Revenue and Rating Strategy

Version: 1

Date updated: 28 June 2017

Responsible Department: Finance

Related policies: Nil

Purpose

The purpose of the Revenue and Rating Strategy is to determine the most appropriate and affordable revenue and rating approach for the City of Casey which, in conjunction with other income sources, will adequately finance the objectives proposed in the Council Plan.

1. Definitions

Council	Means Casey City Council, being a body corporate constituted as a municipal Council under the Local Government Act 1989
Councillors	Means the individuals holding the office of a member of Casey City Council
Council officer	Means the Chief Executive Officer and staff of Council appointed by the Chief Executive Officer.

2. Scope

To determine the most appropriate and affordable revenue and rating strategy, and ensure the consistent, efficient and fair collection of Council revenue in line with council philosophy.

3. Context

Council last adopted its Rating Strategy in 2008. The Strategy is currently in need of review and in accordance with current best practice and community expectations, it has been updated to include a revenue raising philosophy covering both rates and other sources of income such as fees and charges.

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

Council policy documents change from time to time and it is recommended that you consult the electronic reference copy at www.casey.vic.gov.au/policiesstrategies to ensure that you have the current version. Alternatively you may contact Customer Service on 9705 5200.

4. Strategy/Policy/Procedure

4.1 Council's Pricing Policy

The City of Casey requires sufficient revenue to satisfy its service delivery needs and fund its ongoing infrastructure and asset management needs. The most important and significant sources of these funds are:

- Government grants
- Fees and charges
- General rates

4.2 General Rates Income

4.2.1 What is a Rating Strategy and why have one?

The purpose of this strategy is for Council to consider how the rate burden can be most equitably distributed.

A rating strategy is the method by which Council systematically considers factors of importance that informs its decisions about the rating system. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, which occurs in the budget process, only the share of revenue contributed by each property. The rating system comprises the valuation base for each property and the actual rating instruments allowed under the Local Government Act (1989) to calculate property owners' liability for rates.

4.2.2 The importance of a Rating Strategy

City of Casey currently receives 57% of its total revenue (excluding non-discretionary capital grants and contributions) by way of property based rates and waste charges. The balance of 43% is received from government grants, fees and charges and other sources. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its ratepayers.

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

City of Casey currently is seeking to fully document its objectives and approach to the raising of rate revenue in line with its goal of providing transparency in its decision making under the Local government Act (1989), a primary objective of all Victorian Local Governments is to ensure the equitable imposition of rates and charges (Section 3C(f)).

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

The Rating Strategy canvasses the limited range of rating options available to Council under the Local government Act (1989) including the following:

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

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

c) What is the most equitable level of differential rating across the property classes having regard for the principles of taxation?

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

e) The application of special rates and charges.

f) The application of other levies under the Planning Act.

The rating system is based on property valuations, these being carried out at two year intervals. Rates are based on these valuations. Council has several means by which it can vary the amounts which are levied, including:

- A general rate
- A municipal rate
- Differential rates
- Service rates and charges
- Special rates and charges
- Rebates, waivers, deferments, concessions and exemptions

Several propositions were put through a rate modelling process to develop the most suitable rating system. This entailed council giving consideration to a number of factors, such as:

- Equity of the system – distributional equity as referring to justice or fairness in the manner in which the rates burden is distributed between rateable properties, horizontal equity as referring to justice or fairness in the treatments of like properties, ie, that similar rates are paid by similar properties, and vertical equity referring to justice or fairness in the treatment of properties in different circumstances.

- Efficiency of application – being the ratio of ends produced (output) to means used (input), i.e., it can be directly related to the cost of administering the rates system. There is a tendency for uniformity to help minimise administration costs with a simple rating system being more transparent, meaning that the underlying purposes and principles behind the design of a tax are clearer – who is liable for a particular rate and how the tax liability is calculated.

- Capacity to Pay – Council may determine that results from the application of the wealth tax and benefit principles would lead to outcomes where property classes and individual ratepayers would have difficulty meeting their obligations because of their capacity to pay rates.

- The link between rate levied and benefit to be derived – Property taxes have no relationship with consumption. The payment of rates entitles ratepayers and residents to consume a range of services and in many cases there is no possible rationing of such services. Attempts have been made by Council's 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 attributing levels of access by ratepayers and/or residents to services that are universally available.

4.2.3 Valuation Base

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates, with the valuation updated every two years.

The Local Government Act permits Councils to use three valuation basis; Site Value (SV), Capital Improved Value (CIV) and Net Annual Value (NAV).

In simple terms:

- SV values only the land component of a property and excludes the improvements on that land;

- CIV reflects the total improved value of a property – the market value of the land and structures upon it.

- NAV is the nominal net annual return that would be returned by a property if it were leased.

CIV better reflects capacity to pay than the other two bases as it incorporates the developed value of properties i.e. the total value, and therefore most closely accords with the wealth tax principle in determining the distribution of rates.

4.2.4 Declaring Rates and Charges

Council considered and modelled the effects of using the following options:

- The use of a uniform rate
- A uniform rate combined with a municipal charge
- A differential rating system with and without a municipal charge
- The use of rebates and deferment schemes
- Policy approaches for exemptions and concessions
- Rating of cultural and recreational land

4.2.5 Council's preferred Rating System

Council has considered various options and will continue to use a uniform rate on the basis of Capital Improved Value valuation base as it best conforms to the wealth tax principle and is the most transparent and easily understood. Council is also not proposing to have any differential rates, and will continue to have a separately calculated waste service charge to recover waste services expenses.

The municipal charge is not preferred as it is regressive by nature in that it proportionally reduces the burden on higher value properties and increases the burden on lower value properties. Modelling shows that the municipal charge will impact households with lesser financial capacity as they generally reside in lower valued residences, so the application of the municipal charge runs counter to the ability to pay principle.

Council continues to offer a limited number of rate rebates and concessions to various rate payers where property classes and individual ratepayers would have difficulty meeting their obligations because of their capacity to pay rates, examples of ratepayers who receive a rebate are eligible pensioners (State Government Funded), eligible gold card holders and retirement villages who receive grants through the Retirement Villages Assistance Allowance.

4.3 Government Grants

Council pursues all avenues to obtain external grant funds for prioritized works. A large proportion (30%) of government grants is made up of the Financial Assistance grant provided by the Commonwealth Government under the *Local Government (Financial Assistance) Act 1995 (Commonwealth)* and distributed annually to 79 local governing bodies within Victoria.

The Financial Assistance Grant program consists of two components:

- A general purpose component, which is distributed between the states and territories according to population (i.e., on a per capita basis), and

- An identified local road component, which is distributed between the states and territories according to fixed historical shares.

Both components of the grant are untied in the hands of local government, allowing councils to spend the grants according to local priorities. Council applies the local roads component to road rehabilitation projects in its Capital Works Program, and utilizes the general purpose component to fund Council operations and Capital works.

4.4 Fees and Charges

Council provides a wide range of services, to the community, often for a fee or charge. The nature of these fees and charges generally depends on whether they relate to compulsory or discretionary services. Some of these, such as statutory planning fees, are set by state government statute and are commonly known as ‘regulatory fees’. In these cases, councils usually have no control over service pricing.

The Local Government Act 1989 (the Act) gives Council the power to set these fees and charges at a level that recovers the full cost of providing the services, unless there is an overriding policy or imperative in favour of subsidisation.

A schedule of the current user fees and charges is presented in Council’s annual budget.

Council periodically reviews all fees and charges and adjusts the levels consistent with application of the user pays principle – that is, so far as is possible, the cost of providing a direct service will be met by the fees charged.

Council has determined that an annual assessment of all fees and charges is excessively costly and unnecessary. A rolling review process for all service areas is to be undertaken that ensures all service areas are subject to review at least once every four years.

All council services can be reviewed to assess whether they are appropriate to attract user fees and charges. Attributes of a service that can affect the ability for a council to place a fee or charge include whether the operation is a public or private good in nature and if there is any state and federal government legislation or funding conditions prohibiting or setting ceilings for pricing.

4.5 Cost recovery

Setting fees and charges is often determined by a notion that the fee charged for a service should correspond with the cost of providing the service – that is the costs borne by Council are fully recovered.

Full Cost

The full cost of delivering a service or providing a facility includes both:

a) Direct Costs – those costs that can be readily and unequivocally attributed to a service or activity because they are incurred exclusively for that particular product/activity.
b) Indirect Costs (often referred to as overheads) – those costs that are not directly attributable to an activity, but support a range of activities across Council.

Direct Costs

Council has systems for calculating the direct costs of providing services. These include:

a) Labour – the wages and salaries of all staff directly working on that service. These costs include staff overheads, such as allowing for annual leave, sick leave, workers' compensation payments and long service leave.
b) Materials and supplies – supplies used in providing the service. This may include car operating expenses.
c) Administrative expenses – the office support for a service. Typically an operational unit provides a number of services, so the administrative costs of that unit will need to be allocated across the different services.
d) Capital equipment and assets using in providing the service – this may include plan hire or, where a council owns the equipment and assets, allowance for asset replacement and depreciation.

Indirect Costs

Council has a range of "back office" operations that are not directly tied to any service delivery. Nonetheless, these involve real costs that are incurred in supporting the delivery of direct services.

Two widely used methods to allocate indirect costs are:

- Activity based costing – links an organisation's outputs or goods and services to the activities used to produce them, and then assigns a cost to each output based on the rate of consumption of associated activities.

- The pro-rate approach – allocates indirect costs on a proportionate basis by using measures that are easily available, such as staff involved in the activity as a percentage of total staff, or the service unit's share of total office space.

Activity Based Costing

The activity based costing method works by examining the activities undertaken, determining what drives or causes the activities to be used in the production process, and then allocates costs on the basis of the resource consumption of each activity.

While activity based costing gives a comprehensive approach, an alternative pro rata approach may be preferable. This is for two reasons:

- It is not always practical to use the activity based costing method. This process can be too labour intensive and costly to identify actual resource usage of different activities within a service.

- A pro rata approach often delivers similar results with less effort.

After Council has calculated the full costs of a service, another series of questions require answers before prices are decided. Presented as a sequence, these include:

- Do any external constraints apply? Possibilities include:
    - Either the State or Commonwealth Government sets a statutory price for that service, and if the service has private sector competitors and is a “significant business activity:”. Council needs to check competitive neutrality conditions. How would the service users respond to any price changes?

- Is a price based on the full cost of the service competitive with other supplies (nearby councils and/or private competitors)?

- Does Council have a specific policy either:
    - To subsidise this service (setting prices below full costs)?
    - To use the service as a taxation mechanism (setting prices above the full cost level)?

If a competitive neutrality assessment is required, the following steps are recommended by the Victorian Government’s National Competition Policy and Local Government Statement:

- Determine whether the operation is a “significant business activity” and therefore, subject to the policy.
- Assess the full costs of providing the services, including all overheads
- Identify any aspect whereby the operation gains a net commercial benefit from being government owned.

If this analysis shows that a significant business does enjoy a net competitive benefit, Council is expected to set prices that include competitive neutral adjustments.

However, under the policy, this is not required if Council:

- Decides that the costs of applying competitive neutrality outweigh the benefits.
- Conducts and documents a "public interest test", which involves public consultation on costed options, and identifies clear public policy objectives for providing the service at below competitive neutral prices.

As well as ensuring a level playing field for private sector competitors, this policy aims to identify subsidies, make them transparent to the community, and explain why Council is providing cross-subsidisation. Cross-subsidisation implies that one group may pay higher/lower prices than another group. Cross-subsidisation exists in a number of forms:

- Cross-subsidisation between the fees and charges paid by different users for a specific service – a cross subsidy between users.

- Cross-subsidisation between fees and charges and rates – a cross subsidy between users and ratepayers or from one service to another service.

- Cross-subsidisation between the amounts of rates paid by various classes of ratepayers.

The final step in a pricing policy is identifying what council services or service areas are "public goods" and therefore most appropriate for funding via general rate revenue.

4.6 Principles

Council has developed a range of principles to determine the level of fees and charges to be applied to each service. These principles are:

- Fees and charges are set in line with other like services through benchmarking.
- Fees and charges are set at a level that is deemed to be fair and equitable to enable the majority of residents to access the services.
- No fees (or low fees) are charged to encourage participation and positive health and wellbeing outcomes.
- Fees are charged in line with State or Federal government legislation or Local Laws
- Fees are charged in line with State or Federal government funding requirements

5. Summary

The Revenue and Rating Strategy will determine the most appropriate and affordable revenue and rating approach for the City of Casey which, in conjunction with other income sources, will adequately finance the objectives proposed in the Council Plan

6. Administrative Updates

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this document, such a change may be made administratively. Examples include a change to the name of a Council department, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council.

7. Review

The next review of this document is scheduled for completion by 30 June 2021 as part of the next Council Plan development process..

8. Breaches

Nil