RATING STRATEGY

2015 – 2019

… a Fair and Equitable Rating Structure

Prepared: March 2015

1.0 Background

The Strathbogie Shire Council rating strategy has been developed to maintain a fair and equitable basis for determining rates and charges levied on/charged to residents and ratepayers of the Shire.

The Rating Strategy seeks to improve the communities understanding of how Council determines its rates by providing a detailed explanation of rating concepts and the decisions made by Strathbogie Shire Council in determining its rating system.

The strategy is to be used as a basis for consultation with the community about defining a fair rating system for the Shire. The recently announced Victorian State Government commitment to a fair rates capping system would require more detailed consulting with communities.

The strategy is prepared to reflect the legislative requirements of the Local Government Act 1989.

In considering the objectives of the strategy, Council must have regard for the following.

In common with most small rural local governments, Strathbogie Shire has a fundamental strategic weakness -

- It has a relatively low population and consequent low revenue base;
- It has a large sparsely populated geographic area with consequent extensive infrastructure network maintenance and technical requirements; and
- Community capacity to pay is less than larger municipalities where households have a higher disposable income.

The combination of these circumstances creates a critical problem with regard to the funding of infrastructure renewal, ie how do we maintain the shire's roads, bridges, buildings, drainage assets etc. with a relatively low revenue base?

This problem, commonly referred to as the "infrastructure renewal gap" is symptomatic of the majority of small rural municipalities and has over time resulted in inadequate levels of investment in infrastructure renewal with consequent progressive decline in the standard of rural infrastructure.

In addition to addressing the renewal gap, there is increasing pressure from a community and its capacity to pay. Subsequently, Council is reviewing the types and levels of services that it provides in an endeavour to reduce the rate burden on its community.

Council, individually and in conjunction with other rural municipalities and industry groups has endeavoured over many years, and will continue to endeavour, to enlist the support of the Commonwealth and State governments to assist with fairer funding arrangements.

The State government recently announced that the funding of $1million per annum for infrastructure renewal which was provided for the past 4 years, has been withdrawn. This will have a significant long term effect on Council's financial position, its renewal gap and will bring forward all reviews on the types and levels of services that Council provides. This funding, together with the Local Government Infrastructure Program provided valuable resources for infrastructure renewal. Similarly, the Federal Government's commitment to Roads to Recovery (R2R) is providing valuable funding for infrastructure renewal.

Consequently, the previous strategy identified the need to arrest the deterioration of Shire infrastructure through increased investment in infrastructure renewal from local resources.

The current strategy is looking to maintain closure of the renewal gap and maintain current services and levels, whilst maintaining sufficient ongoing working capital. Commonly known as being financially sustainable, Council has created the Long Term Financial Plan to provide assurance that today's decisions do not impose financial burdens on future generations. Accordingly, Council's rating strategy, strategic resource plan and budget are a reflection of these circumstances.

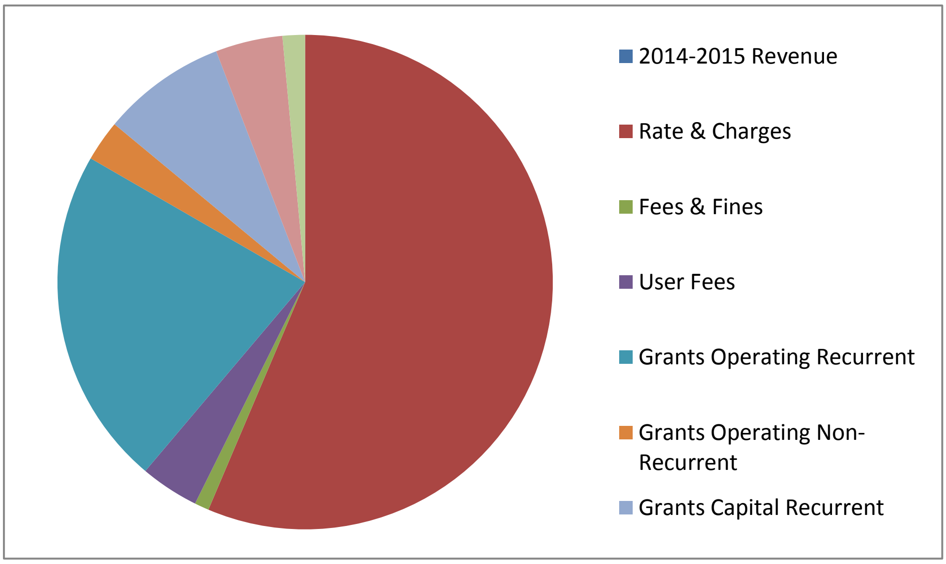
Section 10.0 "Proposed Rates Structure" provides further supporting information and details of the rating structure proposed to maintain the levels of investment required.

1.1 What are rates?

Rates are collected by Councils to fund the broad range of services that they provide to their communities. All Councils must determine the fairest and most equitable rating system for their individual municipalities from within the parameters established in the *Local Government Act 1989* (the Act).

"Rates" and Charges (predominantly rates) are the primary source of income for local government. Other revenue sources that local governments rely upon include grants from Federal and State Governments, fees, fines and charges, income from the sale of assets and interest earned.

The diagram below depicts revenue for Strathbogie Shire Council, of the $28.7 million in total revenue for 2014-2015 - $16.2 million is sourced from rates.



Rates are levied on each property owner based on the value of their property.

Council rates are the contribution that each ratepayer makes towards services provided by Council. Some Council services are statutory which means they are required by a law, and others are based on the needs and aspirations of the community.

Some of the services which Council provides include:

- Land use planning, development and building control and assessment;
- Environmental health (food and public health, noise and nuisance inspection);
- Fire prevention (building inspection / fire prevention);
- Dog and cat management and control. Traffic and parking regulations;
- Community leadership and advocacy / community development programmes;
- Sporting and leisure centres including swimming pools and community centres:
- Festivals, events, arts spaces and libraries;
- Parks, gardens, reserves and playgrounds;
- Street lighting;
- Walking & Cycling tracks, road and footpath construction and maintenance;
- Skate parks, sporting and recreation ovals, courts and facilities
- Stormwater and drainage management;
- Family services including maternal and child health and immunization;
- Waste and recycling collection and disposal and water conservation; and
- Roads, bridges and drainage.

1.2 Sound Financial Management and its relationship to the Rating Strategy

Council is committed to continually review its expenditure base and is determined to make savings where they can be made.

The *Act* (section 136) provides four principles of sound financial management for Councils. All Councils are required to implement these principles and establish budgeting and reporting frameworks that are consistent with the following principles:

1. Manage financial risks prudently, having regard to economic circumstances;
2. Pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden;
3. Ensure that decisions and actions have regard to financial effects on future generations; and
4. Ensure full, accurate and timely disclosure of financial information relating to the Council.

Developing a rating strategy requires Council to strike a balance between competing priorities for Council services and infrastructure and to come up with a mixture of rates and charges (the Rating System) that provides the revenue needed for ongoing financial sustainability.

1.3 Strathbogie Shire Council's Rating System

The key platforms that currently form the basis of the current approach to rating at Council include:

- That rates will continue to be based principally on an ad-valorem basis (i.e. based on the valuation of the various properties) using the CIV method of calculation;
- That Council will continue to apply a municipal charge to all rated properties and apply service charges to fully recover the cost of the collection and disposal of garbage, recyclables, organics and tree management program; and
- That Council will continue to apply differential rating against various property classes that assists to achieve equality across the community. (The use of differential rates enables Council to maintain a fair and equitable rate contribution by property type).

Section	STRATHBOGIE SHIRE COUNCIL – RATING SYSTEM
Section 2 Property Valuation	Council applies Capital Improved Valuation (CIV) as the valuation methodology to levy Council rates. Council reviews the impacts of revaluations as they occur.
Section 9 Rating Differentials /Rate Type	Council applies differential rating as its rating system. Council considers that each differential rate contributes to the equitable and efficient carrying out of Council functions.
Section 9 What differential rates should be applied?	That Council applies differential rates for: 1. Residential – General 2. Vacant Residential 3. Farm 4. Commercial/Industrial 5. Vacant Commercial/Industrial
Section 9 Service Rates and Charges	The service charges applied by Council are a Waste Collection Charge for the collection and disposal of household waste, including recyclables, litter bins collections and organic waste for developed properties only. A service charge applies to cover the full cost of the tree management program - this applies to all rateable properties.
Section 9 Municipal Charge	Council applies a Municipal charge in accordance with legislation.
Section 12 Rate Payment Date Options	Council does not allow a lump sum payment option therefore all rates must be paid via instalments with the due dates for payment each financial year as follows: • 1st Instalment due – 30 September • 2nd instalment due – 30 November • 3rd Instalment due – 28 February • 4th Instalment due – 31 May Council also allows ratepayers to pay property rates via payment arrangements, by any number of instalments, provided the full amount of rates and charges are paid by 31 May each year.
Section 12 Hardship Policy	Council recognises there are cases of genuine financial hardship and has a Hardship Policy which establishes the guidelines for assessment based on fairness, compassion, confidentiality and compliance with statutory requirements.

1.4 Rates & Charges

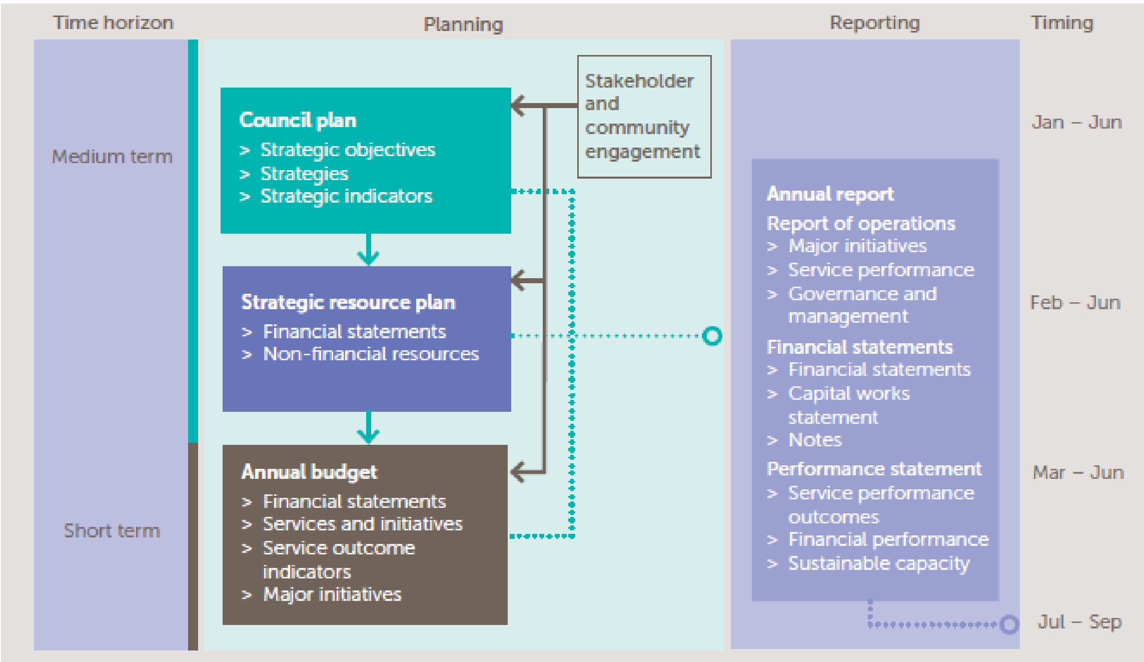
In order for Council to determine its revenue building capacity to meet current and future activities while "pursuing spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden rates and charges" Council has developed a Long Term Financial Plan (LTFP) which assesses Council's current and future objectives with a view to maintaining service levels and continuing a strong capital expenditure programme.

In doing so, Council has projected the required rate increases for the period 2015-2024.

2014-15	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*	*2020-21*	*2021-22*	*2022-23*	*2023-24*
4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

1.5 Planning and accountablity framework

The Strategic Resource Plan, included in the Council Plan, summarises the financial and non-financial impacts of the objectives and strategies and determines the sustainability of these objectives and strategies. The Annual Budget is then framed within the Strategic Resource Plan, taking into account the services and initiatives included in the Annual Budget which contribute to achieving the strategic objectives specified in the Council Plan. The diagram below depicts the planning and accountability framework that applies to local government in Victoria.



The timing of each component of the planning framework is critical to the successful achievement of the planned outcomes. The Council Plan, including the Strategic Resource Plan, is required to be completed by 30 June following a general election and is reviewed each year in advance of the commencement of the Annual Budget process.

2.0 What is a Rating Strategy?

A rating strategy is the method by which Council systematically considers factors of importance that informs 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 of the valuation base for each property and the actual rating instruments allowed under The Act to calculate the property owners' liability for rates.

The Act requires that the rating system provides a "reasonable degree of stability in the level of the rates burden", it must also meet the requirements of Part 8 of The Act – Rates and Charges on Rateable Land.

The Rating Strategy must also link with other Council strategies and key planning documents.

This strategy details the framework which will be used by Strathbogie Shire Council in determining a fair and equitable distribution of rates and charges. The rating framework is set out within The *Act* and determines a Council's ability to develop a rating system. The framework provides sufficient flexibility for a Council to determine its rating system to best suit its requirements within the context of a public finance methodology, which includes principles of equity, benefit, efficiency and community resource allocation.

The following recommendations are the basis for the Rating Strategy:

- Apply Capital Improved Value as the valuation methodology to levy Council rates.
- Apply five (5) differential rates in the dollar; (Residential - General, Vacant Residential, Commercial/Industrial, Vacant Commercial/Industrial, Farm).
- Review the rating structure following each biennial valuation.
- Charge a municipal charge.
- Apply a kerbside collection and recycling services.
- Introduce an organics service.
- Apply a service charge for the tree management program.
- Apply the mandatory rate instalment payment options.
- Allow direct debit payments from cheque or savings accounts.
- Consider waivers in accordance with the hardship policy.

2.1 Revenue-Side

This strategy takes account of known rates and charges variables effecting potential rating/revenue futures in the Shire. The strategy addresses revenue-side issues only as they relate to rates and charges. It is based on assumed expenditure (operating and capital) forecasts as set out in Council's Strategic Resource Plan and Long Term Financial Plan.

This strategy does not address the potential for Council to increase other revenue sources such as user fees and charges, government grants and developer contributions. Nor does it explore any potential for new income sources to offset the net rate/charge requirement such as from new business undertakings/enterprises. The strategy assumes a given total rate and charge requirement.

2.2 CIV Rating Basis

The Shire raises rates and charges under The Act (s.157(1). It strikes rates based on the Capital Improved Value (CIV) of rateable property in the Shire. The CIV represents the value of a property including land and all constructed and other improvements on the land.

Under The Act, Council may also raise revenue from a range of flat charges and has the power to levy differential rates on different classes of property. The basis of and assumptions that apply to these are addressed in this Strategy.

3.0 Defining Success - Fairness & Equity

The rating mechanism is simply the method by which the cost of providing Council services and facilities is distributed across the Shire's property base. Council's goal is to strike a mix of rates and charges that will distribute these costs as fairly as possible across all ratepayer groups.

Wealth tax principle. Wealth can be defined as the total value reflected in property and investments and income directed to day-to-day living. Local government is limited to taxing one component of wealth – real property. Council rates tax the stored "wealth" or unrealised capital gains inherent in land and buildings. 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.

In terms of equity, section 3C (2) (f) of The *Act* – to ensure the equitable imposition of rates and charges is of significance in developing this strategy. Equity is a subjective concept that is difficult to define – especially because it has a number of elements. What is eminently fair to one person may be totally unfair to another. Other considerations are horizontal and vertical equity. Horizontal equity means that those in the same position (e.g. with the same property value) should be treated the same. Vertical equity in respect to property taxation means that higher property values should incur higher levels of tax.

Efficiency - meaning that in a technical sense the tax should not unduly interfere with the efficient operation of the economy. For Local Government the tax should be consistent with the major policy objectives of Council.

Simplicity - for both administrative ease (and therefore lower cost) and to ensure that the tax is understood by taxpayers. The latter ensures that the tax system is transparent and capable of being questioned and challenged by ratepayers.

In considering what rating approaches are equitable Council must deal with all facets of the rating structure, including valuation, budgetary requirements, differential rating, government taxation and concessions, collection and hardship considerations.

An issue often raised is that the rates levied have no correlation with the services consumed. This issue is based on the benefit principle (the opposite of the wealth tax principle). The 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. A simplistic determination of rates based on where services are located is also short sighted because it ignores issues such as:

- Some services are not location specific;
- Access is not synonymous with consumption;
- Residents can travel or use technology to access some services; and
- Service levels provided in different locations within the municipality have different costs. For example, the actual cost of providing the same service may be higher for Marraweeny than for a property in the middle of Euroa.

In adopting a differential rating structure for ad valorem taxes, Council considers that they will contribute to the equitable and efficient carrying out of its functions – *The Act* section 161(1) (b).

The outcomes being sought from Council's rating structure include:

- A system which can be demonstrated to be 'fair and equitable';
- A system which meets Council's revenue requirements (based on the Strategic Resource Plan and Long Term Financial plan).
- A system which provides stability in terms of the proportional revenue contribution by the various property category segments.

3.1 Property Value Fluctuations

Section 4.0 of this report discusses the various tools which Council can use to effect the distribution of the rates burden to achieve a fair and equitable outcome.

The key rating determinants are, however, the Capital Improved Value of each property and the rate in the dollar of CIV applied by Council.

Property value is a factor outside Council's control. Property values are determined (for local government rating purposes) by independent valuations undertaken every 2 years. Valuations are determined through a market-based statistical assessment of property values for a range of property types and geographic areas. Property value changes can be volatile and reflect wider prevailing economic conditions that are also beyond Council's control. A municipal revaluation is currently being undertaken and will have effect from 1 January 2016.

As property values do not increase or decrease uniformly across the various geographic areas and property types, shifts in the level of rates burden experienced by individual ratepayers, will vary.

Recognising and communicating the potential impacts of property value volatility is an important aspect of an effective rating strategy. Increased property value is often the factor most responsible for significant rating increases and is probably the factor which is least well understood by the community. The positive aspect of this equation, which is often not sufficiently acknowledged, is that such a valuation increase is a real and realisable increase in the capital asset of the effected ratepayer.

It is a widely held truth that when it comes to municipal rating, ratepayers object more to the sudden and sharp percentage shifts in the rates they pay, than to the actual amount of rates they pay. Expectations tend to be built on the status quo and sudden changes to relative rate shares inevitably (and understandably) are met with community concern. Clear and transparent communication is a key factor in the management of any revaluation process.

The underlying assumption of the local government rating mechanism is that property values, in the long term, represent an individual's capacity to pay. Council understands that this is often not the case; however it is constrained by the methodology determined by The Act.

4.0 The Rating/Charge 'Levers' Available to Council

As indicated, Council cannot influence the property values which are the key determinant in rate burden distribution. There are however 3 basic revenue-side 'tools' or 'levers' available to Council which can be used to assist the achievement of fair and equitable rating outcomes.

- Use of differential rates - differential rates can legally be levied (up to a differential ratio of 4:1 from the highest to the lowest differential) for property type/use, location or in combination.
- The level of direct service charges (garbage charge, recycling charge, organics charge and a service charge to recover transfer tree management program costs). Council determines the level of these charges on a cost – recovery basis.
- The amount of the municipal charge levied on assessments (irrespective of valuation); and

4.1 Differential Rates

Differential rates can only be applied if the CIV valuation system is used (which Strathbogie Shire does). It is also necessary to be able to demonstrate that any proposed differential rates are consistent with the principles of fairness and equity.

Where Council decides to apply differential rates it should consider three equity principles:

- the **benefit** or user pays principle – some groups have more access to, make more use of and benefit more from specific council services
- the **capacity to pay** principle – some ratepayers have greater ability to pay rates than do others with similarly valued properties
- 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.

Another consideration is delivering an efficient, simple and transparent system of rates and charges. A simple rating system is more transparent, meaning that the underlying purpose and principles behind it are clearer – who is liable for a particular rate and how the liability is calculated.

4.2 Service Charges

The level of service charges is ultimately a policy matter for Council. Council's current policy for service charges is to align the level of charges for service to that required to achieve full cost recovery. This policy is consistent with mainstream local government practice for non-rate charges.

Such a policy enables full transparency for the charges levied. Residents/ratepayers as a general rule would expect that a charge levied for a particular service would be in some way aligned to the costs of that service.

In policy terms, there are several arguments that need to be considered in relation to the use of service charges to raise revenue (as opposed to levying higher rates in the dollar):

- Service charges shift the cost burden from ratepayers generally to those who actually use the service, thereby reducing the overall amount needed to be raised through rates; and
- Service charges (if set at levels that equate with full service cost recovery) eliminate cross-subsidies from the general ratepayer populace to specific service users.

4.3 Municipal Charge - General Policy

Under The Act, Councils are able to levy a uniform Municipal Charge. The charge is generally designed to be a base charge reflecting a proportion of base/administrative costs incurred by Council. The level of municipal charge cannot exceed 20% of the total rates and municipal charges of Council.

Strathbogie Shire currently levies a municipal charge of $266 p.a. The revenue raised from the municipal charge currently equates to 11.6% of total rates and charges.

The main impact of the municipal charge (and service charges) is that they create a ‘floor’ resource pool that is independent of property value. This means that the use of flat charges generally flattens the rate and charge profile. This advantages higher value properties and disadvantages lower value properties.

Council may vary the level of the municipal charge from time to time if it is considered appropriate to achieve a more equitable rating outcome.

This 2015/2016 update of the Rating Strategy proposes the retention of the Municipal Charge at the current level ($266) until such time as the revenue raised by municipal charge equates to 10% of total rates and charges (2017/18)

The effect of maintaining the current level of municipal charge will be a modest but gradual easing of the rate burden on lower valued properties.

5.0 Financial Sustainability and Capacity to Pay

In developing this strategy Council has reviewed the relative sustainable capacity of council and the community. The components of this include:

- Capacity to pay
- Impact of inherent geographic and demographic factors on costs
- Assistance received from recurrent government grants

5.1 Capacity to Pay

There are two (2) methods consistently proposed to assess the capacity of the community to pay:

1. Property valuations (using capital improved valuation or CIV)
2. Rates Affordability

“The higher the aggregate income of a community, the higher the potential for its local government to raise revenue” (Australian Government Productivity Commission).

For the purposes of assessing the community’s capacity, net disposable community income has been utilised as it provides another method of assessing the capacity to contribute. Community income comprises of:

- Individual disposable income (after tax & mortgage payments)
- Commonwealth pensions & benefits
- Company income after tax
- Partnership/trust income distributed to individuals & companies

Council’s accesses this community income by raising:

- rates & charges
- fees, fines & user charges

5.2 Impact of inherent geographic and demographic factors on costs

There are six (6) “general” independent variables used in modeling the impact of geographic and demographic factors on the costs of operating Council.

1. Population size
2. Population density
3. Concentration of service activity (CSA)
4. Average traffic volumes (ATV)
5. Dispersion of population into townships & rural areas
6. Remoteness of the municipality from major population centres

There are four (4) “cost” specific variables used in modeling the impact of geographic and demographic factors on the costs of operating Council.

1. Aged population
2. Infant population
3. Bridges
4. Roads

5.3 Assistance received from recurrent government grants

Council receives a significant portion of its income from various, commonwealth and state grants. These grants are either tied grants (for specific services) or untied grants (VGC) and comprise 37% of council recurrent revenue. Such grants:

- Provide reliable & consistent source of recurrent income (although diminishing when compared to costs)
- Have a direct impact on sustainable capacity, reducing net operating cost per head

5.4 Sustainable Capacity – Council and Community

Sustainable capacity is measured annually by the Victorian Auditor General's Office. The results of the 2013/2014 year were presented to parliament and show that Strathbogie has a low risk of being financially unsustainable. What it does not measure is the Rates Affordability of the community and its capacity to pay.

The 2014 VAGO report shows that the ability of ratepayers in Strathbogie to pay their rates, is less than for the Small Shire average. A total of 4.8% of disposable household income is spent in Strathbogie on rates, compared to only 3.7% of household disposable income for other Small Shires. Council is aware of community concerns in relation to the level of rates and has developed a Long Term Financial Plan (LTFP) to reflect lower rate rises to address these community concerns and their capacity to pay.

The effect of rating capping proposed to be introduced in 2016/2017 is another factor that Council has been considering and will have the effect of reduced rate rises for the community which should enhance its ability to pay.

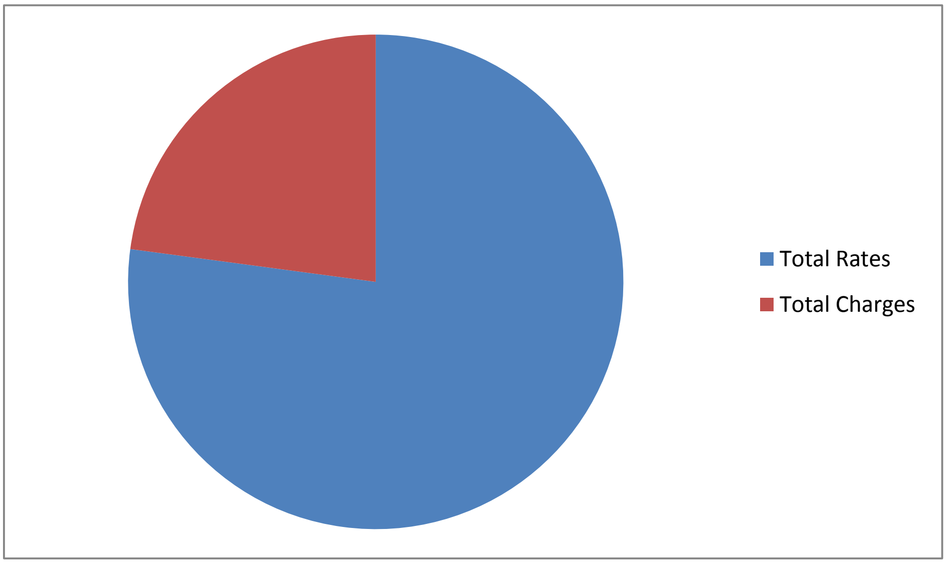
6.0 Strathbogie Shire – Current Rates/Charges Profile

Strathbogie Shire currently levies the following rates and charges (2014/2015):

Rate/Charge:	c/$	No. of Assess.	$ Revenue 2014/15
Residential Rate	0.5106248	4,307	$5,565,141
Vacant Residential Rate	0.8935934	393	$513,987
Commercial/Industrial Rate	0.6127498	280	$596,992
Vacant Commercial Industrial Rate	1.0723121	7	$8,289
Farm Rate *	0.4340311	2,195	$5,785,730
TOTAL RATES:		**7,182**	**$12,470,140**
Charges:	**c/$**	**No.**	**$ Revenue 2014/15**
Recycle Charge	$168	3,577	$600,864
Garbage Charge - 120 Litre	$339	3,886	$1,317,529
Garbage Charge – 240 Litre	$679	68	$47,310
Municipal Charge	$266	6,232	$1,735,121
TOTAL CHARGES:			**$3,700,824**
TOTAL RATES & CHARGES:			**$16,170,964**

(*less RL Rebates where applicable)

The following chart shows the current distribution of the Shire's total rates and charges:



Profile Summary:

The above profile charts show:

- Service and municipal charges generate 23% of total rates and charges revenue. Rates generate 77% of total rates and charges.

- The major source of rates and charges income is the Residential sector (49%) followed by the Farm sector (46%);
  Note: The chart has been amended to now reflect Farm zoned properties of less than 40 hectares as Residential.

- The weighting (in an overall context) of the Commercial/Industrial rate base is small (5%). This is concentrated in the Nagambie and Euroa townships.

7.0 Differential Rating

The CIV rating method allows differential rating (s.157(1) of the Act). That means Councils can strike different rates in the dollar for different property classes. This effectively attributes a greater or lesser percentage of the total cost burden of local government services onto different classes of ratepayers according to the levels of differentials applied. Under The Act, the highest differential cannot be more than 4 times the lowest differential. There is no limit to the number of differentials that may be applied.

Any differentials applied must be demonstrably fair and equitable. Any rates struck by Council may be legally challenged. Ministerial Guidelines for Differential Rating were released 26 April, 2013 and define what types of land are considered to be appropriate for differential rates, what types of land needs to be carefully considered for differential rates and land that would be considered not appropriate to declare differential rates. Using the current differential rates, the distribution of the rates burden is clearly defined and easily applied. Equity is defined in s.3.

A general observation of other local government experience indicates that successful outcomes in the determination of fair differential rates have been arrived at only with high levels of consultation with community and interest groups. Whilst some attempts have been made to ascribe differential rates based on levels of deemed benefit derived, these have generally been unsuccessful. This is due to the very subjective nature of determining levels of benefit (directly and indirectly) from Council services, the related arguments such as the community service obligations of businesses and the balance between benefit derived and capacity to pay.

Arguments regarding benefit derived become entwined with related philosophical issues such as the equity of progressive taxation regimes, the validity of capacity to pay as a criteria (and property values as a fair representation of capacity to pay) and the tax deductibility of local government rates available to businesses.

The following broad principles ought to be applied to the use of differential rates:

- Differential rates should be levied on the basis of fairness and equity;
- Differential rates should not be used merely as a means of negating the impacts of shifts in the rating base (property market valuations);
- Councils should attempt, as far a possible, to achieve efficiency, transparency and stability in any differential rates applied.

8.0 Pensioners Rate Remission

Pensioners in Victoria may apply for the State Government Pensioner Rates Remission. At present, pensioners are entitled to a rates remission of 50% of their rates bill up to a maximum of $208 per annum. The Fire Services Property Levy has a government rebate of up to $50.

Clearly, the remission payable to pensioners under Pensioner Rates Remission Scheme is vastly less than the average residential rates bill. As such, the scheme could be said to, at best, offer only a modest relief to the financial impost of local government rates and charges.

The Pensioner Rates Remission Scheme is cost-neutral in the context of the Shire’s rating strategy. Council presently provides no additional relief to pensioners over and above the State-funded remission scheme.

9.0 Proposed Rates Structure

9.1 Expenditure Assumptions and Infrastructure Investment Needs

As indicated, the focus of this strategy is on the fair and equitable distribution of the rating burden across the wider community. The expenditure assumptions upon which future rating scenarios have been developed are drawn from Council's Strategic Resource Plan and Long Term Financial Plan.

Under the previous Council's long-term strategic planning, significant increases in Council expenditure were identified as being necessary to maintain an effective program of infrastructure renewal. The level is expected to be maintained to meet the infrastructure renewal gap.

The key drivers of the need for additional resources are:

- The need for significantly increased investment in renewal of community facilities and public infrastructure to arrest the long-term decline in the condition of these crucial community assets; and

- Normal annual increases in the costs associated with local government service provision.

The Local Government Cost Index published by the Municipal Association of Victoria identifies 4% per annum as the cost indexation factor that should be applied for base budgeting purposes by councils.

The need for increased expenditure on renewal of community infrastructure and facilities is referred to as the 'infrastructure investment gap'. It is represented by what has been a growing gap between the amount of money that Council spends on the renewal of its existing community infrastructure (ie; buildings, facilities, parks, roads, footpaths and drainage etc.) and the amount by which the value of these critical assets decreases each year.

It also needs to be understood that the infrastructure investment gap refers to **renewal** only and does not include allowance for investing in **new** assets, facilities and infrastructure for our communities.

9.2 Rates Structure

Council introduced in 2010/11 a 2 tiered rating and revenue structure over 5 years to address infrastructure issues. The components were:

- Normal annual rate increases:
  - these would be set at levels necessary to meet Council recurrent costs indexed in line with inflation; and
- An ‘Infrastructure Catch-up levy’:
  - this levy was a surcharge on Council rates and municipal charges specifically to address the infrastructure and asset renewal backlog.

The introduction of the 2011/2015 Rating Strategy was as a result of an indentified renewal gap of approximately $9M in 2009. The gap was expected to increase if that rating strategy was not introduced. The strategy was introduced with the result that the gap renewal expenditure would exceed depreciation in 2016/2017, with the gap closing in 2021/2022.The closing of the gap is still predicted to be in 2021/2022. This strategy is now replaced with an across the board 4% rate increase and changes to service charges.

Strathbogie’s Shire Council’s rate increases have reduced in comparison to the LTFP. The current LTFP is now based on 4% rate increases plus investment growth as a result of the 2011/2015 strategy which had provided Strathbogie with the ability to address the gap. This has also provided the basis for the consistent rate rises over the term of the LTFP and should help Council to address rate capping that is being introduced from 2016/2017 by the current State Government.

The key features of the proposed rating/charge structure, as amended, are:

- Rates increases of 4 % a year;
- Retention of the existing policy of full cost recovery for all service charges, with the level of service charges indexed annually in line with costs;
- Introduces an organics collection;
- Introduces a service charges to fully recover the cost of the collection and disposal of garbage, recyclables and organics. There is also a service charge to be assessed on all assessments that contributes to the recovery of costs required to maintain a tree management program and ;
- Retention of the level of municipal charge at the 2014/15 level ($266) until the total amount raised by municipal charges comprises 10% of total rates and municipal charges. It is anticipated that this level will be achieved by 2017/18.

9.3 Proposed Differential Rates

The differential rates shown will be applied to the items of expenditure described in the annual budget. The level of the rates for each land category is considered to provide for an appropriate contribution to Council’s budgeted expenditure, having regard to the characteristics of the land.

- General/Residential Rate (Base) 100%
- Vacant Residential Land Rate 175%
- Commercial/Industrial Rate 120%

- Vacant Commercial/Industrial Land Rate 175%
- Rural Farm Rate 85%

9.4 Proposed Commercial/Industrial Differential Rate

A differential rate will be applied to land used for commercial or industrial use.

Council currently has a 120% differential rate on commercial/industrial properties – this is proposed to be retained at this level. Commercial and industrial differential rates are commonly applied in local governments throughout Victoria and Australia. Indeed, Council has previously applied a higher differential rate for commercial and industrial properties.

Land classed as commercial/industrial is identified as that land which is categorised within the rating system as having a predominantly commercial or industrial use. Where a commercial enterprise is a secondary use to the predominate farm use, then land in this case will be classed as farm use.

The characteristics of the land classed as commercial/industrial are that it is used for the purposes of retail, wholesale, tourism activities, accommodation, professional or other commercial services or for manufacturing, maintenance, storage and distribution of goods or other industrial services.

Council considers that the introduction of a commercial/Industrial differential is consistent with the principles of fairness and equity.

The objectives, definitions, identification and characteristics of the various differential rates are provided in Section 12 of this strategy.

9.5 Proposed Farm Differential

A differential rate will be applied to land used for farming purposes.

Council currently has a 85% differential rate on farm properties above 40 hectares. The farm differential rate is available to all farm properties of 40 Hectares or greater and to farm properties of less than 40 Hectares which can meet criteria which establish them as bona fide farming activities.

Land classed as farm is identified as that land which is situated within the farming zone, is not less than 40 hectares in area and is not classified as having a commercial or industrial use. Land classified as having a commercial or industrial use will be rated accordingly. Land situated within the farming zone of less than 40 hectares may be considered for the farm differential rate, subject to satisfying Council's criteria for recognition as a bone fide farming activity. Typically such consideration would apply to intensive farming pursuits.

The characteristics of the land classed as farm are that it is used to;

- propagate, cultivate or harvest plants, including cereals, flowers, fruit, seed, trees, turf, and vegetables; or keep, breed, board, or train animals, including livestock, and birds; or propagate, cultivate, rear, or harvest living resources of the sea or inland waters.

Farming properties of less than 40 Hectares, which do not satisfy farm rate criteria, are rated at the general rate.

The objectives, definitions, identification and characteristics of the various differential rates are provided in Section 12 of this strategy.

9.6 Proposed Vacant Residential Land Differential

A differential will be applied to land which is classed as vacant residential land.

Council currently has a 175% differential rate on vacant residential land properties – this is proposed to be retained at this level. Vacant residential land differential rates are commonly applied in local governments throughout Victoria and Australia.

The differential is applied to encourage the development of vacant residential land for the general benefit of the community. Land classed as vacant residential is identified as that land which is categorised within the rating system as having a residential use and having improvements valued at not greater than $20,000. Vacant residential land which is considered contiguous with occupied residential land will be rated as residential. The characteristics of the land classed as vacant residential are that it is located within a residential (or township or similar) zone, is permitted for residential development and has improvements of not greater than $20,000.

Council considers that the introduction of a vacant residential land differential is consistent with the principles of fairness and equity.

The objectives, definitions, identification and characteristics of the various differential rates are provided in Section 12 of this strategy.

9.7 Proposed Vacant Commercial/Industrial Land Differential

A differential will be applied to land which is classed as vacant commercial or industrial land.

Council currently has a 175% differential rate on vacant commercial/industrial land properties – this is proposed to be retained at this level. Vacant commercial/industrial land differential rates are commonly applied in local governments throughout Victoria and Australia.

Land classed as vacant commercial/industrial is identified as that land which is categorised within the rating system as having a commercial or industrial use and having improvements valued at not greater than $20,000. Vacant commercial/industrial land which is considered contiguous with occupied commercial/industrial land will be rated as vacant commercial/industrial. The characteristics of the land classed as vacant commercial/industrial are that it is located within a commercial or industrial zone, is permitted for commercial or industrial development and has improvements of not greater than $20,000.

Council considers that the introduction of a vacant commercial/industrial land differential is consistent with the principles of fairness and equity.

The objectives, definitions, identification and characteristics of the various differential rates are provided in Section 12 of this strategy.

9.8 Proposed Municipal Charge

The Municipal Charge is applied to each rateable property to allow Council to recover part of the administrative cost in operating Council.

The *Act* is not definitive on what comprises administrative costs and does not require Council to specify what is covered by the charge, however, administrative programmes such as finance, asset management, information systems, corporate records, human resources and governance are supported by this income. Legislation requires that this amount cannot exceed 20% of total rates raised (including rates, municipal charge and environmental charges). The Strathbogie Shire Council has set the municipal charge at 10.7% of total rates and charges. Council will reduce the Municipal Charge to 10%.

Council raised $1.74 million of municipal charge income at a rate of $266per rateable property in 2014-2015.

9.9 Service Charges

The LGA allows Council to declare a service rate or an annual service charge.

This charge can be applied on, or a combination of, any of the following services:

- Provision of a water supply
- Collection and disposal of refuse
- Provision of sewerage services
- Any other prescribed service

This service rate or service charge may be declared on the basis of any criteria specified by the Council in the rate or charge. The service charges applied by Council are a Waste Collection Charge for the collection and disposal of household waste, including recyclables and organics, together with a levy to cover tree management costs.

Details of service charges are as follows:

9.10 Garbage Charge

All developed land used primarily for residential, commercial or other purposes that are serviced by the weekly or fortnightly waste collection service will incur a Garbage Collection Charge for the provision of a domestic garbage bin. This charge will also be applied to all non-rateable properties that utilise the garbage collection service.

9.11 Recycling Charge

All developed land used primarily for residential, commercial or other purposes that are serviced by the weekly or fortnightly waste collection service will incur a Recycling Charge for the provision of a recycling bin. This charge will also be applied to all non-rateable properties that utilise the recycling collection service.

9.12 Organic Waste Charge

All developed land used primarily for residential, commercial or other purposes that are serviced by the weekly or fortnightly waste collection service will incur a Organic Waste Charge for the provision of an organic waste bin. This charge will also be applied to all non-rateable properties that utilise the organic waste collection service.

9.13 Service Charge

All rateable properties will be levied a service charge to offset the net cost of (a) the garbage, recycling, organic costs of Council and (b) to provide for a specific tree management program that addresses Councils requirement to manage tree maintenance on roadsides.

9.14 Proposed Rates/Charges Profile

Rate/Charge:	c/$	No. of Assess.	$ Revenue 2015/16
Residential Rate	0.005334707	4,346	$5,858,111
Vacant Residential Rate	0.009335737	403	$566,293
Commercial/Industrial Rate	0.006401648	284	$634,004
Vacant Commercial Industrial Rate	0.009335737	7	$8,660
Farm Rate *	0.004534501	2,202	$6,099,690
TOTAL RATES:		**7,242**	**$13,166,758**
Charges:	**c/$**	**No.**	**$ Revenue 2015/16**
Kerbside/Recycling/Organics Collection	$507	3,412	$1,729,884
Kerbside/Organics Collection Farms 120 L	$339	337	$112,548
Kerbside collection - Commercial & Farm	$679	74	$50,246
Municipal Charge	$266	6,533	$1,753,121
Kerbside/Organics Collection Commercial	$339	158	$53,562
Farm Recycling	$168	10	$1,680
Organics Charge	$0	3,030	$0
Tree Management Service Charge	$25	6,533	$163,325
TOTAL CHARGES:			**$3,864,446**
TOTAL RATES & CHARGES:			**$17,031,204**

10.0 Special Rates & Charges

Section 163 of *The Act* provides that Councils may declare a special rate or charge or combination of both if Council considers that such action will provide a special benefit to the persons required to pay the rate or charge.

This is a commonly used rating mechanism in local government and is typically used for projects such as footpath, kerb and channel and drainage construction works where the benefit is relatively easy to identify and quantify.

Council will investigate opportunities for the consideration of such schemes. Of particular interest is the potential to utilise special rate or charge schemes for stormwater management works.

The implementation of such schemes would only proceed subject to extensive community consultation.

11.0 Differential Rates – Objectives and Characteristics

Section 161 of The Act 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 the differential rate will contribute to the equitable and efficient carrying out of its functions

Section 161 further requires that the objectives of the differential rate and characteristics of the land which are the criteria for declaring the rate be specified.

11.1 Commercial/Industrial Differential Rate

A differential rate will be applied to land used for commercial or industrial purposes. The reasons for the application of a commercial/industrial differential rate are to ensure the equitable and efficient carrying out of Council's functions and to ensure the appropriate distribution of costs associated with the delivery of services which specifically benefit commercial/industrial properties.

Services specifically benefiting commercial/industrial properties include - street cleaning, streetscape infrastructure maintenance, waste management, environmental health, compliance - particularly car parking and animal control, street tree management and improvements to commercial and industrial areas.

The appropriate level for the commercial/industrial differential rate is considered to be 120% of the general rate.

Land classed as commercial/industrial is identified as that land which is categorised within the rating system as having a commercial or industrial use.

The characteristics of the land classed as commercial/industrial are that it is used for the purposes of retail, wholesale, tourism activities, accommodation, professional or other commercial services or for manufacturing, maintenance, storage and distribution of goods or other industrial services.

11.2 Farm Differential Rate

A differential rate will be applied to land used for farming purposes.

The reason for the application of a farm differential rate is to ensure the equitable and efficient carrying out of Council's functions.

Specifically, reasons include –

- Acknowledgement that land invested in farming is intrinsic to the activity, distinguishing it from land upon which an activity is based.
- Acknowledgement that farming viability generally requires broadacre investment and recognition of the consequent adverse rating impacts of that investment.
- Acknowledgement that farmers are key contributors to the successful management of the rural environment and that the general community derives benefit from that management.

- Recognition of the importance of farming as a local economic generator with flow on impacts for local business and employment.
- The importance of maintaining the Shire's rural amenity for the enjoyment of residents and the attraction of tourists.
- The application of a farm differential is consistent with the general practice of rural local governments.
- National economic importance of encouraging investment in primary industry.

The appropriate level for the farm differential rate is considered to be 85% of the general rate.

Land classed as farm is identified as that land which is situated within the farming zone, is not less than 40 hectares in area and is not classified as having a commercial or industrial use.

Land situated within the farming zone of less than 40 hectares may be considered for the farm differential rate, subject to satisfying Council's criteria for recognition as a bone fide farming activity. Typically such consideration would apply to intensive farming pursuits.

The characteristics of the land classed as farm are that it is used to -
- propagate, cultivate or harvest plants, including cereals, flowers, fruit, seeds, trees, turf, and vegetables; or
- keep, breed, board, or train animals, including livestock, and birds; or
- propagate, cultivate, rear, or harvest living resources of the sea or inland waters.

11.3 Vacant Residential Land Differential Rate

A differential rate will be applied to land which is classed as vacant residential. Residential land will be deemed to be vacant if improvements are valued at $20,000 or less.

The reason for the application of a vacant land differential rate is to ensure the equitable and efficient carrying out of Council's functions.

Specifically, reasons include –
- To encourage occupation of developed residential land to ensure the appropriate distribution of the cost of Council services
- To discourage the stockpiling of sought after residential land for investment purposes
- To encourage social and economic development
- To encourage development of community facilities and amenity

The appropriate level for the vacant residential land differential rate is considered to be 175% of the general rate.

Land classed as vacant residential is identified as that land which is situated within the residential zone and has improvements valued at $20,000 or less.

The characteristics of land classed as vacant residential land are that -
- it is zoned residential under Council's planning scheme; and
- it has improvements valued at $20,000 or less; and
- it satisfies any other requirements for the construction of a dwelling;

11.4 Vacant Commercial/Industrial Land Differential Rate

A differential rate will be applied to land which is classed as vacant Commercial/Industrial. Commercial/Industrial land will be deemed to be vacant if improvements are valued at $20,000 or less.

The reason for the application of a vacant commercial/industrial land differential rate is to ensure the equitable and efficient carrying out of Council's functions.

Specifically, reasons include –

- To encourage occupation of developed commercial/industrial land to ensure the appropriate distribution of the cost of Council services
- To discourage the stockpiling of sought after commercial/industrial land for investment purposes
- To encourage social and economic development
- To encourage development of community facilities and amenity

The appropriate level for the vacant commercial/industrial land differential rate is considered to be 175% of the general rate.

Land classed as vacant commercial/industrial is identified as that land which is categorised within the rating system as having a commercial or industrial use and has improvements valued at $20,000 or less.

The characteristics of the land classed as vacant commercial/industrial are that it is classed as being available for purposes of retail, wholesale, tourism activities, accommodation, professional or other commercial services or for manufacturing, maintenance, storage and distribution of goods or other industrial services.

12.0 Collection of Rates

In accordance with Section 167(1) of The *Act*, Council must allow a person to pay a rate or charge in four instalments and the instalments are due and payable on the date fixed by the Minister by notice published in the Government Gazette.

Section 167(2A) provides that a Council may allow a person to pay a rate or charge in a lump sum. Strathbogie Shire Council does not provide for a lump sum payment option therefore all rates must be paid via instalments with the due dates for payment each financial year as follows:

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

Council also allows ratepayers to pay property rates via payment arrangements, by any number of instalments, provided the full amount of rates and charges are paid by 31 May each year.

12.1 Payment Methods

Council has a number of different payment options for rates:

- Over the Counter
  - In person at Australia Post agencies.
  - At Councils Customer Services.
- Internet
  - Payment via BPay.
  - Payment via Post billpay.
- Telephone by credit card
  - May make payment from cheque or savings account.
- Mail
  - Post cheque or Money Order to Council.

12.2 Unpaid Rates or Charges

In accordance with section 172 of *The Act* Council may charge interest on unpaid rates and charges in accordance with the rate fixed under section 2 of the *Penalty Interest Rate Act 1983* which is altered from time to time by the Victorian State Government.The penalty interest rate applicable under *The Act* is the rate ruling on 1 July each year. The current rate is 10% and will apply each year unless it is amended on or before 30 June.

12.3 Debt Recovery

After the final day for payment of rates and charges, reminder notices are forwarded to ratepayers. A further final notice is sent requesting payment or inviting ratepayers to make arrangements to pay their outstanding debt.

Any ratepayer who has difficulty paying their rates is invited to contact Council to make alternate payment arrangements. If no payment is forthcoming or no arrangements have been made to pay the amount outstanding, Council pursues the recovery of outstanding rates and charges through Debt Collection agents. All costs incurred for recovery are added to the amount outstanding.

Council has a Hardship Policy that is to be referenced in all cases.

Council will also make every effort to contact ratepayers at their correct address but it is the ratepayer’s responsibility to properly advise Council of their contact details. Amendments to the LGA require both the vendor and buyer of the property, or their agents to notify Council by way of notices of disposition and acquisition respectively.

13.0 Fire Service Property Levy (FSPL)

While the Fire Service Property Levy is not part of the rating strategy, Council is responsible for the collection of the FSPL on behalf of the State Government.

Prior to the introduction of the Fire Services Property Levy, Victoria's fire services were funded by financial contributions from insurance companies, the State Government and metropolitan Councils. Insurance companies recovered the cost of their contributions by imposing a fire services levy on insurance premiums.

One of the key findings of Victorian Bushfire Royal Commission was that this model for fire services funding was inequitable, lacked transparency and discouraged some owners from insuring, or fully insuring, their property due to the additional cost the levy imposed on premiums. As a result, the Commission recommended that the insurance-based fire services levy be replaced with a property-based levy which would require all property owners contributing to fire services funding, not just those with adequate insurance.

On 28 August 2012, the Victorian Government announced that it would implement the Commission's recommendation. The *Fire Services Property Levy Act 2012* (FSPLA) was developed to establish the legal framework for the new Fire Services Property Levy. The Act received Royal Assent on 16 October 2012, and will impose a levy on land in Victoria from 1 July 2013.

The Local Government sector or Councils were appointed as the collection agency for the State Government to collect the levy on leviable land within their municipal district including leviable land owned by Council.

13.1 Property Subject to FSPL

All land is leviable under the FSPLA unless that land is:
• Commonwealth owned land;
• State Government owned land; and
• Public bodies.

13.2 Fixed Charges

For the 2014-2015 financial year, the fixed charges are set as follows:
• Residential land (including vacant residential land): $102;
• Commercial land: $205;
• Industrial land: $205;
• Primary production land: $205;
• Public benefit land: $205; and
• Vacant land (excluding vacant residential land): $102.

The fixed charge is subject to adjustment in line with the Victorian Consumer Price Index (CPI). The State Revenue Office (SRO) will notify Councils of changes when they occur.

The Minister will publish the CPI adjusted fixed charge for a levy year before 31 May of the previous year on the SRO website at www.sro.vic.gov.au.

13.3 Levy of Rates

The Minister may determine different levy rates based on land use classification and whether the land is located in the metropolitan fire district or in the country fire district of Victoria. If the Minister does not determine and specify the levy rate by 31 May for the next levy year, the levy rate will remain the same as the most recently determined levy rate.

13.4 FSPL Collection

Section 25(2) of the *Fire Services Property Levy Act 2012* currently requires that for levy purposes the assessment notice must display a number of information items. The information that must be displayed is as follows:

- Date of the notice;
- Name and address of the owner of the land or a person that the owner has nominated the notice should be sent to;
- The levy amount including the fixed charge and variable component;
- How the levy amount was calculated, including the levy rate and any concession applied;
- Land use classification (residential, commercial, industrial etc);
- Address or legal description of the land;
- CIV of the land;
- Date by which the levy amount must be paid;
- Any outstanding levy or levy interest payable;
- That the owner of the land may apply for a waiver, deferral or concession in respect of the leviable land under section 27 of the *Fire Services Property Levy Act 2012* for rateable land and section 28 for non-rateable land; and
- Any prescribed matters.

14.0 Recommendations

1. Apply Capital Improved Value as the valuation methodology to levy Council rates.

2. Apply five (5) differential rates in the dollar; (Residential - General, Vacant Residential, Commercial/Industrial, Vacant Commercial/Industrial, Farm).
   - Residential - Differential - 100%
   - Vacant Residential - Differential – 175%
   - Commercial/Industrial - Differential – 120%
   - Vacant Commercial/Industrial - Differential – 175%
   - Farm - Differential – 85%

3. Review the rating structure following each biennial valuation.

4. Apply a municipal charge to cover costs such as finance, asset management, information systems, corporate records, customer service human resources and governance and review on an annual basis.

5. Apply a kerbside collection and recycling services.

6. Introduce and apply an organics service.

7. Introduce and apply a service charge that fully recovers the cost of a tree management program.

8. Apply the mandatory rate instalment payment options.

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

9. Allow direct debit payments from cheque or savings accounts.

10. Consider waivers in accordance with the hardship policy.