Rating Strategy 2019-2020

May 2019

CONTENTS

CONTENTS

1. Background & Introduction

The rating framework is set down in the Local Government Act 1989 and determines a council's ability to develop a rating system. The framework provides considerable flexibility to suit requirements within the context of public finance methodology which includes principles of equity, benefit, efficiency and community resource allocation.

Council acknowledges that the existing taxation of property (wealth tax) value method is imperfect; however the application of an alternate rating model (e.g. income tax) is not available within the current constraints of the existing legislation.

However, Council can through a process of consultation and determination, modify certain aspects of the rating system in accordance with the legislation, to assist sections of the community. Such assistance must be in the context of having wide acceptance in respect to social and equity principles while minimising any penalty, via a shift in rate burden, to other ratepayers.

Public finance theory and practice implies that taxation revenue whether it is at Federal, State or a Local level is generally used to finance various forms of "public goods, services and community obligations" not necessarily in direct relation to user benefit, but ultimately of benefit to the community as a whole. In this respect, rates are a general purpose levy not linked to user pays principles. Other charges such as waste service charges are linked to costs associated with the service.

The purpose of this Rating Strategy is to consider what rating options are available to Council under the Local Government Act 1989, and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

It is important to note at the outset that the focus of this Rating Strategy is very different to that which is discussed in the Long Term Financial Strategy/Annual Budget. In these latter documents the key concern is the quantum of rates required to be raised for Council to deliver the services and capital expenditure required. In this Rating Strategy, the focus instead is on how this quantum will be equitably distributed amongst Council's ratepayers.

2. Executive Summary and Recommendations

The selection of rating philosophies and the choice between the limited rating options available under the Local Government Act 1989 is a difficult one for all Councils and it is most likely that a perfect approach is almost impossible to achieve in any local government environment.

Under the guidance of the Ministerial Guidelines for Differential Rates, Council will continue to apply differential rating against various property classes to ensure that they contribute to the equitable and efficient carrying out of Council functions.

This Rating Strategy recommends that Council adopt the following:

Section	Strategy Recommendations
Determining which valuation base to use	That Ballarat City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.
Determining the Rating System- Uniform or	That Ballarat City Council continues to apply differential rating as its rating system.
What differential rates should be applied?	That Council continues to apply the Differential Rating categories as currently exist. That Council does not believe there needs to be a differential rate for Retirement Villages.
Impact of Council Revaluations	That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council.
Special Rates & Charges	That Council continues to use special rates and charges to raise funds requested by, and for, the Bridge Mall Traders Association.
Municipal Charge	That Council does not apply a Municipal Charge.
Service Rates and Charges	That Council continues to apply a Waste Management Service Charge.

The Rating Strategy is similar in part to a discussion paper in that it canvasses the limited range of rating options available to Council under the Local Government Act 1989 including the following:

a) The choice of which valuation base to be utilised (of the three available choices under the Act);

b) The consideration of uniform rating versus the application of differential rates for various classes of property;

c) What is the most equitable level of differential rating across the property classes?

d) Consideration of the application of fixed service charges for the areas of waste collection and municipal administration;

e) The application of special rates and charges;

f) Rates collections;

g) Rates Assistance.

3. What is a Rating Strategy and why have one?

The purpose of this Rating Strategy is to outline Council's approach towards rating its' community and to meet the requirements of Part 8 the Local Government Act 1989 – Rates and Charges on Rateable Land.

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 the valuation base for each property and the actual rating instruments allowed under the Local Government Act 1989 to calculate property owners' liability for rates.

The importance of a rating strategy

Ballarat City Council currently receives around 56% of its Total Revenue by way of property-based rates and waste management charges. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its citizens.

The principles of good governance further require Council to provide ongoing or periodic monitoring and review of the impact of major decisions. It is therefore essential for Council to evaluate on a regular basis the legislative objectives to which it must have regard and those other objectives which Council believes are relevant.

Council believes that overall policy must be underpinned by sound principles, which are well understood, communicated to ratepayers and compliant with current legislation. Equity and impact issues are best dealt with in application of all facets of rating policy, including valuation, budgetary requirements, differential rating, government taxation and concessions, collection and hardship considerations.

Council aspires to balance service levels in accordance with the needs and expectations of its community and sets rating levels to adequately resource its roles and responsibilities.

In setting rates, Council gives primary consideration to its strategic directions, budget considerations, the current economic climate, other external factors and likely impacts upon the community.

4. Rating Framework

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

4.1 Legislative Framework

Section 3C of the Local Government Act 1989 stipulates 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.

4.2 User Charges versus Rates

Council pricing policy centres on decisions about how much of the cost of specific services are to be funded by users/consumers and how much is to be funded generally by ratepayers.

There are some major practical considerations that will influence what type of services will attract fees and charges. Most important is whether the services being considered are either entirely or partially "public goods".

Public goods are services that provide a broad and often unquantifiable benefit to the community rather than a particular benefit to individuals, businesses, specific groups or individual properties. The characteristics of "public goods' include:

i. The use of or enjoyment by one person does not diminish their availability to, or enjoyment by, others (that is, they are non-rival); and
ii. It is not practical to exclude access to them (that is, they are non-excludable).[1]

Examples include roads and parks and public toilets.

Private goods are those goods which are both rival in consumption (that is, one person's use diminishes its availability or enjoyment by others) and excludable.[2] Examples include childcare centres, leisure centres and use of community halls.

Generally, Council should fund "Private Goods" through user charges and fund "Public Goods" through rates. However it is often difficult to define local government services as either purely public goods or purely private goods, and most will lie somewhere on the spectrum between the two. This inevitably results in a large number of Council services, although having income from user fees, being subsidised by rates.

[1] Differential Rates Discussion Paper, January 2013, DPCD.
[2] Differential Rates Discussion Paper, January 2013, DPCD.

4.3 Taxation Principles

In addition to the objectives above, public finance theory sets three major criteria for successful taxation policy: equity, efficiency, and simplicity.

Equity

In considering what rating approaches are equitable, some concepts that Council may take into account are:

- Horizontal equity - ratepayers in similar situations should pay similar amounts;
- 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.[3]

In the case of property rates, it may be considered equitable for one type of property to have to bear more or less of the rates burden than another type of property. In achieving vertical equity in its rating strategy, Council must consider the valuation base it chooses to adopt to apply property rates and the application of the various rating tools available to it under the Local Government Act
1989 (e.g. differential rates).

The Benefit Principle

This principle refers to the fact that some groups have more access to, make more use of, and benefit from more, specific council services.

It is arguable that there should be a nexus between consumption/benefit and the rate burden; however application of the benefit principle is difficult in practice due to the complexity and, in some cases, impossibility, of measuring the relative levels of access and consumption across the full range of council services. It is also common that the group of people who require less services of certain type (e.g. child care) may indeed require more frequent service of another type (e.g. aged care). It is the level of benefit across the full gamut of rates-funded services that is important in determining the amount of rates that should be paid.

One of the more misunderstood elements of the rating system is that residents seek to equate the level of rates paid with the amount of benefit they individually achieve. The reality is, however, that rates are a system of taxation not dissimilar to PAYE tax.

In paying a tax on salaries, it is rarely questioned what benefit is received with it being acknowledged that tax payments are required to pay for critical services (Health, Education, etc) across the nation. Local Government is not different to this outcome with Rates being required to subsidise the delivery of services and capital works that would otherwise be unaffordable if charged on a case by case basis.

It is a choice of Council to what degree it wishes to pursue a 'user pays' philosophy in relation to charging for individual services on a fee-for-service basis. Similarly Council must make a rating decision in terms of whether to use a fixed waste charge to reflect the cost of waste collection and a fixed municipal charge to defray the administrative costs of Council. Both of these choices are discussed later in this strategy paper.

---

3 "Developing a Rating Strategy – A Guide for Councils', July 2004, DPCD, MAV.

Linkage of property wealth to capacity to pay

The valuation of property is an imperfect system in which to assess a resident's ability to pay annual rates but one which Council is restricted to under the Local Government Act 1989. A frequently raised example is in relation to pensioners who may live in their family home which carries a high value, but live on a pension. The equity question for consideration, however, is should Council support residents in this situation with lower rates that will eventually be to the financial benefit of estate beneficiaries? Or alternatively, should the ability to defer rates (in all or in a part) represent a more equitable outcome for all ratepayers?

Incentive Principle

The incentive principle aims to affect the behaviour of certain ratepayers, usually in a way deemed to be consistent with a council's broader goals.

Councils commonly use this principle to seek objectives relating to the environment or economic development, including:

- Discouraging the holding of vacant land;
- The preservation of agricultural land or land of high environmental significance;
- Eradication and maintenance or land free from weeds and pests;

Efficiency

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.

For services where users are price sensitive, direct charging can influence demand patterns and thus lead to greater allocation 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.

The efficiency criterion is also directly related to the cost of administering the rates system. Administration costs include the issuing of assessments, collection of rates, including maintaining and improving collection systems, monitoring outcomes, educating and informing ratepayers, and enforcement and debt recovery.

Simplicity

This refers to 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.

Simultaneously applying all of the above principles may not always be feasible; there are likely to be trade-offs among them. The challenge of a preferred rating strategy is one of appropriately balancing competing considerations. It is important that the decision making process is clear and coherent.

4.4 What Rates and Charges may a Council declare?

Section 155 of the Local Government Act (1989) provides that a Council may declare the following rates and charges on rateable land -

- General rates under Section 158;
- Municipal Charges under Section 159;
- Service Rates and Charges under Section 162;
- Special rates and charges under Section 163.

The recommended rating options in relation to municipal charges, service rates and charges and special rates and charges are discussed later in this document.

4.5 Valuation Methodology available to Council

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates.

Section 157 (1) of the Local Government Act 1989 provides Council with three choices in terms of which valuation base to utilise. They are Site Value, Capital Improved Value and Net Annual Value. The advantages and disadvantages of the respective valuation basis are discussed in Section 6 of this strategy.

4.6 Declaring Rates and Charges

Section 158 of the Local Government Act 1989 provides that Council must at least once in respect of each financial year declare by 31 August the following for that year:

- The amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges;
- Whether the general rates will be raised by application of –
  - A uniform rate; or
  - Differential rates (if Council is permitted to do so under Section 161 (1))
  - Urban farm rates, farm rates or residential use rates (if Council is permitted to do so under Section 161A)

The recommended approach to the application of differential rates is discussed in Section 7 of this paper.

5. Understanding the current rating framework at Ballarat City Council

5.1 Strategic Directions

Council has determined that its annual rate setting objectives should be developed within a framework which integrates planning from a strategic direction level through to service delivery.

The strategic directions of Council are set out in the following documents:

Council Plan 2018-2021

This document includes strategic objectives, performance indicators and the Strategic Resource Plan.

Council Budget 2018-2019

Annual funding allocations (action plan) for activities and initiatives, with linkage to the Council Plan, together with key financial performance targets and measures.

5.2 Budget Considerations

Council prepares and publishes its annual budget as a separate document in compliance with the Local Government Act 1989, which includes a comprehensive submissions and approval process.

As part of the financial planning and budget process, the rate revenue required to meet expenditure needs is calculated taking into account other sources of revenue.

Other revenue sources include statutory fees for building and planning through to user pays fees assessed annually in accordance with movements in CPI, wages and market factors. Council relies on Federal and State funding mainly via the Grants Commission allocations. Specific purpose grants for new services and capital works are also received.

Each year Council establishes the maintenance needs of its assets and infrastructure and the community services and facilities that will be provided in the next financial year.

After considering these other revenue sources, Council then determines the amount required to be collected in rates to meet the financial responsibilities.

The structure of the rating system is then determined, considering how rates are levied between and within the various categories of ratepayers by setting differential tariffs i.e. the Rating Strategy.

Generally, Council seeks to have a balanced budget, i.e. that revenue is equal to expenses. Any surplus or deficit result should be minor in context of the overall budget.

5.3 External Influences

Council is subject to numerous economic factors. Since Councils major expenditure item is salaries and wages, any price index and EBA adjustments will have a significant impact on costs and subsequent rating decisions. Council is also subject to significant movements in funding from State and Federal sources. Cost shifting back to Council has been a major concern for all Councils and has been subject to a Federal Government Inquiry which found that “the extent and effects of cost shifting as detailed are the major problems facing Local Government’s deteriorating infrastructure”. Regulatory and compliance changes affect Councils operations and changes to population and demographics will influence change particularly in the medium to long term.

5.4 Ballarat's Current Rating Structure

Ballarat City Council currently uses the Capital Improved Valuation (CIV) methodology in order to levy its rates and applies differential rating. The below table shows the respective revenues from the various rating categories.

Type of Property	2018/19 $	2019/20 $	Change $
Rates:			
Residential	65,040,154	68,481,379	5.3%
Commercial	19,857,156	21,394,287	7.7%
Industrial	8,999,373	9,296,542	3.3%
Farm	1,674,542	1,672,288	-0.1%
Rural residential	1,157,460	1,194,324	3.2%
Recreational 1	209,604	215,655	2.9%
Recreational 2	207,531	212,726	2.5%
Supplementary Rates	1,457,547	1,537,037	5.5%
	98,603,367	**104,004,238**	**5.5%**
Special Charges:			
Bridge Mall Special Rate	148,000	148,000	0.0%
Service Charge:			
Waste Management Charge	15,286,286	16,667,742	9.0%
Green Waste Charge	2,352,933	2,487,917	5.7%
Total Rates and Charges:	**116,390,587**	**123,307,897**	**5.9%**

In terms of the differential rates that Council applies, the below table highlights the various differential rates that are utilised in the current rating structure.

Type of Property	2018/19 $	2019/20 $	Change $
Rate in dollar:			
Residential	0.004159	0.003922	-5.7%
Commercial	0.010764	0.010655	-1.0%
Industrial	0.011432	0.011013	-3.7%
Farm	0.002858	0.002809	-1.7%
Rural residential	0.003630	0.003428	-5.6%
Recreational 1	0.003248	0.003273	0.8%
Recreational 2	0.011432	0.011195	-2.1%
Special Charges:			
Bridge Mall Special Rate	0.002977	0.002948	-1.0%
Service Charge:			
Waste Management Charge	$ 339.51	$ 363.10	6.9%
Green Waste Charge	$ 68.23	$ 70.30	3.0%

Council currently levies a service charge to partially recover the cost of collection and removal of waste and recycling from residential properties and applies a special rate for properties in the Bridge Mall for the purposes of employing a Manager, promotion and security.

Council currently does not apply any municipal charge for the purpose of defraying administration costs of Council.

6. Determining which valuation base to use

As outlined, under the Local Government Act 1989, Council has three options as to the valuation base it elects to use. They are:

- Capital Improved Valuation (CIV) – the total market value of the property including all land and improvements (buildings, etc.).
- Site Valuation (SV) – the value of the land without any improvements.
- Net Annual Value (NAV) – the estimated annual rental of the property, except for residential and farm properties where legislation requires the NAV to be 5% of the CIV.

  (complete definitions are contained within the Valuation of Land Act 1960)

6.1 Capital Improved Value (CIV)

Capital Improved Valuation is the most commonly used valuation base by Victorian Local Government with more than 70 Councils applying this methodology. Based on the value of both land and all improvements on the land, it is relatively easy to understand by ratepayers as it equates to the market value of the property.

The key driver of using CIV is the ability to apply differential rates.

Section 161 of the Local Government Act 1989 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 a differential rate will contribute to the equitable and efficient carrying out of its functions.

Where a Council does not utilise Capital Improved Valuation, it may only apply limited differential rates in relation to farm land, urban farm land or residential use land.

Advantages of using Capital Improved Valuation (CIV)

- Capital Improved Value includes all improvements, and hence is often supported on the basis that it more closely reflects “capacity to pay”. The CIV rating method takes into account the full development value of the property and better meets the equity criteria than Site Value and NAV.
- With the current frequency of Municipal re-valuations (every two years), the market values are more predictable which has an impact on the number of objections resulting from valuations.
- The concept of the market value of property is far more easily understood with CIV rather than NAV or SV.
- Most Councils in Victoria have now adopted CIV which makes it easier to compare relative movements in rates and valuations across Councils.
- The use of CIV allows Council to apply differential rates which greatly adds to Council’s ability to equitably distribute the rate burden. CIV allows Council to apply higher rating differentials to the commercial and industrial sector that offset residential rates.

Disadvantages of using CIV

- The main disadvantage with CIV is the fact that rates are based on the total property value which may not necessarily reflect the income level of the property owner as with pensioners and low income earners.

6.2 Site Value (SV)

Although the Act provides for Councils to use Site Value as the basis of valuation, very few Councils have done so due to the very limited ability to apply differential rates.

Advantages of Site Value

- There is a perception that under site valuation, a uniform rate would promote development of land.
- Scope for possible concessions for urban farm land and residential use land.

Disadvantages in using Site Value

- SV does not consider the value of improvements. It shifts more of the burden to property owners that have larger areas of land. Typically, flats, units and townhouses will pay lower rates compared to stand alone houses on a suburban block of land, as the underlying land area is smaller.
- SV will reduce Council's rating flexibility and options to deal with any rating inequities due to the removal of the ability to levy differential rates;

In very many ways, it is difficult to see an equity argument being served by the implementation of Site Valuation in Ballarat City Council, therefore this method is not recommended.

6.3 Net Annual Value (NAV)

The NAV is the estimated annual value (rental) of a property, except for Residential and Farm properties where the Valuation of Land Act requires that the NAV be set at 5 per cent of CIV.

In contrast to the treatment of residential properties, Net Annual Value for commercial and industrial properties is assessed with regard to actual market rental. This differing treatment of commercial versus residential and farms has led to some suggestions that all properties should be valued on a rental basis.

Overall, the use of NAV is not supported. For residential ratepayers, actual rental values pose some problems. The artificial rental estimate used may not represent actual market value, and means the base is the same as CIV but is harder to understand.

In choosing a valuation base, Councils must decide on whether they wish to adopt a differential rating system (different rates in the dollar for different property categories) or a uniform rating system (same rate in the dollar). If a Council was to choose the former, under the Act it must adopt either of the CIV or NAV methods of rating

6.4 Summary

It is recommended that Ballarat City Council continue to apply Capital Improved Valuation as the valuation base for the following reasons:

- CIV is considered to be the closest approximation to an equitable basis for distribution of the rating burden.
- CIV provides Council with the ability to levy a full range of differential rates. Limited Differential rating only is available under the other rating bases.
- It should be noted that more than 70 Victorian Councils apply CIV as their rating base and as such, it has a wider community acceptance and understanding than the other rating bases.

Recommendation
That Ballarat City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.

7. Determining the Rating System - Uniform or Differential?

As highlighted in Section 4, Council may apply a uniform rate or differential rates to address the needs of the Council. They are quite different in application and have different administrative and appeal mechanisms that need to be taken into account.

7.1 Uniform Rate

Section 160 of the Act stipulates that if a Council declares that general rates will be raised by the application of a uniform rate, the Council must specify a percentage as the uniform rate. Rates will be determined by multiplying that percentage by the value of the land.

A Uniform rate does not provide Ballarat City Council with enough flexibility to distribute the rate burden in a fair and equitable manner and therefore does not apply this method for raising rates.

7.2 Differential Rates

Ballarat City Council has adopted differential rating as it considers that differential rating contributes to the equitable distribution of the rate burden. Differential rating allows particular classes of properties to be assessed rates at different levels. Differential rating allows Council to shift part of the rate burden from some groups of ratepayers to others, through different "rates in the dollar" for each class of property.

Under the Local Government Act 1989, Council is entitled to apply differential rates provided it uses Capital Improved Valuation (CIV) as its base for rating.

Section 161 outlines the regulations relating to differential rates. This section is outlined below.

(1) A Council may raise any general rates by the application of a differential rate, if Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.

(2) If a Council declares a differential rate for any land, the Council must-

a) Specify the objectives of the differential rate which must include the following:

i. A definition of the types of classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate in relation to those types or classes of land.

ii. An identification of the type or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in Council's district) and planning scheme zoning of the land and the types of buildings situated on it and any other criteria relevant to the rate.

iii. If there has been a change in the valuation system, any provision for relief from a rate for certain land to ease the transition for that land.

b) Specify the characteristics of the land, which are the criteria for declaring the differential rate

In addition to the above, new requirements relating to differential rates were introduced as part of the Local Government Legislation Amendment (Miscellaneous) Act 2012. These provide that (section 161):

(2A) Council must have regard to any Ministerial Guidelines before declaring a differential rate for any land.

(2B) The Minister may make guidelines for or with respect to the objectives of differential rating, suitable uses of differential rating powers and the types of classes of land that are appropriate for differential rating

(4) On recommendation of the Minister, the Governor in Council may by Order in Council prohibit any council from making a declaration of a differential rate in respect of a type or class of land, if the Minister considers that the declaration would be inconsistent with any guidelines made under subsection (2B).

(5) The highest differential rate in a municipal district must be no more than 4 times the lowest differential rate in the municipal district.

Council's current differential rating structure is outlined in Section 5 of this strategy paper.

7.3 Advantages of a differential rating system

The perceived advantages of utilising a differential rating system are:

- There is greater flexibility to distribute the rate burden between all classes of property, and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for commercial and industrial premises;
- Differential rating allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs of the commercial and industrial sector;
- Enables Council to encourage particular developments through its rating approach e.g. encourage building on vacant blocks;
- Allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome; this is however limited by the new requirements introduced under section 161 (2A) and (2B) of the Act.
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

7.4 Disadvantages of Differential Rating

The perceived disadvantages in applying differential rating are:

- The justification of the differential rate can at times be difficult for the various rating groups to accept giving rise to queries, objections and complaints where the differentials may seem to be excessive.
- Differential rates can be confusing to ratepayers, as they may have difficulty in understanding the system. Some rating categories may feel they are unfavorably treated because they are paying a higher level of rates than other ratepayer groups.
- Differential rating involves a degree of administrative complexity as properties continually shift from one type to another requiring Council to update its records. Ensuring the accuracy/integrity of Council's database is critical to ensure that properties are correctly classified into their differential rate category.
- Council may not achieve the objectives it aims for through differential rating. For example, Council may set its differential rate objectives to levy a higher rate on land not developed, however, it is uncertain as to whether the differential rate achieves those objectives.

Recommendation
That Ballarat City Council continues to apply differential rating as its rating system.

8. What differential rates should be applied?

The Differential Rating Categories utilized by Council since it introduced Differential Rating in 1995, have essentially remained the same, except for the Rural Residential category which was introduced during 2017/2018.

The existing Differential Rating Categories are generally well accepted, easy to understand and meet the overall objectives of Council's rating strategy.

Objectives of the Differential Rates

The objectives of the differential rates are to raise general rate revenue in a way where each class of land is dealt with fairly and equitably having regard to the burden cast upon the other classes of land and having regard to:

(a) The material benefits received by each class of land from local government expenditure; and

(b) The use to which land in each class is and can be put.

Basis of calculating Rates

The City of Ballarat uses the Capital Improved Valuation (CIV) system as the basis for rating.

Council applies "dual use" rating on properties where there are multiple uses under the same occupancy. For example, a Milkbar which is used for both Commercial and Residential purposes is rated for each use on the basis of an apportionment of the total CIV.

Differential Rate Definitions

RESIDENTIAL
Classification
Rateable property which is used for private residential purposes, including but not limited to houses, dwellings, flats, units and private boatsheds, together with vacant unoccupied land, not covered by another differential, BUT excluding motels, caravan parks, supported accommodation, accommodation houses, boarding houses and the like.

Reasons for the Use and Level of Rate
The rate reflects the level of service provided and ensures that reasonable rate relativity is maintained between residential property and other classes of property.

COMMERCIAL

Classification

1. Rateable property used or adapted to be used for business and/or administrative purposes, including but not limited to properties used for:

   (a) the sale or hire of goods by retail or trade sales, eg shops, auction rooms, hardware stores;

   (b) the manufacture of goods where the goods are sold on the property;

   (c) the provision of entertainment, eg theatres, cinemas, amusement parlours, nightclubs;

   (d) media/broadcasting/communication establishments, eg television stations, newspaper offices, radio stations, telecommunication towers and associated facilities;

   (e) the provision of accommodation other than private residential, eg motels, caravan parks, camping grounds, camps, supported accommodation, accommodation houses, hostels, boarding houses;

   (f) short term tourist accommodation specifically identified and coded with an Australian Valuation Property Classification Code (AVPCC) or 232 (Serviced Apartments/Holiday Units) orr 233 (Bed and Breakfast);

   (g) the provision of hospitality, eg hotels, bottle shops, restaurants, cafes, takeaway food establishments, tearooms;

   ((h) tourist and leisure industry, eg flora and fauna parks, gymnasiums, indoor sports stadiums, gaming establishments (other than those classified under Recreational 2);

   (i) art galleries, museums;

   (j) showrooms, eg display of goods;

   (k) brothels;

   (l) Commercial storage (mini storage units, wholesale distributors).

   (m) religious purposes;

   (n) public offices;

   (o) halls for commercial hire;

   (p) Mixed businesses/milkbars (those operating in residential type zones under the Ballarat Planning Scheme and non conforming residential/milkbar properties within industrial zones under the Ballarat Planning Scheme, with attached residences, occupied as the principal place of residence of the person(s) operating the mixed business/milkbar component of the rateable property, will have the residential portion rated as Residential).

2. Properties used for the provision of health services, including but not limited to properties used for hospitals, nursing homes, rehabilitation, medical practices and dental practices.

3. Properties used as offices, including but not limited to properties used for legal practices, real estate agents, veterinary surgeons, accounting firms and insurance agencies.

4. Rateable properties which are vacant unoccupied land and zoned or intended to be used for commercial purposes.

Reasons for the Use and Level of Rate
The rate reflects the level of service provided and ensures that reasonable rate relativity is maintained between commercial and other classes of land. The differential is higher than for other classes of land for a number of reasons, including:

- Business rates are tax deductible;
- Rates tend to be a lower order factor in business investment decisions.

INDUSTRIAL

Classification

1. Rateable properties which are used primarily for manufacturing processes, including, but not limited to the following:

   (a) the manufacture of goods, equipment, plant, machinery, food or beverage which are generally not sold or consumed on site;

   (b) warehouse/bulk storage of goods;

   (c) the storage of plant and machinery;

   (d) the production of raw materials in the extractive and timber industries;

   (e) the treatment and storage of industrial waste materials.

2. Rateable properties which are vacant unoccupied land and zoned or intended to be used for industrial purposes.

Reasons for the Use and Level of Rate
The rate reflects the level of service provided and ensures that reasonable rate relativity is maintained between industrial and other classes of land. The differential is higher than for other classes of land for a number of reasons, including:

- Business rates are tax deductible
- Rates tend to be a lower order factor in business investment decisions;

FARM LAND

Classification

Farm Land means any rateable land -

(a) that is not less than 2 hectares in area; and

(b) is used for carrying on a business of primary production as determined by the Australian Taxation Office; and

(c) 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

(d) 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 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.

In consideration the Council will take into account:

- Whatever activity is being conducted on a property, it must be a business of primary production as opposed to a hobby or recreational activity.

Reasons for the Use and Level of Rate
The farm rate is lower than for other classes of land because farming operations involve large properties which have significant value and which are often operated as family concerns. Agricultural producers are unable to pass on increases in costs like other businesses. Farm profitability is affected by the vagaries of weather and international markets. In this sense farms are seen to be more susceptible or fragile than other commercial and industrial operations.

RURAL RESIDENTIAL
Classification
Rural residential Land means any rateable land -

(a) that is not less than 2 hectares in area; and

(b) the land is resided on; and

(c) is located within the Farm or Rural Conservation planning zone that does not satisfy the criteria for farmland.

Excludes:

(d) Vacant land greater than 2 HA.

Reasons for the Use and Level of Rate
The rural residential rate is lower than for other classes of land because the land is prima-facie farm land; however with the inclusion of a residence the primary purpose of the property is shifted towards residential use.

The Rural Residential Rate is lower than the Residential Rate in order to recognise location issues and other restrictions applicable to such properties in either a Farm Zone or a Rural Conservation Zone.

RECREATIONAL

Classification

Rateable property which is used primarily for cultural, recreational or club purposes.

Recreation 1

Recreational land is defined as follows:

(a) lands which are -

(i) vested in or occupied by anybody corporate or unincorporated which exists for the purpose of providing or promoting cultural or sporting recreational or similar facilities or objectives and which applies its profits in promoting its objects and prohibits the payment of any dividend or amount to its members; and

(ii) used for sporting recreational or cultural purposes or similar activities; or

(b) lands which are used primarily as agricultural show grounds; or

(c) lands, not otherwise classified by another differential, used primarily by a not-for-profit club* and:-

(i) is not used for the purpose of running a business on a full time commercial basis; and/or,

(ii) the club does not pay any employees, contractors or members to perform duties associated with the operations of the club; and/or

(iii) is not a licensed premise.

*For the purposes of this rating classification the following applies:-

- "Club" includes an association, society, fraternity, guild, lodge or circle; and,

- A club is "Not-for-Profit" if:

(i) It does not, either while it is operating or upon winding up, carry on its activities for the purposes of profit or gain to particular persons, including its owners or members; and

(ii) It does not distribute its profits or assets to particular persons, including its owners or members, either while it is operating or upon winding up.

Recreation 2

Recreational land as defined in Recreation 1 where the recreational land or part thereof is used for gaming.

Reasons for the Use and Level of Rate

The rate reflects the level of service provided and ensures that reasonable rate relativity is maintained between recreational land and other classes of land.

Cultural and Recreational Land Act 1963

Land defined under the Cultural and Recreational Land Act as recreational shall be rated both differentially and under that Act in accordance with this strategy.

8.6 Consideration Given to Retirement Villages

The Ministerial Guidelines for Differential Rating (April 2013), states that "Council must give consideration to reducing the rate burden through use of a reduced differential rate include (but are not limited to):

- Farm land (as defined by the Valuation of Land Act 1960); and
- Retirement village land (as defined by the Retirement Villages Act 1986)."

Council has considered whether or not a separate differential rate is required for Retirement Villages to address perceived issues of fairness and equity. Council acknowledges that many Retirement Villages provide their own infrastructure and facilities within their boundaries for the exclusive use of residents and that those residents contribute to the maintenance and replacement of the facilities and infrastructure through the payment of a levy.

Council believes that the perceived issues of fairness and equity are adequately addressed under the current rating structure. Normal market factors, including the fact that additional annual fees are payable, are reflected in the valuation of a property. The additional fees payable generally result in a lower valuation for retirement village properties compared to like non-retirement village properties. The lower valuation means lower rates and therefore addresses any considered need for a lower differential.

Rates are also a property tax, not a user pays system. Residents of Retirement Villages still utilize services and infrastructure provided by Council and they are not excluded from using any such services or infrastructure. Providing Retirement Village with a lower differential rate would create issues of inequity for any residents who have their own private facilities (e.g.; pools, tennis courts, etc) and/or choose not to use Council provided facilities.

Recommendations

1. That Council continues to apply the Differential Rating categories as currently exist.
2. That Council does not believe there needs to be a differential rate for Retirement Villages.

9. Understanding the impacts of Council Revaluations

Every two years Council has a statutory requirement under the Valuation of Land Act 1960 Section 13DC (5), to conduct a review of property values based on market movements and recent sales trends. A valuation is an assessment of the market value of a property, at a specific date. For the 2015-16 rating year valuations will be based on values returned as at 1 January 2014.

Why are valuations important?

For a property owner, a general valuation (or revaluation) is important for two reasons:

1. it provides a new market value for your property. These property valuations are now far more relevant and useful as they more closely reflect current market values.
2. there are new market relativities. This is important because market changes help determine individual property rates and charges.

The valuation process

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

Data obtained for each property includes things such as:

- land area
- building size
- building condition
- construction material
- age
- available services
- topography code
- land classification code (usage) and zoning etc.

Data is compiled on each property over time, through inspection, building and planning permits and other public sources.

The valuer builds a profile of value levels for each different area/property type by analysis of recent sales and leasings. This information is then applied to individual properties, taking into account the different characteristics of each property.

Supplementary valuations

In certain circumstances, valuations must be performed between general valuations. These are known as supplementary valuations. They are required when properties are physically changed eg. when buildings are altered, erected or demolished, amalgamated, subdivided, portions sold off, rezoned or are affected by road construction. Supplementary valuations are usually carried out by the valuer on a monthly or quarterly basis.

No Windfall Gain

There is a common misconception that if a property's valuation rises then Council receives a "windfall gain" with additional income. This is not so as the revaluation process results in a redistribution of the rate burden across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction in the rate in the dollar (ad valorem rate) used to calculate the rate for each property. Total rate income is set each year as part of the budget process. Council increases the total rate revenue required to deliver its services.

Objections to Property Valuation

The Valuation of Land Act 1960 provides that objection to the valuation may be made each year within two months of the issue of the original or amended (supplementary) Rates Notice.

Objections must be dealt with in accordance with the Valuation of Land Act 1960 – Division 3 Sections 16-21.

Property owners also have the ability to object to the site valuations on receipt of their Land Tax Assessment from the State Revenue Office. Property owners can appeal their land valuation within 60 days of receipt of Council Rate Notice (via Council) or within 60 days of receipt of their Land Tax Assessment (via State Revenue Office).

Council needs to be mindful of the impacts of revaluations on the various property types in implementing the differential rating options outlined in the previous section, to ensure that rises and falls in Council rates remain affordable and that rating 'shocks' are mitigated to some degree.

It is recommended that differential rates need to be viewed in conjunction with the impacts created by Council revaluations and, where required, differential rates be amended to lessen the impact of rating 'shock' on various rating types.

Recommendations
That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council.

10. Special Rates & Charges

Special rates and charges are covered under Section 163 of the Local Government Act which enables Council to:

"Declare a special rate or charge or a combination of both for the purposes of:

- *Defraying any expenses; or*
- *Repaying with interest any advance made or debt incurred or loan raised by Council;*

In relation to the performance of a function or the exercise of a power of the Council, if Council considers that the performance of the function or the exercise of the power is or will be of special benefit to the persons required to pay the special rate or special charge".

There are detailed procedural requirements that Council needs to follow to introduce a special rate or charge, including how Council can apply funds derived from this source.

Section 185 of the Local Government Act provides appeal rights to VCAT in relation to the imposition of a special rate or charge. The Tribunal has wide powers, which could affect the viability of the special rate or charge. It can set the rate or charge completely aside if it is satisfied that certain criteria are met.

Council should be particularly mindful of the issue of proving that special benefit exists to those that are being levied the rate or charge.

In summary, differential rates are much simpler to introduce and less subject to challenge. There may be instances however where a special charge is desirable if raising the levy by use of CIV is not equitable.

Ballarat City Council currently applies a special rate for properties in the Bridge Mall for the purposes of employing a Manager, for promotion and security of the Bridge Mall and surrounds. The Special Rtae Scheme has existed for more than 20 years and is done at the request of the Bridge Mall Traders Association. The current Special Rate was declared in 2013 and remains in force for a period of 5 years, expiring on 30 June 2018.

Recommendations
1. That Council continues to utilise special rates and charges to raise funds requested by, and for, the Bridge Mall Traders Association provided no objections are received.

11. Municipal Charge

Another rating option available to Councils is the application of a municipal charge. Under Section 159 of the Local Government Act, a Council may declare a municipal charge to cover some of the administrative costs of the Council. The legislation is not definitive on what comprises administrative costs and does not require Council to specify what is covered by the charge.

A Council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the combined sum total of the Council's total revenue from the municipal charge and the revenue from general rates.

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

The arguments in favour of a municipal charge are similar to waste charges. They apply equally to all properties and are based upon the recovery of a fixed cost of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of Councils administrative costs can be seen as an equitable method of recovering these costs.

The argument against a municipal charge is that this charge is regressive in nature and would result in lower valued properties paying higher overall rates and charges than they do at present. The equity objective in levying rates against property values is lost in a municipal charge as it is levied uniformly across all assessments.

Council does not currently have a Municipal Charge.

Recommendations
That Council does not apply a Municipal Charge.

12. Service Rates and Charges

Section 162 of the Local Government Act (1989) provides Council with the opportunity to raise service rates and charges for any of the following services:

- c) the provision of a water supply;
- d) the collection and disposal of refuse;
- e) the provision of sewerage services;
- f) any other prescribed service.

Council levies a Waste Management Service Charge for the collection and disposal of household refuse and recyclables. The service consists of the weekly collection of one garbage bin and the fortnightly collection of one recycling bin. The service is provided to Residential properties.

The level of a service rate or charge should have some correlation to the level of service provided and therefore the funds raised should equate to the cost of the service provided.

Council contends that the fixed charge for Waste Management Services ($260.00 p.a. for 2014/2015) is consistent with sound pricing policy and delivers value for money.

The advantages of the Waste Management Service Charge is that it is readily understood and accepted by residents as a fee for a direct service that they receive. It further provides equity in the rating system in that all residents who receive exactly the same service level all pay an equivalent amount.

The disadvantage of the Waste Management Service Charge is similar to the municipal charge in that it is regressive in nature. A fixed charge to a property with a low value comprises a far greater proportion of the overall rates than it does to a property with a higher value.

It is recommended that Council continue to levy a Waste Management Service Charge.

Recommendation
That Council continues to apply a Waste Management Service Charge.

13. Payment of Rates, Rebates and Waivers

Liability to Pay Rates

LGA Section 156 makes the owner of the land liable to pay the rates and charges on that land. In certain cases, the occupier, mortgagee or licensee holder is liable to pay the rates.

The LGA Section 156(6) declares the rate or charge, unpaid interest or costs to be a first charge upon the land.

Electronic Notices

Council encourages the electronic distribution of rate notices and promotes the BPay View service.

Ratepayers can elect to receive either their Annual Rate Notice or Quarterly Rate Notice electronically which is received through online banking arrangements.

Payment Dates for Rates

LGA Section 167 requires that councils "must allow" payment in four instalments and "may allow" payment in one lump sum. The Minister fixes the dates of instalments and lump sum by notice published in the Government Gazette.

Council offers ratepayers the option to pay rates by four instalments due on 30 September, 30 November, 28 February and 31 May each year. Approximately 50% of ratepayers chose to pay their rates by quarterly instalments.

Ratepayers may pay in a single lump sum payment due by 15 February each year.

There is currently no intention to withdraw the lump sum payment option.

Payment options

Council offers a range of payment methods including Australia Post, BPay, Direct Debit (instalments only), eServices, by mail or in person at The Phoenix. The majority of rate payments are received via Australia Post and BPay.

Incentives for Prompt Payment

The LGA Section 168 provides that incentives for prompt payment may be offered. Discount for early payment should be based on cash flow benefit to Council.

Council has determined that no incentives for prompt payment will be offered for the year 2015-2016.

Late Payment of Rates

Interest is charged on all overdue rates in accordance with LGA Section 172. The interest rate to apply is fixed under Section 2 of the Penalty Interest Rates Act 1983, which is determined by the Minister and published by notice in the Government Gazette. The interest rate is currently 11.50% per annum.

Debt Recovery - Collection of Overdue Rates

Council utilises a Debt Recovery Agency to collect overdue rates and charges. Ratepayers are issued with a Final Notice and are given the opportunity to make an arrangement to pay off their overdue rates. Council may take legal action to recover any overdue amount. All fees and court costs are recoverable from the ratepayer.

If an amount payable by way of rates in respect to land has been in arrears for three years or more, Council may sell the land in accordance with the Local Government Act – Section 181.

Rebates – LGA Section 169

A rebate is a mechanism through which a targeted group receives a discount or concession to achieve certain objectives. Essentially rebates are funded through the general rate pool. More specifically, the amount required to fund the rebate is calculated and is incorporated into the total rates and charges requirement. For transparency the amount of any rebate or concession funded by ratepayers should be declared on an annual basis.

Council may grant rebates or concessions in accordance with the LGA to assist the proper development of the municipal district, to preserve, maintain and restore historical, environmental, architectural or scientific buildings or places of interest important within and to the municipality, to or to generally assist the proper development of all or part of the municipal district.

Council provides a 100% rebate for properties rated as Recreational 1. Sixty three properties received rebates totalling $183,573 in 2014-2015. The properties that qualify as Recreational 1 are generally sporting clubs or other not for profit recreational or cultural groups. The objective of this waiver is to provide financial assistance to those sporting and recreational clubs that are required to pay rates.

Charitable Housing

All housing provided by Registered Agencies, Housing Associations, charitable or government organisations is rateable.

During 2009 the Local Government Act was amended to include section 169 1 (D) which allows that Council may grant a rebate or concession in relation to any rate or charge, to support the provision of affordable housing, to a registered agency.

Council does not provide a rate rebate to support the provision of affordable housing by registered agencies. Assistance for low income households is already provided through the State Government pension rebate and the means tested rent provided by the Department of Housing and the Housing Associations.

Pensioner Rebates

Holders of a Centrelink or Veterans Affairs Pension Concession card, or a Veteran Affairs Gold card which stipulates TPI or War Widow (excludes Health Care and DVA all conditions, POW, EDA and dependant cards) may claim a rebate on their sole or principle place of residence.

For 2014-2015 the government-funded rebate provided under the Municipal Rates Concession Scheme is $208.00 or 50% of the rate payment, whichever is the lessor amount. Upon initial application, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veteran Affairs during verification procedures. Upon acceptance of pensioner status the concession or rebate is deducted from the rate account before payment by the ratepayer.

Applications for the concession must be lodged by 30 June in each year.

Council funded Waiver

In recent years Council has provided a waiver of rates for eligible Pensioners who live alone in their own home and are solely responsible for the payment of rates and charges on that property. This waiver was initiated by Council to assist single pensioners who have to bear the full rate liability of their property without the support of anyone else. For 2014-2105, the amount of the waiver is $85.00.

Financial Hardship

Council recognises that ratepayers may, at times, experience difficulty in paying their rates and charges and therefore is committed to providing mechanisms to support and guide those people to satisfy their obligations.

Council will provide understanding and assistance to ratepayers who are genuinely experiencing financial hardship and are having difficulty paying their rates and charges. In simple terms, financial hardship exists if “a ratepayer wants to pay but cannot”.

A person must be able to demonstrate to Council that they are experiencing financial hardship and/or that the payment of the overdue rates and charges will cause them to suffer financial hardship. Council can request the applicant to provide further information, either financial or otherwise, to support their application or verify particulars of their application.

Taxation information for past 3 years may be requested by Council as verification of circumstances. Council may also refer the applicant to a Financial Counsellor or other external resources before considering financial hardship assistance.

Any ratepayer experiencing difficulty paying their rates and charges should initially negotiate a suitable payment arrangement with Council.

Financial hardship assistance will only be considered for individuals that have overdue rates and charges with Council in regard to their principle place of residence and who are unable to, or cannot, negotiate an acceptable payment arrangement with Council.

The Local Government Act 1989 (the Act) provides Council with the ability to waive or defer the payment of any rate or charge or interest, either in part or in full, on the grounds of financial hardship.

Hardship assistance options:-

- Payment Plan
- Interest waiver and deferral
- Deferral of rates
- Waiver of rates

The ability to approve the waiver or deferral of penalty interest will be dealt with under delegated authority. Any decision to waive or defer the payment of any rate or charge will be a decision of Council after considering a confidential report.

Ratepayers who receive assistance on the grounds of financial hardship will have their circumstances reviewed periodically (at least 6 monthly).

Exemptions from Rating

The LGA Section 154 declares that all land is rateable with a number of exceptions including Crown land occupied for municipal purposes, land used exclusively for charitable purposes, the residence of a practising Minister of Religion, certain land used for mining purposes, Returned Services League and related associations as defined. Generally land is not used exclusively for public municipal or charitable purposes if it is a residence, is used for the retail sale of goods or the carrying on a business for profit.

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