<u>2014-2018 Rating Strategy-Summary</u>

Background Information

Rates and charges are essentially a property wealth ‘levy’ or ‘tax’ based on the value of the property. Higher valued properties will generally incur higher rates than lower valued properties.

Property Valuations

Capital Improved Value (CIV) is the valuation methodology used by valuers to assess the value of rateable properties. CIV valuations take into account the value of the land and any improvements (e.g. buildings).

The value of the property is assessed by qualified valuers and is reassessed every two years.

Council does not receive a ‘windfall gain’ if property values rise. The revaluation process results in a redistribution of the rate burden. Property values that have risen above the average will pay more rates and properties that have increased less than the average will pay less.

The total amount to be raised by rates is fixed each year as part of the annual budget process.

Rates and charges

Rates and charges can be broken down to main components which include:-

<u>Rates:</u> - This amount is calculated by multiplying the ‘Rates in the dollar’ by the property value (CIV). Higher valued properties pay more rates than lower valued properties.

<u>Municipal Charge</u>:- This is a flat charge that is applied to all rateable properties. *

<u>Waste Service Charge</u>:- Properties that are provided with weekly garbage services will incur a waste service charge. The charge is compulsory for all residential properties in urban areas (whether or not the service is used) and optional in rural areas.

<u>Fire Service Levy</u>:- This is a charge that Council collects on behalf of the State Government. It is applicable to all rateable properties. The levies collected are forwarded to the State Revenue Office. Council does not have any control or influence over this cost.

** Farming enterprises that consist of a number of multiple assessments may apply to pay only one municipal charge. Similar exemptions for Fire Services Property Levies fixed charges are also available for farming enterprises.*

Differential Rates

Councils are allowed to ‘differentiate’ rates based on the use of the land, the geographic locality of the land or the use and locality of the land.
The differential rating structure applied for 2013/14 was as follows:

Property Type	**Differential Rates**
Residential	100%
Farm	90%
Commercial	100%
Industrial	100%
Vacant land	150%
Restricted Use Vacant land	100%
Cultural and Recreational Land	40%

The current differential rating structure for 2014/15 is as follows:

Property Type	**Differential Rates**
General	100%
Farm	80%
Commercial	102.5%
Industrial	102.5%
Vacant land	175%
Cultural and Recreational Land	43.75%

The current differential rating structure for 2015/16 will be as follows:

Property Type	**Differential Rates**
General	100%
Farm	70%
Commercial	105%
Industrial	105%
Vacant land	200%
Cultural and Recreational Land	50%

Key elements of Rating Strategy

That the municipal charge be phased out over two years, reduced from the current 20% to 10% in 2014/15 and 0% in 2015/16.

Rationale
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 valued properties.

It is a reasonable assumption that those living in lower valued properties are also on lower incomes and hence have less capacity to pay. For this reason Council resolved to abolish the Municipal Charge. This lowers the rates for a majority of ratepayers in lower valued properties in all property categories. The municipal charge was $343.65 in 2013/14. It is $181.70 for 2014/15 and will be nil in 2015/16.

That the Industrial and Commercial property category have a 105% differential rate and be phased in over two years, 102.5% in 2014/15 and 105% in 2015/16 as well as the municipal charge being phased to 10% in 2014/15 and 0% in 2015/16.

Rationale

From a comparative rates principle perspective among the large rural councils, no council gives a discount to commercial or industrial ratepayers, nine charge a differential greater than 100% and six charge a 100% differential rate. The median differential is 118%.

Commercial and Industrial rates are paid from pre-tax money. At a tax rate of 30% (current company tax rate) this amounts to a benefit of 43%. It was considered appropriate from a capacity to pay principle perspective that this be taken into account when determining a differential rate for the Commercial and Industrial Properties Category.

Despite increasing the differential rate from 100% to 105%, the lower valued commercial and industrial properties would still pay less rates due to the abolition of the Municipal Charge.

That the Farm category have a 70% differential rate and be phased in over two years, 80% in 2014/15 and 70% in 2015/16 as well as the municipal charge being phased to 10% in 2014/15 and 0% in 2015/16.

Rationale

Farms by their nature have a high rateable valuation relative to Residential, Commercial and Industrial premises.

From a capacity to pay perspective, ratepayers with higher value properties generally have a higher wealth and a greater capacity to pay. However from a farming industry perspective it can be argued that rates are in fact levied on unrealised wealth in the form of real property.

On the other hand, farms more so than other types of businesses can realise the inherent capital value of their properties at the end of their working lives if they choose to do so.

Farms effectively include a residential and business component. Farm rates are paid from pre-tax money and this includes the residential component of the farm. At a tax rate of 30% (current company tax rate) this amounts to a benefit of 43%. It was considered appropriate from a capacity to pay principle perspective that this be taken into account when determining a differential rate for the Farm Properties Category. Farming is considered to be a key industry and it is appropriate to provide some incentive to encourage farmers by moderating the rate impact. Decreasing the differential rate from 90% to 70% provides some rate relief to farmers after taking into consideration the property wealth, capacity to pay and incentive principles.

That 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). **The Farm category definition will be revised so that it ties in with the Australian Valuation Property Classification Codes**

Rationale

It was considered that the 70% 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.

That the Vacant Land category have a 200% differential rate and be phased in over two years, 175% in 2014/15 and 200% in 2015/16 as well as the municipal charge being phased to 10% in 2014/15 and 0% in 2015/16.

Rationale

Vacant properties in 2013/14 had a 150% differential rate to encourage vacant land owners to develop their properties.

From an incentive principle perspective it was determined that the differential rate be increased to 200% to encourage vacant land owners to develop their properties.

Similarly it was determined that the differential rate for restricted vacant land properties be increased to 200%. This was to encourage restricted vacant land owners to rationalise and consolidate their properties.

Despite the increase in the differential rate from 150% to 200%, the lower valued vacant land properties would pay less rates due to the abolition of the municipal charge.

Waste Charges

That Waste Charges are only recovered for waste and recycling services across all Waste Service Charges

The Waste Charges in 2013/14 included street sweeping and litter bin costs as well as the garbage recycling services / costs.

The majority of Victorian councils Waste Service Charges are specifically for waste and recycling services. The majority of ratepayers would also presume that the charge is just for waste and recycling services.

The Waste Charges for 2014/15 and beyond will not include street sweeping and litter bin costs and as a result will reduce by 16%. The charges for 2014/15 will range from $179.10 to $259.60. In 2013/14 the comparable Waste Charges ranged from $213.20 to $309.10.

Rate payment options

All Victorian Councils ‘must allow’ ratepayers to pay rates in four instalments and ‘may allow’ payment in one lump sum. South Gippsland allows both methods of payments.

The instalment dates for 2014/15 are:

- 30 September 2014
- 1 December 2014
- 2 March 2015
- 1 June 2015

The lump sum payment date is 16 February 2015.

A further option is available, upon request, for ratepayers suffering from financial difficulties to spread the cost of their rates over the year. Council allows 10 monthly payments in these circumstances.

Rates Hardship Policy

Council has a Rates and Charges Hardship Policy. The Policy is available on Council's website. The policy's objective is to provide relief to ratepayers who are suffering from financial hardship and need assistance. The thrust of the current policy is to refer applicants to an independent financial counsellor or accountant who in turn assesses and submits an application to Council to consider on behalf of the ratepayer.

The policy allows deferral of rates and charges when certain criteria are fulfilled as well as a waiver of interest and costs under certain circumstances.