Ararat Rural City

# Revenue & Rating Strategy

2021-2025


TOWN HALL
TOWN HALL

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# INTRODUCTION

The *Local Government Act 2020* requires Ararat Rural City Council to prepare a Revenue and Rating Plan to cover a minimum period of four years following each Council election. The Revenue and Rating Plan establishes the revenue raising framework within which the Council proposes to work.

The purpose of the Revenue and Rating Plan is to determine the most appropriate and affordable revenue and rating approach for Ararat Rural City Council which in conjunction with other income sources will adequately finance the objectives in the Council Plan 2021-2025. This plan is an important element of the Ararat Rural City Council Planning and Budgeting Framework

## ARARAT RURAL CITY COUNCIL PLANNING AND BUDGETING FRAMEWORK

**COMMUNITY VISION 2031**
Describe the 10-year community aspiration for ARCC

**FINANCIAL PLAN**
Council to develop a comprehensive 10-year financial plan to fund implementation of the Community Vision 2031 and the Council Plan 2021-2025

**ASSET PLAN**
Council to develop a 10-year Asset Plan outlining strategic approaches to management of each Asset Class. Link to the Community Vision and the Financial Plane

**COUNCIL PLAN 2021-2025**
Outlining Council's strategic direction for the four-year period, including strategic objectives, performance indicators and service levels and priories

**REVENUE RATING PLAN 2021-2025**
Council to adopt a revenue and rating plan. Aligns with four-year aspirations outlined in the Financial Plan,Council Plan 2021-2025, Municipal Health and Wellbeing Plan 2021-2025 and Capital Works Plan 2021-2025

**MUNICIPAL AND WELLBEING PLAN 2021-2025**
Outlining Council's four-year plan around community health and wellbeing

**CAPITAL WORKS PLAN 2021-2025**
Council to develop a four-year Capital Works Plan outlining planned capital works by each Asset Class. Aligns with four-year aspirations outlined in the Asset Plan, Council Plan 2021-2025 and the Municipal Health and Wellbeing Plan 2021-2025

**COUNCIL BUDGET 2021/2022**
Council to adopt a Budget for 2021/2022 which aligns with implementation of the Annual Plan 2021/2022 and the two-year Capital Works Program 2021-2023

**ANNUAL PLAN 2021/2022**
Outlines Council's implementation of the Council Plan 2021-2025, including objectives, actions, and performance measures

**TWO-YEAR CAPITAL WORKS PLAN 2021-2023**
Council to develop a 10-year Asset Plan outlining strategic approaches to management of each Asset Class. Links to the Community Vision and Financial Plan

**ANNUAL REPORT**
Report on Council's financial and services performances for 2021/2022

Approaches to revenue and rating outlined in this Plan align with the objectives contained in the Council Plan 2021-2025 and will inform our budgeting and long-term financial planning documents. The Revenue and Rating Plan is an integral element of the Planning and Budgeting Framework.

This Plan will explain how Council calculates the revenue needed to fund its activities, and how the funding burden will be apportioned between ratepayers and other users of Council facilities and services.

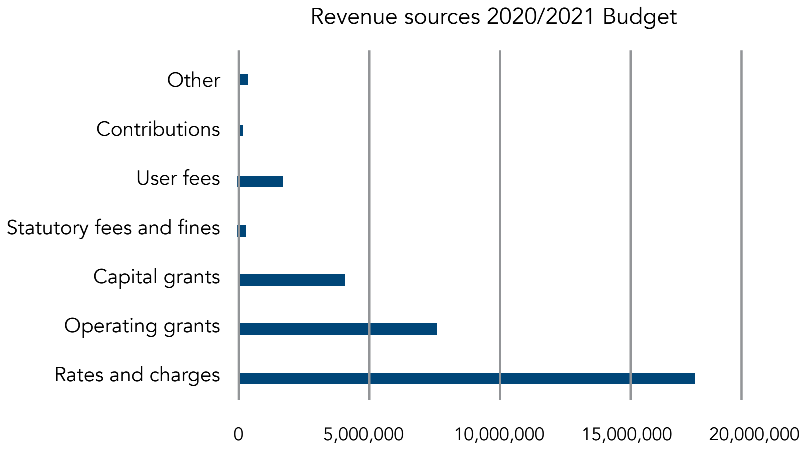
This plan will set out decisions that Council has made in relation to rating options available to it under the Local Government Act 1989 and the Local Government Act 2020 to ensure the fair and equitable distribution of rates across property owners. It will also set out principles that are used in decision making for other revenue sources such as fees and charges.

It is important to note that the approach to rating equity utilised in this Plan is heavily influenced by the deliberations of the Rating Strategy Advisory Group (RSAG) during 2017 and 2018 and endorsed by the subsequent citizen's jury convened in 2018.

It is also important to note that this plan does not set revenue targets for Council, it outlines the strategic framework and decisions that inform how Council will go about calculating and collecting its revenue.

# BACKGROUND

Council provides several services to our community that are funded through a range of different mechanisms. The revenue to maintain Council's activity is funded from a range of different sources. The graph below indicates sources of revenue from the 2020/2021 Budget.




Council's revenue sources identified in the 2020/2021 Budget were:

| Source | Value ($) |
|---|---:|
| Rates and charges | 17,701,495 |
| Operating grants | 7,617,000 |
| Capital grants | 4,086,000 |
| Statutory fees and fines | 176,000 |
| User fees | 1,654,000 |
| Contributions | 93,000 |
| Other | 325,000 |
| **TOTAL** | **31,652,495** |

As can be seen Ararat Rural City Council has a high reliance on rates as a revenue source, representing 55.9% of total revenue in the 2020/2021 budget. It needs to be understood that a small rural Council has few other significant revenue sources open to it beyond rates and government grants. Increasing levels of statutory fines and fees or user fees continues to levy revenue from the municipal community albeit through another mechanism.

Council's Community Plan 2021-2025 identifies maintenance of Council service provision, development of community assets and enabling infrastructure, circular economy outcomes and economic growth as key outcomes.

Council has a strong commitment to driving organisational efficiencies and returning ongoing savings as a dividend to the community. In the last three financial years this has yielded a net rate increase of 1.5% compared to an increase of 6.75% available under the Rates (FGRS).

Council has cut rates by 1.5% in the 2021/2022 budget. This will yield a four-year zero rate increase. The four-year impact of returning rating dividends through organisational efficiency is shown below:

| Year | ARCC Rate increase | FGRS increase |
|---|---:|---:|
| 0.00% | 0.00% | 2.25% |
| 2019/2020 | 2.50% | 2.50% |
| 2020/2021 | -1.00% | 2.00% |
| 2021/2022 | -1.50% | 1.50% |
| **TOTAL** | **0.00%** | **8.25%** |

# COMMUNITY ENGAGEMENT

The Revenue and Rating Plan outlines Council's decision-making process on how revenues are calculated and collected. The following public consultation processes were applied to the ARCC Revenue and Rating Plan 2021-2025:

- ARCC Revenue and Rating Plan developed by CEO and Councillors across multiple workshops during the first half of 2021.
- Completed Plan posted to engage.ararat.vic.gov.au in week commencing 31/05/2021 for community engagement, suggested inclusions and public comment. Online engagement and submission process ends on Friday 25 June 2021.
- Face to face community workshops were be held in Ararat, Tatyoon, and Lake Bolac, seeking feedback on the Plan in the week commencing 14 June 2021.
- Final Plan adopted by Council on Tuesday 29 June 2021.

It is important to acknowledge that the underpinning philosophy of the ARCC Revenue and Rating Plan rests in the outcomes of extensive deliberative engagement processes undertaken through the RSAG and the Citizen's Jury in 2017 and 2018. These processes established a very clear model of rating fairness based on consistent sharing of the rate burden among the four rating sectors established through Council's differential rating model. These four rating sectors are general, industrial, commercial and farm. The model for distribution of the rating burden was colloquially named the "pie model" and will be discussed in more detail later in this document.

# RATES AND CHARGES

Rates are essentially property taxes that allow Council to raise revenue to fund delivery of a range of services to their municipal community. Importantly, it is a taxation system that includes flexibility for councils to utilise different tools in its rating structure to accommodate issues of equity and to ensure fairness in rating for all ratepayers. Councils can use these tools in different ways to yield results seen as fair by their communities.

Council utilises a rating structure comprised of three key elements. These are:

- General Rates – Based on property values (using the Capital Improved Valuation methodology), which are indicative of capacity to pay and form the central basis of rating under the Local Government Act. Within the general rating model ARCC has four differentiated rating sectors general, industrial, commercial and farm.
- Service Charges - A 'user pays' component for council services to reflect benefits provided by Council to ratepayers who benefit from a service. The only service charge applied by ARCC is the Waste Charge, applied to domestic waste management.
- Municipal Charge – ARCC applies a municipal charge, currently $96, as a 'fixed rate" portion per property or farm enterprise to cover some of the fixed administrative costs of Council.

## GENERAL RATES

The formula for calculating General Rates, excluding any additional charges, arrears or additional supplementary rates is:

*Valuation (Capital Improved Value) x Rate in the Dollar (Differential Rate Type)*

The rate in the dollar for each rating differential category is included in Council's annual budget and represents Council's key mechanism for building a rating model that shares rating burden predictably and fairly between the four rating sectors.

Rates and charges are an important source of revenue, accounting for over 55% of operating revenue received by Council. The collection of rates is an important factor in funding Council services.

Planning for future rate increases is therefore an essential component of the long-term financial planning process and plays a significant role in funding both additional service delivery and the increasing costs related to providing Council services.

Council makes a further distinction when applying general rates by applying a rating differential based on the purpose for which the property is used. That is, whether the property is used for general, commercial, industrial, or farming purposes. This distinction is based on the concept that different property categories should pay a fair and equitable contribution, considering the benefits those properties derive from the local community.

Ararat Rural City Council has made a clear decision, supported by the outcomes of the RSAG and Citizen's Jury, and by the community more generally, that rating fairness is measured by a consistent sharing of "rates burden" between rating sectors from year to year. It has become known as the "pie model" through the RSAG process. It means that each year, each rating sector should contribute a very similar amount of the rating "pie". This reflects the intent of Section 101(1) (c ) of the Local Government Act 2020 which requires that Council's "seek to provide stability and predictability in the financial impact on the municipal community"

In ARCC this means that the rating system should support something very close to the following outcome in terms of rating burden among the four sectors:

| Rating sectors | Rates "burden" |
|---|---:|
| General | 51.70% |
| Commercial | 6.60% |
| Industrial | 1.70% |
| Farmland | 40.00% |
| **TOTAL** | **100.00%** |

This is based on the rates burden figures from the 2020/2021 Budget, which were in turn informed by the actual 2019/2020 rates burden.

To maintain consistency in percentage rating burden across the four rating sectors it is critical to understand that the differential is not a "discount" or a fixed element that underpins rating fairness, rather that it is an economic lever to be used to ensure that the current rates burden is maintained between rating sectors.

This equilibrium in burden between rating sectors is often disturbed through asymmetric changes in property valuations between rating sectors. If valuations in one sector increase or decrease disproportionately to the overall movement in valuations it will skew the proportion of rates paid by one sector and this needs to be adjusted through alteration of one or more differentials. This is explained in an example of the 2021/2022 financial year provided in Appendix 1.

Council will continue to attempt to minimise the impact of rating burden on the whole municipal community through seeking ongoing organisational efficiencies during the life of this Revenue and Rating Plan. These savings will be returned as a dividend to community.

There is a general "understanding" in the local government sector that forgoing the opportunity to increase rates to the maximum allowed under the FGRS results in significant losses in future revenue which undermine ongoing organisational sustainability, particularly in small rural Councils. ARCC challenges this thinking as delivering ongoing and sustainable efficiencies has the same impact on long term sustainability as increasing the rate base. There may be rate increases in the period 2021-2025, to meet increased costs, but the first option to be exercised will always be efficiency dividends.

## VALUATION METHODOLOGY

Ararat Rural City Council applies Capital Improved Value (CIV) to all properties within the municipality to take into account the fully developed value of the property. This basis of valuation takes into account the total market value of the land plus buildings and other improvements. The CIV approach also provides the most effective mechanism for Council to raise differential rates under the *Ministerial Guidelines for Differential Rating, 2013*. A more complete description of valuation models applied to property rating Victoria is provided in Appendix 6.

## RATIONALE FOR DIFFERENTIAL RATING SECTORS

Council believes each differential rate will contribute to the equitable and efficient carrying out of council functions. The application of the "pie model" in terms of a generally accepted community measure of rating equity has been discussed previously as a key driver of the rating sectors developed under Council's Revenue and Rating plan 2021-2025.

Details of the objectives of each differential rate, the classes of land which are subject to each differential rate and the uses of each differential rate are set out below.

### GENERAL RATE

**Definition:** General land is any rateable land which does not have the characteristics of Farm Rate land and Commercial/ Industrial Rate land.

**Objectives:** To ensure that Council has adequate funding to undertake its strategic, statutory, service provision and community services obligations and to ensure that the differential rate in the dollar declared for defined general rate land properties is fair and equitable, having regard to the cost and the level of benefits derived from provision of Council services.

**Characteristics:** The characteristics of the planning scheme zoning are applicable to the determination of vacant land which will be subject to the rate of residential land. The vacant land affected by this rate is that which is zoned residential under the Ararat Rural City Council Planning Scheme. The classification of the land will be determined by the occupation of that land for its best use and have reference to the planning scheme zoning.

**Types and Classes:**
Rateable land having the relevant characteristics described below:

**a.** used primarily for residential purposes; or
**b.** any land that is not defined as Farmland or Commercial/Industrial Land.

**Use of Rate:** The General Differential Rate is the default rate in instances where land does not meet the characteristics of any other differential rate. It will be used to fund items of expenditure described in the Budget adopted by Council. The level of the differential rate is the level which Council considers is necessary to achieve the objectives specified above.

**Level of Rate:** 100% of General Rate.

**Use of Land:** Any use permitted under the Ararat Rural City Council Planning Scheme.

**Geographic Location:** Wherever located within the municipal district.

**Planning Scheme Zoning:** The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the relevant Ararat Rural City Council Planning Scheme.

**Types of Buildings:** All buildings which are already constructed on the land, or which are constructed prior to the end of the financial year.

## FARM RATE

**Definition:** Farm Land means any rateable land within the Council's municipal district defined as farm land under Section 2 of the Valuation of Land Act 1960 on the condition that the owner or occupier of the land is a person carrying on the activities defined by the Valuation of Land Act 1960, and who is regarded as a Primary Producer by the Australian Taxation Office.

Section 2(1) of the *Valuation of Land Act 1960* states:

**a.** Farm Land means any rateable land that is 2 or more hectares in area.
**b.** used primarily for primary producing purposes from its activities on the land; used primarily for grazing (including agistment), dairying, pig-farming, poultry farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of those activities; and

That is used by a business –

- That has a significant and substantial commercial purpose of character.
- That seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
- That is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

**Objectives:** To ensure that Council has adequate funding to undertake its strategic, statutory, service provision and community services obligations and to ensure that the differential rate in the dollar declared for defined Farm Rate land properties is fair and equitable, having regard to the cost and the level of benefits derived from provision of Council services with considerations to maintain agriculture as a major industry in the municipal district, to facilitate the longevity of the farm sector and achieve a balance between providing for municipal growth and retaining the important agricultural economic base.

**Characteristics:** The characteristics of the planning scheme zoning are applicable to the determination of farm land which will be subject to the rate of Farm land. The classification of the land will be determined by the occupation of that land for its best use and have reference to the planning scheme zoning.

**Types and Classes:** Farm Land having the relevant characteristics described below:

**a.** used primarily for primary production purposes by an owner or occupier who is regarded as a Primary Producer by the Australian Taxation Office; or
**b.** any land that is not defined as General Land or Commercial/Industrial Land.

**Use of Rate:** The differential rate will be used to fund items of expenditure described in the Budget adopted by Council. The level of the differential rate is the level which Council considers is necessary to achieve the objectives specified above.

**Level of Rate:** The level of the rate will be determined annually by Council and the community in preparation and adoption of Council's budget. The Farm differential is an economic lever required to maintain consistency in rating burden between rating sectors. The Farm Rate is 40% of the General Rate in 2021/2022.

**Use of Land:** Any use permitted under the Ararat Rural City Council Planning Scheme.

**Geographic Location:** Wherever located within the municipal district.

**Planning Scheme Zoning:** The zoning applicable to each ratable land within this category, as determined by consulting maps referred to in the relevant Ararat Rural City Council Planning Scheme.

**Types of Buildings:** All buildings which are already constructed on the land, or which are constructed prior to the end of the financial year.

Ratepayers who would like to claim the farm rate are required to complete the Application for Farm Land Classification provided in Appendix 3.

## COMMERCIAL/INDUSTRIAL RATE

Although acknowledged as two separate rating sectors the rationale for striking a Commercial / Industrial differential rate is the same and will be described as a single class in the Revenue and Rating Plan 2021-2025.

**Definition:** Commercial/Industrial Land is any land, which is:

**a.** Used primarily for carrying out the manufacture or production of, or trade in goods or services (including tourist facilities and in the case of a business providing accommodation for tourists, is prescribed accommodation under the *Public Health and Wellbeing Act (Vic) 2008*; or
**b.** Unoccupied building erected which is zoned Commercial or Industrial under the Ararat Rural City Council Planning Scheme; or
**c.** Unoccupied land which is zoned Commercial or Industrial under the Ararat Rural City Council Planning Scheme.

**Objectives:** To ensure that Council has adequate funding to undertake its strategic, statutory, service provision and community services obligations and to ensure that the differential rate in the dollar declared for defined Commercial/Industrial Rate land properties is fair and equitable, having regard to the cost and the level of benefits derived from provision of Council services.

The commercial businesses of Ararat Rural City Council benefit from ongoing significant investment by Council in services and infrastructure. Council also notes the tax deductibility of Council rates for commercial properties which is not available to the residential sector, and the income generating capability of commercial based properties.

The Commercial differential rate is applied to promote the economic development objectives for the Ararat Rural City Council as outlined in the Council Plan. These objectives include an ongoing significant investment to create a vibrant economy and includes the maintenance and improvement of tourism infrastructure. Construction and maintenance of public infrastructure, development and provision of health and community services and the general provision of support services and promotion of business in the municipality.

**Characteristics:** The characteristics of the planning scheme zoning are applicable to the determination of vacant land which will be subject to the rate applicable to Commercial/Industrial Land. The classification of the land will be determined by the occupation of that land for its best use and have reference to the planning scheme zoning.

Types and Classes: Commercial/Industrial having the relevant characteristics described below:

**a.** used primarily for commercial purposes; or
**b.** any land that is not defined as General Land or Farm Land.

**Use of Rate:** The differential rate will be used to fund items of expenditure described in the Budget adopted by Council. The level of the differential rate is the level which Council considers is necessary to achieve the objectives specified above.

**Level of Rate:** The level of the rate will be determined annually by Council and the community in preparation and adoption of Council's budget. The differential rate is an economic lever required to maintain consistency in rating burden between rating sectors. The Commercial/Industrial rate is 125% of the General Rate in 2021/2022. It is less likely that the Commercial/Industrial differential will need to be altered significantly form budget to budget as there are much less volatile property markets in these two rating sectors.

**Use of Land:** Any use permitted under the Ararat Rural City Council Planning Scheme.

**Geographic Location:** Wherever located within the municipal district.

**Planning Scheme Zoning:** The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the relevant Ararat Rural City Council Shire Planning Scheme.

**Types of Buildings:** All buildings which are already constructed on the land, or which are constructed prior to the end of the financial year.

## CHARGES

A description of Council's legislative basis for levying charges is provided in Appendix 7. Council currently levies charges related to waste management and a municipal charge which are described below.

### Service Charges

Council currently utilises a service charge to fully recover the cost of waste and recycling services and provide for future landfill rehabilitation costs. Waste charges are not capped under the Fair Go Rates System; however, Council will continue to minimise future increases in waste and recycling charges based on efficiencies, services review, and effective implementation of Circular Economy Policy.

### Municipal Charge

Council levies a municipal charge which is a minimum charge per property or single farm enterprise. The charge is declared for the purpose of covering some of the fixed administrative costs of Council. This is a charge that applies to all ratepayers equally and is a source of non-valuation-based revenue.

# COLLECTION AND ADMINISTRATION OF RATES AND CHARGES

Council is committed to providing the most flexible, fair, and equitable approach to collection of rates and charges that is reasonably possible. The purpose of this section is to outline the rate payment options, processes, and the support provided to ratepayers facing financial hardship. A recent Ombudsman's inquiry into ratepayers facing financial hardship highlighted ARCC as one of the more responsive Councils.

### Payment options

In accor*dance with section 167(1) of the* Local Government Act 1989 ratepayers must be allowed to pay rates and charges by way of four instalments. Payments are due on the prescribed dates below:

- 1st Instalment: 30 September
- 2nd Instalment: 30 November
- 3rd Instalment: 28 February
- 4th Instalment: 31 May

Council also allows payments in a lump sum on 15 February each year.

Should any person pay an amount equivalent to their first instalment before 30 October each year Council will consider the payment as an instalment payment. Should any person pay an amount equivalent to their first instalment after 30 October each year Council will consider the payment as an amount towards the lump sum option and the rates will then be due by 15 February next.

Council offers a range of payment options including:

- in person at Council offices (cheques, money orders, EFTPOS, credit/debit cards and cash),
- direct debit (Ratepayers have the option to pay rates and charges over 9 monthly payments or 18 fortnightly payments, free of interest, commencing the last Friday of September and finishing in the following May. Ratepayers can also pay by lump sum or by instalments,
- BPAY,
- Australia Post (over the counter, over the phone via credit card and on the internet),
- by mail (cheques and money orders only).

### 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 applied is fixed under Section 2 of the Penalty Interest Rates Act 1983, which is determined by the Minister and published by notice in the Government Gazette. Council cannot apply an alternate interest rate but has the power to exempt any person from paying the whole or part of any interest amount generally or specifically under Section 172 (2A).

To assist ratepayers further in the payment of rates and charges Council will allow a grace period of 30 days before interest is applied to late instalments and late lump sum payments. This will allow reminder notices to be sent free of interest which will assist in the administration of payments.

Council officers have the authority to write off property balances of $10 or less if the balance is related to interest now being calculated daily.

### Pensioner rebates

Holders of a Centrelink or Veteran Affairs Pension Concession card or a Veteran Affairs Gold card which stipulates TPI, or War Widow may claim a rebate on their sole or principal place of residence. Upon initial application, ongoing eligibility is maintained, unless rejected by Centrelink or the Department of Veteran Affairs during the annual verification procedure. Upon confirmation of an eligible pensioner concession status, the pensioner rebate is deducted from the rate account before payment is required by the ratepayer.

With regards to new applicants, after being granted a Pensioner Concession Card (PCC), pensioners can then apply for the rebate at any time throughout the rating year. Retrospective claims up to a maximum of one previous financial year can be approved by Council on verification of eligibility criteria, for periods prior to this, claims may be approved by the relevant government department.

### Rates Assistance, Waivers and Deferrals

It is acknowledged at the outset that ratepayers may experience financial hardship for a whole range of issues and that meeting rate obligations constitutes just one element of several difficulties that may be faced. The simplest description of hardship is "a customer or ratepayer who wants to pay cannot". Hardship does not generally apply to customers or ratepayers who have short term cash flows problems.

Any ratepayer who is experiencing financial difficulty are advised that Council is sympathetic to their financial situation and that flexible repayment plans can be developed based on their ability to pay. Ratepayers who are on flexible repayment plans are still required to pay interest on any outstanding amounts.

Pursuant to the provisions of Section 171A of the Local Government Act 1989, a person who is suffering financial hardship or would suffer financial hardship if that person had to pay the full rate may apply to Council for the waiver of the whole or part of the rates or interest charged for late payment.

Council may require the person to give further details or to verify particulars. An application form to facilitate consideration of a request for deferral or waiver of rates has been prepared [Appendix 2].

Applications for the waiver of rates will only be considered based on genuine hardship, supported by another government agency, welfare group or financial counsellor. The intent of providing a waiver will be to allow the ratepayer to overcome immediate financial difficulties with a supported financial plan to ensure that future commitments to rates and other household payments can be accommodated.

Waiver of rates will only apply to rates on the ratepayer's primary residence. This excludes commercial properties, industrial properties, residential investment properties and in most cases farm properties. Applications for waiver will be considered as a confidential report to Council.

Applications for the deferral of rates will be considered based on genuine hardship. The deferred payment option means rates, charges and interest are still charged, but the ratepayer does not have to pay the amount until Council considers the payment will not cause the ratepayer financial hardship, or the ratepayer no longer owns or occupies the land. Deferral of rates will apply to all classes of property.

**Debt recovery**

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. The *Local Government Act 1989* Section 230 and 231 requires both the vendor and buyer of property, or their agents (e.g., solicitors and or conveyancers), to notify Council by way of notice of disposition or acquisition of an interest in land.

If an account becomes overdue, Council will issue an overdue reminder notice which will include accrued penalty interest. If the account remains unpaid, Council may take legal action without further notice to recover the overdue amount. All fees and court costs incurred will be recoverable from the ratepayer.

If an amount payable by way of rates in respect to land has been in arrears for three years or more, Council may take action to sell the property in accordance with the *Local Government Act 1989 Section 181.*

# FIRE SERVICES LEVY

In 2012 the Victorian State Government passed legislation requiring the Fire Services Property Levy to be collected from ratepayers. Previously this was collected through building and property insurance premiums. The Fire Services Property Levy helps fund the services provided by Fire Rescue Victoria (formally the Metropolitan Fire Brigade (MFB) and Country Fire Authority (CFA)), and all levies collected by Council are passed through to the State Government.

The Fire Services Property Levy is based on two components, a fixed charge, and a variable charge which is linked to the Capital Improved Value of the property. This levy is not included in the rate cap and increases in the levy are at the discretion of the State Government.

# OTHER REVENUE SOURCES

## USER FEES AND CHARGES

Council has identified that there is a need to substantially improve our capacity to cost deliver services and monitor service standards and is committed to make these improvements during the 2021/2022 financial year.

Council reviews the income generated from fees and charges each year as part of the budget process. Council recognises that statutory fees are set by legislation/regulation but attempts to generate appropriate revenue from discretionary user fees.
Examples of council's user fees and charges include:

- Waste Management fees
- Aged and Health Care service fees
- Leisure Centre, Gym, and Pool visitation and membership fees
- Facility income – Ararat Town Hall, Gum San Museum/Great Hall, Alexandra Oval
- Building Services

Council develops a table of fees and charges as part of its annual budget each year. Pricing changes are included in the budget and are communicated to stakeholders before the budget is adopted, giving them the chance to review and provide feedback before the fees are finalised.

In determining charges for community services Council must determine if the extent of cost recovery for services is consistent with the individual and collective benefit that the service provides and community's expectation.

Services are charged based on one of the following pricing methods:

**a.** Zero cost recovery -This service is provided at no cost. The costs are met entirely from rates and general-purpose income.
**b.** Partial cost recovery – Pricing for this service is set to be a mix of user contribution and subsidy from Council revenue.
**c.** Full cost recovery – full cost of the service is paid by the user.
**d.** Market Price – price is set by comparisons with like services delivered by like Councils or competitors.

## STATUTORY FEES AND CHARGES

Statutory fees and fines are those which council collects where price is set through legislative or regulatory mechanisms. Pricing is generally established through Penalty or Fee units.

Examples of statutory fees and fines include:

- Planning and subdivision fees
- Building and Inspection fees
- Infringements and fines
- Land Information Certificate fees

### Penalty units

Penalty units are used to define the amount payable for fines for many offences. The rate for penalty units is indexed each financial year One penalty unit is currently $165.22, from 1 July 2020 to 30 June 2021.

### Fee units

Fee units are used to calculate the cost of a certificate, registration or licence that is set in legislation or regulation. The value of one fee unit is currently $14.81 and similarly to penalty units is reviewed each financial year.

The cost of fees and penalties is calculated by multiplying the number of units by the current value of the fee or unit. The exact cost may be rounded up or down. For example, the building request would be 3.19 units x $14.81 per unit = $47.20.

### Grants

Grant revenue represents income usually received from other levels of government. Some grants are singular and attached to the delivery of specific projects, whilst others can be of a recurrent nature and may or may not be linked to the delivery of projects.

Council will pro-actively advocate for grant funding to deliver important infrastructure and service outcomes for the community. Council may use its own funds to leverage higher grant funding and maximise external funding opportunities.

### Contributions

Contributions represent funds received by Council, usually from non-government sources, and are usually linked to projects.

Contributions can be made to council in the form of either cash payments or asset handovers.
Examples of contributions include:

- Monies collected from developers under planning and development agreements.
- Monies collected under developer contribution plans and infrastructure contribution plans.
- Contributions from user groups towards upgrade of facilities
- Assets handed over to council from developers at the completion of a subdivision, such as roads, drainage, and public open space.

Contributions should always be linked to a planning or funding agreement. Council will not undertake any work on a contribution-funded project until a signed agreement outlining the contribution details is in place.

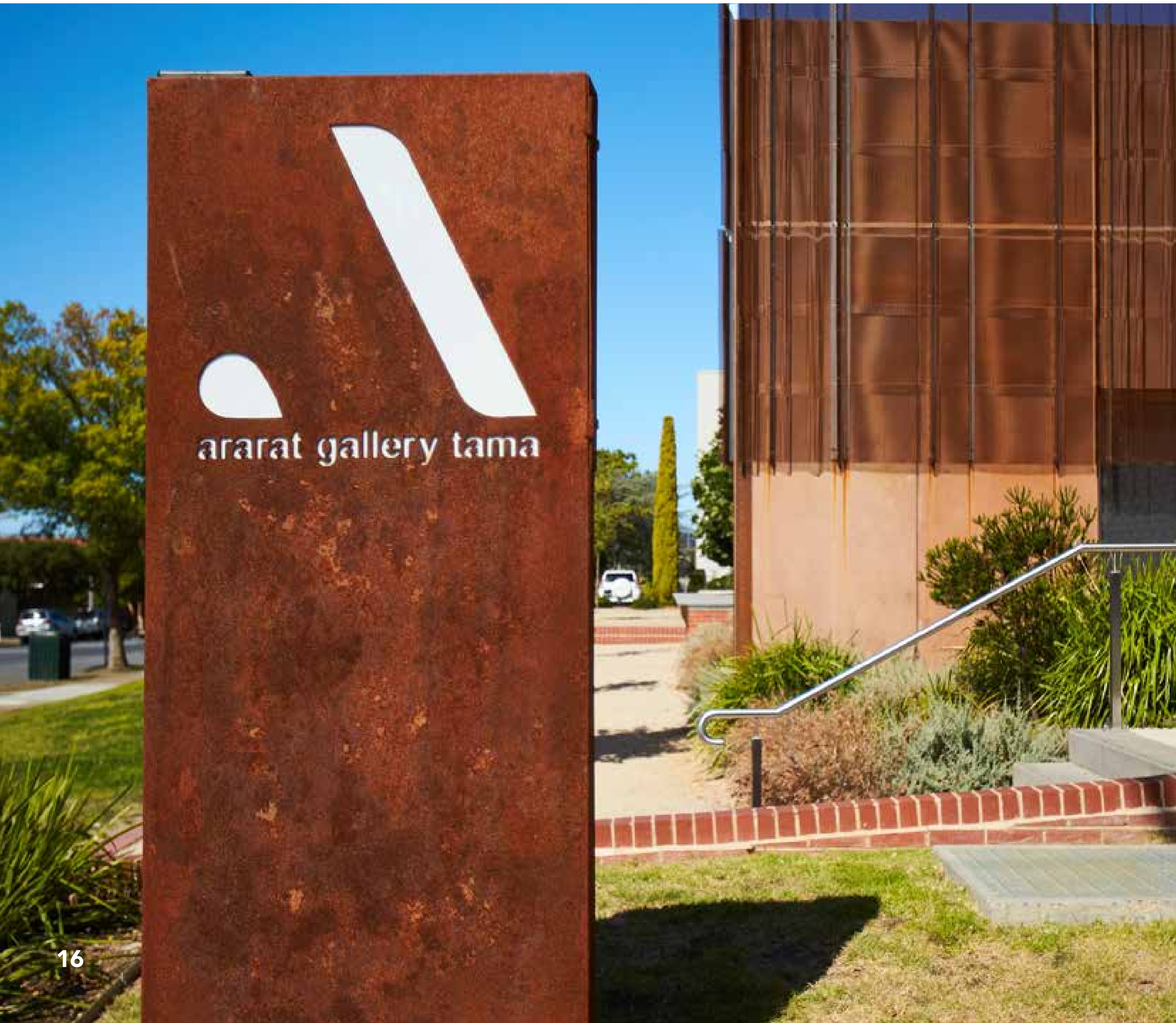
Contributions linked to developments can be received well before any council expenditure occurs. In this situation, the funds will be identified and held separately for the specific works identified in the agreements.

### Interest on investments

Council receives interest on funds managed as part of its investment portfolio, where funds are held in advance of expenditure, or for special purposes. The investment portfolio is managed per council's investment policy, which seeks to earn the best return on funds, whilst minimising risk. The current low interest rate environment has had a detrimental impact on interest earnings.

### Borrowings

Council borrowings do not form part of the Revenue and Rating Plan 2021-2025. A comprehensive debt strategy will be developed by Council in 2021/2022.



# APPENDIX 1
# EQUALISING RATING BURDEN

| 2020/2021 Council Budget | | | | | |
|---|---|---|---|---|---|
| **Rating segment** | **Number of assessments** | **Total CIV ($)** | **Differential** | **Total rates (inc.. MC) ($)** | **Rates "burden"** |
| **General** | 5208 | 1,139,624,000 | 1.00 | 7,656,768 | 51.8% |
| **Commercial** | 331 | 120,493,500 | 1.00 | 977,676 | 6.6% |
| **Industrial** | 99 | 30,914,600 | 1.25 | 252,204 | 1.7% |
| **Farmland** | 1550 | 1,968,203,500 | 0.47 | 5,892,660 | 39.9% |

SOME "SUPPLEMENTARY" RATES
MAINLY IN GENERAL CATEGORY

| 2020/2021 Actuals | | | | | |
|---|---|---|---|---|---|
| **Rating segment** | **Number of assessments** | **Total CIV ($)** | **Differential** | **Total rates (inc.. MC) ($)** | **Rates "burden"** |
| **General** | 5215 | 1,151,793,500 | 1.00 | 7,733,940 | 51.9% |
| **Commercial** | 328 | 120,444,000 | 1.25 | 976,988 | 6.6% |
| **Industrial** | 101 | 31,260,500 | 1.25 | 255,096 | 1.7% |
| **Farmland** | 1549 | 1,982,974,000 | 0.47 | 5,935,396 | 39.8% |

SIGNIFICANT INCREASE IN FARMLAND VALUATIONS (39.6%)

MOVE FROM 0.47 TO 0.40 FARMLAND DIFFERENTIAL
TO "EQUALISE" RATES BURDEN

1.5% RATE CUT

| 2021/2022 Council Budget | | | | | |
|---|---|---|---|---|---|
| **Rating segment** | **Number of assessments** | **Total CIV ($)** | **Differential** | **Total rates (inc.. MC) ($)** | **Rates "burden"** |
| **General** | 5215 | 1,334,176,500 | 1.00 | 7,581,140 | 51.90% |
| **Commercial** | 328 | 122,381,500 | 1.25 | 843,388 | 5.80% |
| **Industrial** | 101 | 33,140,000 | 1.25 | 229,596 | 1.60% |
| **Farmland** | 1549 | 2,770,085,000 | 0.40 | 5,962,596 | 40.70% |

**Correcting the impact of valuation changes**

The RSAG process and Citizens Jury both indicated a preference for a rating model that maintained the percentage share of rates burden between the rating sectors year in, year out. The asymmetry of the current valuation leads to considerable change in rating outcomes between the rating sectors.

This asymmetry could be corrected in terms of share of rates burden through altering the farmland differential applied from 0.47 to 0.40. The tables below demonstrate this impact:

| Rates Sector | Rating Differential 2020/2021 | 2020/2021 Rating burden | Rating Differential 2021/2022 | 2021/2022 Rating burden |
|---|---|---|---|---|
| **General** | 1.00 | 51.9% | 1.00 | 51.90% |
| **Commercial** | 1.25 | 6.6% | 1.25 | 5.80% |
| **Industrial** | 1.25 | 1.7% | 1.25 | 1.60% |
| **Farmland** | 0.47 | 39.8% | 0.40 | 40.70% |

| Rates Sector | Rates Increase 0.47 farmland differential | Rates increase 0.40 farmland differential |
|---|---|---|
| **General** | -$638,500 | -152,800 |
| **Commercial** | -$189,300 | -$133,600 |
| **Industrial** | -$40,600 | -$25,500 |
| **Farmland** | $581,200 | $27,200 |
| **Total** | $287,200 | $284,700 |

If the 0.4 Farmland differential is applied the average increase in rates per assessment across each of the rating sectors is as follows:

| Rates Sector | Average increase in rates per assessment | Average weekly increase in rates per assessment |
|---|---|---|
| **General** | -$29.30 | -$0.56 |
| **Commercial** | -$407.32 | -$7.83 |
| **Industrial** | -$252.48 | -$4.86 |
| **Farmland** | $17.56 | $0.34 |

There will of course be significant variations in actual rating increase or decrease within each rating sectors based on variations in valuation across individual locations within the municipality.

## Is there a case for a "rate cut"?

It is recommended that Council consider delivering a 1.5% rate cut to the community in the 2021/2022 Budget. There is capacity for this to occur through ongoing organisational efficiencies. This could be seen by Council as a dividend to ratepayers through ongoing organisational improvement.

The table below shows the impact of several scenarios on the average rates across each segment. The scenarios presented are a 1.5% rate increase, a zero rate rise and a 1.5% rate cut.

| Rates Sector | 1.5% rate cap rise | | Zero rate rise | | 1.5% rate cut | |
|---|---|---|---|---|---|---|
| | $ change | % change | $ change | % change | $ change | % change |
| **General** | 104,700 | 1.4% | -$8,700 | 0.1% | -$152,800 | -2.0% |
| **Commercial** | -$104,100 | -10.7% | -$117,100 | -12.0% | -$133,600 | -13.37% |
| **Industrial** | -$17,600 | -6.9% | -$21,100 | -8.3% | -$25,500 | -10.0% |
| **Farmland** | $240,500 | 4.1% | $146,300 | 2.5% | $27,200 | 0.5% |
| **Total** | **$223,500** | **n/a** | $600 | **n/a** | -$284,700 | **n/a** |

The 1.5% rate cut is the recommended model as it will deliver a rating decrease to the average rate across all rates sectors, except Farmland which will have an average increase of 0.46%. Importantly, the model provides benefit to the commercial and industrial sectors, which were most impacted by the COVID-19 event. The average rate change per assessment delivered by a one percent rate cut is as follows:

| Rates Sector | Percentage change in rates from 2020/2021 | Total change in rates value from 2020/2021 | Average change in rates per assessment in 2021/2022. |
|---|---|---|---|
| **General** | -2.0% | -$152,800 | -$29.30 |
| **Commercial** | -13.7% | -$113,600 | -$407.32 |
| **Industrial** | -10.0% | -$25,500 | -$252.48 |
| **Farmland** | 0.5% | $27,200 | $17.56 |

### Impact on budget 2021/2022

The impact on Council's 2020/2021 budget of a 1.5% rate cut will be a reduction in revenue of $222,670 on the 2020/2021 budget. It represents a potential decrease in available revenue of $284,700 if Council chose to adopt a rate cap increase of 1.5%.

A decrease in revenue of **$284,700** represents a decrease in total revenue of less than **0.77%**.

It is important to note that this rates revenue is not easy to "claw back" through future rate rises under a rate cap environment. Some would argue that not increasing by the rate cap and cutting rates by 1.5% represents a theoretical loss of income of around $4.47mill over a ten-year period. This is predicated on $447,400 continuing to exist as a "hole" in the budget year in year out for the next 10 years. If Council makes **real and ongoing** savings of an additional **$284,700** in the 2020/2021 budget it will only have a single year impact. This form of saving has already been achieved in the last two years through changes to staffing structure, operational efficiencies, and digital transformation.

Adoption of a 1.5% rate cut will be seen by the organisation as an opportunity to engage in a new round of business improvement, facilitating the return an additional, small but symbolically important, dividend to the community.

### Important Notes

This approach to rating equity, based on consistency of rates burden as opposed to rating as a 'wealth tax' may be controversial. It does not align with the view that land valuations are the only measure of implementing an equitable approach to rating. There is an opportunity for Council to consider these issues as we work to adopt a new rating and revenue plan.

# APPENDIX 2
# APPLICATION FOR WAIVER/DEFRRAL OF RATES AND INTEREST

The Local Government Act 1989 specifies Council's obligations for deferring payment of rates and the waiver of rates and interest:

## SECTION 170. DEFERRAL PAYMENT

1. A Council may defer in whole or in part the payment by a person of any rate or charge which is due and payable for a specified period and subject to any conditions determined by the Council if it considers that an application by that person shows that the payment would cause hardship to the person.
2. On deferral of the payment the person who is liable to make the payment is not liable until the Council sends the person a notice under sub-section (3).
3. A Council may by a notice sent to a person—

    **a.** require that person to pay the whole or part of any deferred rate or charge by a specified date if—
    **i.** it considers that the person's circumstances have so changed that the payment would no longer cause hardship to the person; or
    **ii.** the person no longer owns or occupies the land in relation to which the rate or charge was levied;
    and
    **b.** requires the payment of interest for the late payment of the rate or charge, as if the deferral had not occurred.

**NOTE**
The deferred payment option means rates, charges and interest are still charged, but the ratepayer does not have to pay the amount until Council considers the payment will not cause the ratepayer financial hardship, or the ratepayer no longer owns or occupies the land.

## SECTION 171A. WAIVER

1. A person who —
    **a** is suffering financial hardship; or
    **b** would suffer financial hardship if that person paid the full amount of a rate or charge for which he or she is liable— may apply to a Council for the waiver of the whole or part of any rate or charge or of any interest imposed for late payment.
2. The Council may require the applicant—
    **a** to give further particulars; or
    **b** to verify particulars— in relation to the application.
3. The Council may waive the whole or part of any rate or charge or interest.

**NOTE**
The waiver option means Council reduces the whole or part of any rate, charge, or interest.

External resources that may assist ratepayers who cannot afford to pay their rates include:

- Consumer Action Law Centre - https://consumeraction.org.au/
- Financial Counselling Australia - https://www.debtselfhelp.org.au/
- CAFS - https://www.cafs.org.au/Listing/Category/financial-counselling


TOWN HALL

**IF YOU ARE A RATEPAYER AND YOU WISH TO HAVE YOUR RATES DEFERRED OR WAIVED COULD YOU PLEASE COMPLETE THE FOLLOWING QUESTIONS:**

| | Questions | Answers |
|---|---|---|
| 1 | What is the amount of rates-interest you owe? | |
| 2 | What is the amount of rates-arrears you owe? | |
| 3 | What is the amount of rates–current you owe? | |
| 4 | Are you seeking a waiver of rates & interest, if so, how much? (a waiver means Council reduces the whole or part of any rate, charge or interest and the ratepayer does not need to pay the amount waived) | |
| 5 | Are you seeking a deferral of rates, if so, until when? (a deferral of rates means rates, charges and interest are still charged, but the ratepayer does not have to pay the amount until Council determines a time in the future) | |
| 6 | What is your full name? | |
| 7 | What is your phone number? | |
| 8 | What is the address of the property you want a waiver/deferral of rates on? | |
| 9 | Is the property used exclusively for residential purposes and your sole or principal place of residence? | |
| 10 | What income do you receive each month? | |
| 11 | What expenses do you have each month? | |
| 12 | What is the difference between income and expenses each month? | |
| 13 | Can you provide a financial statement that details your monthly income and expenses if we require this? | |

| Financial Assessment | | |
|---|---|---|
| 14 | How much money do you have in the bank, including any investments? | |
| 15 | Do you have any other assets? e.g., investment properties | |
| 16 | Are you owed any money? If yes, give details | |
| 17 | What other moneys do you owe, not previously mentioned? E.g., mortgage, car loans | |
| 18 | Please provide the reason/s why you cannot pay your rates | |
| 19 | Do you have an offer to pay this debt? | |
| 20 | Do you believe you would suffer financial hardship if you had to pay the full amount of the rates for which you are liable? Hardship does not generally apply to ratepayers who have short term cash flows problems. | |
| Signature of applicant: | | Dated: |
| Signature of witness: | | Dated: |

## *Privacy Notification*

*The personal information requested on this form is being collected by Council for the purposes of processing your application for waiver/deferral of rates and interest. The personal information will be used solely by Council for that primary purpose or directly related purposes. The applicant understands that the personal information provided is for the processing of your application and that they may apply to Council for access to and/or amendment of the information.*

If you wish to discuss information privacy further please call **5355 0200** and ask to speak to the Privacy Officer.

External resources that may assist ratepayers who cannot afford to pay their rates include:

- Consumer Action Law Centre - https://consumeraction.org.au/
- Financial Counselling Australia - https://www.debtselfhelp.org.au/
- CAFS - https://www.cafs.org.au/Listing/Category/financial-counselling

# APPENDIX 3
# APPLICATION FOR FARMLAND CLASSIFICATION

## FARM LAND ELIGIBILITY CRITERIA

In 2018 as part of the recommendation from the Rating Strategy Advisory Group and the Citizen's Jury, Council resolved to make a change to eligibility of properties which can claim the farming differential rate.

To be eligible for the farm differential, farm land must meet the definition under the Valuation of Land Act 1960 and be used for the carrying out of primary production by an owner or occupier who is regarded as a Primary Producer by the Australian Taxation Office.

Property owners who would like to claim the farming rate are asked to consider the eligibility information provided below and complete the Statutory Declaration if applicable.

Valuation Land Act 1960
Under the Valuation of Land Act 1960 farm land means any rateable land –

**a.** That is not less than 2 hectares in area; and
**b.** That is used primarily for grazing (including agistment), dairying, pig-farming, poultry-farming, fish-farming, tree-farming, beekeeping, viticulture, horticulture, fruit-growing, or the growing of crops of any kind or for any combination of those activities; and
**c.** That is used by a business –
  - **i.** That has significant and substantial commercial purpose or character and
  - **ii.** That seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
  - **iii.** That is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

For the purpose of differential rating as determined by Ararat Rural City Council, farm land must also be used for the carrying on of primary production by an owner or an occupier who is regarded as a Primary Producer by the Australian Taxation Office.

## AUSTRALIAN TAXATION OFFICE

Summary of main indicators of carrying on a business of primary production.

- A significant commercial activity
- Purpose and intention of the taxpayer in engaging in the activity
- An intention to make a profit from the activity
- The activity is or will be profitable
- Repetition and regularity of activity
- Activity is carried on in a similar manner to that of the ordinary trade
- Activity organised in a businesslike manner with records kept
- Size and scale of the activity
- Not a hobby, recreation, or sporting activity
- A business plan exists
- Commercial sales of product
- Taxpayer has knowledge or skill in the business

## ELIGIBILITY CHECKLIST

| **The following questions are to assist you to determine if the land included is "farm land" and is eligible for the farm rate. Is each property listed on your property details form?** | |
|---|---|
| Used for primary production activity as described by the ATO | Yes / No |
| Greater than 2 hectares (not including land devoted to domestic use or uncleared land) | Yes / No |
| Used to carry on a business of primary production that has a significant and substantial commercial purpose | Yes / No |
| Seeking to make a profit on a continuous basis from its activities on the land | Yes / No |
| Operating with a reasonable prospect of making a profit if it continues to operate in its current form. | Yes / No |
| **If you answered yes to all of these questions you are eligible for the farm rate. If you answered no to any of them you will not be eligible.** | |

# FARM RATE STATUTORY DECLARATION

After reading the Farm Rate Eligibility Criteria, please complete the table below and Statutory Declaration for all properties you deem eligible for the farming rate and return to PO Box 246, Ararat, VIC, 3377, or email: council@ararat.vic.gov.au

## PROPERTY DETAILS

| Assessment No | Property Address | Status – Owner, Occupier/ Rate Payer | Area in hectares |
|---|---|---|---|
| e.g., 618111.111 | e.g., 1234 Ararat-Halls Gap Road | e.g., lease | e.g., 30.46ha |
| | | | |
| | | | |
| | | | |
| | | | |

*Please attach a list of additional properties if space provided is insufficient, or complete more than one application.*

## INSTRUCTIONS FOR COMPLETING A STATUTORY DECLARATION

*Please complete the following form using the notes in the left-hand margin for guidance. More guidance on making statutory declarations can be found at www.justice.vic.gov.au.*
*When making the statutory declaration the declarant must say aloud:*
*I, [full name of person making declaration] of [address],* declare that the contents of this statutory declaration are true and correct.

## STATUTORY DECLARATION

| | | | |
|---|---|---|---|
| *Insert the name, address, and occupation (or alternatively, unemployed or retired or child) of person making the statutory declaration* | I,<br><br>make the following statutory declaration under the Oaths and Affirmations Act 2018: | | |
| *Set out matter declared to in numbered paragraphs. Add numbers, as necessary.* | 1. I have read the Farm Land Eligibility Criteria;<br>2. I believe that the land listed in the property details table can be defined as farm land and is used for farming purposes.<br>3. The land is used for these purposes by a Primary Producer as defined by the Australian Taxation Office.<br>4. 4I will advise Council if the circumstances relating to my land changes.<br>5. The information is true and correct to the best of my knowledge and belief; | | |
| | **I declare that the contents of this statutory declaration are true and correct and I make it knowing that making a statutory declaration that I know to be untrue is an offence.** | | |
| *Signature of person making the declaration* | | | |
| *Place (City, town, or suburb)* | Declared at | | *In the state of Victoria |
| *Date* | on | | |
| *Signature of authorised statutory declaration witness*<br><br>*Date* | **I am an authorised statutory declaration witness and I sign this document in the presence of the person making the declaration:**<br><br>on | | |
| *Name, capacity in which authorised person has authority to witness statutory declaration, and address (writing, typing or stamp)* | A person authorised under section 30(2) of the **Oaths and Affirmations Act 2018** to witness the signing of a statutory declaration. | | |

# APPENDIX 4
# LEGISLATIVE UNDERPINNING

The legislative framework provided by the *Local Government Act 1989* determines Council's ability to develop a rating system. The framework provides significant flexibility for Council to tailor a system that suits its needs.

Section 155 of the *Local Government Act 1989* provides that a council may declare the following rates and charges on rateable land:

- General rates under Section 158
- Municipal charges under Section 159
- Service rates and charges under Section 162
- Special rates and charges under Section 163

The recommended strategy in relation to municipal charges, service rates and charges and special rates and charges are discussed later in this document.

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates. Section 157 (1) of the *Local Government Act 1989* provides Council with three choices in terms of which valuation base to utilise. They are Site Valuation, Capital Improved Valuation (CIV) and Net Annual Value (NAV).

The advantages and disadvantages of the respective valuation bases are discussed in Appendix 6. Whilst this document outlines Council's strategy regarding rates revenue, rates data will be contained in the Council's Annual Budget as required by the *Local Government Act 2020.*

Section 94(2) of the *Local Government Act 2020* states that Council must adopt a budget by 30 June each year (or at another time fixed by the Minister) to include:

**a.** the total amount that the Council intends to raise by rates and charges.
**b.** a statement as to whether the rates will be raised by the application of a uniform rate or a differential rate:
**c.** a description of any fixed component of the rates, if applicable.
**d.** if the Council proposes to declare a uniform rate, the matters specified in section 160 of the *Local Government Act 1989.*
**e.** if the Council proposes to declare a differential rate for any land, the matters specified in section 161(2) of the *Local Government Act 1989.*

Section 94(3) of the *Local Government Act 2020* also states that Council must ensure that, if applicable, the budget also contains a statement –

**a.** that the Council intends to apply for a special order to increase the Council's average rate cap for the financial year or any other financial year; or
**b.** that the Council has made an application to the ESC for a special order and is waiting for the outcome of the application; or
**c.** that a Special Order has been made in respect of the Council and specifying the average rate cap that applies for the financial year or any other financial year.

This plan outlines the principles and strategic framework that Council will utilise in calculating and distributing the rating burden to property owners, however, the quantum of rate revenue and rating differential amounts will be determined in the annual Ararat Rural City Council budget.

In 2019 the Victorian State Government conducted a Local Government Rating System Review. The Local Government Rating System Review Panel presented their final report and list of recommendations to the Victorian Government in March 2020. The Victorian Government subsequently published a response to the recommendations of the Panel's report. However, at the time of publication the recommended changes have not yet been implemented, and timelines to make these changes have not been announced.

# APPENDIX 5
# RATING PRINCIPLES

When developing a Revenue & Rating Plan, with reference to differential rates, a Council gives consideration to the following good practice taxation principles:

- Wealth Tax
- Equity
- Efficiency
- Simplicity
- Benefit
- Capacity to Pay
- Diversity.

**Wealth Tax**
The "wealth tax" principle implies that the rates paid are dependent upon the value of a ratepayer's real property and have no correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

**Equity**
Horizontal equity – ratepayers in similar situations should pay similar amounts of rates (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation).

*Vertical equity* – those who are better off should pay more rates than those worse off (the rationale applies for the use of progressive and proportional income taxation. It implies a "relativity" dimension to the fairness of the tax burden).

**Efficiency**
Economic efficiency is measured by the extent to which production and consumption decisions by people are affected by rates.

**Simplicity**
How easily a rates system can be understood by ratepayers and the practicality and ease of administration.

**Benefit**
The extent to which there is a nexus between consumption/benefit and the rate burden.

**Capacity to Pay**
The capacity of ratepayers or groups of ratepayers to pay rates.

**Diversity**
The capacity of ratepayers within a group to pay rates. The rating challenge for Council therefore is to determine the appropriate balancing of competing considerations.

**Rates and Charges Revenue Principles:**
Property rates will:

- be reviewed annually.
- not change dramatically from one year to next; and
- be sufficient to fund current expenditure commitments and deliverables outlined in the Council Plan, Financial Plan and Asset Plan.

Differential rating will be applied as equitably as is practical and will comply with the *Ministerial Guidelines for Differential Rating 2013.*

# APPENDIX 6
# RATING VALUATION

Under the *Local Government Act 1989*, Council has three options as to the valuation base it elects to use. They are:

- Capital Improved Value (CIV) – Value of land and improvements upon the land.
- Site Value (SV) – Value of land only.
- Net Annual Value (NAV) – Rental valuation based on CIV.

For residential and farm properties, NAV is calculated at 5 per cent of the Capital Improved Value. For commercial and industrial properties, NAV is calculated as the greater of the estimated annual rental value or 5 per cent of the CIV.

### CAPITAL IMPROVED VALUE (CIV)

Capital Improved Value is the most used valuation base by local government with over 90% of Victorian councils applying this methodology. Based on the value of both land and all improvements on the land, it is generally easily understood by ratepayers as it equates to the market value of the property.

Section 161 of the *Local Government Act 1989* provides that a Council may raise any general rates by the application of a differential rate if –

**a.** It uses the capital improved value system of valuing land; and
**b.** It considers that a differential rate will contribute to the equitable and efficient carrying out of its functions.

Where a council does not utilise CIV, it may only apply limited differential rates in relation to farm land, urban farm land or residential use land.

### ADVANTAGES OF USING CAPITAL IMPROVED VALUE (CIV)

- CIV includes all property improvements, and hence is often supported on the basis that it more closely reflects "capacity to pay". The CIV rating method considers the full development value of the property, and hence better meets the equity criteria than Site Value and NAV.
- With the increased frequency of valuations (previously two-year intervals, now annual intervals) the market values are more predictable and has reduced the level of objections resulting from valuations.
- The concept of the market value of property is more easily understood with CIV rather than NAV or SV.
- Most councils in Victoria have now adopted CIV which makes it easier to compare relative movements in rates and valuations across councils.
- The use of CIV allows council to apply differential rates which greatly adds to council's ability to equitably distribute the rating burden based on ability to afford council rates. CIV allows council to apply higher rating differentials to the commercial and industrial sector that offset residential rates.

### DISADVANTAGES OF USING CIV

- The main disadvantage with CIV is the fact that rates are based on the total property value which may not necessarily reflect the income level of the property owner as with pensioners and low-income earners.

### SITE VALUE (SV)

There are currently no Victorian councils that use this valuation base. With valuations based simply on the valuation of land and with only very limited ability to apply differential rates, the implementation of Site Value in an Ararat Rural City Council context would cause a shift in rate burden from the industrial/commercial sectors onto the residential sector and would hinder council's objective of a fair and equitable rating system.

There would be further rating movements away from modern townhouse style developments on relatively small land parcels to older established homes on quarter acre residential blocks. In many ways, it is difficult to see an equity argument being served by the implementation of site valuation in the Ararat Rural City Council.

### ADVANTAGES OF SITE VALUE

- There is a perception that under site value, a uniform rate would promote development of land, particularly commercial and industrial developments. There is, however, little evidence to prove that this is the case.
- Scope for possible concessions for urban farmland and residential use land.

### DISADVANTAGES OF USING SITE VALUE

- Under SV, there will be a significant shift from the industrial/commercial sector onto the residential sector of council. The percentage increases in many cases would be in the extreme range.
- SV is a major burden on property owners that have large areas of land. Some of these owners may have much smaller/older dwellings compared to those who have smaller land areas but well-developed dwellings - but will pay more in rates. A typical example is flats, units, or townhouses which will all pay low rates compared to traditional housing styles.
- The use of SV can place pressure on council to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately (e.g., Farm land and residential use properties). Large landowners, such as farmers for example, are disadvantaged using site value.
- SV will reduce Council's rating flexibility and options to deal with any rating inequities due to the removal of the ability to levy differential rates.
- The community may have greater difficulty in understanding the SV valuation on their rate notices, as indicated by many inquiries from ratepayers on this issue handled by council's customer service and property revenue staff each year.

### NET ANNUAL VALUE (NAV)

NAV, in concept, represents the annual rental value of a property. However, in practice, NAV is loosely linked to capital improved value for residential and farm properties. Valuers derive the NAV directly as 5 per cent of CIV.

In contrast to the treatment of residential and farm properties, NAV for commercial and industrial properties are assessed against actual market rental. This differing treatment of commercial versus residential and farm properties has led to some suggestions that all properties should be valued on a rental basis.

Overall, the use of NAV is not largely supported. For residential and farm ratepayers, actual rental values pose some problems. The artificial rental estimate used may not represent actual market value, and means the base is the same as CIV but is harder to understand.

## RECOMMENDED VALUATION BASE

In choosing a valuation base, councils must decide on whether they wish to adopt a differential rating system (different rates in the dollar for different property categories) or a uniform rating system (same rate in the dollar). If a council were to choose the former, under the *Local Government Act 1989* it must adopt either of the CIV or NAV methods of rating.

Ararat Rural City Council applies Capital Improved Value (CIV) to all properties within the municipality to take into account the fully developed value of the property. This basis of valuation considers the total market value of the land plus buildings and other improvements.

Differential rating allows (under the CIV method) 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.

Section 161(1) of the *Local Government Act 1989* outlines the requirements relating to differential rates, which include:

**a.** 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.

**b.** If a council declares a differential rate for any land, the council must 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 or 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 based on whether the land is within a specific ward in Council's district).
  - **iii.** Specify the characteristics of the land, which are the criteria for declaring the differential rate.

Once the council has declared a differential rate for any land, the council must:

**a.** Specify the objectives of the differential rates.

**b.** Specify the characteristics of the land which are the criteria for declaring the differential rate.

The purpose is to ensure that Council has a sound basis on which to develop the various charging features when determining its revenue strategies and ensure that these are consistent with the provisions of the *Local Government Act 1989*.

The general objectives of each of the differential rates are to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council. There is no limit on the number or types of differential rates that can be levied, but the highest differential rate can be no more than four times the lowest differential rate.

## PROPERTY VALUATIONS

The *Valuation of Land Act 1960* is the principal legislation in determining property valuations. Under the *Valuation of Land Act 1960*, the Victorian Valuer-General conducts property valuations on an annual basis. Ararat Rural City Council applies a Capital Improved Value (CIV) to all properties within the municipality to consider the full development value of the property. This basis of valuation considers the total market value of the land including buildings and other improvements.

The value of land is always derived by the principle of valuing land for its highest and best use at the relevant time of valuation.

Council needs to be mindful of the impacts of revaluations on the various property types in implementing the Revenue & Rating plan outlined in the previous section to ensure that rises and falls in council rates remain affordable and that rating 'shocks' are mitigated to some degree.

## SUPPLEMENTARY VALUATIONS

Supplementary valuations are carried out for a variety of reasons including rezoning, subdivisions, amalgamations, renovations, new constructions, extensions, occupancy changes and corrections. The Victorian Valuer-General is tasked with undertaking supplementary valuations and advises council monthly of valuation and Australian Valuation Property Classification Code (AVPCC) changes.

Supplementary valuations bring the value of the affected property into line with the general valuation of other properties within the municipality. Objections to supplementary valuations can be lodged in accordance with Part 3 of the Valuation of Land Act 1960. Any objections must be lodged with Council within two months of the issue of the supplementary rate notice.

## OBJECTIONS TO PROPERTY VALUATIONS

Part 3 of the Valuation of Land Act 1960 provides that a property owner may lodge an objection against the valuation of a property or the Australian Valuation Property Classification Code (AVPCC) within two months of the issue of the original or amended (supplementary) Rates and Valuation Charges Notice (Rates Notice), or within four months if the notice was not originally issued to the occupier of the land.

A property owner must lodge their objection to the valuation or the AVPCC in writing to the Ararat Rural City Council. Property owners can to object to the site valuations on receipt of their Land Tax Assessment. Property owners can appeal their land valuation within two months of receipt of their Council Rate Notice (via Council) or within two months of receipt of their Land Tax Assessment (via the State Revenue Office).

# APPENDIX 7
# COUNCIL CHARGES

## MUNICIPAL CHARGE

Another principal rating option available to Councils is the application of a municipal charge. Under Section 159 of the *Local Government Act 1989*, Council may declare a municipal charge to cover some of the administrative costs of the Council. The legislation is not definitive on what comprises administrative costs and does not require Council to specify what is covered by the charge.

The application of a municipal charge represents a choice to raise a portion of the rates by a flat fee for all properties and farm enterprises, rather than sole use of the CIV valuation method.

Under the *Local Government Act 1989*, a Council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of Council's total revenue from the municipal charge and the revenue from general rates (total rates).

The municipal charge is based upon the recovery of a fixed cost of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of councils administrative costs can be seen as an equitable method of recovering these costs.

## SPECIAL CHARGE SCHEMES

The *Local Government Act 1989* recognises that councils need help to provide improved infrastructure for their local communities. Legislation allows councils to pass on the cost of capital infrastructure to the owner of a property that generally receives a unique benefit from the construction works. The technical explanation of a Special Charge comes from legislation (under the *Local Government Act 1989)* that allows councils to recover the cost of works from property owners who will gain special benefit from that work.

The purposes for which special rates and special charges may be used include road construction, kerb and channelling, footpath provision, drainage, and other capital improvement projects.

The special rate or special charges may be declared based on any criteria specified by the council in the rate (Section 163 (2)). In accordance with Section 163 (3), council must specify:

- **a.** the wards, groups, uses or areas for which the special rate or charge is declared; and
- **b.** the land in relation to which the special rate or special charge is declared.
- **c.** the way the special rate or special charge will be assessed and levied; and
- **d.** details of the period for which the special rate or special charge remains in force.

The special rates and charges provisions are flexible and can be used to achieve a wide range of community objectives. The fundamental principle of special rates and charges is proof "special benefit" applies to those being levied. For example, they could be used to fund the construction of footpaths for specific properties.

## SERVICE RATES AND CHARGES

Section 162 of the *Local Government Act 1989* provides council with the opportunity to raise service rates and charges for any of the following services:

- **a.** The provision of a water supply.
- **b.** The collection and disposal of refuse.
- **c.** The provision of sewage services.
- **d.** Any other prescribed service.

Council currently applies a service charge for the collection and disposal of refuse on urban properties (compulsory) and rural properties (optional). Council also applies a service charge for the collection and disposal of recycling services for Ararat ratepayers. Council retains the objective of setting the service charge for waste at a level that fully recovers the cost of the waste services, including providing for the cost of landfill rehabilitation and transfer station operations.

It is recommended that council retain the existing waste service and recycle service charges – should council elect not to have a waste service and recycle service charges, this same amount would be required to be raised by way of an increased general rate – meaning that residents in higher valued properties would substantially pay for the waste and recycle services of lower valued properties.

Whilst this same principle applies for rates in general, the mix of having fixed charges combined with valuation driven rates for the remainder of the rate invoice provides a balanced and equitable outcome.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Ararat Rural City

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