



# **Rating Strategy**

**Warrnambool City Council**

**2017 - 2021**

## CONTENTS

1.	Introduction .....	1
2.	Executive Summary and Recommendations.....	1
3.	What is a Rating Strategy and why have one? .....	2
4.	Rating – the Legislative Framework.....	3
	4.1 Legislative Framework.....	3
	4.2 Equity .....	4
	4.3 What Rates and Charges may a Council declare?.....	5
	4.4 Valuation Methodology available to Council.....	5
	4.5 Declaring Rates and Charges.....	5
5.	Understanding the Current Rating Framework at Warrnambool City Council .....	5
6.	Determining which valuation base to use.....	8
	6.1 Capital Improved Value.....	8
	6.2 Site Value .....	9
	6.3 Net Annual Value.....	10
	6.4 Summary .....	10
7.	Determining the Rating System-Uniform or Differential? .....	11
	7.1 Uniform Rate .....	11
	7.2 Differential Rates .....	11
	7.3 Objective of the rate and characteristics .....	12
	7.4 Advantages of a differential rating system.....	17
	7.5 Disadvantages of Differential Rating .....	17
8.	What differential rates should be applied? .....	18
	8.1 General Rates (Residential Land).....	18
	8.2 Commercial and Industrial (Developed) .....	18
	8.3 Vacant land.....	19
	8.4 Farm Land .....	19
	8.5 Cultural & Recreational Lands .....	19
9.	Understanding the impacts of Council Revaluations .....	22
10.	Calculation of Rates .....	23
11.	Special Rates & Charges.....	24
12.	Municipal Charge.....	25
13.	Service Rates and Charges.....	25
14.	Rate Payment Options .....	26
15.	Non-rateable Properties .....	27

## 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)). The purpose of this Rating paper 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. These choices will be the resulting Rating Strategy.

It is important to note at the outset that the focus of this paper 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 paper, the focus instead is on how this quantum will be determined strategically and on some equitable basis be distributed amongst Council's ratepayers.

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

- a) The choice of which valuation base to be utilised (of the three available choices under the Act);
- b) The consideration of uniform rating versus the application of differential rates for various classes of property;
- c) What is the most equitable level of differential rating across the property classes?
- d) Consideration of the application of fixed service charges for the areas of waste collection and municipal administration;
- e) A review of the rate payment dates and options available to Council
- f) A review of non-rateable properties.

## 2. Executive Summary and Recommendations

The selection of rating philosophies and the choice between the limited rating options available under the Local Government Act (1989) is a difficult one for all Councils and it is most likely that a perfect approach is almost impossible to achieve in any local government environment.

Equally the lay understanding of what rating achieves is often misunderstood. People often wrongly believe Council receives more money overall as property values increase rather than understanding that changes in valuation only change the distribution of a set amount that is to be raised.

Whilst current government legislation caps the amount of total rates levied each year the way their collection is distributed amongst rate payers is an important strategic lever available at Councils disposal.

There are three key platforms that have formed the basis of the current approach to rating at Warrnambool City Council that are recommended for continuation. They are:

- a) That rates will continue to be based principally on the valuation of the various properties with minimal fixed charges to be applied;
- b) That Council will continue to apply differential rating against various property classes that contribute to the equitable and efficient carrying out of Council functions.
- c) That strategically the overall take from differentially rated property types reflects a reasonable proportional representation of where Council rating resources are spent

Council currently applies differential rates (to the General Residential Rates) to three different classes of property. This Rating paper recommends a review of the types of differential rates. The key aim of this review will be to make the current rating system more equitable and transparent.

This paper recommends that Council adopt the following:

Section	Recommendations
Determining which valuation base to use	<ul style="list-style-type: none"> <li>That Warrnambool City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.</li> </ul>
Determining the Rating System- Uniform or Differential?	<ul style="list-style-type: none"> <li>That Warrnambool City Council continues to apply differential rating as its rating system.</li> </ul>
What differential rates should be applied?	<ul style="list-style-type: none"> <li>That Council continues to apply the other land rate for all residential properties, including flats and units.</li> <li>That Council continues to apply a differential rate to all rateable vacant land properties.</li> <li>That Council continues to allow a discount on the general rate to Cultural and Recreational properties.</li> <li>That Council continues to apply higher differential rates on commercial and industrial properties.</li> <li>That, Council considers the adoption of a higher differential rate on properties that are of mixed use (part Residential, part Commercial or industrial).</li> <li>That Council periodically reviews the differential rating system with the goal that equity, efficiency and simplicity are achieved.</li> </ul>
Impact of Council Revaluations	<ul style="list-style-type: none"> <li>That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council and that achieves the strategic intent of the policy to receive a rate revenue from differentially defined category's that remains equally relative to previous years.</li> </ul>
Municipal Charge	<ul style="list-style-type: none"> <li>That Council continues to levy a Municipal Charge to offset the costs associated with the administration of Council.</li> </ul>
Service Rates and Charges	<ul style="list-style-type: none"> <li>That Council continues to apply a Waste Service charge.</li> <li>That Council ensures the charge is based on a full cost recovery for this service.</li> </ul>
Rate Payment Date Options	<ul style="list-style-type: none"> <li>That Council continues to apply the mandatory rate instalment payment option in future rating years.</li> </ul>
Non-rateable properties	<ul style="list-style-type: none"> <li>That Council only grants non-rateable status to properties that meet the criteria described in the <i>Local Government Act 1989</i>.</li> <li>That Council reviews the current list of non-rateable properties to ensure all meet the criteria described in the <i>Local Government Act 1989</i>.</li> </ul>

### 3. What is a Rating Strategy and why have one?

The purpose of this paper is to assist 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 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**

Warrnambool City Council currently receives in 2016/2017 52.5% of its revenue by way of property-based rates and 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.

Warrnambool City 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.

## **4. Rating – the Legislative 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.

### **4.1 Legislative Framework**

Section 3C of the Local Government Act (1989) stipulates the primary objective of Council 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, a Council must have regard to facilitating the following objectives-

- a) Promote the social, economic and environmental viability and sustainability of the municipal district;
- b) Ensure resources are used efficiently and effectively;
- c) Improve the overall quality of life of the people in the local community;
- d) Promote appropriate business and employment opportunities;
- e) Ensure services and facilities provided are accessible and equitable
- f) Ensure the equitable imposition of rates and charges;
- g) Ensure transparency and accountability in Council decision making.

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

## 4.2 Equity

Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and charges, it is a much more vexed question in terms of 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** 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** refers to the justice or fairness in the treatment of properties in different circumstances (eg different property types – Residential / Commercial / Industrial / Vacant / Farm).

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 Local Government Act (eg differential rates).

**Linkage of property wealth to capacity to pay** – 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 Local Government Act (1989). A frequently raised example is in relation to pensioners who may live in their family home which carries a high value, but live on a pension. The equity question for consideration, however, is should Council support residents in this situation with lower rates that will eventually be to the financial benefit of estate beneficiaries? Or alternatively, should the ability to defer rates (in all or in a part) represent a more equitable outcome for all ratepayers?

**The Benefit principle** - One of the more misunderstood elements of the rating system is 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 PAYE 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 not different to this outcome 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 wishes to pursue 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 paper.

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

### 4.3 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 –

- General rates under Section 158;
- Municipal Charges under Section 159;
- Service Rates and Charges under Section 162;
- Special rates and charges under Section 163.

The recommended rating options in relation to municipal charges, service rates and charges and special rates and charges are discussed later in this document.

### 4.4 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 Local Government Act (1989) 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 the strategy.

### 4.5 Declaring Rates and Charges

Section 158 of the Local Government Act (1989) provides that Council must at least once in respect of each financial year declare by 31 August the following for that year:

- The amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges;
- Whether the general rates will be raised by application of –
  - A uniform rate; or
  - Differential rates (if Council is permitted to do so under Section 161 (1))
  - Urban farm rates, farm rates or residential use rates (if Council is permitted to do so under Section 161A)
  - Council recommended approach to the application of differential rates is discussed in Section 6 of this discussion paper.

## 5. Understanding the Current Rating Framework at Warrnambool City Council

### General and Differential Rates

Under the *Local Government Act 1989*, Council can levy either a uniform rate, Section 160 (Ad Valorem) or one or more differential rates, Section 161. A uniform rate is where all rateable properties in a municipality are charged based on the same rate in the dollar. Differential rates are where councils set different rates in the dollar for different categories of rateable land.

Where a differential rate is applied, this is usually to achieve greater equity or efficiency. Subject to Ministerial Guidelines (April 2013), there is no limit on the number, or type of differential rates that can be levied, but the highest differential rate can be no more than four times the lowest differential rate.

Warrnambool City Council adopted the Capital Improved Valuation (CIV) system in 1996 for rating purposes. CIV represents the market value of a property as at a specific date, including the value of the land and any improvements on that land. Utilising CIV as the basis for levying rates allows Council to adopt Differential Rating. The vast majority of Victorian Councils use CIV as the basis for levying rates and charges.

Differential rating was introduced by Council when it moved to CIV rating and the differential rating categories have remained unchanged since. Differential Rating allows council to recover rates from each of the major property categories giving support to the equity principle in the distribution of the rate burden. Its origins and the established levels can be summarised as follows.

When shifting from Site Value (SV) rating to CIV the Council was conscious of the impact on all ratepayers and made a decision that each Major Property Category (M.P.C.) should continue to contribute a similar proportion of rate income as it previously had (a segmented rating policy). The M.P.C's are Residential, Farm, Industrial, Commercial and Vacant Land and these groups are clearly distinguishable by property type/use and by the nature and extent of council services each needs/wants, (the user benefits principle).

In adopting a segmented rating policy based on the user benefits principle, Council has been able to remove the impact of valuation swings across the M.P.C's. This has resulted in cushioning the impact of the swings so that any effects are confined within the M.P.C's during any general revaluation. For example, when the valuations within the commercial sector increase/decrease markedly to other M.P.C. there is no great shift or additional rate burden placed on either sector, Council continues to collect the same percentage of rate income and any rate burden is only redistributed within the sector. An example of this is the 2006 general revaluation when the growth in commercial property valuations from the 2004 general revaluation saw an increase of 48.25 percent over the 2-year period compared to only 15.08 percent for the residential sector. Again, comparing 2008 with 2006, Industrial properties increase 35.39 percent compared with residential 8.84 percent

A major initiative during the 1999/2000 financial year was for senior officers to be involved in a budget analysis which considered an equitable allocation of expenditure of rates on a User Category Pays Dimension.

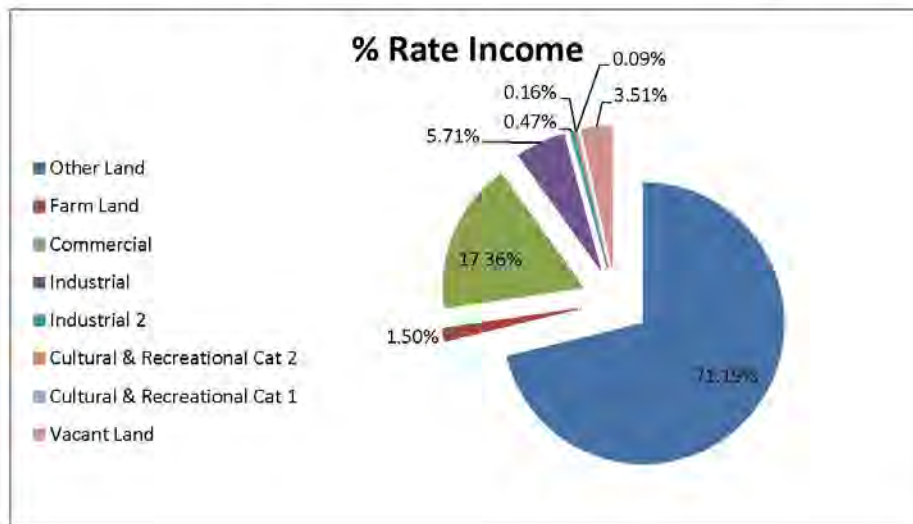
Simply expressed, the User Category Pays Analysis allocates rates expenditure on a user benefit basis to each M.P.C. of Residential, Farm, Commercial and Industrial. The result is the user pay liability of each M.P.C.

The analysis was applied to every operational and capital budget activity. This approach allowed a strategic comparison, at all budget levels, between the actual amount of rates paid and the user pays liability of each M.P.C. It was again reviewed by officers against the 2011/2012 budget when Council again renewed its segmented rating policy.



The table and graph below display the respective revenues from the various differential rates generated in the 2016-2017 Budget in line with the user category pays analysis previously undertaken by officers.

Rating Category	No. Assessment 16/17	Total CIV 16/17	Total Rates Raised	% of Rates Total
General (Other Land)	14,630	4,894,424,000	18,173,000	71.19%
Farm Land	162	180,174,000	384,000	1.50%
Commercial	920	695,354,000	4,432,000	17.36%
Industrial	405	220,901,000	1,457,000	5.71%
Industrial 2	1	21,282,000	121,000	0.47%
Vacant Land	581	158,175,000	897,000	3.51%
Cultural & Recreational Land Cat 1	1	2,284,000	22,000	0.09%
Cultural & Recreational Land Cat 2	15	13,180,000	42,000	0.16%
<b>Total</b>	<b>16,715</b>	<b>6,183,490</b>	<b>25,528,000</b>	<b>100%</b>
Municipal Charge	16,710		4,179,171	12.28%
Garbage Charge	16180		4,311,970	12.68%
<b>Total Rates and Charges</b>			<b>34,019,141</b>	



In terms of the differential rates that Council applies, the table below highlights the various differential rates that are utilised in the current rating structure.

Rating Category	No of Assessments	Rate in the \$ 2016/2017	% to General Rate
General Rates (Other Land) +	14,630	0.003713	65%
Farm Rate	162	0.002134	38%
Commercial	920	0.006374	112%
Industrial	405	0.006597	116%
Industrial 2 *	1	0.005676	100%
Vacant Land	581	0.005671	100%
Cultural & Rec Land Cat 1	1	\$21,282	N/A
Cultural & Rec Land Cat 2	15	0.003185	56%

\*equivalent to the uniform/general rate that would apply for 2016/2017

+Includes Urban Farm Land & Residential Use

Like most Victorian Councils Warrnambool City Council applies a higher differential rate for commercial and industrial properties.

Council currently utilises a uniform service charge recover the cost of the waste function.

Council currently applies a municipal charge for the purpose of defraying administration costs of Council.

## 6. Determining which valuation base to use

As outlined, under the Local Government Act (1989), Council has three options under the Local Government Act as to the valuation base it elects to use. They are:

- **Capital Improved Valuation (CIV)** – Value of land and improvements upon the land
- **Site Valuation (SV)** – Value of land only
- **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.

### 6.1 Capital Improved Value

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

The key driver behind the majority use is the ability to apply differential rates should this valuation base be used.

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

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

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

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

- Capital-improved value includes all improvements, and hence is often supported on the basis that it more closely reflects "capacity to pay". The CIV rating method takes into account the full development value of the property, and hence better meets the equity criteria than Site Value and NAV.
- With the increased frequency of valuations (previously four year intervals, now two year intervals), the market values are more predictable and has reduced the level of objections resulting from valuations.
- The concept of the market value of property is far more easily understood with CIV rather than NAV or SV.
- Most Councils in Victoria have now adopted CIV which makes it easier to compare relative movements in rates and valuations across Councils.
- The use of CIV allows Council to apply differential rates which greatly adds to Council's ability to equitably distribute the rating burden based on ability to afford Council rates. 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.

### **6.2 Site Value**

Although the Act provides for Councils to use Site Value as the basis of valuation, very few Councils have done so due to the very limited ability to apply differential rates.

In very many ways, it is difficult to see an equity argument being served by the implementation of Site Valuation in Warrnambool City Council, therefore this method is not recommended.

#### **Advantages of Site Value**

- There is a perception that under site valuation, a uniform rate would promote development of land. There is however little evidence to prove that this is the case.
- Scope for possible concessions for urban farm land and residential use land.

#### **Disadvantages in using Site Value**

- SV does not consider the value of improvements, which is a deviation from the "equity" principle. 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 with well developed dwellings but will pay more in rates. A typical example is flats, units, 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 (eg large land with old house). Large landowners are disadvantaged by the use of site value.
- 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 City Assist and Revenue & Property staff each year.

### 6.3 Net Annual Value

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

In contrast to the treatment of residential properties, Net Annual Value for commercial and industrial properties is assessed with regard to actual market rental. This differing treatment of commercial versus residential and farms has led to some suggestions that all properties should be valued on a rental basis.

Overall, the use of NAV is not supported. For residential and farm ratepayers, actual rental values pose some problems. The artificial rental estimate used may not represent actual market value, and means the base is the same as CIV but is harder to understand.

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

### 6.4 Summary

It is recommended that Warrnambool City Council continue to apply Capital Improved Valuation 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. Limited Differential rating only is available under the other rating bases.
- It should be noted that more than 70 Victorian Councils apply CIV as their rating base and as such, it has a wider community acceptance and understanding than the other rating bases.

Recommendation
That Warrnambool City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.

## 7. Determining the Rating System-Uniform or Differential?

As highlighted in Section 3, Council may apply a uniform rate or differential rates to address the needs of the Council. They are quite different in application and have different administrative and appeal mechanisms that need to be taken into account.

### 7.1 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 land.

Warrnambool City Council does not adopt uniform rates but has instead has adopted differential rating.

### 7.2 Differential Rates

Warrnambool City Council has adopted differential rating as it considers that differential rating contributes to the equitable distribution of the rating burden. Differential rating allows particular classes of properties to be assessed at rates 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 Local Government Act (1989), Council is entitled to apply differential rates provided it uses Capital Improved Valuations as its base for rating.

Section 161 outlines the regulations relating to differential rates. This section is outlined below.

- (1) A Council may raise any general rates by the application of a differential rate, if Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.
- (2) If a Council declares a differential rate for any land, the Council must-
  - a) Specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of the Councils functions and must include the following:
    - i. A definition of the types of 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 type 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 Council's district) and planning scheme zoning of the land and the types of buildings situated on it and any other criteria relevant to the rate.
  - b) Specify the characteristics of the land, which are the criteria for declaring the differential rate

The maximum differential allowed is no more than 4 times the lowest differential. This is important in the Warrnambool City Council context as Council is not at this limit in term of the variation. Council's lowest differential is the Farm Land differential rate and the highest is the Industrial Land differential rate.

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 as outlined in Section 5 of this paper.

### 7.3 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 and characteristics of the differential rates currently adopted for the different property types.

#### Commercial land

Commercial land is any land, which is:

- Occupied for the principal purpose of carrying out the manufacture or production of, or trade in, goods or services; or
- Unoccupied but zoned commercial under the Warrnambool City Planning Scheme.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Economic development and planning services, having direct benefit to the use of Commercial Land.
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics described but not limited to those below.

1. Rateable property used for business and administrative purposes, including, but not limited to, properties used for:
  - (a) The sale or hire of goods by retail or trade sales, e.g. shops, auction rooms, milk bars, newsagents;
  - (b) The manufacture of goods where the goods are sold on the property;
  - (c) The provision of entertainment, e.g. theatres, cinemas, amusement parlours;
  - (d) Media establishments, e.g. radio stations, newspaper offices, television stations;
  - (e) The provision of accommodation other than residential, e.g. motels, caravan parks, camping grounds, camps, accommodation houses, hostels, boarding houses;
  - (f) The provision of hospitality, e.g. hotels, bottle shops, restaurants, cafes, takeaway food establishments, tearooms;
  - (g) Tourist and leisure industry, e.g. flora and fauna parks, gymnasiums, boatsheds, indoor sports stadiums, gaming establishments;
  - (h) The provision of education, e.g. schools, museums, art galleries;
  - (i) Showrooms, e.g. display of goods;
  - (j) Religious purposes;
  - (k) Public offices and halls.

2. Properties used for the provision of health services including, but not limited to, properties used for hospitals, nursing homes, rehabilitation, medical practices and dental practices.
3. Properties used as offices including, but not limited to, properties used for legal practices, real estate agents, veterinary surgeons, accounting firms and advertising agencies.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate, in the case of improved land, is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2014/15 financial year.

#### **Farm land**

Farm land is any land, which is:

- "farm land" as described in of Section 2 (1) of the Valuation of Land Act 1960.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Encouragement of sustainable and productive use and management of Farm Land.
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics of "farm land" as described in of Section 2 (1) of the Valuation of Land Act 1960.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate, in the case of improved land, is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2014/15 financial year.

#### **Industrial land**

Industrial land is any land, which is:

- Occupied for the principal purpose of carrying out the manufacture or production of, or trade in, goods or services; or
- Unoccupied but zoned Industrial under the Warrnambool City Planning Scheme.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Economic development and planning services, having direct benefit to the use of Industrial Land.
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics described but not limited to those below.

Rateable properties which are used in the process of income generation, including, but not limited to the following:

- (a) The manufacture of goods, food and beverage which are generally not sold or consumed on site (but does preclude some warehouse sales);
- (b) The storage of goods;
- (c) The provision of services for the repair of goods;
- (d) The storage of plant and machinery;
- (e) The production of raw materials in the extractive and timber industries;
- (f) The treatment and storage of industrial waste materials.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate, in the case of improved land, is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.



The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2014/15 financial year.

#### **Vacant land**

Vacant land is any land, which is:

- Vacant unoccupied land within the Warrnambool City Council
- Land on which no building designed or adapted for human occupation is erected

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Encouragement for orderly planning through development of serviced urban properties.
- Provision of municipal administrative services.
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics of vacant unoccupied land and on which no building designed or adapted for human occupation is erected within the Warrnambool City Council.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.

The types of buildings on the land within this differential rate are no buildings are constructed.

#### **Industrial 2 land**

Industrial 2 land is any land, which is:

- Occupied for the principal purpose of carrying out the manufacture or production of, milk products such as powdered milk

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Encouragement for sustainable and economically beneficial milk production in the municipality.
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics described below.

- Rateable properties where each rateable property is used for the purpose of milk product production in the municipality.
- To fit within the classification the rateable property must be occupied and operating in the production of milk products.
- For the purpose of this classification the rateable properties must be within an Industrial 1 Zoning under the Warrnambool Planning Scheme.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate, in the case of improved land, is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2014/15 financial year.

#### **Other land**

Other land is any land, which is:

- occupied for the principal purpose of human habitation including dwellings, flats and units
- "residential use land" as described in of Section 2 (1) of the Valuation of Land Act 1960.
- "urban farm land" as described in of Section 2 (1) of the Valuation of Land Act 1960.

The objective of this differential rate is to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including (but not limited to) the:

- Construction and maintenance of infrastructure assets
- Development and provision of health and community services
- Provision of general support services.

The types and classes of rateable land within this differential rate are those having the relevant characteristics of a property which is used for human habitation including dwellings, flats and units, or is residential use land or urban farm land as described in of Section 2 (1) of the Valuation of Land Act 1960.

The money raised by the differential rate will be applied to the items of expenditure described in the Budget by Council. The level of the rate for land in this category is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

The geographic location of the land within this differential rate is wherever located within the municipal district.

The use of the land within this differential rate is any use of land permitted under the relevant Planning Scheme.

The characteristics of planning scheme zoning is the zoning applicable to each rateable land within this category as determined by consulting maps referred to in the relevant Planning Scheme.

The types of buildings on the land within this differential rate are all buildings which are now constructed on the land or which are constructed prior to the expiry of the 2014/15 financial year.

#### **7.4 Advantages of a differential rating system**

The perceived advantages of utilising a differential rating system are:

- There is greater flexibility to distribute the rate burden between all classes of property, and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for commercial and industrial premises;
- Differential rating allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs of the commercial and industrial sector;
- Enables Council to encourage particular developments through its rating approach eg 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 in rural Councils);
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

#### **7.5 Disadvantages of Differential Rating**

The perceived disadvantages in applying differential rating are:

- 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 to understand the system. Some rating categories may feel they are unfavourably treated because they are paying a higher level of rates than other ratepayer groups.
- Differential rating involves a degree of administrative complexity as properties continually shift from one type to another requiring Council to update its records. Ensuring the accuracy/integrity of Council's database is critical to ensure that properties are correctly classified into their differential rate category.
- Council may not achieve the objectives it aims for through differential rating. For example, Council may set its differential rate objectives to levy a higher rate on land not developed, however, it is uncertain as to whether the differential rate achieves those objectives.

Recommendation
That Warrnambool City Council continues to apply differential rating as its rating system.

## 8. What differential rates should be applied?

As previously indicated the table below highlights the differential rates currently applied by Warrnambool City Council and the number of relevant assessments in each category.

Rating Category	No of Assessments	Rate in the \$ 2016/2017	% to General Rate
General Rates (Other Land)	14,630	0.003713	65%
Farm Rate	162	0.002134	38%
Commercial	920	0.006374	112%
Industrial	405	0.006597	116%
Industrial 2	1	0.005676	100%
Vacant Land	581	0.005671	100%
Cultural & Rec Land Cat 1	1	\$21,282	N/A
Cultural & Rec Land Cat 2	15	0.003185	56%

\*equivalent to the uniform/general rate that would apply for 2016/2017

+Includes Urban Farm Land. & Residential Use Rates

### 8.1 General Rates (Residential Land)

This category which has 14,630 assessments includes all properties except for those that are subject to differential rates. This includes developed residential properties, excluding farm land, commercial land, industrial land and vacant properties which are subject to differential rates.

### 8.2 Commercial and Industrial (Developed)

Commercial and industrial properties are defined as those selling a product or providing a service; Industrial properties are those that are used for the purposes of manufacturing. These properties are similar in respect that they are businesses providing employment opportunities.

Like many Victorian Councils Warrnambool City Council adopt a higher differential rate for commercial and industrial properties. Typically Councils apply a higher differential rate to commercial and industrial properties to reflect the tax-deductible status of rates for these owners or tenants. Across Victoria, the average level of extra payment for commercial and industrial properties is 55% above the general rate, and in practice it ranges from 100% to more than 200% of the general rate. Warrnambool City Council's commercial differential rate is currently 47% above the residential rate (Other Land) and the industrial differential rate is 51% above.

It is therefore recommended that Council continue the adoption of higher differential rates for commercial and industrial properties.

### 8.3 Vacant land

Warrnambool City Council has 581 properties attracting the Vacant Land Differential Rate which is equivalent to the uniform/general rate that would apply but is 35% above the general residential (Other Land) rate.

The purpose of the Vacant Land Rate has been to ensure that properties identified as vacant land, including land with buildings that are uninhabitable, are responsibly managed and developed by property owners and not stock piled for investment purposes.

This paper recommends that Council continues the current Vacant Land Differential Rate for vacant land.

### 8.4 Farm Land

Warrnambool City Council has 162 properties attracting the Farm Land Differential Rate which is 62% below the uniform/general rate and 27% below the residential general rate (Other Land)

Council's differential rate for Farm Land is specifically designed to allow council to provide some rate relief for genuine farmers and is based on the definition of Farm Land within the Valuation of Land Act 1960.

The provisions of this Differential Rating Classifications and definitions specifically relate to the "physical use" of the property and the zoning under the Warrnambool City Council Planning Scheme, is not a relevant criteria in the determination process.

The criteria are set out below and **all** have to be met to satisfy council's governance requirements that a property is in fact a farm. To meet the classification:

1. The land area must be of 2 Hectares or greater and also-
2. The owner must establish that the property is primarily used for farming purposes, (grazing, etc.).
3. The Land must be used for carrying on a business of primary production, as determined by the Australian Taxation Office.
4. The owner must also provide evidence that the property is used by a business, (farming), and has:-
  - A. A significant and substantial commercial purpose or character.
  - B. That seeks to make a profit on a continuous or repetitive basis from its activities on the land.
  - C. And is making profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities.

All of the above information needs to be provided before any classification decision can be made. It is important to note that the criteria refer to the primary use of the property and are not specifically determined by the actual area used.

### 8.5 Cultural & Recreational Lands

The Cultural and Recreation Lands Act 1963 is relatively small and the main provisions of the Act are;

The definition of "recreational land" must be satisfied ie; such lands must be vested in or occupied by a not-for-profit body "which exists for the purpose of providing or promoting cultural or sporting recreational or similar facilities or objectives....." and which uses such lands "for out-door sporting recreational or cultural purposes or similar out-door activities".

Other types of land (including specific sites) are included the definition of "recreational land" within the Act, however the only one which has relevance for this municipality is "lands which are used primarily as agricultural showgrounds".

The amount of rates payable in respect of such recreational lands shall be an amount as the "council thinks reasonable having regard to the services provided by the municipal council in relation to such lands and having regard to the benefit derived from such recreational lands".

In other words, Council has the discretion of granting a concession which could range from 0% to 100% of the normal rates and charges which would apply to such rateable land.

Under Sections 4.(3) and 4.(4) of the this Act, once the Council has determined the degree of concession for each item of recreational land, this concession must be operative until the commencement of each new general revaluation, except that rates payable may be adjusted in proportion to shifts in the level of general rates.

Part 5 of this Act also enables a Council to "impose and collect a reasonable charge for any service provided or available to any recreational lands". In the absence of any local law to this effect, the amount of such charge is "as is agreed between the occupier of the lands and the body imposing the charge".

Anybody which is aggrieved by the amount of rate determined may appeal to the Minister, who then has the prerogative of determining the amount of rates actually paid.

(It would appear that a right of appeal exists even in the situation where the Council chose to not utilise the provisions of the Cultural and Recreation Lands Act ie; the right of appeal would appear to exist providing any land satisfies the definition of "recreational land".)

This Act also provides for 10 years "back rates" ie; difference between normal rates and concessionary levels of rates over 10 years, when lands cease to be recreational lands, and on the basis of the valuation applicable after cessation.

There are no known guidelines relating to the application of this Act to promote a consistent approach from municipality to municipality. However, it is important for a council to approach the determination of any concession of this nature on a systematic and consistent basis, bearing in mind the normal principles of accountability and procedural fairness.

In summary, the concession under this Act is by reason of net services benefit to the general community derived from certain out-door sporting, recreational or cultural purposes or activities for a particular parcel of "recreational land".

The following categories for concessions under the Cultural and Recreation Lands Act currently apply within the Warrnambool City Council –

#### **Category 1 minor concession.**

- Notwithstanding cultural sporting/recreational activities and objectives relating to the property, properties in this category would have established gaming and commercial bar facilities. These are considered as substantial income-generating elements of a commercial nature, albeit that such element is located within a contiguous area of a property, which is not eligible to be defined as "recreational land" under this Act.
  - The turnover and scale of operations on these properties would usually be sub-regional in nature, and sometimes with off-site effects to which general ratepayers meet the cost of upgrading or ameliorative treatment.
  - For land owned or managed by Council, the degree to which these payments are below market value will also be a relevant consideration.
  - In establishing any amount payable the following assessment is to be made
1. The area of the site, which is used for gaming and associated activities must be valued and treated as commercial thus attracting an amount equivalent to the differential rate established for commercial properties within the municipality.
  2. The balance of the site that is devoted to cultural sporting/recreational activities shall be valued as such and an amount equivalent to the advalorem rate that would apply within the municipality less a 25% discount calculated.

Having determined the above 2 amounts the charge levied shall be the sum total of these 2 amounts in addition to all service charges and any municipal charge that may be levied in accordance with Councils rating policy

#### **Category 2- moderate concession**

- Properties in this category would normally have significant membership and substantial clubrooms, sometimes with liquor a license but no gaming facilities.
- Normally well-established with demonstrated ability to meet normal recurrent operating costs.
- For land owned or managed by Council, any concession from market-value lease would also be a relevant consideration.
- Scale of operation essentially district or neighbourhood in nature.

The amount payable following assessment being made shall be 75% of the advalorem rate that would apply within the municipality in addition to all service charges and any municipal charge that may be levied in accordance with Councils rating policy.

#### **Category 3 – significant concession.**

- Small to moderate membership, or with significant junior component.
- Would typically not have a full service liquor licence.
- Clubrooms would be typically small scale and modest without major social areas.
- Concession from market rent in any Council lease would also be relevant consideration.
- Relatively limited income generating capacity, apart from members' dues and small scale fund raising efforts.

- Distinctly local/neighborhood in character.

The amount payable following assessment being made shall be 50% of the advalorem rate that would apply within the municipality in addition to all service charges and any municipal charge that may be levied in accordance with Councils rating policy.

Council currently has 1 property that is classified as cultural and recreational land category 1 and has 15 properties that are classified as cultural and recreational land category 2.

As indicated, Council is required to consider a rating discount for these properties under the Cultural and Recreational Lands Act based on considered benefits to the community and the services provided by Council. These properties are reviewed every two years in line with general revaluations.

Recommendations
<ol style="list-style-type: none"> <li>1. That Council continues to apply a differential rate for all residential properties, including flats and units (Other Land).</li> <li>2. That Council continues to apply a differential rate to all rateable vacant land properties.</li> <li>3. That Council continues to apply a differential rate to all rateable farm land properties.</li> <li>4. That Council continues to apply a differential rate to all rateable commercial land.</li> <li>5. That Council continues to apply a differential rate to all rateable industrial land</li> <li>6. That Council continues to apply a general/uniform rate to all rateable industrial 2 land</li> <li>7. That Council continues to allow a discount on the general/uniform rate to Cultural and Recreational properties.</li> <li>8. That Council considers the adoption of higher differential rates on multi use properties.</li> <li>9. That Council continue to adopt the segmented rating policy detailed in part 5 of this report</li> <li>10. That Council periodically reviews differential rating system with a goal that equity, efficiency and simplicity are achieved.</li> </ol>

In implementing the above outcomes, Council needs to be mindful of the periodic impacts of Council revaluations as discussed in the following section.

The impacts of the above proposals are analysed in section 15 of this document.

## 9. Understanding the impacts of Council Revaluations

Under the requirements of the Local Government Act (1989) Council is required to conduct revaluations of all rateable and non rateable fire service leviable assessments every two years. 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.



The below table highlights the impact of the 2016 Council revaluation.

Rating Type	2015/2016 CIV	2016/2017 Revaluation New CIV	% Increase in Valuations
Residential	4,714,247,000	4,894,424,000	4%
Farm	188,177,000	180,174,000	-4%
Commercial	703,322,000	695,354,000	-1%
Industrial	216,307,000	220,901,000	2%
Industrial 2	22,848,000	22,848,000	0%
Vacant Land	161,707,000	158,175,000	-2%
Cultural & Rec Land Cat 1	2,284,000	2,284,000	0%
Cultural & Rec Land Cat 2	13,062,000	13,180,000	1%
<b>Totals</b>	<b>6,021,954,000</b>	<b>6,187,340,000</b>	<b>3%</b>

The table highlights that overall Council property valuations have increased by 3 % over the two year period.

Council needs to be mindful of the impacts of revaluations on the various property types in implementing the differential rating options outlined in the previous section, to ensure that rises and falls in Council rates remain affordable and that rating 'shocks' are mitigated to some degree.

It is recommended that differential rating recommendations contained in Section 8 need to be viewed in conjunction with the impacts created by Council revaluations and where required differential rates be amended to lessen the impact of rating 'shock' on various rating types.

## 10. Calculation of Rates

The process for the calculation of rates is as follows:

1. Council determines how much money from rates it needs to fund its operations (\$18,173,000 in other land rates 2016/17)
2. Then it divides this amount by the Capital Improved Value (CIV) of \$4,894,424,000, to obtain the 'rate in the dollar' (0.003713)
3. The rate in the dollar is then multiplied against the CIV of each property to calculate the rates of that property (a property worth \$325,000 will pay \$1,191.45 in rates)

The added volume of properties (included in this calculation through the increased value of properties) has the effect of spreading the rates needed to fund Council's operations across more properties

In theory, if the money from rates needed to fund Council's operations was to not increase from one year to the next while the number of premises and thus the CIV of properties was to rise due to more premises (not revaluation of those premises) then the rates for each property would fall.

Thus, if all other factors are held constant, the development of additional rateable properties reduces the rates for other properties in the municipality.

Taking the example above, the point can be illustrated as follows:

1. If Council needs \$18,173,000 to fund its operations, and this is divided by a CIV of \$4,894,424,000 then the 'rate in the dollar' is 0.003713.
2. If, in the following year, the Council needs the same amount to fund its operations (\$18,173,000), but the CIV grows by 1.8% due to development of additional rateable properties (\$4,982,523,632), then the rate in the dollar drops to 0.003647.
3. The difference in rates for a \$325,000 property is \$20.98 (\$1,206.25 compared to \$1,185.27)

## 11. Special Rates & Charges

Special rates and charges are covered under Section 163 of the Local Government 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 the Council, if Council considers that the performance of the function or the exercise of the power is or will be of special benefit to the persons required to pay the 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 Local Government Act provides appeal rights to VCAT 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. It can set the rate or charge completely aside if it is satisfied that certain criteria are met.

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 less subject to challenge. There may be instances however where a special charge is desirable if raising the levy by use of CIV is not equitable.

Warrnambool City Council was approached in 2014/2015 to introduce a special rate/charge scheme on commercial and industrial properties. The purpose of the schemes was to ensure the future prosperity and viability of commercial industrial businesses within the City of Warrnambool, and the special rates/charges were to be raised to assist Council in conjunction with business associations in large to carry out promotional, marketing and business development activities within commercial industrial arena.

In some instance schemes may apply to infrastructure projects.

## 12. Municipal Charge

Another principle rating option available to Councils is the application of a municipal charge. Under Section 159 of the Local Government Act, a Council may declare a municipal charge to cover some of the administrative costs of the Council. 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 Warrnambool City Council could levy as a municipal charge would be approximately \$359 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 Councils 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.

This discussion paper acknowledges that Council utilises the Municipal Charge currently being \$250.10 or 12.28 percent of Rate Income.

## 13. Service Rates and Charges

Section 162 of the Local Government Act (1989) 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.

Warrnambool City Council currently applies a Service Charge for waste management within the municipality. Warrnambool City Council's current waste management charges reflect the full cost of the service and consequently Council's general rate is not used to subsidise the waste management services. Council currently has 1 types of waste management charge which makes the system easy to administer and to manage.

The charge as indicated reflects the full cost of the service to council and includes funding for the following components;

1. Weekly residential curb side waste collection.
2. Fortnightly residential curb side recycling collection
3. Emptying of all of the waste bins within parks, gardens and business areas wherever located in the municipality.
4. Daily sweeping and cleaning of the central business district footpaths and roads
5. Programmed periodical sweeping & cleaning of residential streets, roads and footpaths.
6. State Government Land Fill Levy
7. Refuse disposal cost at Narigan land fill.
8. EPA monitoring requirement costs associated with the former Braithwaite St land fill site
9. Establishment and maintenance costs associated with Litter traps within the storm water drainage system

The advantages of the waste management 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 management service charge is that it is not clearly understood by commercial property owners who do not receive a domestic waste collection service, but do receive the daily street footpath and road sweeping service. Additionally a disadvantage is that similar to the municipal charge it is regressive in nature. A fixed charge to a property with a low value comprises a far greater proportion of the overall rates than it does to a property with a higher value.

On balance, however, it is recommended that Council retain the existing waste service charge. Unlike a municipal charge where the direct benefit to the resident is invisible – the waste management charge is a tangible service that is provided directly to all in basically the same way,

#### **14. Rate Payment Options**

There are only two options available under the Local Government Act (1989) for Council to set payment dates. The first is a "mandatory" instalment approach where payments are required at the end of September, November, February and May. The second is an "option" of a lump sum payment (which by law is set on the 15 February of each year).

Warrnambool City Council has to date elected to adopt the instalments only method. The main driver behind the decision 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 if a lump sum payment option is offered. During this time Council is required to continue to provide operational services and capital works which place our cash position under severe strain. No other utility (telephone, gas, power, water) is required to operate under the business rules that Local Government is required to.

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

It is Council's objective to have the most positive relationship possible with all of its residents and the levying of penalty interest on those that pay rates after the due date under the mandatory instalment option only see interest penalties backdated to the due date of the missed payment which is accepted generally by all.

Recommendations
That Council continues to apply the mandatory rate instalment payment option in future rating years.

## 15. Non-rateable Properties

Section 154 of *the Local Government Act (1989)* provides for non-rateable properties as follows:

- (1) Except as provided in this section, all land is rateable.
- (2) The following land is not rateable land -
  - (a) land which is unoccupied and is the property of the Crown or is vested in a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes;
  - (b) any part of land, if that part—
    - (i) is vested in or owned by the Crown, a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes; and
    - (ii) is used exclusively for public or municipal purposes;
  - (c) any part of land, if that part is used exclusively for charitable purposes;
  - (d) land which is vested in or held in trust for any religious body and used exclusively—
    - (i) as a residence of a practising Minister of religion; or
    - (ii) for the education and training of persons to be Ministers of religion; or
    - (iii) for both the purposes in subparagraphs (i) and (ii);
  - (e) land which is used exclusively for mining purposes;
  - (f) land held in trust and used exclusively—
    - (i) as a club for or a memorial to persons who performed *service or duty* within the meaning of section 3(1) of the *Veterans Act 2005*; or
    - (ii) as a sub-branch of the Returned Services League of Australia; or
    - (iii) by the Air Force Association (Victoria Division); or
    - (iv) by the Australian Legion of Ex-Servicemen and Women (Victorian Branch).
- (3) For the purposes of subsections (2)(a) and (2)(b) any part of the land is not used exclusively for public or municipal purposes if—
  - (a) it is used for banking or insurance; or
  - (b) a house or flat on the land—

- (i) is used as a residence; and
  - (ii) is exclusively occupied by persons including a person who must live there to carry out certain duties of employment; or
  - (c) it is used by the Metropolitan Fire Brigades Board.
- (3A) For the purposes of subsection (2)(b), any part of land does not cease to be used exclusively for public purposes only because it is leased—
- (a) to a rail freight operator within the meaning of the **Transport Act 1983**; or
  - (b) to a passenger transport company within the meaning of that Act.
- (4) For the purposes of subsections (2)(c) and (2)(d), any part of the land is not used exclusively for charitable purposes if it is in any of the following categories—
- (a) it is separately occupied and used for a purpose which is not exclusively charitable;
  - (b) a house or flat on the land—
    - (i) is used as a residence; and
    - (ii) is exclusively occupied by persons including a person who must live there to carry out certain duties of employment;
  - (c) it is used for the retail sale of goods;
  - (d) it is used to carry on a business for profit (unless that use is necessary for or incidental to a charitable purpose).

As listed above, the Act has limited provisions for properties that should be exempted from paying rates.

Currently there are 447 properties within Warrnambool City Council that are treated as non-rateable, including Warrnambool City Council owned properties. These properties are regularly reviewed, to ensure that they continue to qualify for the non-rateable criteria.

It should be noted that whilst *the Act* provides criteria for land which cannot be rated, it does not stop Council allowing additional specific exemptions to specific properties or uses. Given the importance of rates revenue to Council, it is recommended that specific additional exemptions be avoided and other means of support used to assist organisations deemed worthy of support by Council.

Recommendations
<p>That Council only grants non-rateable status to properties that meet the criteria described in the <i>Local Government Act 1989</i>.</p> <p>That Council ensures ongoing reviews of the current list of non-rateable properties to ensure all continue to meet the criteria described in the <i>Local Government Act 1989</i>.</p>