Pyrenees Shire Council Rating Strategy

(2020/21 Addendum)

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INTRODUCTION

Council at its December 2016 meeting determined to undertake a review of its rate strategy shortly after the 2016 Council Elections. The last comprehensive review was in 2013/14.

One of the objectives for Council under the *Local Government Act 1989* is to ensure the equitable imposition of rates and charges. The rate strategy sets out to explain how Council determines what money will be raised from properties within the municipality, while acknowledging the difficulties in linking property values to an assumption about the individual ability to pay.

In preparing the rating strategy Council considered the following:

- Sources of revenue – the relationship between rates, other sources of income and Council expenditure.
- Review of the current rating system to determine how well it addresses the issues of fairness and equity.
- Exploration of the options available to Council to change the rating system in accordance with the legislation.
- Evaluation of capital improved value (CIV) as the basis for rating.
- Evaluation of the use of a municipal charge.
- Review of the differential classes, their definitions and objectives.

The rate strategy has now been completed and explains the issues and the rationale for applying rates and how the rate burden is shared by the community.

1. WHY CHANGE THE RATING SYSTEM?

Good governance requires Council to provide ongoing or periodic monitoring and review of the impact of major decisions. Over time, knowledge, issues and the membership of Council may alter. Council policies are subject to refinement and change. It is therefore incumbent upon council to evaluate on a regular basis whether the current rating system best satisfies the legislative objectives to which it must have regard and those other objectives which Council believes are relevant.

2. CONTEXT

2.1 Rates & Taxation

Taxation revenue is used to finance a range of services provided by the various levels of Government. Taxation revenues generally become consolidated into a general pool of funds and are spent by governments on services that:

- are either entirely or partially "public goods";
- relate to their "community service obligations" to provide support to particular individuals or groups; and
- they believe are appropriate to assist the achievement of specific objectives which will have flow-on effects that will ultimately benefit all constituents.

Public goods are services that provide a broad and often unquantifiable benefit to the community rather than a particular benefit to individuals, corporations or individual properties. They include services where it is impractical to levy user fees and charges because it is difficult to exclude those who do not pay from receiving the benefits provided. Council's general funding of local roads, public open space and public health programs are obvious examples of public goods where charging users is not practical. Tax revenues are also an appropriate means of offsetting those costs where it is impossible to attribute costs to specific services and hence consider their collection through user charges.

Council's reliance on rates is influenced by policy and legislative factors that preclude or limit Council's ability to charge. Council does not have discretion to set user fees and charges for a range of services where this is set out in State legislation or regulation, such as prescribed fees for planning permits, or in funding agreements with other levels of Government such as those applying to aged services and maternal and child health.

The amount of rates collected by a council depends on conscious and considered choices as to the quantity and quality of services that it decides to provide and how much of the cost is to be recovered from other revenue sources. The amount collected in rates represents the difference between the total expenses required by Council to fund programs, maintain assets and to service and redeem debt, and the total revenue from all other sources. Other revenue sources include grants from other levels of government, prescribed and discretionary fees, fines and charges, income from the sale of assets and interest earned. Hence rates are the balancing item between total expenses and all other revenue sources.

Rate revenue is a major source of the Pyrenees Shire's revenues, accounting for about half of its annual income.

2.2 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. Examples include pensioners, businesses subject to cyclical downturn, households with large families and property owners with little equity. In a commercial sense the argument has also been expressed in terms of the ability of property to generate a reasonable return.

Taxes on income and consumption are much more reflective of capacity to pay, especially the former, in which the 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.

In fact the issue takes up considerable time and resources of Governments with more diverse taxing and investigative powers and resources, for example, the Commonwealth Government uses assets as well as income tests for pensioner households.

Local government rates are also the most visible of taxes – either paid in full or in four instalments as in the case of the Pyrenees Shire Council. This compares with income and consumption taxes that are being continuously paid by individuals.

2.3 Rates and Pricing Policy

Council does have discretion to levy fees and charges for some services. The interrelationship between fees and charges and rates means that Council's pricing policies for its various services will impact its requirement for rate revenue. The contribution that rates and discretionary charges make toward the funding of particular services is dependent upon the specific pricing policies that are developed by Council for each service.

Council is committed to regularly reviewing its fees, charges and leases to ensure that the amount to be raised via rates is influenced by a consideration of the most appropriate means of raising the required revenue for individual services and the level of public and private benefit involved. These are reviewed as part of the annual budget process.

2.4 What is a Rating Strategy?

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

A rating strategy comprises a number of components including:

- a review of rationales and objectives;
- related research;
- the development of definitions;
- comprehensive rate modelling;
- an education program;
- the development of required documentation; and
- opportunity for public review.

Council identified some major issues that were reviewed as part of the rating strategy including:

- a review of objectives concerning vacant land and how its treatment through the rating system may achieve these objectives;
- a review of objectives concerning commercial/industrial land and how its treatment through the rating system may achieve these objectives;

2.5 The Rating Framework

The legislative framework set down in the Local Government Act determines Council's ability to develop a rating system. This framework provides Council with significant flexibility to tailor a system to suit its requirements. Under the legislation Council has the power to levy:
- municipal charge;
- uniform rates;

- differential rates;
- special rates & charges;
- service rates & charges;
- rate rebates and concessions; and
- waivers & deferments.

Pyrenees Shire adopted the Capital Improved Valuation (CIV) system in 1995 for rating purposes. CIV includes both the value of the land and any improvements on that land.

Council believes the use of CIV better reflects capacity to pay than the alternatives and provides Council with the flexibility to levy differential rates.

2.6 Review of Rationales & Objectives

Decisions about the rating system need to be explainable, not in an ad hoc way, but in a considered way so that the reasoning behind the decisions that are made about the rating system are apparent. There should be a clear link between rating system outcomes and the objectives, apart from the raising of revenue, which council wishes to achieve.

The two objectives which the rating system must have greatest regard are the achievement of equity and efficiency. The Local Government Act explicitly refers to these objectives.

2.7 Equity

There is a requirement that, where councils do not have a single rate, that the use of additional rates will achieve an equitable outcome. In other words an outcome that is just or fair. The definition of equity is not clear-cut and there is certain subjectivity to what equity means. The decision to adopt differential rates in preference to a system based on a uniform rate indicates in itself a view that equity will not be delivered by that simple system.

The word equity has a legal origin where it was used to describe the delivery of natural justice when statute law was seen to render an unjust decision. However the lead is probably best given by economists' definitions that refer to distributional, horizontal and vertical equity. These definitions can be extended to property taxation.

Distributional equity refers to justice or fairness in the manner in which the rates burden is distributed between rateable properties.

Horizontal equity refers to justice or fairness in the treatment of like properties, in other words, that similar rates are paid by similar properties. Obviously there is a fundamental importance on which characteristics define similarity. Horizontal equity is ensured mainly by accurate property valuations and their classification into homogenous property classes.

Vertical equity refers to justice or fairness in the treatment of properties in different circumstances. It is the rationale used for the use of progressive and proportional income taxation. It implies a "relativity" dimension to the fairness of the tax burden.
In the case of property taxation 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.

3. "WEALTH TAX", "CAPACITY TO PAY" & "BENEFIT"

PRINCIPLES

The payment of rates entitles ratepayers to access certain services supplied by Council. What should be the basis for determining this entitlement? Council has wrestled with three main principles in answering this question - the Wealth Tax, Capacity to Pay and Benefit Principles.

3.1 Real Property Tax – A Wealth Tax

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

The "wealth tax" principle implies that the rates paid are dependent upon the value of a ratepayer's real property and have no correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

Council holds the view that some moderation of the effect of property value on the level of rates paid may be required to make the rating system more equitable than it would be in the absence of such intervention.

3.2 Capacity to Pay

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

However, the most vexed issue related to capacity to pay is assessing it across different classes of property. As part of its rating strategy council specifically considered the issue of the relativity of rates paid by the major classes of property – residential, commercial/industrial, farm and vacant land.

Council believes that differential rates will not deal practically with the situations of all individuals, businesses and households. Factors that should be taken into account by differential rates are:

- a differential rate should apply to a substantial number of a properties;
- lower or higher capacity to pay should exist for a majority of properties within a property class covered by a differential rate; and
- there needs to be some evidence or general acceptance of a lower or higher capacity to pay of the property class as a whole.

The first two points influence whether a differential rate or an alternative is the most appropriate rating instrument to use. The latter two points are probably the most difficult practical considerations involved in decision making on capacity to pay.

Council believes that ideally a rating strategy should not only establish the rationale for the differences, but also as far as it is possible explain the differences in the rates paid by different classes of property. On equity grounds it is considered appropriate that the meaning and "measurement" of capacity to pay is agreed, at least from a practical point of view and that there is consistency in its application.

However, Council has noted the considerable difficulties involved in this process. It cannot be expected to make an assessment about the capacity to pay of every property or numerous types of landholdings, particularly given the diversity in the performance of the various sectors and enterprises involved in farming/agriculture, commerce and industry.

Analysis shows that there is tremendous variation in the prices received by different crops and livestock products and hence farms' capacity to pay. Businesses, other than farms, also reflect considerable diversity. In a local economy they may range from small businesses with owner operators and few employees to large corporations. Production may cover an enormous range of goods and services for local, national or overseas markets.

In its consideration of the issue of assessing capacity to pay Council considered possible criteria including income, profitability and rate of return. Council felt any attempt to quantitatively measure capacity to pay was not appropriate at this time given:

- the diversity of land uses within each class;
- data limitations including the currency and relevance of economic and financial
- data pertinent to Pyrenees;
- the problem with respect to owner-occupied residential properties which would require developing assumptions about their potential income, profits and returns.

3.3 Benefit Principle

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

Council is aware of attempts having been made by other councils to evaluate the relative benefits received by various classes of property. These approaches raise many practical difficulties, in particular, trying to trace quantifiable consumption/benefits to particular types of property or geographic locations and attributing varying levels of access by ratepayers to services that are universally available. Council accepts that any in-depth analysis of this issue could also be quite costly and impact efficiency.

The analysis often gets reduced to arguments of what services are consumed by town versus rural areas, businesses versus residences versus farms, and between different towns. 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 may be argued with respect to the costs of repairing local roads.

3.4 Efficiency

Efficiency can be defined as the ratio of ends produced (output) to means used (inputs). In other words it can be considered 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.

There is a tendency for uniformity to help minimise administration costs. A simple rating system is more transparent, meaning that the underlying purpose and principles behind the design of a tax are clearer – who is liable for a particular rate and how tax liability is calculated. However, it is also possible for a simple rate system to be costly if it is unpopular and results in increased appeals and higher collection costs.

There is also an effectiveness dimension related to whether the use of rating instruments, one rating instrument over another, or some other approach is the most appropriate to achieve a certain objective.

3.5 Achieving Objectives other than Equity and Efficiency

Although the legislation explicitly refers to equity and efficiency criteria the potential exists to facilitate other objectives related to council functions. In many cases the link between these other objectives and equity and efficiency may be indirect or tenuous.

Council believes that the use of the rating system to facilitate other objectives like employment creation and environment protection should be evaluated on effectiveness grounds as these ends might be better achieved through other means.

3.6 The Local Democratic Process & Council View

Pyrenees Shire Council is a body that must form a corporate view on governance. The council consists of a number of individuals with different values and viewpoints and the decisions made and actions taken are normally the result of compromise. There is probably no other subject in local government in which there are more fundamental differences in views than that of rates. Council believes that any view of rating equity is subjective and is influenced by the both personal values of Councillors and the constituents they are representing.

The general view of Council is that, of the information to which it has access, property value is the best indicator of the capacity to pay rates. Council argues that it is not possible for it to accurately identify and quantify the capacity to pay of its ratepayers. Its decision-making on this principle has been determined essentially by “feelings” of what is fair. In this vein it does not believe that it is different from any government agency that levies taxes on its constituents and makes decisions about the tax burden.

Notwithstanding this, council believes that total reliance on property value in determining the distribution of rates may result in some outcomes that do not accord with its feelings about fairness
– whether this arises because it believes the amount paid is too high or too low or because it believes a certain class of ratepayer receives more or less benefit from rates expenditures. For this reason, council supports the use of differential rates to reduce the impact of property values on the amount of rates paid in certain cases.

4. THE CURRENT RATING SYSTEM

The 2013-14 rating system in Pyrenees was characterised by the following:

- no municipal charge (the legislated allows for a maximum of 20% of total rate income to be raised by a municipal charge);
- in effect, three differential rates applying to general (residential, commercial & industrial), farm and vacant land properties and a rate declared under the Cultural and Recreational Lands Act on recreational properties.

The rate relativities and share of rate revenues is summarised below:

Differentials

Houses, flats etc	100%	$0.004228
Commercial	100%	$0.004228
Industrial	100%	$0.004228
Vacant Land - Less than 2 ha (Rural/Res)	320% (or 400% of lowest differential)	$0.013530
Vacant Land - other than farms	230% (or 300% of lowest differential)	$0.010147
Farms (all types)	80%	$0.003382

Discount Schemes

Cultural & Recreational Land	50%	$0.002114

Municipal Charge	Nil	$0.00

5. PROPOSALS

Differential Rates

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.

The effect of levying differential rates, like the municipal charge, is to reduce the impact of the property valuation on the amount of rates paid. The application of a differential rate means that one class of property is treated differently from another – either paying a higher or lower rate in the dollar. For each effect a differential has, it will have the opposite effect for other property classes. A rate discount given to one class of property can only be covered by higher rates paid by other classes and vice-a-versa.

The relativity of the differential rate is normally expressed in terms of a comparison of the rate in the dollar against a nominated general rate. The general rate normally used as the benchmark is the particular rate in the dollar that applies to residential properties, whether it is a rate that applies to residential properties or a rate applying to a broader class that includes residential.

5.1 Residential Rate (General Rate)

Classification: Ratable property which is used for private residential purposes (that has been granted an Occupancy Certificate as determined by the Pyrenees Shire Council Building Department and meets the requirements of the Building Act 1993, including but not limited to houses, dwellings, flats, units, EXCLUDING motels, caravan parks, supported accommodation, accommodation houses, boarding houses, and the like as well as vacant land.

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 the residential property and other classes of property.

5.2 Commercial

Classification:

1. Ratable properties 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 and the like;
    d. Media/broadcasting/communication establishments, eg, television stations, newspaper offices, ration stations and the 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. The provision of hospitality, eg hotels, bottle shops, restaraunts, cafes, takeaway food establishments, tea rooms;

g. Tourist and leisure industry, eg. flora and fauna parks, gymnasiums, indoor sport stadiums, gaming establishments;
h. Art galleries, museums;
i. Showrooms, eg. display of goods;
j. Brothels;
k. Commercial storage (mini storage units, wholesale distributors);
l. Religious purposes;
m. Public offices;
n. Halls for commercial hire;
o. Mixed businesses/milk bars.

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 primarily as offices or for administration purposes including but not limited to properties used for legal practices, real estate agents, veterinary surgeons, accounting firms, insurance agencies or any other organization, group, association or respective body.

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 the commercial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including:

- Business rates are tax deductible;
- Businesses bring a greater burden on Council with the need for public infrastructure;
- Rates tend to be a lower order factor in business investment decisions.

5.3 Industrial

Classification: Ratable 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.

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 the industrial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including:

- Business rates are tax deductible;
- Businesses bring a greater burden on Council with the need for public infrastructure;
- Rates tend to be a lower order factor in business investment decisions.

5.4 Farm Land

Classification: Farm Land means any ratable 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. primarily used for agricultural production (grazing, dairying, pig farming , poultry farming, pig farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind); and
d. used by a business –
    i. which has a **significant** or **substantial** commercial purpose or character; and
    ii. seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
    iii. is making a profit from its activities on the land or has a reasonable prospect of making a profit from the activities on the land if it continues to operate in the way that it is operating.

In consideration, the Council will take into account that 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 rate reflects the level of service provided and ensures that reasonable rate relativity is maintained between the farming property and other classes of property. The farm rate is lower than for other classes of land because the farming operations involve large properties which have significant value and which are often operated as a 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.

There is also some support within Council that, by virtue of their distance from urban centres, farming households' access and consumption of a range of services is lower and this is also an argument for lower rates. For example, there are services such as street lighting and street sweeping from which farm properties arguably obtain little or no direct benefit.

Council adopts the Farm Properties definition for differential rating purposes be revised to only capture rateable properties which have primary production as its substantive use and exclude properties where primary production is secondary or incidental to the property use (commonly referred to as lifestyle properties). It was considered that the 80% differential farm rate should only be applicable to genuine farming operations as distinct from hobby or rural lifestyle properties.

It was determined that the definition of Farm land for differential rating purposes be modified so that rural lifestyle properties are no longer defined as Farm land for differential rating purposes. Properties where primary production and associated improvements are secondary to the value of the residential home site and associated residential improvements should not be classified as Farm land for differential rating purposes. Similarly, vacant properties in a rural, semi-rural or bushland setting that have no restrictions or are not likely to encounter difficulties in obtaining building purposes should not be classified as Farm land for differential rating purposes.

5.5 Vacant Land < 2Ha (Urban)

Classification: Land that has not been developed that meets the criteria of any other rating differential, and the total property area is less than 2Ha in area. Although the majority of properties will fall within an urban zone, it is not compulsory.

Reasons for the Use and Level of Rate: Pyrenees Shire Council currently has 1,212 vacant properties across residential, rural residential, commercial and industrial sectors. Currently there are 335 properties within this category.

Council holds the view that the vacant land differential should be higher than the general rate to encourage the development of land and ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council.

The encouragement of development is strategically important as it has a positive effect on local employment and income, whilst the speculative behaviour should be discouraged.

Council believes a higher differential rate also assists to partly offset the costs of servicing new land, including major infrastructure studies and implementation of interconnecting infrastructure between subdivisions. The more difficult task however is determining an appropriate differential to the general rate. Properties under 2Ha in area tend to be within townships, and have a greater requirement of public infrastructure than Rural Residential land, therefore the differential has been set at 4 times the lowest differential.

5.6 Vacant Land Between 2Ha and 40Ha (Rural Residential)

Classification: Land that has not been developed that meets the criteria of any other rating differential, and the total property area is between 2Ha and 40Ha in area.

Reasons for the Use and Level of Rate: Pyrenees Shire Council currently has 1,212 vacant properties across residential, rural residential, commercial and industrial sectors. The predominant category is rural residential with 751 assessments.

Council holds the view that the vacant land differential should be higher than the general rate to encourage the development of land and ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council.

The encouragement of development is strategically important as it has a positive effect on local employment and income, whilst the speculative behaviour should be discouraged.

Council believes a higher differential rate also assists to partly offset the costs of servicing new land, including major infrastructure studies and implementation of interconnecting infrastructure between subdivisions. The more difficult task however is determining an appropriate differential to the general rate. Properties between 2Ha and 40Ha in area tend to be within rural residential areas, and have a lesser requirement of public infrastructure than vacant urban land, therefore the differential has been set at 3 times the lowest differential.

5.7 Vacant Land > 40Ha (Rural)

Classification: Land that has not been developed that meets the criteria of any other rating differential, and the total property area greater than 40Ha in area.

Reasons for the Use and Level of Rate: Pyrenees Shire Council currently has 1,212 vacant properties across residential, rural residential, commercial and industrial sectors. Currently there is 126 properties within this category. This land usually is used by people who have a hobby farm that does not meet the classification requirements of the Farm differential, which is reserved for entities with a substantial and commercial purpose.

Council holds the view that the vacant land differential should be higher than the general rate to encourage the development of land and ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council.

The encouragement of development is strategically important as it has a positive effect on local employment and income, whilst the speculative behaviour should be discouraged.

Council believes a higher differential rate also assists to partly offset the costs of servicing new land, including major infrastructure studies and implementation of interconnecting infrastructure between subdivisions. The more difficult task however is determining an appropriate differential to the general rate. Properties greater than 40Ha in area tend to be within rural areas, and have a lesser requirement of public infrastructure than vacant urban land and rural residential land, therefore the differential has been set at 2 times the lowest differential.

5.8 Undevelopable Land

Classification: Land in which Pyrenees Shire Council that cannot be used for residential, commercial or industrial purposes (including extractive industry) due to constraints of the Pyrenees Shire Planning Scheme.

Reasons for the Use and Level of Rate: The current Vacant Land differentials are set at a higher rate to encourage owners to develop their land, however there are instances where the land cannot be developed, with a legal dwelling, due to Planning and Environmental Health requirements. It would be unfair to continue to charge these property owners the higher differential, with no reasonable prospect of ever being able to reduce the differential by development.

Discount Schemes

Recreational Land

Classification: Ratable property which is used primarily for cultural, recreational or club purposes. 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 objectives and prohibits the payment of any dividend or amount to its members; and
   ii. is used for sporting recreational or cultural purposes or similar activities; or
b. lands which are used primarily as agricultural showgrounds; 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 premises.

*For the purpose 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 purpose 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.

Reasons for the Use and Level of Rate:

The provision of rate relief to recreational land is provided by the Cultural and Recreational Lands Act 1963. The Act effectively provides for properties used for outdoor activities to be differentially rated unless it involves land that is being leased from a private landowner. The discretion of whether to provide a cultural and recreational lands rate rests with Council.

Council considers that the Cultural and Recreational Lands Act is a more appropriate vehicle for declaring rates on recreational land than the differential rating powers under the Local Government Act because:

- there is no risk to the legal basis for recovery of rates from recreational properties which cease to be recreational land;
- the 4:1 ratio between the highest and lowest differential rates is not a consideration for councils wishing to set particularly low cultural and recreational land rates; and
- the application of the cultural and recreational lands rates are generally provided on a property by property basis, rather than the consideration of a broad property class.

The requirement in the Act that “the rates set must have regard to the services provided by the councils in relation to such lands and the community benefit derived from such recreational lands” has never been applied in the technical sense. Rather than calculating the costs that local government bears, or the benefits received by locals in relation to these properties, councils using recreational rates mostly set them at either 50% or 75% of the general/residential rate.

Even an assessment of the more direct costs involved – for example, depreciation of the local road assets related to access, is problematic and would require collection of information on how much additional traffic is generated by the existence of such facilities. Cultural and recreational lands will also benefit indirectly from other council services expenditure. The quantification of the local benefits received in terms of income, employment, social interaction, community and physical wellbeing is also problematic. The resources which would be involved in attempting an accurate assessment of “benefits and costs” is unlikely to be justifiable on efficiency grounds, especially given the levels of rate income involved.

Council believes that any serious attempt to quantify the costs of related council services and benefits to the local community is impractical and could not be justified on efficiency grounds. Given this, Council will provide a rebate of 50% to properties classified as Cultural and Recreational Land

Trust for Nature Covenants

Classification: Rateable land which has a Trust for Nature Covenant applying to the land. A Trust for Nature Covenant enables the permanent protecting of significant areas of natural bush habitat on private land. It is a voluntary agreement between the Ratepayer and Trust for Nature, an is to be recognised on Title.

Reasons for the Use and Level of Rate: Council recognizes the public and environmental benefit that Trust for Nature covenants provide, and supports Ratepayers with these covenants by offering the reduction of Rates payable through its biodiversity and land management incentive program. All assessments in this category are on a concessional differential rate in accordance with Section 169 1d of the Local Government Act 1989– A council may grant a rebate or concession in relation to any rate or charge to assist in the proper development of part of the municipal district. Further to this, Sec 169 1B of the Act states - Council may only grant a rebate or concession-

a. to owners of specified rateable properties not exceeding one third of the rateable properties in the municipal district; or
b. to owners or rateable properties who undertake to satisfy terms that directly relate to the community benefit as are specified by Council

The concessional difference is currently set at a 50% reduction of the General Rate. The discount only applies to the part of the land covered by the covenant, excluding any area defined in the deed as “domestic area”.

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% 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 equity objective in levying in levying rates against property values is lost in a municipal charge as it is levied uniformly across all assessments.

The municipal charge is regressive, which means that as the value of properties decrease the municipal charge increases as a percentage of that value. As a result, the burden is reduced on higher value properties.

Through its effect of providing a reduction in the amount paid by higher value properties the municipal charge may be seen to assist certain classes of property.

There is a tendency in rural municipalities for farms, as a class, to generally benefit from its application. The effect for residential and commercial and industrial properties is not as general as there is usually a greater diversity in the range of property values. It can be argued, however, that overall the municipal charge has an individualised impact for properties within a property class. It is not a targeted rating instrument like a differential rate and Council believes that the use of differential rates is a more transparent and accurate means of achieving rate outcomes for certain classes of property.

Council abolished this charge in 2006/2007. It considers that Council retain the current position of not adopting a municipal charge. Council believes that the municipal charge has a regressive impact on lower valued properties, as they pay more proportionally than the higher valued properties. In so doing, many lower valued residential properties will benefit.

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:

a. The provision of a water supply;
b. The collection and disposal of refuse;
c. The provision of sewerage services
d. 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 one of the following

a. Urban Kerbside Collection areas – weekly collection of one garbage bin, the fortnightly collection of one recycling bin and monthly collection of one green waste bin; or
b. Rural Kerbside Collection areas – fortnightly collection of one garbage bin, one recycling bin and 4 Green/Hard Waste Vouchers to use at one of Council's Transfer Stations; or
c. Domestic Waste Vouchers to one of Council's Transfer Stations, equivalent to the amount of waste collected in a kerbside collection and 4 Green/Hard Waste Vouchers to use at one of Council's Transfer Stations.

All residential properties within the municipality must have a waste service. The urban and rural waste collection areas are declared by Council on adopted maps.

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 retains the objective of setting the service charge for waste at a level that fully recovers the cost of the waste function, funding operational, capital upgrade works and maintenance costs if Transfer Stations, including providing the cost of rehabilitation of past and current landfill sites and transfer stations when they reach the end of their useful life. Waste services are not provided to vacant land, and as a result these properties do not pay for this service.

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 equality 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 low value comprises a far greater proportion of the overall rates than it does to a property with a higher value.

Special Rates and Charges

Council has the power to levy a special rate or special charge, or combination of special rate and charge, to fund service provision. 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 have been used by Council in the past to fund the construction of kerb and channelling.

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. Certain council expenses and the beneficiaries of those expenses are required to be identified clearly and the directness of the benefit needs to be demonstrable.

The consideration of such schemes needs to be considered in the pricing policies for services and whether revenue collection issues would be better addressed by general rates or user charges.

Deferred Payments & Waivers

Councils have the power to defer payment or waive part or all of any rate or charge.

Council will consider any legitimate submissions for rate relief in cases of severe hardship. Council adopted a Revenue Collection Policy at its meeting on 20th July 2010. This policy details how Council assesses and manages rate relief in cases of severe hardship.

Special Circumstances

In the event of special circumstances, Council may review the strategy if it is warranted in order to consider the community needs. Council may alter the (weighting of the set) differentials in accordance with Sec 161 (2) in order to provide relief from a rate for a certain land. This review seeks to achieve the primary objective of Section 3C(2)(f) of the Local Government Act 1989 to ensure “the equitable imposition of rates and charges”. Special circumstances will only apply to one financial year at a time, and be agreed upon by Council Resolution.

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6. COMMUNITY CONSULTATION

In conjunction with the Pyrenees Shire Council Community Engagement Strategy, the following Community Consultation process is proposed:

What Consultation	How it was achieved
Mail out to ratepayers advising of their opportunity to have a say on the rate strategy for upcoming years	All ratepayers received a letter notifying them that Council had released a Rating Strategy, and inviting them to make submissions.
Media	Public Notice advising ratepayers of their opportunity to provide comment on proposed models within Ballarat Courier, Pyrenees Advocate, Maryborough Advocate and Stawell Times.
Social Media	Twice weekly posts on Council's Social Media channels (Facebook, Instagram and Twitter) encouraging residents to participate in the survey.
Our Say website	Information pack overview and online survey
Attendance of Officers at Community Events	Attendance at community information sessions in: • Avoca • Beaufort • Lexton • Snake Valley • Landsborough
Direct Communication with key advisory groups	Letters were issued directly to the Business Boards of Avoca and Beaufort, Trust for Nature and Victorian Farmers Federation (VFF) encouraging members to complete survey and provide feedback.

7. SUMMARY OF THE RATING STRATEGY

- Capital Improved Value to continue to be used as the rating base.
- No Municipal Charge.
- Differentials to be:

  House, Flats etc – 100% of the general rate

  Farm properties – 76.28% of the general rate decreased over 4 years

  Vacant land less than 2 ha – 305.10% (or 400% of lowest differential)

  Vacant land between 2 ha and 40ha – 228.83% (or 300% of lowest differential)

  Vacant land greater than 40ha – 152.55% (or 200% of lowest differential)

  Commercial – 110% the general rate increased over 4 years

  Industrial – 110% the general rate increased over 4 years

  Undevelopable land – 100% of the general rate

- Recreational and Trust for Nature properties to receive a 50% discount on the general rate.

8. COMPARISON OF 2013 RATING STRATEGY TO 2018 RATING STRATEGY

Category	2013 Strategy (% on General Rate)	2018 Strategy (% on General Rate)	Classification	Rationale
Vacant Land < 2Ha	320% (or 400% of lowest differential)	305.10% (or 400% of lowest differential)	Land that has not been developed that meets the criteria of any other rating differential, and the total property area is less than 2Ha in area. Although the majority of properties will fall within an urban zone, it is not compulsory.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties under 2Ha in area tend to be within townships, and have a greater requirement of public infrastructure than Rural Residential land, therefore the differential has been set at 4 times the lowest differential.
Vacant Land Between 2Ha and 40Ha *(previously named Vacant Land Other)*	230% (or 300% of lowest differential)	228.83% (or 300% of lowest differential)	Land that has not been developed that meets the criteria of any other rating differential, and the total property area is between 2Ha and 40Ha in area.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties between 2Ha and 40Ha in area tend to be within rural residential areas, and have a lesser requirement of public infrastructure than vacant urban land, therefore the differential has been set at 3 times the lowest differential.
Vacant Land >40Ha		152.55% (or 200% of lowest differential)	Land that has not been developed that meets the criteria of any other rating differential, and the total property area greater than 40Ha in area.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties greater than 40Ha in area tend to be within rural areas, and have a lesser requirement of public infrastructure than vacant urban land and rural residential land, therefore the differential has been set at 2 times the lowest differential.
Commercial	100%	110% (to be increased by 2.5% annually – 19/20 – 102.5% 20/21 – 105.0% 21/22 – 107.5% 22/23 – 110.0%)	1. Ratable properties used or adapted to be used for business and/or administrative purposes. 2. Properties used for the provision of health services. 3. Properties used primarily as offices or for administration purposes.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the commercial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including: o Business rates are tax deductible; o Businesses bring a greater burden on Council with the need for public infrastructure; o Rates tend to be a lower order factor in business investment decisions.
Industrial	100%	110% (to be increased by 2.5% annually – 19/20 – 102.5% 20/21 – 105.0% 21/22 – 107.5% 22/23 – 110.0%)	Ratable properties which are used primarily for manufacturing processes.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the commercial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including: o Business rates are tax deductible; o Businesses bring a greater burden on Council with the need for public infrastructure; o Rates tend to be a lower order factor in business investment decisions.
Residential	100%	100%	Ratable property which is used for private residential purposes EXCLUDING motels, caravan parks, supported accommodation, accommodation houses, boarding houses, and the like as well as vacant land.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the residential property and other classes of property.
Farms	80%	76.28% (to be decreased by 0.93125% annually – 19/20 – 79.07% 20/21 – 78.14% 21/22 – 77.21% 22/23 – 76.28%)	Farm Land means any ratable land – e. That is not less than 2 hectares in area; and f. Is used for carrying on a business of primary production as determined by the Australian Taxation Office; and g. primarily used for agricultural production (grazing, dairying, pig farming , poultry farming, pig farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind); and h. used by a business – i. which has a **significant** or **substantial** commercial purpose or character; and ii. seeks to make a profit on a continuous or repetitive basis from its activities on the land; and iii. is making a profit from its activities on the land or has a reasonable prospect of making a profit from the activities on the land if it continues to operate in the way that it is operating. In consideration, the Council will take into account that whatever activity is being conducted on a property, it must be a business of primary production as opposed to a hobby or recreational activity.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the farming property and other classes of property. • The farm rate is lower than for other classes of land because the farming operations involve large properties which have significant value and which are often operated as a 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. • By virtue of their distance from urban centres, farming households' access and consumption of a range of services is lower and this is also an argument for lower rates.
Undevelopable Land		100%	Land in which Pyrenees Shire Council deems that cannot be used for residential, commercial or industrial purposes (including extractive industry) due to constraints of the Pyrenees Shire Planning Scheme.	• The current Vacant Land differentials are set at a higher rate to encourage owners to develop their land; however there are instances where the land cannot be developed, with a legal dwelling, due to Planning and Environmental Health requirements. It would be unfair to continue to charge these property owners the higher differential, with no reasonable prospect of ever being able to reduce the differential by development.

9. 2020/21 ADDENDUM

In response to the rapid increase of valuations in the Farming sector of Pyrenees Shire Council in the 2020 Revaluation, Councillors proposed a deviation from the 2019 Rating Strategy that was adopted by Council in January 2019.

Rating authority valuations in Victoria are legislated under the provisions of the *Valuation of Land Act 1960* (VLA). An amendment in December 2017 introduced the framework for centralised and annualised valuations, with the Valuer General Victoria the sole authority for all statutory valuations and revaluations, commencing in 2019.

Pyrenees Shire comprises of 66% Rural land, 18% Residential land, and the remaining 16% of Commercial, Industrial and Specialist properties.

It was previously thought that the introduction of annualised valuations would take away the sharp valuation increases previously experience, however the market for rural land has increased at a rapid rate with higher than usual prices being recorded at the point of sale.

In the 2020 Revaluation the overall increase in valuation across all assessments was 15.2%. Rural properties experienced a sharp rise in valuation (23.8%) in comparison to the Residential property valuations (7.2%). Commercial, Industrial and Specialist properties experienced a decrease in valuation (-4.2%).

The alteration of rating differentials allows Council to shift the burden of increased rates payable from the rural sector, to distribute it more evenly across all assessments.

The Local Government Act (2020) stipulates that Council must adopt a Revenue and Rating Plan by 30 June following a general election. Hence, Council will revise and adopt a new Revenue and Rating plan by 30 June 2021.

10. 20/21 ADDENDUM – COMPARISON OF RATING STRATEGIES

Category	2013 Strategy (% on General Rate)	2018 Strategy (% on General Rate)	2020/21 Addendum (% on General Rate)	Classification	Rationale
Vacant Land < 2Ha	320% (or 400% of lowest differential)	305.10% (or 400% of lowest differential) (20/21 – 312.56%)	296% *(or 400% of lowest differential)*	Land that has not been developed that meets the criteria of any other rating differential, and the total property area is less than 2Ha in area. Although the majority of properties will fall within an urban zone, it is not compulsory.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties under 2Ha in area tend to be within townships, and have a greater requirement of public infrastructure than Rural Residential land, therefore the differential has been set at 4 times the lowest differential.
Vacant Land Between 2Ha and 40Ha *(previously named Vacant Land Other)*	230% (or 300% of lowest differential)	228.83% (or 300% of lowest differential) (20/21 – 234.42%)	234.42%	Land that has not been developed that meets the criteria of any other rating differential, and the total property area is between 2Ha and 40Ha in area.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties between 2Ha and 40Ha in area tend to be within rural residential areas, and have a lesser requirement of public infrastructure than vacant urban land, therefore the differential has been set at 3 times the lowest differential.
Vacant Land >40Ha		152.55% (or 200% of lowest differential) (20/21 - 156.28%)	156.28%	Land that has not been developed that meets the criteria of any other rating differential, and the total property area greater than 40Ha in area.	• Vacant land differential should be higher than the general rate to encourage the development of land. • Properties greater than 40Ha in area tend to be within rural areas, and have a lesser requirement of public infrastructure than vacant urban land and rural residential land, therefore the differential has been set at 2 times the lowest differential.
Commercial	100%	110% (to be increased by 2.5% annually – 19/20 – 102.5% 20/21 – 105.0% 21/22 – 107.5% 22/23 – 110.0%)	110%	4. Ratable properties used or adapted to be used for business and/or administrative purposes. 5. Properties used for the provision of health services. Properties used primarily as offices or for administration purposes.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the commercial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including: o Business rates are tax deductible; o Businesses bring a greater burden on Council with the need for public infrastructure; o Rates tend to be a lower order factor in business investment decisions.
Industrial	100%	110% (to be increased by 2.5% annually – 19/20 – 102.5% 20/21 – 105.0% 21/22 – 107.5% 22/23 – 110.0%)	110%	Ratable properties which are used primarily for manufacturing processes.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the commercial property and other classes of property. The differential is set higher than for other classes of land for a number of reasons, including: o Business rates are tax deductible; o Businesses bring a greater burden on Council with the need for public infrastructure; o Rates tend to be a lower order factor in business investment decisions.
Residential	100%	100%	100%	Ratable property which is used for private residential purposes EXCLUDING motels, caravan parks, supported accommodation, accommodation houses, boarding houses, and the like as well as vacant land.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the residential property and other classes of property.
Farms	80%	76.28% (to be decreased by 0.93125% annually – 19/20 – 79.07% 20/21 – 78.14% 21/22 – 77.21% 22/23 – 76.28%)	74%	Farm Land means any ratable land – i. That is not less than 2 hectares in area; and j. Is used for carrying on a business of primary production as determined by the Australian Taxation Office; and k. primarily used for agricultural production (grazing, dairying, pig farming , poultry farming, pig farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind); and l. used by a business – i. which has a **<u>significant</u>** or **<u>substantial</u>** commercial purpose or character; and ii. seeks to make a profit on a continuous or repetitive basis from its activities on the land; and iii. is making a profit from its activities on the land or has a reasonable prospect of making a profit from the activities on the land if it continues to operate in the way that it is operating. In consideration, the Council will take into account that whatever activity is being conducted on a property, it must be a business of primary production as opposed to a hobby or recreational activity.	• Reflects the level of service provided and ensures that reasonable rate relativity is maintained between the farming property and other classes of property. • The farm rate is lower than for other classes of land because the farming operations involve large properties which have significant value and which are often operated as a 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. • By virtue of their distance from urban centres, farming households' access and consumption of a range of services is lower and this is also an argument for lower rates.
Undevelopable Land		100%	100%	Land in which Pyrenees Shire Council deems that cannot be used for residential, commercial or industrial purposes (including extractive industry) due to constraints of the Pyrenees Shire Planning Scheme.	• The current Vacant Land differentials are set at a higher rate to encourage owners to develop their land; however there are instances where the land cannot be developed, with a legal dwelling, due to Planning and Environmental Health requirements. It would be unfair to continue to charge these property owners the higher differential, with no reasonable prospect of ever being able to reduce the differential by development.