Colac Otway
SHIRE

Rating Strategy 2022-2025

April 2022

https://www.colacotway.vic.gov.au

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Synopsis

Council is required to prepare a Revenue & Rating Plan. Included in the plan is a rating strategy that sets out the rating structure and how the rates burden will be shared across the entire community. The current rating strategy expired on 30 June 2021.

This strategy will apply for the years for the financial years from 2022-23 to 2024-25.

The 2021-25 Revenue and Rating Plan provided for the existing differential rating structure to be retained for 2021-22, with an undertaking that it be reviewed during 2021-22 for the remaining years of the plan.

This approach was taken as the State government and the Victorian Ombudsman were conducting reviews at the time that were thought likely to have an impact on how rates were to be levied. In addition the State government was in the process of reviewing the Local Government Act 1989 and it was anticipated provisions related to rating may also be affected.

The process of reviewing the differential rating structure commenced in early 2021. A feature of the process was to seek Councillor involvement in identifying key issues which were then considered at a series of Briefing sessions throughout 2021.

This process also allowed Councillors to nominate various scenarios to be modelled in order to gauge how various options may shift the rates burden. In all, 15 scenarios were modelled. This was done by applying the particular scenario to the adopted 2021-22 rates data and comparing the outcome.

Council was also keen to ensure that the community's capacity to pay was taken into consideration. It therefore obtained economic and demographic data from Morrison Low, (specialist consultants) to identify regions within the shire experiencing relative advantage/disadvantage. The findings of Morrison Low were consistent with similar data obtained in previous rating strategies.

Since the review commenced, it has become apparent there may be significant valuation increases for various property types across the shire. This is consistent with trends being seen nationally. As different property types will experience different levels of the valuation change, there will be a degree of natural shifting of the rates burden between rating categories. Differential rating provides a mechanism for Council to try and mitigate some of the shift.

Ultimately Council believes:

- a differential rating structure should be retained
- the current rating categories provide an appropriate generic description of the property types within the shire
- the current differentials between the categories allows for the fair and equitable sharing of the rates burden across the community.

1 Introduction

Council is required to periodically prepare a Rating Strategy. The purpose of the Rating Strategy is to set the rating structure and how the rates burden will be apportioned across the community. The current rating strategy expired on 30 June 2021.

As Council's 2021-25 Revenue and Rating Plan was being prepared, the State government was:

- conducting a review of the rating system in Victoria, and
- promulgating a new Local Government Act to replace the Local Government Act 1989.

In addition, the Victorian Ombudsman was also conducting an inquiry into responses by Councils to ratepayers in financial hardship.

As there was uncertainty about the outcomes of the above listed initiatives and the effect they would have on a rating strategy that was to apply up to 2025, Council resolved to retain the existing rating structure and differential regime for 2021-22 to allow time for the above State government initiatives to be finalised. It also resolved to review the rating strategy for the 2022-23 to 2024-25 financial years.

Ultimately the review of the rating system in Victoria and the Ombudsman's hardship response review were completed and responded to by the State government (see 2.4.1 and 2.4.2 below).

The review of the Local Government Act resulted in a new Local Government Act being proclaimed (ie; the Local Government Act 2020) to replace the 1989 Act with the *exception* of the rating provisions provided in the 1989. Thus the requirements of the Local Government Act 1989 remain relevant today.

Finally, early 2020 saw the emergence of the COVID19 pandemic, which has had significant effects on large sections of the community, particularly in connection with the capacity of people to pay their rates.

(1.1) What are "rates" and why must they be paid?

Rates are a "tax" levied upon property owners in a municipal district and are used to pay for a range of services provided by Councils. They are based on the Capital Improved Valuation of the property. The services provided range from services direct to the public, through to the provision and maintenance of infrastructure and administration of State government legislation. Overall, there are more than 60 discrete services provided by Council.

Rates are Council's major source of revenue and are therefore essential to the provision of services to the community.

They are not a "fee for service" or determined by how much or many services a ratepayer uses.

(1.2) How is your rates bill calculated?

A typical rates bill comprises of the following components:

General rate	Calculated by multiplying the property's Capital Improved valuation (CIV) by the rate in the dollar applicable to the rating category. The rate in the dollar is set annually by Council	See 3 below
Municipal Charge	A fixed charge set annually by Council	See 3.2 below
Waste management Charge	A fixed charge set annually by Council	See 3.3 below

The components are added together to give the total amount of Council rates payable.

In addition, the annual notice levies the State Government's Fire Services Property Levy (FSPL). Council is required to levy and collect the FSPL for the State government.

The FSPL comprises of the following components:

Fixed charge	A fixed charge set annually by the State government
Variable levy	Calculated by multiplying the property's Capital Improved valuation (CIV) by a rate in the dollar applicable to property type category. The rate in the dollar is set annually by the state government.

Further information regarding the Fire Services Property Levy is available from **www.sro.vic.gov.au**

2 Legislative Authority

Whilst the new Local Government Act 2020 came into operation, the rating provisions of the Local Government Act 1989 were not repealed.

The *Local Government Act 1989 (LGA 1989)* stipulates that the primary objective of a Council is to endeavour to achieve the best outcomes for the local community while considering the long-term and cumulative effects of decisions. In seeking to achieve its primary objective, a Council must have regard to a number of objectives, including:

- promoting the social, economic and environmental viability and sustainability of the municipal district;
- ensuring that resources are used efficiently and effectively and services are provided in accordance with best value principles to best meet the needs of the local community;
- improving the overall quality of life of people in the local community;
- promoting appropriate business and employment opportunities to ensure that services and facilities provided by the Council are accessible and equitable;
- ensuring the equitable imposition of rates and charges; and
- ensuring transparency and accountability in Council decision-making.

Section 154 of the LGA 1989 provides for all land (with some specified exceptions) to be rateable.

Section 156 of the LGA 1989 provides for the property owner to be liable to pay rates and charges levied for the property.

(2.1) Equity

Section 3C (2) (f) of the *Local Government Act 1989* requires Council to ensure rates are levied fairly and equitably.

The Local Government Act does not define what is "equitable", however as the rates are a tax based on valuation of the property it is generally accepted that equity does not relate to the amount of rates to be paid. It is noted the State government's rating guidelines (see 2.3 below) acknowledges that higher valued properties should pay more rates than lower valued properties.

Overall, in considering what rating is "equitable" Council must consider all facets of the rating structure, property valuation, budgetary requirements and differentials between rating categories in order to meet the needs of the community.

(2.2) Basis of Rating

Section 158A requires Council to separately levy a rate or charge on each portion of land for which it has a separate valuation.

Section 157 provides for Council to use the Site Value, Nett Annual Value or Capital Improved Value as the means of valuing properties for rating purposes.

As such, the link between the valuation of a property and the amount of rates levied is legally established. Rates paid are therefore not a reflection of services provided or used.

(2.3) State Government Guidelines

In addition to the legislative authority, the State Government provided a Revenue and Rating Strategy Guide in 2014. The guide suggests a key step in developing a rating strategy is the consideration of the following principles:

#	Principle	Explanation
1	***Wealth tax***	Rates are a tax based upon the value of the property being rated and has no correlation to the ratepayer's access to or consumption of services.
2	***Equity***	That consideration be given to "*horizontal equity*" (ie: that ratepayers with similar valued properties should pay similar amounts) and "*vertical equity*" (i.e. that ratepayers with higher valued properties should pay more than those with lesser valued properties).
3	***Efficiency***	That consideration be given to the extent to which production and consumption decisions by people are affected by rates.
4	***Simplicity***	The system should be easily understood by ratepayers and be practical to administer.
5	***Benefit***	That consideration be given to the nexus between consumption/benefit and the rates burden.
6	***Capacity to pay***	What factors are relevant to particular property classes in order to make informed observations about their capacity to pay rates.
7	***Diversity***	Which groups in the municipality may warrant special consideration in regards to their capacity to pay.

(2.4) State Government reviews

During 2020 and 2021 the State government conducted two major reviews of rating practices in local government. In addition, it introduced a new Local Government Act 2020 to replace most sections of the Local Government Act 1989. The rating provisions of the 1989 Act were held over pending the outcome of these two reviews. In setting its 2021-25 Revenue and Rating Plan, Council anticipated these reviews may have an impact on the rating strategy part of the Plan and consequently undertook to review the rating strategy for the years from 2022-23.

These reviews were:

- Victorian Local Government Rating Systems Review.
- Ombudsman's Review of Councils responses to ratepayers in financial hardship.

2.4.1 - Victorian Local Government Rating Systems Review

In December 2020 the State government released its final report and response to recommendations of a review of local government rating systems in Victoria. The review made 56 recommendation to the State government, covering a broad range of reforms from major legislative change to small administrative improvements, with both short- and long-term implications.

Overall, the Government is committed to a local government rating system that:

- provides local government with the autonomy to raise sufficient tax revenue to meet the needs and capacity of their community.
- is based on a proportion of the value of the property, i.e. higher valued properties usually contribute more in rates than lower valued properties in the same municipality.
- is simple to understand and allows for meaningful community engagement to make informed and transparent decisions about rate distribution and rating levels.
- provides transparent and flexible ways for councils to treat ratepayers facing financial hardship fairly.
- is set out in primary legislation and is in line with the principles-based approach of the *Local Government Act 2020*.

The Victorian Government also believes local governments must take responsibility for their own rating decisions and levels, reflecting their obligations as a distinct and essential tier of government.

Ultimately the government supported (either in full or in principle) 35 of the 56 recommendations. Most of the adopted recommendations require the State government to undertake further investigations or introduce new legislation /regulations.

The most pertinent recommendations directly affecting Councils are:

Recognition of rates as a "tax"	Recommendation 1
Retain Capital Improved Value as the basis of differential rating	Recommendation 8
Retain the rule that the highest differential rate in dollar cannot exceed 4 times the lowest.	Recommendation 9
Basing differential rating decisions on data analysis of the effect of those decisions and informing and consulting with the community.	Recommendation 11
Retain the rule that the maximum amount that may be raised in general rates by way of a fixed charge remain at 20 per cent.	Recommendation 16
Prepare a four-year rating strategy which aligns with their four-year resource plans and that annual budgets align with their four-year resource plans and their four-year rating strategies.	Recommendation 47

The State government's full response to the review is available on:

https://engage.vic.gov.au/download_file/40010/2559

2.4.2 - Investigation into how local councils respond to ratepayers in financial hardship

In May 2021 the Victorian Ombudsman issued a report of its investigation into how Council's respond to ratepayers that are in financial hardship. The investigation resulted from concerns from ratepayers, financial counsellors and community lawyers in recent years about the way councils treat people who cannot afford their council rates. With the COVID-19 pandemic threatening to increase financial hardship in the community, the Ombudsman decided it was timely to investigate the issue. The investigation focused on council hardship relief for home owners (ratepayers) who cannot pay rates on their primary residence.

The Ombudsman found that:

- there is a variety of approaches as to how Councils address rates hardship cases,
- all Council's offered relief during the COVID pandemic but these schemes have/are ending,
- public information regarding hardship assistance is sometimes hard to find and not clear
- there is a reliance on putting people on payment plans and not utilising the power to waive or defer rates
- interest charged if often high (currently 10 %per annum)
- debt is often exacerbated by legal costs resulting from taking debtors to Court
- more discretion is required where ratepayers are struggling with issues such as mental illness or domestic violence.

Overall, the Ombudsman was of the view hardship practices throughout local government compare poorly with sectors such as energy and water and that Councils have fallen behind best practice.

The full report is available on:

https://www.ombudsman.vic.gov.au/our-impact/investigation-reports/investigation-into-how-local-councils-respond-to-ratepayers-in-financial-hardship/#full-report

A summary of Council's hardship practices is provided in section 9 below.

3 *Current Rating Situation*

A key aspect of the rating strategy is to review the existing rating structure.

Like most municipalities in Victoria, Colac Otway shire has a differential rating structure, which applies a different rate in the dollar to different types (categories) of properties. The rating category is a generic indication of how the property is being used (e.g. for a residential, commercial, holiday accommodation or farm use).

Also like most Victorian Councils, the Capital Improved Valuation of a property is used as the basis of rating.

Most Council's in Victoria have similar differential rating categories to Colac Otway Shire. The exception is the Holiday Rental category, which very few have. This category is considered appropriate as the use of absentee owned holiday houses for short term holiday accommodation for a tariff is a significant land use in the shire, particularly along the Great Ocean Rd/coastal region.

Overall, all properties in the Shire generally fit into one of the above rating categories. Some properties will have characteristics of more than one rating category (eg: a shop with residence attached). In such cases, the property is allocated to the "highest and best use" rating category. This approach is consistent with the principle on which properties are valued and it is cheaper for the property to be rated as a single assessment rather than as multiple assessments (eg: one assessment in the "Commercial" rating category for the shop and one assessment in the "Residential" rating category for the residence).

(3.1) General rates

The current (2021-22) rating structure, rates in the dollar and differentials are shown below.

Revenue derived from these rating categories comprises the "general rates" component of an overall rates bill.

Rating Category	***Rate in $***	***Differential (from base rate)***
Residential - Colac/Elliminyt (Residential properties in the Colac, Colac East & West & Elliminyt township.	0.003580	100% (base rate)
Residential - Balance Shire (Residential properties located in the municipality excluding Colac & Elliminyt)	0.003043	85%
Holiday Rental (Houses/cabins that are made available for short term holiday accommodation for a fee/tariff)	0.003580	100%

Rural – Farm	0.002685	75%
Commercial / Industrial – Colac/Elliminyt/Colac West (Commercial properties in the Colac, Elliminyt & Colac West Township	0.005907	165%
Commercial / Industrial - Balance Shire (Commercial properties not located in the townships of Colac, Apollo Bay, Elliminyt or Princes Highway Colac West	0.005012	140%

In addition to the general rates derived from the above rating categories, Council also levies the following charges:

(3.2) Municipal Charge

This is a flat charge levied on all properties pursuant to section 159 of the Local Government Act (as amended).

The Municipal Charge raises revenue to pay for a proportion of the administrative costs of Council. It ensures low valued properties (that pay a low amount of general rates) contribute a meaningful amount towards the running costs of the Shire.

The total amount of revenue currently able to be raised from the Municipal Charge is 20% of the sum total of revenue raised from the charge and general rates in that financial year. In 2021-22 the revenue from the Municipal Charge at the Shire amounted to approximately 9% of the total revenue from the charge and general rates.

The only exemption from the Municipal Chare is for Single Farm Enterprises, which have two or more assessments in the same ownership that are used for farming purposes.

In these cases, at least one Municipal Charge is required to be paid.

The Municipal Charge for 2021-22 was $195.00.

As part of its 2022-23 budget deliberations Council will review the amount of the Municipal Charge, however the percentage of total revenue derived from the Municipal Charge will remain unchanged.

(3.3) Waste Management Charge

This is a flat charge levied on all properties on the waste collection routes or those that have requested the use the service pursuant to section 162 of the Local Government Act 1989.

The charge is levied to defray the costs of Council providing a kerbside domestic waste collection service. As such it is a user pays charge levied on properties that derive benefit from the service. The service is provided on a weekly basis for most properties, with a fortnightly service in Wye River.

The Waste Management Charge for 2021-22 was $308.00 per annum for the weekly service and $235.00 per annum for the fortnightly service.

As part of its 2022-23 budget deliberations Council will review the amount of the Waste Management Charge.

Generally, the Waste Management Charge seeks to recover the cost of providing the service.

4 Valuations

(4.1) Valuation used for rating purposes

A key determinant of the amount of general rates a property will pay is the valuation of the property. The valuation used for rating purposes is the Capital Improved Valuation (CIV). The CIV is an estimate of the market value of the property (being land and any capital improvements such as buildings, fences, etc.) as at the valuation date.

Valuations are provided by the Valuer General and are conducted annually.

The valuation date is a set date (being 1st January each year) at which all properties in the Shire are valued. This ensures all properties are valued relative to each other at the same point in the market cycle.

The valuation does not however become operative until the next 1st July.

Thus, the valuation to be used for the 2022-23 financial year have a valuation date of 1st January 2022 but does not become operative however until the 1st July 2022 (being the start of the 2022-23 financial year).

It should be noted an increase in the total valuation of properties in the shire does not automatically result in Council generating more revenue from rates. This is because each year the amount of revenue to be collected is different. As the amount of rates revenue is the product of multiplying the total valuations by a rate in the dollar, increased valuations generally leads to a reduced rate in the dollar where overall rates revenue increases are minimal.

(4.2) Notice of valuation used for rating purposes

Property owners are advised of their valuations on their annual rates notice, which is issued in August each year. The notice advises of three valuations. These are:

Capital Improved Valuation (CIV	Being the value of the land *and* any capital improvements
Site Value	Being the value of the land only.
Nett Annual Value	Being an estimate of the rental a property could generate annually (usually set at 5% of CIV)

(4.3) Valuation objections

The annual Notice also provides a two month period in which objections to the valuation may be lodged.

The right of objection to a valuation is provided by sections 16 and 17 of the Valuation of Land Act 1960 (VLA).

Section 17 of the VLA specifies the valid grounds for objection, being that:

(a) the value assigned is too high or too low;

(b) the interests held by various persons in the land have not been correctly apportioned;

(c) the apportionment of the valuation is not correct;

(d) lands that should have been included in one valuation have been valued separately;

(e) lands that should have been valued separately have been included in one valuation;

(f) the person named in the notice of valuation, assessment notice or other document is not liable to be so named;

(g) the area, dimensions or description of the land including the AVPCC allocated to the land are not correctly stated in the notice of valuation, assessment notice or other document.

All valid objections are reviewed by the Valuer General's appointed valuer.

(4.4) Supplementary valuations

During the year, the value of a property may change due to a material change to the property. The most common example of this is when a house is built on a previously vacant lot. In such cases, Council is required by section 13L of the Valuation of Land Act 1960 to have the valuation of the property reviewed.

This is referred to as a Supplementary Valuation. This is done to maintain equity between ratepayers.

The amended valuation applies from the point in time that the material change came into effect. As a result, the property will be valued at the previous valuation for part of the financial year and the new valuation for the balance of the financial year. The rates levied for that financial year are then recalculated accordingly.

Advice of the new valuations and amended amount of rates is provided to the ratepayer by way of a Supplementary Valuation and Rates Notice. The right of objection referred to in 4.3 above also applies to supplementary valuations.

5 *Rate Capping*

Since 2016-17, Victorian Councils have been subjected to a municipal rate cap imposed by the State Government. The rate cap limits the percentage increase in a council's average general rate and municipal charge. It does not apply to waste charges or the State government's Fire Services Property Levy.

In past years the rate cap has been as follows:

Year	Rate cap
2016-17	2%
2017-18	1.75%
2018-19	2.25%
2019-20	2.5%
2020-21	2%

The rate cap does *not* mean all properties rates will increase by the percentage of the rate cap. This is because the amount of rates payable is influenced by the percentage change in the property valuation and the rate in the dollar applied. This is illustrated as follows:

	Rate cap	Capital Improved valuation (CIV)	% CIV Change	Rate in dollar	Amount of rates	% change
Year 1		$500,000		0.003580	$1,790.00	
Year 2	2%	$550,000	10%	0.003450	$1,897.50	6%

Council can apply a rate increase up to the cap. Ministerial approval must be obtained for Council to apply a rate increase in excess of the cap.

6 *Payment Options*

Council provides the following three payment options:

Option	When due
Quarterly Instalment	1st Instalment due: 30 September 2nd Instalment due: 30 November 3rd Instalment due: 28 February 4th Instalment due: 31 May
Payment by Arrangement	Frequency of part payments by arrangement with full amount due by 31 May.
Lump Sum payment	Full payment by 15 February

7 Payment Methods

Rates and charges are able to be paid by the following methods:

- online (via BPay, Post Billpay and Formsport or via Council's website)
- by direct debit
- by cheque
- by credit card over the phone
- in person by cash or credit card at Council's customer service centres at Colac and Apollo Bay and at any post office.

8 *Penalty Interest*

Penalty interest is charged on rates not paid by due dates in accordance with section 172 of the Local Government Act 1989. The penalty rate of interest is prescribed by the State Government.

Exceptions to this are:

- Late payments of instalments 2 and 3 for accounts where the quarterly instalment option has been activated by the ratepayer. Our practice has been to allow missed payments of these two instalments to *not* be charged interest as they will appear as being due on the next Instalment notice issued.
- Rates being paid by arrangement where a part payment is missed.

In both these cases, rates are required to be paid in full by 31 May. Interest is charged on any balance outstanding after this date in accordance with the requirements of section 172 of the Act.

The penalty interest regime used by Council minimises interest to the ratepayer as much as possible and is considered appropriate.

9 Hardship Assistance

Council has a “Rates Assistance to Rates Debtors in Hardship” policy which seeks to provide assistance to rates debtors who can show they are suffering legitimate financial hardship.

Council believes it can carry debt longer than non government organisations and is prepared to allow rates debtors to pay their rates debt over time. The policy therefore provides for:

- ✓ all accrued interest to be waived, and
- ✓ no further interest to be levied for a specific period of time.

The intention is that rate payments made will be reducing principal instead of being applied to paying interest. There is therefore an expectation the ratepayer will enter into a meaningful payment arrangement.

Council does not generally waive rates as they are a charge against the property and will ultimately be paid when the property changes ownership. Whilst hardship assistance provided includes a moratorium on penalty interest to prevent the debt from escalating, it is felt “interest free” cannot continue indefinitely. It is hoped the debtor therefore takes the opportunity to make more financially beneficial arrangements (such as extending a mortgage at cheaper rates of interest than penalty interest) to pay arrears and clear the debt.

It is felt this expectation accords with the general views of the community that ratepayers should be responsible for their debts.

Having said that, Council recognises there can be many factors leading to financial hardship and is therefore a participant in the Geelong region Financial Inclusion Action Plan (FIAP). Council recognises that rates debtors in hardship are likely to have financial debts with other organisations as well. In that regard, Council has formed a collaboration with Barwon Water and Colac Area Health to streamline the application process so that an application to either of these organisations will be accepted as an application to us. Further. Council is happy with the consent of the ratepayer, to refer them to other relevant FIAP organisations to help alleviate broader financial hardship.

10 Action Taken Leading to this Strategy

To enable informed decisions to be made, Councillors:

- identified a number of basic issues relevant to rating
- Identified a number of scenarios they wanted modelled
- Considered demographic data to identify if there were area s of the shire that had less capacity to pay

The scenarios were then modelled against the data used to set the rates for the 2021-22 financial year. This allowed Councillors to see what the difference *would have been* in 2021-22 compared to what the situation actually was.

Doing this allowed Councillors to see how the distribution of the rates burden would be affected by the various scenarios.

(10.1) Issues considered

At the start of the process Councillors identified the following as issues to be considered. There were subsequently considered at Councillor Briefing sessions conducted throughout 2021.

#	Issue	Details	Outcome
1	Fairness & equity?	• What is the definition of this in a rating context? • How do we define "fair & equitable"?	Councillors at Briefing session on 18 August 2021 reaffirmed that fairness and equity in levying general rates is achieved by using a common rate in the dollar against the valuation of all properties in any particular rating category.
2	Capacity to pay.	• Should this be considered? • If so, how is it determined/measured? • What are the implications of this? • Economic performance of rating categories over past few years? • Economic forecast for rating categories going forward?	Councillors at Briefing session on 18 August 2021 reaffirmed: (a) it is not feasible to base rating decisions on the personal capacity to pay as Council has no access to data necessary to make these judgements, and (b) it will seek to obtain and use relevant economic data to make decisions about the capacity to pay of all rating categories.
3	User pays.	• Should this be considered? • If so, what are the implications of this?	Councillors at Briefing session on 18 August 2021 reaffirmed: (a) that user pays charges should be used where appropriate, and (b) the extent to which user pays charges are used to raise

			revenue be considered as part of the budget process.
4	Rating structure.	• Do the current categories adequately reflect the diversity of property types in the shire? • Is a differential rating structure appropriate? • What are the alternatives? • What are the implications of change? • If it is appropriate, are the differentials fair and equitable?	Councillors at Briefing session on 18 August 2021 reaffirmed it retains the use of a differential rating structure.
5	Emerging issue – Rise of Air BnB.	• What effect does this have? • Should Council get involved? • What are possible solutions? • What are implications of possible solutions?	Councillors at Briefing session on 8 September 2021 reaffirmed using the rates system to discourage use of properties for short term holiday accommodation is not a feasible option as the amount of income able to be generated from short term holiday rental exceeds the amount of rates that could be charged.
6	Affordable housing.	• Does Council have a role to play? • Can/should Council's rating structure be used to affect an outcome?	Councillors at Briefing session on 8 September 2021 reaffirmed: (a) the issue of affordable housing is a complex issue requiring involvement of many stakeholders; (b) that its role at present is one of planning and advocacy; and (c) that it continues to identify properties where residential accommodation is provided as a charitable purpose with a view to making them "not rateable".
7	Holiday rental – rating.	• Holiday rental properties should pay more, or the same as the Commercial rate in the dollar.	Councillors at Briefing session on 8 September 2021 requested (a) a model be provided for this scenario; and (b) the model be considered at scheduled workshops in October 2021.
8	Rates discount/lower rate in $ for long term (ie: 12 months or greater) rental properties.	• Offer a discounted rate to motivate/reward for providing more secure long term housing.	Councillors at Briefing session on 8 September 2021 acknowledged there would be practical problems in implementing and administering such as proposal.

9	Higher differential rate for vacant residential land.	• Aim to encourage use or sale of vacant land for housing.	Councillors at Briefing session on 8 September 2021 acknowledges there are significant broader issues to be considered before drawing a conclusion that applying a higher differential rate to vacant residential land would be an effective tool in encouraging landowners to develop their land for residential purposes.
10	Farm zoned properties less than 5ha that can't get residential permit	• Create a new rating category for these? • What are implications of doing this?	Councillors at Briefing session on 15 September 2021 reaffirmed that it continues to categorize undeveloped small acreage properties (i.e., 5 ha or less) located in the "Farm" town planning zone as "Farm" properties for rating purposes.
11	Trust For Nature covenanted properties.	• Should these receive a rates rebate or be included in specific / different rating category?	Councillors at Briefing session on 15 September 2021 acknowledged that properties that have Trust for Nature covenants registered on their Certificate of Title should be eligible for a rates rebate of $10 per hectare of covenanted land up to a maximum of $1,000.
12	Visitor-pay parking along the coast. Free permits for residents, ratepayers & their families.	• Visitor-pay parking along the coast. Free permits for residents, ratepayers & their families. Gain additional revenue Costs could be limited by contracting to a company who can do all the logistics and issue of permits.	Councillors at Briefing session on 15 September 2021 acknowledged the introduction of car parking fees and a resident/ratepayers permit scheme is outside the scope of the Rating Strategy.
13	"Commercial – Colac/Elliminyt" rating category should pay the same rate in the dollar as "Commercial-Balance of Shire" rating category.	• Aim to stimulate the Colac /Elliminyt business sector	Councillors at Briefing session on 20 October 2021 requested as model of this scenario be prepared. The model for this is shown as Scenario 4 below.
14	Farm rate differential to be reduced to 73% (or lower)	• What are implications of doing this?	Councillors at Briefing session on 20 October 2021 requested as model of this scenario be prepared. The model for this is shown as Scenarios 5, 6 &7 below.
15	Reduce Municipal Charge to 5% or zero What are implications?	• What are implications?	Councillors at Briefing session on 20 October 2021 requested as model of this scenario be prepared. The model for this is shown as Scenario 8, 9 & 10 below.
16	Other Charges – Municipal Charge/Waste mgt Charge.	• Other Charges – Municipal Charge/Waste mgt Charge. Are they appropriate? What is an appropriate level? What are implications of	Councillors at Briefing session on 2 February 2022 agrees the percentage of revenue raised from the Municipal Charge (being 9%) should not change.

		changing the amounts of these charges?	
17	Create Long term rental category Higher rate in dollar for Hol Rental		Councillors acknowledged this was not feasible.
18	Universal rate in dollar – staged introduction over 3 years		Councillors at Briefing session on 17 November 2021, acknowledged this was not desirable The model for this is shown as Scenario 2 below.
19	Rating differentials.	• What will differentials be? • Are the differentials fair and equitable?	Briefing sessions on 17 November 2021 & 2 February 2022 considered scenarios presented and agreed to retain existing differentials.

(10.2) Identified scenarios

Ultimately Councillors requested the following 13 scenarios be modelled to examine their effect in distributing the rates burden. As mentioned, above the scenarios were modelled in comparison to the adopted 2021-22 rating regime. It was not possible to model scenarios for 2022-23 and the valuations to be used for the 2022-23 financial year will not be available until March-April 2022 and the amount of revenue to be raised for 2022-23 from rates is unknown at this stage/

A summary of the scenarios and the assumptions underpinning the scenario is as follows:

#	Scenario & Aim	Model assumptions
1	Uniform rate in dollar *Aim: Examine effect of uniform rate in dollar*	Apply uniform rates in $ across all categories
2	Uniform rate in dollar – staged introduction over 3 years *Aim: Investigate staged introduction of uniform rate in $*	Phase in uniform (single) rate for all rating categories above or below 100% of the base over three years
3	*Sub scenario* Uniform rate in dollar – staged introduction over 3 years with aligned Commercial categories in year 1.	Phase in uniform (single) rate for all rating categories above or below 100% of the base over three years with both Commercial categories aligned in Year 1)
4	“Commercial –Colac/Elliminyt” rating category to pay the same rate in the dollar	• “Commercial – Colac/Elliminyt” rate in $ to = “Commercial-Bal of Shire”

#	Scenario & Aim	Model assumptions
	as “Commercial- Balance of Shire“ rating category. *Aim: To stimulate the Colac /Elliminyt business sector.*	• Revenue reduction to be collected from all other categories.
5	Farm rate differential to be reduced to 73%. (Identified in previous rating strategies)	• “Farm” rate in $ to be 73% of “Residential-Colac/Elliminyt” rate in $. • Revenue reduction to be collected from all other rating categories.
6	*Sub scenario* Farm rate differential to be reduced to 70%.	• “Farm” rate in $ to be 70% of “Residential-Colac/Elliminyt” rate in $. • Revenue reduction to be collected from all other rating categories.
7	*Sub scenario* Farm rate differential to be reduced to 67%.	• “Farm” rate in $ to be 67% of “Residential- Colac/Elliminyt” rate in $. • Revenue reduction to be collected from all other rating categories.
8	*Sub scenario* No Municipal Charge.	Delete Municipal Charge. Revenue reduction to be collected from all other categories equally. (This will affect the rates in the $)
9	Reduce Municipal Charge to 5% (being $98.40).	• Amount to be raised from Municipal Charge to be 5% of the total amount to be raised from Municipal Charge & general rates (being $98.40). • Revenue reduction to be collected from all other categories equally. (This will affect the rates in the $)
10	Reduce Municipal Charge to $100.	• Municipal Charge to be reduced from $195 to $100. (which equates to 5.1% of rates & charges revenue). • Revenue reduction to be collected from all other categories equally. (This will affect the rates in the $)
11	Holiday rental – Same as Commercial – Bal of Shire (140% differential). *Aim: Holiday rental properties should pay more, or the same as the Commercial rate in the dollar.*	• “Holiday Rental” rate in $ to = “Commercial – Bal of Shire” • Additional revenue to be deducted from “Residential – Bal of Shire”
12	*Sub scenario*	• “Holiday Rental” rate in $ to = “Commercial – Colac/Elliminyt”. Additional revenue to be deducted from “Residential – Bal of Shire”.

#	Scenario & Aim	Model assumptions
	Holiday Rental – Same as “Commercial – Bal of Shire” (165% differential)	
13	Lower rate in $ for long term (ie: 12 months or greater) rental properties. *Aim: Offer a discounted rate to motivate/reward for providing more secure housing.*	• Create “virtual’ new rating category with 50 properties @ total CIV $31,280,000 (being average Holiday Rental CIV$625,600 x 50) • Use Farm rate (lowest rate) in $ • Revenue reduction to be collected from “Holiday Rental” category
14	Farm differential to be 74% of base rate & Municipal Charge to be 5% ($98.40)	• No change to other rating category differentials • Re coup foregone Municipal Charge revenue from all categories
15	Farm differential to be 73% of base rate & delete Municipal Charge	• No change to other rating category differentials • Re coup foregone Municipal Charge revenue from all categories

A summary of the outcomes of each scenario and a detailed analysis is attached (see attachments 1 and 2 respectively) in the Council Report.

<u>(10.3) Demographic Snapshot / capacity to pay</u>

A theme often raised by the community is that municipal rates should be based upon a person’s “capacity to pay”. This is also a “principle” the “Revenue and Rating Strategy Guidelines 2014” suggests should be considered by Council when developing a rating strategy. It also emerged as a theme from the State Government’s rating systems review in 2020.

Whilst this is a desirable aspiration, people’s financial circumstances inevitably vary and are known only to the person concerned. Thus implementing this aim presents significant practical difficulties.

As it is presumed “capacity to pay” is evidenced by income, the question then is whether “gross income” or “nett income” should be the determinant of rates payable. This then has implications in regards to equity of rating as some sections of the have the capacity to minimise their income for taxation purposes whilst other sectors (e.g. PAYE taxpayers) cannot minimise their taxable income to the same extent.

As Council does not have access to income data, it is not feasible to use income (gross or nett) as a basis for municipal rating.

Overall, municipal rates comprise approximately 3.5% of all tax income in Australia, with a rates bill generally amounting to approximately 3% of a ratepayer’s gross income. Notwithstanding this, Council is keen to avoid creating a rating situation that shifts the rates burden to parts of the community that already have limited capacity to pay.

Council therefore engaged Morrison Low consultants to compile socio-economic demographic data relevant to the Shire. Morrison Low are specialist demographers/economic consultants who have vast experience in compiling, analysing and interpreting demographic data for the government and local government sector.

The aim was to identify areas of the shire that had comparatively higher levels of social disadvantage and vulnerability and therefore possibly less capacity to pay.

Morrison Low analysed REMPLAN data for the shire.

Their report was based on the 2016 census data as the 2020 census data was not yet available. Despite this it is felt, with the exception of the effects of COVID19, the demographic characteristics of the shire will not have changed dramatically since 2016. Their report looked at capacity to pay by identifying:

- areas of social disadvantage
- vulnerable groups /areas with the community
- trends within the major industry types with the shire, and
- the effect of COVID19 on the local economy.

To do this, Morrison Low divided the shire into 7 distinct geographic areas, being:

- Colac central
- Colac West
- Colac East
- Elliminyt
- Great Ocean Road / Otways region
- Rural North (ie; mostly north of the Princes Highway but extending south of highway east of Colac to include Birregurra)
- Rural South (ie: mostly south of the Princes Highway and extending to the northern edge of the Otway Ranges).

Overall Colac Otway Shire is one of the most disadvantaged shires in Victoria. It has a higher level of low-income earners than the regional and state level, yet its unemployment rate (4%) is lower than the state level (6%). Interestingly, it has a slightly lower level of housing stress than the regional and state levels. The sectors creating the most employment are:

- manufacturing
- agriculture/forestry/fishing
- health care and social assistance.

Employment numbers and economic output for all occupation types has stagnated since March 2020 as a result of the COVID19 pandemic.

The key characteristics of each region identified by Morrison Low were:

Area	Characteristics
Colac central	Most disadvantaged area in the shire with: ➢ Larger proportion of older and/or retired residents ➢ More low-income residents & less high-income residents ➢ Higher unemployment rate (due to age profile) ➢ Higher percentage of residents who need core assistance

	➢ Higher percentage of housing stress.
Colac West & East	Similar to Colac central - though with slightly higher housing stress percentage in Colac East.
Elliminyt	➢ Average level of disadvantage (ie: equal with State level) ➢ Younger population ➢ Higher proportion of high-income earners ➢ Higher proportion of home ownership & newer houses ➢ Lowest unemployment rate ➢ Lowest demand for core services ➢ Lowest level of housing stress
Great Ocean Rd/Otways	➢ Slightly higher level of disadvantage than the State level ➢ Comparatively high proportion of high-income earners ➢ Higher proportion of retirees ➢ Low unemployment rates but higher percentage of workers in part time work ➢ Higher level of housing stress ➢ Low level of demand for core assistance
Rural North	➢ Slightly higher level of disadvantage than the State level ➢ Highest proportion of high-income earners (area contains some large farms) Low unemployment rate ➢ Comparatively high level of home ownership ➢ Moderate level of housing stress (2nd lowest in shire & well below state & national level) ➢ Low level of demand for core assistance
Rural South	➢ Average level of disadvantage ➢ Comparatively high proportion of high-income earners (area contains some most of the dairy farms in the shire) ➢ Low unemployment rate ➢ Comparatively high level of home ownership ➢ Moderate level of housing stress (3rd lowest in shire & well below state & national level) ➢ Low level of demand for core assistance

The data showed that parts of Colac township have a significantly higher level of social disadvantage and vulnerability than other areas of the shire. Conversely the Elliminyt area which is experiencing new development was an area of comparative advantage.

In the rural sector, the northern part of the sire was slightly more disadvantaged than the south but both areas were at about the average level of disadvantage.

The Great Ocean Rd/Otway region was experiencing a slightly higher than average level of social disadvantage but was more vulnerable in that it is experiencing a higher level of housing stress and has over half of its working population in part time employment.

These results were consistent with demographic data obtained in previous rating strategy reviews.

A summary of the data for each region is attached as attachment 4 in the Council Report.

A copy of the Morrison Low report is attached as attachment 5 in the Council Report.

(10.4) Community Consultation

Community consultation was not undertaken for the preparation of this strategy. Officers relied on the input of Councillors as elected representatives of the community to identify issues to be considered. Once the draft strategy is adopted by Council, it will be placed on public exhibition for six weeks in accordance with Council's Community Engagement Policy.

11 Proposed rating structure

After due consideration Councillors at the Briefing session on 2nd February 2022 agreed to retaining the current rating structure and differentials as:

- the current rating differentials do not pre-emptively shift the rates burden between rating categories (noting in particular that the Colac township has areas that have a significantly higher level of disadvantage than other parts of the shire),
- it is anticipated there will be significant valuation increases across the shire which is likely to provide a shift in the rates burden between categories,
- the current differentials provide a mechanism for rates increases resulting from valuation increases to be mitigated (i.e. evened out) to some extent, although it is acknowledged the extent of valuation increases my require amendment of the differentials between rating categories,
- the current rating categories provide an accurate generic description of land use types for all properties in the Shire (e.g. all properties were either residential, commercial/industrial, holiday rental or farm properties).

Thus it is proposed the following rating structure and differentials be adopted for the term of the Rating Strategy.

Rating Category	***Differential*** ***(from base rate)***
Residential – Colac/ Elliminyt (Residential properties in the Colac, Colac East & West & Elliminyt).	100% (base rate)
Residential - Balance of Shire (Residential properties located in the municipality excluding those in the “Residential -Colac / Elliminyt” rating category)	85%
Holiday Rental (Houses/cabins that are made available for short term holiday accommodation for a fee/tariff)	100%
Rural – Farm (Properties used for farm purposes as defined by the Valuation of Land Act 1960).	75%
Commercial / Industrial – Colac/Elliminyt (Commercial properties in the Colac, Colac East &West and Elliminyt)	165%
Commercial / Industrial - Balance Shire (Commercial / industrial properties in the municipality excluding those in the “Commercial / Industrial –Colac/Elliminyt” rating category.	140%

Other Charges

In addition to general rates being levied on the basis of the above structure, it is proposed Council retain the Municipal Charge (see 3.1 above) and Waste Management Charge (see 3.2 above).

12 Compliance with State Government's Guidelines

As mentioned above, in 2014 the State Government provided guidelines for the preparation of a rating strategy. In preparing this strategy, an attempt has been made to comply with the principles outlined in the guidelines as follows:

#	Principle	Explanation
1	*Wealth tax*	Rates are a tax based upon the value of the property being rated and have no correlation to the ratepayers' access to or consumption of services. ***Compliance:*** ***The strategy has been prepared on this basis.***
2	*Equity*	That consideration be given to "*horizontal equity*" (i.e. that ratepayers with similar valued properties should pay similar amounts) and "*vertical equity*" (i.e. that ratepayers with higher valued properties should pay more than those with lesser valued properties). ***Compliance:*** ***"Horizontal equity" is achieved as properties in the same category and valuation pay the same amount of rates.*** ***The strategy provides "vertical equity" as higher values properties pay more rates than lower valued properties.***
3	*Efficiency*	That consideration be given to the extent to which production and consumption decisions by people are affected by rates. ***Compliance:*** ***How these decisions are affected by the amount of rates payable is unknown and varies from person to person. The strategy attempts to equitably apportion the rates burden across the shire and actively sought to avoid shifting that rates burden to other rating categories by changing the differentials.***
4	*Simplicity*	The system should be easily understood by ratepayers and be practical to administer. ***Compliance:*** ***The rating structure (being based on generic land use descriptions) is believed to be simple for the community to understand***.
5	*Benefit*	That consideration be given to the nexus between consumption/benefit and the rates burden. ***Compliance:*** ***This principle seems contradictory to principle 1 above. However, the use of differential rates attempts to recognise that some areas (e.g. Colac/Elliminyt) have greater access to services than other areas and therefore pay rates at a higher rate in the dollar.***

#	Principle	Explanation
6	*Capacity to pay*	What factors are relevant to particular property classes in order to make informed observations about their capacity to pay rates. ***Compliance:*** ***Council obtained economic data to identify areas of experiencing comparative social disadvantage and vulnerability. Ultimately a balance between this principle and principles 2, 3 and 5 has to be found.***
7	*Diversity*	Which groups in the municipality may warrant special consideration in regards to their capacity to pay. ***Compliance:*** ***See comment for principle 6.***

13 Meeting community expectations

It is acknowledged that many in the community will judge the Rating Strategy by whether they pay less rates or more. This is understandable, although simplistic. It is also understood the effects of COVID 19 have placed communities under unprecedented financial and emotional stress.

To that end, Council will continue to assist ratepayers by accepting flexible payment arrangements and where necessary providing assistance under its hardship policy (see 9 above). In addition, it also offers a range of part payment options (see 6 above).

Council views referral of accounts to debt collectors to be a last resort but also seeks to encourage early intervention for ratepayers with arrears to initiate action before the debt becomes unmanageable.

Ultimately municipal rates are a charge against the property and remain against the property (accruing penalty interest on arrears) until such time as they are paid. There is no advantage to the ratepayer by ignoring the debt.

Ratepayers are therefore encouraged to discuss their situation with Rates department staff as soon as possible.

References

Ministerial Differential Rating Guidelines - 2013

Revenue & Rating Strategy Guidelines"- DELWP 2014

Local Government Rating System Review – December 2020

Investigation into how Councils respond to ratepayers in financial hardship – Victorian Ombudsman - May 2021

Capacity To Pay – Morrison Low – October 2021