

LODDON SHIRE COUNCIL

RATING STRATEGY 2017-2021



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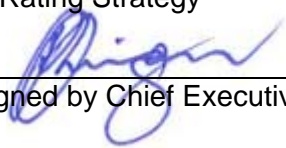
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This document is available in alternative formats (e.g. larger font) if requested.

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1 INTRODUCTION

Under the Local Government Act (1989) (The Act), a primary objective of all Victorian local governments is to ensure the equitable imposition of rates and charges (Section 3C(f)). The purpose of this Rating Strategy is therefore to consider options available to Council under The Act and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

It is important to note that the focus of this strategy is very different to what is discussed in the Long Term Financial Plan/Annual Budget. In those documents the key concern is the total dollar amount of rates and municipal charges to be raised. This strategy focuses on how this total rate and charges amount raised is equitably distributed amongst Council's ratepayers.

This strategy also responds to the requirements of the Governance and Management Checklist in the Local Government Performance Reporting Framework.

2 PURPOSE

The purpose of this document is to communicate a strategy for rating for properties in the Loddon Shire. The strategy considers issues that exist within the current rating system, studies options available under existing legislation and determines a plan to implement changes, where necessary, to achieve a fair and equitable outcome, for all ratepayers.

3 BUDGET IMPLICATIONS

3.1 Annual budget and long term financial plan

This document will be used to guide Council in making decisions around the setting of rates and municipal charges and the equitable distribution of these charges for future Long Term Financial Plans (LTFP) and Annual Budgets.

Each year Council develops a LTFP using relevant industry indexation rates. These rates are applied consistently over the 10 year plan with further work completed around forecasted capital works programs and the ongoing cost of adopted plans and strategies.

In developing the Annual Budget, the financials set out in year one of the LTFP is used as a base. From this base, each income and expenditure stream are analysed in greater detail to ensure further accuracy of the results. Council will make a decision around what increase to the overall income will apply to rates and charges, taking into consideration any other factors such as rate capping and waste management costs.

3.2 Rate cap

In 2016/17 the state government introduced the "Fair Go Rates System" placing a cap on rates for all Victorian council. The 2016/17 cap was set at a maximum increase of 2.5%. Variations to this can only be obtained through a submission to the Essential Services Commission. Council did not apply for a variation to the 2.5% cap in 2016/17, but will need to consider each financial year if a variation submission is required to deliver the levels of services and capital works program identified for that forthcoming year.

4 RISK ANALYSIS

The principles of good governance require Council to provide ongoing or periodic monitoring and review of the impact of major decisions. It is essential that Council evaluates, on a regular basis, the legislative objectives to which it must have regard and those other objectives which Council determines are relevant.

Council is seeking to fully document its objectives and approach to the raising of rate revenue in line with its goal of providing transparency in its decision-making.

5 RATES PROCESS

In the 2016/17 Budget, rates and municipal charge income accounts for approximately 33.2% of Council's annual budget with the balance being derived mainly from grant funding (55.1%), user fees (5.2%) and other income (4.3%). In the Budget, Council establishes the maintenance needs of its assets and infrastructure, and determines the community services and facilities that will be provided in the next financial year.

Previous to 2016/17, as part of the financial planning and budget process, the rate revenue required to meet expenditure needs was calculated, taking into account other sources of revenue. Once calculated, Council determined the proportion of rates and municipal charge to be levied on different classes of properties.

After the introduction of the "Fair Go Rates System" capping, the 2016/17 increase was limited to the 2.5% set by the Minister for Local Government in December 2015.

All other charges, such as kerbside waste and recycling and other fees and levies remain uncapped.

The general rating framework for local government is set out in The Act. It is recommended Council's property rating system meet the following objectives:

- the entire community should contribute to the unavoidable costs of Local Government
- where feasible, services should be funded on user pays principles
- where specified, local objectives can be achieved using differential rates
- residual service costs should be apportioned on the basis of property valuation.

In levying rates and the municipal charges, Council also considers:

- the rationale and practical application of the municipal charge and the level at which it is set
- the characteristics of farming, particularly given the varying climate conditions which can impact the income earning ability of the agricultural sector
- objectives concerning vacant land
- objectives concerning commercial/industrial land.

6 LEGISLATIVE FRAMEWORK

Council's rating system is largely governed by legislation.

6.1 The framework

Section 3C of The Act stipulates the primary objective of Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of its decisions. In seeking to achieve its primary objective, Council must have regard to facilitating the following objectives:

1. Promote the social, economic and environmental viability and sustainability of the municipal district.
2. Ensure resources are used efficiently and effectively.
3. Improve the overall quality of life of the people in the local community.

4. Promote appropriate business and employment opportunities.
5. Ensure services and facilities provided are accessible and equitable.
- 6. Ensure the equitable imposition of rates and charges.**
7. Ensure transparency and accountability in Council decision making.

The strategy has paid careful attention to ensuring the equitable imposition of rates and charges.

6.2 Equity

Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and municipal charge, a range of considerations have been taken into account in defining and determining what is equitable in the view of Council.

In considering what rating approaches are equitable, Council needs to have regard to the principles of 'Good Tax Design' which are:

1. **Equity** – does the tax burden fall appropriately across different classes of ratepayers?
 - a. **Benefit principle** – where the distribution of benefits is not uniform, should those who benefit more, contribute more?
 - b. **Capacity to pay** – are those ratepayers with greater economic capacity in fact contributing more and should they pay more?
2. **Simplicity**
 - a. is the system practical and cost effective to administer and enforce?
 - b. is the system simple to understand and comply with?
3. **Efficiency** – does the rating methodology significantly distort property ownership and development decisions in a way that results in significant efficiency costs?
4. **Sustainability** – does the system generate sustainable, reliable revenues for Council and is it durable and flexible in changing conditions?
5. **Cross-border competitiveness** – to what extent does the rating system undermine the competitiveness of Council as a place to live and/or own a property or operate a business?
6. **Competitive neutrality** – are all businesses conducting similar activities treated in similar ways within the municipality?

Simultaneously applying all of these taxation principles is an impossible task within the Council environment and therefore trade-offs between these taxation principles are necessary. The rating challenge for Council is to determine the appropriate balancing of competing considerations.

These principles have been sourced and adapted to be relevant to Council from the Local Government Better Practice Guide 2014 – Revenue and Rating Strategy.

7 RATING CHARGE TYPES

Section 155 of The Act provides that Council may declare the following rates and charges on rateable land.

7.1 General rates under Section 158

General rates are applied using a differential rate where variable amounts in the dollar are paid depending on a property's rating category. Council considers "that the differential rate will contribute to the equitable and efficient carrying out of its functions" (Section 161 (1) (b)).

The rates set by Council in the 2016/17 Budget are general rate of 0.004892 cents in the dollar of Capital Improved Value (CIV) and rural rate of 0.004355 cents in the dollar of CIV.

7.2 Municipal charges under Section 159

Council may apply a municipal charge, and under the legislation is not required to specify what is covered by the charge.

This is a flat charge, levied on all properties (with some minor exceptions) within the municipal boundary. Council's total revenue from this charge in a financial year cannot be more than one fifth (20%) of the total revenue raised through the rating system.

The municipal charge set by Council in the 2016/17 Budget is \$203.

Single farm enterprise exemptions apply to the municipal charge, which means that where farmers own and farm more than one property as a single farm enterprise they can apply for exemption from all but one of the properties.

7.3 Service rates and charges under Section 162

Council may raise service rates and charges for any of the following services:

- the provision of a water supply
- the collection and disposal of refuse
- the provision of sewerage services
- any other prescribed service.

Council currently applies a service charge for the collection and disposal of refuse on properties that fall within the collection area. Council's objective is to fully recover the costs of the waste management and waste removal function.

The waste charges set by Council in the 2016/17 Budget is \$236 for a 140 litre waste bin, \$320 for a 240 litre waste bin and \$89 for a 240 litre recycling bin.

7.4 Special rates and charges under Section 163

Council may declare a special rate or charge or a combination of both for the purposes of:

- defraying any expenses, or
- repaying with interest any advance made, or debt incurred or loan raised, by Council.

There are detailed procedural requirements that Council needs to follow to introduce a special rate or charge, including how Council can apply funds derived from this source.

Section 185 of The Act provides rights to the Victorian Civil and Administrative Tribunal (VCAT) in relation to the imposition of a special rate or charge. VCAT has wide powers, which could affect the viability of a special rate or charge. It can set the rate or charge completely aside if it is satisfied that certain criteria are not met.

Council must prove that special benefit exists to those that are being levied the rate or charge.

In the 2016/17 Budget, Council has no current special rates and charges set for its ratepayers.

7.5 Exempt properties

Under the Cultural and Recreation Lands Act 1963, provision is made for Council to grant a rating concession to any "recreational lands" which meet the test of being "rateable land" under The Act. Council has resolved that all rateable recreation land will be exempt from the payment of rates.

8 VALUATION METHODOLOGY

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates.

Section 157 (1) of The Act provides Council with three choices in terms of which valuation base to utilise. They are:

- **site valuation** – value of land only
- **capital improved valuation** – value of land and improvements upon the land
- **net annual value** – rental valuation based on the CIV.

In 2002 Council resolved to apply CIV as the basis of calculating rates, on the grounds that it provides the most equitable distribution of rates across the municipality. This is the most widely used valuation base across Victoria, but Council does have the opportunity to review its rating structure each year as part of the budget process.

It is also a requirement of the Valuation of Land Act 1960 that all rateable properties within a municipality be revalued every two years. At the time of each general revaluation it is necessary to determine the effects of any movements in property values on the total rate to be raised, and accordingly, the rate in the dollar of CIV.

9 DECLARING RATES AND CHARGES

Section 158 of The Act provides that Council must at least once in respect of each financial year declare:

1. the amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges
2. whether the general rates will be raised by application of:
 - a. a uniform rate, or
 - b. differential rates (if Council is permitted to do so under Section 161(1))
 - c. urban farm rates or residential use rates (if Council is permitted to do so under Section 161A).

These are quite different in application and have different administrative and appeal mechanisms that need to be taken into account.

9.1 Uniform rate

Section 160 of The Act stipulates that if Council declares that general rates will be raised by the application of a uniform rate, Council must specify a percentage as the uniform rate. Rates will be determined by multiplying that percentage by the value of the land. Council has decided not to apply this option.

9.2 Differential rates

Under The Act, Council is entitled to apply for differential rates **provided it uses Capital CIV** as its base for rating.

Section 161 outlines the regulations relating to differential rates which includes:

1. Council may raise rates and general rates by the application of a differential rate if it uses the capital improved value system of valuing land.
2. If Council declares a differential rate for any land, Council must specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of Council's functions and must include the following:
 - a. a definition of the types of classes of land which are subject to the rate and statements of the reasons for the use and level of that rate.

- b. an identification of the type or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in Council's district).
- c. specification of the characteristics of the land, which are the criteria for declaring the differential rate.

The highest differential rate allowed is no more than four times the lowest differential rate in the municipal district.

Council has adopted differential rating as it considers that differential rating contributes to the equitable distribution of the rating burden. Differential rating allows particular classes of properties to be assessed with rates at different amounts from the general rate set for the municipality. Differential rating allows Council to shift part of the rate burden from some groups of ratepayers to others, through different "rates in the dollar" for each class of property.

10 OBJECTIVE OF COUNCIL'S DIFFERENTIAL RATES

For the declared differential rates it is considered that each differential rate will be used to contribute to the equitable and efficient carrying out of Council's functions. The following are the objectives of the differential rates currently adopted from the different property types and the respective taxation principles applied.

10.1 General rate

This category is the base rate and is known as the residential or general rate. The actual rating burden applied to general or residential properties is determined by a decision to apply either higher or lower rates in the dollar of property value to other classes of property. The equity of the general rate is therefore a by-product of the equity inherent in the setting of those other rates. Differential rates are set relative to the general or residential rate.

10.2 Rural rate

The main objectives of having a rural rate are to:

- encourage and support the use of sound agricultural practices
- conserve and protect areas which are suited to certain agricultural pursuits
- encourage proper land use consistent with genuine farming activities.

Historically a lower rate has been applied to rural properties in the Shire. The basis for this decision is that, in the absence of some rate relief, the higher land component inherent in farming properties contributes to their relatively higher values and would result in farmers having to pay disproportionately high rates in relation to the income or surplus able to be generated from their properties.

There is also a level of support within Council that, by virtue of their distance from urban centres, farming households' access and consumption of a range of services is lower and should be taken into account when setting rates.

Council's position from 2002/03 was targeted at a rate distribution of 70:30 for Rural (70) and Urban (30) properties.

From 2014/15 Council has defined a differential rate split of 11%, with rural having a rate in the dollar of 89% of the general rate. Council considers this as a fair allocation of rates across property types.

11 FIRE SERVICES PROPERTY LEVY

Under the Fire Services Property Levy Act 2012, introduced as a result of recommendations by the Victorian Bushfires Royal Commission (VBRC), the Fire Services Property Levy (FSPL) was introduced to fund operations of the Metropolitan Fire Brigade (MFB) and Country Fire Authority (CFA). From July 2013 a fire services property levy applied to all private property owners – including persons and organisations that do not currently pay council rates, such as churches, charities, private schools, water catchment authorities and Returned Services Leagues. A number of Council properties are also subject to the fire levy.

A set fixed charge is applied all for applicable residential properties and other property types such as industrial, commercial and farms.

A further variable component is applicable and is based on cents per \$1,000 of CIV and is determined by land category.

Pensioner discounts are available for current eligible recipients of council rate concessions. These ratepayers receive a reduction of the FSPL.

The FSPL is collection by Council on behalf of the state government. All funds collected from the FSPL are paid direct to the state government.

12 SUPPLEMENTARY RATES

In certain circumstances valuations may be performed between general valuations to acknowledge changes in a property, for example when a building is erected or demolished or land subdivided or rezoned. Valuations are undertaken and an adjusted rate notice, known as a supplementary rate notice, is sent.

13 REBATES AND CONCESSIONS

Holders of a Centrelink or Veterans Affairs Pension Concession Card which stipulates Totally and Permanently Incapacitated (TPI) or War Widow, or a Veterans Affairs Gold Card may claim a rebate on their sole or principal place of residence.

Each year the government-funded rebate is indexed and provided to Council. This is a discount, under the Municipal Rates Concession Scheme, by the determined fixed amount or 50% of rate payment, whichever is the less. Upon initial application, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veterans Affairs during verification procedures. Upon acceptance of pensioner status the concession or rebate is deducted from the rate account before payment by the ratepayer.

Applications for the concession must be lodged by 30 June in each year. Retrospective claims are at the discretion of the Department of Health and Human Services.

14 PAYMENT OPTIONS

Under section 167(1) of The Act Council must allow a person to pay a rate or charge (other than a special rate or charge) in four instalments per annum.

Under section 167(2A) of The Act Council may allow a person to pay a rate or charge in a lump sum.

Interest penalty for payment made after the relevant instalment due date will be at the prescribed rate set at 30 June the year prior as provided for in Section 172 of The Act. This will start to accrue the day after the missed instalment for that overdue amount only. Payment dates for instalment and single lump sum payments are fixed by the Minister for Local Government and published in the Government Gazette.