MITCHELL SHIRE COUNCIL.

Strategy

Rating Strategy

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MITCHELL SHIRE COUNCIL

Contents

Purpose

What are Rates?

Under the *Local Government Act 1989* (*the Act*), Councils raise and collect rates from property owners to fund community infrastructure and provide services to benefit the whole community.

In Victoria, property values are used as the basis for calculating how much each property owner pays.

Rating Strategy

Under section 3C(2)(f) of *the Act,* Council must "ensure the equitable imposition of rates and charges". Council's Rating Strategy is in place to outline the principles to be considered when making determinations on a rating structure as well as definitions and reasoning for any differential rating categories to be used.

It is important to note that Council's Rating Strategy doesn't consider how much Council needs to raise from rates. This is calculated in the annual budget, set within the framework of the 4-year Strategic Resource Plan, which incorporates a rate cap declared by the Minister for Local Government.

The Rating Strategy considers the fair and equitable share of rates to be raised by each type of property (residential, farms, commercial properties etc.) and does not influence the total amount of money that will be raised.

Scope

The strategy applies to all rateable properties within the municipality.

High Level Rating Principles

Efficiency

Efficiency is an important principle in the levying of rates; there are two elements of efficiency.

Economic efficiency is measured by the extent to which production and consumption decisions by people are affected by a tax. A rating system should be neutral, in that it is not discriminatory and ensures that a ratepayer will not alter his situation or be influenced in his actions by any taxation effect.

The efficiency of a tax also relates to the cost of administration. A rating system should be administratively efficient, in the sense that it should provide required income to council without being consumed by administrative costs.

Simplicity

A simple rating system would have a limited number of rating classifications, be both easy and practical to administer and simple for taxpayers to comply with. The system should be transparent and capable of being questioned and challenged by ratepayers.

Equity

Equity is a subjective concept that is difficult to define. What is considered fair for one person may be considered unfair for another. There are two main equity concepts used to guide the development of rating strategies (and taxation more generally):

- ***Horizontal equity***: ratepayers in similar situations should pay similar amounts (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into similar property classes and the right of appeal against valuation); and
- ***Vertical equity***: those who are better off pay more tax than those who are worse off, (this rationale applies for the use of progressive income taxes where higher income earners pay a higher rate).

Rates are essentially a wealth tax, determined on the value of property. A pure "wealth tax" approach implies that the rates paid relate directly to the value of a ratepayer's real property. The tests of horizontal and vertical equity are solely based on a property's value.

Benefits Received

Application of the benefit principle to rates is difficult in practice because of the impossibility of measuring the relative levels of access and consumption across the full range of council services.

Rates are a tax used to finance various forms of "public goods, services and community obligations" not necessarily in direct relation to user benefit, but ultimately of benefit to the community as a whole. In this respect, rates are a general-purpose levy not linked to user pays principles. Other charges such as waste services are linked to costs associated with the service.

Capacity to Pay

As rates are levied on unrealised wealth in the form of property, their nexus with ratepayers' capacity to pay may be difficult – ratepayers may be asset rich but cash poor or vice versa. Council addresses the capacity to pay in various ways, including the use of differential rates, providing various payment arrangement options and through the application of its Hardship Policy.

Statutory Requirements

The objectives of local government in Victoria are set out in the *Local Government Act* 1989 (The Act) and includes the statutory requirement 'to ensure the equitable imposition of rates and charges' as follows:

A council may declare the following rates and charges on rateable land,

a) general rates under section 158;
b) municipal charges under section 159;
c) service rates under section 162;
d) service charges under section 162;
e) special rates under section 163;
f) special charges under section 163.

Valuation Methodology

Section 157 of the Act states a Council may use the Site Value (SV), Net Annual Value (NAV) or Capital Improved Value (CIV) as a basis for setting Council rates.

The valuation system that is to be used will determine how Council is able to manage the distribution of the rates burden across property classifications.

Differential rates are a useful tool to address equity issues that may arise from the setting of Council rates derived from property valuations. The CIV method allows Council to use differential rating categories that it determines are necessary given the municipality's characteristics, which may be limited if using either SV or NAV valuation systems.

Council has elected to rate all properties based on the CIV method.

COUNCIL'S RATING SYSTEM

Council's Differential Rating Principles

Taking into consideration, the principals described in the previous section, council has used the following principles when determining appropriate differential rating categories and ratios:

- The imposition of Council rates should be fair and equitable;
- The rating strategy should be administratively simple to implement, represent an efficient method of rating and be relatively easy to understand;
- Aspects of the Rating Strategy shall endeavour to promote and encourage development throughout the municipal district;
- Aspects of the rating strategy shall endeavour to ease the burden of Council rates on land used for primary production and support the retention of land for this use across the Shire;
- Setting differential rates should take into account the ability or inability of land to produce a greater capacity to pay;
- Council may as part of its annual budget process:
    - Increase a differential rate;
    - Decrease a differential rate;
    - Introduce a new differential rate category;
    - Cease a differential rate category; or
    - Otherwise modify the Rating Strategy; and
    - Rates and charges are to be levied at levels which meet budgeted revenue estimates and be in-line with the rate capping requirements.

Differential Rates

Differential rates are a useful tool to address equity issues that may arise from the setting of council rates derived from property valuations. The Act requires that no differential rate declared by Council be more than 4 times the lowest differential (this requirement does not apply to the calculation of any rates differential used under the *Cultural and Recreational Lands Act 1983*).

Council has determined that it is appropriate to continue to use a differential rating system and continue to apply the following differential rating categories:

Differential Category	Ratio
General Land	**1.00**
Vacant Residential Land	**2.00**
Vacant Commercial or Industrial Land (increase by 0.1 annually until cap of 2.5)	**2.40 (2019/20)**
Agricultural Land (40ha-100ha)	**0.90**
Agricultural Land (greater than 100ha)	**0.80**
Subdivisional Land	**2.00**

A brief overview of each category is described below, however detailed definitions, reasoning and characteristics of the types of land are included in Appendix A.

General Land

All rateable land which is not subject to any other differential rate. This differential category is the base from which all other differential rate ratios are determined.

Vacant Residential Land

Land within a residential planning zone that either has no dwelling on the land or any dwelling on the land is unfit for human habitation. Excludes any land that is Agricultural land (40-100ha), Agricultural land (>100ha), Vacant Commercial or Industrial Land or Subdivisional Land.

Vacant Commercial or Industrial Land

Land in any planning zone in which commercial or industrial development is encouraged and supported and either has no building constructed on the land, or any buildings located on the land considered to be unfit for use for the purpose for which it was originally constructed.

Agricultural Land (40ha to 100ha)

Land that is cumulatively across all land owned by the ratepayer between 40ha and100ha in farming zone or urban growth zone and is used by a business 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.

Agricultural Land (greater than 100ha)

Land with same characteristics as Agricultural Land (40-100ha) except that the cumulative land owned by the ratepayer is >100ha.

Subdivisional Land

Land within any planning zone, with a planning permit to subdivide the land into 3 or more lots that has been issued and not lapsed and a separate certificate of title has not been issued for any of those lots. Excludes land subject to Vacant Commercial/Industrial or Agricultural land categories.

Cultural and Recreational Land

The Cultural and Recreational Lands Act 1963 provides for the levying of reduced rates on land used by not-for-profit bodies for outdoor sporting, recreational and cultural activities.

On successful application, a reduced rate equivalent to 50% of the full General Land Differential Rate plus 100% of any service charge be applied to these properties.

As this category of land is managed under a different act to the Local Government Act, they are not included in any calculation being used for any rate capping requirements.

Municipal Charge

A municipal charge as provided under Section 159 of the *Local Government Act 1989* allows councils to raise up to 20% of their rates from a flat base amount per assessment across the municipality. The purpose of the municipal charge is defined by Local Government Victoria as to "cover some of the administrative costs of the council, including property valuations, rates administration and cashiering, councillor support and office of the chief executive."

Where multiple properties form part of a single farming enterprise, exemptions may be granted to eligible properties upon application.

A municipal charge does not raise additional revenue but distributes the rates in a way that Council considers to be fairer and more equitable. If there was no municipal charge the rate in the dollar would be greater. A municipal charge helps to ensure that owners of low valued properties contribute a reasonable amount to meeting the unavoidable costs of local government.

Council has determined that the amount raised by the municipal charge will continue to be held at 17% of total rate revenue.

Property Valuation Base

Property values are used to calculate general rates for each property. Council uses the Capital Improved Value (CIV) for rating purposes. CIV represents the market value of a property as at a specific date, including the value of the land and any improvements on that land. Utilising CIV as the basis for rates allows council to adopt differential rating, which may better reflect capacity to pay rather than the alternatives and provides council with the flexibility to levy differential rates. The vast majority of Victorian Councils use CIV as the basis for levying rates and charges.

Council has considered it to be appropriate to continue to use the Capital Improved Value as the basis of valuation for rating purposes.

Revaluation

Every year the Valuer General Victoria engages an independent, licensed valuer as contractors to satisfy its statutory requirement under the *Valuation of Land Act 1960* to conduct a review of property values based on market movements and recent sales trends.

Valuations will be based on values returned as at 1 January each year with an effective date for rating purposes of 1 July.

Revaluations result in varying levels of valuation movements across the municipality, which sometimes results in major shifts in the rate burden and large movement in rates for individual properties. There is a common misconception that as property values increase, council receives a ‘windfall gain’ of additional revenue. This is not so as the revaluation process may result in a redistribution of the rate burden across all properties in the municipality. Total income from rates is determined by the council, during the budget process based on the Rate Cap declared by the Minister for Local Government. In order to generate the same amount of rate revenue, in simple terms, as property values increase, the rate in the dollar is reduced.

Supplementary Rates

In certain circumstances, valuations must be performed between general valuations. These are known as supplementary valuations and are undertaken for reasons listed under Section 13DF of the *Valuation of Land Act*, including when properties are:

- physically changed - for example, when buildings are altered, erected or demolished; or
- amalgamated, subdivided, portions sold off, rezoned or are affected by road construction.

Supplementary valuations bring the value of the affected property into line with the general valuation of other properties within the municipality. Values are assessed at the same date of the general valuation currently in use.

REQUIREMENTS FOR PAYMENT OF RATES AND CHARGES

Liability to Pay Rates

Under section 156 of the Act, the owner of any rateable land is liable to pay the rates and charges on that land. If the owner cannot be found the occupier is liable to pay.

Payment Due Date for Rates

Rates and Charges are due by four instalments. Payments must be made on or before the following dates fixed by the Minister by notice published in the Government Gazette:

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

If these payment options do not suit a ratepayer’s needs, they should contact the Rates Team to discuss an alternative payment arrangement.

Payment Methods

Council offers an extensive range of payment options for ratepayers to pay their accounts:

- Online using a Mastercard or Visa (BPoint or PostBillPay)
- Phone using a Mastercard or Visa (BPoint or PostBillPay)
- BPay (via ratepayer's banking institution)
- Direct Debit (on application)
- Mail (cheque or money order)
- In person at any of our Customer Service Centres or Australia Post agency.

Pensioner Rate Concessions

A municipal rates subsidy is available to eligible pension card holders for their principal place of residence. This provides a 50 per cent rebate up to a maximum amount set by the State Government each year. Health Care Card holders are ineligible for the rebate.

Interest on Late Payments

In accordance with Section 172 of the *Local Government Act 1989*, the Council may charge interest on any late payments. The interest is to be calculated at the rate fixed by the Attorney General under section 2 of the *Penalty Interest Rates Act 1983* that applied on the first day of July immediately before the due date.

Interest will be charged on all balances unpaid after the due dates. Interest is charged from the date on which each missed instalment was due, until the account is paid in full.

Recovery of Unpaid Rates

Under Section 180 of the Act, if any rate or charge remains unpaid after its due date, Council may recover it by suing for debt. This process is managed under Council's Debt Management Policy.

Financial Hardship

Ratepayers who are experiencing difficulty in paying their rates should contact Council immediately to discuss payment options. All enquiries are treated confidentially, and early communication may help prevent the commencement of costly legal action for the recovery of outstanding rates. Ratepayers may be eligible for assistance from Council as provided for under Council's Financial Hardship Policy.

Special Rates and Charges

Council has the power to levy a special rate or special charge, or a combination of special rate and charge, to fund service provision under Section 163 of the Act. A special rate or charge can be used if Council deems that a special benefit is received by those properties on which it is levied. Council need not necessarily use property value as the basis for levying a special rate or charge.

Special Rates and/or Special Charges have been used by councils to fund things like:

- The promotion of a retail shopping centre;
- The promotion of a commercial business precinct;
- The construction of a road;
- The construction of a footpath; and
- The provision of drainage infrastructure.

Council may have several special rates and charges schemes in place at any one time, however, the creation of these schemes is not a practical option, particularly given the impact on efficiency as each scheme has to be justified, advertised and managed. The consideration of such schemes should be on a case by case basis as to whether revenue collection issues would be better addressed by general rates or user charges.

Service Rates and Charges

Kerbside waste collection services are provided in urban areas and some rural areas. The charge for a waste/recyclables service is compulsory for all developed residential properties in urban areas and rural properties along a compulsory collection route (whether or not the service is used).

The waste service charges account for the various costs associated with the provision of waste management services; including the provision of a weekly kerbside waste collection service and fortnightly recyclables, development, rehabilitation and operation of the Council's landfills in accordance with Environment Protection Authority License, waste minimization promotion and education, management and administration of the waste and recycling collection contracts. The Council incurs the State Government's imposed EPA levy associated with the disposal of waste into landfill. Waste charges are set each year as part of the annual budget taking the above into consideration.

Waste services charges are not subject to the rate cap.

Responsibilities

The Revenue Team within Finance and Assets will be responsible for maintaining/implementing the rating strategy.

Related Documents

Local Government Act 1989
Valuation of Land Act 1960
Debt Recovery Policy
Hardship Policy
Environment Strategy
Ministerial Guidelines for Differential Rating

APPENDIX A – DIFFERENTIAL RATE DEFINITIONS

General Land

Statement of Reasons:

The General Land Differential Rate is the default rate in instances where land does not meet the characteristics of any other differential rate.

Level of Differential Rate in relation to the General Land:

As General Land is the default rate, it is has a differential ratio of 1.0 and is the base around which all other differential rate ratios are determined.

Use of land:

Any use of land.

Geographic location of land:

Anywhere within Council's municipal district.

Planning scheme zoning of land:

Any zone within the Mitchell Planning Scheme.

Types of buildings on the land:

Any buildings.

Other relevant criteria:

General Land is all rateable land which is not subject to any other differential rate.

Vacant Residential Land

Statement of Reasons:

The Vacant Residential Land Differential Rate applies to land situated in a planning zone in which residential development is encouraged and supported. As vacant residential land valuations are typically one-half of developed land, the ratio applied to this rate represents an equalisation factor between the Vacant Residential Land Differential Rate and General Land Differential Rate. The objective of the Vacant Residential Land Differential Rate is to ensure that land makes an equivalent contribution towards the services and facilities invested in by the Council, as there is an expectation that these services and facilities will be immediately available upon development of the land.

Level of Differential Rate in relation to the General Land:

2.0 times that of the General Land differential rate.

Use of land:

Any use of land.

Geographic location of land:

Anywhere within Council's municipal district, which is wholly or partially within one or more of the planning zones listed below.

Planning scheme zoning of land:

Land which is wholly or partially within one or more of the following planning zones under the Mitchell Planning Scheme:

- CDZ1 Comprehensive Development Schedule 1
- CDZ2 Comprehensive Development Schedule 2
- LDRZ Low Density Residential
- MUZ Mixed Use R1Z Residential 1
- RLZ Rural Living

Types of buildings on the land:

- There is no dwelling constructed on the land; or
- any dwelling located on the land is considered by Council's municipal building surveyor or other council officer authorized for this purpose to be unfit for human habitation.

Other relevant criteria:

Vacant Residential Land excludes land covered in the definition of:

- Agricultural Land (40ha to 100ha)
- Agricultural Land (greater than 100ha)
- Vacant Commercial or Industrial
- Subdivisional Land

Vacant Commercial or Industrial Land

Statement of Reasons:

The Vacant Commercial or Industrial Land Differential Rate applies to land situated in a planning zone in which commercial or industrial development is encouraged and supported. As vacant land valuations are typically one-half of developed land, the ratio applied to this rate represents an equalisation factor between the Vacant Commercial or Industrial Land Differential Rate and General Land Differential Rate, this is in addition to a factor then applied to encourage development of vacant commercial or industrial land and to discourage land-banking.

The objective of the Vacant Commercial or Industrial Land Differential Rate is to ensure that land makes an equivalent contribution towards the services and facilities invested in by the Council, as there is an expectation that these services and facilities will be immediately available upon development of the land.

Level of Differential Rate in relation to the General Land:

2.4 (in 2019/20) times the general land differential. Increasing by 0.1 each year until maximum of 2.5.

Use of land:

Any use of land.

Geographic location of land:

Anywhere within Council's municipal district, which is wholly or partially within one or more of the planning zones listed below.

Planning scheme zoning of land:

Land which is wholly or partially within one or more of the following planning zones under the Mitchell Planning Scheme:

- BZ1 Business 1
- B2Z Business 2
- B4Z Business 4
- IN13Z Industrial 1
- IN1Z Industrial 1
- IN3Z Industrial 3

Types of buildings on the land:

- There is no building constructed on the land that requires an occupancy certificate; or
- any buildings located on the land are considered, by Council's municipal building surveyor or another officer of Council authorized for this purpose, to be unfit for use for the purpose for which it was originally constructed.

Other relevant criteria:

Vacant Commercial or Industrial Land excludes land covered in the definition of:

- Agricultural Land (40ha to 100ha)
- Agricultural Land (greater than 100ha)
- Subdivisional Land
- Vacant Residential Land

Agricultural Land (40ha to 100ha)

Statement of Reasons:

The agricultural land (40ha to 100ha) rate is lower than other classes because farming operations involve large properties which have significant value and which are often operated as family concerns.

Level of Differential Rate in relation to the General Land:

0.9 times the general land differential.

Use of land:

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 or 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.
- cumulatively across all agricultural land owned by the ratepayer within the shire, not less than 40 hectares and not greater than 100 hectares in area.

Geographic location of land:

Anywhere within Council's municipal district, which is wholly or partially within one or more of the planning zones listed below.

Planning scheme zoning of land:

- FZ Farming Zone
- UGZ Urban Growth Zone

Types of buildings on the land:

Any buildings.

Other relevant criteria:

Landowners will be periodically requested to provide information to Council to confirm their land fits the eligibility criteria listed above. If no response is received, or Council determines that the land use no longer meets the requirements, the property will revert to being assessed as general land or any other category as identified.

Agricultural Land (>100ha)

Statement of Reasons:

The agricultural land (> 100ha) rate is lower than other classes because farming operations involve large properties which have significant value and which are often operated as family concerns.

Level of Differential Rate in relation to the General Land:

0.8 times the general land differential.

Use of land:

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 or 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.
- cumulatively across all agricultural land owned by the ratepayer within the shire, is greater than 100 hectares in area.

Geographic location of land:

Anywhere within Council's municipal district, which is wholly or partially within one or more of the planning zones listed below.

Planning scheme zoning of land:

- FZ Farming Zone
- UGZ Urban Growth Zone

Types of buildings on the land:

Any buildings.

Other relevant criteria:

Landowners will be periodically requested to provide information to Council to confirm their land fits the eligibility criteria listed above. If no response is received, or Council determines that the land use no longer meets the requirements, the property will revert to being assessed as general land or any other category as identified.

Subdivisional Land

Statement of Reasons:

Subdivisional Land by definition is the originator of land before it becomes subject to other Differential Rates. It is considered Subdivisional Land should make the same equitable contribution towards the services and facilities invested in by the Council as the Vacant Residential Land Differential Rate.

The objective of the Subdivisional Land Differential rate is to ensure that an equitable financial contribution is made towards direct and indirect costs attributable to land development within Council's municipal district, including increases in:

- utilisation of Council road infrastructure; and/or
- noise, dust and environment monitoring; and/or
- local law compliance; and/or
- provision of services and facilities by Council; and/or
- administration costs for rateable properties created by the Subdivisional Land.

Level of Differential Rate in relation to the General Land:

2.0 times that of the General Land differential rate.

Use of land:

Any use of land.

Geographic location of land:

Anywhere within Council's municipal district.

Planning scheme zoning of land:

Any zone within the Mitchell Planning Scheme.

Types of buildings on the land:

Any buildings.

Other relevant criteria:

Subdivisional Land is rateable land for which:

- a planning permit to subdivide the land into three (3) or more lots has been issued and has not lapsed; and
- a separate certificate of title has not been issued for any of those lots.

But excludes any land that is covered in the definition of:

  - Vacant Commercial or Industrial Land
  - Agricultural Land (40ha to 100ha)
  - Agricultural Land (greater than 100ha)
  - Vacant Residential Land