

# Horsham Rural City Council



## RATES STRATEGY REVIEW ADVISORY COMMITTEE

### Discussion Paper

December 2018

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## Executive summary

This discussion paper sets out the key recommendations of the Rates Strategy Review Advisory Committee (the Committee) convened on October 2018 to provide community input and to make recommendations to the Horsham Rural City Council (HRCC) on revisions to the Rates Strategy 2018-19.

The HRCC is requested to consider the following recommendations of the Committee in setting its Rates Strategy and Rates Policy for the 2019-20 year.

### **Recommendation 1: Key rating principles (section 3.)**

That the principles of:

- Wealth tax
- Equity
- Efficiency
- Simplicity
- Benefit
- Capacity to pay
- Diversity.

be taken into account when setting HRCC's rating strategy and policy.

### **Recommendation 2: Factors to consider when setting differential rates (section 4.)**

That the factors set out in section 4.2 of this report be taken into account when setting differential rates and that a new category be included for retirement villages.

That a threshold be set for annual valuation changes requiring the HRCC to review the rating differentials when the valuation change for any rating category exceeded the threshold or there was a large disparity in valuation changes between categories.

### **Recommendation 3: Equitable sharing of the rate burden and changes to current charges, rebates and exemptions (section 5.)**

That the following differential rate categories and levels be adopted by HRCC:

- Residential (100%)
- Commercial (100%)
- Industrial (100%)
- Farm (67%)
- Cultural and recreational (0%-50%)
- Retirement villages (80%).

That it be noted that even at a 67% differential, farms continue to carry an excessive rate burden and it is recommended that this be addressed by the HRCC at every general revaluation so as to bring it down to a level that results in a more fair and equitable distribution of the rates burden.

That the definition of farm land be changed to:

“Is land that is occupied for the principal purpose of carrying out activities of primary production on land defined as ‘farm land’ under the Valuation of Land Act 1960; is not less than 2ha; used primarily for grazing (including agistment), dairying, pig farming, poultry farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or growing of crops of any kind; used by a business that

has a significant commercial purpose, seeks to make a profit on a continuous basis or repetitive basis; is making a profit or has a reasonable prospect of making a profit.”

And that the following definition be considered for rural lifestyle land as land that is to be treated as residential land:

“Is land with a residential dwelling on larger allotments in rural, semi-rural or bushland settings. Primary production uses and associated improvements are secondary to the value of the residential home site use and associated residential improvements.”

That the municipal charge be reduced from \$287 to \$200 and given the regressive nature of the municipal charge it should continue to decrease over time.

That there be no change to the current rebates, discounts or exemptions offered by HRCC.

That the hardship policy be revised with a view to incorporating financial hardship grounds as well as prolonged illness, unemployment or other reasonable cause. The hardship policy to also include an independent assessment process including referring applicants to a financial counselling service for advice back to the HRCC prior to deciding on the best course of action.

**Recommendation 4: Proposed improvements to communication and engagement on the budget and rating strategy (section 6.)**

That the following improvements be made to communication and engagement on the budget and rating strategy.

General

- That the HRCC do more than the minimum requirements (i.e. statutory requirements) around community engagement and improve how they listen, communicate and liaise with the community
- Provide more information to ratepayers in easy to understand language and increase the use of electronic delivery of information
- Make it simpler to navigate Council’s website.

Budget

- Hold independently facilitated community meetings prior to the preparation of the budget to identify priorities and needs.

Rating strategy

- Provide new property valuations to all ratepayers prior to consideration of the draft budget, or if this is not possible, advise individual ratepayers of new property valuations where the valuation and/or rate increases are over an agreed threshold
- Provide details to the community on the impact of the new property valuations on the rating burden for different rating categories
- Make more transparent, ratepayers’ rights to discuss or challenge property valuations.

**Recommendation 5: Other matters (section 8.)**

That following the State election the HRCC strongly lobby the new government to pursue a review of the rating and/or valuation system to improve what the Committee considers to be currently a broken system.

# 1 Overview

## 1.1. Purpose

The Horsham Rural City Council (HRCC) formed the Rates Strategy Review Advisory Committee (Committee) to provide community input and opinion on the setting of key rating principles in the review of the HRCC's current Rates Strategy, and to make recommendations to Council on revisions to the Rates Strategy and an overarching Rates Policy. A key outcome of which is to achieve a fair and equitable distribution of the rate burden across all members of the community.

## 1.2. Responsibilities

The responsibilities of the Committee were:

- To identify and recommend principles for formulating the HRCC's rates strategy and policy (section 3.)
- Advise on the factors for consideration of any differential rates (section 4.)
- Advise on the equitable sharing of the rate burden and changes to current charges, rebates and exemptions (section 5.)
- Propose improvements to communication and engagement on the budget and rating strategy (section 6.)
- Consider feedback and submissions from members of the public that may be obtained during the review (section 7.)
- Produce a discussion paper with recommendations for Council.

## 1.3. Membership

The Committee consisted of nine people (excluding ex-officio) who were all ratepayers within the municipality. The members represented residential, commercial, industrial, farm and retirement village ratepayers. The Committee also included a representative of the Victorian Farmers Federation (VFF).

Members of the Committee:

- Elizabeth Jackman
- Christie Keene
- Kola Kennedy
- Jim Lonsdale
- Tim Mintern
- Gregory Pitman
- Karen Somerville
- Richard Walker
- Scott Johns (VFF)
- John Watson (ex-officio – Independent Chair)

Committee support:

- Mark Davies (Consultant)
- Teagan Barents (Rates Officer/Committee support)

The Committee met on five occasions to discharge its responsibilities under the Terms of Reference.

#### 1.4. Items out of scope

Items that were out of scope and which the Committee was not asked to consider were:

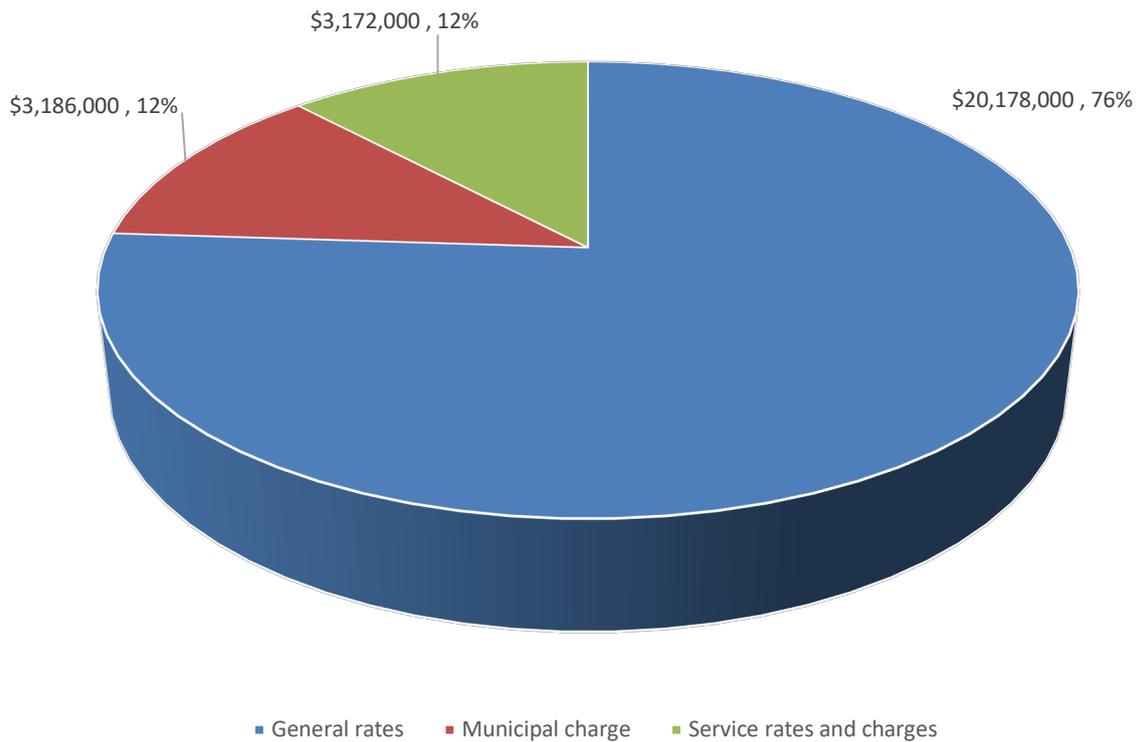
- The amount of rates collected by HRCC
- The fees and charges for kerbside waste and recycling services
- HRCC's other policies and strategies, except to the extent they relate to rating strategies
- The cost effectiveness of providing HRCC's services
- The range of services and facilities provided by HRCC
- HRCC's capital works program
- Lease, licence and user agreements.

## 2 Horsham rating structure

### 2.1. Rates and charges 2018-19

Details	Cents/\$CIV	Assessments	\$CIV	\$
<b>General rates</b>				
Residential	0.4908	9,186	2,361,734,500	11,591,393
Commercial	0.4908	524	328,949,500	1,614,484
Industrial	0.4908	418	167,600,500	822,583
Farm	0.3926	2,159	1,562,389,000	6,133,939
Cultural and recreational	0.2454	3	6,260,000	15,362
<b>TOTAL</b>		<b>12,290</b>	<b>4,426,933,500</b>	<b>20,177,762</b>
Details	\$/Property	Properties		\$
<b>Municipal charge</b>				
Charge	287	11,100		3,185,700
<b>TOTAL</b>		<b>11,100</b>		<b>3,185,700</b>
Details	\$/Property	Properties		\$
<b>Service rates and charges</b>				
Residential urban (240l)	394	4,605		1,814,370
Residential rural (240l)	365	1,169		426,685
Commercial (240l)	382	336		128,352
Residential urban (120l)	253	2,709		685,377
Residential rural (120l)	224	351		78,624
Commercial (120l)	365	82		29,930
Commercial recycling (240l)	136	66		8,976
<b>TOTAL</b>		<b>9,318</b>		<b>3,172,314</b>
<b>GRAND TOTAL</b>				<b>26,535,776</b>

## 2.2. Rates and charges composition

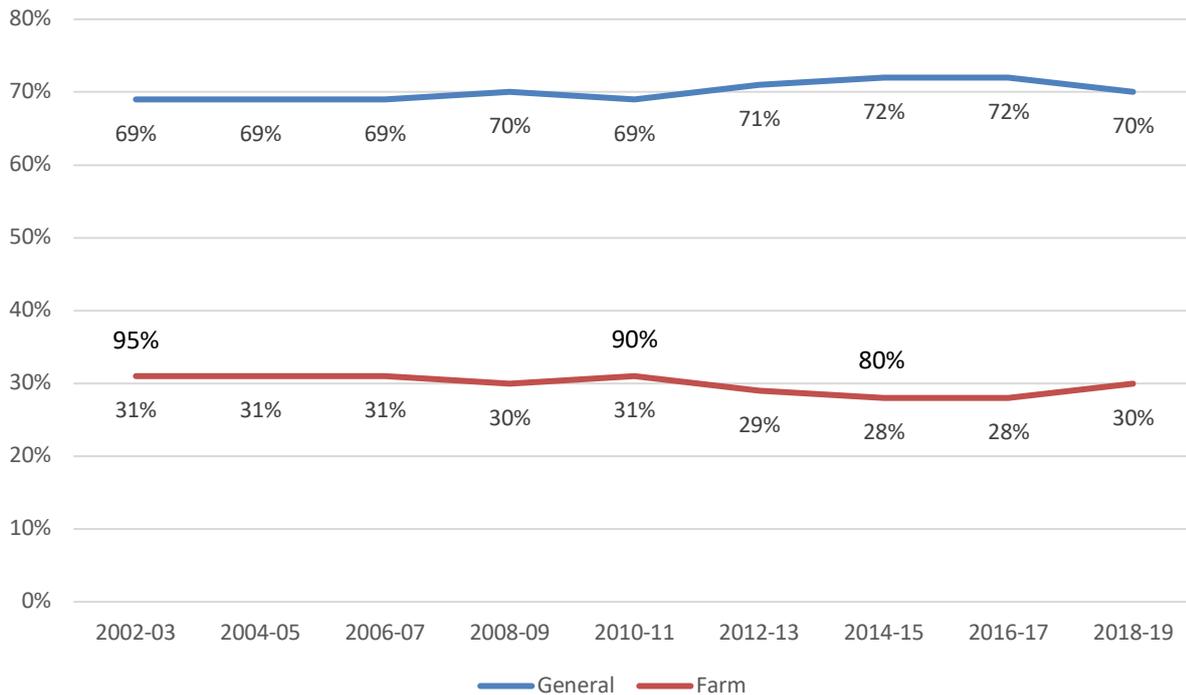


## 2.3. Valuation and rating outcomes

Valuation Changes			Valuation Proportion			General Rate Burden			Farm
Years	General	Farm	Years	General	Farm	Years	General	Farm	Diff
2002-03	0%	0%	2002-03	69%	31%	2002-03	69%	31%	<b>95%</b>
2004-05	37%	38%	2004-05	68%	32%	2004-05	69%	31%	95%
2006-07	15%	20%	2006-07	69%	31%	2006-07	69%	31%	95%
2008-09	9%	7%	2008-09	68%	32%	2008-09	70%	30%	95%
2010-11	<b>6%</b>	<b>14%</b>	2010-11	68%	32%	2010-11	69%	31%	<b>90%</b>
2012-13	8%	4%	2012-13	69%	31%	2012-13	71%	29%	90%
2014-15	<b>11%</b>	<b>22%</b>	2014-15	67%	33%	2014-15	72%	<b>28%</b>	<b>80%</b>
2016-17	12%	14%	2016-17	67%	33%	2016-17	72%	<b>28%</b>	80%
2018-19	<b>5%</b>	<b>17%</b>	2018-19	65%	35%	2018-19	70%	30%	80%

The above table shows year by year details of the general revaluation outcomes since the 2004 general revaluation. The farm differential was introduced in the 2002-03 year and was adjusted down in each of the years where there was a large disparity between general and farm property valuation outcomes. In particular 2010-11 and 2014-15 which had the effect of softening the rate burden impact.

### 2.4. General rates burden



The above graph shows that since 2002-03, the level of the general rates burden for farm properties remained steady at between 30% and 31% until 2010-11 when the farm differential was reduced to 90%. The differential was further reduced to 80% in 2014-15 with a subsequent reduction in the general rates burden to 28%. This remained steady at this level until 2018-19 when following the 2018 general revaluation of properties it increased to 30%.

### 2.5. Benchmarking

Council	Budget	Rates	Residential	Commercial	Industrial	Farm	Cult & Rec	Municipal Charge	SEIFA Index
Moyne	\$45,469	\$22,385	100%	100%	100%	100%	na	\$261	7.00
Glenelg	\$46,789	\$23,857	100%	100%	100%	100%	50%	\$0	2.00
Mildura	\$105,535	\$69,700	100%	120%	120%	90%	10%	\$100	1.00
Buloke	\$32,937	\$13,316	100%	100%	100%	90%	na	\$170	3.00
Corangamite	\$39,363	\$21,532	100%	100%	100%	90%	50%	\$198	5.00
Hindmarsh	\$18,160	\$8,645	100%	90%	90%	90%	50%	\$199	2.00
Swan Hill	\$46,724	\$27,624	100%	125%	100%	82%-86%	96%	\$0	2.00
Horsham	\$51,014	\$26,702	100%	100%	100%	80%	50%	\$287	4.00
Southern Grampians	\$42,581	\$19,607	100%	100%	100%	80%	na	\$195	5.00
Colac Otway	\$47,363	\$30,204	100%	165%	165%	75%	na	\$188	3.00
Yarriambiack	\$24,138	\$12,183	100%	100%	100%	72%	na	\$73	1.00
Ararat	\$29,844	\$16,919	100%	100%	100%	55%	na	\$92	1.00
Northern Grampians	\$33,830	\$17,377	100%	100%	100%	47%	58%	\$156	1.00

Out of 10

Swan Hill: 82% dry land and 96% irrigation land

Northern Grampians: Reduced its farm rate by 18% in 2018-19 to achieve 2.25% increase

The above table shows that Horsham is generally comparable with other similar councils in terms of the range and level of rate differentials. However, it has the highest municipal charge at \$287.

## 3 Principles for formulating the HRCC's rates strategy and policy

### 3.1. Good practice taxation principles

The Victorian Government's *Local Government Better Practice Guide: Revenue and Rating Strategy 2014* states that when developing a rating strategy, in particular with reference to differential rates, the Council should give consideration to the following key good practice taxation principles:

- **Wealth Tax:** 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
- **Equity:** Horizontal equity – ratepayers in similar situations should pay similar amounts of rates (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation). Vertical Equity – those who are better off should pay more rates 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)
- **Efficiency:** Economic efficiency is measured by the extent to which production and consumption decisions by people are affected by rates
- **Simplicity:** How easily a rates system can be understood by ratepayers and the practicality and ease of administration
- **Benefit:** The extent to which there is a nexus between consumption/benefit and the rate burden
- **Capacity to pay:** The capacity of ratepayers or groups of ratepayers to pay rates
- **Diversity:** The capacity of ratepayers within a group to pay rates.

### 3.2. Committee response

#### 3.2.1. Wealth Tax

The Committee agreed that the wealth tax is a starting point and that it needs to be the basis of rating.

#### 3.2.2. Equity

The Committee agreed that if people have the capacity to pay more, then they should pay more.

#### 3.2.3. Efficiency

The Committee agreed that if rates for a particular category became too high (e.g. farms) then they would have less ability to spend money with local businesses, thus affecting the local economy.

#### 3.2.4. Simplicity

The Committee agreed that the rating system needs to be simple so that HRCC doesn't need to hire extra staff, resources etc to administer and it also needs to be simple for ratepayers to understand. However, the Committee acknowledged that some complexity may be required and should be considered by the HRCC to ensure a more fair and equitable distribution of the rate burden.

#### 3.2.5. Benefit

The Committee agreed that the farming sector was generally further from Horsham and therefore their use of HRCC services and facilities was lower. This was reflected in the 80% differential. On the other hand, residential ratepayers receive more benefit from their rates and should pay a higher rate. This was

reflected in the 100% differential. It was noted that residential ratepayers who live further out of Horsham in the smaller communities may also have lower access to HRCC services and facilities.

### **3.2.6. Capacity to Pay**

The Committee agreed that capacity to pay was an important factor to take into account when setting the rating structure, but also noted that it was difficult to assess.

### **3.2.7. Diversity**

The Committee agreed that there can be diversity within ratepayer categories such as residential ratepayers living in the city versus rural areas. However, such diversity should be reflected in the property valuation.

## **3.3. Committee recommendation**

That the principles of:

- Wealth tax
- Equity
- Efficiency
- Simplicity
- Benefit
- Capacity to pay
- Diversity

be taken into account when setting HRCC's rating strategy and policy.

## 4 Factors for consideration of any differential rates

### 4.1. HRCC differential rates

The HRCC currently has the following differential rating categories:

- Residential
- Commercial
- Industrial
- Farm
- Cultural and recreational.

### 4.2. Committee response

The Committee believes the factors that should be taken into account when considering the differential rating categories are as set out below.

#### 4.2.1. Residential

- Investors and home-based business properties can claim a tax deduction
- Residential properties generally have higher access to council services
- Horsham has an ageing population (i.e. Horsham: 22% population >65yrs; Victoria: 16% population >65yrs)
- There is some disadvantage amongst the community (i.e. Horsham SEIFA is 4/10)
- Residential properties tend to be lower in valuation and therefore are adversely impacted by the regressive nature of the municipal charge
- A number of residential properties are held for investment purposes (i.e. 38% of residential properties are not owner occupied).

#### 4.2.2. Commercial

- Commercial properties are able to claim a tax deduction
- Commercial properties are operated for a profit
- There is a wide diversity of retail operators both in size and type
- The commercial sector is relatively small (i.e. 524 properties)
- The farming sector underpins economic activity
- The retail area is a focus of the HRCC Economic Development Strategy.

#### 4.2.3. Industrial

- Industrial properties are able to claim a tax deduction
- Industrial properties are operated for a profit
- The industrial sector is relatively small (422 properties)
- The farming sector underpins economic activity
- The HRCC Economic Development Strategy states that primary industry can support new downstream industries.

#### 4.2.4. Farm

- Farms are able to claim a tax deduction
- Farms are operated for a profit
- Access to services varies according to location and remoteness
- The rate burden for farms is proportionately higher compared to other categories as their productive asset is valued
- There is no nexus between land valuation increases and productive capacity
- There is no nexus between the rates paid and services received
- Farmers are price takers so cannot pass on rate increases
- Farms are more susceptible to external factors (e.g. weather, commodity prices, national/international events)
- The farming sector impacts on the economic activity of other HRCC sectors
- Farms are able to aggregate their properties on the basis of a farm enterprise resulting in a reduction in the municipal charge paid.

#### 4.2.5. Cultural and recreational

- Cultural and recreational properties should be recognised in accordance with the Cultural and Recreational Lands Act 1963.

#### 4.2.6. Retirement villages

The Committee also believes that the HRCC should consider inclusion of a separate differential for retirement villages on the basis that:

- The HRCC receives increased rates from higher density housing
- Retirement villages invest in and maintain their own infrastructure (e.g. lighting, roads, footpaths, landscaping).

### 4.3. Committee recommendation

That the factors set out in section 4.2 above be taken into account when setting differential rates and that a new category be included for retirement villages.

That a threshold be set for annual valuation changes requiring the HRCC to review the rating differentials when the valuation change for any rating category exceeded the threshold or there was a large disparity in valuation changes between categories.

## 5 Equitable sharing of the rate burden and changes to current charges, rebates and exemptions

### 5.1. General rates

#### 5.1.1. Local Government Act 1989 – Section 158, 160 and 161

A Council when declaring rates and charges must declare whether the general rates will be raised by the application of a uniform rate or differential rates. If a Council declares a uniform rate, then the general rate for any rateable land is to be determined by multiplying the value of the land by the uniform rate percentage.

If a Council declares a differential rate for any land, the Council must:

- Specify the objectives of the differential rate including a definition of the types or classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate
- Specify the characteristics of the land which are the criteria for declaring the differential rate.

A Council must have regard to any Ministerial guidelines before declaring a differential rate for any land.

The highest differential rate must be no more than four times the lowest differential rate.

#### 5.1.2. HRCC general rates

HRCC has declared that the general rates will be raised by the application of differential rates. The current differential rates are as follows:

- Residential (100%)
- Commercial (100%)
- Industrial (100%)
- Farm (80%)
- Cultural and recreational (0%-50%).

The current HRCC policy is that a differential for the farm sector is appropriate in recognition of changes to relative property values, the high value of land as an input to farm operations and in recognition of some lesser access to services associated with their rural isolation of the majority of the sector.

The HRCC policy for Cultural and Recreational properties is that rates are set at 50% (for those with significant revenue raising capacity) of the general rate. No municipal charge is made on these properties.

### 5.2. Committee response

The Committee agreed that the current differential categories and levels were appropriate subject to the following changes:

- Farm (67%): To return the level of rate burden to that which existed before the 2018 General Revaluation. The Committee also agreed that even at a 67% differential, farms continue to carry an excessive rate burden and that this should be addressed at every general revaluation by the HRCC so as to bring it down to a level that results in a more fair and equitable distribution of the rates burden
- Retirement Villages (80%): To recognise that the HRCC receives increased rates from higher density housing on retirement village land and retirement villages invest in and maintain their own infrastructure (e.g. lighting, roads, footpaths, landscaping).

The Committee agreed that that the differential rating levels for commercial and industrial properties should remain at 100% given their reliance on the farming sector and that they would receive some of the

rate burden following a reduction in the farm differential to 67% and reduction in the municipal charge to \$200. There is also no change recommended in regard to cultural and recreational land properties.

The Committee also agreed that the definition of farm land should be expanded as follows:

“Occupied for the principal purpose of carrying out activities of primary production on land defined as ‘farm land’ under the Valuation of Land Act 1960; is not less than 2ha; used primarily for grazing (including agistment), dairying, pig farming, poultry farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or growing of crops of any kind; used by a business that has a significant commercial purpose, seeks to make a profit on a continuous basis or repetitive basis; is making a profit or has a reasonable prospect of making a profit.”

And that the following definition be considered for rural lifestyle land as land that is to be treated as residential land:

“Is land with a residential dwelling on larger allotments in rural, semi-rural or bushland settings. Primary production use and associated improvements are secondary to the value of the residential home site use and associated residential improvements.”

### 5.3. Municipal charge

#### 5.3.1. Local Government Act 1989 – Section 159

A Council may declare a municipal charge to cover some of the administrative costs of the Council. A Council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the sum total of the Council's total revenue from a municipal charge and total revenue from general rates. The *Local Government Bill 2018* proposed that this be reduced to 10%.

A person may apply to a Council for an exemption from the payment of a municipal charge on rateable land if the rateable land is farm land, the rateable land forms part of a single farm enterprise and an exemption is not claimed in respect of at least one other rateable property which forms part of the single farm enterprise. In the case of a single farm enterprise which is occupied by more than one person, an exemption cannot be claimed in respect of more than one principal place of residence.

#### 5.3.2. HRCC municipal charge

The current municipal charge is budgeted to raise \$3.10 million in the 2018-19 year which represents 13.6% of total revenue from the municipal charge and general rates. The HRCC advised that total administrative costs for the 2018-19 year was \$7.36 million. The current charge of \$3.10 million represents a 42% recovery of these costs.

### 5.4. Committee response

The Committee agreed that given the regressive nature of the municipal charge, it should be reduced to 10% of total revenue from the municipal charge and general rates, which is consistent with that proposed in the new Local Government Act. This would equate to a municipal charge of \$200. The Committee also agreed that given the regressive nature of the municipal charge it should continue to decrease over time.

### 5.5. Rebates, discounts and exemptions

#### 5.5.1. Local Government Act 1989 – Section 169

A Council may grant a rebate or concession in relation to any rate or charge:

- To assist the proper development of the municipal district
- To preserve buildings or places in the municipal district which are of historical or environmental interest
- To restore or maintain buildings or places of historical, environmental, architectural or scientific importance in the municipal district

- To assist the proper development of part of the municipal district.

A Council resolution granting a rebate or concession must specify the benefit to the community as a whole resulting from the rebate or concession.

### **5.5.2. HRCC rebates, discounts or exemptions**

The current HRCC policy is that no rebates or concessions be granted to properties other than the state funded pension rebate or those under specific contractual agreements.

## **5.6. Committee response**

The Committee agreed that it did not support any rebates, discounts or exemptions over and above the government pension rebate currently provided by the State government.

## **5.7. Deferrals and waivers**

### **5.7.1. Local Government Act 1989 – Section 170 and 171**

A Council may defer in whole or in part the payment by a person of any rate or charge which is due and payable for a specified period and subject to any conditions determined by the Council if it considers that an application by that person shows that the payment would cause hardship to the person.

The Council may waive the whole or part of any rate or charge or interest in relation to:

- An eligible recipient
- Any other class of persons determined by the Council for the purpose of waiving rates or charges on the grounds of financial hardship.

### **5.7.2. HRCC deferrals and waivers**

The HRCC has a separate hardship policy for the handling of hardship cases which allows deferment of all or part of rates for varying times depending on circumstances and, interest may also be waived in hardship cases. Applicants are required to specify the hardship grounds for consideration of which the HRCC may grant a deferment, which would generally continue until circumstances change, the land is sold or the person dies. In the past the HRCC has only granted interest waivers for hardship.

## **5.8. Committee response**

The Committee agreed that the hardship policy needed to be revised with a view to incorporating financial hardship grounds as well as prolonged illness, unemployment or other reasonable cause. It should also include an independent assessment process including referring applicants to a financial counselling service for advice back to the HRCC prior to deciding on the best course of action.

## **5.9. Financial impact of proposed changes to the rating structure**

### **5.9.1. Options**

The Committee agreed that the following options should be modelled to assess the financial impacts of its recommendations on each category of ratepayer:

- 1 Do nothing: Retain the current rating structure and allow the annual general revaluation process to determine the level of rates.
- 2 Committee recommendation: Adjust the farm differential to 67%, introduce a retirement village differential of 80% and reduce the municipal charge to \$200.

#### **Assumptions**

The following assumptions were made in regard to future rating years:

- Future rate cap increases were set at 2.25%

- Future property valuation increases were based on the average valuation increases over the past two general revaluations (i.e. 2016 and 2018) and applied annually with a capped upper limit of 10% and lower limit of 5%
- The growth in the number of assessments were based on the average growth over the past two general revaluations period (i.e. 2016/17 to 2018/19) and applied annually with a capped upper limit of 10% and lower limit of 5%.

Refer Appendix A – Financial Modelling for a detailed analysis of the financial impacts of each option on each category of rate payer.

### 5.9.2. Option 1: Do nothing

Under the do-nothing option, the general rate and municipal charge burden for farm land will increase from 27.5% in 2018-19 to 28.0% in 2019-20 and then continue to increase to 29.6% by 2023-24. This will result in average rate increases for farm land between 4.3% and 4.5% per annum. This is compared to residential land which will experience average rate decreases of between 0.1% and 0.3% per annum, commercial land with increases of between 1.7% and 2.1% and industrial land with decreases of between 0.5% and 1.5%.

### 5.9.3. Option 2: Committee recommendation

Under option 2, the rate burden for farm land will drop from 27.5% in 2018-19 to 25.6% in 2019-20 which is equivalent to the 2017-18 level and then continue to increase to 27.2% by 2023-24. This will result in an average rate decrease for farm land in 2019-20 of 4.4% or \$131 and then average increases between 4.4% and 4.6% per annum. This is compared to residential land which will experience an average rate increase of 3.0% or \$47 in 2019-20 and then rate decreases of between 0% and 0.3% per annum. Commercial land will experience an average rate increase of 9.2% or \$310 in 2019-20 and then increases of between 1.8% and 2.2%. Industrial land will experience an average rate increase of 3.7% or \$83 in 2019-20 and then decreases of between 0.5% and 1.5%. Retirement village land will experience an average rate decrease of 11.0% or \$118 in 2019-20 and then increases of between 0.4% and 1.3%.

Due to the regressive nature of the municipal charge, lower value properties such as residential properties valued under \$200,000 would experience a rate decrease in 2019-20 in the average general rate and municipal charge. For farm, commercial and industrial properties, they would experience a rate increase from the reduction in the municipal charge due to the higher value of these properties.

## 5.10. Committee response

The Committee agreed that option 2 achieved a good balance between reducing the rate burden on farming properties, creating a separate differential for retirement villages and minimising the impact of moving the rate burden onto other rating categories. In particular, by lowering the municipal charge this had the effect of softening the impact on lower valued properties, especially residential properties.

## 5.11. Committee recommendation

That the following differential rate categories and levels be adopted by HRCC:

- Residential (100%)
- Commercial (100%)
- Industrial (100%)
- Farm (67%)
- Cultural and recreational (0%-50%)
- Retirement villages (80%).

That it be noted that even at a 67% differential, farms continue to carry an excessive rate burden and it is recommended that this be addressed by the HRCC at every general revaluation so as to bring it down to a level that results in a more fair and equitable distribution of the rates burden.

That the definition of farm land be changed to:

“Occupied for the principal purpose of carrying out activities of primary production on land defined as ‘farm land’ under the Valuation of Land Act 1960; is not less than 2ha; used primarily for grazing (including agistment), dairying, pig farming, poultry farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or growing of crops of any kind; used by a business that has a significant commercial purpose, seeks to make a profit on a continuous basis or repetitive basis; is making a profit or has a reasonable prospect of making a profit.”

And that the following definition be considered for rural lifestyle land as land that is to be treated as residential land:

“Is land with a residential dwelling on larger allotments in rural, semi-rural or bushland settings. Primary production uses and associated improvements are secondary to the value of the residential home site use and associated residential improvements.”

That the municipal charge be reduced from \$287 to \$200 and given the regressive nature of the municipal charge it should continue to decrease over time.

That there be no change to the current rebates, discounts or exemptions offered by HRCC.

That the hardship policy be revised with a view to incorporating financial hardship grounds as well as prolonged illness, unemployment or other reasonable cause. The hardship policy to also include an independent assessment process including referring applicants to a financial counselling service for advice back to the HRCC prior to deciding on the best course of action.

## 6 Proposed improvements to communication and engagement on the budget and rating strategy

### 6.1. Committee response

The Committee agreed that HRCC should do more than the minimum requirements (i.e. statutory requirements) around community engagement and improve how they listen, communicate and liaise with the community. They also agreed that HRCC should provide more information to ratepayers in easy to understand language and increase the use of electronic delivery of information. This included making it simpler to navigate Council's website.

### 6.2. Committee recommendation

That the following improvements be made to communication and engagement on the budget and rating strategy.

#### General

- That the HRCC do more than the minimum requirements (i.e. statutory requirements) around community engagement and improve how they listen, communicate and liaise with the community
- Provide more information to ratepayers in easy to understand language and increase the use of electronic delivery of information
- Make it simpler to navigate Council's website.

#### Budget

- Hold independently facilitated community meetings prior to the preparation of the budget to identify priorities and needs.

#### Rating strategy

- Provide new property valuation results to all ratepayers prior to consideration of the draft budget, or if this is not possible, advise individual ratepayers where valuation and/or rate increases are over an agreed threshold
- Provide details to the community of the impact of the results of new property valuations on the rating burden for different rating categories.
- Make more transparent, ratepayers' rights to discuss or challenge property valuations.

## 7 Community feedback

### 7.1. Summary of engagement

Source	Residential	Farm	Business	Other	Total
Survey	202	66	21	0	289
Submissions	1	4	0	0	5
Face-to-face	0	3	0	1 <sup>1</sup>	4
<b>Total</b>	<b>203</b>	<b>73</b>	<b>21</b>	<b>1</b>	<b>298</b>

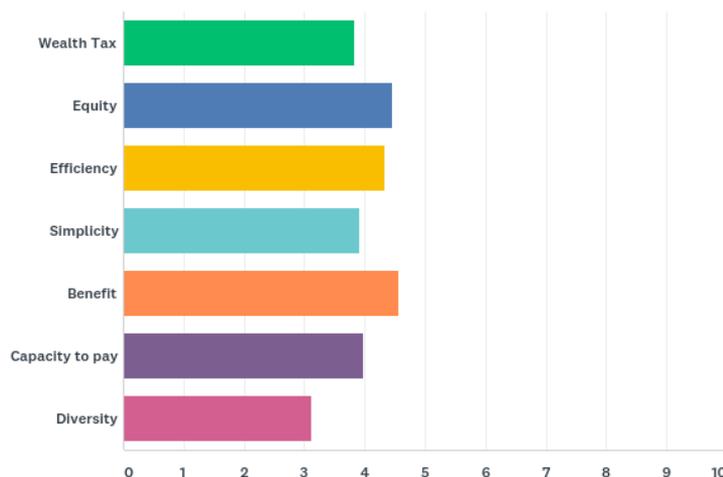
<sup>1</sup> Victorian Farmers Federation

The stakeholder engagement consisted of an on-line survey, written submissions and face-to-face interviews. A summary of stakeholder engagement feedback is set out below by type of engagement. Where possible, the feedback has been aligned to the good taxation principles.

### 7.2. Survey

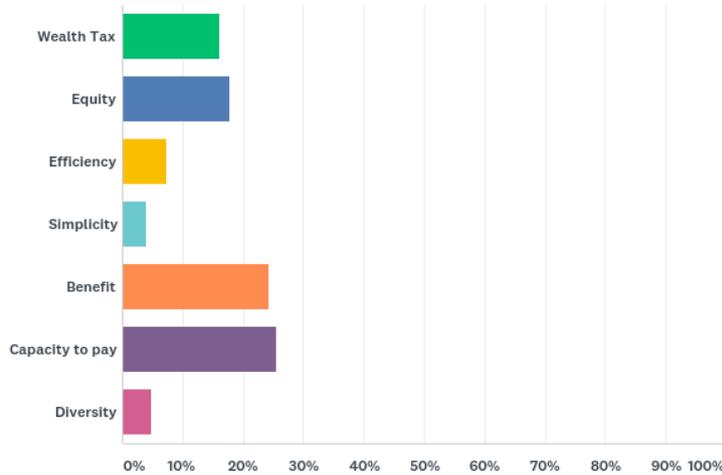
The on-line survey consisted of multiple-choice questions and free text. Only the multiple-choice questions have been reproduced below due to the difficulty in analysing the free text answers.

Q1 Some of the above principles conflict for example Diversity conflicts with Simplicity, if the rates take account of the wide range of ability to pay within a class of rate payers then the rates system will be more complex than if it didn't. To help the committee understand how to apply the principles rank the principles in order of most important (1) to least important (7) to you.



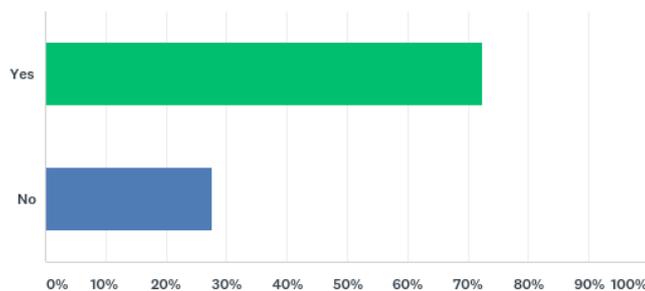
The above results indicate that the three most important taxation principles were benefit, equity and efficiency.

**Q2 Differential Rates** A differential can be used to provide a discount for some classes of rate payers (e.g. farms) with this discount being made up for by other rate payers paying more. Alternatively, a differential can be used to increase rates for some classes of payers (e.g. vacant land) with this being offset by other rate payers paying less. If a differential rate is to be applied to provide a discount to farmers what principle is best used to justify that discount?



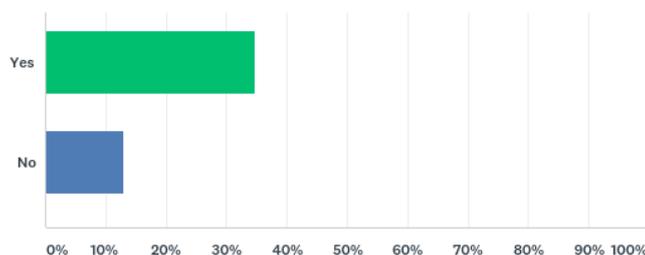
The above results indicate that the three most important taxation principles to be taken into consideration when providing a discount to farms were capacity to pay, benefit and equity.

**Q4** If a differential rate is applied to a class of rate payers to support a particular economic objective should there be some criteria to determine when that goal has been reached and therefore when the differential should be removed?



The above results indicate that 70% of respondents supported removing a differential once the original goal had been reached.

**Q5 Definition of a farm enterprise-** Should we make a distinction between commercial farm enterprises and hobby farms?



The above results indicate that 34% of respondents supported a distinction being made between commercial farm enterprises and hobby farms for the purposes of setting a farm land differential.

### 7.3. Submissions

#### Equity

- Differentials should be used to achieve the rate cap
- Hobby farms should be classified as residential
- Operating for profit should not be used as a reason to pay higher rates
- A \$645,000 increase in farm rates and a \$68,000 reduction in residential rates is not fair or equitable
- Council should have taken into account that 2018 was a drought year
- Discounts should be offered to pensioners and other disadvantaged members of the community
- The residential rate base is being subsidised by residential growth
- Residential rates in Horsham are high compared to other comparable councils

#### Benefit

- Farm rates are high compared to the services they use

#### Efficiency

- The differential rates on commercial and industrial properties should not be increased so that businesses remain in Horsham

### 7.4. Face-to-face

#### Equity

- There should be stability in the rate burden
- Differentials should be used dynamically to adjust the burden
- Support a high municipal charge to recover administrative costs
- Land is a production tool and shouldn't be rated
- No link between land valuation and productive capacity
- Hobby farmers should be excluded from the farm differential
- Lease value might be a better measure of land value
- 

#### Benefit

- The benefit principle should be a key input to setting the rate burden

#### Efficiency

- Commercial and industrial properties rely on the farming sector

#### Other

- There is not enough time after valuations are released for Council to make a considered decision on rates
- Ratepayers should be advised of large valuation increases before rate notices are issued
- New land values should be applied in the following year and averaged

## 8 Other matters

### 8.1. Committee response

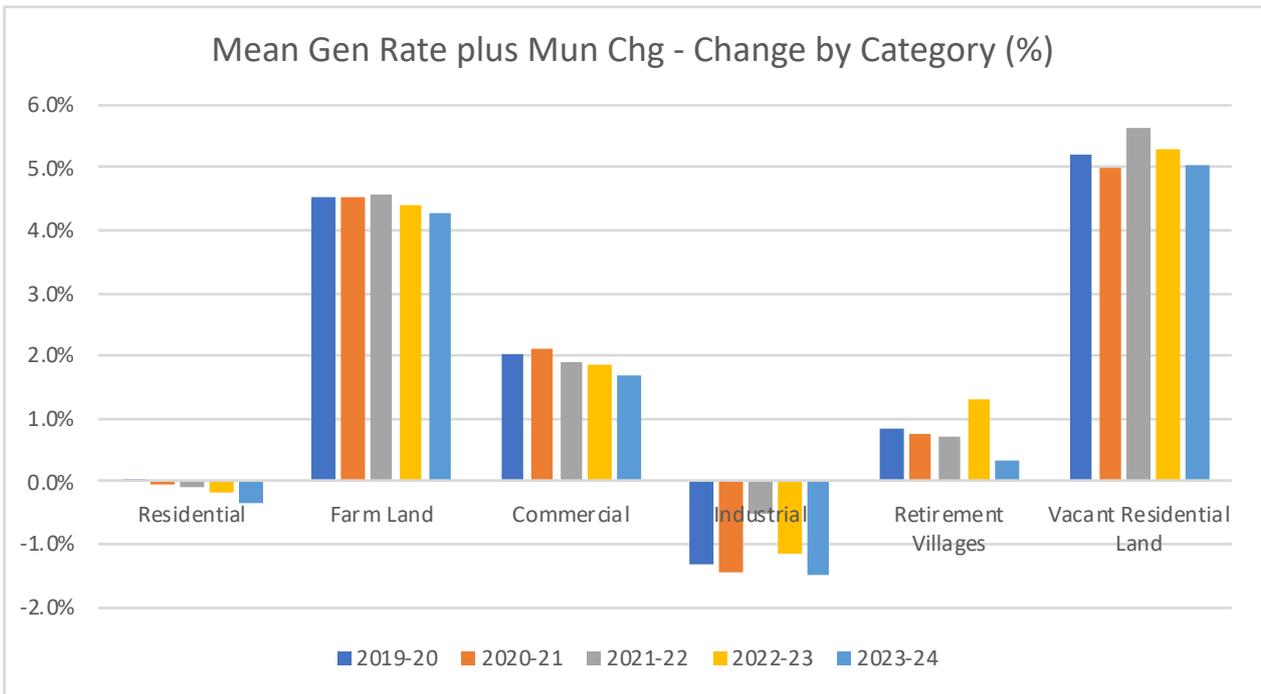
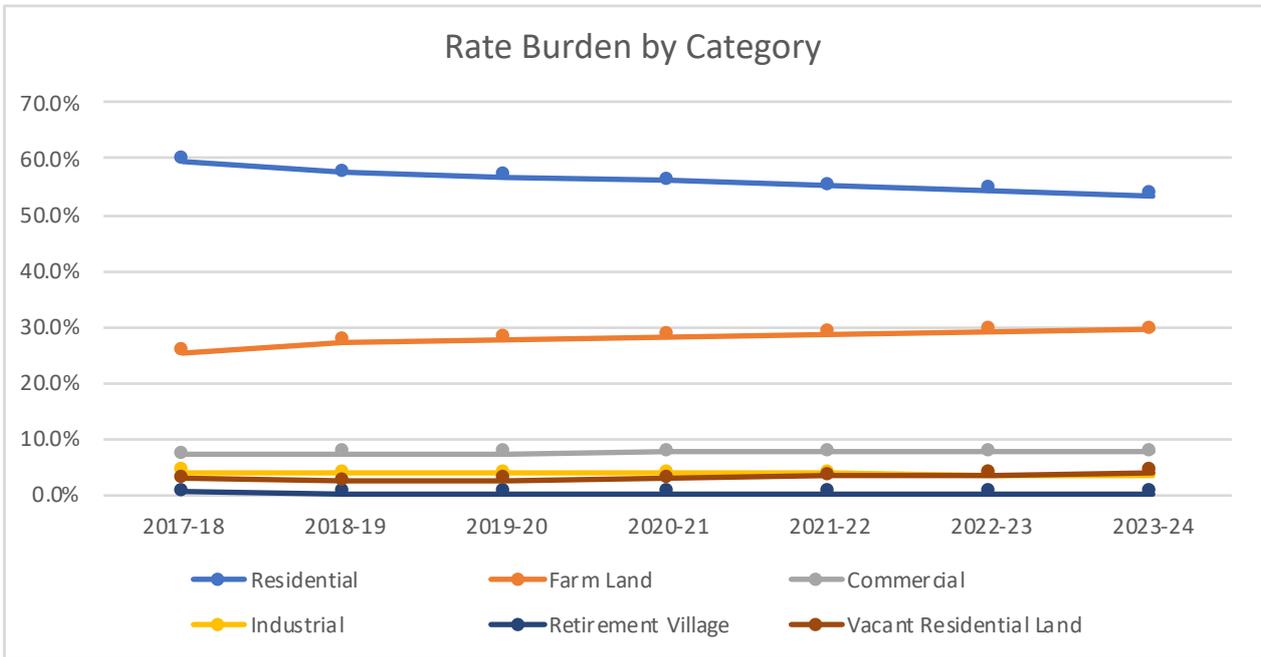
The Committee agreed that while outside of their brief, it noted that both major Victorian political parties had committed to a review around rating and/or valuations in the lead up to the State election on 24 November 2018.

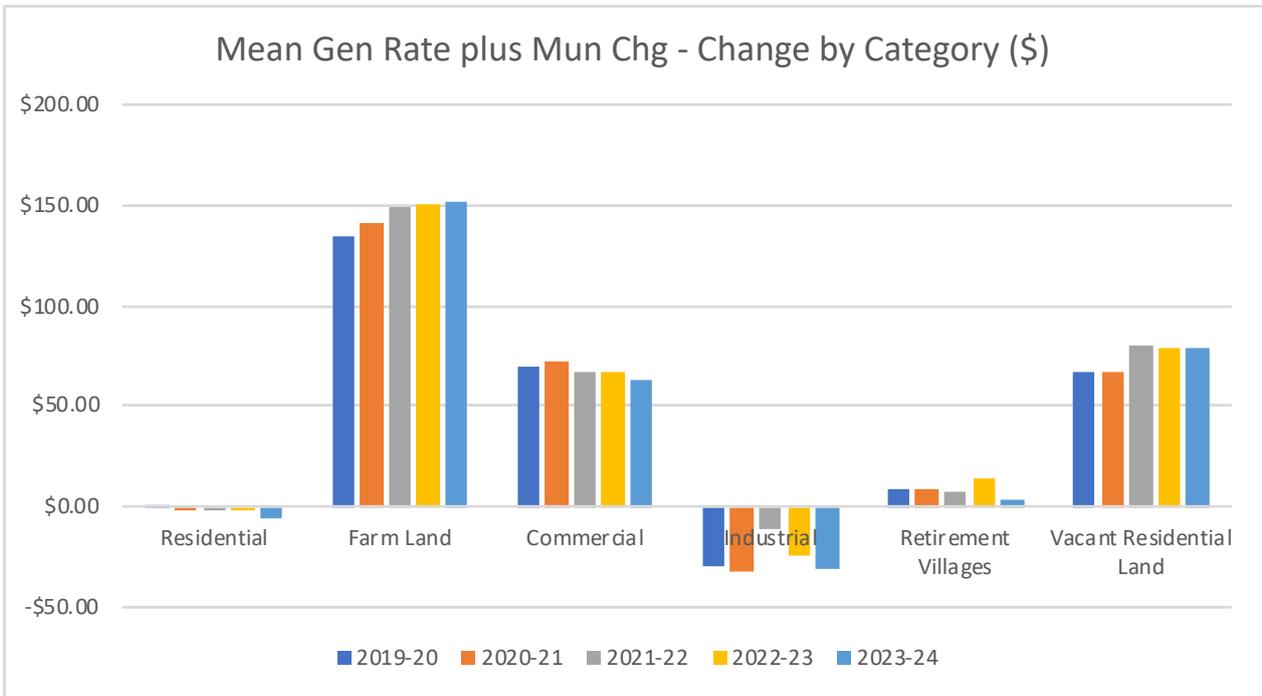
### 8.2. Committee recommendation

That following the State election the HRCC should strongly lobby the new government to pursue a review of the rating and/or valuation system to improve what the Committee considers to be currently a broken system.

# Appendix A – Financial modelling

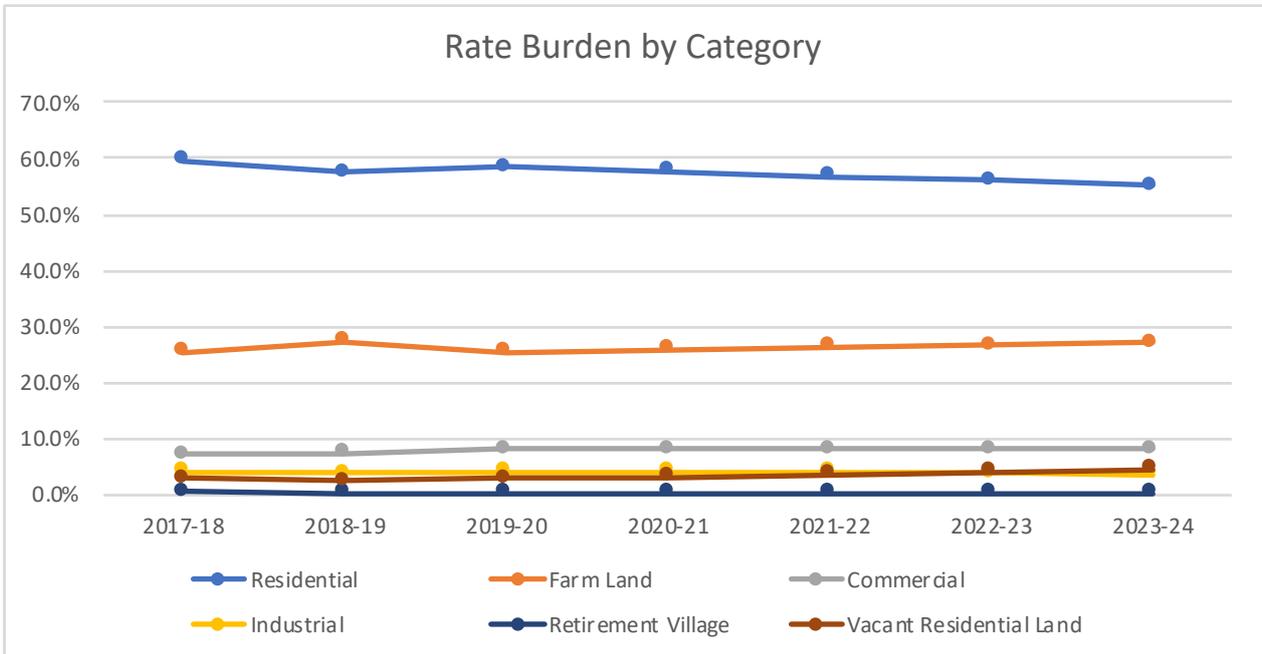
## Option 1: Do nothing

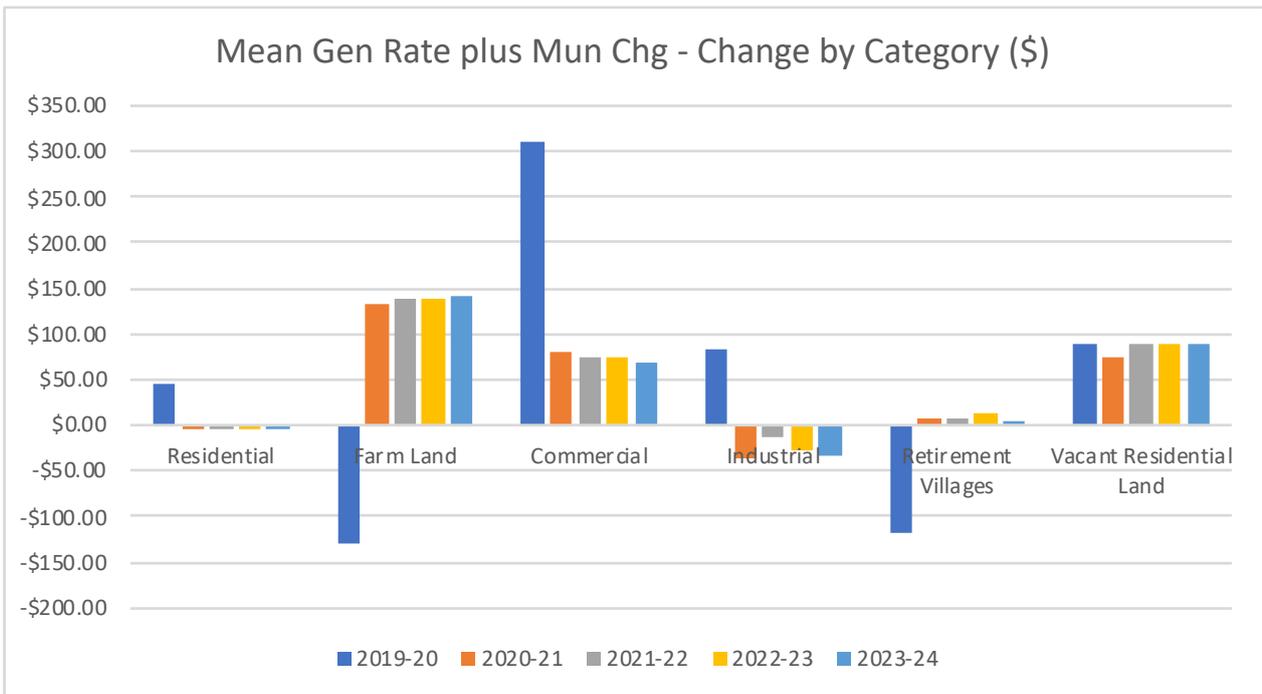
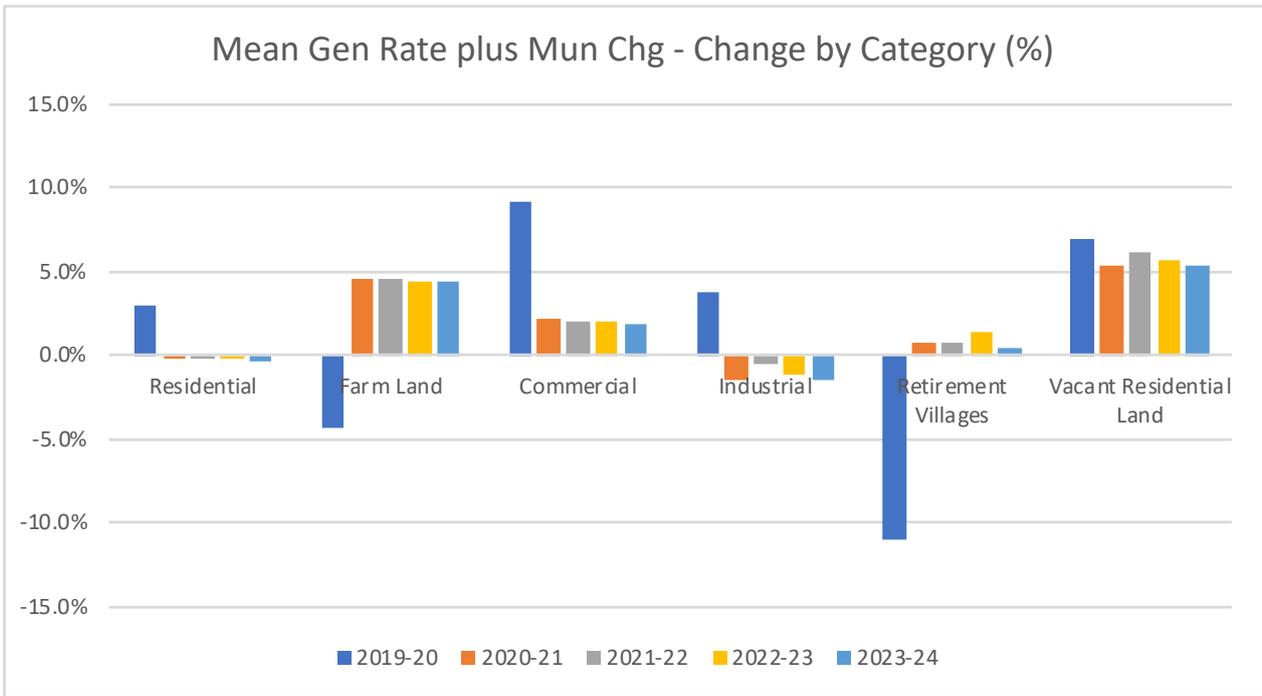




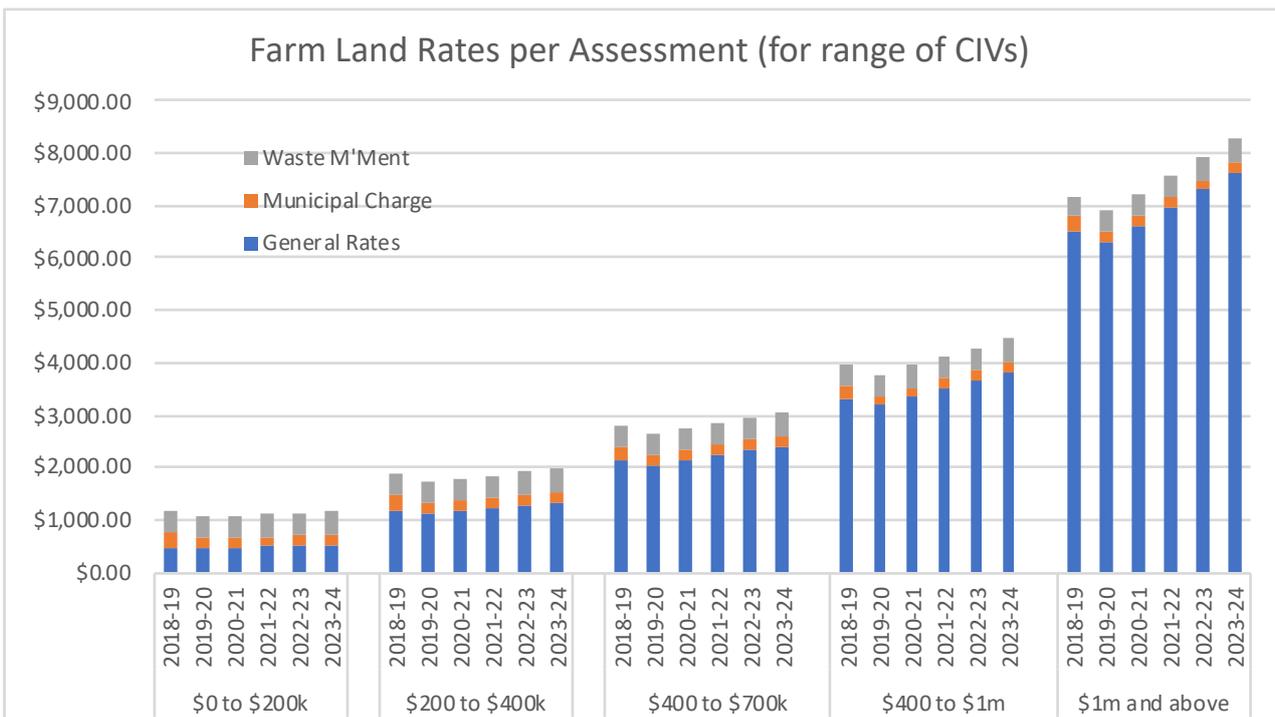
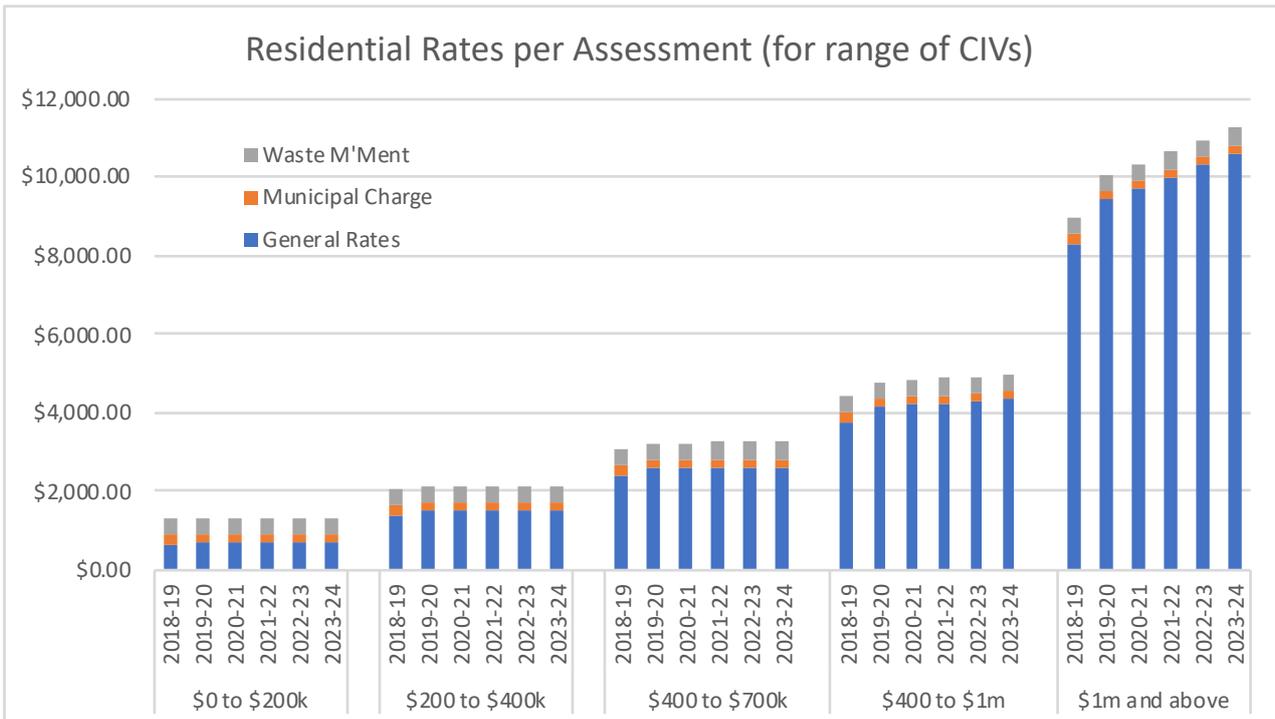
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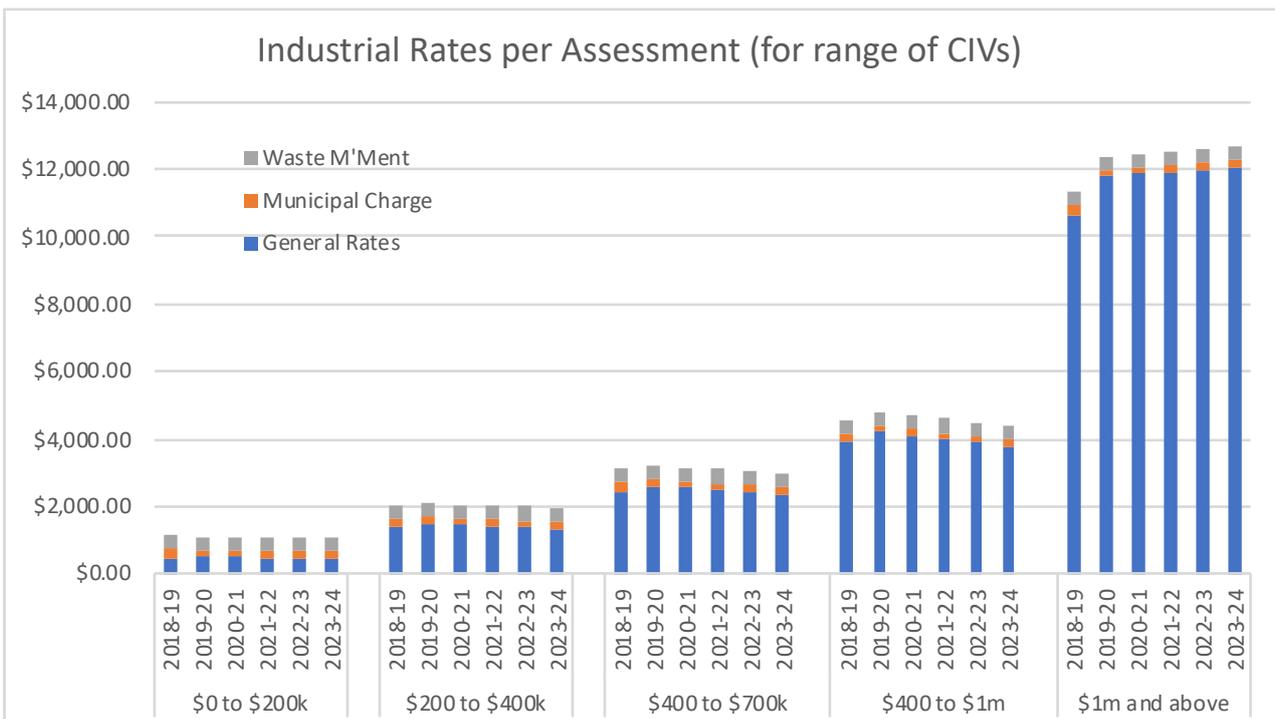
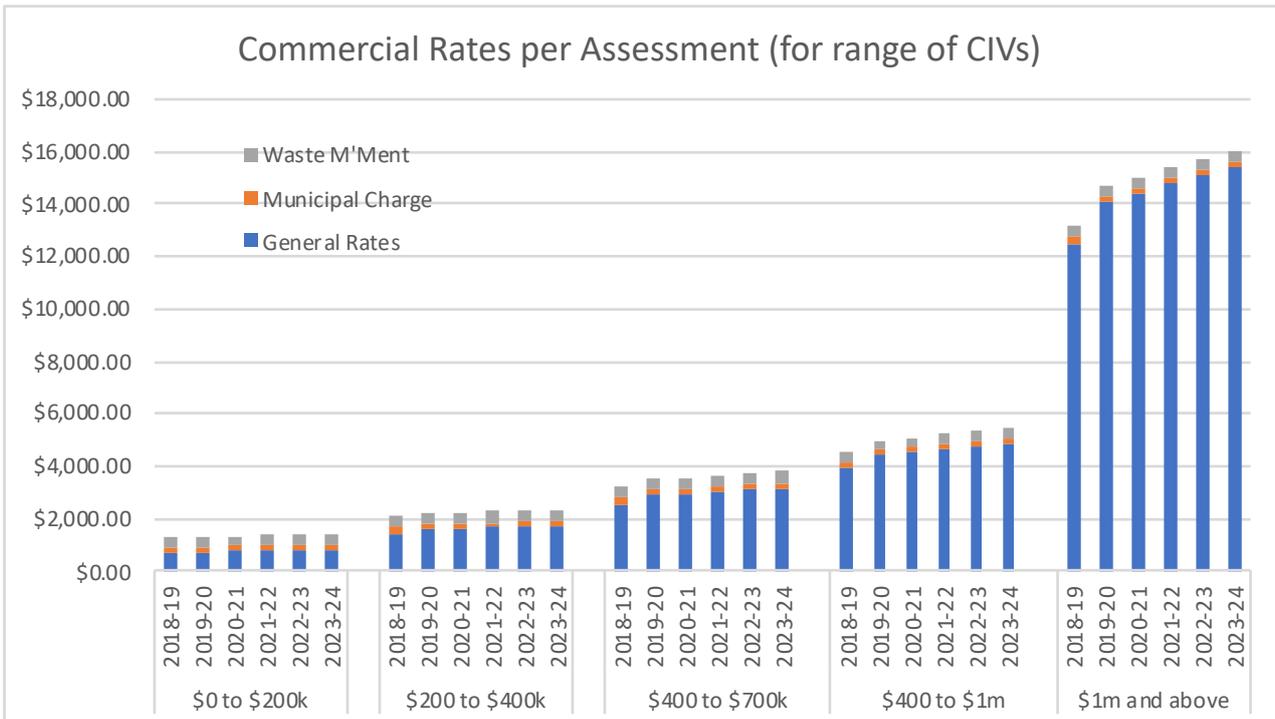
**Option 2: Committee recommendation**





Under option 2, the rate burden for farm land will drop from 27.5% in 2018-19 to 25.6% in 2019-20 which is equivalent to the 2017-18 level and then continue to increase to 27.2% by 2023-24. This will result in an average rate decrease for farm land in 2019-20 of 4.4% or \$131 and then average increases between 4.4% and 4.6% per annum. This is compared to residential land which will experience an average rate increase of 3.0% or \$47 in 2019-20 and then rate decreases of between 0% and 0.3% per annum. Commercial land will experience an average rate increase of 9.2% or \$310 in 2019-20 and then increases of between 1.8% and 2.2%. Industrial land will experience an average rate increase of 3.7% or \$83 in 2019-20 and then decreases of between 0.5% and 1.5%. Retirement village land will experience an average rate decrease of 11.0% or \$118 in 2019-20 and then increases of between 0.4% and 1.3%.





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