Rating and Service Charges Strategy

2018 - 2022

Moira Shire Council

2018 – 2022 Rating and Service Charges Strategy

Executive Summary

Local governments provide many varied public services to their community, and providing the revenue stream to meet their cost is a basic requirement of council planning and decision making.

While the Victorian Government's Fair Go Rates system sets a cap for rate increases in line with CPI and WPI, thereby removing a council's autonomy in setting rates revenue above the cap, Council must still make decisions on how the rate burden is shared amongst categories of ratepayers.

Moira Shire Council's Rating and Service Charges Strategy ensures a planned and considered approach to rating by establishing the principles for setting the rates and charges each year as part of the annual budget development process. Council may choose to vary its approach in any year in response to immediate events and circumstances.

One of the key components of a Rating Strategy is the rating structure. This structure outlines the differential rating categories and shows how the rating burden will be shared by ratepayers.

A number of rating principles apply and have been considered when developing the proposed rating structure. These principles are:

- Equity;
- Efficiency;
- Simplicity;
- Benefit; and
- Diversity.

Key Elements
Council's Rating and Service Charges Strategy is framed around the following key elements:

- That Moira Shire Council continues to apply differential rating as its rating system
- That the differential rates remain unchanged
- That the basis of valuation for rating purposes continue to be Capital Improved Value
- That the amount raised by the municipal charge be maintained at the existing proportion of total municipal charge and general rate revenue of 19.1%;
- That waste services be remodelled to improve its transparency

A period of public consultation will be undertaken in April in conjunction with the 2018/2019 Budget, before a revised version of the strategy is provided to Council for adoption in March 2019.

Introduction

Local governments provide many public services and no two councils are identical in the mix of services they provide to their community.

The annual budget describes the services that a council intends to provide, along with the funds to provide them. Most importantly, the budget is a statement by the council as to what they consider important for their community

Regardless of the mix of services, providing the revenue stream to meet their cost is a basic requirement of council planning and decision making.

While the Victorian Government's Fair Go Rates system sets a cap for rate increases in line with CPI and WPI, thereby removing a council's autonomy in setting its rates revenue above this cap. Council must still make decisions on how the rate burden is shared by ratepayers.

To ensure a planned and considered approach to rating, Council is currently developing a Rating and Service Charge Strategy.

This discussion paper proposes a new rating structure for Moira Shire that will form the basis of the Rating and Service Charge Strategy.

It first, however, outlines the rating principles that have been considered during the development of the proposed new rating structure, as well as additional considerations that were taken into account.

Rating principles

Equity

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

- Horizontal equity – ratepayers in similar situations should pay similar amounts (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation); and
- Vertical equity – those who are better off should pay more than those worse off (the rationale applies for the use of progressive and proportional income taxation. It implies a "relativity" dimension to the fairness of the tax burden).

There is frequent 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 ratepayers have more access to, make more use of, and benefit more from the council services paid for by rates;
- The capacity to pay principle – some ratepayers have more 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.

Concepts such as "user pays" and "capacity to pay" often conflict. Depending on your viewpoint the equitable outcome may be the one where individuals pay more, or less, or exactly in proportion to, their level of consumption of services.

A difficulty arises where services are fully or partially public goods and it is either difficult or impossible to quantify use or access. For practical reasons equity considerations become focused on how the costs of some universally available basket of services should be shared between ratepayers.

Efficiency

Economic efficiency is measured by the extent to which production and consumption decisions by people are affected by a tax. Setting aside taxes explicitly intended to change behaviour (such as high taxes on cigarettes), a perfectly efficient tax would be one which did not distort behaviour.

Of course, there is no such tax – all taxes affect behaviour to some extent. However, economic efficiency in revenue collection is maximised when the degree of this distortion is minimised.

Price is the major mechanism through which taxation efficiency may be achieved and for services where users are price sensitive, direct charging can influence demand and thus lead to greater efficiency. Conversely, the funding of services through rates (or via subsidies from other services) may result in an inflated demand for services and additional costs for councils to meet this demand.

As a result, a mix of user charges and rates revenue funds a variety of council services. The efficiency of a tax is also related to the cost of administration. 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.

Simplicity

The taxation principle of simplicity revolves around how easily a system can be understood by the public namely ratepayers. This can conflict with the principles of equity and efficiency.

A simple rating scheme would have a limited number of rating classifications, even using a uniform rate. Other features of a simple rating scheme may be practicality and ease of administration. Rates in general are quite simple to administer in that they rely on a clear information source (property values) and they place a levy on something that is impossible to conceal (land).

Public understanding is another consideration for a council in striving for simplicity. A simple system should be easier for the public to understand as should the explanation of it by a council.

The efficacy of using rates to provide incentive or encouragement for ratepayers to act in a certain way to achieve corporate goals (e.g. environmental) should be evaluated critically against other approaches in terms of likely effectiveness.

Benefit principle

A popular complaint levelled at councils is that “the rates I pay don’t match the services I use or the benefits I receive”. This argument is based on the benefit principle that there should be a clear nexus between consumption/benefit and the rate burden. A user pays system is closely reflective of the benefit principle.

Application of the benefit principle to rates is difficult in practice because of the impossibility of measuring the relative levels of access and consumption across the full range of council services. While it might be quite obvious that certain geographic areas may not get access to specific services, for example street lighting, it is the level of benefit across the full range of rates-funded services that is important in determining the amount of rates that should be paid. Clearly, the exercise is not clear cut – for example, it might be argued that rural ratepayers derive less benefit from library services than their town counterparts but the reverse argument can apply to the costs of repairing local roads in rural areas where there are mostly rural users.

The analysis of benefit is often reduced to arguments of what services are consumed by town v. country, businesses v. residences and between different towns and suburbs. Such a simplistic determination of rates based on where services are located ignores the facts that:

- Many services are not location specific;
- Access is not synonymous with consumption;
- Residents can travel or use technology to access some services (perhaps more significantly for many councils); and
- Services provided in different locations within a municipality have different costs. For example, the actual cost of providing the same or a lesser level of service to a more remote or less central location may be higher due to economies of scale or logistical reasons.

In some ways the arguing of the benefit principle with respect to council rates is like trying to do the same for Commonwealth income tax that is used to fund a wide range of universally accessed services.

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.

Diversity

There is no way of getting around the fact that despite the “likeness” of members of property classes, there will also be considerable diversity with each class. There is considerable diversity in the economic circumstances of households related to household income, the number of breadwinners and members, expenditure patterns and debt levels.

Similarly, enormous business diversity exists – businesses range from small businesses with owner operators and few employees to corporations employing many thousands of people. They may take a variety of forms – sole operators, companies, partnerships, cooperatives and trusts. Production may cover a diverse range of goods and services for local, national or overseas markets. They may vary considerably in terms of turnover, net worth, profitability and gearing – just to name a few characteristics. Businesses may be “price takers” with little market power or “price makers” operating in oligopolistic markets.

Council rate setting for different groups may need to have regard to the general capacity of those classes of property to pay rates. There are practical limits to the extent that classes may be differentiated because of impacts on efficiency and simplicity – and the broader a property class, the more general are the assumptions about capacity to pay. Clearly, there is an issue of how well the assumptions made about a large class of ratepayers accurately reflect the circumstances of most of its members.

Council’s Rating System

The general rating framework for Local Government was set out in research undertaken for development of the Local Government Act 1989. The research recommended that property rating should be based on the following objectives:

1. The entire community should contribute to the unavoidable costs of Local Government;

2 Where feasible, services should be funded on a user pays system;
3. Where specified, local objectives can be achieved using differential rates; and,
4. Residual service costs should be apportioned on the basis of property valuation.

Differential rates
A council may raise any general rates by the application of a differential rate if it uses the capital improved value system of valuing land. If a council declares a differential rate for any land, the council must specify the objectives of the differential rate. A council must have regard to any Ministerial Guidelines before declaring a differential rate for any land. The Ministerial Guidelines published in April 2013 were prepared to guide councils in the application of differential rates under Section 161 of the Local Government Act 1989.

Residential Building Rate
Applies to properties where the land is primarily used for residential purposes; meaning rateable land upon which there is an erected private dwelling, flat or unit. Pensioners can access a concession currently set at $279.40

Residential or Rural Vacant Rate
This rate applies to unimproved land that when it is developed would be or be likely to be used primarily for residential or rural residential purposes. The differential recognises the cost of public infrastructure to service the vacant land and is applied as an incentive to encourage development of the land.

Rural Residential Rate
This rate applies to land that is sized between 0.4ha and 20ha located in rural, semi-rural or bushland setting with a single residential dwelling on it. Pensioners can access a concession currently set at $279.40

Farm Building or Farm Vacant Rate
Applies to land with an area greater than 2ha that undertakes a farming activity

Commercial Rate
Applies to land that is used primarily for, or is capable of use for the sale of goods or services. The differential recognises the significant impact that commercial land use places on council infrastructure and seeks to achieve vertical equity due to the tax deductible nature of rates on commercial properties.

Commercial Vacant Rate
This rate applies to unimproved land that when it is developed would be primarily used or capable of the use for the sale of good or services. The differential recognises the cost of public infrastructure to service the vacant land and is applied as an incentive to encourage development of the land.

Industrial Rate
Applies to land used primarily for, or is capable of use primarily for industrial purposes, which includes manufacturing, processing, repairing and servicing. The differential recognises the significant impact that industrial land use places on council infrastructure and seeks to achieve vertical equity due to the tax deductible nature of rates on industrial land.

Industrial Vacant Rate
This rate applies to unimproved land that when it is developed would be primarily used or capable of the use for industrial purposes, which includes manufacturing, processing, repairing and servicing. The differential recognises the cost of public infrastructure to service the vacant land and is applied as an incentive to encourage development of the land.

Cultural and Recreational Land
Under the Cultural and Recreational Land 1963, provision is made for a Council to grant a rating concession to any recreational land which meet the test of being rateable land under the Local Government Act 1989. The setting of the Cultural and Recreational differential is excluded from the rate cap calculation.

Aerodrome Rate or Charge
Currently there is no differential, special rate or charge for those property owners and businesses who have direct access to the Yarrawonga Aerodrome. Council will be considering the public benefit the aerodrome provides to the community, and a level of contribution which is reasonable for a Council to provide for a single use facility. The current rating strategy for 2019/20 does not include a differential, special rate or charge for aerodrome users, but Council have indicated this may be introduced in subsequent years.

Differential Rates
Differential rates are a useful tool to address equity issues that may arise from the setting of council rates derived from property valuations. Council set "a rate in the dollar" at a base rate, which is then applied to each individual property to calculate how much each property owner pays. Differential rates are set as a percentage of that base rate. The percentage differences on that base rate are discussed below. There are no changes proposed to the differential rates in 2018/19 or 2019/20.

Differential rates as a percentage:
- Residential and Rural Building (Base Rate) 100%
- Residential and Rural Vacant 200%
- Farm Building 100%
- Farm Vacant 100%
- Commercial and Industrial Building 140%
- Commercial and Industrial Vacant 200%
- Cultural and Recreational 97%

Predicted Rate Revenue
The following chart shows total CIV for each class and the predicted rate revenue for 2019/20 and % of Rates collected for each type of class.

2019/20 predicted CIV and Rate Revenue	No of assessments	$CIV	Rate Revenue	Municipal Charge Revenue	% of Total Rates
Residential Building	10,606	3,161,937,000	$11,066,780	$3,693,433	49.9%
Residential Vacant	790	165,002,700	$1,155,019	$275,110	4.8%
Rural Building	1,546	534,835,000	$1,871,923	$538,379	8.2%
Rural Vacant	187	21,963,300	$153,743	$65,121	0.7%
Farm Building	1,580	1,376,261,000	$4,816,914	$550,219	18.2%
Farm Vacant	433	378,573,300	$1,325,007	$150,788	5.0%
Commercial Building	967	415,849,000	$2,037,660	$336,748	8.0%
Commercial Vacant	39	10,979,000	$76,853	$13,581	0.3%
Industrial Buidling	96	271,400,900	$1,329,864	$33,431	4.6%
Industrial Vacant	27	6,980,000	$48,860	$9,402	0.2%
Cultural and Recreational	1	426,000	$1,526	$348	0.0%
TOTAL	**16,272**	**$6,344,207,200**	**$23,884,148**	**$5,666,561**	

2019 Valuations were not yet finalised at the time of this report and CIV's and expected rate revenue is indicative only.

Supplementary Rates

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

• physically changed - for example, when buildings are altered, erected or demolished; or
• amalgamated, subdivided, portions sold off, rezoned or are affected by road construction.
Supplementary valuations bring the value of the affected property into line with the general valuation of other properties within the Shire. Supplementary rates are excluded from the Fair Go Rates system.

Rating structure considerations

Farm rate

Consideration has been given when developing the proposed rating structure to providing a reduced Farm rate. A reduced Farm rate would be in addition to the existing relief provided through the Single Farm Enterprise classification that allows an owner of multiple parcels of farm land that are used to operate a single farming enterprise to pay fixed rates and charges once – not for each land parcel.

- In 2019/20 this equates to a saving of $348 for each additional parcel of land.
- Currently 1166 properties receive the Single Farm Enterprise exemption. These exemptions are valued at more than $636,000 annually (an average annual saving for each single farming enterprise of $2270

Council also charges both vacant farm land and developed farm land based on the same rate in the dollar (Base rate).

Both Farm Vacant and Farm Building are eligible for the Single Farm Enterprise exemption and further relief from the fixed component of the Property Fire Services Levy. Only one municipal charge is levied per single farm enterprise and this, coupled with the application of a municipal charge to all other properties has the effect of producing a discounted rate bill for farming properties compared to the residential base rate.
As such, no reduced farm rate is provided.

<u>Definition of Farm Land</u>

As per the *Valuation of Land Act 1960* the definition of farm land means any rateable land:

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

Municipal Charge

The Municipal Charge helps fund governance-related services and helps spread the cost of providing Council services across all property owners, as per section 159 of the *Local Government Act 1989*. The municipal charge is regressive, which means that as the value of properties decrease, the municipal charge increases as a percentage of their rates. It is the same set rate for every property in the Shire

Council's total revenue from a Municipal Charge in each financial year must not exceed 20 per cent of the sum total of both the Council's total revenue from a Municipal Charge, and total revenue from general rates, in that financial year However, the municipal charge is part of rate capping legislation, and can only be increased by the published percentage increase. It currently produces $5.6M in rate revenue which is approximately 19% of total rate revenue.

Under the single farm enterprise classification only 1 Municipal charge is levied.

It is proposed that the amount raised by the municipal charge be maintained at the existing proportion of total municipal charge and general rate revenue of 19.1%;

Fire Services Property Levy

From 1 July 2013, the Victorian Government replaced the insurance-based fire services levy, as recommended by the Victorian Bushfires Royal Commission.

Rather than contributing through insurance premiums, a state wide property-based levy is now collected with council rates.

The Fire Services Property Levy, which funds both the Metropolitan Fire Brigade and the Country Fire Authority, is made up of a fixed charge as well as a variable charge based on the property's CIV. The Council collect the Levy on the State's behalf and has no influence on its use.

Eligible pensioners and veterans also receive a state funded $50 concession.

Service Charges Review

The purpose of the Service charges review is limited to setting service charge fees. The strategy driving this review is reported under a separate policy entitled “The Waste Management and Services Strategy 2018 – 2027” (WMSS). This guides the delivery of all waste services provided by Council. The WMSS aims to sustainably meet the needs of the community and align with state and regional waste priorities.

The WMSS considers the environmental, social and financial impacts of Councils waste management. A number of recommendations are made to guide Councils waste management activities and services into the future.

Introduction

Waste Service charges consist of kerbside waste, recycling, organic collection charges and the environmental levy. These are being remodelled with consideration to benchmarking, cost of service and competitive neutrality. They were increased in 2018/19 by 2.25% (in line with the rate cap) and in 2019/20 only the recycling service cost will increase.

Environmental Levy

The environmental levy spreads the cost of waste services to all ratepayers. It includes waste expenses for landfill and transfer stations, EPA compliance, direct overheads and a landfill capital works contribution. This is re-modelled to achieve a more direct cost recovery.

The Environmental levy was reduced in 2018/19 from $229.50 to $120.00.

For the 2019/20 budget the Environmental levy will remain unchanged at $120.

Kerbside General Waste

The waste charges have been remodelled to better reflect the true cost of service. Increasing the kerbside charge will affect those users with multiple bins but will enable them to compare the cost of individual bins with commercial skip services.

The kerbside charge was increased in 2018/19 from $110.80 to $240.00

For the 2019/20 Budget the kerbside charge will remain unchanged at $240.00

Recycling and Organic

Recent events in the recycling industry highlight how the future cost of recycling is highly vulnerable to contract disruption due to export restrictions imposed by China. This industry volatility is not specifically related to the current review of the Rates and Charges strategy. Any changes in the recycling charge will be calculated separately.

In the 2018/19 Budget it was necessary to increase the recycling charge from $100 to $110.

For the 2019/20 Budget because of ongoing disruptions in processing within the Australian recycling market it becomes necessary to recommend an increase to the recycling charge from $110 to $123.

The Organic Service was increased from $99.80 to $103.00 in 2018/19 and will remain unchanged for the 2019/20 year at $103.00

Not an Extra Revenue Raising Exercise
The above service charge changes do not raise any extra revenue for the Council, except for the general increase of 2.25% (for the 2018/19 year) in rates and service charges which is set in line with rate capping. Because of rounding, total service charge revenue will decrease slightly by $8,819 or 0.12% of total revenue.

2018/19 Budget	Current (Cost per property with kerbside service)	Proposed (cost per property with kerbside service)	No of Bins 2018/19	Current Charge Income 2018/19	Proposed Charge Income 2018/19
Environmental Levy	229.50	120.00	16,172	3,711,474	1,940,640
Kerbside Waste	110.80	240.00	13,512	1,497,130	3,242,880
Kerbside Recycle	101.30	100.00	13,027	1,300,095	1,302,700
Kerbside Organic	99.80	103.00	8,029	813,338	826,987
Total	**$541.40**	**$563**		**$7,322,036**	**$7,313,207**
				% decrease	**-0.12%**

2019/2020 Budget	2018/19 (Cost per property with kerbside service)	Proposed 2019/20 (cost per property with kerbside service)	No of Bins 2019/20	Budget 2018/19	Budget 2019/20
Environmental Levy	$120.00	$120.00	16,281	$1,940,640	$1,953,720
Kerbside Waste	$240.00	$240.00	12,853	$3,242,880	$3,084,720
Kerbside Recycle	$110.00	$123.00	12,758	$1,302,700	$1,569,234
Kerbside Organic	$103.00	$103.00	8,287	$826,897	$853,561
Total	**$573.00**	**$586.00**		**$7,313,117**	**$7,461,235**

Conclusion

With local governments providing an ever growing number of public services to their community, a planned and considered approach to rates as a revenue stream is critical.

Despite the Victorian Government's Fair Go Rates system sets a cap for rate increases in line with CPI and WPI, thereby removing a council's autonomy in setting its rates revenue above the cap, Council must still make decisions on how the rate burden is shared by ratepayers.

The rating structure proposed in this discussion paper has been developed with significant consideration given to a range of rating principles, in particular the simplicity principle, along with a number of other factors that are of importance to the community.