

Gannawarra Shire Council

RATING STRATEGY

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GANNAWARRA
SHIRE COUNCIL

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What Are Council Rates and What Are They Used For?

Council rates are a property tax based on the valuation of each individual property.

Council needs to raise revenue to fund the delivery of services, assets and programs for and on behalf of the community.

Revenue from rates funds a range of community infrastructure and services including, but not limited to;

- Local roads, bridges, footpaths and drainage
- Maintenance of parks, public conveniences, cemeteries, pools and sporting facilities
- Recreation and leisure facilities
- Aged, youth and child services
- Community events
- Operation of libraries, community centres and halls
- Street lighting and cleaning

What Is A Rating Strategy?

A rating strategy is a document that details the policy and practices Council use in determining rates.

It 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 Local Government Act 1989 (the Act) requires that the rating system provides a “reasonable degree of stability in the level of the rates burden”, therefore it is important that a rating strategy is set and this guides the budget, rather than changes being made on an annual basis.

The rating strategy must also link with other Council strategies and key planning documents.

The problems 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.

Taxes on income and consumption are much more reflective of capacity to pay, especially the former, in which personal circumstances e.g. the number of dependents, in addition to the level of income, are taken into account.

It is not possible to expect a property tax system to deal practically with the issue of capacity to pay based on the circumstances of individual households and businesses. The State Government payment of a pensioner rebate is in effect recognition of the limitations of property tax for this particular group.

Local government rates are also the most visible of taxes, they are to be paid annually by property owners, most often payable via four instalments. This compares with income and consumption taxes that are being continuously paid by individuals.

The Rating System – What does the Act allow?

Section 3C of the Local Government Act 1989 (the Act) stipulates that the primary objective of Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of its decision. In seeking to achieve its primary objective, a Council must have regard to facilitating the following objectives:

- a) Promote the social, economic and environmental viability and sustainability of the municipal district;
- b) Ensure resources are used efficiently and effectively;
- c) Improve the overall quality of life of the people in the local community;
- d) Promote appropriate business and employment opportunities;
- e) Ensure services and facilities provided are accessible and equitable
- f) Ensure the equitable imposition of rates and charges;
- g) Ensure transparency and accountability in Council decision making.

Additionally, section 136 of the Act also requires that Council's pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden.

The Act gives Councils a number of choices in how rates can be spread across the community. Section 15 of the Act provides that a Council may declare the following rates and charges on rateable land:

- General rates: General rates are calculated for each property based on land valuations and rating categories.
- Under Section 157 of the Act Councils may adopt one of the following three valuation methodologies to value properties in its municipality: Capital Improved Value (CIV), Site Value (SV) and Net Annual Value (NAV).
- The Act allows Councils who use Capital Improved Value (CIV) to "differentiate" rates based on the use of the land, the geographic locality of the land or the use and locality of the land. Different rates in the dollar of CIV can be applied to different classes of property. These classes of property must be clearly differentiated and the setting of the differentials must be used to improve equity and efficiency. There is no theoretical limit on the number or type of differential rates that can be levied however the highest differential rate can be no more than four times the lowest differential rate. It is important to note that Council

must have regard to the Ministerial Guidelines for Differential Rating before declaring a differential rate for any land.

- **Municipal Charges:** The purpose of the municipal charge is to recover some of the administrative costs of the Council. It is a charge of equal value paid by all rateable assessments with the exception of some farm assessments that form part of a single farm enterprise (Section 159(3) of the Act). The total revenue raised from the municipal charge, in a financial year, must not exceed 20% of the sum total of Council's total revenue from a municipal charge and the total revenue from general rates (Section 159 of the Act);
- **Service Rates and Charges:** The purpose of a service rate or annual service charge is to recover the costs of the use of certain services from local consumers. Today the most common service rate or service charge imposed by Council's relates to the collection and disposal of garbage and recyclable materials (Section 162 of the Act);
- **Special Rates and Charges:** A special rate or charge can be used if Council deems that a special benefit is received by those properties on which it is levied. The Council need not necessarily use property value as the basis for levying a special rate or charge. Special rates and charges are specifically designed to address the benefit principle. They are very targeted rating instruments in the sense that they focus on ratepayers that receive an exclusive or additional benefit to other ratepayers from particular council expenditures. Common examples of special rates or charges include schemes for constructing footpaths, roads, kerbs and channels or drains (Section 163 of the Act.)
- **Rebates or concessions:** A Council may grant a rebate or a concession in relation to any rate or charge to assist the proper development of the municipal district, and to preserve, restore and maintain buildings or places of historical or environmental interest (Section 169 of the Act).
- **Discounts, Rebates and Waivers:** A Council may vary the rates payable on a property because of the situation of a property owner. This can be either for people in a designated group or for individual cases of hardship (Sections 142, 170 and 171 of the Act allow Councils to waiver or defer all or part of rates).

Rating Principles "equity versus fairness"

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"
- "contribution to the equitable and efficient carrying out of its functions"
- "consistent with principles of financial management"

Council's goal is to strike a mix of rates and charges that will distribute the cost of providing Council services and facilities as fairly as possible across all ratepayer groups.

Equity is a subjective concept that is difficult to define, what is fair for one ratepayer may be consider completely unfair for another. There are two main equity concepts used to guide the development of rating strategies, they are horizontal equity – ratepayers in similar situations should pay similar amounts and vertical equity – those who are better off should pay more than those worse off.

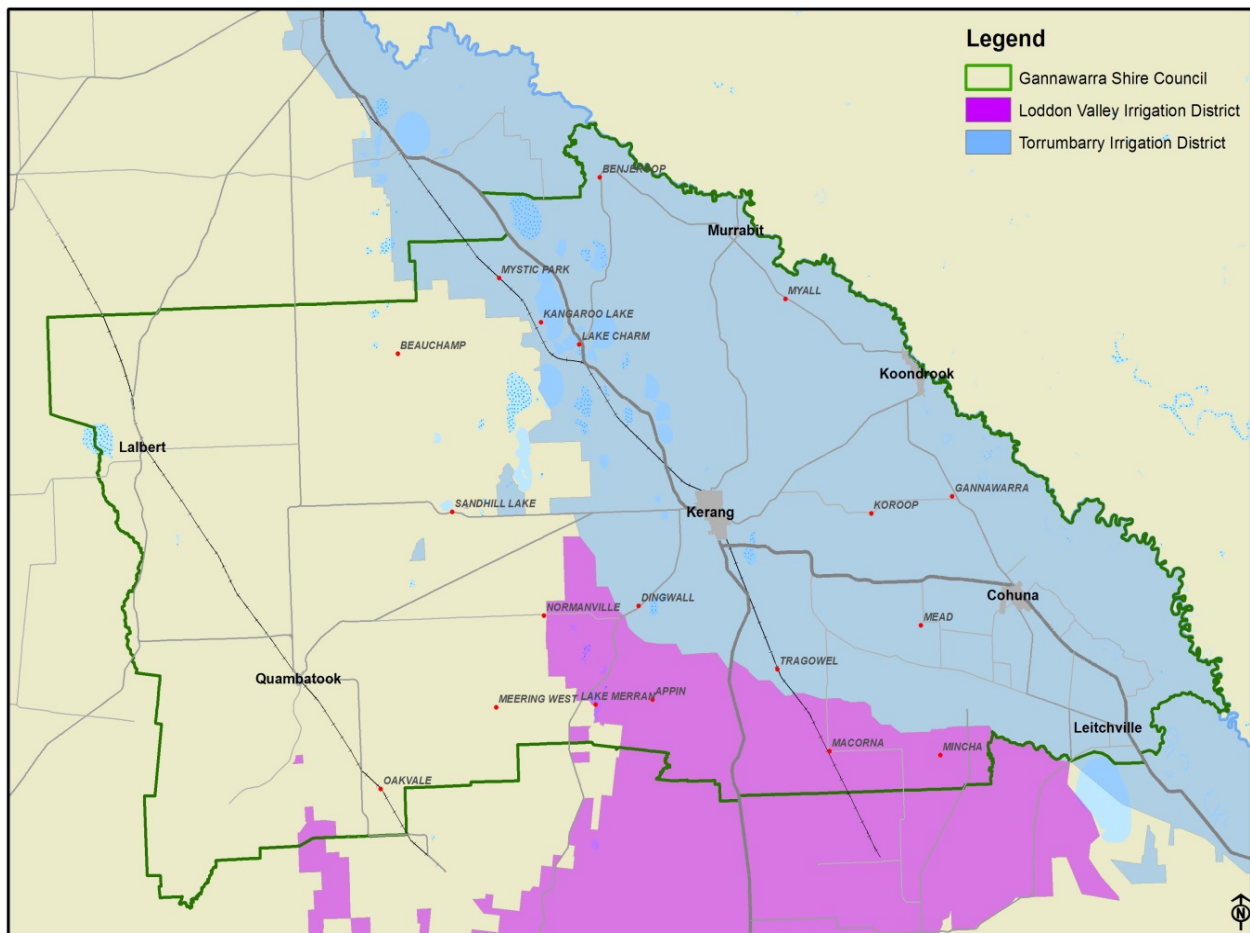
Rates are essentially a wealth tax, determined on the value of the property. However, other underlying principles can be debated:

- 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 do others with similarly valued properties.
- The incentive or encouragement principle – some ratepayers may be doing more towards achieving council goals in areas such as environmental or heritage protection.

Gannawarra Shire Councils Current Rating System

Gannawarra Shire currently has four (4) property types and comprises five (5) differential rates (general, commercial/industrial, irrigated farm land and dryland farm land) and a rate concession for recreational land. The different property types are listed below:

- General - Residential land is any land, which is:
 - Occupied for the principle purpose of physically accommodating persons; or
 - Unoccupied but zoned residential under the Gannawarra Planning Scheme and which is not business.
 - Any land not included in the definition of any other rating type.
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- Commercial/Industrial land is any land which is:
 - Occupied for the principal purpose of carrying out the manufacture or production of, or trade in goods or
 - Unoccupied but zoned commercial or industrial under the Gannawarra Planning Scheme.
 -
- Farmland is any land which is greater than 10ha and zoned farming under the Gannawarra Planning Scheme:
 - Irrigated farm land is farmland located within the irrigation district(s), defined by the relevant Water Authority(s) within the Gannawarra Shire Council boundaries as identified by the highlighted sections in the map on the following page; or
 - Dryland farm land is farmland that is outside of the irrigation districts and is not commercial/industrial land, general/residential land.



- Recreational land is any land upon which sporting, recreational or cultural activities are conducted, including buildings which may be ancillary to such activities. Profits from recreational land must be applied in promoting its objectives. The definition of “recreational lands” is per section 2 of the Cultural and Recreational Lands Act 1963.

The Rating Strategy

1. Municipal Charge

Principle: Cost Recovery.

The municipal charge is a base charge reflecting a proportion of the base/administrative costs associated with Council.

Council is able to levy a municipal charge on each rateable property within the municipality.

It is important to note that in some circumstances farmland maybe exempted from a Municipal Charge. Essentially where multiple parcels of farmland are used to operate a single farming enterprise, a person may only be required to pay the municipal charge once by applying for the single farming enterprise exemption.

Council considers that it is equitable that all properties make a standard contribution to some administrative costs and that the municipal charge is a useful means of ensuring this contribution, a flat charge will ensure all properties, regardless of their size or valuation, contribute the same dollar amount towards the operation of the Council.

2. Differential Rates

a) **Rural/Non Rural Rates Allocation (The 60/40 Split)**

Throughout recent years various studies and reports have determined that based on the analysis of the cost of providing services the rating burden between rural and non-rural should be split on the basis of 60% non-rural, 40% rural. In adopting the 60/40 split as an overarching principle Council set a tolerance level of plus or minus 2% in recognition of the complexities of the rating calculation.

b) **General rate**

General land is the balance of land defined by exception to the general rate. The exceptions to the general rate included in the Gannawarra rating system include commercial/industrial, irrigated farm, dryland farm and recreational land.

General land therefore predominately consists of residential properties.

The actual rating burden applying to general properties is an outcome determined initially by the 60/40 split and then by decisions to apply either higher or lower rates in the dollar of property value to other classes of property. The equity of the general rate is therefore a by-product of the equity inherent in the setting of those other rates. In the setting of differential rates Council consciously considers their relativity to the general rate.

c) **Farm land rates**

Principle 2: A differential determined to achieve the 60/40 which may be a higher or lower percentage than the general rate will be available for eligible dryland and irrigated properties. Council believes a differential rate based on the 60/40 split will ensure that an equitable distribution of costs based on services provided is achieved.

For a definition of which dryland and irrigated properties are eligible for this differential, please refer to page 5.

Principle 3: A discounted differential of less than the irrigated farm land will be available for eligible dryland properties.

Council considers that there is a difference in the category of road infrastructure accessible to persons who own properties in the Shire's irrigation district than compared to those individuals who own land in the dryland farming areas.

Whilst many roads in the Shires irrigation district are sealed to enable the efficient movement of milk tanker trucks most roads within the dryland farming district remain unsealed.

These differentials will be set as part of the annual budget process.

d) Commercial and Industrial

Principle: A higher differential of greater than 100% will be set for commercial and industrial property types.

A higher differential for these property types has traditionally been based on the premise that commercial and industrial properties generally place greater demands on Council services.

Council considers that a higher differential compared to the general rate will ensure that Council's commitment to Economic Development and Tourism is financially supported by those who receive direct benefits.

For a definition of which properties meet the definition of commercial and industrial refer to page 5.

This differential will be set as part of the annual budget process.

e) Recreation Land Rate

Principle: A discounted differential of less than 100% will be available for eligible recreational lands.

Recreational land that exists for the purpose of providing out-door sporting recreation or for the purpose of providing cultural activities are important aspects of the Gannawarra Shire Council.

Council believes a lower differential compared to the general rate will ensure that this land is retained for this purpose and the open space is preserved.

For a definition of which properties are eligible for this discounted differential, refer to page 5.

This differential will be set as part of the annual budget process.

3. Special rates and charges

Special rates and charges are specifically designed to address the benefit principle. They are targeted rating instruments in the sense that they focus on ratepayers that receive an exclusive or additional benefit to other ratepayers from particular Council expenditures.

a) New project(s) charge

Principle: Special rates and/or charges will be used by Council where appropriate.

A specific charge will ensure revenue is received from only those properties that benefit from a specific project, this may be the entire rate base, a specific property type or a specific geographical area of the Shire.

Essentially a special charge provides transparency for ratepayers on the costs of the particular project.

An example of such a charge is where Council constructs a private street, footpath or drainage scheme where a proportion of the costs would be charged to those properties that benefit from the project(s). Another example is marketing of a specific town within the Shire; the primary benefit from the collection of a special rate charge from traders within that town is to the income of those traders.

The consideration of a special charge scheme needs to be considered in the pricing of policies for services and where revenue collection issues would be better addressed by general rates or user charges.

4. Rebates and/or incentives

The legislation intended that differential rates be used to achieve an outcome for a *class* of properties. Rebates and concessions should be used with respect to *individual* properties within a property class.

Economic development

Principle: Discounts or waivers, which vary the rates payable on a property may be made available.

One of the key priorities outlined in the Council plan for 2013 – 2017 is to develop a Strong and Diverse Economy.

Under sections 142 and 171 of the Act, Council has the option to waive part or all of the rates owing on a property for a designated group or for individual cases of hardship.

Council considers that such a waiver would be provided to support the Economic Development of the Shire. The use of any discounts and waivers would need to be considered in conjunction with differential rates and any applicable Council policies and guidelines in place from time to time

Individual cases of hardship will be considered in line with the provisions of the Local Government Act 1989.

5. Service Charges

Principle: Separate service charges will be used by Council where appropriate.

A unit charge is normally levied on each property that receives or can access the service, the recipient of the benefit of this service can clearly be identified as the property to which it is provided. This is considered preferable to levying a service rate based on property value where there would be no correlation between consumption of the services and the level of rates paid.

A specific charge also provides transparency for ratepayers on the costs of the particular service. An example of a service charge is the garbage and recycling charge. The value of any charge will be set as part of the annual budget process.