Rating Strategy 2020/21

Adopted 26 August 2020

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Introduction

A primary objective of all Victorian Local Governments is to ensure the equitable imposition of rates and charges. The purpose of this Rating Strategy is to consider Council's rating options under the Local Government Act, and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

It is important to note from the outset that the focus of this strategy is very different to that which is discussed in the Annual Budget. In the Annual Budget 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 will canvass the limited range of rating options available to Council under the Act, including the following:

a) the choice of which valuation base to be utilised;

b) the consideration of uniform rating versus the application of differential rating for various classes of property;

c) the most equitable level of differential rating across the property classes;

d) consideration of the application of fixed service charges for the areas of waste collection and municipal administration;

e) the application of special rates and charges;

f) the application of other levies under the *Planning & Environment Act 1987*; and

g) a review of the rate payment dates and options available to Council.

The Victorian Government has now established the Fair Go Rates System (FGRS), which is a framework limiting the maximum amount Council may increase rates in a year without seeking additional approvals.

Each year the Minister for Local Government will set the rate cap that will specify the maximum increase in Council's rates and charges for the forthcoming financial year. The rate cap set by the Minister for the 2020/21 year is 2.0 per cent.

Executive Summary and Recommendations

This strategy details the framework and rating options that Baw Baw Shire Council will use in determining a fair and equitable distribution of rates for the community.

Four key platforms form the basis of the approach to rating at Baw Baw Shire Council and this is recommended for continuation:

a) rates will continue to be based principally on an ad-valorem basis (i.e. based on the valuation of the various properties);

b) Council will continue to apply a service charge to fully recover the cost of the collection and disposal of waste;

c) Council will continue to apply differential rating to ensure all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council; and

d) Council does not levy a Municipal Charge.

The longer term view is to consider the use of a:

a) special rate and or charge to cover specific infrastructure projects eg drainage; and

b) levy to create reserve funds to be used in the event of a future natural disaster event, such as storm damage.

Consideration	Strategy Recommendations
Determining which valuation base to use	That Baw Baw Shire Council continues to apply Capital Improved Valuation (CIV) as the valuation methodology to levy Council rates.
Determining the rating system	That Council continues to apply differential rating as its rating system.
What differential rates should be applied?	That Council continues to apply differential rates for: 1. Residential Land, including flats and units, at the general rate; and 2. Farm Land at a discount of 10% to the general rate; and 3. Commercial and Industrial Land with a surcharge of 20% on the general rate; and 4. Vacant Land differential with a surcharge of 80% on the general rate; and 5. Urban Living Land differential at a discount of 10% to the general rate; and 6. Residential Development Land differential with a surcharge of 30% on the general rate.
Eligible pensioner rebate	That Council continues to provide an eligible pensioner rebate of $50 for all eligible pension card holders in addition to the State Government Rebate.
Impact of council revaluations	That Council reviews the impacts of revaluations, provided by the Victorian Valuer General, as they occur.

Consideration	Strategy Recommendations
Special rates and charges	That Council uses special rates and charges in instances that fit the following circumstances: • funding of narrowly defined capital projects (e.g. streetscape works, private road sealing) where special benefit can be shown to exist for a particular grouping of property owners; • raising funds for a dedicated purpose where the use of CIV is not the most equitable method of calculating property owner contributions. (e.g. Natural Disaster funds); and • covering the cost of an expense relating to a specific group of ratepayers (e.g. licensed premises). In circumstances outside of the above three scenarios, Council will use differential rating to achieve its objectives.
Municipal charge	That Council does not implement a Municipal Charge as part of its rating strategy in 2020/21.
Service rates and charges	That Council continues to apply a Waste Service Charge as part of its Rating Strategy in 2020/21 based on full cost recovery of the waste function.
Rate payment date options	That Council continues to apply the recently legislated quarterly instalment payment option and does not offer the February lump sum payment option. That Council continues to have an early payment competition for those residents who wish to pay all instalments in a single payment by 30 September.

1. What is a Rating Strategy and why have one?

The purpose of this strategy is to ensure that Council considers how the rate revenue burden can be most equitably distributed among the community.

What is a rating strategy?

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

Why is a rating strategy important?

Baw Baw Shire Council currently receives in the order of 67% of its total cash 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 the community.

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.

Baw Baw 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 and accountability in its decision-making.

2. Rating – the Legislative Framework

The purpose of this section is to outline the legislative framework within which Council operates its rating system and the various matters that Council must consider when making decisions on rating objectives.

2.1 Legislative Framework

A primary objective of local government is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of its decision. In seeking to achieve its primary objective, Council must have regard to a number of facilitating, or supporting, objectives, one of which is to ensure the equitable imposition of rates and charges.

The issue of equity must therefore be addressed in the rating strategy, and this strategy has paid careful attention to this aspect.

2.2 Consideration of Equity

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.

In considering what rating approaches are equitable, some concepts that Council may take into account are:

Horizontal equity, which refers to justice or fairness in the treatment of **like** properties, in other words, that similar rates are paid by similar properties. On the proviso that Council valuations fairly reflect the true valuation of like properties, horizontal equity will be achieved.

Vertical equity, which refers to justice or fairness in the treatment of properties in different circumstances. (e.g. different property types – Residential/ Commercial/ Industrial / Farming/ Vacant / Developed).

In the case of property rates, it may be considered equitable for one type of property to have to bear more or less of the rates burden than another type of property. In achieving vertical equity in its rating strategy, Council must consider the valuation base it chooses to adopt to apply property rates and the application of the various rating tools available to it under the Act (e.g. differential rates).

Linkage of property wealth to capacity to pay, which recognises that the valuation of property is an imperfect system in which to assess a resident's ability to pay annual rates but one which Council is restricted to under the Act. A frequently raised example is pensioners who live in their family home which carries a high value, but live on a pension. The equity question for consideration however is whether Council should support residents in this situation with lower rates that will eventually be to the financial benefit of estate beneficiaries, or whether the ability to defer rates (in all or in a part) represents a more equitable outcome for all ratepayers.

The Benefit principle, which concerns one of the more misunderstood elements of the rating system, being that residents seek to equate the level of rates paid with the amount of benefit they individually achieve. The reality is however that rates are a system of taxation not dissimilar to PAYG tax.

In paying a tax on salaries, it is rarely questioned what benefit is received with it being acknowledged that tax payments are required to pay for critical services

(Health, Education, etc) across the nation. Local Government is no different, with Rates being required to subsidise the delivery of services and capital works that would otherwise be unaffordable if charged on a case by case basis.

It is a choice of Council to what degree it pursues a ‘user pays’ philosophy in relation to charging for individual services on a fee-for-service basis. Similarly, Council must make a rating decision in terms of whether to use a fixed waste charge to reflect the cost of waste collection and a fixed municipal charge to defray the administrative costs of Council. Both of these choices are discussed later in this Rating Strategy.

The recommended approaches in this Rating Strategy in terms of equity are discussed further under each section.

2.3 What Rates and Charges may a Council declare?

Section 155 of the Local Government Act 1989 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 8, 9 and 10 of this Rating Strategy.

2.4 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 5 of this Rating Strategy.

2.5 Declaring Rates and Charges

Section 158 of the Act provides that Council must, at least once in respect of each financial year, declare 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.

3. Understanding the rating framework at Baw Baw Shire Council

The Baw Baw Shire Council currently applies the Capital Improved Valuation method of valuation in order to levy its rates. Council applied the following differential rating categories for 2020/21.

Prior Year Rating Categories 2019/20

2019/20 Rating Category	No. of Rating Units	Capital Improved Value	% total of CIV
Residential	20,530	$9,478,378,000	65.5%
Commercial and Industrial	1,569	$1,207,866,000	8.4%
Vacant land	1,850	$527,047,000	3.6%
Farm	2,310	$2,738,954,000	18.9%
Urban Living	130	$427,979,000	3.0%
Residential Development	9	$73,433,000	0.5%
Recreational	14	$16,814,000	0.1%
Total Rateable Properties	**26,412**	**$ 14,470,471,000**	**100.00%**

Rating Categories 2020/21 year

2020/21 Rating Category	No. of Rating Units	Capital Improved Value	% total of CIV
Residential	21,290	$10,214,612,000	66.8%
Commercial and Industrial	1,603	$1,239,360,000	8.1%
Vacant land	1,813	$508,844,000	3.3%
Farm	2,333	$2,815,123,000	18.4%
Urban Living	131	$431,490,000	2.8%
Residential Development	10	$66,300,000	0.4%
Recreational	14	$17,520,000	0.1%
Total Rateable Properties	**27,194**	**$15,293,249,000**	**100.0%**

Rate Details	Budget 2019/20	Proposed 2020/21
Rates	$50,942,372	$53,143,994
Garbage charges	$8,300,663	$8,801,093
Total (excluding supplementary rates & charges)	**$59,243,035**	**$61,945,087**

In terms of the differential rates that Council applies, the below table compares the various “surcharges and discounts” that are utilised in the current and proposed rating structure.

Rating Category	2019/20 Rate in the $	2019/20 Relative to Residential	2020/21 Rate in the $	2020/21 Relative to Residential
Residential	0.003433	1.0	0.003397	1.0
Commercial and Industrial	0.004119	1.2	0.004077	1.2
Vacant land	0.006179	1.8	0.006115	1.8
Farm	0.003090	0.9	0.003058	0.9
Urban Living	0.003090	0.9	0.003058	0.9
Residential Development	0.004463	1.3	0.004417	1.3

Council currently utilises a service charge to fully recover the cost of fulfilling its waste collection and disposal function. It does not apply any service rates or special rates and charges under the Act.

Listed below are the waste charges. These charges are levied under section 162 of the Act.

Type of charge	Adopted 2019/20	Total Income	Proposed 2020/21	Total Income
Residential Charge	$384.00	$7,739,520	$392.00	$8,209,264
Residential additional green waste	$74.00	$18,722	$75.00	$25,050
Residential additional 120 litre garbage	$87.00	$56,811	$90.00	$65,160
Residential additional 240 litre recycling	$49.00	$14,210	$50.00	$17,150
Tanjil Bren garbage	$121.00	$5,203	$123.00	$5,289
Walhalla garbage	$187.00	$13,277	$190.00	$13,490
Commercial garbage-120 litre	$420.00	$202,440	$430.00	$205,110
Commercial garbage-240 litre	$496.00	$250,480	$505.00	$260,580
TOTAL		**$8,300,663**		**$8,801,093**

Council currently does not apply any municipal charge for the purpose of defraying administration costs of Council.

4. 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.

4.1 Capital Improved Value

CIV is the most commonly used valuation base by Victorian Local Government. 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.

Advantages of using CIV

- 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 two year intervals, now one 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.

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.

4.2 Site Value

With valuations based only on the valuation of land and with only very limited ability to apply differential rates, the implementation of SV in a Baw Baw Shire context would cause a significant 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 Baw Baw Shire.

Advantages of Site Value

- 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.

Disadvantages in using Site Value

- 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.

4.3 Net Annual Value

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 poses 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.

4.4 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 the almost all Victorian councils apply CIV as their valuation base and, as such, it has a wider community acceptance and understanding than the other rating bases.

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

5. 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.

5.1 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 and continues to adopt a differential rating system.

5.2 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 six different levels of rates proposed in this Rating Strategy.

5.3 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 adopted for the different property types.

Commercial and Industrial Rate - The Commercial and Industrial Rate is intended to promote economic development objectives for Council's municipal district. The Commercial and Industrial Rate will be part of a rating system which maintains, as far as possible, the current rates burden on commercial and industrial properties, given the tax deductibility of rates for businesses and the extent of use of the shire's infrastructure by business, especially the road network.

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.

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.

Urban Living Rate – The Urban Living Rate is intended to recognise that properties within an Urban Growth Zone which has a Precinct Structure Plan may not receive the same level of Council services as ratepayers in the residential areas.

Residential Development Rate – The Residential Development Rate is intended to assist in the management of sustainable growth across Council's municipal district, as well as encourage residential subdivisions at a sustainable level ensuring sufficient supply.

5.4 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 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'.

5.5 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 Baw Baw Shire Council continues to apply differential rating as its rating system.

6. What differential rates should be applied?

The Act allows councils to “differentiate” rates based on the use of the land, the geographic locality of the land or a combination of the use and locality of the land.

Council has a diverse mix of geographically located and land use properties. Valuation methodology is not consistent between differing land use property types and the establishment of differential tariff groups ensures greater equity and contribution from rates according to land use characteristics in relation to affordability and taxation principles.

The table below highlights the differential rates currently applied by Council and the proposed differential rates in 2020/21.

Rating Category	2019/20 Rate in the $	2019/20 Relative to Residential	2020/21 Rate in the $	2020/21 Relative to Residential
Residential	0.003433	1.0	0.003397	1.0
Commercial and Industrial	0.004119	1.2	0.004077	1.2
Vacant land	0.006179	1.8	0.006115	1.8
Farm	0.003090	0.9	0.003058	0.9
Urban Living	0.003090	0.9	0.003058	0.9
Residential Development	0.004463	1.3	0.004417	1.3

6.1 Basis for Baw Baw Shire’s Differential Rates Policy:

Council has established a rating structure which is comprised of two key elements. These are:

- property values, based on CIV; and
- differential rates in the dollar to reflect use of services provided by Council.

Striking a proper balance between these elements provides equity in the distribution of the rate burden across residents.

- Rating, through the application of higher differentials recognises the ability of some ratepayers to obtain concessions from the tax deductibility of Council rates and provides for a series of differential rates. This takes into account low economic return to large landholdings, avoids distortions in the market and an ability to contribute above the standard charge.
- Rating shall endeavour to promote and encourage economic development throughout the municipality.
- The Farm Land Rate is intended to recognise the benefits of large holdings, open space and, traditionally, generally less demand upon Council services per land area held. Council has used a combination of a differential rate and section 169 of the Act (the rebate) in order to maintain the status of farms as the lowest rated group.
- Vacant Land is rated at a higher rate in the dollar than Residential Land to encourage the development of the land.

- Cultural and Recreational Land is subject to a rate concession in accordance with the requirements of Section 161 of the Act and the *Cultural and Recreational Lands Act 1963*, which require for a council to grant a rating concession to any 'recreational lands' which meet the test of being 'rateable land' under the Act. The current recreational land discount is equivalent to 100% of the rates (excluding charges) payable.

6.2 Differential Rate Categories

Each differential rate will be determined by multiplying the CIV of each piece of rateable land within Council's municipal district (categorised by the characteristics described below) by the relevant percentages indicated above. Details of the objectives of each differential rate, the types of classes of land which are subject to each differential rate and the uses of each differential rate are set out below.

6.2.1 Residential

Council is forecast to have 21,290 residential assessments within its municipal district as at 1 July 2020. This category includes all residential properties, including flats, units and hobby farms. It contributes 65.3% of the total rates levied.

Objectives:

To ensure that all owners of Residential Land make an equitable financial contribution to the cost of carrying out the functions of Council.

Types and Classes:

Residential Land is any land:

a) that is used exclusively for residential purposes; or

b) on which a habitable building is erected, which building is unoccupied, and which is zoned Residential under the Baw Baw Planning Scheme; or

c) any land which is not otherwise classified as Commercial and Industrial Land, Farm Land, Vacant Land, Urban Living Land or Residential Development Land.

6.2.2 Commercial and Industrial Land

The number of commercial and industrial properties within Council's municipal district as at 1 July 2020 is projected to be 1,603, contributing 9.5% of the total rates. Commercial and Industrial Land is rated at 20% above the general rate.

There is a significant difference between the developed commercial and developed industrial properties, and greater variance within developed commercial than within developed industrial, with little historical guidance as to why the disparity exists. Typically, commercial entities vary more in size than industrial properties, ranging from milk bar operations to major shopping centre retailers and, in many cases, the capacity to pay higher rates in the commercial sector is marginal.

It must also be acknowledged that Council has been required (and will over the next decade) to invest heavily in the construction of infrastructure for industrial development which does not typically apply in the commercial sector.

Objectives:

To ensure that the owners of the land having the characteristics of Commercial and Industrial Land make an equitable financial contribution to the cost of carrying out Council's functions.

Types and Classes:

Commercial and Industrial Land is any land which:

a) does not have the characteristics of:
   i. Residential Land;
   ii. Farm Land;
   iii. Vacant Land;
   iv. Urban Living Land; or
   v. Residential Development Land; and
b) is used predominantly for commercial and/or industrial purposes; or
c) is otherwise zoned Commercial or Industrial under the Baw Baw Planning Scheme.

6.2.3 Farm Land

Council is projected to have 2,333 farm properties within its municipal district as at 1 July 2020, contributing 16.2% to the total rates raised. These properties receive a "discount" of 10% against the general rate. Farm operations that meet the following:

Objectives:

The objectives of the Farm Land Rate are to:

1. encourage uses compatible with the physical capability of the land;

2. minimise the need for urban works and services to the non-urban area;

3. conserve the resources of soil, flora and fauna and the significant natural features in the areas identified as having ecological and landscape interest value;

4. conserve as far as possible the existing patterns of vegetation to maintain landscape quality;

5. assist in the maintenance of farming activities within areas eminently suited for that purpose; and

6. discourage the proliferation of non-agricultural activities on soil of high agricultural value by protecting the social characteristics of the rural community from the encroachment of urban-type development.

Types and Classes:

Farm Land is land which:

a) does not have the characteristics of:

    i. Urban Living Land; or

    ii. Residential Development Land; and

b) has an area of at least 40 hectares and is used predominantly for the business of grazing (including agistment), dairying, pig-farming, poultry farming, fish farming, tree farming, bee-keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of those activities; or

a) has an area of not less than 2 hectares and less than 40 hectares for grazing (including agistment), dairying, pig-farming, poultry farming, fish farming, tree farming, bee-keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of those activities and demonstrates, upon application, that the primary source of income is derived from the land that is used for a business.

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:

a) has a significant and substantial commercial purpose or character; and
b) seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
c) is making a profit from its activities on the land, or 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.

6.2.4 Vacant Land

The number of Vacant Land properties within Council's municipal district is forecast to be 1,813 as at 1 July 2020, contributing 5.9% to the total rates raised. These properties attract the Residential Vacant Land differential which is a surcharge of 80% above the residential rate.

The purpose of this differential has been to encourage property owners to develop vacant land rather than treat it as a land bank.

Objectives:

To encourage the development of land and ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of the Council.

Types and Classes:

Vacant Land is land:

a) does not have the characteristics of:

    i. Farm Land;

    ii. Urban Living Land; or

    iii. Residential Development Land; and

b) on which no building is erected, save for any uninhabitable shed or shelter, the size of which does not exceed 5% of the total area of the land.

6.2.5 Urban Living Land

Urban Living Land is land on larger allotments in residential, rural or semi-rural settings within an Urban Growth Zone which has a Precinct Structure Plan in place under the Baw Baw Planning Scheme, but for which the primary use is residential. Any primary production uses and associated improvements are secondary to that residential use.

The number of Urban Living Land properties within Council's municipal district is forecast to be 131 as at 1 July 2020, contributing 2.5% to the total rates raised.

The Urban Living Land differential is set at 0.9, being lower than the residential land differential of 1.0.

The lower differential reflects a difference in the level of service provided by Council to this group of ratepayers. The average value of rateable properties in this category is higher than that for residential so, when calculated through to rates income, this group would pay a higher 'per property' payment than Residential Land, but potentially receive less in terms of service provision but for the lower differential.

Objectives:

The objective of this rate is to ensure that all the identified (non-farming) properties, where services and utilities may be restricted, make a fair and equitable contribution to the costs of carrying out Council's functions and to recognise that ratepayers residing on Urban Living Land may not receive the same level of Council services as residents in the general / residential areas.

Types and Classes:

Urban Living Land is land:

a) which is located in the Urban Growth Zone which has a Precinct Structure Plan in place under the Baw Baw Planning Scheme;

b) has an area not less than 2 hectares; and

c) in respect of which no planning permit authorising subdivision of the land has been issued.

6.2.6 Residential Development Land

Residential Development Land is similar to Urban Living Land, being located within an Urban Growth Zone which has a Precinct Structure Plan in place under the Baw Baw Planning Scheme, however is not used as a principal place of residence.

The number of Residential Development Land properties within Council's municipal district is forecast to be 10 as at 1 July 2020, contributing 0.6% to the total rates raised. The Residential Development Land differential is set at 1.3, being higher than the Residential Land differential of 1.0.

The higher differential is designed to encourage development of subdivided land for residential purposes and to ensure that the land owners provide an equitable contribution to the cost of carrying out Council functions. The higher differential reflects a difference in the level of service provided by Council to this group of ratepayers by addressing some of the disadvantages experienced by Council due to funds committed to providing infrastructure needed to progress development. Council is restricted in its ability to fund further development infrastructure while it receives an inadequate contribution from those driving the development.

Owners of Residential Development Land are often private corporations which purchase this land to derive their profit from the long term capital gain, and control its release to maximise price / capital gain. This profit generation is currently not contributing to the Baw Baw community.

Objectives:

The objective of this rate is to assist in the management of sustainable growth across Council's municipal district, as well as encourage residential subdivisions at a sustainable level ensuring sufficient supply.

Types and Classes:

Residential Development is land which:

a) is located in the Urban Growth Zone which has a Precinct Structure Plan in place under the Baw Baw Planning Scheme; and

b) has an area not less than 2 hectares; and

c) in respect of which a planning permit authorising subdivision of the land has been issued.

6.2.7 Cultural & Recreational Land:

The *Cultural and Recreational Lands Act 1963* (**CRL Act**) provides for a council to grant a rating concession in respect of any "recreational lands" which are rateable land under the Act.

The definition of "recreational lands" under section 2 of the CRL Act is lands which are:

- vested in or occupied by any body corporate or unincorporated body 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 objects and prohibits the payment of any dividend or amount to its members; and
- used for outdoor sporting recreational or cultural purposes or similar outdoor activities; or
- used primarily as agricultural showgrounds.

Section 169 of the Act provides an opportunity for Council to grant a concession for properties described by definition as a sporting club under the CRL Act.

In the 2020/21 rating year, Council will provide a concession to 14 properties meeting the definition of "culture and recreation". The general rate is applied to these properties to determine the declared rates payable for the financial year and a 100% rebate will be applied, with the exception of the Warragul Country Club, which is rebated by 47%. Service Charges are payable for any waste services received at the declared rate.

Cultural and Recreation Land Property	2020/21 Rates
Properties receiving a 100% rebate	
Drouin Bowling Club	$ 2,752
Drouin Golf Club	$ 11,550
Garfield Wattle Raceway / Drouin Speedway	$ 1,495
Longwarry Bowls Club	$ 1,970
Moe Field and Game and Angling Club	$ 475
Neerim District Bowling Club	$ 2,208
Thorpdale Bowling Club	$ 849
Trafalgar Bowls Club Incorporated	$ 2,854
Trafalgar Golf Club	$ 5,265
Trafalgar Park Bowls Club Incorporated	$ 1,868
Warragul Bowling Club	$ 2,378
Warragul Drouin Pistol Club Incorporated	$ 2,887
Yarragon Bowls Club	$ 917
Total 100% Rebate	**37,468**
Property Receiving a 47% Rebate	
Warragul Country Club Incorporated (rebate) $22,094 @ 47%	$ 10,378
Total Rebate	**$ 47,846**
Warragul Country Club Incorporated (rate payable)	$11,703
Total	**$ 59,549**

The clubs listed above are considered to provide a benefit to the general community and their activities assist in the proper development of the municipal district.

Strategy Recommendations

1. That Council continues to apply differential rates for:

   - Residential Land, including flats and units; and
   - Commercial and Industrial Land, with a surcharge 20% to the general rate; and
   - Farm Land, at a discount of 10% to the general rate; and
   - Vacant Land, with a surcharge of 80% to the general rate, and
   - Urban Living Land at a discount of 10% to the general rate in order to ease the rate burden on properties within the Urban Growth Zone with a Precinct Structure Plan in place under the Baw Baw Planning Scheme;
   - Residential Development Land with a surcharge 30% in respect of properties within the Urban Growth Zone with a Precinct Structure Plan

2. That Council apply the 2.0% rate cap as per the Fair Go Rates System (FGRS).

Strategy Recommendations
3. That Council continues to grant a 100% rebate of rates with the exception of the Warragul Country Club, which is rebated by 47%, on Cultural and Recreational Land, subject to a review being undertaken in 2020/21.

7. Understanding the impacts of Council Revaluations

Under the requirements of the Act Council is required to conduct revaluations of all rateable assessments annually. A revaluation does not provide Council with any additional rate revenue but can significantly re-align how rates are distributed between ratepayers at both a rating group and individual level.

All rateable properties within Baw Baw Shire Council have been revalued at 1 January 2020 and are effective from 1 July 2020.

The table below highlights the impact of the 2020 Council revaluation, compared to 2019.

Rating Category	Number of Properties 2019	Capital Improved Value (CIV) 2019	Number of Properties 2020	Capital Improved Value (CIV) 2020	Average CIV 2019	Average CIV 2020	% Change CIV
Residential	20,534	$9,478,378,000	21,290	$10,214,612,000	$461,594	$479,784	7.76%
Commercial/Industrial	1,568	$1,207,866,000	1,603	$1,239,360,000	$770,323	$773,150	2.6%
Farm	2,310	$2,738,954,000	2,333	$2,815,123,000	$1,185,694	$1,206,653	2.8%
Vacant Land	1,849	$527,047,000	1,813	$508,604,000	$285,044	$280,532	(3.5)%
Urban Living	130	$427,979,000	131	$431,490,000	$3,292,146	$3,293,817	0.8%
Residential Development	9	$73,433,000	10	$66,300,000	$8,159,222	$6,630,000	(9.7)%
Recreational	14	$16,814,000	14	$17,520,000	$1,201,000	$1,251,429	4.2%
Total	**26,414**	**$14,470,471,000**	**27,194**	**$15,293,249,000**	**$547,833**	**$562,376**	**5.7%**

The table highlights that, overall, Council's CIVs have increased by 5.7% over the one year period from 2019 to 2020. Council needs to be mindful of the impacts of revaluations on the various property types in implementing its Rating Strategy (outlined in the previous sections) to ensure that rises and falls in Council rates remain affordable and that rating 'shocks' are mitigated to some degree.

On this basis, it is recommended that the existing differential rating structures be retained in this Rating Strategy and not amended to alter the impact of the 2020 revaluation.

8. Special Rates & Charges

Special rates and charges are covered under Section 163 of the Act, which enables Council to declare a special rate or charge or a combination of both for the purposes of

- defraying any expenses; or
- repaying with interest any advance made or debt incurred or loan raised by Council,

in relation to the performance of a function or the exercise of a power of Council. Council can only do so if it considers that the performance of the function or the exercise of the power is or will be of special benefit to a particular group of persons who are required to pay that special rate or special charge.

There are detailed procedural requirements that Council needs to follow to introduce a special rate or charge, including how Council can apply funds derived from this source.

Section 185 of the Act provides appeal rights to the Victorian Civil and Administrative Tribunal (Tribunal) in relation to the imposition of a special rate or charge. The Tribunal has wide powers, which could affect the viability of the special rate or charge scheme.

Council should be particularly mindful of the issue of proving that special benefit exists to those that are being levied the rate or charge.

In summary, differential rates are much simpler to introduce and generally less exposed to challenge. There may be instances, however, where a special rate or charge is desirable if raising the levy by use of CIV is not equitable.

It is recommended that Council utilises special rates and charges only in the instances outlined below.

Strategy Recommendations
That Council use special rates and charges in instances that fit the following circumstances: • Funding of narrowly defined capital projects (e.g. streetscape works, private road sealing) where special benefit can be shown to exist only for a grouping of property owners. • Raising funds for a dedicated purpose where the use of CIV is not the most equitable method of calculating property owner contributions. (e.g. Natural Disaster). • Covering the cost of an expense relating to a specific group of ratepayers.

9. 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 Baw Baw Shire could levy as a municipal charge would be approximately $482 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.

For this reason, this Rating Strategy recommends that Council does not apply a Municipal Charge.

Strategy Recommendations
That Council does not levy a Municipal Charge.

10.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, this same amount would be required to be raised by way of an increased general rate – meaning that residents in higher valued properties would substantially pay 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.

Strategy Recommendations
That Council: • Continues to apply a Waste Service Charge as part of the 2020/21 Rating Strategy based on full cost recovery of the waste function; and • Increase the 2020/21 Waste Service Charges by an average of 2%, rounded to the nearest dollar, compared to prior year 2019/20 levels.

11. Rate Payment Options

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

Council has elected to move away from the lump sum payment method for two main reasons.

1. The first reason is that, under the Act, interest on late payments begins to accrue from the date that the first instalment is due (i.e. 30 September), irrespective of whether payment is made by instalment or by lump sum. Council has previously taken the view that it would not be fair and equitable to allow lump sum payments in February for the following reasons:

   a) If a ratepayer elects to pay rates in four instalments and misses a payment, interest is payable from the due date of the payment (e.g. the first instalment due on 30 September is unpaid – interest is payable from 30 September on one quarter of total annual rates).

   b) If a ratepayer chooses to pay rates in one lump sum on 15 February the following year and payment is not made by the due date – interest is payable from 15 February on the total rates.

2. The second reason for change relates to the improved cash flows that are associated with the instalment payment option. Council operates under a 1 July/30 June financial year and Victorian Local Government is probably the only government agency / utility that issues an annual account in July and then has to wait seven months to receive the majority of its revenue. During this time, Council is required to continue to provide operational services and capital works which places our cash position under severe strain.

When it is considered in the context of every other utility (e.g. telephone, gas, power, water etc), not one of these service providers is required to operate on the business rules that is a requirement for Local Government.

The introduction of mandatory instalments is aimed at better matching when Council receives its rate revenue against when it needs to expend these same amounts. The move brings Council into closer alignment with virtually every other utility service provider.

Offering of an early payment incentive

In order to improve cashflow, Council continues to run a competition where ratepayers may enter a draw for an opportunity to win a $1,000 incentive for the early payment of all rates and charges instalment in full by 30 September. It should be noted that Council will only issue one $1,000 incentive.

The alternative is a payment discount for full payment by 30 September however this would result in a significant cost to Council and is therefore not recommended in the current rate capping environment. While the provision of a discount may alleviate any resident concerns regarding the mandatory instalment payment system, it would come at a significant cost to Council. Any increase in the number of residents choosing to pay by mandatory instalments would have no direct benefit to Council as any improved investment returns would be directly offset by the level of discount provided. There would however be some administrative benefits in receiving a single payment and some minor cash savings in reduced agency payment fees.

Strategy Recommendations
That Council continues to apply the mandatory four instalment payment option in future rating years and does not provide the February lump sum payment option. That Council continues to run a competition for a $1,000 incentive, to be offered to one ratepayer only, for the early payment of all rates and charges instalments in full by 30 September.

12. **Appendix A**

Hardship Policy – Deferment of Rates

PURPOSE

To assist ratepayers in meeting financial obligations to Council by providing alternative payment arrangements for property based debts, where financial hardship is proven to exist.

This policy gives ratepayers the opportunity to present their case and to ensure they are treated in a consistent, equitable and confidential manner.

Council, in applying this policy, will ensure that wherever possible, all outstanding debts will eventually be recovered.

If Council becomes aware of any ratepayer providing false or misleading information in order to gain assistance for which he/she would otherwise not be eligible, the agreement with Council will become null and void. Any charges which have been waived or deferred will be restored to the full amount. In addition, this includes any interest not charged that would have otherwise been payable.

POLICY

Background

People who owe money to the Council sometimes find themselves in a situation of financial hardship. For the Council to insist on those amounts outstanding to be paid in full by the due date would exacerbate this financial hardship as well as create additional psychological stress and anxiety.

This policy also covers any ratepayers suffering financial hardship after serious disasters such as the bushfires of 7 February 2009.

Deferring Rates, Interest and Charges

Ratepayers may have rates and charges, or part thereof, deferred subject to the following conditions:

(a) The ratepayer must be able to demonstrate they are or will experience undue and unusual financial hardship;

(b) A confidential statement must be submitted by the ratepayer or their representative as evidence of such circumstances;

(c) Where the ratepayer has complied with clauses a and b, the rate or charge or part thereof may be deferred either for a set period or an indefinite period;

(d) Where practicable, the ratepayer must enter into an agreement with Council on a payment schedule and perform against such agreement.

Under a deferment arrangement, whilst rates and interest will still accrue, no debt recovery action shall be taken. Annually, confirmation will be sought from either the ratepayer or nominated representative that financial hardships conditions still exist. Council has the ability to review any existing arrangements.

Deferment is withdrawn automatically upon the sale of the property.

Waiving of Rates, Interest and Charges

Rates and charges will generally not be waived. Any application received by ratepayers to waive rates and charges will be presented to the Council in a confidential report for decision.

There are three categories of interest waiver:-

1. Administrative waivers (interest only);
2. Waiver on compassionate grounds (interest only);
3. Financial hardship (interest only)

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1. Administrative waiver

In the event of an administrative error or omission which is proven to have caused or significantly contributed to the failure to pay rates, a waiver of interest, in full or in part, may be applied.

2. Waiver on compassionate grounds – principal place of residence

Ratepayers may have interest waived where they have demonstrated compassionate grounds. Acceptable compassionate grounds would generally relate to family illness or death. The ratepayer will need to agree to an acceptable payment arrangement to pay the outstanding amount. Waiver on compassionate grounds shall be one off and ratepayers will need to apply on each occasion such a waiver is sought.

3. Financial hardship – principal place of residence

Ratepayers may have interest or part thereof, waived provided they meet the following financial hardship criteria:

- The ratepayer must be experiencing and be able to demonstrate financial hardship; and
- Where practicable, the ratepayer must enter into an agreement with Council on a payment schedule and perform against such an agreement.

Rates will still accrue however no interest will be charged nor debt recovery action taken.

Under a financial hardship arrangement, whilst rates and interest will still accrue, no debt recovery action shall be taken. Annually confirmation will be sought from either the ratepayer or nominated representative that financial hardships conditions still exist. Council has the ability to review any existing arrangements.

The financial hardship arrangement is withdrawn automatically upon the sale of the property.