# Colac Otway Shire

# Rating Strategy 2019-2021

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## *Synopsis*

Council is required to prepare 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 2017.

This strategy will apply for the 2019-20 and 2021-22 financial years.

To help inform the Rating Strategy, Council undertook three significant community consultation exercises (in October 2016, September 2017 and November 2017) to ascertain community expectations. The responses were aggregated into themes which were then taken into consideration as much as possible.

In addition Council obtained demographic data from Macroplan Dimasi, (specialist economist consultants) which was used to supplement the information obtained from community consultation and support the development of rates models.

Ultimately it is believed the current rating structure (i.e. the rating categories) is appropriate. In the process of finalising and adopting the 2018/19 annual budget Council determined to adjust the Rural – Farm differential from 77% to 75% of the base rate (Residential – Colac/Elliminyt). This change has been reflected in the strategy. With this change included, it is also believed the current differentials between the categories allows for the fair and equitable sharing of the rates burden across the community.

It is considered this Rating Strategy sought extensive feedback, opinions and views from the community. These views have been incorporated into the strategy as much as is feasible and legislatively possible. Council has also complied with the State Government's guidelines for preparing a rating strategy as much as is possible.

# 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 responsibility will be apportioned across the community. The current rating strategy expired on 30 June 2017. While not having adopted a new strategy to date, Council did resolve to reduce the Rural Farm rate from 77% to 75% for the 2018-19 rating year.

The new rating strategy considered the following:

- *Rating structure* – is differential rating appropriate and are the current rating categories relevant?
- *Differentials* – if differential rating is to be retained, are the differentials between the categories fair and equitable?
- *Other charges* - Should a Municipal Charge or other specific charges be utilised to raise revenue and if so, to what extent?
- *Fairness & equity* – what constitutes a fair and equitable sharing of the rates burden?
- *Capacity to pay* – should this be considered and if so how is it determined?
- *Rate capping* – what are the implications and what is community reaction/expectations to State Government imposed rate capping?
- *Alternative rating options* – are there alternatives?
- *Hardship assistance* – what assistance is available and is it at an appropriate level?
- *Penalty Interest* – when is it charged and is this appropriate?

In the past three years, a number of events have occurred that have significantly impacted sections of the community. In addition to general economic conditions affecting most people within the Shire, the Shire was severely affected by the 2015 Christmas day bushfire in Wye River – Separation Creek and the dairy industry crisis.

There also appears to be an emerging community expectation that “capacity to pay” be taken into consideration when rates are being determined.

As a result officers were keen to ensure the new rating strategy considered the concept of capacity to pay as part of the deliberation in to how the rates burden should be apportioned across the community. Having said that, it must be remembered that municipal rates are a tax based on land value, not income. As such, determining capacity to pay on an individual’s income is not feasible as Council does not have personal income data, nor is it legal in the context of rating powers.

## 2. Legislative Authority

The *Local Government Act 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 facilitating 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.

### (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.

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*" (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). |
| **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. |

## *3. Current Rating Situation*

Clearly, a key aspect of the rating strategy is to review the existing rating structure.

Like most municipalities in Victoria, this 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.

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

The current rating structure, rates in the dollar and differential are:

| *Rating Category* | *Rate in $* | *Differential (from base rate)* |
|---|---|---|
| *Residential - Colac/Elliminyt* (Residential properties in the Colac, Colac East & West & Elliminyt township. | 0.004271 | 100% (base rate) |
| *Residential - Balance Shire* (Residential properties located in the municipality excluding Colac & Elliminyt) | 0.003631 | 85% |
| *Holiday Rental (Houses*/cabins that are made available for short term holiday accommodation for a fee/tariff) | 0.004271 | 100% |
| *Rural – Farm* | 0.003204 | 75% |
| *Commercial / Industrial – Colac/Elliminyt/Colac West* (Commercial properties in the Colac, Elliminyt & Colac West Township | 0.007048 | 165% |
| *Commercial / Industrial - Balance Shire* (Commercial properties not located in the townships of Colac, Apollo Bay, Elliminyt or Princes Highway Colac West | 0.005980 | 140% |

Most Council's in Victoria have similar differential rating categories to Colac Otway Shire. The exception is the Holiday Rental category, which very few, if any have.

Overall, all properties within the Shire generally fit into one of the above rating categories.

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

### (3.1) 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.

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 2018-19 the revenue from the Municipal Charge at the Shire amounted to 10% 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 2018-19 was $188.35.

As part of its budget deliberations Council will need to review the amount of the Municipal Charge.

### (3.2) 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 2018-19 was $315.00 per annum for the weekly service and $215.00 per annum for the fortnightly service.

As part of its budget deliberations Council will need to review the amount of the Waste Management Charge.

It should be noted that the Waste Management Charge is a cost recovery charge.

## *4. Valuations*

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.

The valuation date is a set date 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 last valuation returned was the 2018 revaluation which was used for rating purposes in the 2018-19 financial year. The valuation date for this valuation was 1 January 2018.

As of 1 July 2018, the Valuer General became the valuation authority for all Councils and valuations are now conducted annually.

Property owners are advised of their valuations on their annual rates notice issued in August and there is a two month period in which objections to the valuation may be lodged. This results in the valuation being reviewed by the Shire's contract valuer.

## 5. *Rate Capping*

Since 2016-17, Victorian Councils have been subjected to a municipal rate cap imposed by the State Government. The cap provides for the amount of general rates and charges to be capped at a percentage above the amount of rates and charges levied for the previous year. The cap for 2016-17 was 2%, 2017-18 was 1.75% and 2018-19 was 2.25%. It has been set at 2.5% for 2019-20. The level of rate increase required for 2019-20 will be determined as part of the budget deliberation.

Council can apply a rate increase up to the cap. Should it wish to apply a rate increase in excess of the cap Ministerial approval must be gained.

## 6. *Payment Options*

Council provides the following three payment options:

| Option | When due |
|---|---|
| **Quarterly Instalment** | 1st Instalment due: 30 September<br>2nd Instalment due: 30 November<br>3rd Instalment due: 28 February<br>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
- 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 instalment 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.

The policy expects the rates debtor to be making an effort to be paying rates and 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.

## *10. Action Taken Leading to this Strategy*

A review of the 2014-17 Rating Strategy commenced in July 2016. To enable informed proposals to be developed, Council sought the assistance of Macroplan Dimasi to compile socio-economic demographic data relevant to the Shire.

Macroplan Dimasi are specialist economic consultants who have vast experience in compiling, analysing and interpreting demographic data for the government and local government sector.

This data was obtained from a variety of sources and was as current as possible at the time of collection. It did not however include data from the 2016 national census undertaken in

August 2016 as that data was not available when Macroplan Dimasi compiled the data in November 2016. Macroplan Dimasi's final report, entitled "From Coastal Communities to Tourist Towns" was provided to officers in February 2017. A copy of this report is attached to this document.

## (10.1) Demographic Snapshot

The data compiled by Macroplan Dimasi indicated the Shire had the following demographic characteristics:

| Data | Findings |
|---|---|
| **Population growth – historical & future** | • Shire's population growth rate has gradually decreased since 2008 to be -1.2% (compared to Victorian growth rate of 0.5%).<br>• Estimated population in 2015 was 20,255.<br>• Duplication of Princes Hwy may lead to an increase in future. |
| **Age profile** | • Shire population is on average older than regional Victoria.<br>• Share of people aged 65 and over increased from 16.6% to 21.4% in available data period.<br>• Future growth is expected in next 15 years due to factors such as Princes Hwy duplication extending to Colac, Outer metropolitan Ring Road construction.<br>• Also appears to be possibility of housing affordability initiatives/policies by State/Federal governments that may lead to population shift to rural areas. |
| **Dwelling structure & tenure type** | • High proportion of detached dwellings<br>• Higher rate of unoccupied dwellings than regional average (believed to be caused by incidence of holiday houses). |
| **Income** | • Shire has significantly lower median weekly income than the Victorian figure.<br>• The average annual wage is approx. $42,000. (note: this includes farmers who are self employed and pay themselves a wage from the business).<br>• Average annual wage for workers in the agriculture/forestry/fishing sector is approx. $20,000.<br>• Council data suggests approximately 15% of the population are pensioners. |

| Data | Findings |
|---|---|
| **Occupation** | There were around 8,258 employment positions in the shire (as at the 2011 census). The breakdown of these is as follows:<br>- Managers 20.1%<br>- Labourers 16.8 %<br>- Professionals 14.1%<br>- Technicians/trades workers 12.8%<br>- Community/personal care workers 11.1%<br>- Clerical/administrative workers 9.5%<br>- Sales workers 9.4%<br>- Machinery operators/drivers 6.2%<br><br>The Shire's unemployment rate in late 2016 was 4.5% - slightly less than the Victorian rate. |
| **Business by industry** | As at June 2015, there were 2,259 businesses across 20 industry types.<br><br>The top five employing industries in terms of number of employing businesses & turnover were:<br>- Agriculture/forestry/fishing<br>- Construction<br>- Retail trade<br>- Accommodation/food services<br>- Transport/postal/warehousing<br><br>The agriculture/forestry/fishing sector was dominated by enterprises that are owner/family operated. Most of these would be farms.<br>• Accommodation/food services sector is dominated by domestic tourism with 385,000 overnight visitors injecting $151 million into local economy<br>• a further 409,000 day visitors spend another $40 million.<br>• About 88,000 international visitors spend a further $26 million locally.<br>• Most of this occurred along the coast. |
| **Dwelling approvals** | Approvals for new dwellings in the shire have remained relatively stable over the past ten years. |
| **Sales & prices** | • Median sale price of houses has increased from $102,000 in 2001 to $300,000 in 2016 but<br>• the number of sales has decreased from 500-700 p.a. in 2001-07 to 300-500 p.a. since. |

In summary, the Shire:

- has a static, ageing population base,
- approximately 15% of the population are pensioners
- residents tend to own their home,
- less than half of the Shire's population are employed,
- a significant number are self/family employed (particularly in the agriculture /forestry/ fishing sector)
- they have a lower than average income (at $42,000 p.a.)
- the number of new dwellings constructed has remained stable
- house sale prices continue to rise - but less houses are being sold

## (10.2) Community Consultation

In addition to obtaining demographic and economic data, since October 2016 there have been three significant consultative exercises undertaken to investigate community views and expectations in relation to municipal rates. These were:

| When | Type of Consultation Undertaken | Respondents | Responses |
|---|---|---|---|
| **Oct 2016** | On line survey as part of Council Plan preparation | Fifty seven respondents | • Affordability is important<br>• Consider new levies e.g. to support the environment<br>• Support the farming sector<br>• Farming sector rates are tax deductible and they should contribute more due to their size. Residential ratepayers need support.<br>• Spend more on maintenance of assets.<br>• Look at new businesses like AirBNB and ensure they are paying their fair share.<br>• Investing in smaller towns outside Colac is important. |
| **Sept 2017** | Thirty seven groups/organisations representing commercial, farming & residential sectors requested to provide comment re issues to be considered in 2018 Rating Strategy | Six respondents | • Retain differential rating structure.<br>• Review differentials for farm, Holiday Rental rating categories & create new Coastal category.<br>• Farm differential to be 55% of base rate<br>• rates payable for farms to be equal to comparable commercial business<br>• single assessment for farms<br>• Review retaining Municipal Charge. |

| When | Type of Consultation Undertaken | Respondents | Responses |
|---|---|---|---|
| | | | • Consider ability to pay/apply "User pays"/rates levied should be commensurate with services provided. |
| **Nov 2017** | 2018 Rating Strategy Discussion (Green) Paper placed on public exhibition (10 Nov – 1 Dec 2017)<br><br>Emailed to 755 businesses & community groups | Three respondents (5 submissions) | • Rates relief for property owners that undertake weed control.<br>• People shouldn't pay for services they don't use (i.e. more user pays)<br>• rates levied should be commensurate with services provided.<br>• Access to services should determine rates payable. |

Whilst these consultative exercises indicated there are opposing views on the some specific issues, the feedback was aggregated into the following themes:

| # | Theme |
|---|---|
| **1** | Retain differential rating. |
| **2** | Review differentials between rating categories (e.g. Farm, Commercial, Holiday rental, new Coastal). |
| **3** | Municipal Charge – whether to retain it or abolish it. |
| **4** | Fairness & equity – consider capacity to pay / apply "user pays" model / value for money / rates to reflect services used or accessible. |
| **5** | Rates relief for owners that undertake environmental land management. |

## (10.3) Guiding Principles

These themes were considered by Council at a briefing session on 13 December 2017, resulting in the following principles being agreed on to guide the preparation of the Rating Strategy:

| # | Theme | Principle |
|---|---|---|
| **1** | Retain differential rating structure | That a differential rating structure be retained. |
| **2** | Review differentials between rating categories | That the differentials between rating categories be modelled and reviewed. |
| **3** | Investigate retaining Municipal Charge | • That the Municipal Charge be retained and<br>• Council seek to reduce the amount of the charge. |
| **4** | Fairness & equity | That Council reaffirms:<br>• rates are a tax to raise revenue to provide services across the entire Shire and<br>• it is not feasible to apply a full "user pays" model to Council services or levy rates according to usage or accessibility. |

| # | Theme | Principle |
|---|---|---|
| **5** | Rates relief for owners that undertake environmental land management. | That Council:<br>• investigate an appropriate criteria for providing rates relief for properties covered by a Trust For Nature covenant<br>• that such support be a rebate at a rate per hectare. |

## *11. Capacity to Pay – What is it and who has it?*

A common theme raised in community consultation over the years 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.

**(11.1) What Is It?**

The reality is however, whilst this seems a reasonable 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 community (e.g. the commercial, small business and farming sectors) 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 was keen to take capacity to pay into consideration when apportioning the rates burden. As this can't be done on an individual basis, it was considered the focus should be on the general capacity to pay of the rating category. This will be influenced by a range of broad economic factors.

As the rating categories may contain a range of property types in a range of sectors, the overall economic effect on some properties will vary. As an example, whilst the commercial rating categories will contain both retail and industrial properties, general economic conditions may have a different effect on both types of property. This will affect capacity to pay.

### (11.2) Who has "capacity to pay"?

Based upon the Macroplan Dimasi data from 2016, the following is a broad view of factors affecting our rating categories:

| Rating Category | Factors to Consider |
| --- | --- |
| **Residential - Colac/Elliminyt** | • High proportion of owner/occupied dwellings.<br>• Many occupants on lower than average PAYE wage or are retiree and/or pensioners.<br>• Many owners are PAYE wage earners who are experiencing sustained low wage growth and rising utility, insurance and health costs etc.<br>• Record low mortgage rates – but these will rise.<br>• Rates are generally paid after tax and are not tax deductible. |
| **Residential – Balance of Shire** | • Low valued properties in townships such as Cressy, Beeac, Pirron Yallock with owners usually in lower income group.<br>• Many owners are PAYE wage earners who are experiencing sustained low wage growth and rising utility, insurance and health costs etc.<br>• High valued properties are located along coastal regions (Apollo Bay, Marengo, Skenes Creek, etc.).<br>• High incidence of investment properties/holiday houses.<br>• Better financial returns from letting houses as holiday accommodation resulting in scarcity of residential lease properties.<br>• Residential lease rents expensive affecting quality of community.<br>• Wye River - Separation Creek affected by 2015 bushfire<br>• Rates are generally paid after tax and are not tax deductible. |
| **Holiday Rental** | • Category contains approx. 430 properties that are known to be made available for holiday accommodation for a fee.<br>• Many other properties escape detection and are therefore under rated. Introduction of Air BnB type model has made it increasingly difficult to capture properties used for holiday accommodation.<br>• Varying degrees of commerciality but can gross minimum of $10-12,000 p.a. rental income.<br>• Usually set up as business for tax purposes – rates are a tax deductible business expense.<br>• Profit margins can be tight but profit not always primary issue – usually not the owner's primary income.<br>• Record low mortgage rates – but these will rise.<br>• Directly benefit from the 385,000 overnight visitors spending $151 million into local economy.<br>• Holiday accommodation industry has peak seasons but has good off peak trade.<br>• Wye River - Separation Creek affected by 2015 bushfire but properties not affected by the fire are still being made available for accommodation at tariff range of $2,500 - $7,500 per week in peak season. Some high end Wye River properties are available for up to $12,000 per week in peak season. |

| Rating Category | Factors to Consider |
|---|---|
| **Rural - Farm** | • Range of property types – mostly dairy, beef, potatoes, cropping & sheep.<br>• Dairy affected by dairy crisis (reduced income & "claw back" payments) - though farm gate prices have since increased and processors waived claw back payments in return for continuity of milk supply<br>• Rising production costs – this is particularly an issue for small farms<br>• Commodity prices rise & fall due to external influences.<br>• Volume of rural land sales increased sharply from 2009 but declined in 2014 and 2016 (with a spike in 2015) - suggesting farmers reacting to low profitability from 2009.<br>• Sector is not a large employer of non family labour but does contribute to other businesses, thereby indirectly creating employment.<br>• All/part of rates/utilities are a tax deductible expense. |
| **Commercial / Industrial – Colac/Elliminyt/Colac West** | • There are a range of property types and sectors in this category e.g. from small retail shops to AKD, Caclo, Bulla etc.<br>• Different factors affecting different properties.<br>• Category contains businesses that are a considerable source of employment (e.g. Bulla, AKD etc.).<br>• Retail sector facing online & Geelong competition (affecting profitability) – professional services sector less affected<br>• Rates a tax deductible business expense.<br>• Population base (i.e. market) not growing – may improve after duplication of Princes Hwy completed.<br>• Need to retain competitiveness – to create / keep jobs. |
| **Commercial / Industrial - Balance Shire** | • Mainly contained to coast (Apollo Bay) and some in small towns (Birregurra, Forrest, Gellibrand, Beeac, Pirron Yallock, Cororooke etc.)<br>• Mainly food services, retail and large scale (i.e. motel/resort) accommodation.<br>• Directly benefit from the 409,000 domestic day visitors and 88,000 international visitors spending $66 million locally. Large passing trade opportunities.<br>• Duplication of Princes Hwy should have positive affect.<br>• Rates are a tax deductible business expense.<br>• Provides employment in towns. |

From the above it appears:

| Rating Category | Factors to Consider |
|---|---|
| **Residential - Colac/Elliminyt** | This rating category contains properties owned mostly by PAYE wage earners and pensioners, who are experiencing sustained low wage increases and rising domestic costs. Fortunately, mortgage rates have been at sustained record low levels, but this will not last indefinitely. |

| Rating Category | Factors to Consider |
|---|---|
| **Residential – Balance of Shire** | This rating category is similar to the above but includes dwellings not occupied by owners that are not used for commercial or semi commercial holiday accommodation purposes.<br><br>The category also includes Wye River – Separation Creek, which was ravaged by the 2015 Christmas day bushfire. There are however very few permanent residents in this township. |
| **Holiday Rental** | This rating category contains dwellings that are made available for holiday accommodation on a commercial or semi commercial basis. The vast majority of these properties are located in the coastal region. They are usually set up as a business for taxation purposes and in peak seasons generally command tariffs of $2,500-$4,000 per week (depending on quality of house etc.). Based on the data, the holiday rental sector is prospering (or has the capacity to prosper).<br><br>The category also includes Wye River – Separation Creek, which was ravaged by the 2015 Christmas day bushfire. This affected holiday rental earnings for those properties not damaged by the fire throughout 2016.<br><br>A challenge in relation to this rating category is it has become increasingly difficult to identify all properties used for holiday accommodation purposes to ensure they are correctly rated. |
| **Rural - Farm** | Dairy farmers have experienced a prolonged period of lower profit margins, made worse by the decisions by processors to cut the farm gate milk price and seek claw back payments. However, prices have increased since and processors waived/refunded claw back payments. Overall, there is no increase in sale of farms – suggesting that despite the dairy crisis and reduced profit margins, there is no significant exodus from the industry.<br><br>Dairy industry figures for 2016-17 show the average dairy farm in south west Victoria:<br>- milks approximately 368 cows<br>- produces approximately 525 kg of milk solids/cow/year<br>- has a gross income from dairying in excess of $1 million p.a.<br>- has a nett income (after tax) of $117,000 p.a.<br><br>In the same period, beef and sheep have performed very well, whilst cropping had a bumper harvest in 2016-17. Frost in November 2017 may affect the 2017-18 yield but the effects on price is unknown at this stage. |
| **Commercial / Industrial – Colac/Elliminyt/Colac West** | • The commercial/retail sector in Colac is not experiencing the same level of prosperity as the coast.<br>• Small retail shops in particular are susceptible to competition from online providers,<br>• Professional services, banks, supermarkets and larger businesses are less susceptible. |
| **Commercial / Industrial - Balance Shire** | The commercial / retail sector along the coast (basically Apollo Bay) is prospering due to visitor numbers /passing trade. |

| Rating Category | Factors to Consider |
|---|---|
| | Small townships away from the coast are not experiencing the same level of prosperity |

From a capacity to pay perspective, it appears the following rating categories have a capacity to pay or absorb rates increases:

| Rating Category | Why it has/hasn't capacity to pay |
|---|---|
| **Rural - Farm** | • All mainstream agricultural activities have performed well in 2016-17 and 2017-18 after a period of lower returns caused by drought and the dairy crisis.<br>• Average nett (after tax) income of dairy farms in south west Victoria has increased in 2016-17.<br>• Rates & utilities are a tax deductible business expense. |
| **Holiday Rental** | • Predominantly located in the coastal region<br>• High level of tourist stayovers (worth approximately $151 million per annum).<br>• Rates & utilities are a tax deductible business expense. |
| **Commercial / Industrial - Balance Shire** | • Coastal commercial/industrial properties have the benefit of high levels of passing trade/opportunities (worth approximately $66 million per annum).<br>• Rates & utilities are a tax deductible business expense.<br>• Commercial/industrial properties in rest of Balance of Shire not experiencing same economic activity. |

Whereas the following rating categories have less capacity to pay or absorb rates increases:

| | |
|---|---|
| Residential - Colac/Elliminyt | • Includes many residents on PAYE wages and pensioners.<br>• Average wage in Shire is $42,000.<br>Wages growth has stagnated for approximately 10 years.<br>• Employment more uncertain.<br>• Rates paid after tax. |
| Residential – Balance of Shire | • Includes many residents on PAYE wages and pensioners.<br>• Average wage in shire is $42,000.<br>Wages growth has stagnated for approximately 10 years.<br>• Employment more uncertain.<br>• Rates paid after tax. |

| | |
|---|---|
| Commercial / Industrial – Colac/Elliminyt/Colac West | • Small retail businesses in Colac/Elliminyt (mostly in Murray St) are suffering from on line competition.<br>• Larger businesses not as susceptible to this. |

## *12. Rates Modelling*

Rates modelling undertaken looked at:

- the appropriateness of the current rating categories.
- the effect of changing rating differentials between rating categories.
- the extent of changes to the amount of rates that would be payable as a result of changes to the differentials.
- the effect of reducing the Municipal Charge.
- the effect of equalising the commercial property rates across the Shire.

The valuation data used for rates modelling was data that was proposed, at that point in time, to be the 2018 revaluation data. As the 2018 revaluation was being prepared at the same time as the Rating Strategy, it was understood there may be some difference between the proposed data and the final revaluation data that was due to be returned in April 2018. It was anticipated the variance would not affect the Rating Strategy outcomes.

The modelling looked at apportioning the rates burden to the rating categories that appeared from the economic data to have the capacity to pay. This aim was consistent with views expressed by the community in consultative exercises undertaken.

This scenario required some re-categorising of properties and looked at:-

- creating a specific (new) “Commercial/Industrial - Apollo Bay / Marengo / Skenes Creek” category,
- creating a new “Commercial/Industrial – Major” category, and
- increasing the “Holiday Rental” rating category by including absentee owned dwellings located in the southern end of the Shire into the category.
  The basis for this was an acknowledgement that a large number of properties used for holiday accommodation were not included in the Holiday Rental category as they were let out through various on line applications (e.g. Air BnB etc.) and were difficult to identify for rating purposes.

Incorporating these changes proved problematic for a range reasons with the outcome being many properties in a variety of rating categories would experience significant rates increases. This was particularly so for absentee owned dwellings that would be included in the “Holiday Rental” rating category.

Coincidentally, in early February 2018 (just after this modelling was done), the Australian Taxation Office (ATO) announced they were requesting Air BnB provide them with a list of their clients for taxation purposes. This appeared to create an opportunity for Council as it was felt obtaining addresses of properties used to provide holiday accommodation from the ATO would be a fairer and more definitive means of identifying properties to be included in the "Holiday Rental" category. It would also lead to less complaints and administrative work as it would ensure absentee owners that don't let the dwelling out for holiday accommodation were not included in the "Holiday rental" category.

It is anticipated the ATO won't have this data until after tax returns for the 2017-18 financial year are lodged. Council's request for assistance from the ATO in this matter was subsequently rejected by the ATO.

Modelling was also undertaken for the following scenarios using the current rating categories. The modelled scenarios were:

| # | Description of scenario |
|---|---|
| **1** | No change to current categories & differentials |
| **2** | Reduce Colac Commercial by 10 % points / Increase Farm by 3% points |
| **3** | Reduce Colac Commercial by10 % points / Increase Commercial - BOS by 10% points & Holiday Rental by 10 % points/ No change to Farm or Residential - BOS |
| **4** | Reduce Colac Commercial by10 % points & Farm by 7% points / Increase Commercial - BOS by 10 % points & Holiday rental by 5 % points |

## *13. Proposed rating structure*

Based on the above scenarios, ultimately it was decided Option 1 (i.e. retaining the current rating structure and differentials) is the most appropriate as:

- the current rating categories provided accurate generic descriptions of land use that could be applied to all properties in the Shire (e.g. all properties were either residential, commercial/industrial, holiday rental or farm properties).
- the current differentials allowed for rates increases resulting from valuation increases to be mitigated (i.e. evened out).

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*<br>(Residential properties in the Colac, Colac East & West & Elliminyt). | 100%<br>(base rate) |
| *Residential - Balance of Shire*<br>(Residential properties located in the municipality excluding those in the "Residential -Colac / Elliminyt" rating category) | 85% |

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

Council on 24 April 2019 resolved to adopt these rating categories and differentials with a change that the “Rural –Farm” rating category differential be amended to 73% of the base rate from the 2020-21 financial year.

### Other Charges

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

**(13.1) Municipal Charge**

As this is a set charge, it ensures low valued properties (that pay a low amount of rates) contribute a meaningful amount towards the running costs of the Shire.

**(13.2) Waste Management Charge**

As this charge seeks to recoup the contract cost of the kerbside waste collection service from properties on the collection routes that benefit from the service, it is a “user pays” charge. As such, it meets the community expectation that people who use/benefit from a service should pay for it.

## *14. 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.<br><br>***Compliance:***<br>***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).<br><br>***Compliance:***<br>***"Horizontal equity" is achieved as properties in the same category and valuation pay the same amount of rates.***<br>***The strategy attempts to provide "vertical equity" by using differentials to equalise the amount of rates paid by similar types of properties that are in different localities and/or have different valuations.*** |
| **3** | *Efficiency* | That consideration be given to the extent to which production and consumption decisions by people are affected by rates.<br><br>***Compliance:***<br>***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 significant increases to specific rating categories.*** |
| **4** | *Simplicity* | The system should be easily understood by ratepayers and be practical to administer.<br><br>***Compliance:***<br>***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.<br><br>***Compliance:***<br>***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.<br><br>***Compliance:***<br>***Council obtained economic data to identify rating categories that appeared to have capacity to pay. Ultimately a balance between this principle and principles 2, 3 and 5 had to be found.*** |
| **7** | *Diversity* | Which groups in the municipality may warrant special consideration in regards to their capacity to pay.<br><br>***Compliance:***<br>***See comment for principle 6.*** |

## *15. Meeting community expectations*

This Rating Strategy has attempted to meet community expectations expressed through the community consultation exercises conducted over the past 18 months.

It is acknowledged that many people will judge the Rating Strategy by whether they pay less rates or more. This is understandable, although simplistic. Ultimately property rates are a land tax based on land value.

The main themes that emerged from the community consultation and our response is detailed below:

| # | Theme |
|---|---|
| **1** | Retain differential rating.<br><br>***Response;***<br>***The Rating Strategy has met this community expectation by retaining the differential rating structure.*** |
| **2** | Review differentials between rating categories (e.g. Farm, Commercial, Holiday Rental, new Coastal).<br><br>***Response:***<br>***The Rating Strategy has reviewed the differentials between rating categories and determined they are appropriate. It is acknowledged some sections of the community will feel their concerns have not been met by this action***. |
| **3** | Municipal Charge – whether to retain it or abolish it.<br><br>***Response:***<br>***Whilst there are differing community views on whether or not to retain the Municipal Charge, Council's view is it should be retained. Whether or not the Rating Strategy has met this community expectation is a subjective opinion.*** |

| # | Theme |
|---|---|
| **4** | Fairness & equity – consider capacity to pay / apply “user pays” model / value for money / rates to reflect services used or accessible.<br><br>***Response:***<br>***This is a complex issue. The “capacity to pay” issue is referred to above. Unfortunately a true “user pays” model would result in the many services becoming out of the financial reach of those the service is designed to assist. Whether or not the Rating Strategy has met this community expectation is a subjective opinion.*** |
| **5** | Rates relief for owners that undertake environmental land management.<br><br>***Response:***<br>***This is considered to be outside the scope of the Rating Strategy. However, a preliminary proposal to provide a rate rebate for land covered by Trust for Nature covenants is being prepared.*** |

## *References*


“From Coastal Communities to Tourist Towns” - Colac Otway Rating Strategy study in 2016 by Macroplan Dimasi Pty Ltd - February 2017

“2016-17 Dairy Farm Monitor Annual Report- Victoria” by Agriculture Victoria and Dairy Australia

“Revenue & Rating Strategy Guidelines”- DELWP 2014