



# West Wimmera Shire Council Rating Strategy

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## 1. Introduction

To ensure the Local Government Act rating objectives of equity and efficiency are achieved, it is important that West Wimmera Shire Council has a rating strategy in place that is transparent to the community and reviewed periodically as part of the budget process.

The important matters to be considered in relation to the Rating Strategy include:

- The legislative framework (Section 2)
- What rates and charges can be declared (Section 3)
- The rate base (Section 4)
- Uniform or differential rates (Section 5)
- Impact of Council revaluations and supplementary valuations (Section 6)
- The Municipal Charge (Section 7)
- Waste collection (Section 8)
- Rebates and concessions (Section 9)
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### 1.1 What is a Rating Strategy?

A *rating strategy* is the method by which council systematically considers factors of importance that inform its decisions about the rating system. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property. The rating system comprises the valuation base and actual rating instruments allowed under the *Local Government Act 1989* (The Act) to calculate property owners' liability for rates.

The Act requires Councils to exercise sound financial management. In particular, The Act states that the principals of financial management are to:

- a) Manage financial risks faced by Council prudently having regard to economic circumstances;
- b) Pursue spending and rating policies that are consistent with a reasonable degree of stability of rates effort;
- c) Ensure that decisions are made and actions are taken having regard to their financial effects on future generations;
- d) Ensure full, accurate and timely disclosure of financial information relating to Council.

The Council articulates its objectives, strategies and activities through community consultation and the development of key documents such as:

- The Council Plan
- The Budget and Strategic Resource Plan

Generally Councils can fund their activities through revenue (including rates), grants and borrowing. As rates are a significant part of Council's revenue, a rating strategy is a key element in the Council exercising sound financial management.

## 1.2 Objectives of the Strategic Resource Plan

When considering the rating strategy, Council needs to meet the objectives set out in the Strategic Resource Plan (Council's four year financial plan, which is updated annually).

- Maintain the existing range and level of service provision;
- Maintain sufficient cash and liquid assets to ensure Council remains financially sustainable in the long-term;
- Maintain debt levels below prudential guidelines;
- Continue to pursue recurrent grant funding for strategic capital funds from the state and federal government;
- Ensure critical renewal is funded annually over the timeframe of the Strategic Resource Plan.

## 2. Rating – the Legislative Framework

The purpose of this section is to outline the legislative framework in which Council has to operate in constructing its rating system and the various issues that Council must consider in making its decision on the rating objectives.

### 2.1 Objectives

The legislation specifies a number of major objectives for the rating system:

- the equitable imposition of rates and charges;
- a reasonable degree of stability in the level of the rates burden;
- contribute to the equitable and efficient carrying out of its functions; and
- apply principles of financial management, simplicity and transparency.

Let it be acknowledged that some of these objectives can conflict.

The two objectives which the rating system must have the greatest regard to are the achievement of equity and efficiency.

#### 2.1.1 Equity

Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and charges, it is a much more vexed question in terms of how to define and determine what is in fact equitable in the view of the Council.

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 property value.

There is some debate surrounding the characteristics of property owners that may impinge on the application of an equity principle. The three main ways in which positions can vary are:

- the *benefit or user pays* principle – some groups have more access to, make more use of, and benefit from more, specific council services;
- the *capacity to pay* principle – some ratepayers have more ability to pay rates than others with similarly valued properties; and
- the *incentive or encouragement* principle – some ratepayers may be doing more towards achieving council goals than others in areas such as environmental or heritage protection.

### *The Benefit Principle*

A popular complaint levelled at councils is that “the rates I pay have no correlation with the services I consume or the benefits I receive”. This argument is based on the benefit principle (the opposite of the wealth tax principle) that argues there should be a nexus between consumption/benefit and the rate burden.

Application of the benefit principle is difficult in practice because of the complexity and, in some cases, impossibility, of measuring the relative levels of access and consumption across the full range of council services, in some ways the arguing of the benefit principle with respect to council rates is like trying to do the same for the income tax that is used to fund a wide range of universally accessed services.

It is likely to be costly to regularly undertake in-depth analyses on service access, consumption patterns and costs in order to attempt to review the level of benefit. In any event, many subjective assumptions would have to be introduced. Other pricing instruments such as user charges, special rates and charges and service rates and charges better lend themselves to dealing with the issue of benefit.

### *Capacity to Pay*

Council can make choices about the tax treatment of classes of real property in so much as they believe that a class of property will reflect the financial position of a household or business and its capacity to pay.

While personal income tax is more reflective of the capacity to pay, it is not possible to expect a property tax system to deal practically with all aspects of capacity to pay based on individual households and businesses. It is also not practical or acceptable to shift, modify or manipulate the existing system to the benefit of one group of ratepayers at the expense of another unless such shift is widely accepted and for a proper purpose. In fact, Local Government has no mandate or ability to universally apply a “capacity to pay” test.

#### 2.1.2 Efficiency

Efficiency can be directly related to the cost of administering the rates system. Administration costs include the issuing of assessments, collection of rates, including maintaining and improving collection systems, monitoring outcomes, educating and informing ratepayers, and enforcement and debt recovery. It also includes the maximization of additional rate income through supplementary valuations by ensuring the timeliness and accuracy of amended rate notices.

West Wimmera Shire Council utilises a general (uniformed) rate. Council considers this will contribute to the equitable and efficient carrying out of its functions.

#### 2.2 Anomalies with Property Taxation

Property taxes do not recognise the situation where ratepayers are “asset rich” and “income poor”. In these cases ratepayers may have considerable wealth reflected in the property they own but have a low level of income. Examples may include pensioners, businesses subject to cyclical downturn, households with large families and property owners with little equity. In a commercial sense the argument has also been expressed in terms of the ability of property to generate a reasonable return.

## 2.3 Recent legislative changes

### 2.3.1 Fair Go rates System

The Local Government Amendment (Fair Go Rates) Bill 2015 was introduced in October 2018 and amends The Act and the *Essential Service Commission Act 2011* to provide for a mechanism to set a cap on the increases in rate revenue that can be levied by Council in a financial year and to make consequential amendments.

The State Government introduced the Fair Go rates System (FGRS) from the 2016/17 financial year, which sets out the maximum amount councils may increase rates in a year. For the 2018/19 financial year the FGRS was set at 2.25%. The cap also applies to both general and municipal charges and is calculated on the basis of council's average rates and charges.

The formulae provided by the Essential Service Commission (ESC) and agreed to by the State Government is:

$$\frac{2016/17 \text{ Adopted General Rate and Municipal Charge Income} + 2016/17 \text{ Annualised Supplementary Rate and Municipal Charge income}}{\text{Number of Assessments as at 30 June 2017}}$$

= Base Average Rate

Base Average Rate x (1 + Prescribed Rate Cap (2.25%))

= Maximum allowable Capped Average Rate

In situations where the rate cap is not sufficient for Council's needs, Council can apply to the ESC for a higher cap; this is known as a variation.

The level of required rates and charges has been considered in this context, with reference to Council's other sources of income and the planned expenditure on services and works to be undertaken for the West Wimmera community.

West Wimmera applied for and received a variation to the cap from the Minister for Local Government for the 2017/18, 2018/19, 2019/20 and 2020/21 financial years. Council may raise rates and municipal charges by up to 3.5% over this period. In the 2017/18 year, Council raised rates by 3.25% and 3.5% for the 2018/19 year.

### 2.3.2 Fire Services Property Levy

From 1 July 2013, the Victorian Government introduced a property based levy to fund the Metropolitan Fire and Emergency Services Board (MFB) and the Country Fire Authority (CFA).

The Fire Services Property Levy replaced the existing insurance-based funding model as recommended by the Victorian Bushfires Royal Commission.

Under the property-based levy:

- councils collect the levy through rates notices;
- the levy is calculated based on the capital improved value of a property;
- the levy consist of a fixed component plus a variable component calculated as a percentage of capital improved property values;
- the fixed component will vary for residential properties and non-residential properties; and
- the variable rate will vary for different property types such as residential, industrial, commercial and primary production.

The Fire Services Property Levy is shown separately on rate notices.

In accordance with the *Fire Services Property Levy Act 2012*, any person may apply for an exemption from the fire services levy fixed charge for farm land under the “single farm enterprise” criteria.

It is important to note that Council is not raising any additional revenue from the levy; it is simply acting as a collection agency on behalf of the State Government.

### 3. What Rates and Charges may Council declare?

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

Rating option	Description	Current structure
General rate	A general rate is applied to all properties and can be set as either a uniform rate or a number of differential rates.	West Wimmera Shire Council applies a general uniform rate.
Uniform rate	A uniform rate is a single rate in the dollar that is applied to the value of all properties in the municipality.	West Wimmera Shire Council applies a general uniform rate.
Differential rates	Differential rates are different rates in the dollar that are applied to different classes of properties and are permitted if the Council uses Capital Improved Value as the rating valuation base.  The Act allows the use of differential rates if the Council considers that this will contribute to the equitable and efficient carrying out of its functions.	West Wimmera Shire Council does not apply differential rates.
Municipal charge	A municipal charge to cover some of the administrative costs of the Council. This is a flat-rate charge applied to all properties	West Wimmera Shire levies a municipal charge.
Service rates and charges	Service rates or annual service charges (or a combination of both) can be levied for collection and disposal of waste	West Wimmera Shire provides a kerbside collection of garbage and recycling materials for an annual charge
Rebates and concessions	The Act allows Councils to grant a rebate or concession in relation to any rate or charge for eligible recipients	A Government rate rebate for pensioners is provided to each owner of rateable land who is an "eligible recipient"
Special Rates and charges	A special rate or charge may be declared for purposes of: <ul style="list-style-type: none"> <li>• Defraying any expenses or</li> <li>• Repaying with interest any advance made or debt incurred or loan raised by Council</li> </ul>	West Wimmera Shire Council does not levy any special rates and charges

In previous years, Council developed a Draft Rating Strategy exploring various options regarding differential rates for residential properties and farms. Council determined that a simple formula of a general (uniform) rate has worked well in the past and would continue to apply this method.



#### 4. Determining which valuation base to use

The purpose of this section is to outline the different methods that Council can utilise to value land and the issues that Council must consider in making its decision on the valuation method.

Three methods of valuing land are allowed under the Act:

- Site Value (SV) – Value of land only
- Net Annual Value (NAV) – rental valuation based on Capital improvement Value (CIV). For residential and farm properties, NAV is calculated at 5 per cent of the CIV. For commercial properties NAV is calculated as the greater of the estimated annual rental value or 5 per cent of the CIV.
- Capital Improved Value (CIV) – value of land and improvements upon the land

West Wimmera Shire Council use Capital Improved Value (CIV) for rating valuation purposes.

##### 4.1 Capital Improved Value

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

The advantages of using CIV include:

- CIV includes all improvements and hence is often supported on the basis that it more closely reflects 'capacity to pay'. The CIV rating method takes into account the full development value of the property, and hence better meets the equity criteria than site value or NAV.
- The concept of the market value of property is far more easily understood with CIV rather than NAV or Site Value.
- The use of CIV base offers greater flexibility in developing rating packages, enabling Council to pursue particular objectives through the application of differential rates.
- The Fire Services Property Levy is calculated on the CIV and continued use of this reinforces the principle of calculating rates based on CIV.

The major disadvantage with CIV, and indeed all the other rating methods, is that rates are based on the property value which may not necessarily reflect the income level of the property owner as with pensioners and low income earners.

##### 4.2 Site Value

This method places value on the land only and does not consider any value of buildings constructed on the land. It is not considered to result in the most equitable distribution of the rate effort.

There is no Victorian Council that currently uses this valuation base.

##### 4.3 Net Annual value

In concept, NAV represents the annual rental value of a property. However, in practice, NAV is closely linked to capital improved value. For residential properties the Valuers derive the NAV directly as 5% of the CIV.

Where a council utilises NAV, it may only apply three differential rates.

## 5. Determining the rating System – uniform or differential

The purpose of this section is to outline the two rating systems (uniform or differential) that Council can utilise to apply rates and the issues that Council must consider in making its decision on the rating system.

### 5.1 Uniform rate

If a Council declares that general rates will be raised by application of a uniform rate, the Council must specify a percentage as a uniform rate. A uniform rate will apply to the Capital Improved Value of every rateable property within the municipality.

Rates will be determined by multiplying the percentage (the rate in the dollar) by the value of the land.

### 5.2 Differential rate

Differential rating allows particular classes of properties to be assessed rates at different levels from the general rate set for the municipality. Differential rating allows Council to shift part of the rate burden from some groups of ratepayers to others, through different 'rates in the dollar' for each class of property.

## 6. The impacts of revaluations and supplementary valuations

The purpose of this section is to provide an overview of the rate revaluation process and issues that arise from this process.

The State Government legislated and introduced its "Valuation Best Practice" program which requires all Victorian councils under the *Valuations of Land Act 1960* to conduct property valuations every two years. Commencing 2017, valuations are required every year.

Property values are determined by a qualified Valuer comparing each property to the recent sales figures of similar properties in the neighbourhood. The key factors are location, land size, type of house and condition.

The Valuer General of Victoria is responsible for reviewing the total valuation of each municipality for accuracy before certifying that the valuations are true and correct. Valuations are conducted using Best Practice Guidelines formulated and published by the Valuer General Victoria.

### 6.1 No windfall gain

There is a common misconception that if a property's valuation rises then Council receives a "windfall gain" with additional income. This is not so as the revaluation process results in a redistribution of the rate burden across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction to the rate in dollar (ad valorem rate) used to calculate the rate for each property. Total income is fixed each year as part of the budget process. Council only seeks to increase the total amount of revenue required in order to account for CPI, wage and other service costs imposed upon it.

### 6.2 How does this affect my rates?

The general revaluation process enables Council to re-apportion the rate income across the municipality in accordance with movements in property values. Properties which have increased in value by more than the average will receive a rate increase of more than the headline rate.

Properties with an increase in value less than the average will receive a rate increase less than the headline rate.

Property owners have the ability to object to the valuation within 2 months of receiving their notice.

### 6.3 Supplementary Valuations

In accordance with the *Valuation of Land Act 1960* further valuations are required to be carried out between General Revaluations, which are known as Supplementary Valuations.

Supplementary Valuations are completed when properties are physically changed by buildings being erected, demolished or altered, when properties are amalgamated, subdivided, portions sold off, rezoned or roads constructed.

Supplementary Valuations are adopted to bring the value of properties into line with values assigned to other properties in the municipality. This is to ensure that as near as practicable the rating valuation reflects the current property condition at the date prescribed for the General Revaluation.

## 7. Municipal Charge

In addition to differential rates, Council may declare a municipal charge to cover some of the administrative costs of Council. The total revenue from a municipal charge must not exceed 20% of the sum of total of general rates and municipal charge combined in a financial year.

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

West Wimmera currently levies a municipal charge on all rateable properties. This charge is used by Council to ensure all properties contribute equally toward contributing to a portion of Council's administrative costs.

### 7.1 Advantages of a Municipal Charge

The arguments in favour of a Municipal Charge are that they apply equally to all properties and are based upon the recovery of fixed costs of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of Council's administrative costs can be seen as an equitable method of recovering these costs.

### 7.2 Disadvantages of a Municipal Charge

The argument against a municipal charge is that this charge is regressive in nature and would result in lower valued properties paying higher overall rates and charges.

## 8. Waste collection charge

West Wimmera Shire Council provides a waste collection service that is charged to residents via an annual service charge. Waste collection is a compulsory charge in the Township zone with improvements, i.e. houses and businesses. The waste collection revenue covers the direct costs of providing the service, but not indirect costs such as supervision, office administration and other overheads.

### Waste Management Strategy

Waste minimisation may be viewed as an important council objective. Councils are increasingly looking at their roles in terms of broader environmental responsibilities and sustainability. If council considers that waste minimisation is an important objective it follows that ratepayers should be made aware of the significant costs involved. Specific charges are the best means of providing transparency.

Over the past decade, there has been a significant development in Federal and State waste minimisation and landfill policy and regulations. These include the *Environment Protection (Resource Recovery) Act*, *Environment Protection (Amendment) Bill*, *Landfill Environment Protection Policy* and the *Local Government (Amendment) Act*, all of which aim to:

- Reduce waste going to landfill;
- Form Regional Waste Management Groups to formulate waste management policy and controls;
- Ensure that municipal landfills are operated in an environmentally friendly manner; and
- To empower the EPA to approve and monitor regional waste management plans.

The implementation of these legislative requirements will change the nature of waste management operations and controls within the West Wimmera Shire. Council needs to constantly monitor the costs associated with the waste management service to ensure cost recovery is at the desired level, after taking into account the waste management service charge levied.

Council is facing ongoing challenges with the increasing costs associated with recycling.

## **9. Rebates and Concessions**

Under The Act, Council has the power to grant a rebate or concession in relation to any rate or charge to eligible recipients.

The granting of rebates and concessions results in a higher rate effort being applied to other properties to raise the same level of rate revenue.

### **State Government Pensioner Rebate**

Pensioners may qualify for a maximum 50% State Government Rebate (to a gazetted maximum) for the home in which they are living. A rebate will also apply for the Fire Services Property Levy. To be eligible, a ratepayer must hold one of the following concession cards:

- Pensioner Concession Card from Centrelink or Veterans Affairs
- Gold Card from Department of Veterans Affairs specifying War Widow (WW) or Total and Permanently Incapacitated (TPI).

Other than administrative costs, this State Government Rebate Scheme is cost neutral to Council as this is fully funded by the State Government.

Council does not grant any further rebates or concessions than those afforded by the State Government Pensioner Rebate Scheme.

## **10. Properties Exempt from Rates**

Section 154 of The Act declares that all land is rateable with a number of exemptions, including land occupied for municipal purposes, land used exclusively for charitable, education or religious purposes. Certain clubs and memorials are also non-rateable. Legal precedent has determined that charitable uses include those providing health services, education, religion and services to the needy.

Application for exemption from rating may be made at any time during the financial year and will be assessed based on the usage of the property. Council does not generally allow for any retrospective claims.

During 2009, The Act was amended to allow Council to grant a rebate or concession in relation to any rate or charge, to support the provision of affordable housing, to a registered agency.

## **11. Collections**

The purpose of this section is to outline the rate payment options and processes, the support provided to ratepayers facing hardship and the issues that Council must consider in making its decision when reviewing these payment options and hardship provisions with fairness, compassion, confidentiality and compliance with statutory requirements.

### **11.1 Liability to Pay Rates**

The owner of the land is liable to pay the rates and charges on that land. In certain cases, the occupier, mortgagee or licensee holder is liable to pay the rates.

The Act declares the rate or charge, interest or costs to be a first charge upon the land, when the land is sold; ensuring Council receives the outstanding monies prior to the discharge of any mortgage and/or charges on the land.

### **11.2 Payment Dates for Rates**

Council, in accordance with The Act must allow for the payment of rates by four instalments per annum. Council may allow a person to pay a rate or charge in a single lump sum payment. The single lump sum payment option is due 15 February of each year and mandatory instalment payments are required at the end of September, November, February and May.

### **11.3 Payment Methods**

Council offers a range of payment options including BPay, BpayView, internet via [www.westwimmera.vic.gov.au](http://www.westwimmera.vic.gov.au), mail, telephone, over the counter services at Council Customer Service Centres or Australia Post agencies.

Council incurs costs of collection via agency and merchant service fees.

The Act provides that incentives for prompt payment may be offered by Council for payment of rates and charges before the due dates.

West Wimmera Shire Council does not offer incentives for payment of rates and charges before the due date.

### **11.4 Late Payment of Rates**

Council has determined that the application of interest penalties will be in accordance with The Act, which allows interest to be imposed on unpaid rates at the statutory rate.

Council cannot apply an alternative rate but has the power to exempt any person from paying the whole or part of any interest amount generally or specifically payable.

### **11.5 Debt Recovery - Collection of Overdue Rates**

Council makes every effort to contact ratepayers at their correct address but it is the ratepayers' responsibility to properly advise Council of their contact details. Amendments to The Act require both the vendor and buyer of property, or their agents (e.g. solicitors), to notify Council by way of notices of disposal and acquisition respectively.

In the event that an account becomes overdue, Council has established procedures and guidelines for the collection of the debt. This creates a consistent approach to debt collection and ensures that all ratepayers are treated equally and fairly.

In the event that the account remains unpaid, Council may take legal action without further notice to recover any overdue amount. All fees and court costs are 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 sell the land in accordance with Section 181 of The Act.

The purpose of the policy is to act as a genuine deterrent to ratepayers who might otherwise fail to pay rates on time, to allow Council to recover the administrative cost of following up unpaid rates and to recover any interest cost the Council may incur due to lost investment opportunities. The principle in providing for such penalty is that ratepayers who pay within the required timeframe should not have to subsidise or bear any cost of ratepayers who default in payment.

### **11.6 Rates Assistance**

Council acknowledge that some ratepayers will experience difficulty from time to time in meeting rate payments due to the effect of rising valuations, cost of Council services and personal circumstance. Council further understands that relief measures have a cost to Council.

Ratepayers can elect to be placed on an 'arrangement' that spreads their rate payment over an agreed period. Such a plan may see a ratepayer paying an agreed amount per month. Interest is still charged at the statutory rate for all outstanding rates.

Ratepayers can also elect to defer their rates if they are faced with financial hardship. An Application for Deferment may only be made for a residential property that is the principal place of resident of the applicant.

#### **Waiver of rates**

The Act permits the waiving of rates or charges on the grounds of financial hardship. A resolution of Council stating the objectives to be achieved by the waiver is required. West Wimmera Shire Council does not allow waiving of rates but provide support via payment arrangements.

#### **Waiver of interest**

Councils' hardship policy does permit the waiving of interest under certain circumstances. The waiver of any interest may apply to that interest already incurred on overdue rates and charges and/or withholding of any future interest that would be incurred.

Interest waivers fall under three categories which are:

- a) Administrative waiver – Ratepayers may have interest only waived in the event of an administrative issue, error or omissions which caused or significantly contributed to the failure to pay rates in a timely manner.
- b) Waiver on compassionate grounds – Ratepayers may have interest only waived where they have demonstrated compassionate grounds for a payment being late. Acceptable compassionate grounds would generally relate to family illness or death.
- c) Financial Hardship waiver – Ratepayers may have interest only, or part thereof, waived where they have demonstrated that the payment of such interest would cause severe financial hardship.



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