



**AGENDA APPENDIX**  
**Council Meeting**  
**Thursday 13 February 2014**

AGENDA ITEM FOR SEPARATE DISTRIBUTION TO COUNCILLORS AND  
EXECUTIVE LEADERSHIP TEAM DUE TO DOCUMENT SIZE.

THE ITEM IS ACCESSIBLE VIA THE COUNCIL WEBSITE OR BY  
CONTACTING COUNCIL ON 03 5662 9200.

**B.1 –RATING STRATEGY 2014-2018 DISCUSSION PAPER FOR PUBLIC  
COMMENT**

Appendix 1 – Rating Strategy 2014 – 2018 - Discussion Paper for Public  
Comment

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# Rating Strategy 2014 – 2018

## Discussion Paper for Public Comment

**Note:** The recommendations of the Rating Strategy Steering Review Committee as detailed in this Discussion Paper are not necessarily representative of the views and opinions of the Council.

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## Introduction

### 1.1 Introduction

Section 3C(1) of the *Local Government Act 1989* (The Act) provides that ‘The primary objective of a Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions’. Further, Section 3C(2)(f) requires in achieving this primary objective to have regard ‘To ensure the equitable imposition of rates and charges’. Section 136(2)(b) of The Act also requires that councils pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden.

This Rating Strategy details the framework which will be used by South Gippsland Shire Council in determining a fair and equitable distribution of the rating burden while endeavouring to achieve the best outcomes for the Shire. The rating framework is set down in The Act and determines a council’s ability to develop a rating system.

One of Council’s purposes, set out in the Council Plan 2013-2107, is that ‘A sustainable financial position is established through a rolling 15 year Long Term Financial Plan, with a focus on exploring other sources of revenue to reduce pressure on rates and determining clear and transparent objectives for setting differential rates’. In October 2013, the South Gippsland Shire Council set up a steering committee comprising of three Councillors and seven community members representative of groups in the community (commercial, industrial, farming, tourism, retiree and residential sectors) to investigate and profile a workable model for differential rates based upon the Victorian Ministerial Guidelines.

**The recommendations of the Rating Strategy Steering Committee (Steering Committee) as detailed in this Discussion Paper are not necessarily representative of the views and opinions of Council.**

The Steering Committee has reached a majority view on the recommendations outlined in this Discussion Paper. The Committee considered it important to advise Council that amongst the Committee members there were differing views in regard to the extent of differentiations to be applied to various land categories. The extent of some differentials was the main area where a full consensus of all members was not reached.

Variations in opinions range from Farms, Industrial and Commercial differentials could be lower than those shown in the proposed model, to Farm, Industrial, Commercial and Vacant land differentials that could be higher than in the proposed model.

The Steering Committee has recommended the removal of the Municipal Charge as this is considered a regressive tax. This means that as the value of properties decrease, the Municipal Charge increases as a percentage of that value. As a result, the rate burden is reduced on higher valued properties but increased on lower value properties. The abolition of the Municipal Charge has had a significant impact across all the land categories. Its removal lowers the rates for a majority of rate payers with lower valued properties in all property categories, but raises the rates for higher valued properties.

The Steering Committee has considered and modified the impact of the Municipal Charge removal to some extent, on each land category when setting the recommended differential rates.

A transition time to introduce the change of differentials and removal of the Municipal Charge, over a few years was an option raised by the Steering Committee, but not formally recommended. There was a general view held that Council may wish to consider a transition option if the change in one year is considered too extreme for those higher value properties expected to be most affected by a new Rating Strategy. A transition approach would allow higher valued property owners to plan their finances in anticipation of the charge.

The Discussion Paper provides details of the existing legislative rating framework, the rating principles the Council should consider when striking differential rates, the history of the Council's current rating system and concludes with 19 recommendations of the Rating Strategy Steering Committee.

The Rating Strategy Steering Committee has recommended that the Council's practices and decisions regarding rating should be underpinned by the following rating principles as detailed in section 3.3 of the Discussion Paper:

- Equity Principle, considering:
  - Property wealth tax (including both horizontal and vertical equity)
  - User benefit
  - Capacity to pay
- Incentive principle
- Comparative rates principle
- Simplicity principle
- Efficiency principle
- Legislative compliance principle

It is proposed that the Council seek and consider public submissions regarding the Rating Strategy 2014-2018 Discussion Paper.

Council will then develop a 2014-2018 Rating Strategy for the Shire. Council will consider any subsequent public submissions on the Rating Strategy during the development of its 2014-2015 Annual Budget and 15 year Long Term Financial Plan.

## 1.2 Rating Strategy Steering Committee Recommendations – Summary Commentary

The Rating Strategy Steering Committee has made the following recommendations to the Council regarding the equitable sharing of the rates burden between various categories of ratepayers.

Council has adopted the Capital Improved Value (CIV) as the value to which the rate in the dollar will be assessed. 74 of 79 Victorian councils use CIV and the remaining 5 councils use Net Annual Value.

### ***Recommendation 1***

***That the basis of valuation for rating purposes continues to be Capital Improved Value.***

#### **Achievement of Council Objectives**

Capital Improved Value is the only available valuation methodology that will assist Council to achieve its Council Plan and strategic objectives, while ensuring equity in the distribution of the rate burden on its ratepayers based on the total value of their property.

Having different differentials allows Council to address equity, capacity to pay, incentive and comparative rate principles to achieve a more equitable distribution of the rate burden across the community.

### ***Recommendation 2***

***That South Gippsland Shire Council continues to apply differentials as its rating system.***

#### **Achievement of Council Objectives**

Utilising differentials for specific categories of land provides flexibility for Council to achieve its Council Plan and strategic objectives, and adequately address equity, capacity to pay, incentive and comparative rate principles, to ensure a more equitable distribution of the rate burden across the municipality.

The Actual process of trying to identify particular benefits to users is both subjective and complex. Evaluating the relative benefits received by various classes of property raises many practical difficulties, in particular, trying to trace quantifiable consumption / benefits to particular types of properties.

***Recommendation 3***

***That 'user benefit' principle is given relatively low weighting and consideration when setting differential rates.***

**Achievement of Council Objectives**

Legislation enables certain services readily identifiable to specific ratepayers to be identified as a special rate or charge on a rate notice. The majority of Council services are available and used to varying extents by most ratepayers throughout the course of their lifetime. Even if all services are not used by all ratepayers, they are available to those who require them.

User benefits will be used for waste collection services and other services that can be applied to identifiable, specific rate payers.

The municipal charge is a flat, identical charge that can be used to offset some of the 'administrative costs' of the Council. It is proposed that the recovery of Council's administration costs be allocated by property valuation rather than as a flat fee. The municipal charge is a regressive tax and has a greater impact upon lower valued properties. Removing the requirement for a municipal charge also simplifies the Council's rating system in line with the Simplicity Principle.

***Recommendation 4***

***That there is no Municipal Charge.***

**Achievement of Council Objectives**

The Municipal Charge is a regressive charge. It lacks transparency in regard to the specific administrative services it covers and as a result it is frequently questioned by ratepayers. Removal of the Municipal Charge simplifies Council's rating system while more equitably distributing the administrative service costs of Council across all ratepayers. This works toward achieving Council's purpose to 'Determine clear and transparent objectives for setting differential rates'.

Residential properties make up more than 60% of the Shire's rateable properties. It is appropriate that residential properties are considered the baseline for all other property categories and have a 100% general differential rate.

This aligns with the property wealth tax principal from both a horizontal and vertical equity perspective. Horizontal equity is achieved by all properties in a similar situation paying the same amount of rates for the same valued property. Vertical equity is achieved as higher valued properties will pay more of the rates burden than lower value properties.

From a capacity to pay principle perspective it is a reasonable assumption that generally those living in lower rated properties may also be on lower incomes and hence have less capacity to pay.

***Recommendation 5***

***That the Residential Category differential rate be set at 100%.***

**Achievement of Council Objectives**

One of Council's purposes set out in the Council Plan 2013-2107 is that 'A wide range of services are provided that improves the liveability of everyday life for residents, visitors and workers'. The Residential land category is paying the largest proportion of the rate burden for the wide range of services Council provides.

Where possible, Council aims to alleviate the extent of the tax burden by encouraging others to support Council in the provision of services. This is achieved through its Council Plan 2013-2107 Strategy 2.1.3: 'We aim to minimise barriers and find ways to support our volunteers, community groups and committees to provide services beyond those that Council, by itself, can provide'.

From a comparative rates principle perspective, among the large rural councils no council gives a discount to industrial ratepayers, nine charge a differential greater than 100% and six charge a 100% differential rate. The median differential is 118%. Two out of six of the Shire's neighbouring councils charge a premium while the rest have set the differential at 100%.

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

### ***Recommendation 6***

***That the Industrial Category have a 108% differential rate.***

### **Achievement of Council Objectives**

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: 'Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses'. Strategy 1.1.3 strengthens this objective further: 'We will actively encourage sustainable development and growth of agriculture, industry and commercial business'.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: 'We will actively plan for growth and economic development'.

In order to achieve a sustainable economy Council seeks to support further development of existing industrial businesses and encourage new businesses. To this end only a slight increase in the rate differential is proposed, compared to some of the larger differentials required by other large rural Shires. This increase is able to be offset through business tax deductions resulting in a rate that is comparable, or lower to similar valued residential properties.

From a comparative rates principle perspective, among the large rural councils no council gives a discount to commercial ratepayers, nine charge a differential greater than 100% and six charge a 100% differential rate. The median differential is 118%. Two out of six of the Shire's neighbouring councils charge a premium while the rest have set the differential at 100%.

Commercial 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 is considered appropriate from a property capacity to pay perspective that this be taken into account when determining a differential rate for the Commercial Properties Category.

***Recommendation 7***

***That the Commercial Category have a 108% differential rate.***

**Achievement of Council Objectives**

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: 'Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses'. Strategy 1.1.3 strengthens this objective further: 'We will actively encourage sustainable development and growth of agriculture, industry and commercial business'.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: 'We will actively plan for growth and economic development'.

In order to achieve a sustainable economy Council seeks to support further development of existing industrial businesses and encourage new businesses. To this end only a slight increase in the Rate differential is proposed, compared to some of the larger differentials required by other large rural Shires. This increase is able to be offset through business tax deductions resulting in a rate that is comparable, or lower to similar valued residential properties.

Farms effectively include a residential and business component. Farm rates are paid from pre-tax money. This includes the residential component of the farm. Rates are deductible for farming businesses at a tax rate of 30% (current company tax rate) this amounts to a benefit of 43%. It is considered appropriate from a property capacity to pay perspective that this be taken into account when determining a differential rate for the Farms Properties Category.

Farming is considered to be a significant economic industry in the Shire and it is appropriate to provide some incentive to encourage farmers by moderating the rate impact. A differential rate of 71% provides some rate relief to farmers after taking into consideration the property wealth, capacity to pay and incentive principles.

### ***Recommendation 8***

***That the Farm Category have a 71% differential rate.***

### **Achievement of Council Objectives**

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: 'Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses'. Further, Strategy 1.1.3 strengthens this objective further: 'We will actively encourage sustainable development and growth of agriculture, industry and commercial business'.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: 'We will actively plan for growth and economic development'.

Farms are the second largest group of rateable properties in the Shire. The removal of the Municipal Charge has had a significant impact on many of these properties.

To modify the extent of this impact and provide an incentive to retain existing and new farming businesses, a decrease is proposed in the differential to Farms.

This decrease along with the offset through tax deductions provides Farms with a discount aimed at encouraging the sustainable growth of agriculture across the Shire.

It is considered that the 71% differential Farm rate should only be applicable to genuine farming operations, as distinct from hobby or rural lifestyle properties.

It is recommended 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 uses and associated improvements are secondary to the value of the residential home site use and associated residential improvements, should not be classified as Farm land for differential rating purposes. Properties with residences fitting within this type of property will be rated as Residential.

Similarly, properties that are vacant land in a rural, semi-rural or bushland setting that have no restrictions or are not likely to encounter difficulties in obtaining building permits should not be classified as Farm land for differential rating purposes. These properties will be rated as Vacant Land. These properties from a property wealth tax perspective, should not be classified as Farm land for differential rates

#### **Recommendation 9**

***That the Farm Category 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).***

#### **Achievement of Council Objectives**

Utilising differentials for specific categories of land provides flexibility for Council to achieve its Council Plan and strategic objectives, and adequately address equity, capacity to pay, incentive and comparative rate principles, to ensure a more equitable distribution of the rate burden across the municipality. The proposal to separate rural lifestyle properties from Farms (whose purpose is for primary productions purposes) aims to ensure the equitable distribution of rates in line with the main use of the property. In the majority of cases, the primary use of rural lifestyle properties is for residential purposes. To this end it is considered the discount provided through the lower Farm differential should not be applied to these properties and that rural lifestyle properties fit within the Residential category.

Vacant properties (which include residential, commercial and industrial properties) currently have a 150% differential rate to encourage vacant land owners to develop their properties, thereby increasing the financial sustainability of the Shire.

From an incentive principle perspective it is proposed that the differential rate be increased to 200%.

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. 15% of the vacant land properties would receive a favourable financial outcome. 85% of the vacant land properties would have an unfavourable outcome.

***Recommendation 10***

***That the Vacant Land Category have a 200% differential rate.***

**Achievement of Council Objectives**

Council's strategy is to: 'Actively plan for growth and economic development'. Council Objective 4.1 is to 'Improve the financial sustainability of Council, including diversifying income streams'. The Vacant Land differential has been increased as an incentive to encourage developers and land owners to develop their land. This, in turn, will increase population growth, employment and business opportunities and add to the vibrancy and sustainability of the Shire. A greater number of rate payers in the Shire, allows the rate burden to be spread across a greater number of people.

Restricted Vacant properties currently have a 100% differential rate applied to vacant land where residential development was not allowed due to planning restrictions.

From an incentive principle perspective it is proposed that the differential rate be increased to 200%. This is to encourage restricted vacant land owners to rationalise and consolidate their properties.

Despite the increase in the differential rate from 100% to 200% the lower valued Vacant land restricted properties would pay less rates due to the abolition of the municipal charge. 54% of the restricted vacant land properties would receive a favourable financial outcome. 46% of the restricted vacant land properties would have an unfavourable outcome.

***Recommendation 11***

***That the Restricted Vacant Land Category have a 200% differential rate.***

**Achievement of Council Objectives**

Council's Strategy 1.1.1 is to 'Actively plan for growth and economic development'. The Restricted Vacant land, by itself cannot be developed, so the increased differential is an incentive to property owners to rationalise and consolidate land with other parcels, that together, can be developed. This in turn will lead to productive use of the land, reduction of derelict and unsightly properties and potentially an increase in population growth, expanded business, or expanded agricultural land.

Properties classified as Cultural and Recreational land for differential rating purposes exist for the purposes of providing or promoting cultural, sporting or recreational activities as defined in the *Cultural and Recreational Land Act 1963*.

It is recommended that Council continue to provide Cultural and Recreational properties with a minimum differential rate as a means of meeting cultural and recreational needs of the Shire that Council has limited capacity to provide.

The Local Government Act states that the highest differential rate can be no more than four times the lowest differential rate. Because the highest differential rate proposed is now 200% this means that the lowest differential rate has to be 50%. This means the Cultural and Recreational differential now has to increase from 40% to 50%.

Despite the increase in differential rate from 40% to 50% the lower valued cultural and recreational properties rate burden would reduce due to the abolition of the municipal charge.

### ***Recommendation 12***

***That the Cultural and Recreational Categories have a 50% differential rate.***

### **Achievement of Council Objectives**

As a rural Shire, Council does not have the resources to provide all of the recreational and cultural needs of its Communities, even though it recognises the importance of the health and well-being of its people. Council has several strategies aimed at encouraging others in the community to provide some of these services. Strategy 3.1.5 states 'We will encourage sustainable development that promotes the health, well-being and unique character of the community'. Strategy 3.1.2 states 'We will collaborate with other agencies and service providers to focus attention on growth areas and avoid duplication of services'. To these ends, Council aims to set the lowest differential possible to support Cultural and Recreational land that meets the requirement of the *Cultural and Recreational Land Act 1963*.

The majority of Victorian councils Waste Service Charges are specifically for waste and recycling services. The majority of ratepayers would presume that the charge is just for waste and recycling services. Rate notices only disclose the titles of applicable charges.

Currently some of South Gippsland's Waste Service Charges also include street sweeping and litter bin services as well. The detailed commentary of what is specifically funded by the individual waste charges is described in the 'Annual Budget' document and the statutory required disclosure advertisements. It is a reasonable assumption to presume that the majority of ratepayers do not access and read this information.

It is proposed that the waste charges only are recovered for waste and recycling costs across all waste service charges. This aligns with the simplicity, efficiency and transparency principles. The driving rationale being that actual services provided would align to the majority of ratepayers' perception of services provided.

***Recommendation 13***

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

**Achievement of Council Objectives**

Council Objective 1.3 seeks to 'Promote sustainable waste management practices, energy efficiency and management of our natural resources'. Council encourages the community to reduce its waste and increase its reuse of resources or recycling of resources. Removing street cleaning and public litter bin costs from the waste charge improves the transparency of the waste charge, for those properties it applies to, and spreads the costs of street cleaning and litter bins across all rate payers on the basis that the benefit of these components are shared by the wider community.

The Special Charge Scheme Policy was last reviewed in December 2010 and is currently due for revision. It is reviewed every three years.

The current cycle of reviewing the Special Charge Scheme Policy is considered adequate.

***Recommendation 14***

***That the current policy and cycle of reviewing Special Charge Scheme Policy is considered adequate.***

**Achievement of Council Objectives**

The Special Charge Scheme Policy supports Council's Strategy 2.1.2 'We will develop an integrated approach to planning with the community incorporating budgeting/ funding strategies and project development'. Special Charge Schemes recognise that specific land owners can receive a benefit that is additional or greater than the benefit to other properties. To this end, it is reasonable for these properties to contribute financially to receive these benefits.

A submission from the Landcare group includes a recommendation that Council ought to

introduce a rebate for land management for rural land, similar to the process Bass Coast Council currently provides.

If a similar scheme was to be implemented at South Gippsland the total cost of the rebate would have to be distributed across all ratepayers.

Similarly, if Council wished to introduce an additional rebate or concession for pensioners, Retirement homes or some other group, the total cost of the rebate would have to be distributed across all ratepayers.

The principle of efficiency and simplicity should also be considered. Currently, there is a very stringent criterion that has to be fulfilled by any pensioner if they wish to get the pension concession. It is highly desirable that a uniform standard of assessing and applying rebates and concessions to all property types be applied.

#### **Recommendation 15**

***That land management rebates for rural properties not be introduced into Council's Rating Strategy.***

#### **Achievement of Council Objectives**

A land management rebate scheme could be one option to achieve Council's strategic directions, however the increased administrative costs required to manage the rebate scheme, ensure the rebates were being used for the purposes provided and assessing if they were having the desired results, would outweigh the benefits achieved from providing the rebates. Council is directing its resources to provide educational sessions to support sustainable land management practices, to achieve its strategic objectives.

Council has a policy for Debt Recovery on Unpaid Rates and Charges. It was reviewed by Council in May 2013. The policy is scheduled to be reviewed every four years.

The policy's objective is that rates and other overdue property accounts are recovered in a timely and fair manner. Rate payers are also referred to the Rates and Charges Hardship Policy.

#### **Recommendation 16**

***That the current policy and cycle of reviewing the Debt Recovery on Unpaid Rates and Charges Policy is considered adequate.***

#### **Achievement of Council Objectives**

The Debt Recovery Policy requires ratepayers to pay the rates applicable to their property. Every attempt is made to work with property owners to assist them where personal financial hardship situations arise and these ratepayers are assisted through the Rates and Charges Hardship Policy. The Debt Recovery Policy applies where attempts to recoup rates through negotiated approaches have failed. This policy places the onus on the ratepayer to pay the

annual rates applicable to their property(s).

Council has a Rates and Charges Hardship Policy. It was reviewed by Council in May 2013. 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 assess and submit 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. It does not allow the waiving of rates, municipal charges or service charges, as the value of each property provides the owner with a potential source of funds if liquidated. It is considered inequitable for the majority of ratepayers to completely subsidise the property assets of hardship applicants.

#### **Recommendation 17**

***That the current policy and cycle of reviewing the Rates and Charges Hardship Policy is considered adequate.***

#### **Achievement of Council Objectives**

Every attempt is made to work with property owners to assist them where personal financial hardship situations arise and these ratepayers are assisted through the Rates and Charges Hardship Policy. The Policy can be utilised by any ratepayer meeting the requirements of the policy. The Policy is designed to assist ratepayers to meet their responsibilities for payments of rates, but allows Council to provide some relief from the cumulative burden of unpaid rates when deemed appropriate and reasonable to do so.

Taking into consideration that currently the majority of most property types prefer to pay rates and charges by lump sum and the potential other changes that may occur to differential rates as a result of this current rating review exercise, it is recommended that payment cycles remain unchanged.

#### **Recommendation 18**

***That Council continue to offer lump sum payment options to its ratepayers and investigate introducing an additional 10 monthly payment option for ratepayers***

#### **Achievement of Council Objectives**

Council's Strategy 3.1.4 is to 'Plan for the service needs of the Shire's changing demographic'. The current payment options for rate payers could be expanded if changing community needs indicate more flexible options are required.

Council has a statutory obligation to implement principles of sound financial management, in particular having rating policies that are consistent with a reasonable degree of stability in the level of the rates burden. Having a four year cycle for reviewing the Rating Strategy supports this principle.

***Recommendation 19***

***That Council with the assistance of a Rating Strategy Steering Committee review the Rating Strategy on a four year cycle that aligns with the 2<sup>nd</sup> year term of a newly elected Council's term.***

**Achievement of Council Objectives**

Council's Strategy 4.2.3 states 'We will make informed decisions and provide opportunities for the community to participate in the decision making process'. The involvement of community members representing various land categories in the Rating Strategy Steering Committee has resulted in a well deliberated rating model for consideration by Council and the community. Re-establishing a similar committee in the second year of the next elected Council hopes to achieve similar insightful and transparent results to those that have been achieved in 2013/14.

### 1.3 Rating Strategy Steering Committee

The Rating Strategy Steering Committee comprised ten members appointed by resolution of the Council as follows:

- Mayor and two Councillors.
- Seven community members representing a cross-section of ratepayer categories including: Commercial, Residential, Tourism, Environment, Retirees and Farming.
- Council staff as required to provide technical input and administrative support.

The objectives of the Rating Strategy Steering Committee were to act as an advisory group for the development of a new Rating Strategy, and in particular to:

- Identify and recommend to the Council the principles that the Council should consider when striking general rates, particularly with regard to the creation and maintenance of any differential rates.
- Make recommendations to the Council regarding the equitable sharing of the rates burden between various categories of ratepayers – e.g. Residential, Rural, Commercial and Industrial.
- Recommend to the Council any changes to the structure of current charges and their relationship to general rates, e.g. Waste Service Charges and Municipal Charge.
- Identify any other special rates, charges or levies it believes the Council should consider.
- Rate payment cycle, rebates and waivers and rating strategy review cycle.

The Steering Committee brought a variety of skills and perspectives as well as representation of the various categories of ratepayers. Members of the Steering Committee were as follows:

Name	Representation
Mayor James Fawcett	Councillor and Committee Chair
Councillor Lorraine Brunt	Councillor
Councillor Don Hill	Councillor
John McKay	Farming, residential, tourism and retiree
Lynn Atkinson	Community, residential, retiree
Malcolm Davies	Farming
Brian Hoskins	Residential, retiree
Peter Watchorn	Chamber of Commerce
Sheryl Bruce	Industrial
Keith Brydon	Commercial

These were accompanied by Council Officers as follows:

Name	Position
Tim Tamlin	Chief Executive Officer
June Ernst	Director Corporate Services
Tom Lovass	Manager Finance
Stuart Smith	Management and Systems Accountant
Aileen Clark	Valuation & Rates Officer

The Steering Committee performed an advisory function by providing input and feedback during the development of this Rating Strategy Discussion Paper.

Council will receive the Discussion Paper before releasing it for public comment.

Council will consider recommendations of the Rating Strategy Steering Committee and public comment before determining its position, which will be incorporated into the Council's draft 2014/2015 Budget, which in turn will be submitted for public comment before being adopted.

## 2 Rating Framework

### 2.1 Context

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.

South Gippsland Shire Council currently receives 69% of its Total Revenue (excluding capital grants and granted assets) by way of property based rates and waste service fees. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its ratepayers.

Council has prepared this Rating Strategy Discussion Paper within the context of the current legislative framework and with regard to the Victorian Ministerial Guidelines, to provide a detailed explanation of rating concepts and how they can assist in achieving Council's objectives.

### 2.2 Background

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

Council acknowledges that the existing system of raising rates using the property wealth tax valuation methodology is imperfect; however, the application of an alternate rating model (e.g. income tax) is not available within the constraints of the existing legislation.

Council can however modify certain aspects of the rating system in accordance with the legislation, including the application of differential rates in the dollar (or differential rates) to different classifications of properties.

Total rates collected are fixed by Council each year as part of the budget process. Council only seeks to increase the total amount of revenue required in order to deliver services and the capital works program that is expected by the community and required by legislation.

The amount of property rates collected by Council depends on 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 expense required by Council to fund programs, maintain assets, to service and redeem debt, and the total of revenue from all other sources. Other sources of income include grants, prescribed and discretionary fees, fines and charges, sale of assets and interest earned.

The net funding requirements are incorporated into budgeted financial statements not only for the forthcoming Annual Budget, but also in the forward budgets in the Long Term Financial Plan. The financial integrity of the annual and forward budgets is assessed by reference to a series of key financial performance indicators. The performance indicators that South Gippsland has been using for the past 10 years is not dissimilar to newly developed financial performance and sustainability indicators that all Victorian councils will be compelled to use from 2014/15.

Council acknowledges that property rates do not recognise that individual ratepayers within a class of properties can be 'asset rich' and 'income poor'. In some cases ratepayers may have considerable wealth reflected in property they own but have a low level of income.

While income and goods and services taxes are more reflective of capacity to pay, it is not possible to expect a property rating system to deal practically with all aspects of capacity to pay based on individual households and businesses. Given this, Council can provide flexible payment options to ratepayers experiencing genuine hardship upon request.

In the local government context, the rating system determines how Council will raise money from properties within the municipality. The rating system comprises the valuation base and the rating instruments that are used to calculate property owners' liability for rates.

## 2.3 Rating Framework

Council rates constitute a system of taxation on the local community for the purposes of local government. The value of land and its improvements (or Capital Improved Value) is generally used as the basis of taxation, which is a measure of the property wealth of the ratepayer. By legislation (*Valuation of Land Act 1960*), the value of all property is to be reassessed every two years and is to be relative to all other like property within the municipality. Together these address both horizontal equity (all ratepayers in a class pay a similar amount for an equivalent property within its category) and vertical equity (properties valued higher than others within a category pay more than lower valued properties).

The rating framework is set down in Part 8 Division 1 of The Act and determines how a council develops a rating system. The framework provides considerable flexibility to suit an individual council's requirements, which includes principles of equity, benefit, efficiency and community resource allocation. Under The Act, Council has the power to levy:

- Uniform rates
- Differential rates
- Municipal charge
- Special rates and charges
- Service rates and charges

and to

- Provide rebates and concessions
- Provide deferrals and waivers based on hardship

Council acknowledges that this framework will not universally cater for the possible significant revaluation of property movement in a non-homogenous market place and may result in significant movements in rates on an individual case-by-case basis within rating categories.

Council rates are basically calculated as follows:

$$\textit{Rate in the dollar} \times \textit{Property value} = \textit{Council rates}$$

As an example the 'rate in the dollar' for a residential property in 2013-2014 is 0.00379739. Assuming a property, say a house and land, was valued at \$350,000, the annual rate payment would be \$1,329.09, calculated as:

$$0.00379739 \times \$350,000 = \$1,329.09$$

In addition to rates on property, local governments are able to levy a Municipal Charge on each property. Under The Act, the municipal charge cannot raise more than one-fifth (20%) of the total amount of rates through rates (including the municipal charge).

Rates and Municipal Charges are non-reciprocal in the sense that the Shire is not required to give approximately equal value in exchange directly to ratepayers. Rates are in the form of a general purpose levy. The benefits that a ratepayer may receive will not necessarily be to the extent of the rates paid. Benefits are consumed in different quantities and types over the lifecycle of the ratepayer, e.g. maternal and child health, libraries and aged care, roads and footpaths, local laws. In other words, Council governs for the whole needs and wishes of the community and raises rates accordingly. Rates and charges are raised in order to provide for existing services and sustaining infrastructure assets throughout the Shire as a whole.

Council has the power to levy a service rate or charge or combination service rate and charge to fund the provision of water supply, sewerage or waste services. The most commonly used service rate or charge is that used to defray garbage collection and recycling costs. A unit charge is normally levied on each property that receives or can access the service. These types of services are based on a user benefit principle.

Council also has the power to levy a special rate or special charge or combination of special rates and charges, 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. Special rates and charges have been used by councils to fund things like the construction of infrastructure (street schemes) or to fund marketing, promotional and economic development initiatives that assist local traders.

Special rates and charges are specifically designed to address the user benefit principle. They are targeted rating instruments in the sense that they focus on ratepayers who receive an exclusive or additional benefit to other ratepayers from particular expenses.

Councils have the power to grant a rebate or concession in relation to any rate or charge to assist the proper development of the municipal district, preservation of buildings or places of historical, environmental, architectural or scientific importance within the municipality. It is

expected that rebates and concessions be used with respect to 'individual' properties within a property class. The legislation intended that differential rates be used to achieve an outcome for a 'class' of properties.

Council also has the power to defer payment or waive part or all of any rate or charge. These are typically considered for financial hardship cases.

## 2.4 Property valuations

For the purpose of The Act and its rating provisions, the *Valuation of Land Act 1960*, is the principle Act determining property valuations. Generally, each separate occupancy on rateable land must be valued and rated. Contiguous areas of vacant land with more than one title in the same ownership may be consolidated for rating purposes.

An assessment for the purpose of rating may be against any piece of land subject to separate ownership or occupation. In this context, land has been defined to include buildings, structures or improvements and may include automatic teller machines, show case, signage, advertising, radio and mobile communication towers.

Local government may adopt one of the following three valuation methodologies to value properties in its municipality:

**Capital Improved Value (CIV):** the total value of the property including the land value (i.e. Site Value) and other improvements including the buildings and landscaping.

**Site Value (SV):** the total value of land, plus any improvements which permanently affect the amenity or use of the land, such as drainage works, but excluding the value of building and other improvements.

**Net Annual Value (NAV):** the value of the rental potential of the land, less the landlord's outgoings (such as insurance, land tax and maintenance costs). For residential and farm properties this must be set at 5% of the CIV.

### 2.4.1 Capital Improved Value

Capital Improved Valuation (CIV) is the most commonly used valuation base by Victorian Local Government with 74 Councils applying this methodology. Based on the value of both land and all improvements on the land, it is relatively easy for ratepayers to understand as it equates to the market value of the property.

The key driver behind the majority of councils using CIV is the ability to apply differential rates should this valuation base be used.

Section 161 of the Local Government Act (1989) provides that a Council may raise any general rates by the application of a differential rate if –

- a. It uses the capital improved value system of valuing land; and
- b. It considers that a differential rate will contribute to the equitable and efficient carrying out of its functions.

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

### *Advantages of using Capital Improved Valuation (CIV)*

Capital-improved value includes all improvements, and hence is often supported on the basis that it more closely reflects 'capacity to pay'. The CIV rating method takes into account the full development value of the property, and hence better meets the equity criteria than Site Value and NAV.

With the increased frequency of valuations (previously four year intervals, now two year intervals), the market values are more predictable and has reduced the level of objections resulting from valuations.

The concept of the market value of property is far more easily understood with CIV rather than NAV or SV.

Most Councils in Victoria have now adopted CIV which makes it easier to compare relative movements in rates and valuations across councils.

The use of CIV allows Council to apply differential rates which greatly adds to Council's ability to equitably distribute the rating burden based on ability to afford Council rates. It also allows Councils to compare differentials for various categories of land against other similar councils as required in the Victorian Ministerial Guidelines.

### *Disadvantages of using CIV*

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

#### **2.4.2 Site Value**

With the movement of Monash City Council to CIV Rating, there are no Victorian Councils that use this valuation base. Valuations are based simply on the valuation of land and offer only very limited ability to apply differential rates. Council may raise general rates by applying a differential rate in relation to farm land, urban farm land or residential use land.

### *Advantages of Site Value*

There is a perception that under site valuation, a uniform rate would promote development of land, particularly commercial and industrial developments. There is however little evidence to prove that this is the case.

There is scope for possible concessions for farm land, urban farm land and residential use land.

### *Disadvantages in using Site Value*

Under Site Value, there will be a significant shift in bearing the rate burden from the Industrial / Commercial sector onto the Residential sector of Council. The percentage increases in many cases will be in the extreme range.

SV is a major burden on property owners that have large areas of land. Large landowners, such as farmers for example, are disadvantaged by the use of site value.

SV would reduce Council's rating flexibility and options to deal with any rating inequities due to the removal of the ability to levy differential rates;

The rate-paying community has greater difficulty in understanding the SV valuation on their rate notices, as indicated by many inquiries from ratepayers on this issue handled by Council's Customer Service and Property Revenue staff each year.

### **2.4.3 Net Annual Value**

Net Annual Value, in concept, represents the annual rental value of a property. However, in practice, NAV is closely linked to capital improved value for residential and farm properties. Valuers derive the NAV directly as 5 per cent of CIV for Residential and Farm properties.

#### ***Advantages in using Net Annual Value***

In contrast to the treatment of Residential and Farm properties, Net Annual Value for commercial and industrial properties is assessed with regard to actual market rental. This approach can be of some merit for municipalities that have a high concentration of commercial and / or industrial properties.

#### ***Disadvantages in using Net Annual Value***

For Residential and Farm ratepayers, actual rental values pose some problems. The artificial rental estimate used may not represent actual market value, and means the base is the same as CIV but is harder to understand.

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

### **2.5 Property valuation cycle**

Every two years, Council, to satisfy its statutory requirement under the *Valuation of Land Act 1960*, conducts a review of property values based on market movements and recent sales trends. For the 2014-2015 and 2015-2016 rating years, valuations will be based on values returned as at 1 January 2014.

Valuers undertake a physical inspection of a number of residential and rural assessments during each revaluation cycle. Inspections are undertaken on commercial, industrial and specialist properties. Other valuations are derived from a complex formula based on sectors, sub-market groups, property condition factors (including age, materials and floor area), influencing factors such as locality and views, and land areas compared to sales trends within each sector/submarket group. The municipality has defined the sub-market groups which are reviewed during the revaluation process. Council's valuers determine the valuations according to the highest and best use of a property.

In valuing large areas of land without buildings, residential zoning, permits for subdivision or

structure plans are indications of potential for subdivision. If the land is capable of subdivision, it will be valued accordingly as potential subdivisional land and will typically be higher than Farm land. The amount of valuation increase will depend on market factors at the time of valuation.

Supplementary valuations are adjustments that are required to be made when properties have a reason to be reviewed. Reasons for this may include a dwelling demolished, a certificate of occupancy issued for a completed dwelling, titles issued for newly subdivided lots or the reduction of value on a parent assessment due to be subdivided.

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

The total value of the municipality is used as a base against which Council strikes its rate in the dollar for each defined category or type of property.

## **2.6 Objections to Property Valuations**

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

Objections must be dealt with in accordance with the *Valuation of Land Act 1960*.

Further information can be obtained by contacting Council or accessing the Land Victoria website at [www.land.vic.gov.au/valuation](http://www.land.vic.gov.au/valuation).

## **2.7 No Windfall Gain**

There is a common misconception that if a property's valuation rises then Council receives a 'windfall gain' with additional income. This is not so, as the revaluation process results in a redistribution of the rate burden across all properties in the municipality.

As previously explained, Council only seeks to increase the total amount of revenue required from all ratepayers in order to provide the services and capital works expected by the community.

Total income is fixed each year as part of the budget process. The rate in the dollar (ad valorem rate) used to calculate the rate for each property is adjusted to ensure that the total income required is actually generated.

## **2.8 Rating Differentials**

The Act allows councils to 'differentiate' rates based on the use of the land, the geographic locality of the land or the use and locality of the land. Different rates in the dollar of CIV can be applied to different classes of property. These classes must be clearly differentiated.

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.

Council distinguishes rateable properties on the purpose for which the property is used. The establishment of differential tariff groups can ensure greater equity and contribution from rates according to land use characteristics in relation to affordability and taxation principles.

In accordance with The Act, Council is required to undertake the following when levying a differential rate. Council must:

- Specify the objectives of the differential rate;
- Define the types and classes of land and a statement of reasons for the use and level of the rate; and
- Identify types and classes of land in respect to uses, geographic location, planning scheme zoning, building types and other relevant criteria.

The purpose of the above is to ensure that Council has a sound basis on which to develop various charging features when determining its revenue strategies and ensure that these are consistent with the provisions of The Act.

The general objectives of each differential rate are to ensure that all rateable land makes an equitable financial contribution to costs of carrying out the functions of Council, including the:

- Construction and maintenance of public infrastructure;
- Development and provision of health and community services;
- Provision of general support services;

Or

- A specific objective as described within the differential rate characteristics.

The application of a differential rate means that one class of property is treated differently from another – either paying a higher or lower ad valorem rate in the dollar. For each effect a differential has, it will have the opposite effect for other property classes. A lower differential given to one class of property can only be covered by a higher differential in other property 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.

## 3 Rating Strategy

### 3.1 What is a Rating Strategy?

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

This Rating Strategy comprises a number of components including:

- A review of rationales and objectives;
- The development of principles;
- Related research;
- Rate modelling;
- The development of required documentation; and
- The opportunity for public review/consultation.

### 3.2 Council Profile

#### *Snapshot of South Gippsland Shire Council*

South Gippsland Shire was formed in 1994 from the amalgamation of four municipalities. Located 90 minutes south east of Melbourne, the Shire has an expanding population of about 27,500. It has an area of 3,300 square kilometres with substantial coastal frontage. South Gippsland Shire is a spectacular region, with communities nestled among the rolling green hills, and along the coast, linking the mountains to the sea.

Its major centres are Leongatha, Korumburra, Mirboo North and Foster, and other significant townships include Nyora, Toora, Venus Bay, Sandy Point, Poowong, Port Welshpool, Loch, Dumbalk, Welshpool, Meeniyah, Fish Creek, Port Franklin, Koonwarra, Kongwak and Tarwin Lower.

#### *Our Economic base*

South Gippsland has a thriving economy with over 7,000 businesses contributing to an annual output of over \$2.6 billion. South Gippsland has one of the lowest unemployment rates in Australia.

Key industry sectors contributing to this output are:

- Manufacturing \$688 million;
- Agriculture, Forestry and Fishing \$416 million;
- Property services \$218 million;
- Construction \$215 million;
- Mining \$136 million;
- Wholesale Trade \$129 million;
- Health care and social assistance \$116 million; and
- Retail trade \$101 million.

## *Agriculture*

South Gippsland's economy centres around agricultural production. It is one of the key dairy farming locations in Australia, is a major beef farming area and also has significant sheep farming. The Victorian Livestock Exchange operates a modern regional saleyards at Koonwarra.

Horticultural food production, such as snow pea and potato farming, are also key industries in South Gippsland. For part of the year most of Australia's snow peas are produced here.

South Gippsland has a growing wine industry and has been identified as a centre of organic and native food production.

## *Food Processing*

- Murray-Goulburn's Leongatha dairy factory, the largest in Australia;
- Burra Foods, at Korumburra;
- United Dairy Power at Poowong;
- ViPlus Dairy being established at Toora;
- Select Produce, operating a significant snow pea packing and distribution centre at Korumburra;
- GBP Exports, operating a major export abattoir at Poowong; and
- Fresh Zest, operating a herb packing facility at Pound Creek.

## *Tourism*

The tourism industry is also a major contributor to the South Gippsland economy with visitors contributing over \$230 million annually to the economy. Marketed as "Prom Country" - the region attracts over 1 million visitors each year. The region is rich in nature based activities, with the world renowned Wilsons Promontory National Park, spectacular scenery, unspoilt beaches and quaint villages.

## *Other industries*

Esso has a major marine terminal located at Barry Point near Toora that is used to provide services to their Bass Strait oil and gas platforms. This includes supporting the \$4 billion project to develop the 'Kipper Tuna Turrum' oil and gas field. A private port, 'Port Anthony' is also being constructed next to the Esso facility. An important fishing industry operates from Port Welshpool and Port Franklin and a wind farm is located on the hills around Toora.

The agricultural and manufacturing sectors also support a substantial service industry including: transport, engineering, construction and agricultural supplies.

## *Residential Profile*

The latest adjusted population estimate is 27,500 people as at June 2011. Council's recently prepared population forecasts project that the Shire's population will increase to 36,500 by 2031. This is an increase of almost 8,500 people at an average annual growth rate of 1.5%. The Shire has approximately 15,100 dwellings and about 19,050 rateable properties.

The number of households within South Gippsland increased by 790 between 2006 and 2011 to a total of 10,884.

This trend is expected to continue over the next 20 year period as population growth increases. The increase in the total number of households will require a diverse range of housing opportunities including higher density dwelling development in serviced townships and lifestyle living opportunities in a low density residential or rural living context.

The age structure of South Gippsland Shire in 2011 reflected a similar profile to Regional Victoria as a whole. The proportion of residents in the 20-29 age group (8.8%) continues to be lower than the average for Regional Victoria (10.7%) whereas the proportions in age groups above 50 years were higher. The proportion in the 60-69 age range was 11.8%, almost three percentage points higher than the average for Regional Victoria.

South Gippsland’s age profile compared with Regional Victoria is shown in the following table:

Age Group	South Gippsland	Regional Victoria
0-9	12.1%	12.5%
10-19	13.0%	13.5%
20-29	8.7%	10.7%
30-39	10.1%	11.3%
40-49	13.1%	13.7%
50-59	15.0%	14.0%
60-69	14.4%	11.8%
70-79	8.1%	7.3%
80-89	5.2%	4.9%

(ID consulting for South Gippsland Shire Council, Community Profile 2011)

There are high levels of home ownership in South Gippsland with 44% of dwellings fully owned compared with 32% nationally. The proportion of rental dwellings at 18.5% is much lower than the national average of 29.6%.

South Gippsland has 27% of lone person households, higher than the national rate of 24% while 56% of South Gippsland residents are married compared with 50% average for Australia.

South Gippsland has very high levels of citizen engagement with 71.4% of the population participating in the last year in comparison with 50.5% for Victoria. Volunteerism is also high with over 6,400 people or 32% of the adult population identifying that they worked as a volunteer for an organisation. This compared with about 19% across Victoria.

## Labour Force

South Gippsland Shire has:

- an estimated labour force of 12,969 people; and
- an unemployment rate of 3.7%, with 477 unemployed persons on Census night 2011.

This is the lowest unemployment rate in Gippsland and one of the lowest in the State. This is considerably below the average for Regional Victoria of 5.2%.

Key industry sectors by employment in the South Gippsland Shire in 2011 were Agriculture, forestry & fishing (16.7%), Health Care and Social Assistance (10.6%), Retail Trade (10.2%), and Construction (9.7%). The Shire's top eight employment sectors compared with that of Regional Victoria as shown in the table below:

Employment by Industry	South Gippsland	Regional Victoria
Agriculture, forestry & fishing	16.7%	7.8%
Health care and social assistance	10.6%	13.1%
Retail trade	10.2%	11.6%
Construction	9.7%	8.9%
Manufacturing	9.6%	10.4%
Education and training	6.6%	8.2%
Accommodation and food services	5.9%	6.8%
Transport, postal and warehousing	4.2%	4.1%

(ABS 2011 Census)

Since 2006 the greatest rise has been in the manufacturing sector and in transport, postal and warehousing. There has been a drop in those working in agriculture, forestry and fishing.

In 2011, key employment by occupation groups in South Gippsland were managers (22.0%), technicians and trades workers (15.1%) and professionals (13.7%). The Shire's employment by occupation compared with that of Regional Victoria are as follows:

Occupation	South Gippsland	Regional Victoria
Managers	22.0%	15.2%
Technicians and trades Workers	15.1%	15.4%
Professionals	13.7%	16.7%
Labourers	12.4%	12.3%
Clerical and administrative services	10.2%	11.7%

<b>Occupation</b>	<b>South Gippsland</b>	<b>Regional Victoria</b>
Sales workers	8.9%	9.7%
Community and personal service workers	8.4%	10.3%
Machinery operators and drivers	7.4%	6.9%
Inadequately described and not stated	1.9%	2.0%

(ABS 2011 Census)

### 3.3 Rating Principles

Council's practices and decisions regarding rating are underpinned by the principles described below.

- **Equity principle:** To achieve an equitable distribution of the rate burden across the community. A differential rating structure can assist in achieving an equitable imposition of rates and charges. The equity principle includes consideration of property wealth tax, user benefit and capacity to pay principles.
  - **Property wealth tax:** Council is limited to taxing one component of wealth, being real property. The wealth tax principle implies that rates paid are dependent upon the value of a ratepayer's real property and does not necessarily have any correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates. Some moderation of the effect of property value on the level of rates paid through differential rates may be required to make the rating system more equitable.
  - **Horizontal equity** means that like properties in the same position, e.g. with the same property value, geographical locality and/or land use, should be treated the same. The Act allows councils to differentiate rates based on the use of land and/or the geographic locality of the land. 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** in respect to property taxation means that higher property values should incur higher levels of tax.
- **User benefit:** A popular complaint 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. Evaluating the relative benefits received by various classes of property raises many practical difficulties, in particular, trying to trace quantifiable consumption/benefits to particular types of properties. The analysis often gets reduced to arguments of what services are consumed by residential versus farm, commercial/industrial 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 and constructing long lengths of local roads to service a small number of properties. Also, the benefits that a ratepayer may receive will not necessarily be to the extent of the rates paid. Benefits are consumed in different quantities and types over the lifecycle of the ratepayer, e.g. maternal and child health, libraries and aged care, roads and footpaths, local laws.

- **Capacity to pay:** The relativity of rates paid by each class of property, including residential, farm, commercial, industrial and cultural and recreational, are to be considered in relation to their respective capacity to pay. Ratepayers with higher value properties generally have a higher wealth and a greater capacity to pay. However, as rates are levied on unrealised wealth in the form of real property, their nexus with ratepayers' capacity to pay may be more tenuous. Ratepayers may be asset rich but cash poor. Council acknowledges that property rates do not recognise that individual ratepayers within a class of properties can be 'asset rich' and 'income poor'. In some cases ratepayers may have considerable wealth reflected in property they own but have a low level of personal income. Examples include; pensioners, self-funded retirees, businesses subject to cyclical downturn, households with large families and property owners with little equity but high levels of mortgage debt.

While income and goods and services taxes are more reflective of capacity to pay, it is not possible to expect a property rating system to deal practically with all aspects of capacity to pay based on individual households and businesses.

Rating instruments such as differential rates are available to reflect the differing capacity of classes to pay. For example, higher differential rates may reflect the income producing capacity of the class of property.

- **Incentive principle:** Rate setting objectives can also be used to support Council's social, environmental, or economic goals as part of a longer term strategy such as the Council Plan. For example, rates can be altered to encourage business activity, the development of vacant land or environmentally sustainable improvements.
- **Comparative rates principle:** When considering what an equitable distribution of the rate burden is across the community, the Council's rating structure should be compared to other like councils of a similar size, scale and population. Benchmarking on its own however, does not necessarily determine Council's performance with respect to an equitable distribution of rate burden. Although the information may show differences between councils, the reasons for the differences sometimes require further investigation. What is an equitable distribution can be difficult to determine based on benchmarking indicators alone.
- **Simplicity principle:** Refers to a transparent rating system with a clear purpose and principles that are understood by ratepayers, with a view to the tax system being capable of being questioned and challenged by ratepayers. Finding a balance between different objectives can be complex.

- **Transparency principle:** Transparency implies openness, communication and accountability, such that it is apparent and easy for stakeholders to see what steps have been taken, and why, to reach outcomes. Transparency is, or should be, an overarching principle for public officials and organisations in their decision making. Under the *Local Government Act 1989* a council must have regard to a number of facilitating objectives, which include transparency and accountability, when making decisions. In relation to the development and implementation of a differential rating strategy, transparency implies openness and accountability of process and outcomes. This involves, for example, developing a clear and justifiable rationale for differential rating decisions, ensuring agreed and clearly defined rating principles underpin those decisions, communicating the strategy in an accessible and timely way, and reviewing the strategy over time. The principle of transparency does not bring any specific rating principles into conflict, but rather serves as an overarching principle applicable to the elements that underpin and guide the rating strategy, the decisions that are made, and the strategy as a whole.
- **Efficiency principle:** Refers to the cost of administering the rates system including issuing of assessments, collection of rates, monitoring outcomes, educating and informing ratepayers, enforcement and debt recovery. There is a tendency for uniformity to help minimise administration costs, 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.
- **Legislative compliance principle:** It is important to ensure that all rating decisions are made in accordance with relevant legislation, including The Act.

## 4 The current Rating System

### 4.1 History

#### 4.1.1 Property Valuation Base

Property values are used to calculate how much each property owner will pay. South Gippsland has used the Capital Improved Value (CIV) as the basis for valuing its land since it was formed in 1994. Successive councils considered that this method provides the fairest way to distribute the rate burden across all ratepayers on the following basis:

- The 'Capacity to Pay Principle' of taxation requires that ratepayers of similar wealth (based on the value of their land), pay a similar amount of rates.
- Ratepayers of greater wealth pay more tax than ratepayers of lesser wealth;
- Property value is a relatively good indicator of wealth (when lifetime incomes, including incomes from capital gains, are taken into account). The CIV, which closely approximates the market value of a property, provides the best indicator of overall property value.

Seventy-four of Victoria's 79 councils use the CIV method to calculate property rates, while the remaining five use the Net Annual Value (NAV) method. (Melbourne, Port Phillip, Glen Eira, Yarra and Maribyrnong).

#### 4.1.2 Differential rates

The current rating structure comprises seven differential rates, incorporated into major property categories: Residential, Farm, Commercial, Industrial, Vacant Land, Vacant Land Restricted and Cultural and Recreational.

The different rates are structured in accordance with the requirements of Section 161 of The Act and are detailed below:

- **Residential Land**
  - Land located within the municipality that is residential, meaning rateable land upon which is erected a private dwelling which is used primarily for residential purposes; or
  - Land located within the municipality that is rural living, meaning land which is generally outside the established townships and which is primarily used and developed for residential purposes in a rural location.
- **Farm Land**

Land located within the municipality that is farm land as defined in Section 2 of the *Valuation of Land Act 1960*.
- **Commercial**

Land located within the municipality that is commercial, meaning rateable land, which is used primarily for business or commercial purposes, including structures, which are used in conjunction with or for purposes ancillary to business or commercial purposes.

- **Industrial**  
Land located within the municipality that is industrial, meaning land upon which is erected a factory or workshop which is primarily used for industrial purposes and includes any land which is used in conjunction with or for purposes ancillary to industrial purposes for which the factory or workshop is being used for industry including but not being limited to the operations included in the definition of industry in the South Gippsland Shire Council Planning Scheme.
- **Vacant Land**  
Land located within the municipality that is vacant, meaning land upon which no improvements have been made. Improvements being work actually done or material use on and for the benefit of the land, so far as the work done or material used increases the value of the land which is capable of being developed for residential, commercial, rural living or industrial purposes.
- **Vacant land- Restricted use**  
Land located within the municipality that is vacant, meaning land upon which no improvements have been made, and where residential development has been dis-allowed due to planning restrictions
- **Cultural and Recreational Land**  
Land located within the municipality that is cultural or recreational land, as defined in Section 2 of the *Cultural and Recreational Land Act 1960*.

#### 4.1.2.1 Historical Rates and Charges Data from 2003/04

Historical rates and charges data are detailed below for South Gippsland Shire Council.

##### 4.1.2.1.1 Residential Rates

Details of the Residential differential rate in the dollar and the ratio comparison to the General rate are included in the table below.

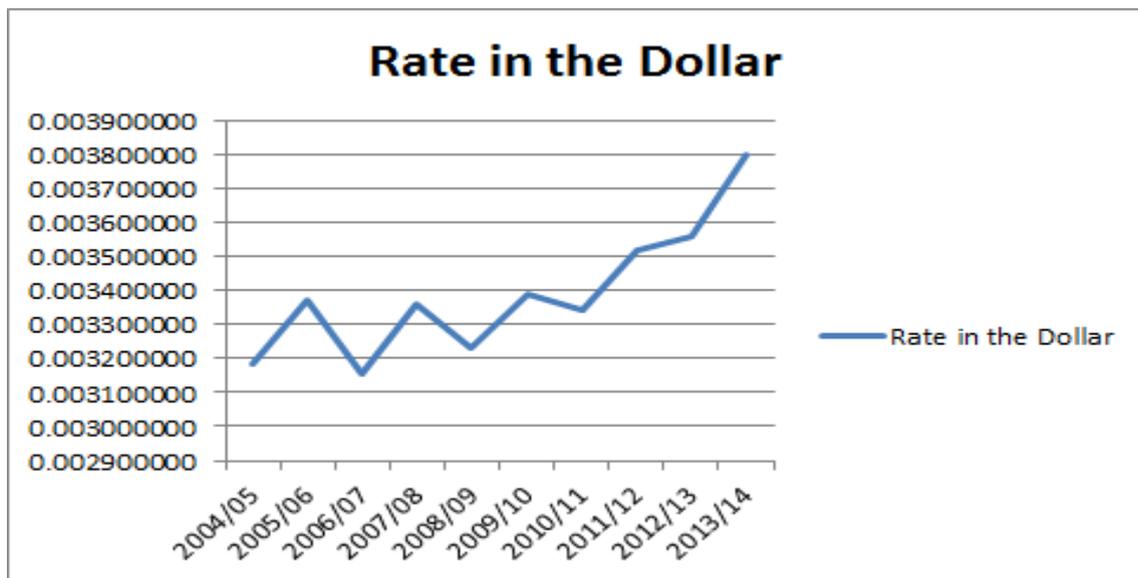
Year	Rate in the Dollar	Ratio to General Rate
2004/05	0.003183061	100%
2005/06	0.003372350	100%
2006/07	0.003152580	100%
2007/08	0.003357670	100%
2008/09	0.003232050	100%
2009/10	0.003390430	100%
2010/11	0.003343330	100%
2011/12	0.003514510	100%
2012/13	0.003561240	100%
2013/14	0.003797390	100%

The rate in the dollar varies from year to year. Typically every year when the annual budget is set, rate revenue requirements increase when compared to what was raised in the previous year.

In a non-general revaluation year the rate trends upwards as expected in order to generate additional rate revenue.

Every second year a general revaluation of all rateable properties takes place. Rising land values do not provide Council with a windfall financial gain. Rather, the revaluation burden is redistributed across all properties.

In the early years in the first decade of the 21<sup>st</sup> century there were substantial increases in property valuations. The table below clearly shows how the rate in the dollar was reduced every second year.



#### 4.1.2.1.2 Farm Rates

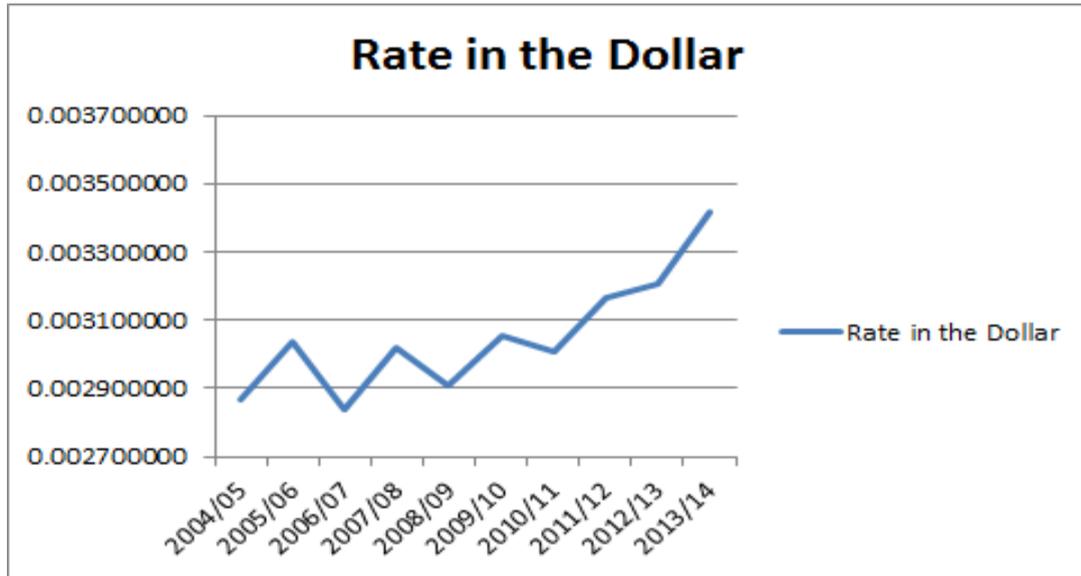
Details of the Farm differential rate in the dollar and the ratio comparison to the General rate are included in the table below. The Farm differential has been set at 90% of the General rate.

Farming properties over the year were provided a 10% discount to that of the general rate.

Year	Rate in the Dollar	Ratio to General Rate
2004/05	0.002864755	90%
2005/06	0.003035120	90%
2006/07	0.002837320	90%
2007/08	0.003021900	90%
2008/09	0.002908840	90%
2009/10	0.003051390	90%
2010/11	0.003009000	90%
2011/12	0.003163060	90%

Year	Rate in the Dollar	Ratio to General Rate
2012/13	0.003205120	90%
2013/14	0.003417650	90%

The rate in the dollar increases for Farm rates changed proportionately exactly as it did for Residential rates (and Commercial, Industrial and Cultural & Recreational land categories).



#### 4.1.2.1.3 Commercial Rates

Details of the Commercial differential rate in the dollar and the ratio comparison to the General rate are included in the table below. They are identical to the Residential rate (and Industrial rate).

Year	Rate in the Dollar	Ratio to General Rate
2004/05	0.003183061	100%
2005/06	0.003372350	100%
2006/07	0.003152580	100%
2007/08	0.003357670	100%
2008/09	0.003232050	100%
2009/10	0.003390430	100%
2010/11	0.003343330	100%
2011/12	0.003514510	100%
2012/13	0.003561240	100%
2013/14	0.003797390	100%

#### 4.1.2.1.4 Industrial Rates

Details of the Industrial differential rate in the dollar and the ratio comparison to the General rate are included in the table below. They are identical to the Residential Rate (and Commercial Rate)

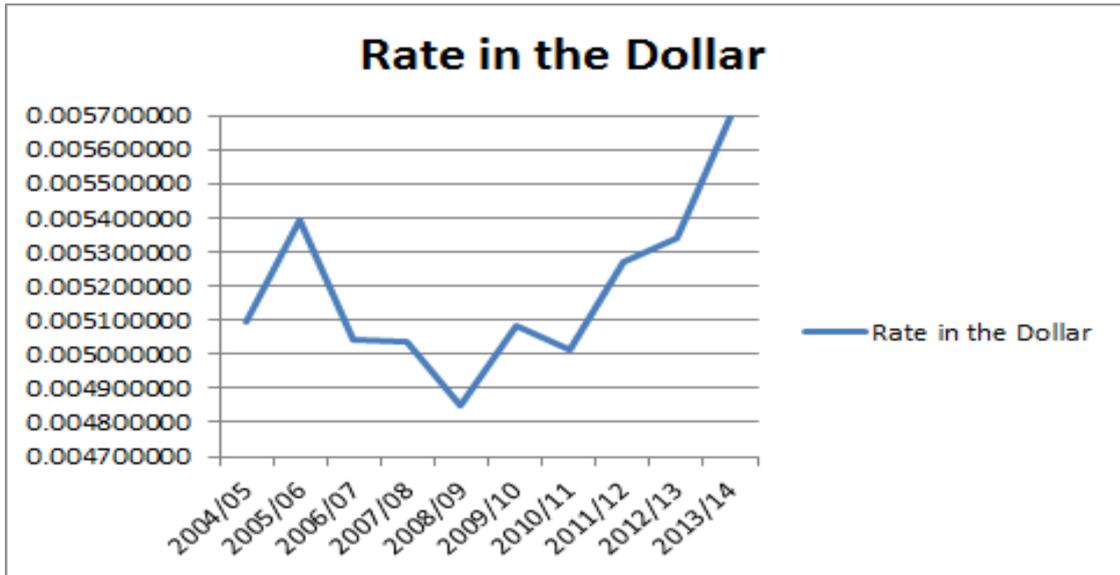
Year	Rate in the Dollar	Ratio to General rate
2004/05	0.003183061	100%
2005/06	0.003372350	100%
2006/07	0.003152580	100%
2007/08	0.003357670	100%
2008/09	0.003232050	100%
2009/10	0.003390430	100%
2010/11	0.003343330	100%
2011/12	0.003514510	100%
2012/13	0.003561240	100%
2013/14	0.003797390	100%

#### 4.1.2.1.5 Vacant Land Rates

Details of the Vacant Land differential rate in the dollar and the ratio comparison to the General rate are included in the table below.

Year	Rate in the Dollar	Ratio to General rate
2004/05	0.005092898	160%
2005/06	0.005395760	160%
2006/07	0.005044130	160%
2007/08	0.005036510	150%
2008/09	0.004848070	150%
2009/10	0.005085650	150%
2010/11	0.005015000	150%
2011/12	0.005271760	150%
2012/13	0.005341860	150%
2013/14	0.005696090	150%

Council marginally reduced the vacant land differential from 160% to 150% in 2007/08. The change reflected in the graph below recognised that in previous years the substantial increase in overall property value increases was attributable to land value increases.

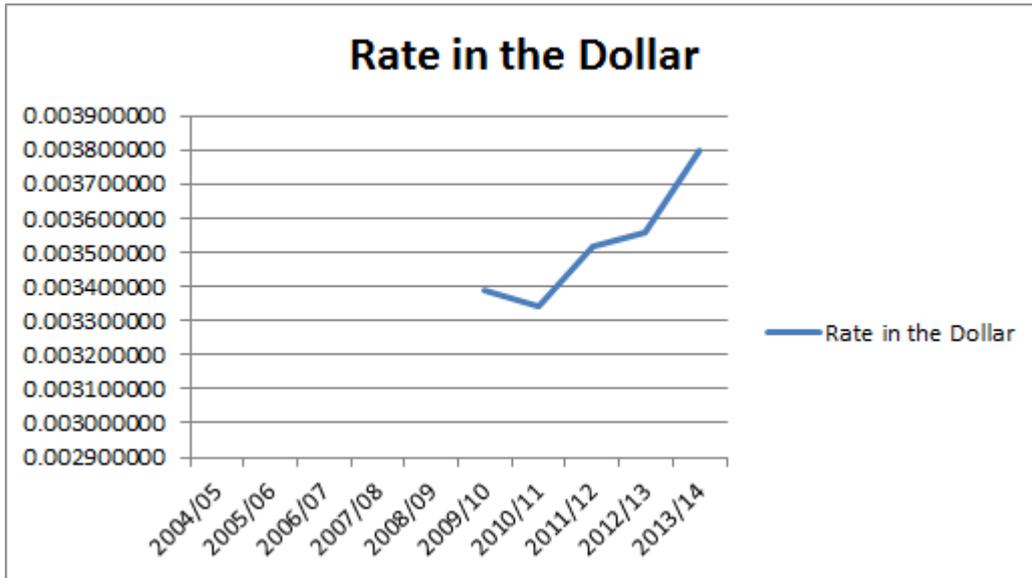


#### 4.1.2.1.6 Vacant Land – Restricted Use Rates

Details of the Vacant Land Restricted differential rate in the dollar and the ratio comparison to the General rate are included in the table below.

Year	Rate in the Dollar	Ratio to General rate
2004/05	0.000000000	0%
2005/06	0.000000000	0%
2006/07	0.000000000	0%
2007/08	0.000000000	0%
2008/09	0.000000000	0%
2009/10	0.003390430	100%
2010/11	0.003343330	100%
2011/12	0.003514510	100%
2012/13	0.003561240	100%
2013/14	0.003797390	100%

Council introduced a new differential classification in 2009/10 for vacant land where residential development was not allowed due to planning restrictions (otherwise they would have continued to incur the 150% vacant land differential rate). The rate in the dollar changed proportionately exactly as it did for Residential rates.

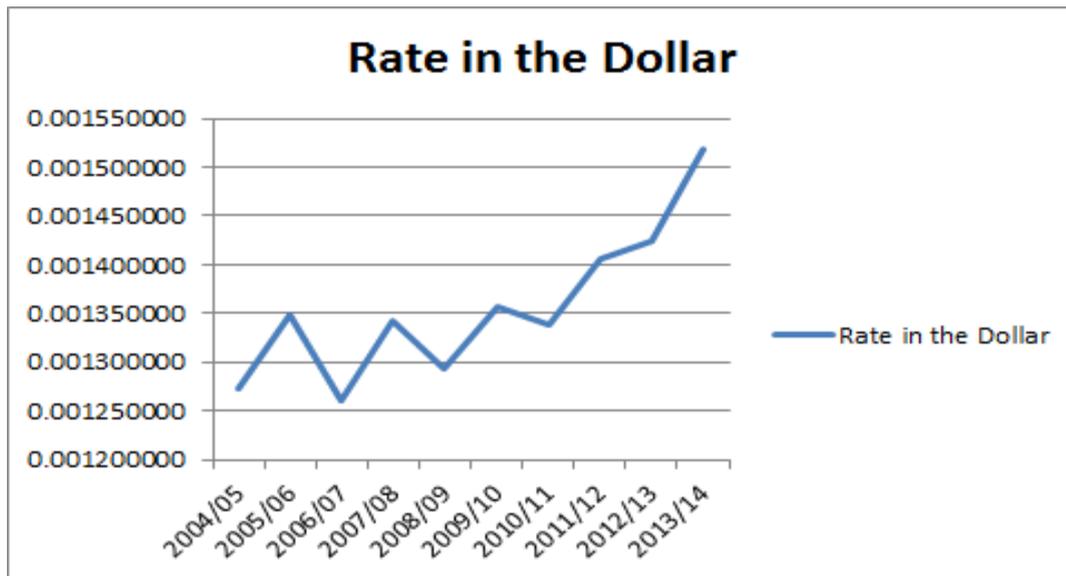


#### 4.1.2.1.7 Cultural and Recreational Land Rates

Details of the Cultural and Recreational Land differential rate in the dollar and the ratio comparison to the General rate are included in the table below.

Year	Rate in the Dollar	Ratio to General rate
2004/05	0.001273244	40%
2005/06	0.001348940	40%
2006/07	0.001261030	40%
2007/08	0.001343070	40%
2008/09	0.001292820	40%
2009/10	0.001356170	40%
2010/11	0.001337330	40%
2011/12	0.001405800	40%
2012/13	0.001424500	40%
2013/14	0.001518960	40%

The rate in the dollar increases for Cultural and Recreational Rates changed proportionately exactly as it did for Residential rates (and Commercial, Industrial and Farm land categories).



Details of each differential rate in the dollar, the ratio to the Residential differential rate, the number and percentage of assessments for 2013-2014 are included in the table below.

Differential Category	Cents in /\$ CIV 2013/14	Ratio to Residential Rate	Assessments 2013/14	% of Assessments
Residential	0.00379739	100%	12,089	63%
Commercial	0.00379739	100%	791	4%
Industrial	0.00379739	100%	150	1%
Farm Land	0.00341765	90%	4,000	21%
Vacant Land	0.00569609	150%	1,821	10%
Vacant Land Restricted Use	0.00379739	100%	177	1%
Cultural & Recreational land	0.00151896	40%	22	0%
<b>TOTAL</b>			<b>19,050</b>	<b>100%</b>

Differential Category	Assessments 2013/14	CIV 2013/14 \$	% of CIV	Differential Revenue 2013/14 \$	% of Differential Rate Revenue
Residential	12,089	3,283,928,000	48%	12,470,363	50%
Commercial	791	305,695,000	5%	1,160,844	5%
Industrial	150	105,517,000	2%	400,689	2%
Farm Land	4,000	2,837,080,500	42%	9,696,157	39%
Vacant Land	1,821	227,810,000	3%	1,297,626	5%
Vacant Land Restricted Use	177	11,564,000	0%	43,913	0%
Cultural & Recreational land	22	8,255,000	0%	12,539	0%
<b>TOTAL</b>	<b>19,050</b>	<b>6,779,849,500</b>	<b>100%</b>	<b>25,082,131</b>	<b>100%</b>

### 4.1.3 Municipal Charge

The Municipal Charge is a flat, identical charge that can be used to offset some of the 'administrative costs' of the Council. The legislation is not definitive on what comprises 'administrative costs'.

Council is able to levy a Municipal Charge on each rateable property within the municipality with the exception of farms where a single Municipal Charge is payable on multiple assessments operated as part of a single farm enterprise.

The maximum Municipal Charge that can be levied equals 20 per cent of the revenue raised from general rates and the Municipal Charge divided by the number of chargeable properties. Historically, South Gippsland has levied the Municipal Charge at the maximum 20 per cent of the total rates revenue. The strategic intent was to provide a financial benefit to farming properties.

The Municipal Charge (\$343.65 in 2013/14) is applicable to all rateable properties with the exception of Farms where a single Municipal Charge is payable on multiple assessments operated as part of a single farm enterprise. Farmers who own a number of rateable properties that form part of a single farming enterprise can make application to Council to not pay multiple Municipal Charges. This strategically benefits single farming enterprises consisting of a number of properties because they only receive one Municipal Charge

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 rate burden is reduced on higher valued properties. Conversely, lower valued properties pick up the financial burden.

Strategically in past years this would mean that lower valued vacant land picked up more of the rate burden. This further complemented the strategy of imposing higher differential rates that were applied to vacant properties.

The effect for Residential, Commercial and Industrial properties is not as general as there is usually 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 acknowledged that at best, the Municipal Charge can be considered a partial targeted rating instrument focusing on some Farms and Vacant properties. It is not a targeted rating instrument like a differential rate and the use of differential rates is considered to be a more transparent and accurate means of achieving rate outcomes for certain classes of property.

Year	Municipal Charge	Increase \$	Increase %	Municipal Charge Revenue and Charges Revenue	% of Total Rates	Maximum allowed
2004/05	200.05				20%	20%
2005/06	212.45	\$ 12.40	6%		20%	20%
2006/07	227.80	\$ 15.35	7%		20%	20%
2007/08	241.75	\$ 13.95	6%		20%	20%
2008/09	256.00	\$ 14.25	6%		20%	20%
2009/10	273.10	\$ 17.10	7%		20%	20%
2010/11	284.00	\$ 10.90	4%		20%	20%
2011/12	300.40	\$ 16.40	6%		20%	20%
2012/13	320.50	\$ 20.10	7%		20%	20%
2013/14	343.65	\$ 23.15	7%		20%	20%

#### 4.1.4 Service Rates and Charges

Kerbside waste collection services are provided in urban areas and rural areas abutting the sealed road network. The charge for a waste/recyclables service is compulsory for all residential properties in urban areas (whether or not the service is used) and optional in rural areas.

The waste service charges account for the various direct and indirect costs associated with the provision of waste management services; including a recycling service, waste disposal and management, rehabilitation, a portion of capital and operational costs of the Council's landfills in accordance with Environment Protection Authority License, as well as street litter bins and street sweeping.

The costs of street litter bins and street sweeping were included in the waste charges from 2009/10. Waste Service charges in recent years have also been expanded to Venus Bay and Walkerville.

Type of Charge	Per Rateable Property 2012/13 \$	Revenue 2013/14 \$
<b>Waste Services Charge A</b> - Kerbside garbage & recycling collection service charge – Residential (120 litre weekly garbage/240 litre fortnightly recycling), street sweeping and litter bins.	213.20	1,806,870
<b>Waste Services Charge B</b> - Kerbside recycling only collection service charge - Commercial (2 x 240 litre fortnightly recycling service only), street sweeping and	213.20	8,102

Type of Charge	Per Rateable Property 2012/13 \$	Revenue 2013/14 \$
<p>litter bins.</p> <p><b>Waste Services Charge C</b> - Kerbside garbage &amp; recycling collection service – Commercial premises only (240 litre weekly garbage / 240 litre fortnightly recycling), street sweeping and litter bins.</p> <p><b>Waste Services Charge D</b> – Kerbside garbage &amp; recycling collection service - Sandy Point (120 litre weekly garbage/240 litre fortnightly recycling, plus 3 additional recycling collections during Summer), street sweeping and litter bins.</p> <p><b>Waste Services Charge E</b> – Kerbside garbage &amp; recycling collection service - Waratah Bay (120 litre weekly garbage/240 litre fortnightly recycling, plus 3 additional recycling collections during Summer), street sweeping and litter bins.</p> <p><b>Waste Services Charge G</b> – Kerbside garbage &amp; recycling collection service – Venus Bay (120 litre weekly garbage / 240 litre fortnightly recycling) for 6 months from November to April.</p> <p><b>Waste Services Charge H</b> – Kerbside garbage &amp; recycling collection service – Venus Bay (120 litre weekly garbage / 240 litre fortnightly recycling) for 12 months.</p> <p><b>Waste Services Charge J</b> – Kerbside garbage &amp; recycling collection service – Walkerville (120 litre weekly garbage / 240 litre fortnightly recycling) for 6 months from November to April.</p> <p><b>Waste Services Charge K</b> – Kerbside garbage &amp; recycling collection service Walkerville (120 litre weekly garbage / 240 litre fortnightly recycling) for 12 months.</p>	<p>309.10</p> <p>221.20</p> <p>256.70</p> <p>130.55</p> <p>232.95</p> <p>151.85</p> <p>268.65</p>	<p>64,909</p> <p>146,652</p> <p>26,184</p> <p>2,350</p> <p>21,897</p> <p>0</p> <p>806</p>

#### 4.1.5 Special Rates and Charges

Council has the power to levy a special rate or special charge, or a combination of special rates and charges 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. Council need not necessarily use property value as the basis for levying a special rate or charge.

Special Rates and/or Special Charges have been used by councils to fund things like:

- The construction of a road;
- The construction of a footpath; and
- The provision of drainage infrastructure.

Special rates and charges are specifically designed to address the benefit principle. They are targeted rating tools in the sense that they focus on ratepayers who 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 fundamental difference in using differential rates or special rates and charges in addressing the benefit principle is magnitude. A special rate or charge is generally applied to a single narrow group of expenditures. Generally the areas chosen for their use can be seen clearly to benefit some ratepayers.

Currently there are no special rates or charges currently in operation within the South Gippsland Shire Council. However, there is a road works scheduled for 2014/15 and 2022/23 in the Long Term Financial Plan that is proposed to be partially funded by Special Rates.

#### 4.1.6 Rebates and Concessions

A rebate is a mechanism through which a targeted group receives a discount or concession to achieve certain objectives.

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

When the pension rebate scheme was first introduced the objective was to provide the majority of pensioners a 50% rebate for their rates and charges. Over the years however, the increase in rebates payable did not match the increases in rates and charges payable. In fact from 1983 to 2003 the rebate stayed at \$135.00. From 2004/05 onwards the rebate has been increased each year.

Year	Pension rebate
2003/04	50% of rates and charges payable to a maximum of \$135.00
2004/05	50% of rates and charges payable to a maximum of \$160.00
2005/06	50% of rates and charges payable to a maximum of \$163.60

Year	Pension rebate
2006/07	50% of rates and charges payable to a maximum of \$168.00
2007/08	50% of rates and charges payable to a maximum of \$172.90
2008/09	50% of rates and charges payable to a maximum of \$178.60
2009/10	50% of rates and charges payable to a maximum of \$184.30
2010/11	50% of rates and charges payable to a maximum of \$187.60
2011/12	50% of rates and charges payable to a maximum of \$193.40
2012/13	50% of rates and charges payable to a maximum of \$198.00
2013/14	50% of rates and charges payable to a maximum of \$202.90

For 2013-2014 the government-funded indexed rebate is provided under the Municipal Rates Concession Scheme. It increased from \$198.00 to \$202.90 for 2013-2014 or 50% of the rate payment, whichever is the less.

Upon initial application, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veteran Affairs during verification procedures. Upon acceptance of pensioner status the concession or rebate is deducted from the rate account before payment by the ratepayer. Council is reimbursed pension rebates by the State Government.

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

In 2010 the MAV undertook a statistical analysis of figures across Victoria that showed on average 2.25% of household expenditure was spent on Council rates. The study indicated that households occupied by aged pensioners are likely to have a higher rate burden. The study recommended that the MAV should call for an increase in the State Government pension rate rebate.

\$202.90 equates to 13.3% of the average residential rate issued in 2013/14.

Council does not and has not provided any rebates or concessions over and above what is currently provided by the government. The State Government has historically accepted the need to redistribute income taxes in support of utility concessions and rebates to low income households. For Council to make further concessions would mean a redistribution of the rate burden with other ratepayers bearing the cost by way of higher rates and charges.

#### **4.1.7 Debt Recovery**

Council makes every effort to contact ratepayers at their correct address but it is the ratepayers' responsibility to properly advise Council of their contact details. Amendments to the Local Government Act require both the vendor and buyer of property, or their agents (e.g. solicitors), to notify Council by way of notices of disposal and acquisition respectively.

In the event that an account becomes overdue, Council has established procedures for the issue of an overdue final notice which may include interest pre calculated to a forward payment date.

In the event that the account remains unpaid, Council may take legal action without further notice to recover any overdue amount. All fees and court costs are recoverable from the ratepayer.

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

Council has Debt Recovery on Unpaid Rates and Charges Policy that provides quantitative guidelines to the general statutory obligations of the Local Government Act in relation to property debt recovery. The policy objective is to ensure that rate and other overdue property debts are recovered in a timely and fair manner. The policy also makes reference to the Rates and Charges Hardship Policy to defer rates and charges for a period of time.

The table below shows outstanding rates at 30 June 2013 financial year by property type.

<b>Property Type</b>	<b>Balance of rates as % of rates raised</b>
Residential	4%
Farm	3%
Commercial	5%
Industrial	1%
Residential Vacant land	9%
Industrial Vacant land	5%
Commercial Vacant land	0%
Restricted Use Vacant land	28%

#### **4.1.8 Deferrals and Waivers**

Councils also have the power to defer payment or waive part or all of any rate or charge. Council has a Rates and Charges Hardship Policy, its objective to provide rate relief to rate and special charge scheme payers who are suffering from financial hardship and need assistance.

The policy permits ratepayers to submit applications for rates and charges, or part thereof to be deferred, although rates and charges will continue to be levied.

The policy does not waive rates, municipal charges or service charges, as the value of each property provides the owner with a potential source of funds if liquidated. Interest and legal cost waivers can be given under certain circumstances.

#### **4.1.9 Payment Cycles**

The Local Government Act requires that councils ‘must allow’ payment in four instalments and ‘may allow’ payment in one lump sum. The Minister fixes the dates of instalments and lump sum by notice published in the Government Gazette. The dates are set state wide with no variability between councils.

There are only two options available under the *Local Government Act (1989)* for Council to set payment dates. The first is an option of a lump sum payment (which by law is set on 15 February of each year) and the second is a mandatory instalment approach where payments are required at the end of September, November, February and May. Under this second approach, residents can elect to advance pay instalments at any point in order to opt out of the instalment dates.

Council currently allows payment in lump sum in addition to the compulsory instalment method of paying rates and charges.

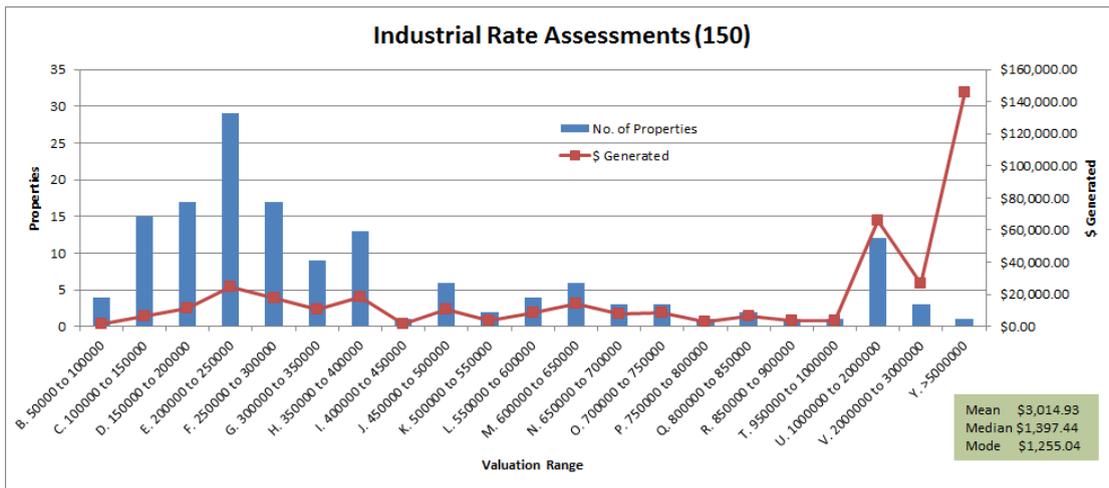
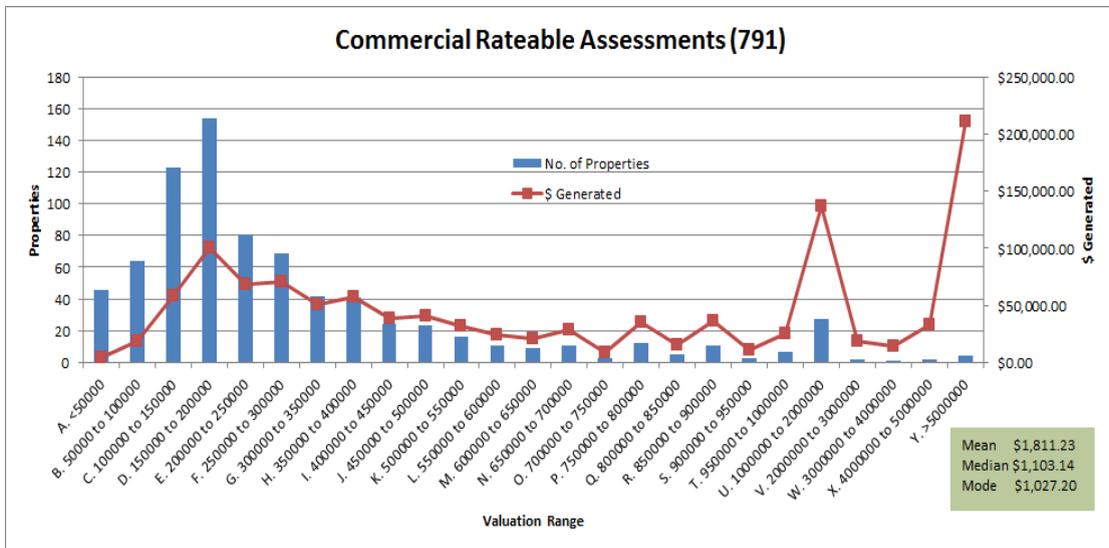
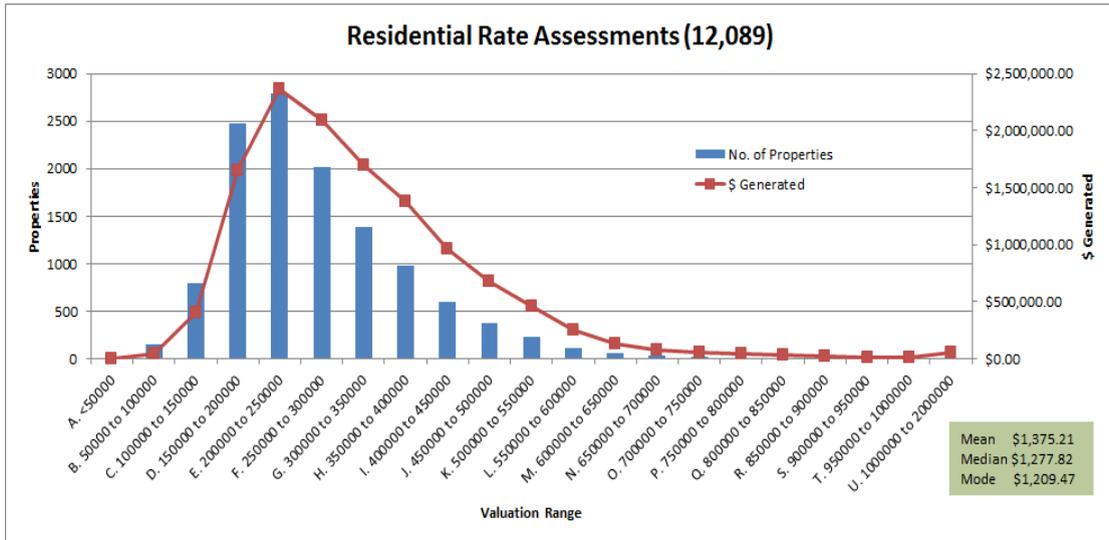
Of the 19,050 rate accounts issued in 2013/14, some 7,799 (41%) used the 4-instalment option. A move to four instalments only would bring cash flow forward and increase interest on cash held in investments. However, this is offset by increased postage and collection fees.

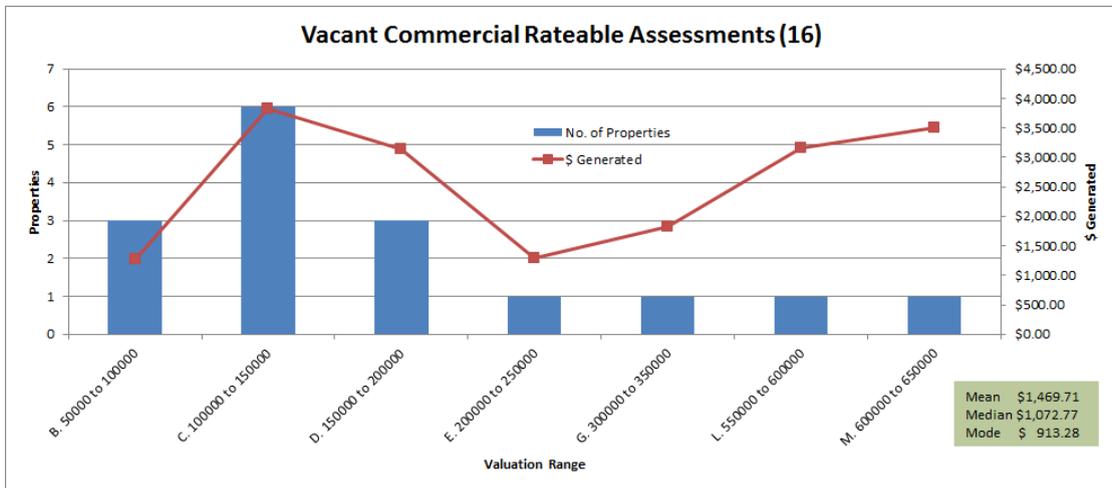
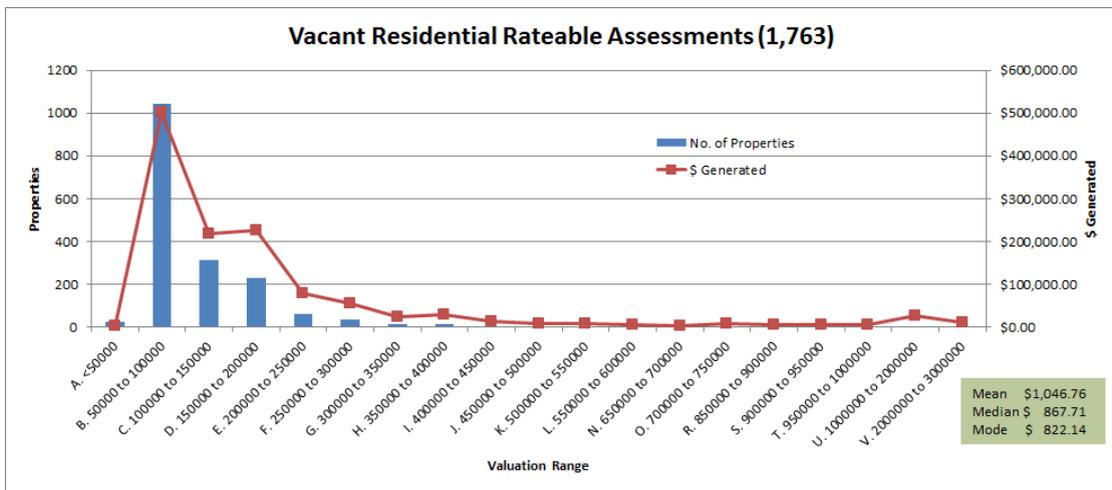
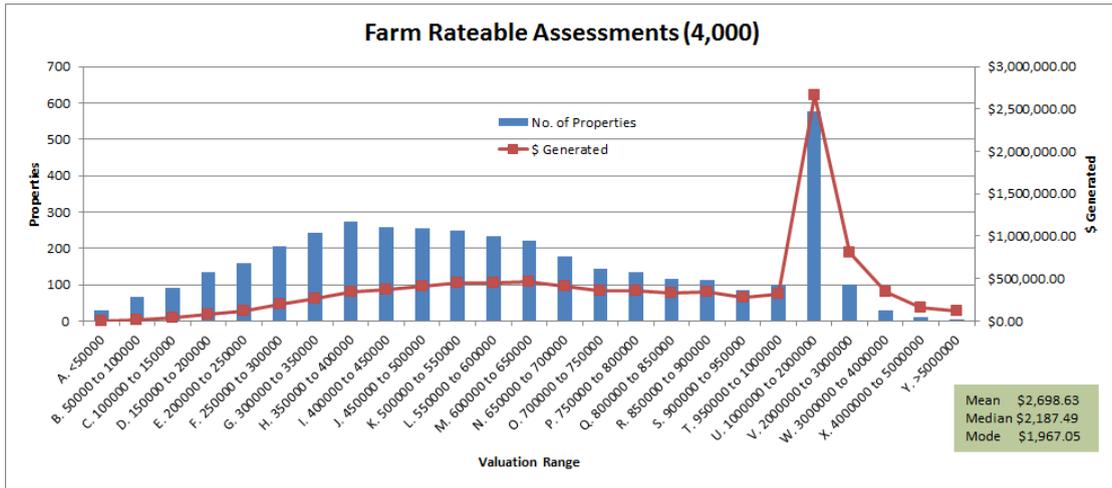
To assist ratepayers spread the cost of rates over the year Council allows 10 monthly payments.

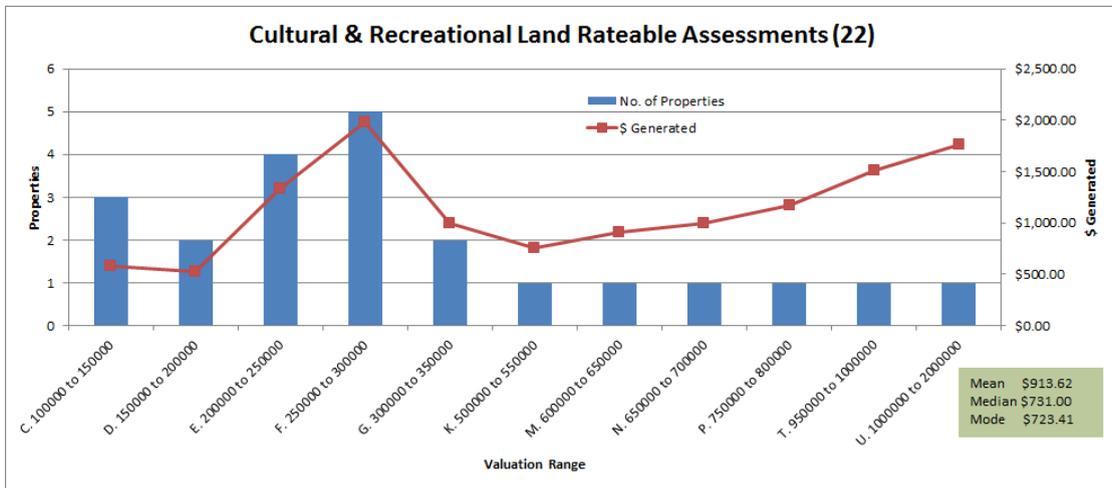
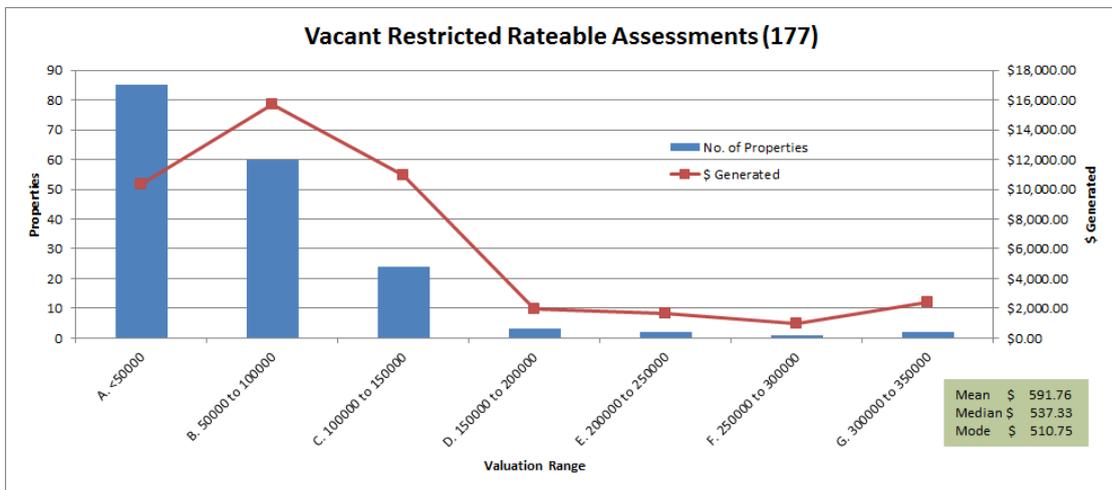
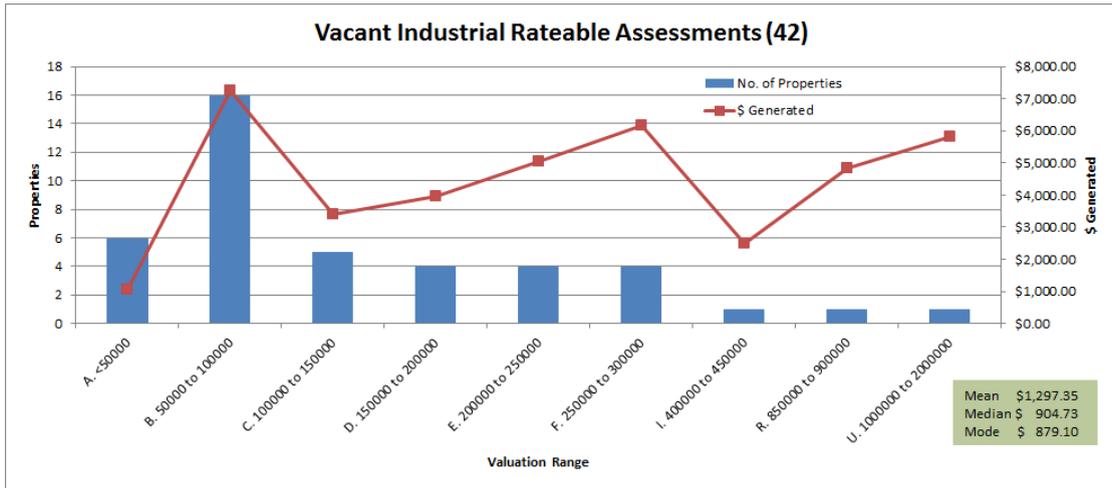
The table below shows the number of rate payers by property type for 2013/14 comparing payments by instalments to lump sum payers.

Differential Category	Assessments 2013/14	Ratepayers on instalments	% of Assessments	Ratepayers on Lump Sum	% of Assessments
Residential	12,089	5,649	47%	6,440	53%
Commercial	791	259	33%	532	67%
Industrial	150	86	57%	64	43%
Farm Land	4,000	1,022	26%	2,978	74%
Vacant Land	1,821	718	39%	1,103	61%
Vacant Land Restricted Use	177	54	31%	123	69%
Cultural & Recreational land	22	11	50%	11	50%
<b>TOTAL</b>	<b>19,050</b>	<b>7,799</b>		<b>11,251</b>	

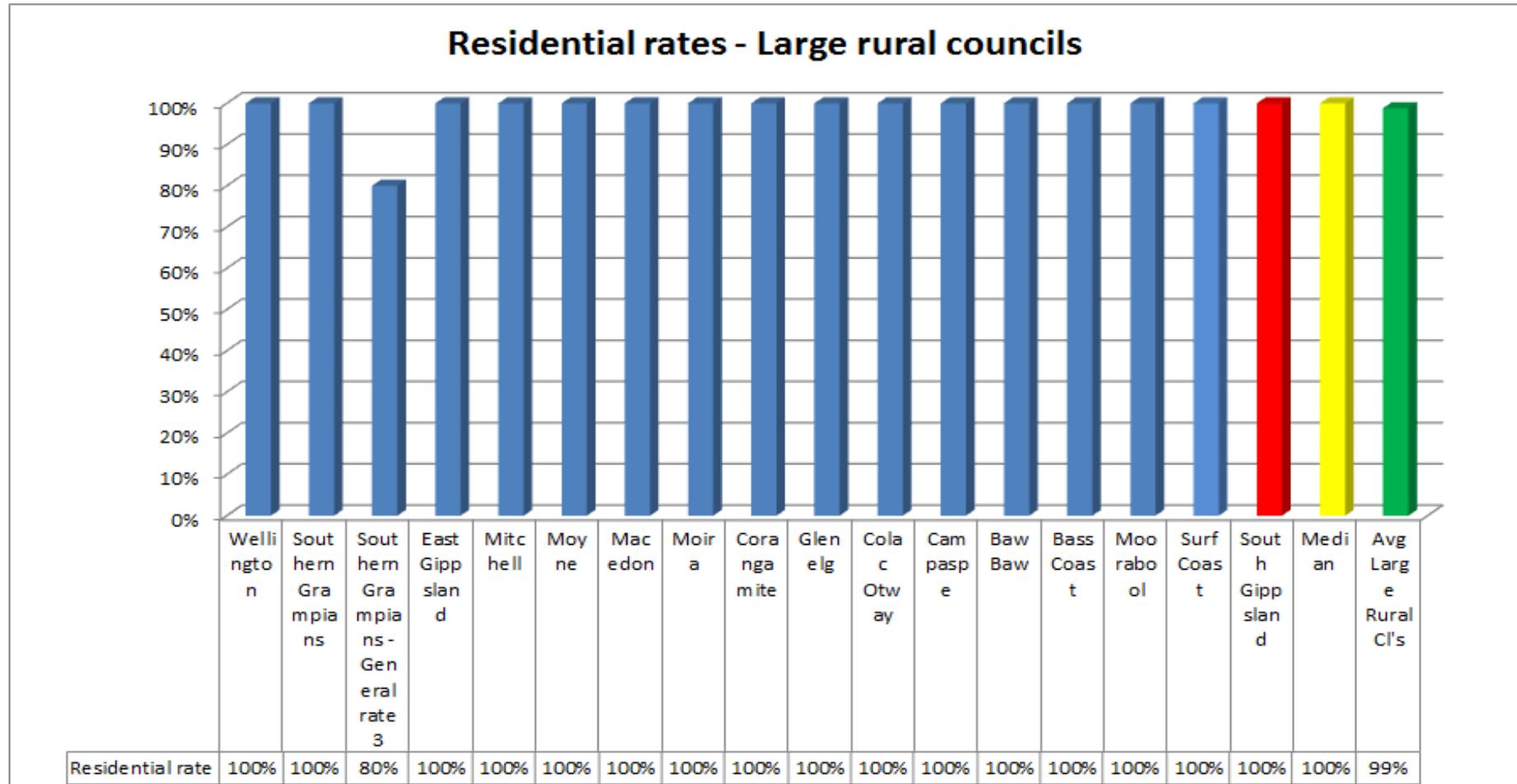
The graphs following provide a snapshot of the details for 2013/14 relating to the number of assessments per Capital Improved Value (CIV) range and rate revenue generated for each current rating differential.



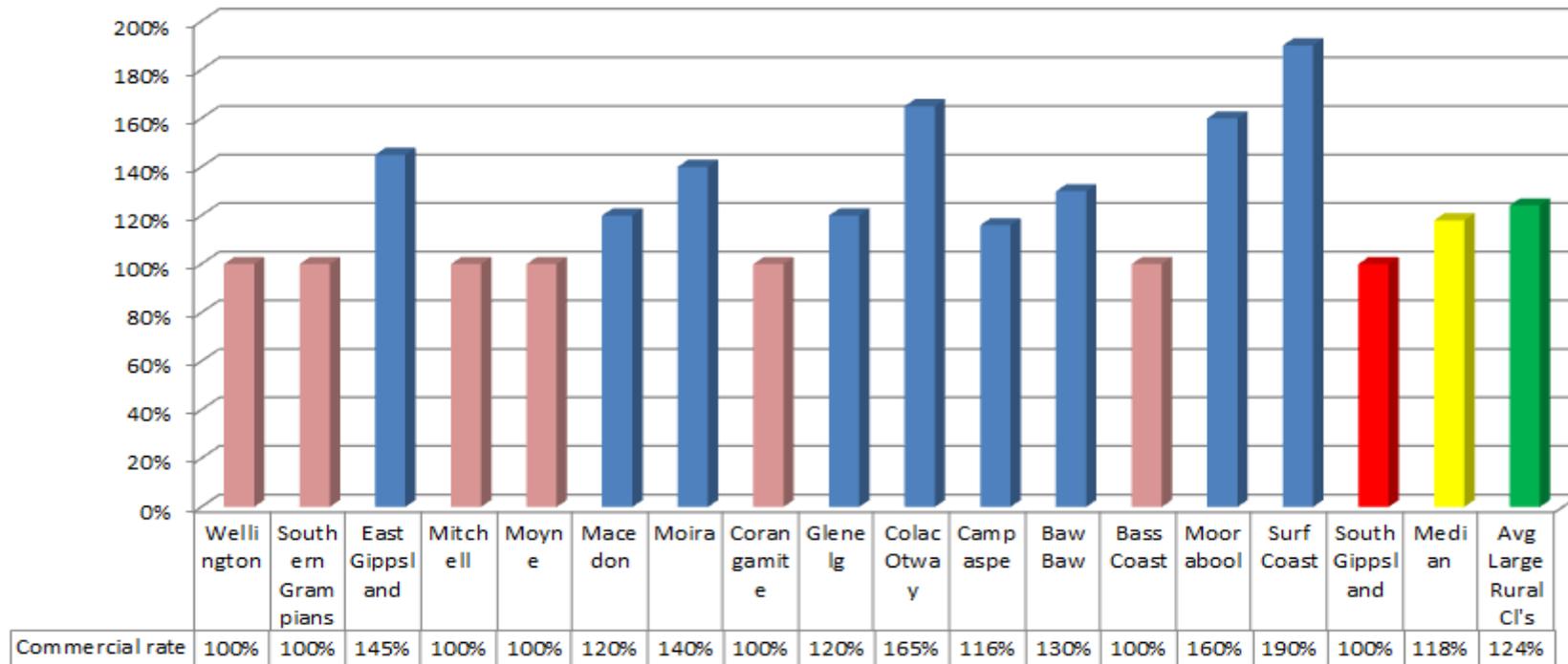




## 5 Large Council – Comparative data

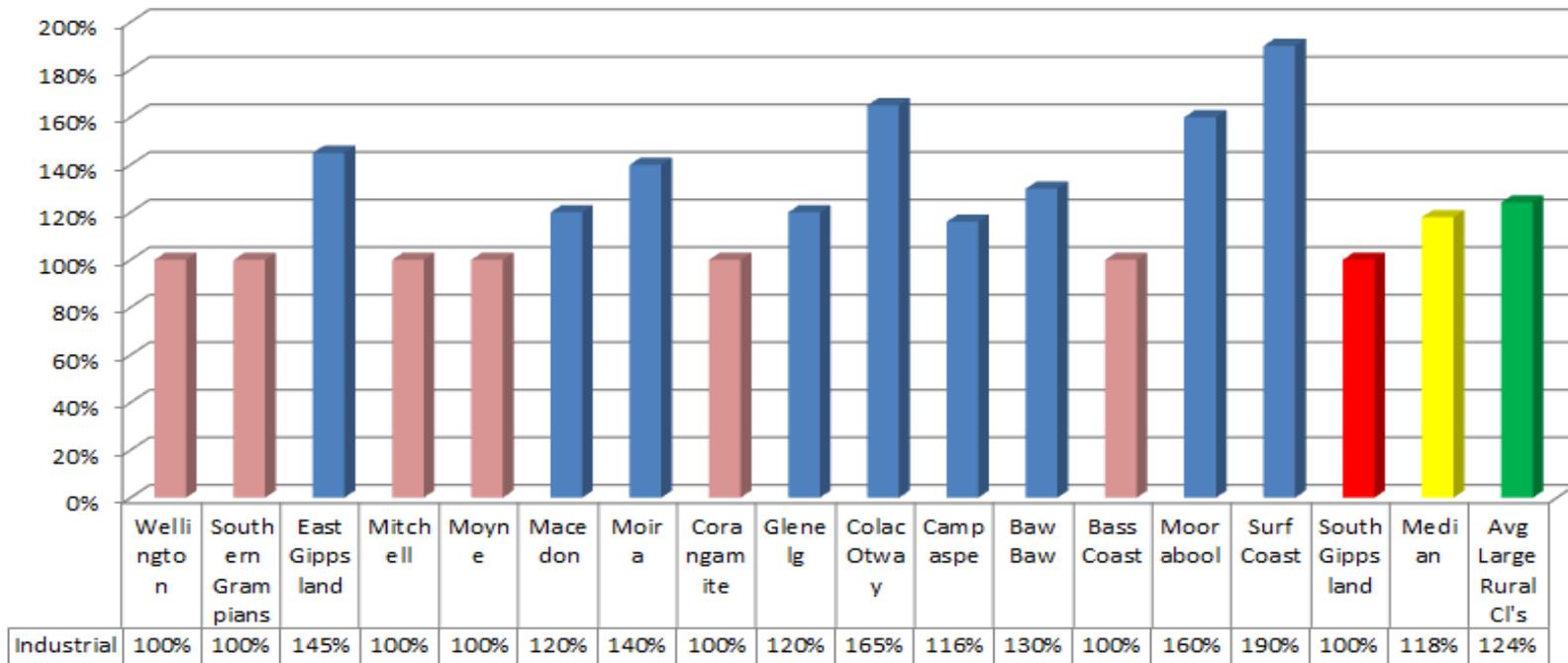


### Commercial rates - Large rural councils



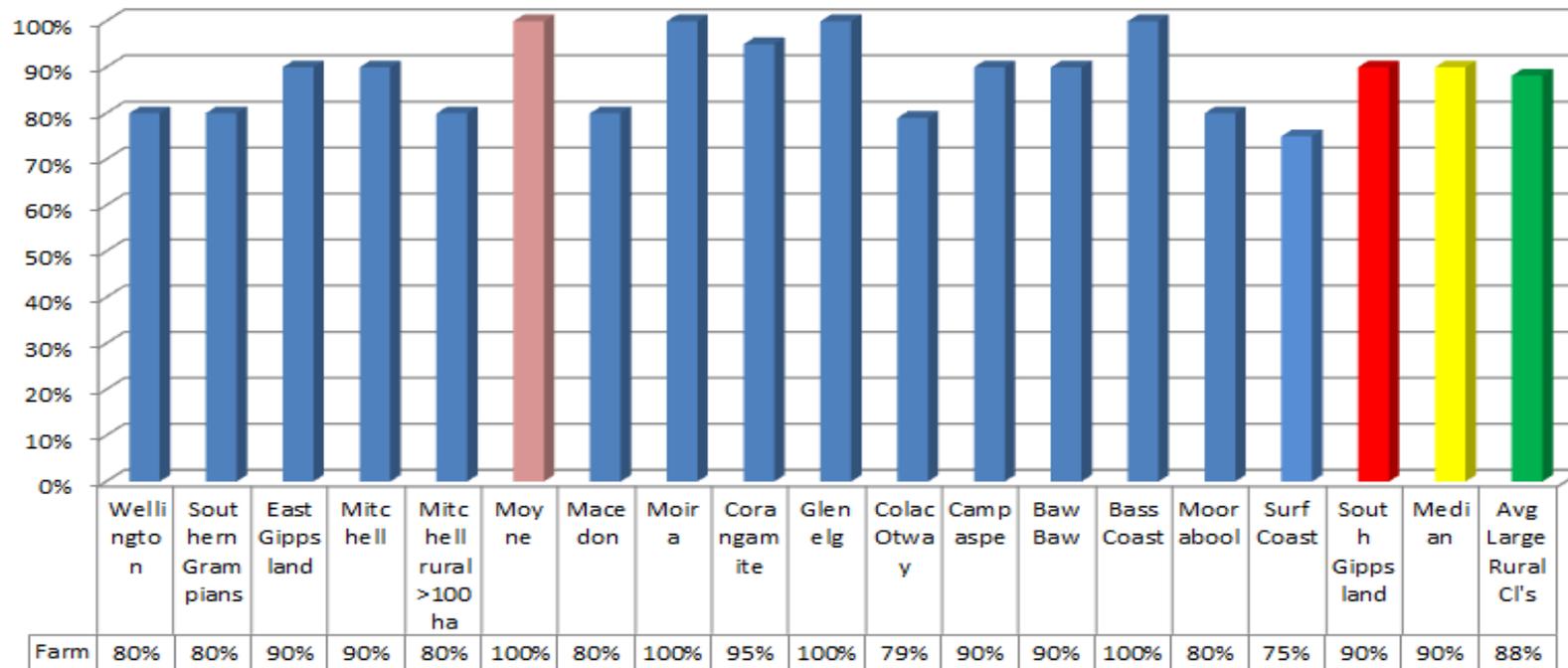
Some councils do not have a specific property type for commercial properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

### Industrial rates - Large rural councils



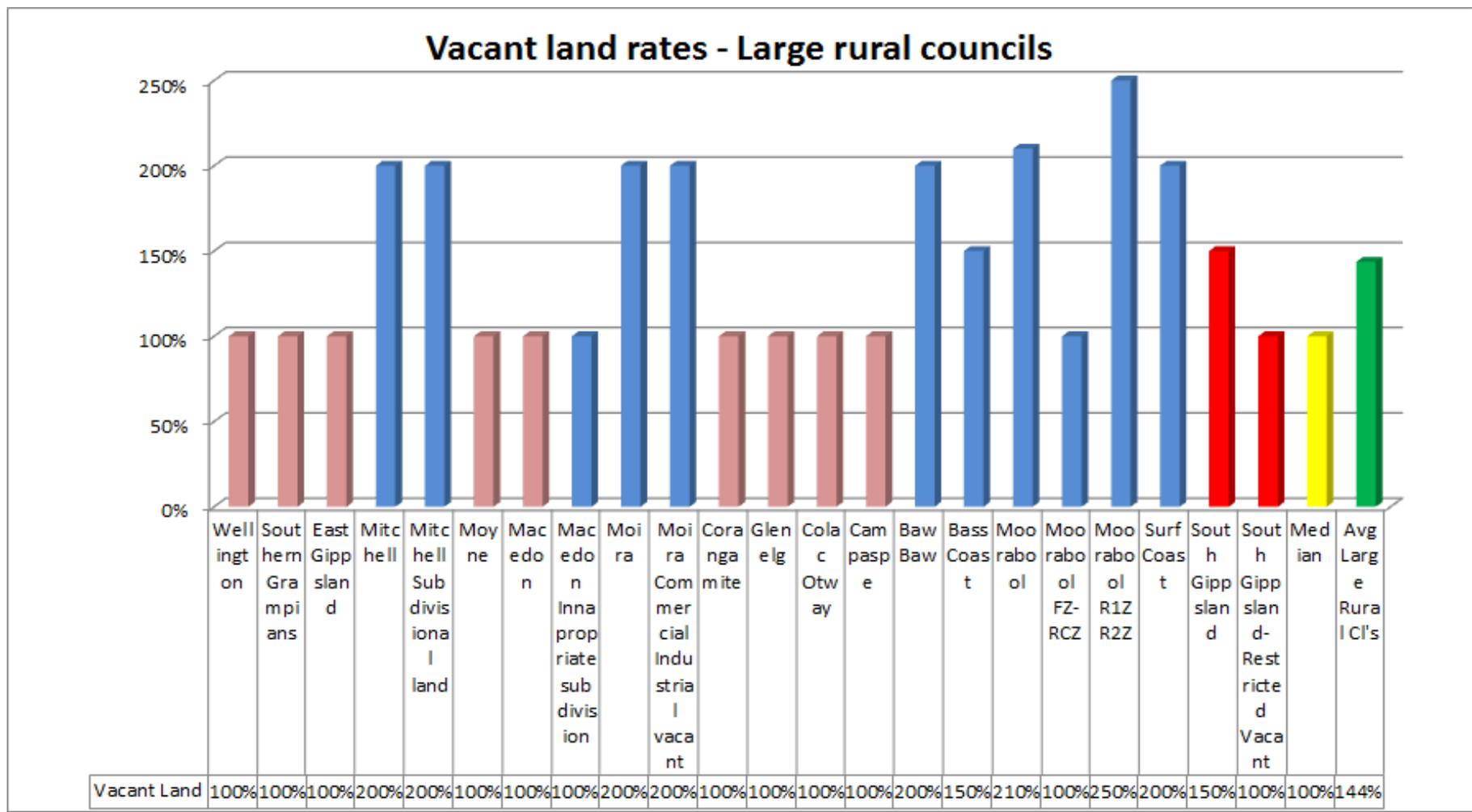
Some councils do not have a specific property type for industrial properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

### Farm rates - Large rural councils



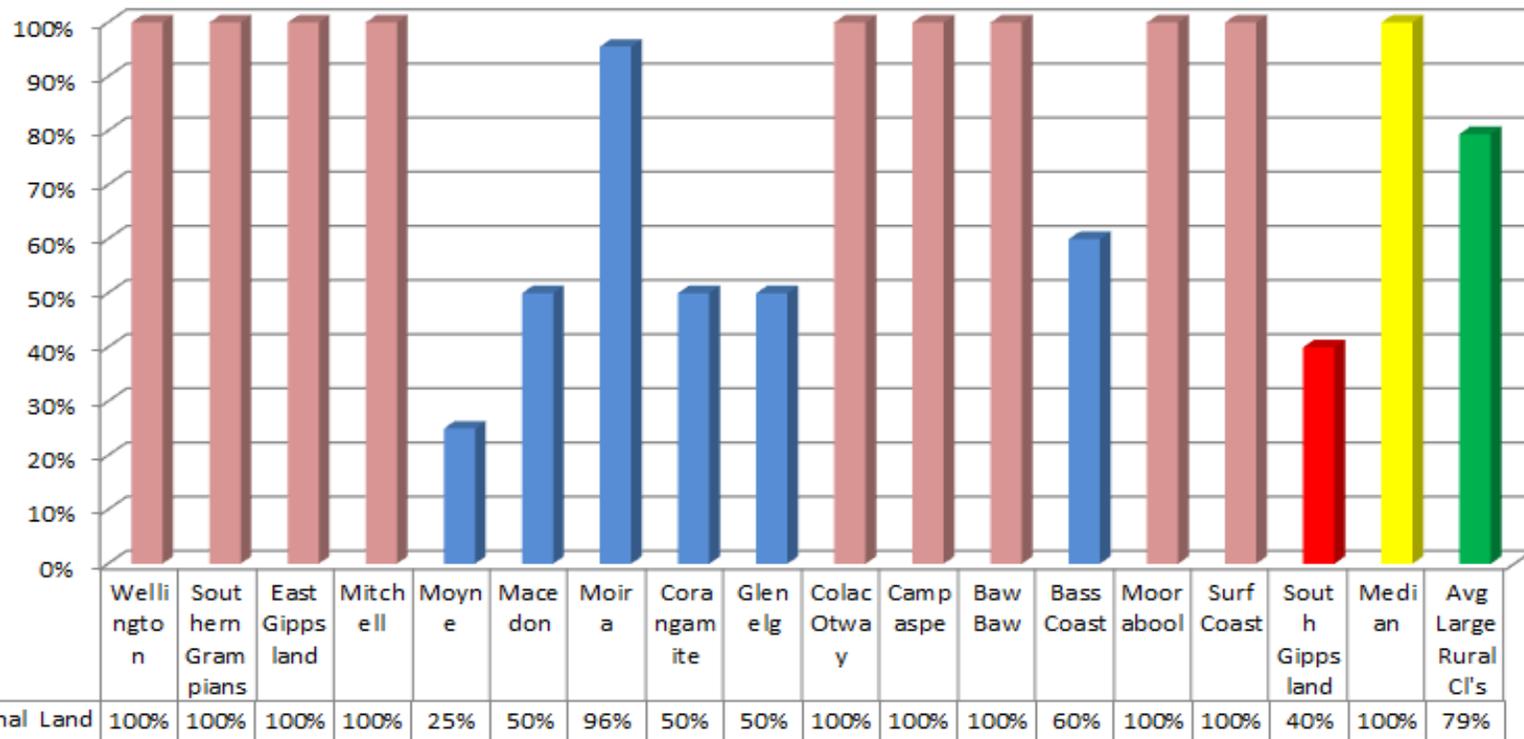
Moyne does not have a specific property type for farm properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bar in the above chart).

Glenelg has a 30% Primary Reduction Land Rebate for eligible properties, Mitchell a 10% Land Management Rebate for eligible properties and Bass Coast a \$10.28 per hectare Land Management Rebate for eligible properties.



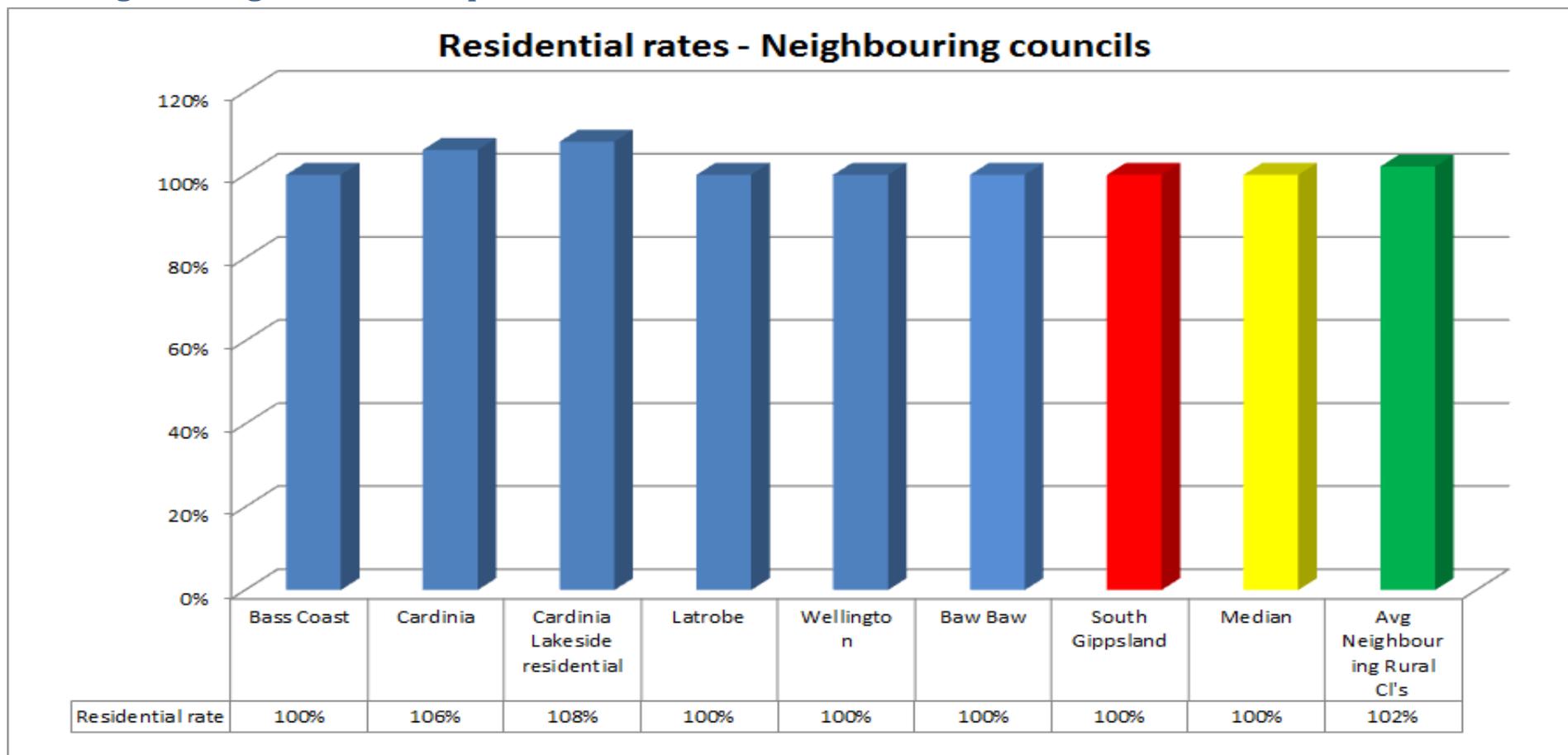
Some councils do not have a specific property type for vacant land. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

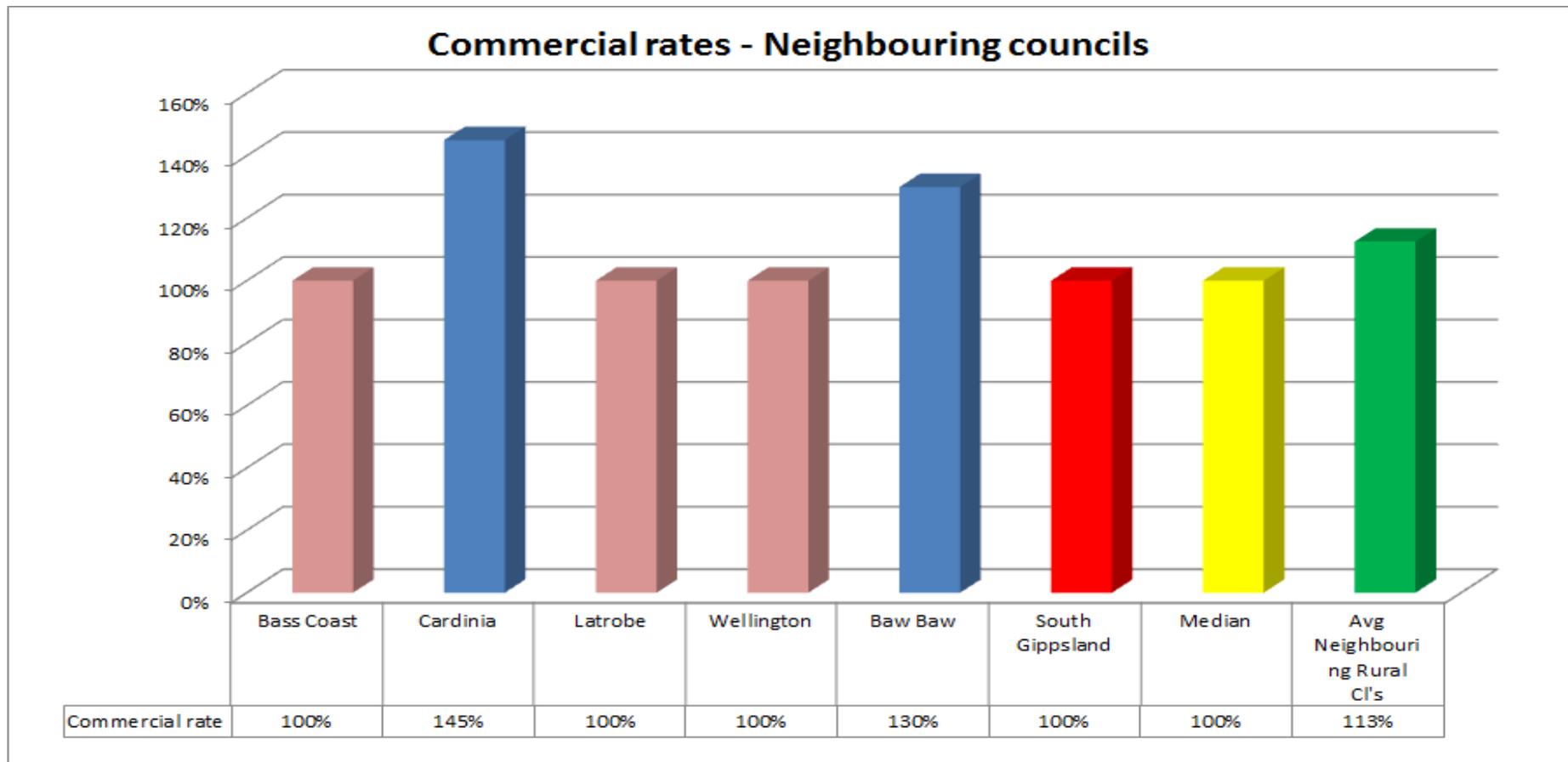
### Cultural & recreational rates - Large rural councils



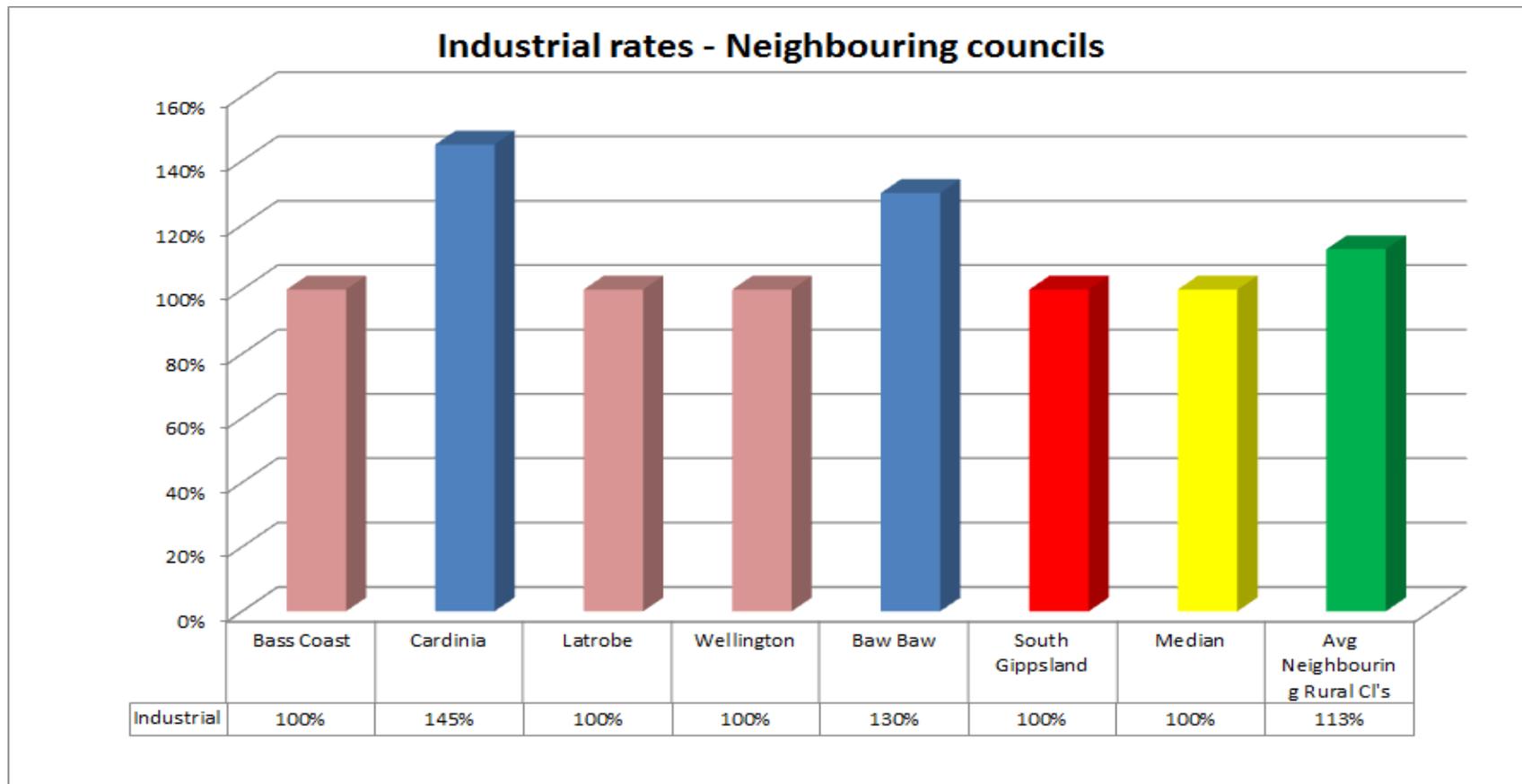
Some councils do not have a specific property type for cultural & recreational properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

## 6 Neighbouring Council - Comparative data



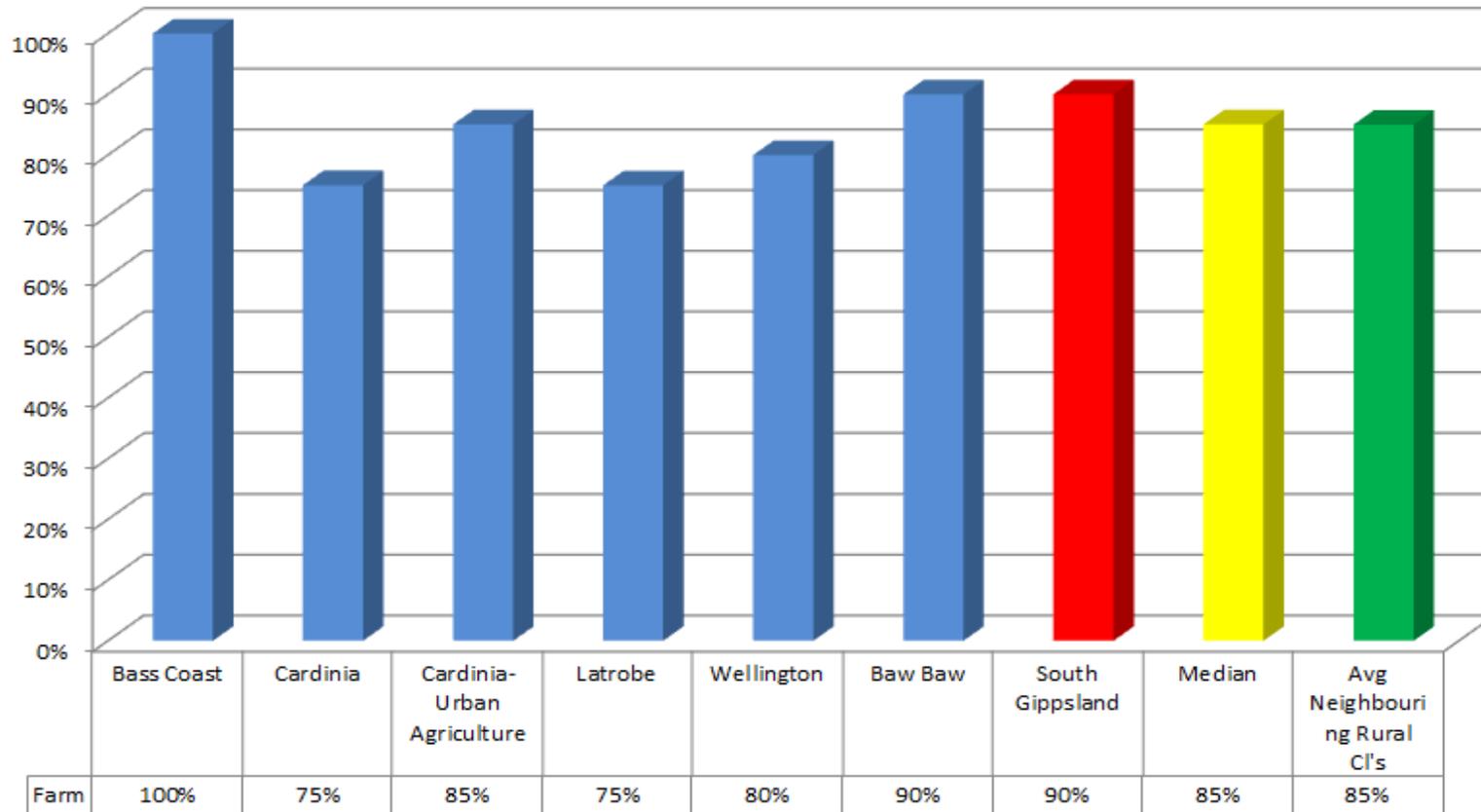


Some councils do not have a specific property type for commercial properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

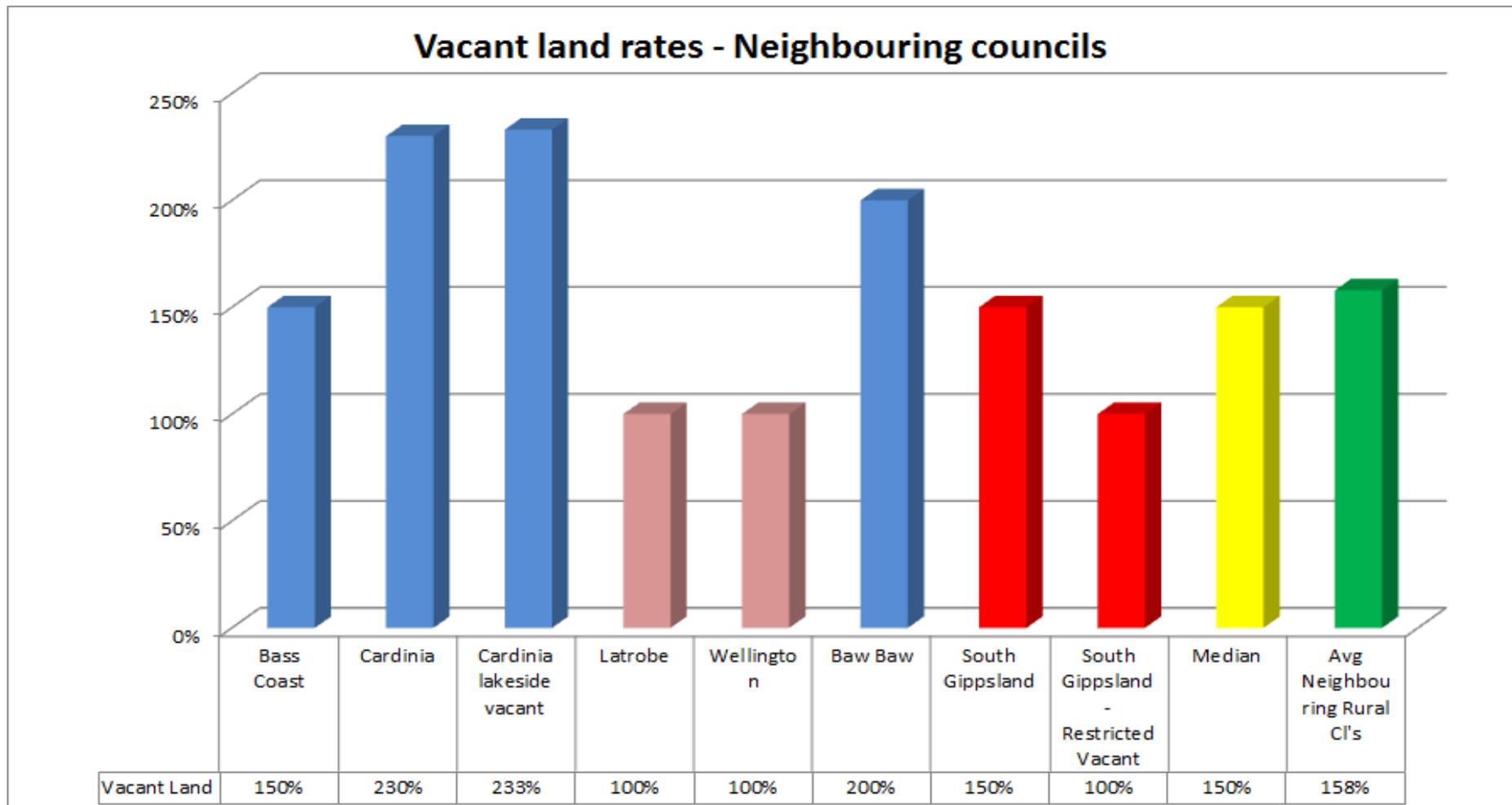


Some councils do not have a specific property type for industrial properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

### Farm rates - Neighbouring councils

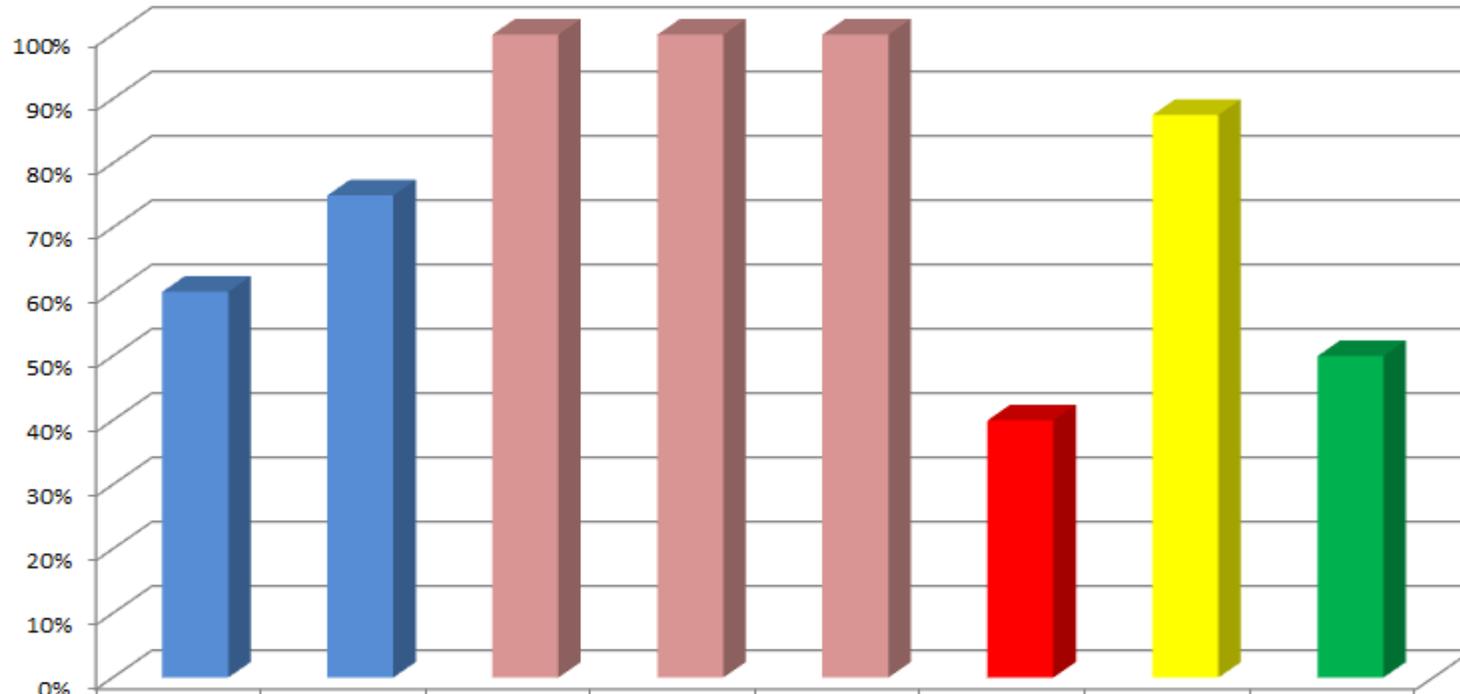


Bass Coast has a \$10.28 per hectare Land Management Rebate for eligible properties.



Some councils do not have a specific property type for vacant land. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

### Cultural & recreational land rates - Neighbouring councils



Cultural & Recreational Land	60%	75%	100%	100%	100%	40%	88%	50%
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Some councils do not have a specific property type for cultural & recreational properties. By default the differential rates for these properties would be 100% of the General Rate (Pink bars in the above chart).

## 7 Proposals

The following proposals were identified for consideration by the Rating Strategy Steering Committee:

### 7.1 Property Valuation Basis

Council has adopted the Capital Improved Value (CIV) as the value to which the rate in the dollar will be assessed. Being a measure of the realisable value of the property, the CIV most closely reflects wealth and affordability and this is more equitable to rate residents on the total value of their property rather than the notional value of their land alone. In addition, differential rating, combined with CIV allows greater flexibility in developing rating outcomes enabling Council to pursue its particular objectives. 74 of 79 Victorian councils use CIV and the remaining 5 councils use Net Annual Value.

#### Recommendation 1

*That the basis of valuation for rating purposes be Capital Improved Value.*

#### Achievement of Council Objectives

Capital Improved Value is the only available valuation methodology that will assist Council to achieve its Council Plan and strategic objectives, while ensuring equity in the distribution of the rate burden on its ratepayers based on the total value of their property.

### 7.2 Differential Rate

If a uniform rate was applied to simplify the rating system rather than applying the existing differential, cultural and recreational rating type would increase by 150%, farm by 11% and vacant land would reduce by 33%.

Differential Category	Cents in /\$	Rate in the \$	Change %
	CIV 2013/14	standardised	
Residential	0.00379739	0.00379739	0%
Commercial	0.00379739	0.00379739	0%
Industrial	0.00379739	0.00379739	0%
Farm Land	0.00341765	0.00379739	11%
Vacant Land	0.00569609	0.00379739	-33%
Vacant Land Restricted Use	0.00379739	0.00379739	0%
Cultural & Recreational land	0.00151896	0.00379739	150%

Having different differentials allows Council to address equity, capacity to pay, incentive and comparative rate principles to achieve a more equitable distribution of the rate burden across the community.

## **Recommendation 2**

***That South Gippsland Shire Council continues to apply differentials as its rating system.***

### **Achievement of Council Objectives**

Utilising differentials for specific categories of land provides flexibility for Council to achieve its Council Plan and strategic objectives, and adequately address equity, capacity to pay, incentive and comparative rate principles, to ensure a more equitable distribution of the rate burden across the municipality.

## **7.3 User Benefits**

The 'User-Benefits' principle is basically the opposite of the property wealth principle, which is what the current rate system is based on. Under the 'user-benefits' principle, ratepayers will pay for a specific service and receive a benefit which approximates the amount paid.

Rates and Municipal Charges like other taxes traditionally have been seen to be non-reciprocal in the sense that the Shire is not required to give approximately equal value in exchange directly to ratepayers. Rates and charges are raised in order to provide for existing services and sustaining infrastructure assets throughout the Shire as a whole.

Current legislation enables certain services that are readily identifiable to specific ratepayers to be identified as a special rate or charge on a rate notice. Currently, the vast majority of councils that provide garbage services to some of their residents apply the 'user-benefits' principle and have a separate garbage charge for those properties. Similarly, councils tend to implement special rates to certain residents to fund specific infrastructure works such as roads, footpaths and drainage schemes.

With the exception of identifying and applying garbage charges and special charge schemes for infrastructure works, the actual process of trying to identify particular benefits to users is both subjective and complex. Evaluating the relative benefits received by various classes of property raises many practical difficulties, in particular, trying to trace quantifiable consumption / benefits to particular types of properties.

## **Recommendation 3**

***That 'user-benefit' principle is given relatively low weighting and consideration when setting differential rates.***

### **Achievement of Council Objectives**

Legislation enables certain services readily identifiable to specific ratepayers to be identified as a special rate or charge on a rate notice. The majority of Council services are available and used to varying extents by most ratepayers throughout the course of their lifetime. Even if all services are not used by all ratepayers, they are available to those who require them.

User benefits will be used for waste collection services and other services that can be applied to identifiable, specific rate payers.

## 7.4 Municipal Charge

Council is able to levy a municipal charge on each rateable property within the municipality with the exception of Farms where a single municipal charge is payable on multiple assessments operated as part of a single farm enterprise.

The Municipal Charge is a flat, identical charge that can be used to offset some of the 'administrative costs' of the Council. The legislation is not definitive on what comprises 'administrative costs'. The maximum municipal charge that can be levied equals 20 per cent of the revenue raised from rates and the municipal charge divided by the number of chargeable properties.

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. 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.

It also has the effect of increasing the charges imposed upon Vacant land holdings that tend to be lower valued when compared with developed properties.

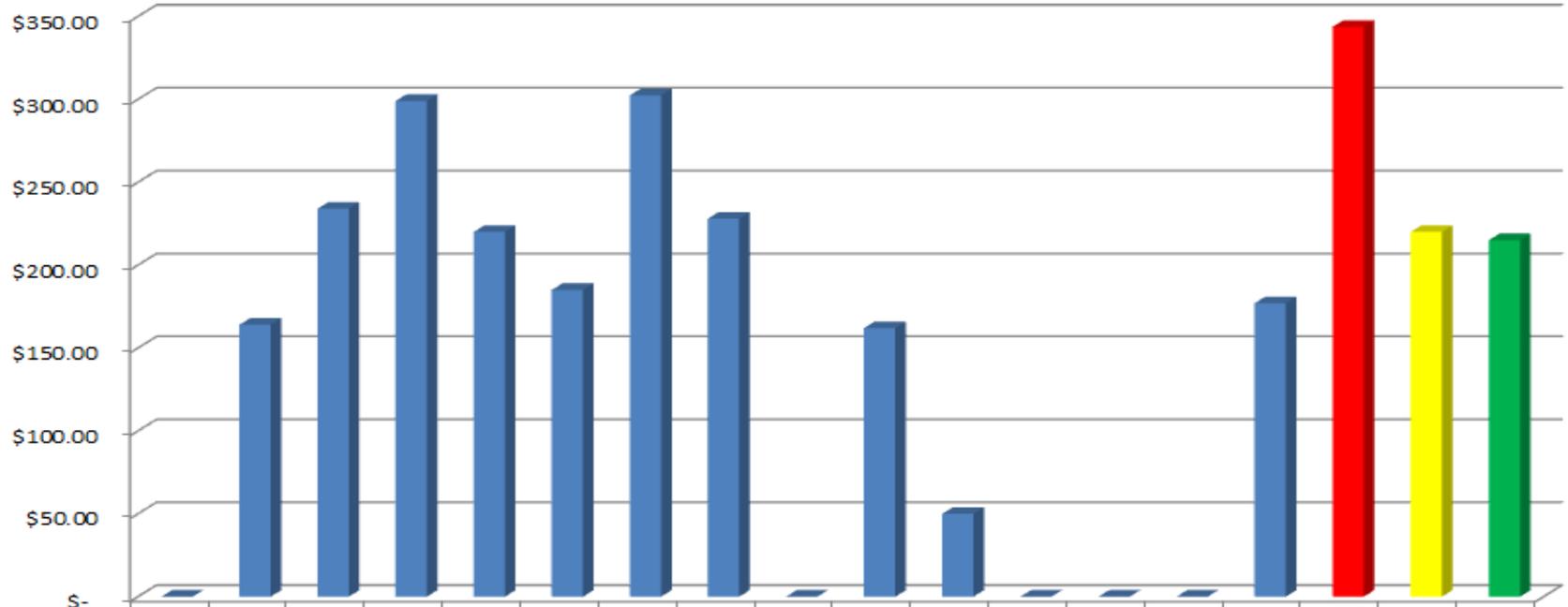
The effect for Residential, Commercial and Industrial properties is not as general as there is usually greater diversity in the range of property values. It can be argued, however, that overall, the Municipal Charge has an individualised impact for properties within a property class.

The Municipal Charge is not a targeted rating instrument like a differential rate. The use of differential rates is considered to be a more transparent and accurate means of achieving rate outcomes for certain classes of property.

The Municipal Charge enables all properties to make a standard contribution to some of the administration costs of the Council. In relation to the 2013-2014 Budget, total revenue from the Municipal Charge was \$6,270,533. The Municipal Charge of \$343.65 during the 2013-2014 financial year partly funded administrative costs for the areas of Governance , Executive Management, Council Operations, Finance, Information Technology, Human Resources and department management costs of \$9,310,472.

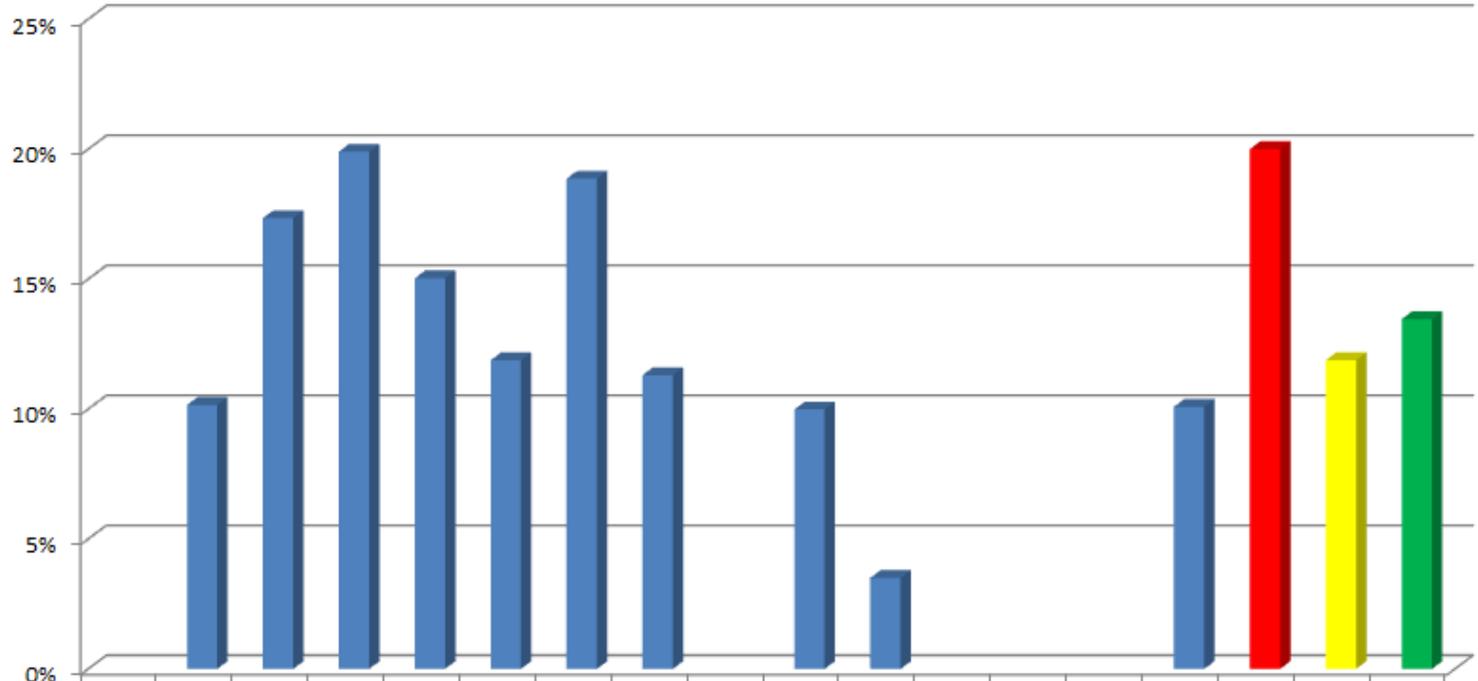
The following two charts outline the Municipal Charge in dollars and in percentages applied by the various large rural Shires.

### Municipal charge - Dollars



	Wellington	Southern Grampians	East Gippsland	Mitchell	Moyn e	Macedon	Moira	Corangamite	Glene lg	Colac Otway	Camp aspe	Baw Baw	Bass Coast	Moor abool	Surf Coast	South Gippsland	Median	Avg Large Rural Cl's
Municipal charge	\$-	\$164.	\$234.	\$299.	\$220.	\$185.	\$302.	\$228.	\$-	\$162.	\$50.0	\$-	\$-	\$-	\$177.	\$343.	\$220.	\$215.

### Municipal charge - Percentage of rates



Municipal charge		10%	17%	20%	15%	12%	19%	11%		10%	3%				10%	20%	12%	13%
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It is proposed that the recovery of Council’s administration costs be allocated by property valuation rather than as a flat fee.

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, the committee has recommended the abolition of the Municipal Charge. This lowers the rates for a majority of ratepayers in lower valued properties in all property categories.

There are 8,044 residential assessments with a valuation of \$291,000 or below which is equal to 63% of the total number of assessments.

Removing the requirement for a Municipal Charge also simplifies Council’s rating system.

**Recommendation 4**

***That there is no Municipal Charge.***

**Achievement of Council Objectives**

The Municipal Charge is a regressive charge. It lacks transparency in regard to the specific administrative services it covers and as a result it is frequently questioned by ratepayers. Removal of the Municipal Charge simplifies Council’s rating system while more equitably distributing the administrative service costs of Council across all ratepayers. This works toward achieving Council’s purpose to ‘determine clear and transparent objectives for setting differential rates’.

**7.5 Residential Category**

Residential properties make up more than 60% of rateable properties. It is appropriate that residential properties are considered the baseline for all other property categories and have a 100% general differential rate.

This aligns with the property wealth tax principal from both a horizontal and vertical equity perspective. From a capacity to pay principle perspective, it is a reasonable assumption that generally, those living in lower rated properties are also on lower incomes and hence have less capacity to pay.

Removing the Municipal Charge removes the effect of subsidising ratepayers in higher rated properties at the expense of those in lower rated properties. Refer to 8.2.3.1 ‘Average \$ Change – Residential Rate’ in Section 8, for details on the impact of this change for properties in various price ranges.

The table below shows the shift in rating burden from lower valued properties to higher valued Residential properties when the Municipal Charge is removed.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 185,000	\$1,041.11	\$ 916.10	↓ \$ 125.01	↓ 12.01%
50 Percentile (Median)	\$ 252,000	\$1,294.04	\$ 1,247.87	↓ \$ 46.17	↓ 3.57%
80 Percentile	\$ 366,000	\$1,724.41	\$ 1,812.38	↑ \$ 87.97	↑ 5.10%

### Recommendation 5

***That the Residential Category differential rate be set at 100%.***

#### Achievement of Council Objectives

One of Council’s purposes set out in the Council Plan 2013-2107 is that ‘A wide range of services are provided that improves the liveability of everyday life for residents, visitors and workers’. The Residential land category is paying the largest proportion of the rate burden for the wide range of services Council provides.

Where possible, Council aims to alleviate the extent of the tax burden by encouraging others to support Council in the provision of services. This is achieved through its Council Plan 2013-2107 Strategy 2.1.3: ‘We aim to minimise barriers and find ways to support our volunteers, community groups and committees to provide services beyond those that Council, by itself, can provide’.

## 7.6 Industrial Category

From a comparative rates principle perspective among large rural councils, no council gives a discount to industrial ratepayers, nine charge a differential greater than 100% and six charge a 100% differential rate. The median differential is 118%. Two out of six of our neighbouring councils charge a premium while the rest have set the differential at 100%.

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 is considered appropriate from a capacity to pay principle perspective that this be taken into account when determining a differential rate for the Industrial Properties Category.

Despite increasing the differential rate from 100% to 108%, the lower valued industrial properties would still pay less rates due to the abolition of the municipal charge. Refer to 8.2.3.4 ‘Average \$ Change – Industrial Rate in Section 8 for details on these changes for properties in various price ranges. The highest valued properties would receive a considerable increase in their tax burden.

The table below shows the impact of the shift in rating burden from lower valued Industrial properties to higher valued properties.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 185,000	\$ 1,041.11	\$ 989.38	↓ \$ 51.73	↓ 4.97%
50 Percentile (Median)	\$ 275,000	\$ 1,380.87	\$ 1,470.71	↑ \$ 89.84	↑ 6.51%
80 Percentile	\$ 600,000	\$ 2,607.79	\$ 3,208.81	↑ \$ 601.02	↑ 23.05%

### Recommendation 6

*That the Industrial Category have a 108% differential rate.*

#### Achievement of Council Objectives

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: ‘Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses’. Strategy 1.1.3 strengthens this objective further: ‘We will actively encourage sustainable development and growth of agriculture, industry and commercial business’.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: ‘We will actively plan for growth and economic development’.

In order to achieve a sustainable economy Council seeks to support further development of existing industrial businesses and encourage new businesses. To this end only a slight increase in the Rate differential is proposed, compared to some of the larger differentials required by other large rural Shires. This increase is able to be offset through business tax deductions resulting in a rate that is comparable, or lower to similar valued Residential properties.

## 7.7 Commercial Properties

From a comparative rates principle perspective among the large rural councils, no council gives a discount to commercial ratepayers, nine charge a differential greater than 100% and six charge a 100% differential rate. The median differential is 118%. Two out of six of our neighbouring councils charge a premium while the rest have set the differential at 100%.

Commercial 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 is considered appropriate from a capacity to pay principle perspective that this be taken into account when determining a differential rate for the Commercial Properties Category.

Despite increasing the differential rate from 100% to 108%, the lower valued commercial properties would still pay less rates due to the abolition of the Municipal Charge. Refer to 8.2.3.3 ‘Average \$ Change – Commercial Rates’ in Section 8 for details of this change for properties in various price ranges. The highest valued properties would receive a

considerable increase in their tax burden.

The table below shows the impact of the shift in rating burden from lower valued properties to higher valued properties.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 120,000	\$ 795.73	\$ 641.76	↓ \$ 153.96	↓ 19.35%
50 Percentile (Median)	\$ 200,000	\$ 1,097.74	\$ 1,069.60	↓ \$ 28.14	↓ 2.56%
80 Percentile	\$ 425,000	\$ 1,947.14	\$ 2,272.91	↑ \$ 325.77	↑ 16.73%

### Recommendation 7

***That the Commercial Category have a 108% differential rate.***

#### Achievement of Council Objectives

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: ‘Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses’. Strategy 1.1.3 strengthens this objective further: ‘We will actively encourage sustainable development and growth of agriculture, industry and commercial business’.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: ‘We will actively plan for growth and economic development’.

In order to achieve a sustainable economy Council seeks to support further development of existing Commercial businesses and encourage new businesses. To this end only a slight increase in the Rate differential is proposed, compared to some of the larger differentials required by other large rural Shires. This increase is able to be offset through business tax deductions resulting in a rate that is comparable, or lower to similar valued Residential properties.

## 7.8 Farm Properties Category

The farming properties proposed differential rate takes into consideration a number of principles.

Rates are primarily a property wealth tax. 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. Therefore the nexus with ratepayers' capacity to pay becomes somewhat tenuous. Farmers may be asset rich and income poor.

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 is 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 71% provides some rate relief to farmers after taking into consideration the property wealth, capacity to pay and incentive principles.

The Farms are one of the categories significantly impacted by the removal of the Municipal Charge. To modify the extent of this impact and provide an incentive to retain existing and new Farm businesses, a decrease of 29% compared to the Residential rate is recommended.

Refer to 8.2.3.2 – 'Average \$ Change – Farm Rate', in Section 8 for details of these changes for properties in various price ranges.

The table below shows the impact of the shift in rating burden from lower valued properties to higher valued properties.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 297,000	\$ 1,392.58	\$ 1,198.90	↓ \$ 193.68	↓ 13.91%
50 Percentile (Median)	\$ 545,000	\$ 2,388.08	\$ 2,179.81	↓ \$ 208.27	↓ 8.72%
80 Percentile	\$ 815,000	\$ 3,876.24	\$ 3,691.62	↓ \$ 184.62	↓ 4.76%

## **Recommendation 8**

***That the Farm Category have a 71% differential rate.***

### **Achievement of Council Objectives**

Objective 1.1 of the Council Plan 2013-2017 specifically aims to: 'Work with the business community to support existing businesses, diversify employment opportunities and to attract new businesses'. Further, Strategy 1.1.3 strengthens this objective further: 'We will actively encourage sustainable development and growth of agriculture, industry and commercial business'.

Council has established an Economic and Tourism Strategic Steering Committee to plan for the economic growth and development of the Shire. This is being achieved through the Council Plan 2013-2107 Strategy 1.1.1: 'We will actively plan for growth and economic development'.

Farms are the second largest group of rateable properties in the Shire. The removal of the Municipal Charge has had a significant impact on many of these properties.

To modify the extent of this impact and provide an incentive to retain existing and new farming businesses, a decrease is proposed in the differential to Farms.

This decrease along with the offset through tax deductions provides Farms with a discount aimed at encouraging the sustainable growth of agriculture across the Shire.

## **7.9 Farming Properties Category- review of definition**

Currently properties classified as Farm land is as per the definition in Section 2 of the *Valuation of Land Act 1960*.

The definition of Farm land means any rateable land:-

- a. that is not less than 2 hectares in area; and
- b. (b) that is used primarily for grazing (including agistment), dairying, pig-farming, poultry farming, fish-farming, tree-farming, beekeeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of those activities; and
- c. (c) that is used by a business—
  - i. that has a significant and substantial commercial purpose or character; and
  - ii. that seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
  - iii. that is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating;

It is considered that the 71% differential farm rate should only be applicable to genuine farming operations as distinct from hobby or rural lifestyle properties.

All rateable properties are coded with an Australian Valuation Property Classification Code (AVPCC). Currently properties coded 117 'Residential Rural / Rural Lifestyle and 103 Vacant Residential / Rural Lifestyle are classified as Farm land for rating purposes.

It is recommended 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 (properties coded 117) 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 (properties coded 103) should not be classified as Farm land for differential rating purposes.

These properties from a property wealth tax perspective should not be classified as Farm land for differential rates. It would be more appropriate to classify properties coded 117 as Residential properties and properties coded 103 as Vacant land for differential rating purposes.

This may require a detailed review of all rural type properties to ensure that only genuine farming interests are covered by the differential rate for farming properties.

#### **Recommendation 9**

***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).***

#### **Achievement of Council Objectives**

Utilising differentials for specific categories of land provides flexibility for Council to achieve its Council Plan and strategic objectives, and adequately address equity, capacity to pay, incentive and comparative rate principles, to ensure a more equitable distribution of the rate burden across the municipality. The proposal to separate rural lifestyle properties from Farms (whose purpose is for primary productions purposes) aims to ensure the equitable distribution of rates in line with the main use of the property. In the majority of cases, the primary use of rural lifestyle properties is for residential purposes. To this end it is considered the discount provided through the lower Farm differential should not be applied to these properties and that rural lifestyle properties fit within the Residential category.

## 7.10 Vacant land

Vacant properties (which include Residential, Commercial and Industrial properties) currently have a 150% differential rate to encourage vacant land owners to develop their properties.

From an incentive principle perspective it is proposed that the differential rate be increased to 200%.

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. 15% of the vacant land properties would receive a favourable financial outcome whilst 85% of the vacant land properties would pay additional rates in varying degrees based on their valuation. The highest valued properties would receive a considerable increase in their tax burden.

The tables below show the impact of the shift in rating burden from lower valued properties to higher valued properties.

Vacant Land Residential					
	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 83,000	\$ 812.71	\$ 822.01	↑ \$ 9.30	↑ 1.14%
50 Percentile (Median)	\$ 92,000	\$ 863.68	\$ 911.14	↑ \$ 47.47	↑ 5.50%
80 Percentile	\$ 165,000	\$ 1,277.06	\$ 1,634.12	↑ \$ 357.06	↑ 27.96%

Vacant Industrial					
	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 62,000	\$ 693.80	\$ 614.03	↓ \$ 79.77	↓ 11.50%
50 Percentile (Median)	\$ 98,000	\$ 897.65	\$ 970.57	↑ \$ 72.91	↑ 8.12%
80 Percentile	\$ 216,000	\$ 1,565.85	\$ 2,139.21	↑ \$ 573.36	↑ 36.62%

Vacant Commercial					
	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 85,000	\$ 824.04	\$ 841.82	↑ \$ 17.78	↑ 2.16%
50 Percentile (Median)	\$ 125,000	\$ 1,050.55	\$ 1,237.97	↑ \$ 187.42	↑ 17.84%
80 Percentile	\$ 194,000	\$ 1,441.27	\$ 1,921.33	↑ \$ 480.06	↑ 33.31%

**Recommendation 10**

*That the Vacant Land Category have a 200% differential rate.*

**Achievement of Council Objectives**

Council's Strategy is to: 'Actively plan for growth and economic development'. Council Objective 4.1 is to 'Improve the financial sustainability of Council, including diversifying income streams'. The Vacant Land differential has been increased as an incentive to encourage developers and land owners to develop their land. This, in turn, will increase population growth, employment and business opportunities and add to the vibrancy and sustainability of the Shire. A greater number of rate payers in the Shire, allows the rate burden to be spread across a greater number of people.

## 7.11 Restricted Vacant land

Restricted Vacant properties currently have a 100% differential rate applied to Vacant land where Residential development was not allowed due to planning restrictions

From an incentive principle perspective it is proposed that the differential rate be increased to 200%. This is to encourage restricted vacant land owners to rationalise and consolidate their properties.

Despite the increase in the differential rate from 100% to 200%, the lower valued Vacant land, restricted properties would pay less rates due to the abolition of the Municipal Charge. 54% of the restricted vacant land properties would receive a favourable financial outcome whilst 46% of the restricted vacant land properties would pay additional rates in varying degrees based on their valuation.

The table below shows the impact of the shift in rating burden from lower valued properties to higher valued properties.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 29,000	\$ 452.19	\$ 287.21	↓ \$ 164.98	↓ 36.48%
50 Percentile (Median)	\$ 51,000	\$ 535.24	\$ 505.09	↓ \$ 30.15	↓ 5.63%
80 Percentile	\$ 89,000	\$ 678.70	\$ 881.43	↑ \$ 202.74	↑ 29.87%

### Recommendation 11

***That the Restricted Vacant Land Category have a 200% differential rate.***

#### Achievement of Council Objectives

Council's Strategy 1.1.1 is to 'Actively plan for growth and development'. The Restricted Vacant land, by itself cannot be developed, so the increased differential is an incentive to property owners to rationalise and consolidate land with other parcels, that together, can be developed. This in turn will lead to productive use of the land, reduction of derelict and unsightly properties and potentially an increase in population growth, expanded business, or expanded agricultural land.

## 7.12 Cultural and Recreational properties

Properties classified as Cultural and Recreational for differential rating purposes exist for the purposes of providing or promoting cultural, sporting or recreational activities as defined in the *Cultural and Recreational Land Act 1963*.

Council supports having a wide range of recreation and leisure amenities for its community. It encourages active recreation and participation.

These properties apply any profits that they make into promoting their objectives. Council from an incentive principle perspective supports these organisations by providing a significantly reduced differential rate for such properties.

It is recommended that Council continue to provide cultural and recreational properties with a minimum differential rate. The Local Government Act states that the highest differential rate can be no more than four times the lowest differential rate. Because the highest differential rate proposed is now 200%, the lowest differential that can be used is 50%. This means the cultural and recreational differential now has to increase from 40% to 50%.

Despite the increase in the differential rate from 40% to 50%, the lower valued cultural and recreational properties would pay less rates due to the abolition of the Municipal Charge. 73% of the Cultural and Recreational properties would receive a favourable financial outcome whilst 27% of the Cultural and Recreational properties would pay additional rates in varying degrees based on their valuation.

The table below shows the impact of the shift in rating burden from lower valued properties to higher valued properties.

	Valuation	Base	Comparison	\$ Diff	% Diff
20 Percentile	\$ 165,000	\$ 591.87	\$ 408.53	↓ \$ 183.34	↓ 30.98%
50 Percentile (Median)	\$ 250,000	\$ 720.22	\$ 618.98	↓ \$ 101.24	↓ 14.06%
80 Percentile	\$ 500,000	\$ 1,097.74	\$ 1,237.97	↑ \$ 140.23	↑ 12.77%

### Recommendation 12

***That the Cultural and Recreational Categories have a 50% differential rate.***

#### Achievement of Council Objectives

As a rural Shire, Council does not have the resources to provide all of the recreational and cultural needs of its communities, even though it recognises the importance of the health and well-being of its people. Council has several strategies aimed at encouraging others in the community to provide some of these services. Strategy 3.1.5 states 'We will encourage sustainable development that promotes the health, well-being and unique character of the community'. Strategy 3.1.2 states 'We will collaborate with other agencies and service providers to focus attention on growth areas and avoid duplication of services'. To these ends, Council aims to set the lowest differential possible to support Cultural and Recreational land that meets the requirement of the *Cultural and Recreational Land Act 1963*.

### 7.13 Service Rates and Charges

The majority of Waste Charges include street sweeping and litter bin costs as well as the garbage recycling services / costs. The rationale being that these waste charges were applied in urban areas where street sweeping occurs and where most litter bins are also located.

The additional costs captured for Waste Charges is supported by the user benefits principle. That is, the people in these areas receive a specific benefit from the additional services.

A counter argument can be put that other ratepayers and people that come to town to visit, shop and so forth, would benefit from these broader waste services to some extent.

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. Rate notices only disclose the titles of applicable charges.

The detailed commentary of what is specifically funded by the individual waste charges is described in the 'Annual Budget' document and the statutory required disclosure advertisements. It is a fairly safe assumption to presume that the vast majority of ratepayers do not access and read this information.

It is proposed that the Waste Charges only are recovered for waste and recycling costs across all waste service charges. This aligns with the simplicity, efficiency and transparency principles. The driving rationale being that actual services provided actually would align to the majority of ratepayers' perception of services provided.

#### **Recommendation 13**

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

#### **Achievement of Council Objectives**

Council Objective 1.3 seeks to 'Promote sustainable waste management practices, energy efficiency and management of our natural resources'. Council encourages the community to reduce its waste and increase its reuse of resources or recycling of resources. Removing street cleaning and public litter bin costs from the waste charge improves the transparency of the waste charge, for those properties it applies to, and spreads the costs of street cleaning and litter bins across all rate payers on the basis that the benefit of these components are shared by the wider community.

## 7.14 Special Rates and Charges

The special rate charges specifically address the benefit principle.

The current policy frameworks states that Council will implement Special Charge Schemes:

- In accordance with Section 163 of the Local Government Act, 1989 and 'Special Rates and Charges Ministerial Guidelines, Local Government Victoria, September 2004' (as amended).
- If Council contributes a third (33.33%) or more of the cost of the Scheme without the support of affected property owners, or
- If there is a minimum of 70% of property owner support in writing to contribute financially to the works

The Special Charge Scheme Policy was last reviewed in December 2010 and will be revised in 2014.

That the current cycle of reviewing the Special Charge Scheme Policy is considered adequate.

### **Recommendation 14**

***That the current policy and cycle of reviewing Special Charge Scheme Policy is considered adequate.***

#### **Achievement of Council Objectives**

The Special Charge Scheme Policy supports Council's Strategy 2.1.2 'We will develop an integrated approach to planning with the community incorporating budgeting/ funding strategies and project development'.

Special Charge Schemes recognise that specific land owners can receive a benefit that is additional or greater than the benefit to other properties. To this end, it is reasonable for these properties to contribute financially to receive these benefits.

## 7.15 Rebates and Concessions

A submission from the Landcare group includes a recommendation that Council introduce a rebate for land management for rural land along the lines of what Bass Coast Council currently does.

It should be noted that Bass Coast does not have a special differential rate for rural properties. Rather, it provides a rebate for undertaking certain works on their land. South Gippsland on the other hand currently provides a differential rate of 90% but no rebate scheme.

If a similar scheme was to be implemented at South Gippsland the total cost of the rebate would have to be distributed across all ratepayers (the assumption being that there is no change to the farming or other property type differentials so as to provide a funding source).

Similarly, if Council wished to introduce an additional rebate or concession for pensioners or some other group, the total cost of the rebate would have to be distributed across all ratepayers.

The principles of efficiency and simplicity should also be considered. Currently, there is a very stringent criterion that has to be fulfilled by any pensioner if they wish to get the pension concession. The process for land management rebate at Bass Coast appears to be resource intensive. This is a significant and somewhat concerning contrast to existing processes.

It is highly desirable that a uniform standard of assessing and applying rebates and concessions to all property types be applied.

### **Recommendation 15**

***That land management rebates for rural properties not be introduced into Council's Rating Strategy.***

#### **Achievement of Council Objectives**

A land management rebate scheme could be one option to achieve Council's strategic directions, however the increased administrative costs required to manage the rebate scheme, ensure the rebates were being used for the purposes provided and assessing if they were having the desired results, would outweigh the benefits achieved from providing the rebates. Council is directing its resources to provide educational sessions to support sustainable land management practices, to achieve its strategic objectives.

## 7.16 Debt Recovery

Council has a policy for Debt Recovery on Unpaid Rates and Charges. It was reviewed by Council in May 2013. The policy is scheduled to be reviewed every four years.

The policy's objective is that rates and other overdue property accounts are recovered in a timely and fair manner. Rate payers are also referred to the Rates and Hardship Charges Policy.

### **Recommendation 16**

***That the current policy and cycle of reviewing the Recovery on Unpaid Rates and Charges Policy is considered adequate.***

#### **Achievement of Council Objectives**

The Debt Recovery Policy requires ratepayers to pay the rates applicable to their property. Every attempt is made to work with property owners to assist them where personal financial hardship situations arise and these ratepayers are assisted through the Rates and Charges Hardship Policy. The Debt Recovery Policy applies where attempts to recoup rates through negotiated approaches have failed. This policy places the onus on the ratepayer to pay the annual rates applicable to their property(s).

## 7.17 Deferrals and Waivers

Council has a Rates and Charges Hardship Policy. It was reviewed by Council in May 2013. 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.

This has two benefits. The first being that financial hardship claims are independently assessed by persons that are qualified and experienced in making such assessments. Secondly, it removes the perception that Council and / or Council officers have a vested and biased interest in the matter at hand. The intent being that Council would be expected to uphold the recommendations put by the appropriately qualified and experienced professionals.

The policy allows deferral of rates and charges when certain criteria are fulfilled as well as waiver of interest and costs under certain circumstances. It does not allow the waiving of rates, municipal charges or service charges as the value of each property provides the owner with a potential source of funds if liquidated. It is considered inequitable for the majority of ratepayers to subsidise the property assets of hardship applicants.

The policy is scheduled to be reviewed in three years. The Municipal Association of Victoria is currently conducting a review of rates hardship claims on behalf of Victorian Councils. Council officers are monitoring this review process. If required, the policy can be reviewed earlier than scheduled.

### **Recommendation 17**

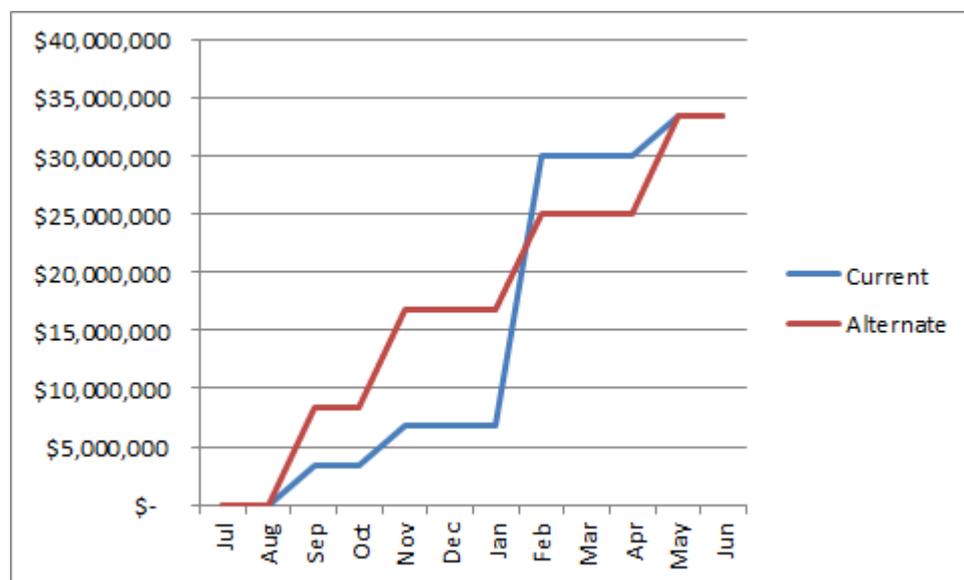
***That the current policy and cycle of reviewing the Rates and Charges Hardship Policy is considered adequate.***

### **Achievement of Council Objectives**

Every attempt is made to work with property owners to assist them where personal financial hardship situations arise and these ratepayers are assisted through the Rates and Charges Hardship Policy. The Rates and Charges Hardship policy can be utilised by any ratepayer meeting the requirements of the policy. The Policy is designed to assist ratepayers to meet their responsibilities for payments of rates, but allows Council to provide some relief from the cumulative burden of unpaid rates when deemed appropriate and reasonable to do so.

## 7.18 Payment Cycles

If Council chose to no longer allow ratepayers the option of lump sum payment, this would result in a positive cash flow outcome. The graph below shows the difference between the current payments cycle and the alternate (no lump sum)



Taking into consideration that currently the majority of most property types prefer to pay rates and charges by lump sum and the potential other changes that may occur to differential rates as a result of this current rating review exercise it is recommended that payment cycles remain unchanged. It may be more appropriate to review this matter in more detail in the next rating review process that Council will undertake in coming years.

### Recommendation 18

***That Council continue to offer lump sum payment options to its ratepayers and investigate introducing an additional 10 monthly payment option for ratepayers***

#### Achievement of Council Objectives

Council's Strategy 3.1.4 is to 'Plan for the service needs of the Shire's changing demographic'. The current payment options for rate payers could be expanded if changing community needs indicate more flexible options are required.

## 7.19 Rating Strategy Review Cycle

Council has a statutory obligation to implement principles of sound financial management, in particular having rating policies that are consistent with a reasonable degree of stability in the level of the rates burden. Having a four year review cycles supports this principle.

### **Recommendation 19**

***That Council with the assistance of a Rating Strategy Steering Committee review the Rating Strategy on a four year cycle that aligns with the 2<sup>nd</sup> year term of a newly elected Council's term.***

### **Achievement of Council Objectives**

Council's Strategy 4.2.3 states 'We will make informed decisions and provide opportunities for the community to participate in the decision making process'. The involvement of community members representing various land categories in the Rating Strategy Steering Committee has resulted in a well deliberated rating model for consideration by Council and the community. Re-establishing a similar committee in the second year of the next elected Council hopes to achieve similar insightful and transparent results to those that have been achieved in 2013/14.

## 8 Modelling of Recommendations

### 8.1 Summary of recommendations

#### 8.1.1 Summary of differential rates in the dollar

A summary of recommended changes to differential rates in the dollar is detailed below.

Recommended Differential Rate Type	Recommended Rate in Dollar	Recommended Differential
Commercial	0.00534802	108%
Cultural and Recreation	0.00247594	50%
Farm	0.00351828	71%
Industrial	0.00534802	108%
Residential	0.00495187	100%
Vacant Land	0.00990374	200%
Vacant Land Restricted	0.00990374	200%

## 8.2 Detailed modelling of recommendations

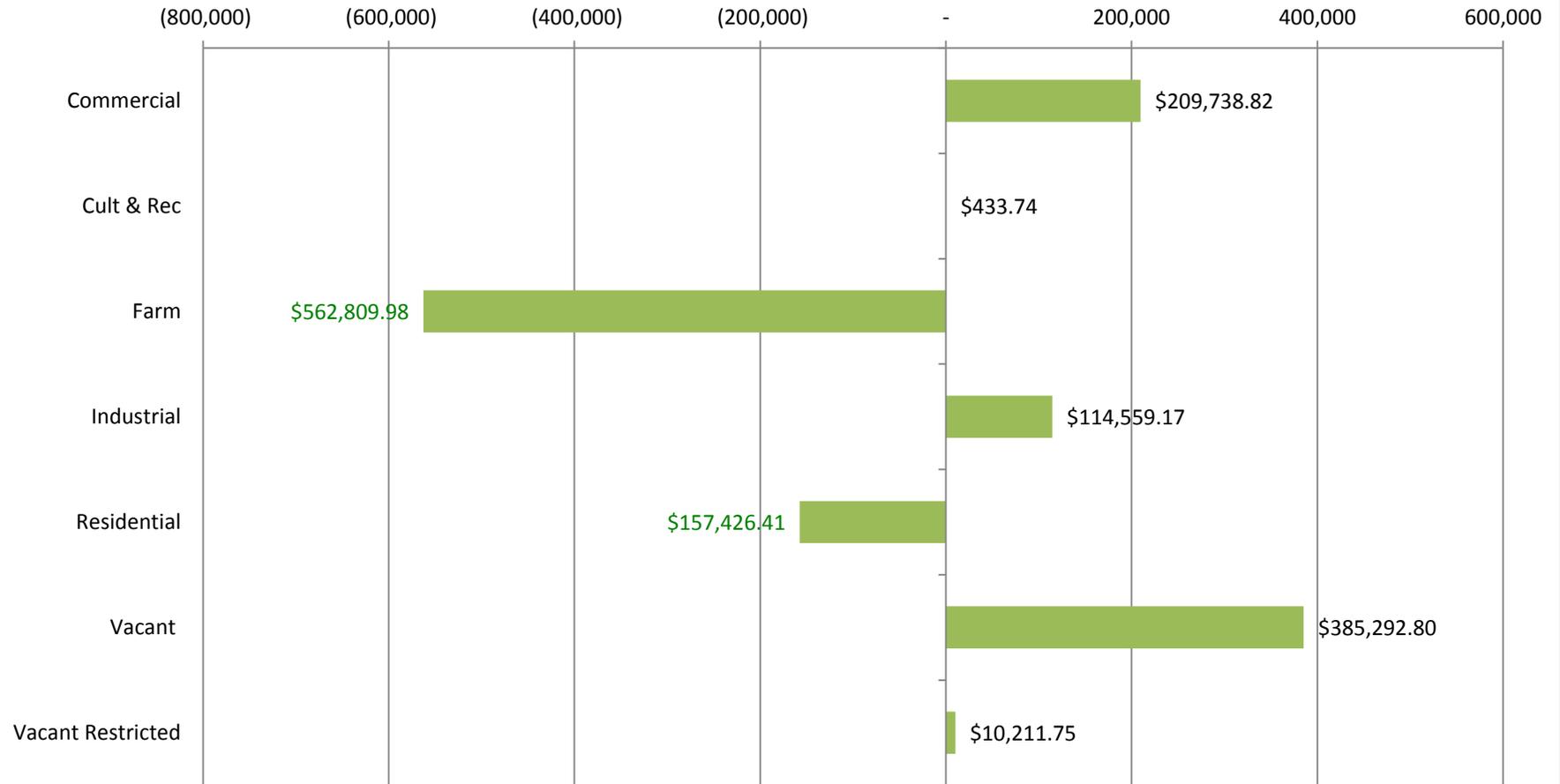
The modelling included below and on the following pages has been prepared to demonstrate the impact of the recommendations of the Rating Strategy Steering Committee, if implemented.

### 8.2.1 Consolidated rates revenue

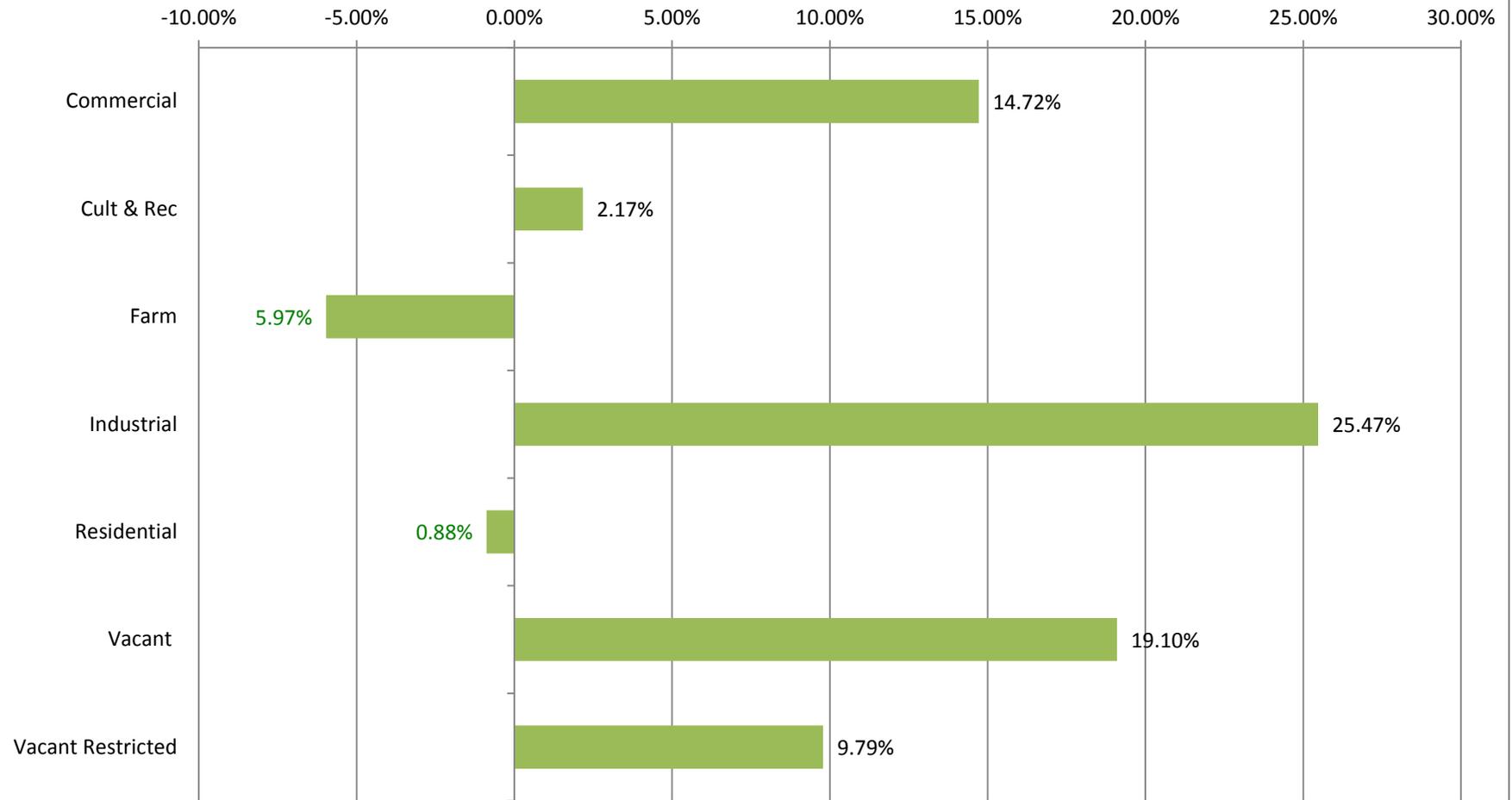
Consolidated rates revenue includes general rates and municipal charges but excludes waste service charges as these were not considered by the Rating Strategy Steering Committee. A summary of recommended changes to the total consolidated rates revenue is detailed below.

Differential Rate Type	2013-2014 Budget	Recommended	Change \$	Change %
Commercial	1,425,124	1,634,863	\$209,739	14.72 %
Cultural and Recreation	20,005	20,439	\$434	2.17 %
Farm	9,428,879	8,866,069	(\$562,810)	(5.97%)
Industrial	449,748	564,307	\$114,559	25.47 %
Residential	17,907,179	17,749,752	(\$157,426)	(0.88%)
Vacant Land	2,017,414	2,402,707	\$385,293	19.10 %
Vacant Land Restricted	104,315	114,527	\$10,212	9.79 %
<b>Totals</b>	<b>31,352,664</b>	<b>31,352,664</b>	<b>\$0</b>	<b>0.00 %</b>

### Consolidated Rates Revenue - Total \$ Change by Differential Rate Type



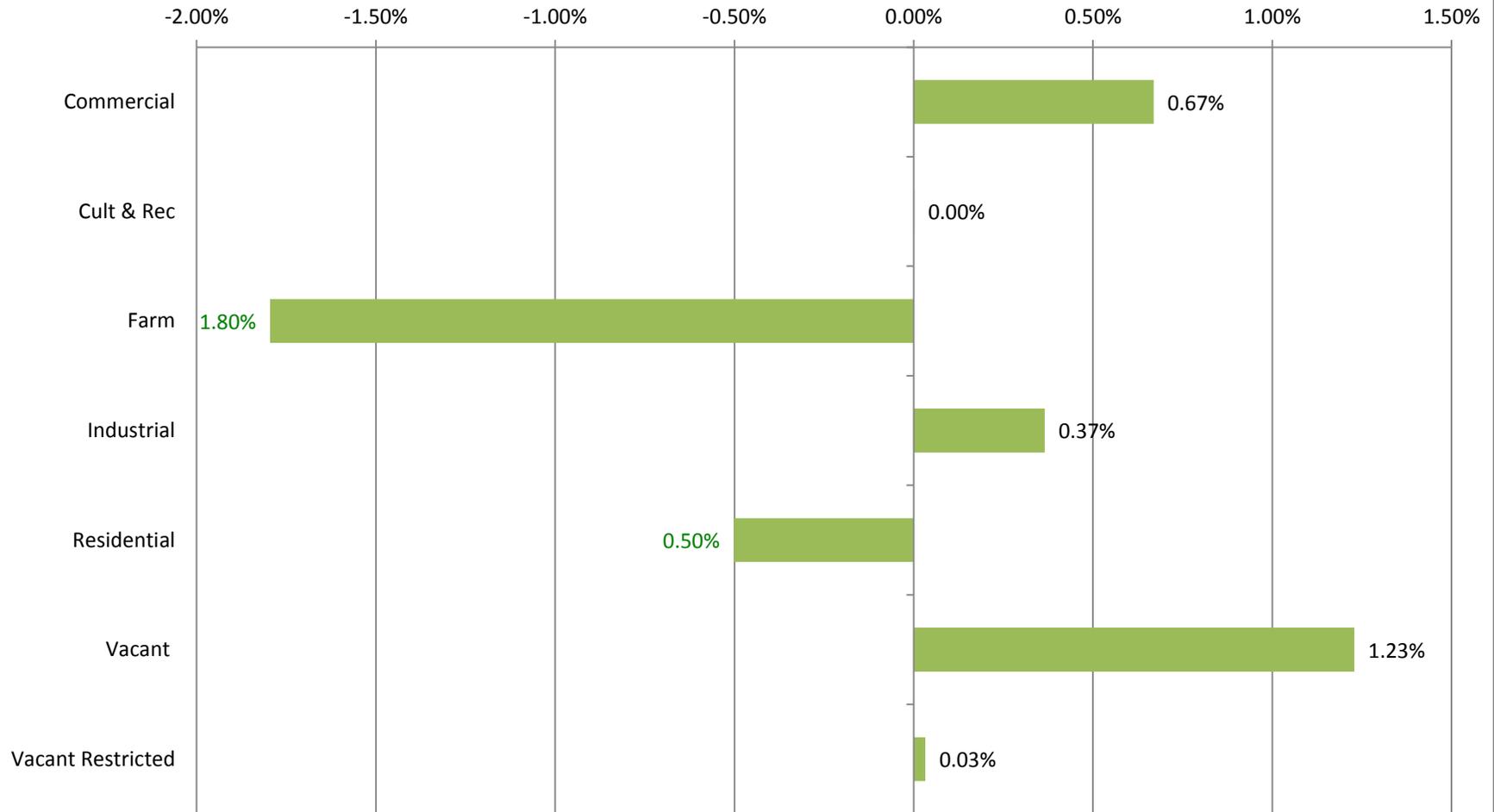
### Consolidated Rates Revenue - Total % Change by Differential Rate Type



A summary of recommended changes to the percentage share of total consolidated rates revenue is detailed below.

Differential Rate Type	2013-2014 Budget	Share of Consolidated Rates Revenue %	Recommended \$	Share of Consolidated Rates Revenue %	Change %
Commercial	1,425,124	4.55%	1,634,863	5.21%	0.67%
Cultural and Recreation	20,005	0.06%	20,439	0.07%	0.00%
Farm	9,428,879	30.07%	8,866,069	28.28%	-1.80%
Industrial	449,748	1.43%	564,307	1.80%	0.37%
Residential	17,907,179	57.12%	17,749,752	56.61%	-0.50%
Vacant Land	2,017,414	6.43%	2,402,707	7.66%	1.23%
Vacant Land Restricted	104,315	0.33%	114,527	0.37%	0.03%
<b>Totals</b>	<b>31,352,664</b>	<b>100.00%</b>	<b>31,352,664</b>	<b>100.00%</b>	<b>0.00%</b>

## Share of Total Rates Revenue - Total % Change by Differential Rate Type



## 8.2.2 Municipal Charge revenue

The Municipal Charge is a regressive tax and has a greater impact upon lower valued properties, which may have a lower capacity to pay. The Steering Committee has recommended the removal of the Municipal Charge. In 2013/14, South Gippsland Shire Council raised \$6,270,533 by way of a Municipal Charge. This amount will now be raised by way of the property wealth tax system, which in effect shifts the burden from the lower valued properties to the higher valued properties.

One example of this shows that 8,044 (63%) residential properties out of a total of 12,767 properties will receive a reduction in their total rates paid as a result of the removal of the Municipal Charge. This relates to properties with a C.I.V. of \$291,000 or less.

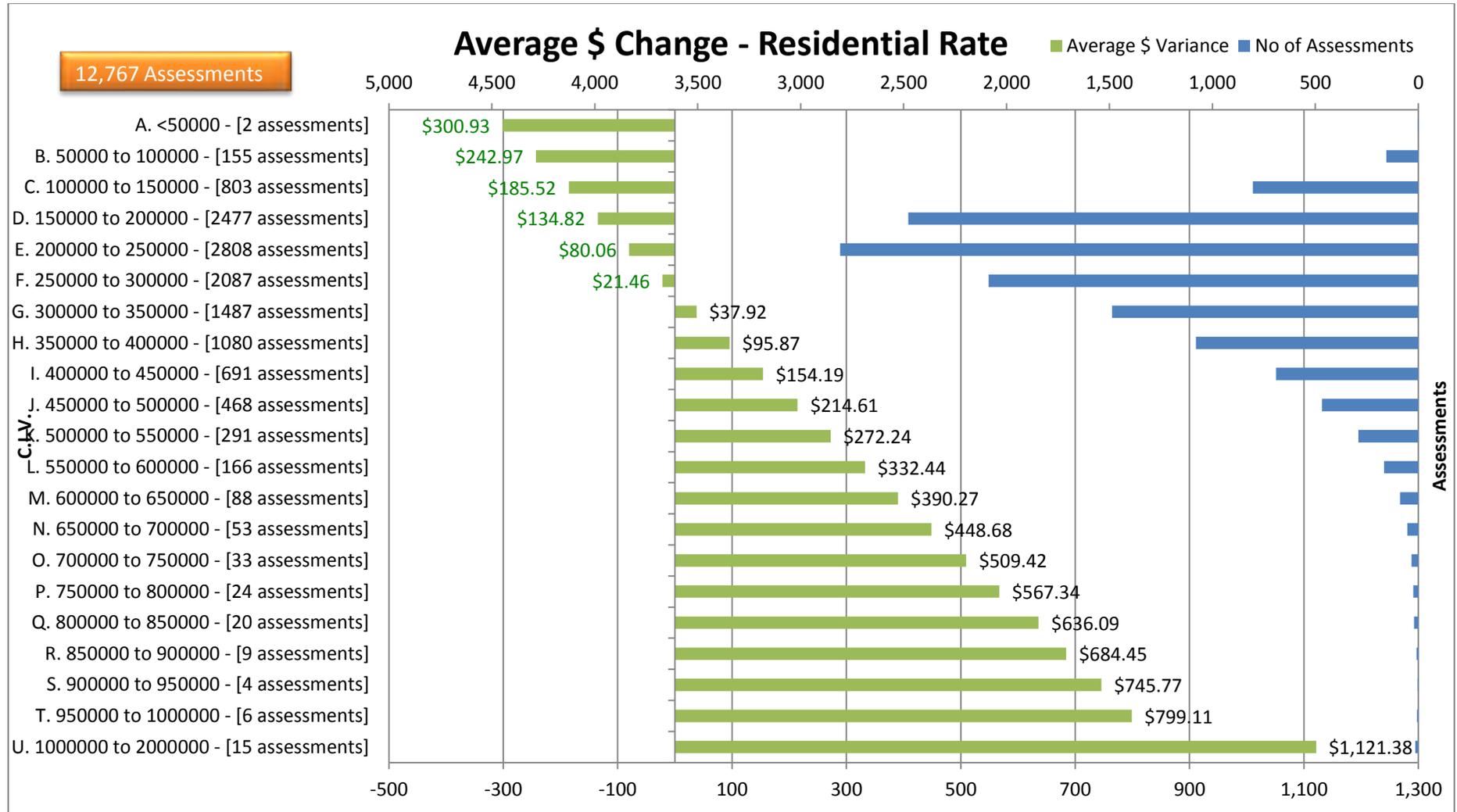
## 8.2.3 Summary of Average Rate Movements within Valuation Ranges

The following graphs provide a visual representation of the average dollar change that properties within a given valuation range might expect as a result of accepting the Rating Strategy Steering Committee proposal. These graphs do not take into account any proposed rate increase that will occur for the 2014 / 2015 financial year, nor any valuation movements that may occur when the new valuations come into force that will be used for the 2014 / 2015 rate notices. The graphs are purely looking at the rates that were raised for the 2013 / 2014 year with a Municipal Charge and restating the rates without a Municipal Charge and with the Rating Strategy Steering Committees proposed differentials.

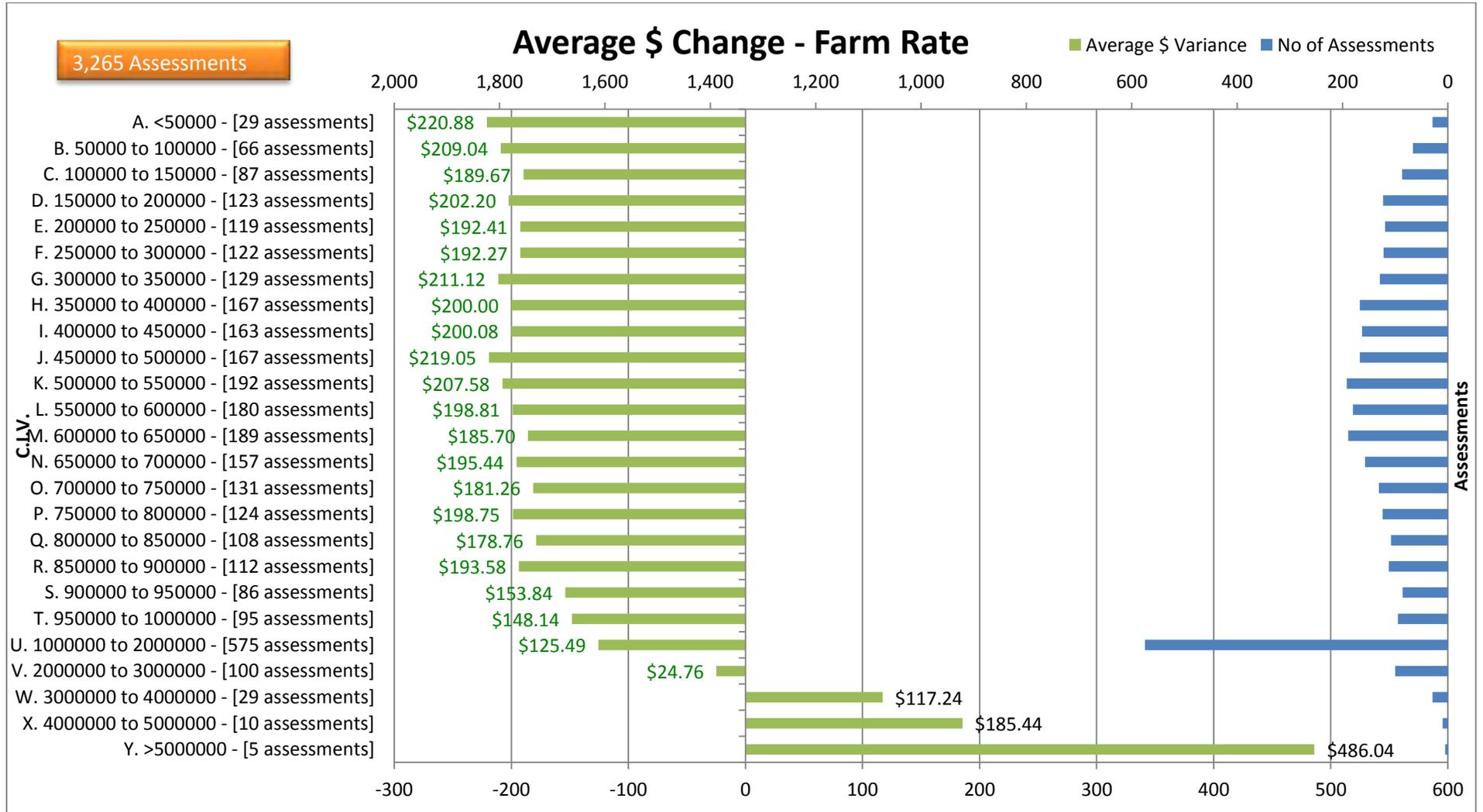
The green bars to the left show an average decrease in rates for the particular valuation range and the green bars to the right show an average increase in rates for that valuation range. The blue bars from the right show how many assessments / properties are included in the valuation ranges.

You will find a general trend in each graph that shows that the greater number of properties will be at the lower valuation ranges which receive either a reduction in overall rates or a relatively low increase.

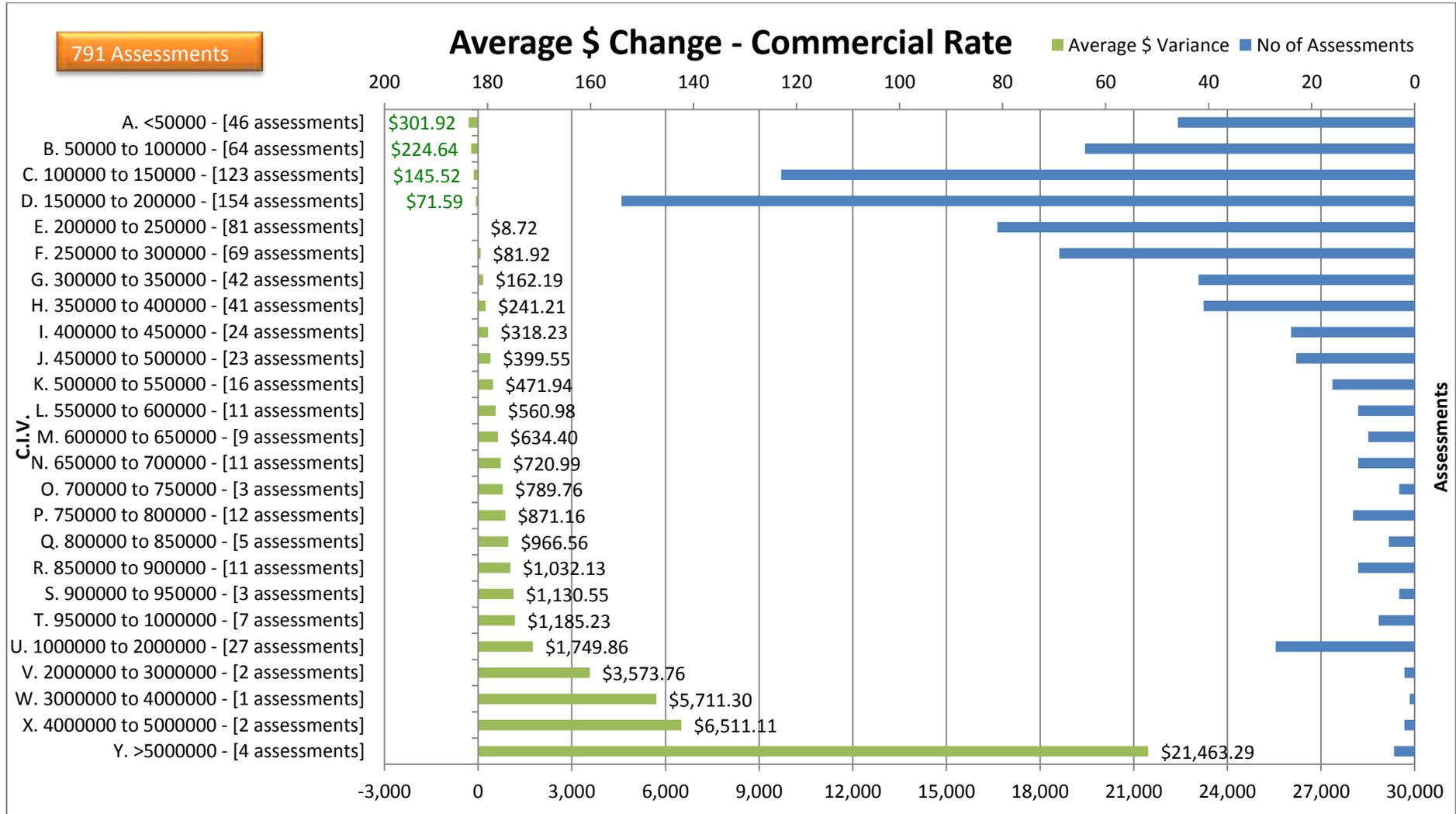
8.2.3.1 Residential rate



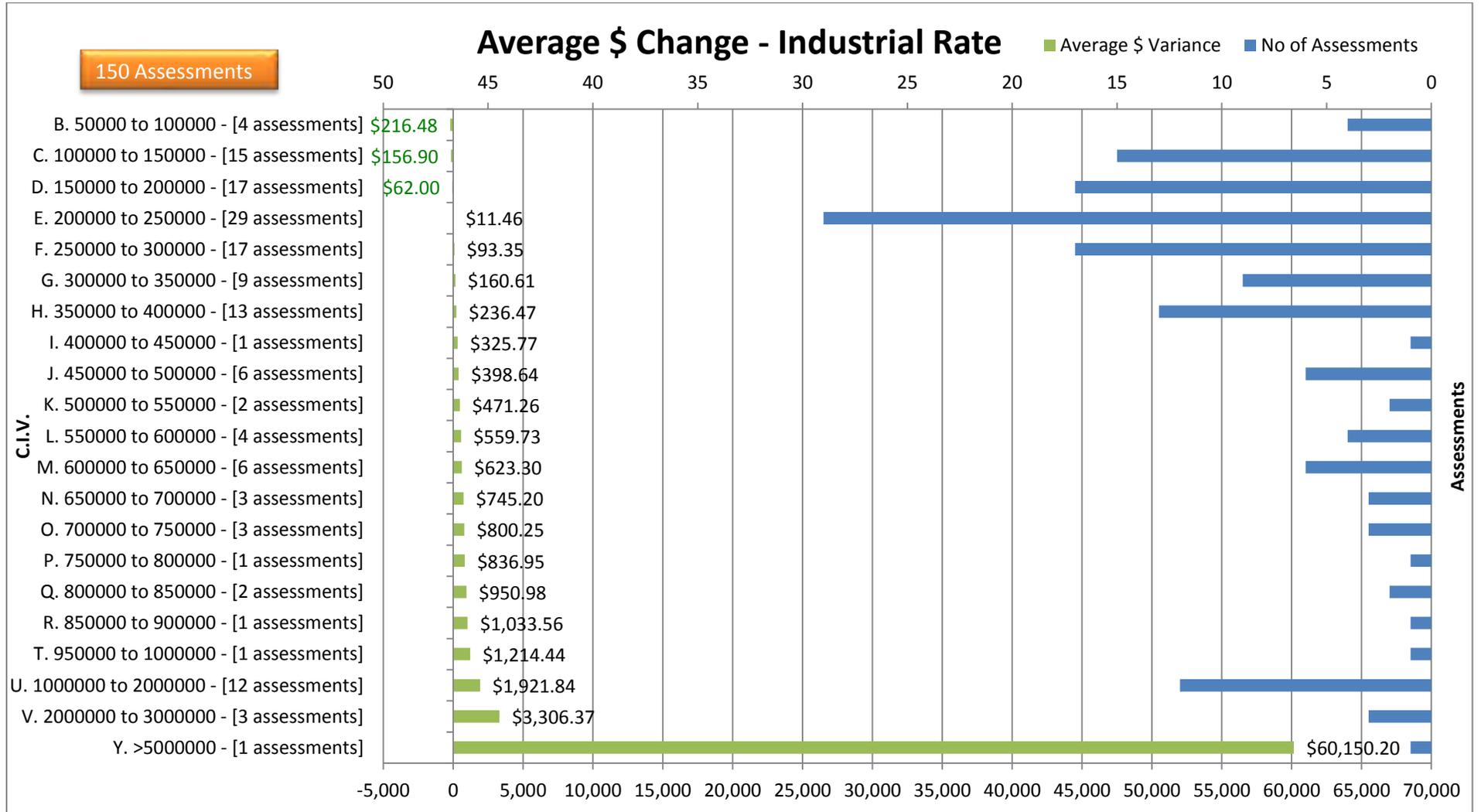
8.2.3.2 Farm rate



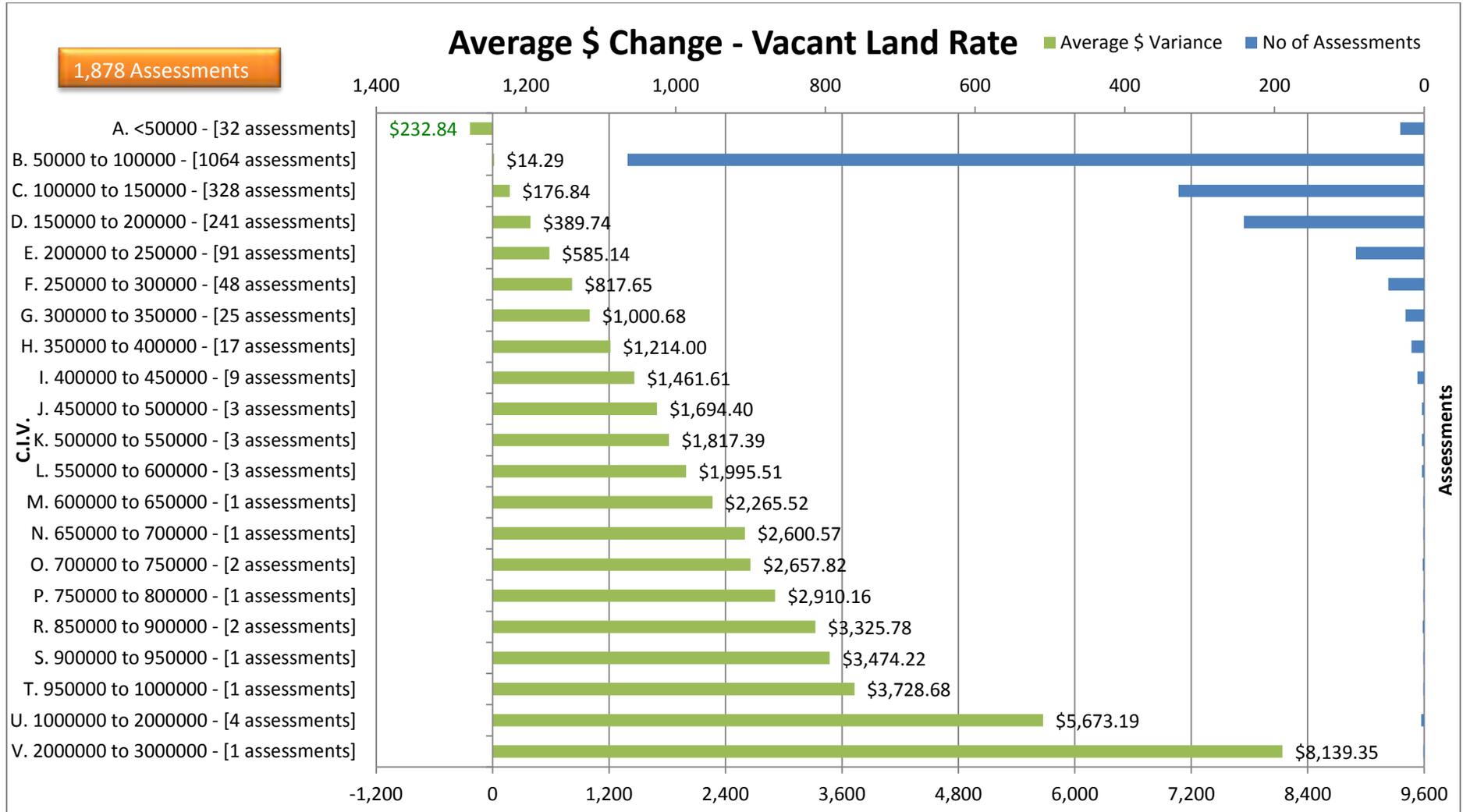
8.2.3.3 Commercial rate



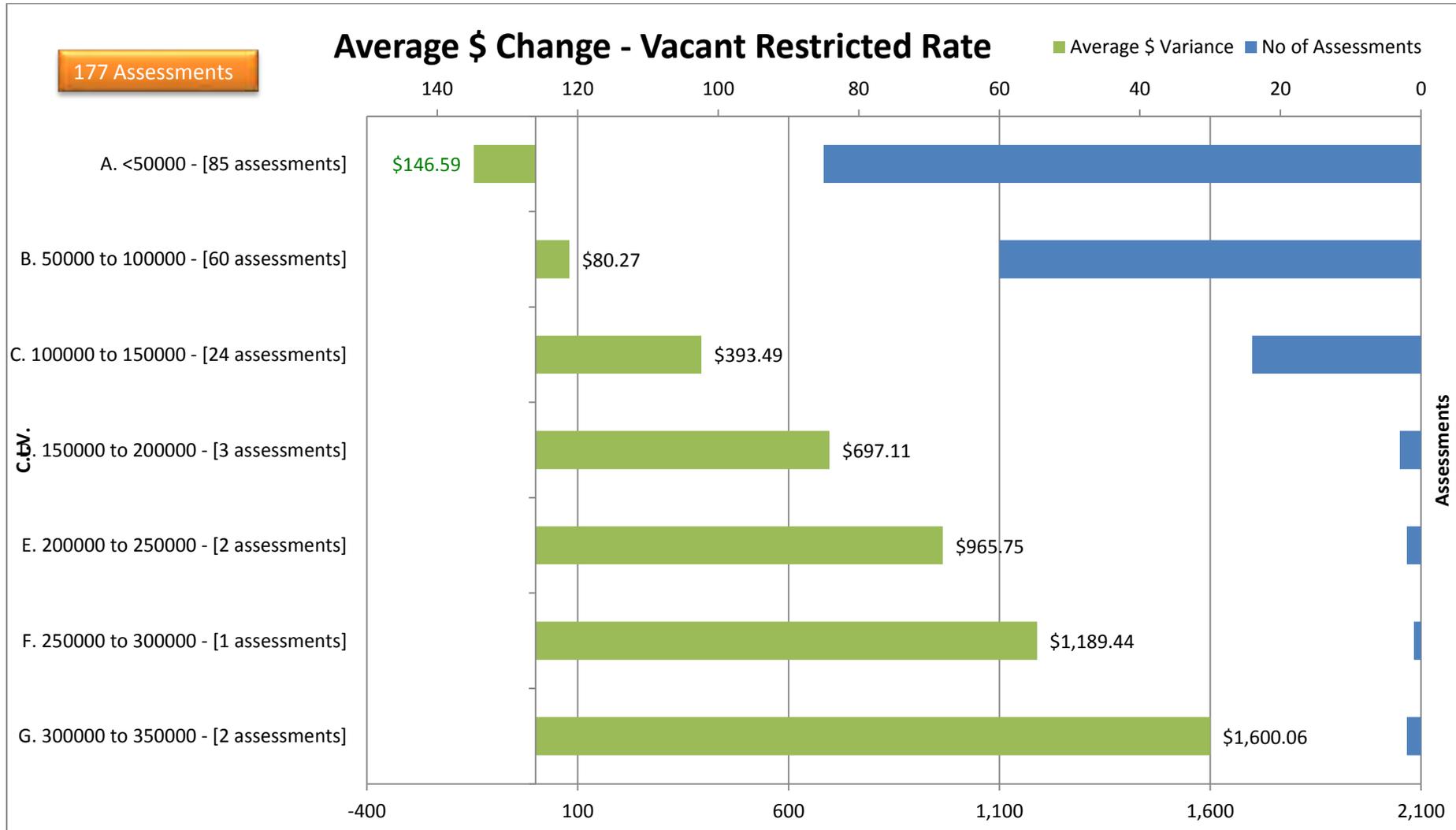
8.2.3.4 Industrial rate



8.2.3.5 Vacant land rate



8.2.3.6 Vacant land restricted rate



8.2.3.7 Cultural and recreational rate

