            | 22              |
| QUEENSCLIFFE         | 1          | 11                           | 0                            | 0                  | 0                   | 0                 | 0                                | 0          | 12                        | 0                            | 12              |
| SOUTH GIPPSLAND      | 93         | 87                           | 1                            | 0                  | 0                   | 8                 | 0                                | 2          | 191                       | 29                           | 220             |
| SOUTHERN GRAMPIANS   | 157        | 75                           | 0                            | 0                  | 0                   | 5                 | 0                                | 0          | 237                       | 13                           | 250             |

| Council      | DFFH House    | DFFH Medium Density Attached | DFFH Medium Density Detached | DFFH Low-Rise Flat | DFFH High-Rise Flat | DFFH Movable Unit | DFFH Multiple Unit Facility Unit | DFFH Other | Total DFFH Director Owned | Community Organisation Owned | TOTAL Dwellings |
|--------------|---------------|------------------------------|------------------------------|--------------------|---------------------|-------------------|----------------------------------|------------|---------------------------|------------------------------|-----------------|
| STONNINGTON  | 11            | 266                          | 1                            | 541                | 868                 | 1                 | 0                                | 3          | 1,691                     | 178                          | 1,869           |
| STRATHBOGIE  | 37            | 34                           | 0                            | 0                  | 0                   | 1                 | 0                                | 0          | 72                        | 8                            | 80              |
| SURF COAST   | 46            | 24                           | 0                            | 0                  | 0                   | 0                 | 0                                | 0          | 70                        | 27                           | 97              |
| SWAN HILL    | 244           | 146                          | 40                           | 0                  | 0                   | 9                 | 0                                | 2          | 441                       | 177                          | 618             |
| TOWONG       | 10            | 11                           | 0                            | 0                  | 0                   | 0                 | 0                                | 0          | 21                        | 4                            | 25              |
| WANGARATTA   | 280           | 193                          | 26                           | 0                  | 0                   | 3                 | 0                                | 10         | 512                       | 92                           | 604             |
| WARRNAMBOOL  | 432           | 328                          | 13                           | 0                  | 0                   | 10                | 0                                | 2          | 785                       | 180                          | 965             |
| WELLINGTON   | 327           | 152                          | 35                           | 50                 | 0                   | 6                 | 0                                | 0          | 570                       | 82                           | 652             |
| WEST WIMMERA | 1             | 12                           | 0                            | 0                  | 0                   | 0                 | 0                                | 0          | 13                        | 2                            | 15              |
| WHITEHORSE   | 396           | 855                          | 43                           | 65                 | 0                   | 17                | 20                               | 7          | 1,403                     | 214                          | 1,617           |
| WHITTLESEA   | 475           | 213                          | 8                            | 0                  | 0                   | 21                | 0                                | 3          | 720                       | 340                          | 1,060           |
| WODONGA      | 671           | 373                          | 117                          | 0                  | 0                   | 12                | 0                                | 3          | 1,176                     | 149                          | 1,325           |
| WYNDHAM      | 503           | 210                          | 9                            | 0                  | 0                   | 37                | 0                                | 5          | 764                       | 295                          | 1,059           |
| YARRA        | 147           | 888                          | 10                           | 972                | 2,609               | 0                 | 5                                | 11         | 4,642                     | 921                          | 5,563           |
| YARRA RANGES | 266           | 196                          | 19                           | 46                 | 0                   | 46                | 0                                | 18         | 591                       | 148                          | 739             |
| YARRIAMBIAK  | 21            | 24                           | 0                            | 0                  | 0                   | 2                 | 0                                | 0          | 47                        | 13                           | 60              |
| <b>Total</b> | <b>22,915</b> | <b>26,734</b>                | <b>2,594</b>                 | <b>6,758</b>       | <b>7,489</b>        | <b>1,167</b>      | <b>146</b>                       | <b>481</b> | <b>68284</b>              | <b>16,827</b>                | <b>85111</b>    |

## Attachment 2 – Data sources and analysis methodology

### Methodology

This paper has derived an indicative assessment of the rates and charges paid by the Victorian Government for the dwellings it owns and operates across the state. From this data, an assessment of the likely impact of exempting new social housing dwellings being built through the Big Housing Build can be made. It also extrapolates the DHHS Community Housing rates analysis to the community housing owned by community housing organisations.

An average residential rate was derived to estimate the state-wide impact of rates foregone. Please note that results for individual councils are indicative only, and that the real impacts will vary somewhat at this scale. At a state-wide scale the indicative total of \$119.1 million payable by DHHS in 2019-20 has an aggregated level accuracy of 99% when corroborated with the \$118.8 million paid in “Rates to Local Authorities” cited in the DHHS Financial Statements for 2019-20.

### Data Sources

Publicly available data has been utilised for the financial analysis undertaken in this paper.

- Department of Health and Human Services (DHHS) Annual Report 2019-20 and DHHS’ Financial Statements for Financial Year End 30 June 2020
- Housing Assistance Additional Service Delivery Data 2019–20
- The Victorian Grants Commission (VGC) Data for 2019/20, specifically Local Government Accounting & General Information for The Year Ending 30 June 2020 provided by LGA and [Valuations and Rates 2019-20](#)
  - Total Residential Property Valuations
  - Total Residential Rates & Charges
  - Total Residential Municipal Charges
  - Total Residential Garbage Charges
  - The Number of Residential Assessments.

### **Assessing the impact of rate revenue from DFFH-owned dwellings**

The calculated indicative DFFH rates and charges payment to each council for DFFH community housing totals \$119.1 million for 2019-20. This indicative total payment has a 99% accuracy when compared to the DHHS 2019-20 Financial Statements Note 3.1.6 (page 215), stating total rates paid to councils of \$118.8 million. The DHHS Disclosure Note states “Rates to Local Authorities”, however, given there are no other Disclosure Notes concerning payments to councils, it is likely this \$118.8 million payment also includes applicable municipal and garbage charges.

Adjusting the DHHS Total Rates Paid to LGAs of \$118.8 million by removing the estimated value of total municipal and garbage charges results in an estimated Rates Only payment equating to \$100.6 million.

At the 2019-20 State average residential rate in the dollar of 0.002207381, the additional LGA rate revenue impact of a \$5.3 billion social housing build is conservatively estimated at \$11.7 million per annum.

This assessment is cautious. It is based on the state average LGA residential rate in the dollar. However, it can be reasonably expected that the State’s Big Housing Build of \$5.3 billion will reflect the existing spread of DFFH community housing. Of DFFH’s 68,284 community housing dwellings, 52,478 (77%) are in the Melbourne metropolitan area and regional cities. This is not surprising as this is where most people live and where most services are located, and consequentially, given economies of scale, where average residential rates (metropolitan \$1,737 and regional cities \$1,763) are less than the state average of \$1,766.

If all existing DHHS and planned new community housing dwellings were to be rate exempt it would mean an estimated \$112 million per annum reduction in rate revenue. This would necessitate a \$112 million reduction in council services or efficiencies, or an offsetting equivalent subsidy by increased rates charges to other rate payers of \$112 million per annum or a combination of both.

### **Assessing the impact of rate revenue from community housing organisation-owned dwellings**

In addition to the 68,284 DFFH owned community housing dwellings there are 16,827 dwellings owned and operated by community housing organisations. For community organisation owned community housing the estimated rates and charges paid in 2019-20 was \$28.9 million. The estimated rates-only paid was \$24.4 million per annum. This calculation is based on a state average rate in the dollar. Note that these are indicative at the local level, given that land values are higher in metropolitan Melbourne. Again, a cautious approach has been used, for illustration purposes. If more detailed analysis were undertaken at an individual council level it is expected this amount would be higher.

In assessing the proportion impact on the Total Rates Base, the General Rates contained in the VLGGC’s Victorian Local Government Grants Commission [Local Government Accounting & General Information for 2019-20](#) was utilised. Note that 2018-19 general rates revenue numbers were utilised for Bass Coast Shire Council, given the changes to its classification of municipal charges and rates.