Glenelg Shire Council

Draft Differential Rating Discussion Paper

Contents

Executive Summary

This discussion paper has been produced in response to the Council resolution in June 2021 regarding a transition to a differential rating structure. This document provides background and details surrounding the current rating structure of the Glenelg Shire Council and provides suggestions on alternative options.

To comply with the State Government imposed rate capping scheme, Council rates are restricted in increasing more than 1.5% in 21/22. This equates to $344k in dollar terms, of which $147k is foregone as part of the current rebate scheme.

This rebate scheme provided to Primary Producers has increased to total value from just over $1m in 2010/11 to nearly $3.5m in 2021/22. Council is unable to sustain such a model going forward. The transition from the current structure to a differential model is a significant change and due to the nature of a differential scheme distribution, these changes will impact all ratepayers within the municipality, not just those receiving the rebate.

In accordance with the requirements of the Local Government Act and the adopted Glenelg Shire Council community consultation and engagement framework, community feedback from all rating categories is being sought on these options for Council to consider when preparing its rating strategy and budget requirements for the financial year period from 22/23 and beyond.

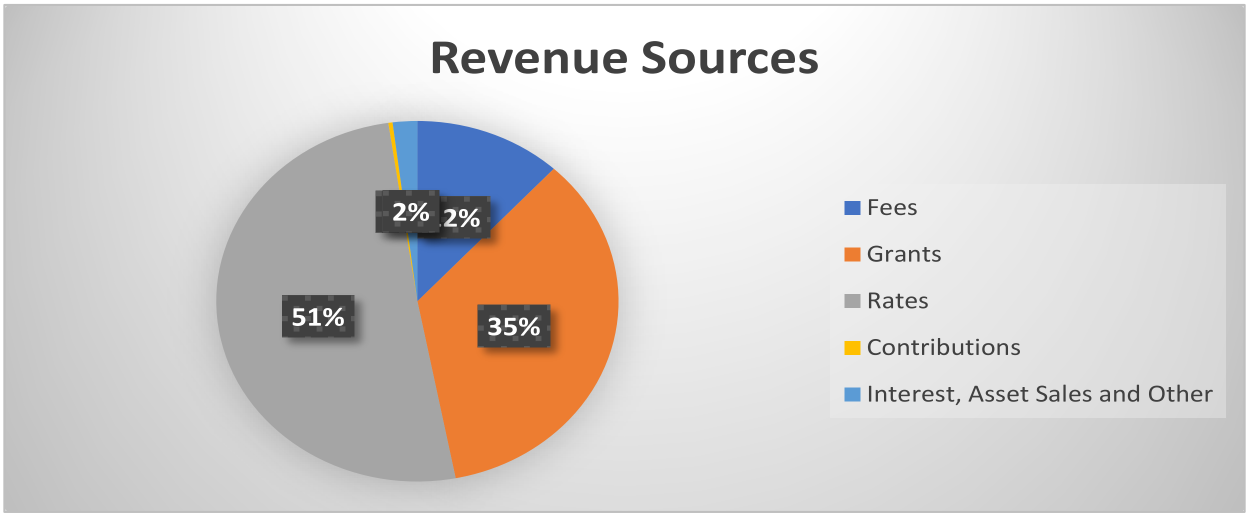
The budget outlines the goods and services that Council will provide as it strives to maintain the provision of current services whilst remaining within the State Government imposed rate capping limitations.

Council has applied the following principles when considering the rating environment for the Glenelg Shire;

- Fairness to change applied across each sector
- Equity across the board
- Maintain a positive cash position
- Long term financial security
- Certainty for ratepayers on future rates

Introduction

Council provides a wide variety of services and facilities to the local community, and in doing so, must collect revenue to cover the cost of providing these services and facilities.



Rates are the most significant revenue source for Council and account for 50.74% of its annual income.

Background

In accordance with the *Local Government Act 2020*, in early 2021 Council prepared a Revenue and Rating Plan outlining the expected income and revenue for the next four years. Amongst other recommendations, included in this document was a proposal to reduce the rebate applied to the Primary Production category over the term of the plan.

Council received approximately 200 written submissions from the draft Revenue and Rating Plan consultation as well as a number of submitters taking the time to address Council in person. The majority of the submissions were from the primary producer sector and did highlight several common themes. This included that there is wide-spread misunderstanding regarding the concept of a rate rebate compared to a differential rate and that many ratepayers were of the view that there was currently a differential rate in place.

Council considered the submissions and at the Council meeting on the 30 June 2021 adopted a modified Rating and Revenue Plan which maintained the status quo of a 30% rebate off the Primary Producer rate for the 2021/22 financial year but also outlined the intention of Council to transition from a rebate to a differential rating method.

Council also committed to undertake a community consultation process on this transition within the first year of the Revenue and Rating Plan.

Subsequently this document has been produced to outline and explain the key issues to enable informed views from all sectors of the municipality on the future rating structure for Glenelg Shire Council.

Rating Summary

Rates are property taxes that allow Council to raise revenue to fund essential public services to cater to their municipal population. Importantly, it is a taxation system that includes flexibility for councils to utilise different tools in its rating structure to accommodate issues of equity and to ensure fairness in rating for all ratepayers. Striking a proper balance between the distribution of the rate burden across residents is the challenge for Council.

Council can make a further distinction when applying general rates by utilising rating categories based on the purpose for which the property is used. That is, whether the property is used for residential, commercial/industrial, primary production purposes or other categories as permitted by the legislation.

This distinction is based on a concept that different property categories should pay a fair and equitable contribution considering the benefits those properties derive from the local community. This is essentially the rating differential methodology.

Rating Principles

In 2019 the Victorian State Government conducted a Local Government Rating System Review. The Local Government Rating System Review Panel presented their final report and list of recommendations to the Victorian Government in March 2020. The Victorian Government subsequently published a response to the recommendations of the Panel's report.

The Rating System Review provided guidance to Councils when developing a rating strategy, that a Council should give consideration to the following good practice taxation principles of Wealth Tax, Equity, Efficiency, Simplicity, Benefit, Capacity to Pay, and Diversity. Further explanation of these principles are available in the review document.

Rating Categories

Council currently has the following rate categories within its rating structure.

- General Rate – General land is any rateable land which does not have the characteristics of Primary Producer land and Commercial/ Industrial Rate Land.

- Primary Production – Used primarily for primary production purposes, is greater than 40 hectares and not defined as General Land or Commercial/Industrial Land.

- Commercial and Industrial – Used primarily for carrying out the manufacture or production of, or trade in goods or services.

- Cultural and Recreation – Land which falls within the definition of the Cultural and Recreational Lands Act 1963 which has the purpose of providing or promoting cultural or sporting recreational or similar facilities for outdoor use.

- Recreational - Land which is used or designed, adapted or intended to be used primarily for non-profit indoor or outdoor sporting, recreational or cultural purposes but which is not land to which the Cultural and Recreational Lands Act 1963 applies.

- Specific Rating Agreements

Rate Capping and Valuation Increases

In 2015 the Fair Go rating System (FGRS) was imposed by the State Government and came into force, commonly referred to as rate capping. Unless a Council applies for an exemption, total rates cannot increase by more than the rate cap. To translate this is dollar terms, in the financial year 2021/2022, the rate cap was set at 1.5%. As Council had a net rate base of $22.96m, this meant that Council's rating income could only increase by $344k, of which $147k was then forgone as a rebate to the primary production rate category. Therefore, total increase to rate income was $197k.

I.e. $22,960,272 x 1.5% = $344,306 less $147,628 = $196,677

At the time of preparing this report Council has been advised that the State Government rate cap for 2022/2023 will be set at 1.75%.

In recent times there has been a significant upward push on property values. Contrary to popular belief, this does not equate to any increase in Council rates. Council will only be able to increase rates by the amount determined by the rate cap and this is spread over all ratable properties as outlined above.

What this means as a ratepayer is that individual rates may decrease or increase greater than the State Government rate cap. How this is determined is based on how the value of the individual property has changed compared to other properties.

For example, if your property has increased in value more than the average increase across that category then you can expect to receive a higher rate increase than the rate cap whilst conversely, those properties that decreased in value or increased less than the average over the shire can expect to pay less.

Overall, however Council will not receive rating income greater than the State Government rate capped amount due to valuation increases of property.

Rebate vs Differential Rate

Rebates are a discount to a property owner of part or all of the rates they owe. The criteria applied for eligible rebates include the preservation or restoration of certain types of building or to support development of the municipal district (or part of the district). In all cases rebates must provide a benefit to the community as a whole. This is referred to as the public benefit test. Rating guidelines indicate that this approach should not be considered as a long-term strategy but rather a shorter-term process to enable development.

The objective of the primary producer rate potentially reflects the rationale of why a rebate was considered at the time.

> *to maintain agriculture as a major industry in the municipal district, to facilitate the longevity of the farm sector and achieve a balance between providing for municipal growth and retaining the important agricultural economic base.*

Council records indicate that a rebate scheme for Primary Producers was implemented in the 2010/11 rating year. It is understood that this may have been in response to difficulties in the sector in managing through drought conditions. This rebate was then increased to 30% in May 2011, effective for the budget year 2011/12.

The total rebate in 2010/11 in dollar figures totaled $1.058m whilst in the current year this now represents an amount of $3.429m.

The main difference between a rebate and a differential rate is that in a rebate scheme, the amount is treated as a discount off the total rates for the relevant category and therefore not received as income. A rebate can also be misleading as a 30% rebate does not equate to a 70% differential rate. If we were to translate the 30% rebate into differential rating terms, it would equate to a differential rate of around 55%.

Under a differential scheme the total amount of rates are distributed amongst every category and based on their differential rate, if lower or higher than the general rate of 100%, would translate into the rates payable. Subsequently a change in one category would impact all others.

The financial position of Council is such that it cannot continue to provide an escalating discount rebate scheme within a State Government rate capping environment and that the circumstances are now timely to review the rating structure.

Current Rating Structure

The following table outlines the current rating structure of the Glenelg Shire Council.

The General rate (100%) is applied to all categories. Primary Producers currently receive a 30% discount off their rates. Commercial and Industrial properties pay the same as the General rate whilst the Recreational and Cultural land users pay only 50%. These properties include private land owned by sporting clubs and community groups which are used for community purposes.

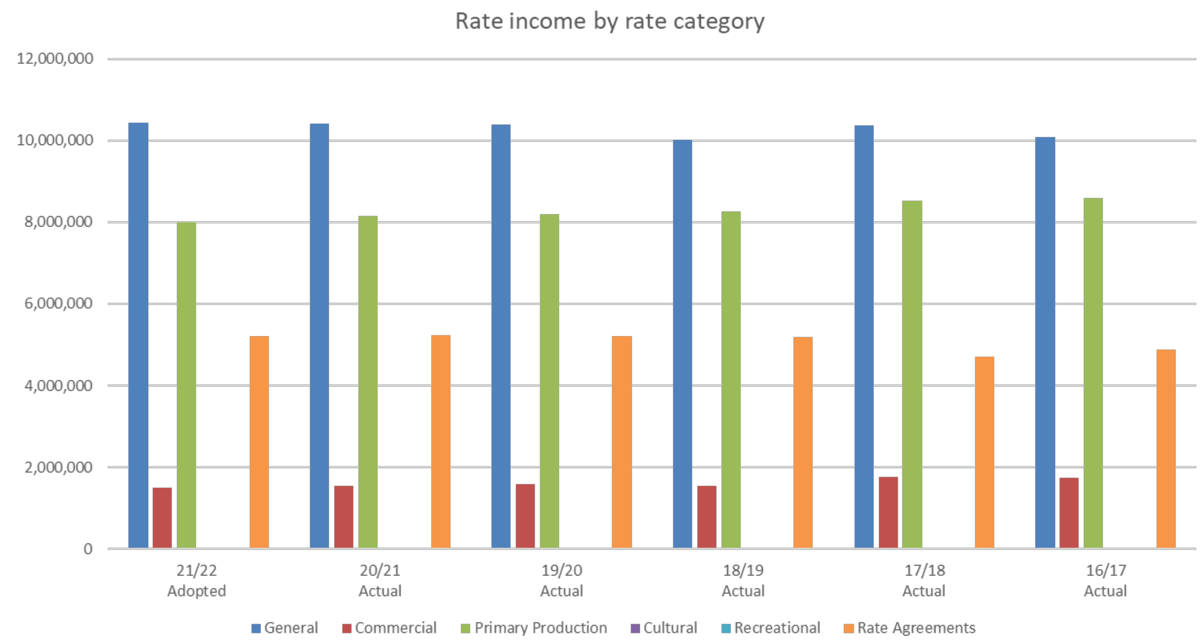
Table 1

Category	No Assess	% of Assess	CIV (as current)	CIV %	Gross Rates	Net after Rebate	% of rates (Gross)	% of rates (Net)
General	10022	72%	2,476,922,000	45%	$ 10,374,191	$ 10,374,191	36%	41%
Primary Production	2781	20%	2,729,384,000	49%	$ 11,431,588	$ 8,002,112	40%	32%
Commercial & Industrial	1028	7%	354,842,000	6%	$ 1,486,199	$ 1,486,199	5%	6%
Recreational Land	15	0.11%	2,743,000	0.05%	$ 12,599	$ 6,299	0.04%	0.03%
Cultural & Recreational Lands Act	16	0.12%	7,799,000	0.14%	$ 17,775	$ 17,775	0.06%	0.07%
Rate Agreements	6	0.04%	674,523,000	12%	$ 5,241,405	$ 5,241,405	18%	21%
	13831		5,561,148,000		$ 28,563,757	$ 25,127,982		

Under the current arrangements, 72% of ratepayers account for 45% of the land value within the Shire and contribute 41% of the rate burden. Primary producers account for 20% of ratable assessments but account for 49% of the total land value and contribute 32% to the rating burden after the rebate has been applied.

Recent Rate Movement

A review of movement over the past 5 years in the total rating income per category indicates little overall fluctuation. A steady decrease in the overall total from Primary Producers segment can be observed and is largely due to the rebate scheme even though property values have increased. Note that the income from the Cultural and Recreational categories are not shown due to their minor amounts when compared to the other categories.



Primary Producers Australian Tax Office (ATO) definition vs Victorian Farmers Federation (VFF) recommendation.

Following a submission from the Victorian Farmers Federation (VFF) in 1998, the Council changed the definition of farming to ensure that the primary production differential rate only applied to bona-fide primary production properties. Before 1998, all properties outside Portland greater than two (2) hectares were classified as farms. However, the VFF submission resulted in primary production properties being defined as greater than 40 hectares (with some specified exceptions such as horticulture, viticulture etc.).

The VFF recommends that the Primary Producers category only apply to properties that fall within the definition of farm land under the Valuation of Land Act 1960.

"Farm land" means any rateable land –

(a) that is not less than 2 hectares in area; and

(b) is used primarily for grazing (including agistment), dairying, pig-farming, poultry-farming, fish farming, tree farming, bee-keeping, viticulture, horticulture, fruit-growing or the growing of crops of any kind or for any combination of those activities; and

(c) that is used by a business

   (i) that has a significant and substantial commercial purpose or character; and

   (ii) that seeks to make a profit on a continuous or repetitive basis from its activities on the land, and

   (iii) that is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

The VFF view is that it is imperative that councils strike the rates on the basis of commercial farm operations being undertaken on the property.

Many Councils however are now using declaration statements from the Australian Tax Office to determine eligibility for those properties to take advantage of the benefits that a Primary Producer property receives. Whilst Council does not have access to the relevant data to determine if there is a significant difference between the current methodology compared to the ATO determination, it would be prudent at this time to consider if the current process is still the most appropriate.

What do you believe is the most appropriate criteria for classifying a primary producer for Glenelg Shire and therefore being entitled to a reduced rate?

- **The current methodology of 40h minimum.**
- **The criteria as outlined in the valuation of Land Act.**
- **A criterion where those that are registered as a primary producer with the Australian Tax Office?**

Please advise your support and rationale for these options.

Comparison Data

To assist in consideration of what would be an appropriate differential rating structure, Council staff obtained the following information during 2021 regarding other like municipalities, mainly large rural shires and predominately in the regional area.

There are 19 Victorian Councils in the comparison data which have been de-identified and are listed numerically in column 1. The Glenelg Shire (GSC) is represented as Council number 7.

Differential Rates Comparison

<u>Table 2</u>

Council	General Rate	Farm/Primary Producer Rate %	Commercial Rate	Vacant Rate	Industrial Rate	Cultural & Recreation Rate
1	100%	100%	130	200		0
2	100%	80%	100	150	100	60
3	100%	90%	120	180		
4	100%	90%	116		116	50
5	100%	89%	100	120	100	50
6	100%	80%	145			
7 -GSC	100%	100%*	100			50
8	100%	85%	185	125		0
9	100%	65%	116	125	116	50
10	100%	88%				
11	100%	80%	120			50
12	100%	90%		200		
13	100%	100%	140	200	140	97
14	100%	78%	153	210		
15	100%	100%	100		100	
16	100%	100%	100		100	
17	100%	75%	190			
18	100%	96%	108	200	100	96
19	100%	80%	100			236
Avg		**87.7**	**125**	**171**	**122.6**	**67.2**

Denotes that rebate then applied * As outlined earlier in this document once the 30% rebate is applied this equates to a comparative differential rate of approx. 55%.

There should however be an element of caution exercised when comparing as Councils have varying budgets, different demographics, differing industries and therefore different economies. The number and spread of assessments and the various categories are also factors.

Also note that for ease of comparison, similar categories, such as Farm and Primary Producers have been grouped together, only prominent categories have been included and that responses were not available from every Council for each category. The figures were accurate when the data was analyzed. Subsequently these comparisons should be treated as indicative.

Primary Producers

This data in Table 2 suggests that the Glenelg Shire net equivalent rate for Primary Producers of 55% is largely inconsistent with the approach taking by the majority of Shires. Council number 9 is the only Council with a similar rate less than 75% but have less than half the number of assessments in the Primary Producer category when compared to Glenelg Shire.

Council number 5 has similar characteristics (total income, number of assessments, land value) to Glenelg Shire and has a primary producer’s rate of 89%. Council number 15 has slightly less rate income than Glenelg Shire, has a low rate in the dollar but accounts for land value of more than 50% than Glenelg Shire and includes twice as many rural ratepayers when compared to residential and applies a full 100% to the sector.

Council number 16 has a similar rates income to Glenelg Shire and a similar amount of rural assessments and less residential.

Commercial & Industrial

In the 2015/16 adopted budget, Council resolved to reduce the commercial and industrial rate from 120% to 100%. Councils 5, 15 & 16 also share similar characteristics to Glenelg in regard to the number and value of properties in this category, and each have designated that commercial and industrial properties share an equal responsibility to the rate burden and that they should not be charged at a higher rate.

The data in Table 2 indicates that many Councils still charge a premium on such properties with the average differential rate being just over 120% inclusive of the Councils that have split this category. Some aspects to this approach include those commercial businesses may benefit from ongoing significant investment by Councils in services and infrastructure. The tax deductibility of Council rates for commercial properties which is not available to the residential sector, and the income generating capability of commercial based properties are also often considerations for a higher rate burden.

Do you support the Glenelg Shire Council direction that Commercial and Industrial ratepayers share equal rate burden to general ratepayers? If not, please advise what the rate differential should be and outline your rationale.

Vacant Land

Many Councils have also separately rated vacant land at a higher differential rate than general with an average of 171% differential rate. This appears largely as an incentive to develop such land. It does not necessarily reflect the area in which the vacant land is located or if the land is actually suitable for development. For example, vacant farming land would be excluded and rated under the primary Production category and land located in flood zones which cannot be developed would also be exempt.

Glenelg has not previously rated vacant land any different to general land and suggests that such an approach could hinder investment.

Do you believe that Council should investigate the option of rating vacant land at a higher differential rate than general land? Please outline your rationale for either yes or no.

Cultural and Recreational Land

The Cultural and Recreational Land Act outlines the rating arrangements of certain land used for cultural recreational sporting and similar purposes.

Recreational land is defined as land which exists for the purpose of providing or promoting cultural or sporting recreational or similar facilities, is a not for profit or dividend payment and is used for outdoor sporting recreational or cultural purposes or similar outdoor activities. This includes land which is primarily used for agricultural showgrounds.

Typical examples in this category include land used for golf clubs, bowling clubs, tennis clubs and angling clubs. Note that many sporting reserves are located on Crown land which do not attract and therefore this rating category only applies to private land in most cases.

For this type of land, a Council may determine the amount that these property owners / occupiers may pay, in lieu of rates, based on the municipal services provided by Council in relation to these properties, having regard to the benefit derived to the community. Note that these properties are still required to pay for any Fire Services Levy or waste charges where applicable.

There are approximately 30 properties within the Glenelg Shire that Council has for many years determined that the payment in lieu of rates should be set at 50% of the general rate.

This is based on the level of use from Council services that these properties utilize, such as road infrastructure for example, and that such properties provide significant community benefit. This equates to a net dollar value of $24,000 in rates forgone.

Do you support that Recreational Land should still attract a 50% reduction? Does this strike the balance between the benefits of these properties and the distribution of the rate burden? If not, why not?

Rate Contribution by Category

The following table provides a snapshot of the percentage of the rate burden that is shared by each category across the various Councils.
Comparisons are again drawn to the similar Councils (Number 5, 15 & 16) which have significant value in the rural sector. The rate burden amongst these Councils for the primary producer sector is much higher than at Glenelg Shire.

Table 3

Council	General Rate	Farm/Primary Producer	Commercial	Vacant	Industrial	Cultural & Recreation
1	72.7	4.7	7.1	8.1		
2	80.6	6.1	4.4	7.9	0.9	
3	65.3	16.2	9.5	5.9		0.1
4	59.7	24.0	10.8		5.5	
5	29.1	56.8	3.0		11.0	
6	74.5	12.9	12.6			
7 -GSC	42.1	30.8	6.2			0.1
8	70.5	2.8	22.1	4.5		
9	66.4	11.4	12.6	7.1	1.7	0.1
10	28.8	71.2				
11	88.3	5.8	5.7			0.1
12	79.9	8.6		8.5		
13	46.2	8.5	5.5	11.3	7.6	
14	70.7	9.7	6.0	10.6		
15	25.9	57.0	1.4		2.8	
16	36.0	58.0	4.6		1.4	
17	86.9	4.8	8.2			
18	31.2	47.3	5.9	0.3	2.3	0.1
19	59.1	20.2	20.6			0.1
Avg	**59%**	**24%**	**9%**	**7%**	**4%**	**0%**

Average Rates

The calculation for the average rate per assessment for Glenelg Shire Council (gross rates/no. assessments) reveals the following outcomes

- General rates average $1035.14 per assessment
- Primary producers average before rebate $4,110.60 per assessment
- Primary producers average after rebate $2,877.42 per assessment
- Commercial and Industrial average rates $1,445.72 per assessment

The use of "average" rates is a comparison tool used by many ratepayers and organisation however the use of such needs to be taken with caution.

Such analysis needs to consider the respective property valuations and the rate in the dollar for the respective Council. To put this into context, a property valued at $500k in one Shire may range in a Council rates value of anywhere from $600 up to $2,200 in another as an example.

Table 4

Council	General Rate $	Farm/Primary Producer $	Commercial $
1	1611	2269	2580
2	1505	3120	2407
3	1631	3686	3147
4	1519	2398	3491
5	1081	3844	1338
6	1448	2353	2951
7 -GSC			
8	1473	2575	5881
9	1583	1853	2686
10	788	1883	
11	1858	2427	2163
12	1731	2732	
13	1419	1331	1754
14	1686	2399	3132
15	1182	4880	1291
16	1056	3503	1946
17	2018	2387	3354
18	n/a	n/a	
19	1209	3364	7234
Avg	**1436**	**2764**	**2928**

The data in Table 4 suggests that Councils General rate average is well placed at the lower end when compared to the other Councils in the analysis.

The Primary Producers rate average amongst the selected councils of $2,764 initially compares well with Glenelg Shire's average, until you compare against the average for the Councils with similar characteristics (no 5, 15 & 16).

Capacity to pay

When considering the capacity to pay the use of the median household income data has also been considered. When comparing the rate burden to the average household income for general residential land, Glenelg Shire sits within the lowest quartile along with several other Councils in the South West indicating that the percentage of household income that has to be provided on rates is lower in Glenelg than the average obligation.

Primary Producers Differential Proposal

After consideration of the relevant information regarding Primary Producers, Glenelg Shire Council is of the view that a transition from a rebate scheme towards a differential rating arrangement for this category is considered an appropriate structure going forward. It is noted that this re-distribution will have a significant disruption in the initial year of transition across all categories and will then remain stable in line with the State Government rate cap and relevant valuations thereafter.

Taking into account the spread and average differential rate across the Councils included in the comparison data, together with the information on the rate burden per category, average rates information and capacity to pay, Glenelg Shire Council is of the view that a differential rate between 70 - 80% is appropriate and is seeking community input from all categories on this approach.

To assist residents in understanding what this means to individual properties, the following information has been provided. Note that for the purposes of this analysis, property values as of 30 June 2021 have been utilized. These average figures are indicative only and will vary depending upon individual valuation returns.

70% Differential

The application of a 70% rate differential will result in the average rate in the General Residential category increasing to $1,232.25. This is still less than the average reflected in the comparison Councils. This category would then account for 45% of the value and contribute 43% of the rate burden.

The average rates in the Primary Production category would be $3,425.32. This reflects an average increase of $547.90 per assessment after the rebate and is some $685.28 less than the gross amount rate before the rebate is applied currently. Such a change is not unexpected when the current rebate structure equates to a 55% rate.

Under this proposal the Primary Producer sector would be accountable to 49% of the land value and 33% of the rate burden.

Commercial and Industrial properties, should they remain at the same general rate of 100% would also experience an average rate increase of $275.28 under this redistribution.

Table 5

Category	No Assess	% of Assess	CIV (as current)	CIV %	Ave Rate per assess	Ave change	% rates
General	10022	72%	2,476,922,000	45%	$ 1,232.25	$197.10	43%
Primary Production	2781	20%	2,729,384,000	49%	$ 3,425.32	$ 547.90/ - $685.28	33%
Commercial & Industrial	1028	7%	354,842,000	6%	$ 1721.00	$275.28	6%

80% Differential

The application of an 80% Differential would also have a significant re-distribution impact during the initial year. This proposal would also still see General Residential increase to the extent of $130.02 on average per assessment to a figure of $1,165.16. This category would account for 45% of the land value and 40% of the rate burden.

The Primary Production category which includes 49% of the land value would account for 36% of the rate burden and have an average rate of $3,701.54 per assessment. This equates to an increase of $824.12 per assessment when compared to the current rates once the rebate had been applied. This figure is still some $409.06 less than the current average rate before the rebate is applied and remains consistent when comparing to the other like Councils in the comparison data.

Commercial and Industrial properties would increase by an average of $181.59 under this proposal to $1,627.31 which is well below the average rate for that category based on the comparison data.

<u>Table 6</u>

Category	No Assess	% of Assess	CIV (as current)	CIV %	Ave Rate per assess	Ave change	% rates
General	10022	72%	2,476,922,000	45%	$ 1,165.16	$130.02	40%
Primary Production	2781	20%	2,729,384,000	49%	$ 3,701.54	$ 824.12/ -$409.06	36%
Commercial & Industrial	1028	7%	354,842,000	6%	$ 1,627.31	$181.59	6%

The Primary Production sector under the current rebate scheme enjoys a rate reduction that equates to approximately 55%. The data in this discussion paper indicates that this is much greater than other comparison Councils and a more equitable distribution is being sought.

The transition from a rebate scheme to a differential rate involves a complete re-distribution across all categories which has been indicatively articulated in these figures. As each property valuation is unique, the actual impacts to each individual property may vary.

Do you support the Council proposal to introduce a Differential Rate for Primary Producers between 70-80% to balance the use of services against the apportioned rate burden?

- **If not, why not and what do you think is a fair % rate and why?**

Conclusion and next steps

Following receipt, consideration and analysis of the community consultation and engagement process, Glenelg Shire Council will develop and release its draft budget for 2022/23. The rating structure is integral in the budget process as it provides the basis of what revenue is available for expenditure on necessary Council services and facilities.

The draft budget will be prepared and released for community consultation around April 2022. Any further submissions will be considered at that time and the final budget will be presented for Council adoption in June 2022.

Submissions regarding this document can be provided through Your Say Glenelg.

Queries regarding any technical aspects of the rating structure can be directed to the following:

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