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## **Introduction**

### **Purpose**

Council's rating strategy determines how local government taxation (rates) is distributed amongst properties within the municipality. It does not influence the total amount of money to be raised; rather it considers the share of revenue contributed by each property. The rating system comprises the valuation base for each property and the actual rating instruments allowed under the Local Government Act (1989) to calculate property owners' liability for rates. A rating strategy is the method by which Council systematically considers factors of importance in making decisions about the rating system.

The purpose of this strategy is to detail Council's decisions relating to the most equitable, practical and efficient distribution of rates and charges across the ratepayers and community members of Indigo Shire. It is important to underline that the rating strategy does not change the total amount of Council's rate revenue. The rate strategy is only the allocation method used to fairly and equitably spread the rate burden across the properties in the municipality.

### **Review Mechanism**

This strategy will guide council's budget and financial planning decisions and will be formally reviewed in 4 years (2019) or earlier as determined by council resolution.

Each year the differential categories and differential percentages will form part of the budget report and be published for public comment and input. In this way the rating strategy is reviewed and confirmed by council each financial year.

## Section 1: Rates & Rating

### Rates and Taxation

Rate revenue is a major source of Indigo Shire Council's revenues, accounting for approximately 45% of its annual income.

Taxation revenue whether it is at Federal, State or a Local level is generally used to fund various forms of public goods, services and community obligations. This is not necessarily in direct relation to user benefit, but ultimately to the benefit of the community as a whole. In this respect, rates are a general purpose levy not linked to user pays principles. Other charges such as kerbside collection service charges are directly linked to costs associated with the service.

Council has endeavoured to balance the cost of providing rates and services as fairly as possible across all ratepayer groups. Council's practices and decisions regarding rating are influenced by a number of factors including legislation and Council's strategies & plans.

There are major practical considerations that influence what type of services will attract fees and charges. Most critically is whether the services being considered are either entirely or partially public goods. Public goods are defined as services that provide a broad and often unquantifiable benefit to the community rather than a particular benefit to individuals, businesses, specific groups or individual properties. Public goods have the following characteristics:

- The use of or enjoyment of them by one person does not diminish their availability to, or enjoyment by, others (that is, they are non-rival); and
- It is not practical to exclude access to them (that is, they are non-excludable).

Examples of public goods include roads, parks and public toilets. Private goods are defined as goods which are both rival in consumption (that is, one person's use diminishes its availability or enjoyment by others) and excludable. Examples of private goods include recreation centres, and the use of community halls.

Generally, Council fund private goods through user charges and fund public goods through rates. In practise however it's often difficult to define local government services as either purely public goods or purely private goods. Most will lie somewhere on the spectrum between the two. This inevitably results in a large number of Council services, although having income from user fees, being subsidised by rates.

The amount of rates & charges collected by a council depends on conscious and considered choices as to the quantity and quality of services that it decides to provide and how much of the cost is to be recovered from other revenue sources.

## Considerations

### Equity

One of the key objectives for Council under the Local Government Act (1989) is to ensure the equitable imposition of rates and charges. Equity is a subjective concept that is difficult to define, what is fair for one ratepayer may be considered completely unfair for another. It is a choice of Council to what degree it wishes to take these equity factors into account when developing a Rating Strategy.

When considering what is equitable, Council considers a number of concepts, including but not limited to –

**Horizontal equity** - refers to justice or fairness in the treatment of like properties, in other words, similar rates are paid by similar properties.

**Vertical equity** - refers to the justice or fairness in the treatment of properties in different circumstances. It is the rationale used for the collection of income tax - those who are better off should pay more than those who are worse off. In the case of property rates, it may be considered equitable for one type of property to have to bear more or less of the rates burden than another type of property.

In achieving vertical equity in its rating strategy Council must consider the valuation base it chooses to adopt to apply property rates and the application of the various rating tools available to it under the Local Government Act (e.g. differential rates).

The use of property values to apportion Council rates is an imperfect system in which to assess a resident's ability to pay annual rates but one which Council is restricted to under the Act. A frequently raised example is in relation to pensioners who may live in their family home which carries a high value, but live on a pension. The equity question for consideration, however, is should Council support residents in this situation with lower rates that will eventually be to the financial benefit of estate beneficiaries? Or alternatively, should the ability to defer rates (in all or in a part) represent a more equitable outcome for all ratepayers? This particular issue is dealt with in more depth in Council's Hardship Policy.

**The Benefit Principle** - refers to the fact that some groups have more access to, make more use of, and benefit from more, specific council services. It can be argued that there should be a link between consumption/benefit and the rate burden; however, the benefit principle is difficult in practice due to the complexity and, in some cases, impossibility, of measuring the relative levels of access and consumption across the full range of council services.

It is also common that the group of people who require less services of certain type (e.g. child care) may indeed require more frequent service of another type (e.g. aged care). It is the level of benefit across the full range of rates-funded services that is important in determining the amount of rates that should be paid.

One of the more misunderstood elements of the rating system is that residents often intuitively seek to equate the level of rates paid with the amount of benefit they individually achieve. The reality is, however, that rates are a system of taxation not dissimilar to PAYE tax, and no direct link to a particular level of benefit is required.

In paying a tax on salaries, it is rarely questioned what benefit is received with it being acknowledged that tax payments are required to pay for critical services (e.g. health and education) across the nation. Local Government is not different to this outcome with rates being used to subsidise the delivery of services and capital works that would otherwise be unaffordable if charged on a case by case basis.

## Legislative

The Local Government Act (1989) provides a legislative framework within which Council must operate when determining its rating system. A number of factors are specified within the Act that Council must evaluate when setting its rating objectives -

- **Equitable imposition of rates and charges (Section 3C)** – A council must ensure the equitable imposition of rates and charges.
- **Valuation Bases (Section 157)** – A council may use the site value, net annual value or capital improved system of valuation.
- **Rates and Charges (Section 159 to 163)** - A council can levy general rates, municipal charges, service rates and charges and special rates and charges. General rates can be raised by the application of a uniform or a differential rate
- **Municipal Charge (Section 159)** - An optional charge that a Council may levy to cover some of its administrative costs. The revenue that can be obtained from a municipal charge is limited to 20% of the total revenue to be obtained from general rates and the municipal charge.
- **Service Rates and Service Charge (Section 162)** - may be declared for any of the following services:
  - The provision of a water supply;
  - The collection and disposal of refuse;
  - The provision of sewage services;
  - Any other prescribed service.
- **Special rates and special charges (Section 163)** - provisions can be used to defray expenses or repay (with interest) any advance made to, or debt incurred or loan raised by Council in relation to the performance of a function or the exercise of a power, if the Council considers that the performance or exercise is or will be of special benefit to the persons required to pay it. Council uses special rates and charges for the construction of kerb and channelling, footpath and drainage schemes.
- **Differential Rates (Section 161)** - enables a Council rating on a Capital Improved Value basis to raise any general rates by the application of differential rates if the Council considers the differential rate will contribute to the equitable and efficient carrying out of its functions. Differential rates allow Councils to make choices about the tax treatment of different property groups. There is no limit to the number of differential rates that can be applied, but clear objectives must be set and specified.
- **Payments of rates and charges (Section 167)** – A council must allow a person to pay a rate or charge in four instalments or as a lump sum
- **Incentives for prompt payment (Section 168)** – A council may provide incentives for the payment of rates and charges before the due date.
- **Rebates and Concessions (Section 169)** - A council may grant a rebate or a concession in relation to any rate or charge to assist the proper development of the municipal district, and to preserve, restore and maintain buildings or places of historical or environmental interest. Council may also grant a rebate or concession to support the provision of affordable housing, to a registered agency.

## **Strategic**

In addition to the Local Government Act, Council's rating objectives are also developed in conjunction with its strategic frameworks. The strategic objectives of Council are set out in the following -

- Indigo Shire Council Plan (4 Year)
- Annual Budget
- Strategic Resource Plan

## **Efficiency**

Efficiency can be defined as the ratio of ends produced (output) to means used (inputs). In other words it can be considered directly related to the cost of administering the rates system. Administration costs include the issuing of assessments, collection of rates, including maintaining and improving collection systems, monitoring outcomes, educating and informing ratepayers, and enforcement and debt recovery.

There is a tendency for uniformity to help minimise administration costs. A simple rating system is more transparent, meaning that the underlying purpose and principles behind the design of a tax are clearer who is liable for a particular rate and how tax liability is calculated. However, it is also possible for a simple rate system to be costly if it is unpopular and results in increased appeals and higher collection costs.

## **External Influences**

Council is subject to numerous economic factors. Since Councils major expenditure item is salaries and wages, any price index and EBA adjustments will have a significant impact on costs and subsequent rating decisions.

Council is also subject to significant movements in funding from State and Federal sources, as well as legislative restrictions imposed by other levels of government.

## Section 2: Valuations

### Valuations System

Section 157 of Local Government Act (1989) provides Council with three valuation systems –

- **Site Value** - the value of the land only, excluding any improvements.
- **Capital Improved Value** - the total value of the property (Site Value plus the value of all improvements); the sum which land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might be expected to realise at the time of valuation if offered for sale on any reasonable terms and conditions which a genuine seller might in ordinary circumstances be expected to require;
- **Net Annual Value** - is estimated annual value based on land, buildings and improvements, subject to a limit of 5% of CIV for residential and farm land but for commercial and industrial, this is set at market rate and includes fixed plant and machinery as part of rental calculation.

Council currently uses the Capital Improved Value (CIV) as a basis for levying rates. The CIV is determined by a valuer and is the total market value of the land plus the value of improvements made to the property including buildings and landscaping.

Properties are revalued by an independent valuer every two years to maintain a fair distribution of the rates burden between property owners within a municipality.

CIV is the most commonly used valuation base by Victorian Local Government with more than 70 Councils applying this methodology. Based on the value of both land and all improvements on the land, it is relatively easy to understand by ratepayers as it equates to the market value of the property.

Under the Local Government Act (1989), Council is entitled to apply differential rates provided it uses CIV as its base for rating. This is key driver for Council's use of CIV.

### No Windfall Gain

In establishing the proportion of rates and charges to be levied on properties, there is a common misconception that if a property's valuation rises then Council receives additional income. This is not the case, as the general revaluation process simply results in a redistribution of the rate burden across all properties in the Shire. Any increase to total valuations is offset by a reduction in the 'rate in the dollar' used to calculate the rate for each property.

### Differential Rates

Section 161 of Local Government Act (1989) allows Council to raise general rates through use of differential rates. The use of differential rates ensures greater equity and appropriate contribution from rates according to land use characteristics in relation to affordability and taxation principles.

The act states that Council may raise any general rates by the application of a differential rate if –

- a) It uses the Capital Improved Valuation system of valuing land; and
- b) It considers that a differential rate will contribute to the equitable and efficient carrying out of its functions.

The advantages of utilising a differential rating system are:

- There is greater flexibility to distribute the rate burden between all classes of property, and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for commercial and industrial premises;
- Differential rating allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs of the commercial and industrial sector;
- Enables Council to encourage particular developments through its rating approach e.g. to encourage development on vacant residential land;
- Allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome;
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

The general objective of each of the differential rates is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council. Each differential rate may also have specific objectives.

The Act also outlines the regulations relating to differential rates. This section is outlined below.

- A Council may raise any general rates by the application of a differential rate, if Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.
- If a Council declares a differential rate for any land, the Council must-
  - a) Specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of the Councils functions and must include the following:
    - i. A definition of the types of classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate.
    - ii. 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 Councils district)
  - b) Specify the characteristics of the land, which are the criteria for declaring the differential rate.
- The maximum differential allowed is no more than 4 times the lowest differential.

*Policy Position*

**Council will levy rates using a differential system in accordance Section 161 of Local Government Act (1989).**

## Section 3: The Indigo Shire Rating System

### Municipal Charge

As defined in Section 159 of the Local Government Act (1989), Council may declare a municipal charge to offset some of the administrative costs of the Council. The maximum municipal charge that can be levied is equal to 20% of the revenue raised from rates and the municipal charge divided by the number of chargeable properties.

Council considers that it is equitable that properties make a standard contribution to some administrative costs and that the municipal charge is a useful means of ensuring that, regardless of property size or valuation, each assessment contributes a flat, identical contribution towards the operation of the Council.

#### *Policy Position*

**Council will levy a Municipal Charge at or near the maximum permitted 20% as defined in Section 159 of the Local Government Act (1989).**

### Differential Rates

#### *Differential Definitions*

The objectives of the differential rates are to raise the Council's rates in a way where each class of land is dealt with fairly and equitably.

#### *Policy Position*

**Council will use five differential rating categories:**

1. **General**
2. **Residential Vacant**
3. **Rural 1**
4. **Rural 2**
5. **Commercial/Industrial**

#### *General Differential*

**General** properties are those that are -

- predominantly used for human habitation, and assessed by Council's valuer as being "Residential" for the purposes of the State Government's Fire Service Property Levy, or;
- not covered by another category.

The actual rating burden applied to general or residential properties is determined by decisions 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.

The objective of this general rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the construction and maintenance of infrastructure assets, development and provision of community services and provision of support services.

The categorisation of “general” properties includes small businesses that operate from residential properties that are of small scale and do not cause significant commercial impact on the community. This may include small accommodation businesses (B&B’s or self-contained accommodation, small scale professional business such as accounting etc.).

Being the base / default differential category, the rating differential of General properties is always 100%.

### *Residential Vacant Differential*

**Residential Vacant** land is any land which:

- does not contain buildings; and
- is of a type that permits residential development.

Residential vacant land has the potential to be developed for residential type accommodation that will place a similar demand for Council's services as the other residential type classifications.

In order to encourage development, Council considers that vacant land should be treated differently. Development may be encouraged for its salutary effect on local employment and income and also as part of an overall strategic approach to encourage urban consolidation within the Shire.

Council recognises that the area of higher differential rating of residential vacant land is subjective and arguments can be made to support a number of positions. Council considers on balance there are factors that materially influence the decisions of property owners to sell or develop land.

Therefore, the objective of this differential is to encourage appropriate development in residential areas.

#### *Policy Position*

**Council will apply a differential rate titled Residential Vacant, with the differential set at 200% of the General rate.**

### *Rural Differentials*

**Rural 1** property is any property which is:

- greater than 40 hectares in area; and
- used for Farm Land as defined in Section 2 of the Valuation of Land Act (1960).

**Rural 2** property is any property which is:

- greater than 8 hectares and less than 40 hectares in area; and
- Used for Residential or Farm Land as defined in Section 2 of the Valuation of Land Act (1960).

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.

Therefore the objective of these two rural rates is to balance the rating burden for properties in rural areas.

*Policy Position*

**Council will apply two rural differentials;**

- **Rural 1: For land greater than 40 HA, the differential rate will be set at 75% of the General rate.**
- **Rural 2: For land between 8 HA and 40 HA, the differential rate will be set at 90% of the General rate.**

***Commercial and Industrial Land Differential***

**Commercial/Industrial** property is any property which is:

- assessed by Council's valuer as being Commercial or Industrial for the purposes of the State Government's Fire Service Property Levy,
- operating on a commercial / industrial basis.

It is Council's position that businesses place additional demands on some council services. Higher demands are also placed on road infrastructure through specific commercial/industrial heavy vehicle movements. Additionally, commercial operations are direct and indirect beneficiaries of economic development and tourism activities and promotion within the shire. The objective of this rating differential is therefore to ensure that commercial properties are charged accordingly for this demand and investment.

*Policy Position*

**Council will apply a differential rate titled Commercial/Industrial with the differential set at 135% of the General rate.**

**Retirement Villages**

Council acknowledge that retirement villages provide a proportion of the services normally provided by local government. In recognition of this, and in support of retirement living options in Indigo Shire, Council will provide favourable conditions for accredited retirement villages.

*Policy Position*

**Council will only charge one Municipal Charge and one Environmental Management Contribution per accredited retirement village.**

### **Cultural and Recreational properties**

The Cultural and Recreational Lands Act 1963 provides a means for Councils to grant a rating concession to any cultural or recreational property which meet the test of being 'rateable land' under the Act. The decision as to whether a cultural or recreational rate is applicable will be determined at Council's discretion.

*Policy Position*

**Council does not consider that rebates to Cultural and Recreational Land provides sufficient public benefit to justify the additional rating burden on all other ratepayers.**

### **Charitable and Not-For-Profit Organisations**

Section 154 of the Local Government Act 1989 provides for properties where the use is charitable, to be non-rateable. Throughout the Shire, charitable uses include those providing health services, education, religion and services to the needy.

There also are a number of organisations, which provide housing for low-income people, on a voluntary and not-for-profit basis. The provisions of the Local Government Act (1989) preclude such residential properties from being non-rateable, even though their use may be regarded as charitable, in the everyday sense of the term.

*Policy Position*

**Council will comply with Section 154 of the Local Government Act (1989) and not expand concessions beyond those provided for in legislation.**

### **Service Charges**

Council currently applies four service charges for garbage collection, recycling collection, organic collection and for environmental management. These operate as a charge per serviced assessment.

*Policy Position*

**Council will levy a service charge for garbage collection, recycling collection, organics waste collection and for environmental management.**

## Section 4: Collection and Administration of Rates

### *Payment Dates for Rates*

There are only two options available under the Local Government Act (1989) for Council to set payment dates. The first is an option of a lump sum payment (which by law is set on the 15th February of each year) and the second is an instalment approach where payments are required at the end of September, November, February and May. Under this second approach, residents can elect to advance pay instalments at any point in order to opt out of the instalment dates.

### *Payment Methods*

Council currently offers, and will continue to offer, a range of payment methods including payment channels such as direct debit, Bpay, Internet via [www.indigoshire.vic.gov.au](http://www.indigoshire.vic.gov.au), by mail, telephone, over the counter services at Council Service Centres, POSTbillpay, and credit card.

Council incurs costs of collection via agency and merchant service fees and will constantly review the cost / benefit case for each of these payment channels.

### *Pensioner Rebates*

Holders of a Centrelink or Veterans Affairs Pension Concession card, or a Veteran Affairs Gold card which stipulates TPI or War Widow may claim a Government-funded rebate on their sole or principle place of residence. This is provided under the Municipal Rates Concession Scheme.

Upon initial application, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veteran Affairs during verification procedures. Upon acceptance of pensioner status, the concession or rebate is deducted from the rate account and the reduction is applied against any remaining instalments. Applications for the concession must be lodged by 30 June in each year.

### *Late / Non Payment of Rates*

In the event that an account becomes overdue, Council has established procedures for the issue of an overdue final notice which may include interest. In the event that the account remains unpaid and without an agreed payment plan, Council may take legal action without further notice to recover any overdue amount. All fees and court costs are recoverable from the ratepayer.

The principle in providing for such penalty is that ratepayers who pay within the required timeframe should not have to subsidise or bear any cost of ratepayers who default in payment. As an option of last resort, Council may avail itself of the options under section 180 and 181 of the Local Government Act 1989, to address non-payment of rates.

Council makes every effort to contact ratepayers at their correct address but it is the ratepayers' responsibility to properly advise Council of their contact details.

### *Interest on Arrears and Overdue Rates*

Interest is charged on all overdue rates in accordance with Section 172 of the Local Government Act (1989). The interest rate to apply is fixed under Section 2 of the Penalty Interest Rates Act (1983), which is determined by the Victorian Attorney General and published by notice in the Government Gazette.



Council cannot apply an alternative rate but under Section 172 of the Local Government Act (1989) has the power to exempt any person from paying the whole or part of any interest amount generally or specifically payable.

### *Hardship*

Financial hardship can strike anybody at any time, as a result of an unforeseen event, or due to ongoing low or fixed income. Indigo Shire Council commits to providing flexible repayment arrangements for ratepayers who are experiencing genuine hardship, therefore ensuring respectful and dignified treatment.

The flexible repayment options include payment plans for medium term financial hardship, rates and charges deferrals for long-term cases (including a possible interest rate reduction), and waiver of rates for unusual financial hardship cases (which may be assessed by an independent financial counsellor).

In all applications Council will request supporting documentation as evidence of hardship. Council acknowledges that timely recovery of rates and charges is essential to ensure adequate funding of community services and capital works projects, and therefore will implement best practice arrangements for the collection of rates and charges for ratepayers experiencing hardship.