SOUTH GIPPSLAND SHIRE COUNCIL

Rating Strategy 2018/19

South Gippsland Shire Council

CONTENTS

1. Introduction

Under the Local Government Act (1989), a primary objective of all Victorian Local Governments is to, "ensure the equitable imposition of rates and charges" (Section 3C(f)) and, "to ensure transparency and accountability in Council decision making" (Section 3C(g)). Section 136 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. The purpose of this Rating Strategy is therefore to consider what rating options are available to Council under the Local Government Act (1989) and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

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

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

- The choice of which valuation base to be utilised (of the three available choices under the Act).
- The consideration of uniform rating versus the application of differential rates for various classes of property.
- What is the most equitable level of differential rating across the property classes having regard for the principles of taxation?

2. Executive Summary and Recommendations

The purpose of a Rating Strategy is to consider the rating options available to Council under the Local Government Act (1989), and how Council's choices in applying these options contribute towards delivering an equitable rating outcome for the community. The choices available to Council in a Rating Strategy effect the distribution of rate contributions across the community rather than how much in total is collected.

Council recognise that a taxation system based solely upon the property wealth tax valuation methodology of personal property is an imperfect system and understand that individual circumstances may not be adequately addressed on a case by case basis.

The Rating Strategy Review Committee which consisted of a cross-section of rate-paying stakeholders, three Councillors and an independent non-voting chair-person to oversee the review of the Rating Strategy met over 8 meetings between October 2017 and February 2018. Following a presentation by the committee to Council on the 21st February 2018, it was determined based on the differing views of both the committee and the Council that there was insufficient evidence to support making the changes recommended by the committee for the current 18/19 budget and that Council would look to do their own review over the following 12 months in time for the 19/20 budget.

The strategy recommendations below reflect the existing rating strategy.

Section		Strategy recommendation
7	Determining which valuation base to use	That South Gippsland Shire Council continues to apply Capital Improved Value as the valuation methodology to levy Council rates.
8	Determining the Rating System – Uniform or Differential	That South Gippsland Shire Council continues to apply differential rating as its rating system.
9	What differential rates should be applied - Industrial	That South Gippsland Shire Council continues to apply a differential of 105% of the general rate for properties that meet the Industrial definition.
9	What differential rates should be applied - Commercial	That South Gippsland Shire Council continues to apply a differential of 105% of the general rate for properties that meet the Commercial definition.
9	What differential rates should be applied - Farm	That South Gippsland Shire Council continues to apply a differential of 70% of the general rate for properties that meet the Farm definition.
9	What differential rates should be applied – Rural Residential	That South Gippsland Shire Council continues to apply a differential of 70% of the general rate for properties that meet the Rural Residential definition.
9	What differential rates should be applied – Vacant Land	That South Gippsland Shire Council continues to apply a differential of 200% of the general rate for properties that meet the Vacant land definition.
9	What differential rates should be applied – Cultural and Recreation	That South Gippsland Shire Council continues to apply a differential of 50% of the general rate for properties that meet the Cultural and recreational land definition.
11	Municipal Charge	That Council does not reintroduce a Municipal Charge.

3. Background

October 2017 – February 2018

In August 2017, Council approved a process to review its Rating Strategy through the establishment of a steering committee representing a cross-section of rate-paying stakeholders, three Councillors and an independent non-voting chair-person to oversee the review. Over 8 meetings, the committee made 11 recommendations to the existing strategy at that time.

A summary of the Committee report recommendations are listed below:

1. That South Gippsland Shire Council continues to apply Capital Improved Value as the valuation methodology to levy Council rates.
2. That South Gippsland Shire Council continues to apply differential rating as its rating system.
3. That South Gippsland Shire Council applies a differential of 120% of the general rate for properties that meet the Industrial definition. Existing differential 105%.
4. That South Gippsland Shire Council applies a differential of 110% of the general rate for properties that meet the Commercial definition. Existing differential 105%.
5. That South Gippsland Shire Council apply a differential of 65% of the general rate for properties that meet the Farm definition. Existing differential 70%
6. That South Gippsland Shire Council remove the Rate type Rural residential and those properties transfer to the General category.
7. That South Gippsland Shire Council continues to apply a differential of 200% of the general rate for properties that meet the Vacant land definition.
8. That South Gippsland Shire Council introduce a new category for Rural Vacant land.
9. That South Gippsland Shire Council applies a differential of 140% of the general rate for properties that meet the Rural Vacant land definition.
10. That South Gippsland Shire Council continues to apply a differential of 50% of the general rate for properties that meet the Cultural and recreational land definition.
11. That Council re-introduce a Municipal Charge at the rate of 5.0% of the combined sum total of Council's total revenue for the municipal charge and the revenue from general rates.
12. That the definition of farm land be expanded to incorporate properties between 2 and 20ha that have a dwelling or a permit for a dwelling and is used predominantly for farming purposes and which has applied to it an AVPCC code with the range 500-583. Previously, the AVPCC code range only included 540-583.

Following a presentation by the committee to Council on the 21st February 2018, it was determined based on the differing views of both the committee and the Council that there was insufficient evidence to support making the changes recommended by the committee for the current 18/19 budget and that Council would look to do their own review over the following 12 months in time for the 19/20 budget.

4. 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.

What is a rating strategy?

A rating strategy is the method 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 for each property and the actual rating instruments allowed under the Local Government Act (1989) to calculate property owners' liability for rates.

The importance of a rating strategy

South Gippsland Shire Council currently receives approx.. 63% of its total revenue by way of property-based rates and waste charges. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its citizens.

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

In setting rates, Council gives consideration to its strategic directions, budget considerations, the current economic climate, other external factors and likely impacts upon the community.

South Gippsland Shire Council is seeking to fully document its objectives and approach to the raising of rate revenue in line with its goal of providing transparency in its decision-making.

5. Rating Framework

The purpose of this section is to outline the legislative framework in which Council has to operate in constructing its rating system and the various issues that Council must consider in making its decisions on its rating objectives.

5.1 Legislative framework

The Local Government Act (1989) provides a legislative framework within which Council must operate when determining its rating system. A number of factors are specified within the Act that Council must evaluate when setting its rating objectives.

- **Equitable imposition of rates and charges (Section 3C (f))** – A council must ensure the equitable imposition of rates and charges.
- **Valuation Bases (Section 157)** – A council may use the site value, net annual value or capital improved system of valuation.
- **Rates and Charges (Section 159 to 163)** – A council can levy general rates, municipal charges, service rates and charges and special rates and charges. General rates can be raised by the application of a uniform or a differential rate.
- **Municipal Charge (Section 159)** – An optional charge that a Council may levy to cover some of its administrative costs. The revenue that can be obtained from a municipal charge is limited to 20% of the total revenue to be obtained from general rates and the municipal charge.
- **Service rates and Service Charge (Section 162**) – may be declared for any of the following services:
    - The provision of a water supply;
    - The collection and disposal of refuse;
    - The provision of sewage services;
    - Any other prescribed service.
- **Special rates and special charges (Section 163)** – provisions can be used to defray expenses or repay (with interest) any advance made to, or debt incurred or loan raised by Council in relation to the performance of a function or the exercise of a power, if the Council considers that the performance or exercise is or will be of special benefit to the persons required to pay it. Council uses special rates and charges for the construction of kerb and channelling, footpath and drainage schemes
- **Differential Rates (Section 161)** – enables a Council rating on a Capital Improved Value basis to raise any general rates by the application of differential rates if the Council considers the differential rate will contribute to the equitable and efficient carrying out of its functions. Differential rates allow Councils to make choices about the tax treatment of different property groups. There is no limit to the the number of differential rates that can be applied, but clear objectives must be set and specified.
- **Payments of rates and charges (Section 167)** – A council must allow a person to pay a rate or charge in four instalments or as a lump sum.
- **Incentives for prompt payment (Section 168**) – A council may provide incentives for the payment of rates and charges before the due date.
- **Rebates and Concessions –** A council may grant a rebate or a concession in relation to any rate or charge to assist the proper development of the municipal district, and to preserve, restore and maintain buildings or places of historical or environmental interest. Council may also grant a rebate or concession to support the provision of affordable housing, to a registered agency.

5.2 Taxation Principles

Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and charges, the difficulty becomes how to define and determine what is in fact equitable in the view of Council. Council follows the principles of taxation as follows:

Equity

- Does the tax burden fall appropriately across different classes of ratepayers? (Horizontal Equity)
- Where the distribution of benefits is not uniform, should those who benefit more contribute more? (Benefit Principle)
- Are those ratepayers with greater economic capacity in fact contributing more? (Vertical Equity)

Simplicity

- Is the system practical and cost effective to administer and enforce?
- Is the system simple to understand and comply with?

Efficiency

- Does the rating methodology significantly distort property ownership and development decisions in a way that results in significant efficiency costs?

Sustainability

- Does the system generate sustainable, reliable revenue for Council and is it durable and flexible in changing conditions?

Incentive

- Does the system encourage the type of behaviour Council is expecting?

Cross-border competitiveness

- To what extent does the rating system undermine the competitiveness of Council as a place to live and/or own a property or operate a business?

Simultaneously applying all of these taxation principles is an impossible task and therefore trade-offs between these taxation principles are necessary. The rating challenge for Council therefore is to determine the appropriate balancing of competing considerations.

5.3 What Rates and Charges may a Council declare?

Section 155 of the Act provides that a Council may declare the following rates and charges on rateable land-

a) General Rates under section 158;

b) Municipal Charges under section 159;

c) Service Rates and Charges under section 162; and

d) Special Rates and Charges under section 163.

The recommended strategy in relation to municipal charges, service rates and charges and special rates and charges are discussed in sections 11, 12 and 13 of this Rating Strategy.

5.4 Valuation Methodology available to Council

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates.

Section 157(1) of the Act provides Council with three choices in terms of which valuation base to utilise. They are Site Valuation, Capital Improved Valuation and Net Annual Value. The advantages and disadvantages of the respective valuation basis are discussed in section 7 of this Rating Strategy.

5.5 Declaring Rates and Charges

Section 158 of the Act provides that Council must, at least once in respect of each financial year, declare by 31 August the following for that year: -

a) the amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges;

b) whether the general rates will be raised by application of –

   i. a uniform rate; or

   ii. differential rates (if Council is permitted to do so under section 161(1) of the Act; or

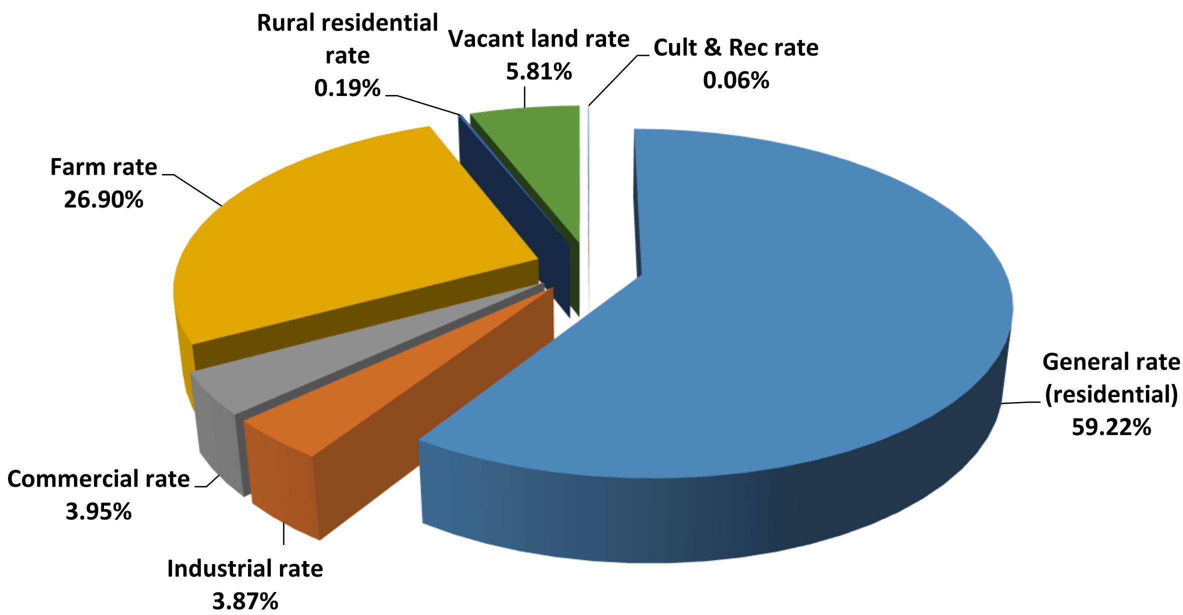
   iii. urban farm rates, farm rates or residential use rates (if Council is permitted to do so under Section 161A of the Act).

Council’s approach to the application of differential rates is discussed in section 6 of this Rating Strategy.

6. Understanding the current rating framework at South Gippsland Shire Council

The South Gippsland Shire Council currently applies the Capital Improved Valuation (CIV) method of valuation in order to levy its rates. Council currently applies differential rating (as opposed to uniform rating) and has five differential rates in use (including the base General rate). The table and graph below display the respective revenues from the various differential rates derived for the 2017-18 rates.

Rating category	Number of assessments 2017-18	Total CIV 2017-18	Total rates levied 2017-18	% rates of total 2017-18
General rate (residential)	13,522	4,101,689,000	22,426,847	59.22%
Industrial rate	341	372,754,000	1,464,679	3.87%
Commercial rate	645	260,852,000	1,497,576	3.95%
Farm rate	3,290	2,661,766,000	10,187,636	26.90%
Rural residential rate	37	18,567,000	71,063	0.19%
Vacant land rate	1,627	201,057,000	2,198,643	5.81%
Cultural and recreational land rate	22	8,184,000	22,374	0.06%
Total	**19,484**	**7,624,869,000**	**37,868,818**	**100.00%**
Waste charges			2,823,550	
Total rates and charges			**40,692,368**	



In terms of the differential rates that Council currently applies, the table below highlights the various "surcharges and discounts" that were utilised in deriving the 2017-18 Council rates.

Rating category	Number of assessments 2017-18	Rate in the dollar 2017-18	% to General rate 2017-18
General rate (residential)	13,522	0.546771	100.00%
Industrial rate	341	0.574110	105.00%
Commercial rate	645	0.574110	105.00%
Farm rate	3,290	0.382740	70.00%
Rural residential rate	37	0.382740	70.00%
Vacant land rate	1,627	1.093542	200.00%
Cultural and recreational land rate	22	0.273386	50.00%
Total	**19,484**		

Council currently utilises a service charge to fully recover the cost of the waste function. It does not apply any service rates or special rates and charges under the Local Government Act (1989).

Listed below are the waste charges levied for 2017/18.

Type of Charge	Per Rateable charge 2017/18 $	Per Rateable Income 2017/18 $
Waste Services Charge A - Kerbside garbage & recycling collection service charge – Residential (120 litre weekly garbage/240 litre fortnightly recycling).	$188.20	$1,708,856
Waste Services Charge B - Kerbside recycling only collection service charge - Commercial (2 x 240 litre fortnightly recycling service only)	$188.20	$10,539
Waste Services Charge C - Kerbside garbage & recycling collection service – Commercial premises only (240 litre weekly garbage / 240 litre fortnightly recycling).	$272.80	$71,746
Waste Services Charge D – Kerbside garbage & recycling collection service - Sandy Point (120 litre weekly garbage/240 litre fortnightly recycling, plus 3 additional recycling collections during Summer).	$195.20	$134,493

Type of Charge	Per Rateable charge 2017/18 $	Per Rateable Income 2017/18 $
Waste Services Charge E – Kerbside garbage & recycling collection service - Waratah Bay (120 litre weekly garbage/240 litre fortnightly recycling, plus 3 additional recycling collections during Summer).	$226.55	$25,374
Waste Services Charge G – Kerbside garbage & recycling collection service – Venus Bay (120 litre weekly garbage / 240 litre fortnightly recycling) for 6 months from November to April	$147.15	$186,292
Waste Services Charge H – Kerbside garbage & recycling collection service – Venus Bay (120 litre weekly garbage / 240 litre fortnightly recycling) for 12 months	$229.95	$100,718
Waste Services Charge J – Kerbside garbage & recycling collection service – Walkerville (120 litre weekly garbage / 240 litre fortnightly recycling) for 6 months from November to April	$134.05	$670
Waste Services Charge K – Kerbside garbage & recycling collection service Walkerville (120 litre weekly garbage / 240 litre fortnightly recycling) for 12 months	$237.15	$2,846
Garb Green Waste Bin – Kerbside greenwaste collection service (240 litre fortnightly) for 12 months	$80.40	$582,016
Total		**$2,823,550**

7. Determining which valuation base to use

As outlined above, under the Act, Council has three options for the valuation base it elects to use. They are:

a) **Capital Improved Valuation (CIV)** – Value of land and improvements upon the land

b) **Site Valuation (SV)** – Value of land only

c) **Net Annual Value (NAV)** – Rental valuation based on CIV. For residential and farm properties, NAV is calculated at 5 per cent of the Capital Improved Value. For commercial and industrial properties NAV is calculated as the greater of the estimated annual rental value or 5 per cent of the CIV.

7.1 Capital Improved Value (CIV)

CIV is the most commonly used valuation base by Victorian Local Government with over 70 Councils applying this methodology. Based on the value of both land and all improvements on the land, it is relatively easy to understand for ratepayers as it equates the market value of the property.

Section 161 of the Act provides that a Council may raise any general rates by the application of a differential rate if it –

a) uses the capital improved value system of valuing land; and

b) considers that a differential rate will contribute to the equitable and efficient carrying out of its functions.

Where a council does not utilise CIV, it may only apply limited differential rates in relation to farm land, urban farm land or residential use land.

<u>Advantages of using CIV</u>

- CIV includes all improvements, and hence is often supported on the basis that it more closely reflects "capacity to pay". The CIV valuation method takes into account the full development value of the property and hence better meets the equity criteria than SV and NAV.
- With the increased frequency of valuations (previously four year intervals, now two year intervals), the market values are more predictable and this 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 and between councils' municipal districts.
- The use of CIV allows councils to apply differential rates so as to equitably distribute the rating burden based on ability to afford rates. CIV allows Council to apply higher rating differentials to the commercial and industrial sector that offset residential rates.

<u>Disadvantages of using CIV</u>

- 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.

7.2 Site Value (SV)

With the recent movement of Monash City Council to CIV Rating, there are no Victorian councils that use this valuation base. With valuations based simply on the valuation of land and with only very limited ability to apply differential rates, the implementation of SV in a South Gippsland Shire context would cause a massive shift in rate burden from the industrial / commercial sectors onto the residential sector.

There would be further rating movements away from modern townhouse style developments on relatively small land parcels to older established homes on the more typical quarter acre residential block.

In very many ways, it is difficult to see an equity argument being served by the implementation of SV in South Gippsland Shire.

<u>Advantages of Site Value</u>

- There is a perception that, under SV, 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.
- SV would provide scope for possible concessions for Urban Farm Land and Residential Land.

<u>Disadvantages in using Site Value</u>

- Under SV, there would be a significant shift 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. Some of these owners may have much smaller/older dwellings compared to those who have smaller land areas but well developed dwellings - but will pay more in rates. A typical example is flats, units and townhouses which will all pay low rates compared to traditional housing styles.
- The use of SV can place pressure on Council to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately (e.g. farm land, urban farm land and residential use properties). Large landowners, such as farmers for example, are disadvantaged by the use of SV.
- SV will 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.

7.3 Net Annual Value (NAV)

NAV, in concept, represents the annual rental value of a property. However, in practice, NAV is closely linked to CIV for Residential Land and Farm Land. Valuers derive the NAV directly as 5 per cent of CIV.

In contrast to the treatment of Residential Land and Farm Land, NAV for Commercial and Industrial Land is assessed with regard to actual market rental. This differing treatment of has led to some suggestions that all properties should be valued on a rental basis.

Overall, the use of NAV is not supported. For ratepayers in respect of Residential Land and Farm Land, 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 want 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.

7.4 Summary

It is recommended that Council continues to apply CIV as the valuation base for the following reasons:

- CIV is considered to be the closest approximation to an equitable basis for distribution of the rating burden.
- CIV provides Council with the ability to levy a full range of differential rates. Only limited differential rating is available under the other valuation bases.
- It should be noted that 73 of 79 Victorian councils apply CIV as their valuation base and, as such, it has a wider community acceptance and understanding than the other rating bases. The proposed direction in the review of the local government act 1989 (Act for the future – Directions for a New Local Government Act) is proposing that Councils are required to apply capital improved value as the single uniform valuation system for raising general rates. The City of Melbourne would be exempt from this provision.

Strategy Recommendation
That South Gippsland Shire Council continues to apply Capital Improved Value as the valuation methodology to levy Council rates.

8. Determining the Rating System – Uniform or Differential?

Council may apply a uniform rate or differential rates as a means of raising revenue. They are quite different in application and have different administrative and appeal mechanisms that need to be taken into account.

8.1 Uniform rate

Section 160 of the Act stipulates that, if a council declares that general rates will be raised by the application of a uniform rate, the council must specify a percentage as the uniform rate. Rates will be determined by multiplying that percentage by the value of the relevant land.

Council has not adopted uniform rates. Since amalgamation, it has instead chosen to adopt a differential rating system.

8.2 Differential Rates

Council has, since its inception, adopted differential rating as its rating strategy as it believes that it contributes to the equitable distribution of the rating burden. Differential rating allows rates for particular classes of properties to be assessed at different levels from the general rate set for the municipality. Differential rating allows Council to shift part of the rate burden from some groups of ratepayers to others, through different "rates in the dollar" for each class of property.

Under the Act, Council is entitled to apply differential rates provided that it uses CIV as its basis for rating. Section 161 of the Act prescribes requirements for differential rates and relevantly provides that:

(1) A Council may raise any general rates by the application of a differential rate if it uses the capital improved value system of valuing land.

(2) If a Council declares a differential rate for any land, the Council must—

- (a) specify the objectives of the differential rate which must include the following—
  - (i) a definition of the types or classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate in relation to those types or classes of land;
  - (ii) an identification of the types or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in the Council's municipal district) and planning scheme zoning of the land and the types of buildings situated on it and any other criteria relevant to the rate;
  - (iii) if there has been a change in the valuation system, any provision for relief from a rate for certain land to ease the transition for that land; and
- (b) specify the characteristics of the land which are the criteria for declaring the differential rate.

….

(5) The highest differential rate in a municipal district must be no more than 4 times the lowest differential rate in the municipal district.

Council, in striking the rate through the Annual Budget process, sets the differential rate for set classes of properties at higher or lower amounts than the general rate. Currently, there are seven different levels of rates proposed in this Rating Strategy including the General rate.

8.3 Objective of the rate and characteristics

For the declared differential rates, it is considered that each differential rate will be used to contribute to the equitable and efficient carrying out of Council's functions. The following are the objectives of the differential rates currently in use for the different property types.

Commercial Rate - The Commercial is intended to promote economic development objectives for Council's municipal district. A successful outcome from the Council plan is that, "Our main towns have vibrant commercial precincts"

Industrial Rate - The Industrial Rate is intended to promote economic development objectives for Council's municipal district. "Attracting businesses, investments, tourism and new residents" is part of Council's objective to, "Strengthen Economic Growth & Prosperity".

Vacant Land Rate - The Vacant Land Rate is intended to promote housing development objectives for Council's municipal district, including the development of vacant land in residential zoned areas. The rate applies equally to commercial and industrial zoned areas for the development of those vacant lots.

Farm Rate – The Farm Rate is intended to:

- promote and support the use of sound agricultural practices; and
- conserve and protect areas which are suited to certain agricultural pursuits; and
- encourage proper land use consistent with genuine farming activities.

"Our region's agriculture, value adding, food production and manufacturing sectors are promoted and supported, recognising that the diversity and strength of these industries is the major economic base of the Shire" is part of Council's objective to, "Strengthen Economic Growth & Prosperity".

8.4 Advantages of a differential rating system

The perceived advantages of utilising a differential rating system are that it:

- provides greater flexibility to distribute the rate burden between all classes of property and therefore to link rates with the ability to pay, including reflecting the tax deductibility of rates for Farms, Commercial and Industrial Land;
- allows Council to better reflect the investment required to establish infrastructure, especially to meet the needs of the commercial and industrial sector;
- enables Council to encourage particular types of development through its rating approach (e.g. encourage building on vacant blocks);
- allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome (e.g. farming enterprises); and
- allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interests of the community'.

8.5 Disadvantages of Differential Rating

The perceived disadvantages in applying differential rating are that:

- the justification of the differential rate can, at times, be difficult for the various rating groups to accept, giving rise to queries, objections and complaints where the differentials may seem to be excessive;
- differential rates can be confusing to ratepayers, as they may have difficulty understanding the system. Ratepayers within some rating categories may feel that they are unfavourably treated because they are paying a higher level of rates than other ratepayer groups; and
- differential rating involves a degree of administrative complexity as properties continually shift from one differential rating category to another (e.g. Residential to Commercial, Vacant to Residential) requiring Council to continually update its records. Ensuring the accuracy/integrity of Council's database is critical to ensure that properties are correctly classified into their correct differential rating categories.

Strategy Recommendation
That South Gippsland Shire Council continues to apply differential rating as its rating system.

9. What differential rates should be applied?

The application of differential rates should be a strategic decision by Council that aligns with its overall strategic direction. The strategic direction is set out in the South Gippsland Shire Council Council Plan 2017-2021 which was adopted in June 2017.

This document sets Council's Vision –

South Gippsland Shire will be a place where our quality of life and sense of community are balanced by sustainable and sensitive development, population and economic growth.

In order to achieve Council's Vision, four objectives have been identified;

The objective that most strongly correlates to the process of setting rate differentials is objective "Strengthen Economic Growth & Prosperity". The overview provided in the Council Plan for this objective reads;

A strong, resilient and growing regional economy with vibrant commercial precincts where businesses are supported and jobs created.

Our region's agriculture, value adding, food production and manufacturing sectors are promoted and supported, recognising that the diversity and strength of these industries is the major economic base of the Shire.

Attracting businesses, investments, tourism and new residents will grow the Shire.

A well-planned Shire that identifies areas for population growth, protects natural resources and agricultural land, guides development, considers climate change and encourages sustainable economic growth – all supported by appropriate infrastructure.

The unique character of our smaller towns is recognised and supported.

The table below highlights the differential rates currently applied by South Gippsland Shire Council and the number of relevant assessments in each category used to raise rates for the 2017-18 financial year.

Rating category	Number of assessments 2017-18	Rate in the dollar 2017-18	% to General rate 2017-18
General rate (residential)	13,522	0.546771	100.00%
Industrial rate	341	0.574110	105.00%
Commercial rate	645	0.574110	105.00%
Farm rate	3,290	0.382740	70.00%
Rural residential rate	37	0.382740	70.00%
Vacant land rate	1,627	1.093542	200.00%
Cultural and recreational land rate	22	0.273386	50.00%
Total	**19,484**		

9.1 General rates (residential)

General Land is any land which is not:

- Commercial Land, as described below;
- Industrial Land, as described below;
- Vacant Land, as described below;
- Farm Land, as described below;
- Cultural and Recreational Land, as described below; or
- Vacant Rural Land as described below.

9.2 Industrial

The strategic objective for Industrial land is to support existing business, diversify employment opportunities and attract new business, investment and tourism ventures.

Council currently has 337 industrial properties.

Industrial properties are those that are used for the purposes of manufacturing. These properties constitute 1.72% of the total assessments and contribute 3.38% of the total rates raised.

South Gippsland Shire Council utilise the Australian Valuation Property Classification Codes (AVPCC) to assist in informing a property's rating classification. Each property is assigned a code by the Valuer based their knowledge of the property. A ratepayer has the right to object to a classification code if they feel the current code is not applicable or no longer applicable.

Industrial Land is any land which is used predominantly for industrial purposes and to which any of the following AVPCC codes, or AVPCC codes in the following ranges, have been allocated:

AVPCC 303–399, 400–481, 483–499, 602–612, 615–623, 626–637, 639–644, 647–649, 659, 661–664, 666, 667, 673, 676–679, 681–683, 685, 689, 691, 693, 694 and 697–699.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 105% of the general rate for properties that meet the Industrial definition.

9.3 Commercial

The strategic objective for Commercial land is to support existing business, diversify employment opportunities and attract new business, investment and tourism ventures. The desired outcome is vibrant commercial centres in our towns both large and small.

Council currently has 647 commercial properties

Commercial properties are defined as those selling a product or providing a service. These properties are similar to industrial properties in respect that they are businesses providing employment opportunities. These properties constitute 3.31% of the total assessments and contribute 3.96% of the total rates raised.

South Gippsland Shire Council utilise the Australian Valuation Property Classification Codes (AVPCC) to assist in informing a property's rating classification. Each property is assigned a code by the Valuer based their knowledge of the property. A ratepayer has the right to object to a classification code if they feel the current code is not applicable or no longer applicable.

Commercial Land is any land which is used predominantly for commercial purposes and to which any of the following Australian Valuation Property Classification Codes (AVPCC codes), or AVPCC codes in the following ranges, have been allocated:

AVPCC 202–299, 656, 657, 669–672, 674, 675, 684, 687, 688, 690, 696, 711, 715, 803–816, 818–820, 822, 823, 825, 827 and 828.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 105% of the general rate for properties that meet the Commercial definition.

9.4 Farm

The strategic objective for Farm land is that the Shire's agriculture, value adding, food production and manufacturing sectors are promoted and supported. The desired outcome of this objective is the preservation of agricultural land and commercially viable and sustainable farm businesses underpinning a thriving agricultural sector.

Council currently has 3,291 Farm properties.

These properties constitute 16.81% of the total assessments and contribute 26.92% of the total rates raised.

South Gippsland Shire Council utilise the Australian Valuation Property Classification Codes (AVPCC) to assist in informing a property's rating classification. Each property is assigned a code by the Valuer based their knowledge of the property. A ratepayer has the right to object to a classification code if they feel the current code is not applicable or no longer applicable.

Farm Land is any land on which the business of farming is being carried out, and which:

1. **Has a total area exceeding 20ha and –**
   (a) is used predominantly for farm purposes;
   AND
   (b) has applied to it an AVPCC code within the following range: **500–583**
   OR
2. **Has a total area exceeding 2ha and less than 20ha and –**
   (a) is used predominantly for farming purposes;
   AND
   (b) If there is a dwelling situated on the land, or a current planning permit for construction of a dwelling on the land, has applied to it an AVPCC code within the following range: **540-583**;
   OR

(c) if there is no dwelling situated on the land, and no current planning permit for construction of a dwelling on the land, has applied to it an AVPCC code within the following range: **500-583**
OR

3. **Has a total area of less than 2 hectares and is -**
(a) used predominantly for farming purposes;
AND
(b) forms part of a farm business which straddles the boundary with an adjoining municipality;
OR
(c) (where the farm business is entirely within the municipality) to which any of the following AVPCC codes in the following range, have been allocated: **540-543 or 564**
OR
(d) used predominantly for farming purposes;
AND
(e) is operated in combination with property within Council's municipal district which, when combined, have a total are exceeding 20 hectares, to which AVPCC codes in the following range apply: **570-572**

NB: To avoid doubt, 'business' for the purposes of identifying Farm Land, has the same meaning as that given to it by section 2(1) of the *Valuation of Land Act* 1960 for the same purpose, being a business that:

- has a significant and substantial commercial purpose or character; and
- seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
- 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.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 70% of the general rate for properties that meet the Farm definition.

9.5 Rural residential

The strategic objective for Rural residential land is to ensure that only commercially viable and sustainable farm businesses receive the farming differential and that hobby/lifestyle properties are rated at the general rate.

Council currently has 36 Rural Residential properties.

These properties constitute 0.18% of the total assessments and contribute 0.18% of the total rates raised.

This category was created when a single submission was received from a farmer with land of more than 18.3ha who wished to receive the farming differential. Legal advice at the time recommended adopting a separate and distinct category for the type of land in question. Such land was then characterised as Rural residential and represents properties between 18.30 and 20 Hectares.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 70% of the general rate for properties that meet the Rural Residential definition.

9.6 Vacant land

The strategic objective for vacant land is to ensure growth and economic development. The hoped for outcome of the strategy is:

a. To encourage developers and land owners to develop their land ; or
b. For landowners to rationalise and consolidate vacant land blocks

in the hope of

I. Increasing population
II. Increasing employment and business opportunities; and
III. Adding to the vibrancy and sustainability of the Shire

Council currently has 1,625 vacant land properties.

These properties constitute 8.3% of the total assessments and contribute 5.72% of the total rates raised.

South Gippsland Shire Council utilise the Australian Valuation Property Classification Codes (AVPCC) to assist in informing a property's rating classification. Each property is assigned a code by the Valuer based their knowledge of the property. A ratepayer has the right to object to a classification code if they feel the current code is not applicable or no longer applicable.

Vacant Land is any land which is vacant, to the extent that no buildings are erected on it, and to which any of the following AVPCC codes, or AVPCC codes in the following ranges, have been allocated:

AVPCC 100–108, 150, 151, 200, 201, 300, 301, 482, 600, 601, 700–706,782 or 800–802.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 200% of the general rate for properties that meet the Vacant land definition.

9.7 Cultural and recreational land

The strategic objective of cultural and recreational land is to encourage the out-door sporting, recreational and cultural pursuits.

Council currently has 22 cultural and recreational properties.

These properties constitute 0.11% of the total assessments and contribute 0.06% of the total rates raised.

Cultural and Recreational Land is any land that has the characteristics of 'recreational lands' as defined by section 2 of the Cultural and Recreational Lands Act 1963. This includes;

(a) lands which are—

  (i) vested in or occupied by any body corporate or unincorporate which exists for the purpose of providing or promoting cultural or sporting recreational or similar facilities or objectives and which applies its profits in promoting its objectives and prohibits the payment of any dividend or amount to its members; and

  (ii) used for out-door sporting recreational or cultural purposes or similar out-door activities; or

(b) lands which are used primarily as agricultural showgrounds; or

(c) the Melbourne Cricket Ground (which has the same meaning as Ground has in the Melbourne Cricket Ground Act 2009); or

(d) the Flemington Racecourse land within the meaning of the Victoria Racing Club Act 2006; or

(e) the national tennis centre land within the meaning of section 4 of the Melbourne and Olympic Parks Act 1985; or

(f) lands (whether or not otherwise rateable) which are declared by Order of the Governor in Council under section 2A to be recreational lands—

but does not in the case of lands referred to in subparagraph (i) of paragraph (a) of this interpretation include lands which are not held for an estate in fee simple by any such body unless such lands are held under a lease or licence from the Crown or from a municipal council.

Strategy Recommendation
That South Gippsland Shire Council continues to apply a differential of 50% of the general rate for properties that meet the Cultural and recreational land definition.

10. Understanding the impacts of Council Revaluations

Key points

- Property revaluations, undertaken every two years, do not generate extra revenue for Council but can have a significant impact on the rates that individual properties are allocated as the total rates pool is redistributed based on the updated property values.
- The next revaluation will be as at 1 January 2018 and will be in effect for the rates levied from 1 July 2018 for a period of two years. (This may change to every year pending legislation before parliament)
- Ratepayers can object to their property valuation.

The purpose of this section is to provide an overview of the rate revaluation and supplementary valuation processes.

All Victorian Councils are required under the *Valuation of Land Act 1960* to revalue all rateable properties in the municipality every two years. The 2016 valuation applies from 1st January 2016 and relates to the 2016-17 and 2017-18 rating years.

Property values are determined by qualified valuers comparing each property to the recent sales figures of similar properties in the neighbourhood. The key factors are location, land size, type of improvement and condition; and / or use.

The Valuer General of 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.

10.1 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 levied across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction to the rate in dollar used to calculate the rate for each property. For example, the total valuation of residential properties in 2016 increased by 5.64% when compared to the 2014 valuation, yet the rate in the dollar (RID) actually decreased by 1.28%

10.2 How does this affect my rates?

The general revaluation process enables Council to re-apportion the rate income across the municipality in accordance with movements in property value. Properties which have increased in value by more than the average will receive a rate increase of more than the headline rate. Properties with an increase in value less than the average will receive a rate increase less than the headline rate.

10.3 Supplementary Valuations

In accordance with the *Valuation of Land Act 1960* further Valuations are required to be carried out between General revaluations, these are known as Supplementary Valuations.

Supplementary Valuations are completed when properties are physically changed by buildings being erected, demolished or altered, when properties are amalgamated, subdivided, portions sold off, rezoned or roads constructed.

Supplementary Valuations are adopted to bring the value of properties into line with values assigned to other properties in the municipality. This is to ensure that as near as practicable the rating valuation reflects the current property condition at the date prescribed for the General revaluation.

11. Municipal Charge

Another principle rating option available to Councils is the application of a municipal charge. Under Section 159 of the Act, Council may declare a municipal charge to cover some of its administrative costs. The legislation is not definitive on what comprises administrative costs and does not require Council to specify what is covered by the charge.

A Council’s total revenue from a municipal charge in a financial year must not exceed 20 per cent of the combined sum total of the Council’s total revenue from the municipal charge and the revenue from general rates.

The application of a municipal charge represents a choice to raise a portion of the rates by a flat fee for all properties, rather than sole use of the CIV valuation method. In applying the legislation, the maximum amount that South Gippsland Shire Council could levy as a municipal charge would be approximately $400.00 per assessment based upon the current rates.

The arguments in favour of a municipal charge are similar to waste charges. They apply equally to all properties and are based upon the recovery of a fixed cost of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of Council’s administrative costs can be seen as an equitable method of recovering these costs.

The argument against a municipal charge is that this charge is regressive in nature and would result in lower valued properties paying higher overall rates and charges than they do at present. The equity objective in levying rates against property values is lost in a municipal charge as it is levied uniformly across all assessments.

Strategy Recommendation
That Council does not reintroduce a Municipal Charge.

12. Service Rates and Charges

Section 162 of the Act provides Council with the opportunity to raise service rates and charges for any of the following services:

- **a)** the provision of a water supply;
- **b)** the collection and disposal of refuse;
- **c)** the provision of sewerage services;
- **d)** any other prescribed service.

Council currently applies a Service Charge for the collection and disposal of refuse on properties that fall within the collection area. Council retains the objective of setting the Waste Service Charge for waste at a level that fully recovers the cost of fulfilling the waste collection and disposal function.

The advantage of the Waste Service Charge is that it is readily understood and accepted by residents as a fee for a direct service that they receive. It further provides equity in the rating system in that all residents who receive exactly the same service level all pay an equivalent amount.

The disadvantage of the Waste Service Charge is similar to the municipal charge in that it is regressive in nature. A fixed charge to a low valued property comprises a far greater proportion of the overall rates than it does to a more highly valued property.

On balance however, it is recommended that Council retains the existing Waste Service Charge. Unlike a municipal charge, where the direct benefit to the resident is invisible – the Waste Service Charge is a tangible service that is provided directly to all in the same fashion.

Should Council elect not to have a Waste Service Charge in the future, this same amount would be required to be raised by way of an increased general rate – meaning that residents in higher valued properties would pay substantially more for the waste service of lower valued properties.

Whilst this same principle applies for rates in general, the mix of having a single fixed charge combined with valuation driven rates for the remainder of the rate invoice provides a balanced and equitable outcome.

13. Special Rates & Charges

Council has the power to levy a special rate or special charge, or a combination of special rate and charge, to fund service provision under Section 163 of the Act. 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

It is possible for a Council to have several special rates and charges schemes in place at any one time, however, the proliferation of these schemes is not a practical option, particularly given the impact on efficiency as each scheme has to be justified, advertised and managed. The consideration of such schemes should be on a case by case basis as to whether revenue collection issues would be better addressed by general rates or user charges.

14. Collection of Rates and Charges

In accordance with Section 167(1) of the Local Government Act, Council must allow a person to pay their rates and charges in four instalments and the instalments are due and payable on the dates fixed by the Minister as published in the Government Gazette (Option 1).

Section 167(2A) provides that a Council may also allow a person to pay their rates and charges in a lump sum. South Gippsland Shire Council offers the lump sum option with the Government gazetted due date of 15th February (Option 2).

In addition, Council provides a nine monthly payment option covering the same payment timeframe of the four gazetted instalment options (Option 3).

14.1 Payment Options

Option 1

Quarterly Instalments	
1st Instalment due	30 September
2nd Instalment due	30 November
3rd Instalment due	28 February
4th Instalment due	31 May

Option 2

Payment in Full	
Due date	15 February

Option 3

9 Monthly Payments	
1st Instalment due	30 September
2nd Instalment due	31 October
3rd Instalment due	30 November
4th Instalment due	31 December
5th Instalment due	31 January
6th Instalment due	28 February
7th Instalment due	31 March
8th Instalment due	30 April
9th Instalment due	31 May

14.2 Unpaid Rates and Charges

In accordance with Section 172 of the Local Government Act, Council will charge interest on unpaid rates and charges in accordance with the rate fixed under Section 2 of the Penalty Interest Rate Act 1983.

The penalty interest rate applicable under the Local Government Act is determined by the rate ruling on 1 July each year.

The penalty interest will be applied after the due date of an instalment. For lump sum payers, the interest penalty will be applied after the due date of the lump sum, but calculated on each of the instalment amounts that are overdue from the day after of their due dates. Interest penalties will continue to accrue until all amounts are paid in full.

14.3 Debt Recovery

Final notices are forwarded to ratepayers requesting payment or inviting ratepayers to make arrangements to pay their outstanding debt.

If no payment is forthcoming or no arrangements have been made to pay the debt, Council will pursue the recovery of outstanding rates and charges through its debt collection agent.

Any costs incurred during the recovery process are added to the amount outstanding. Council will also make every effort to contact ratepayers at their correct address but it is the ratepayer's responsibility to properly advise Council of their correct mailing details and contact number(s).

Any ratepayer who has difficulty paying their rates is invited to contact Council to make alternate payment arrangements.

An accumulation of three or more years of rates and charges debt enables Council to initiate sale proceedings of the rateable property in accordance with S181 of the Local Government Act 1989.