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1. Introduction

Under the *Local Government Act* (1989), a primary objective of all Victorian Local Governments is to ensure the equitable imposition of rates and charges. (Section 3C (f)). The purpose of this Rating Strategy is therefore to consider what rating options are available to Council under the *Local Government Act* (1989) and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

It is important to note at the outset that the focus of this strategy is very different to that which is discussed in the Long Term Financial Strategy/ Annual Budget. In these latter documents the key concern is the **quantum** of rates required to be raised for Council to deliver the services and capital expenditure required. In this Strategy, the focus instead is on how this quantum will be **equitably distributed** amongst Council's ratepayers.

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

1. The choice of which valuation base to be utilised (of the three available choices under the Act.
2. The consideration of uniform rating versus the application of differential rates for various classes of property;
3. What is the most equitable level of differential rating across the property classes?
4. Consideration of the application of fixed service charges for the areas of waste collection and municipal administration;
5. The application of special rates and charges;
6. The application of other levies under the Planning Act;

Council Profile

Frankston City is striving to be the preferred place to live, learn, work, visit and invest, offering incentives such as:

- vibrant and diverse communities with a potential catchment of over 328,000 people
- a unique lifestyle
- 11 kilometres of beautiful coastline, award winning clean foreshore and beaches
- cutting-edge arts and culture facilities and excellent restaurants and cafés
- world-class health and education facilities
- proactive commercial, retail and clean manufacturing business environment
- varied tourism experiences throughout Frankston City and the broader Mornington Peninsula region, which attracts 1.4 million overnight visitors and 2.9 million day trippers visiting annually.

Our Place

Frankston City is situated on the eastern shores of Port Phillip Bay approximately 40 kilometres south of Melbourne. The municipality covers an area of approximately 131 square kilometres from Seaford Wetlands in the north, to Mount Eliza in the south, and the Western Port Highway in the east. The western boundary of the city is made up of about 11 kilometres of beautiful coastline, clean foreshore and beaches along Port Phillip Bay.

Frankston City is strategically placed as the regional capital for the Mornington Peninsula and the nearby south east growth corridor of Melbourne. Currently, Frankston City provides regional shopping, education, health, community service, financial, recreation and leisure and entertainment facilities for a population catchment far greater than its municipal boundaries.

Frankston City is more than just the suburb of Frankston. It comprises the suburbs of Frankston central, Carrum Downs, Frankston North, Frankston South, Langwarrin, Seaford, Karingal, Sandhurst and Skye.

Our People

The population of Frankston City is 141,704 (ABS Census 2016) and is predicted to grow to approximately 163,610 by 2041. Frankston City has a young population, with nearly 30.90 per cent of residents under the age of 24. .

Overall, 21.4 per cent of the population were born overseas and 11 per cent came from countries where English was not their first language, compared with 33.8 per cent and 27.0 per cent respectively for Greater Melbourne.

Whilst Frankston City has been a predominantly Anglo-Australian community, the city has a strong and growing Aboriginal and Torres Strait Islander community, making up 1 per cent of the population (1,338 people). The cultural diversity of the city is developing. From 2011 to 2016 there has been small increases in the number of Frankston residents born in India (1,295 to 1,712 people), the Philippines (from 855 to 1,071 people), China (607 to 891 people), and Sri Lanka (from 577 to 593 people).

Our labour force comprises 67,774 individuals. Of these 57.8 per cent were employed full time, 30.8 per cent were employed part-time and 6.4 per cent were unemployed. There are 63,409 employed individuals in labour force. Frankston City residents contribute to the wellbeing of their community through a significant amount of unpaid work, including volunteering and unpaid childcare. There are 16,805 people in Frankston City who volunteer their time (19.2 per cent of the adult population), an increase of 2,759 people from 2011-2016.

Overall, 48.3 per cent of the population held educational qualifications compared to 42.1 per cent in 2011. There have been increases in all post-secondary qualification types - including people with a Bachelor or higher degree at 14.5 per cent in 2016 compared to 10.9 per cent in 2011, and with a vocational qualification at 30.6 per cent in 2016 from 21.7 per cent in 2011. The percentage of people who have no qualifications has declined from 46.7 per cent in 2011 to 41.2 per cent in 2016.

Creating employment and improving access to education are key priorities for Council, with unemployment remaining above the state and national averages despite recent improvements.

In 2016, Frankston City contained 56,872 dwellings, 77.5 per cent of which were separate houses. Owning a home is important to people living in Frankston City, with 40.7 per cent in the process of buying their own home, while 26.50 per cent own their own homes. Rental tenure has increased from 26.6 per cent in 2011 to 28.7 per cent in 2016.

2. Executive summary and recommendations

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

This is even more so the case for Frankston City Council where there are large disparities in the ability of various rating groups to afford payment of Council rates and in reality cross-subsidies are required to support residential areas that have socio-economic disadvantages.

As such, there are two key platforms that have formed the basis of the current approach to rating at Frankston City Council that are recommended for continuation. They are:

a) That rates will continue to be based principally on an ad-valorem basis (i.e. based on the valuation of the various properties) with minimal fixed charges (Waste collection and Municipal charge) to be applied;

b) That Council will continue to apply differential rating against various property classes that reflects the ability of these segments to afford Council rates.

Council currently applies differential rates (to the General Rate) to seven (7) different classes of property. This Rating Strategy recommends a continuation of this approach. The key aim of this review will be to make the current rating system equitable and relevant.

In order to prepare a comprehensive rating strategy, the following issues will be dealt with in the strategy:

1. Background to the current rating structure in place at Frankston City Council, highlighting the current rating differentials, special rates and service charges that are presently utilised and comparing Councils reliance on rate revenue compared to benchmark Councils.
2. Consideration of the role the rating structure plays in delivering a fair and equitable outcome to Council ratepayers and the various options Council has at its disposal in relation to linking the rating structure to either property wealth or capacity to pay.
3. Determining the respective classes of properties to which a rating differential will be applied to in the future including the objectives of the differential and the definition of the type of property to be included in each class. In specifying the objective of each differential rate, a Council should be able to provide evidence of having had regard to good practice taxation principles and their assessment against a particular differential rate objective and determination.
4. Evaluation of the municipal charge, including determining whether Council should continue to utilise this approach, if so at what level and what expenses should it directly cover.
5. Analysis of the Waste Service charges, including reviewing the funds raised compared to the current and future costs of waste provision, consideration of future capital work's needs.

Individual rate accounts comprise of three components: State levies that Council collects on behalf of the Victorian Government (Landfill Levy, Fire Services Levy), Council's waste services charge and Council rates. Council has no control over State levies which have risen at an alarming rate during the past five years. The Landfill Levy during this period has increased from $9 per tonne in 2008-2009 to an estimated $85.90 in 2020-2021.

This strategy recommends that council adopt the following.

Section	Strategy Recommendations
Determining which valuation base to use	That Frankston City Council continues to apply Capital Improved Valuation (CIV) and the valuation methodology to levy Council rates.
Determining the rating system-uniform or differential?	That Frankston City Council continues to apply differential rating as its rating system.
What differential rates should be applied?	1. That Council continues to apply a uniform general rate for all residential properties, including flats and units and rural properties. 2. That Council continues to apply the commercial and industrial rate at an increased surcharge of 25 per cent. 3. That Council continues to apply the vacant residential land at an increased surcharge of 25 per cent. 4. That Council continues to apply the derelict rate at an increased surcharge of 300 per cent. 5. That the level of discount given to retirement village properties be maintained at 25 per cent. 6. That the level of discount given to farm properties be maintained at 20 per cent. 7. That Council will assess annually during the budget process if it will apply the differential rate to Acacia Estate properties to collect rates to fund additional maintenance works associated with the estate's reserves in accordance with the development's planning permit.
Impact of Council revaluations	That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council.
Special rates and charges	1. That Council use special rates and charges in instances that fit the following circumstances: • Funding of narrowly defined capital projects (e.g. streetscape works, private road sealing) where special benefit can be shown to exist to a grouping of property owners • Raising funds for a dedicated purpose where the use of CIV is not the most equitable method of calculating property owner contributions.

	In circumstances outside of the above two scenarios, Council will use differential rating to achieve its objectives where permitted under Ministerial guidelines.
Municipal charge	That Council continues to utilise a Municipal Charge as part of its rating strategy and will increase annually at the same level of rate percentage increases.
Service rates and charges	That Council continues to apply a Waste Service charge as part of its rating strategy based on full cost recovery of the waste function.
Rate payment date options	That Council continues to apply the mandatory rate instalment payment option in future rating years combined with the option of a nine instalment payment plan to encourage greater use of the direct debit payment approach. During the 2020-2021 year Council will investigate moving to ten monthly direct debit instalments and also introduce payment by credit card for direct debit instalments effective from the 2021-2022 rating period.
Victorian Government levies	1. That Victorian Government taxes are best collected by the Victorian Government using its own available resources such as the State Revenue Office. 2. That in the event that council is required to collect such Victorian Government taxes that these taxes be clearly identified as State charges. 3. That Victorian Government fully reimburses Local Government for the cost of collecting State taxes.

3. What is a rating strategy and why have one?

The purpose of this strategy is for Council to consider how the rate burden can be most equitably distributed.

What is a rating strategy?

A rating strategy is the method by which Council systematically considers factors of importance that informs its decisions about the rating system. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property. The rating system comprises the valuation base for each property and the actual rating instruments allowed under the *Local Government Act* (1989) to calculate property owners' liability for rates.

The importance of a rating strategy

Frankston City Council currently receives 69 per cent of its total revenue (excluding non-discretionary capital grants and contributions) by way of property-based rates, municipal charge and garbage levies. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its community.

The principles of good governance further require Council to provide ongoing or periodic monitoring and review of the impact of major decisions. It is therefore essential for Council to evaluate on a regular basis, the legislative objectives to which it must have regard and those other objectives which Council believes are relevant. Frankston City Council is seeking to fully document its objectives and approach to the raising of rate revenue in line with its goal of providing transparency in its decision-making.

Council's Strategic Directions

Council has determined that its annual rate setting objectives should be developed within a framework which integrates planning from a strategic directions level through to service delivery. The strategic directions of Council are set out in the following documents:

Council Plan

This document details the long term community outcomes and includes services, initiatives and service performance indicators.

Council Annual Budget

Annual funding allocations (action plan) for activities and initiatives, with linkages to the Council Plan, together with key financial performance targets and measures.

Annual Report

Audited statutory operational and financial report including performance statement on key targets and measures identified in Budget and Council Plan. Frankston City Council operates as a separate entity to other councils. Each council has different local issues, costs and service provision needs. Each council budget is different to reflect local community needs and priorities. There are 79 Local Government councils in Victoria and some 671 Local Government entities throughout Australia.

In Victoria, there is a common legislative framework for setting a budget that councils must follow, as set out in the *Local Government Act* (1989).

Budget Considerations

Council prepares and publishes its annual budget as a separate document in compliance with the *Local Government Act* (1989), which includes a comprehensive submissions and approval process. As part of the financial planning and budget process, the rate revenue required to meet expenditure needs is calculated taking into account other sources of revenue.

Other revenue sources include statutory fees for building and planning through to user pays fees assessed annually in accordance with movements in CPI, wages and market factors. Council relies on Australian and Victorian funding mainly via the Grants Commission allocations. Specific purpose grants for new services and capital works are also received. Each year Council establishes the maintenance needs of its assets and infrastructure and the community services and facilities that will be provided in the next financial year.

After considering these other revenue sources, Council then determines the amount required to be collected in rates to meet the required level of operational services and capital expenditure determined by Council. The structure of the rating system is then determined, considering how rates are levied between and within the various categories of ratepayers by setting differential rates i.e. the Rating Strategy. Generally, Council seeks to have a balanced budget, i.e. that revenue is equal to expenses. Any surplus or deficit result should be minor in context of the overall budget.

4. Rating – the legislative framework

The purpose of this section is to outline the legislative framework in which Council has to operate in constructing its rating system and the various issues that Council must consider in making its decisions on its rating objectives.

Introduction

The rating framework is set down in the *Local Government Act* (1989) and determines a council's ability to develop a rating system. The framework provides considerable flexibility to suit requirements within the context of public finance methodology which includes principles of equity, benefit, efficiency and community resource allocation.

Context

Council has a duty to continue to review and refine the impact of its major decisions.

It is incumbent upon Council to regularly evaluate the current rating system to ensure it best satisfies the legislative objectives to which it must have regard and other objectives including ratepayer satisfaction, which Council believes, are relevant.

Council has prepared the Rating Strategy within context of current legislative constraints and to improve community understanding by providing a detailed explanation of rating concepts and decisions.

Background

Council acknowledges that the existing taxation of property (wealth tax) value method is imperfect; however, the application of an alternate rating model (e.g. income tax) is not available within the current constraints of the existing legislation.

However, Council can through a process of consultation and determination, modify certain aspects of the rating system in accordance with the legislation, to assist sections of the community. Such assistance must be in context of having wide acceptance in respect to social and equity principles while minimising any penalty, via a shift in rate burden, to other ratepayers. There is a common misconception that if a property's valuation rises, then Council receives a "windfall gain" with additional income. This is not the case, rather, the revaluation process results in a redistribution of the rate burden across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction to the rate in dollar (ad valorem rate) used to calculate the rate for each property.

On 2 December 2015, the Victorian Government passed legislation to restrict Council from increasing rate income by more than the average cap set by the Minister for Local Government. The Minister for Local Government announced on 13 December 2019 that Victorian council rate rises would be capped to the rate of inflation in the 2020-2021 financial year. That is, the Consumer Price Index (CPI) as published by the Victorian Department of Treasury and Finance, which is 2.00 per cent for the 2020-2021 financial year.

Council acknowledges that property taxes do not recognise the situation where ratepayers are "asset rich" and "income poor". In some cases ratepayers may have considerable wealth reflected in property they own but have a low level of income. Examples include pensioners, self-funded retirees, businesses subject to cyclical downturn, households with large families and property owners with little equity but high levels of mortgage debt. Moreover, the Australian taxation system which allows for annuities, allocated pensions income and other assets to be treated differently in an assessment for government concessions and benefits, may further distort the true disposable income status of one household compared to another.

While personal income tax is more reflective of the capacity to pay, it is not possible to expect a property tax system to deal practically with all aspects of capacity to pay based on individual households and businesses. It is also not practical or acceptable to shift, modify or manipulate the existing system to the benefit of one group of ratepayers at the expense of another unless such shift is widely accepted and for a proper purpose. In fact, Local Government has no mandate or ability to universally apply a "capacity to pay" test. In recognition of this fact, Council has developed its rates assistance and payment options to ensure that officers can provide ratepayers with assistance upon request.

In the Local Government context, the rating system determines how Council will raise money from properties within the municipality while the annual budget determines how that money will be spent. The rating system comprises the valuation base and the rating instruments that are used to calculate property owner's liability for rates.

The rating framework is set down in the *Local Government Act* (1989) and determines a council's ability to develop a rating system. The framework provides considerable flexibility to suit its requirements within context of public finance methodology, which includes principles of equity, benefit, efficiency and community resource allocation.

4.1 Legislative Framework

Section 3C of the *Local Government Act* (1989) stipulates the primary objective of Council is to endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of its decision. In seeking to achieve its primary objective, a Council must have regard to facilitating the following objectives-

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

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

4.2 Principles of taxation – local government

Councils should first consider the objective in the Local Government Charter (Part 1A, S.3C (2) (f) of the Act), to "ensure the equitable imposition of rates and charges" when selecting a rating strategy. Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and charges, it is a much more difficult question in terms of how to define and determine what is in fact equitable in the view of Council.

In considering the best-practice system of taxation, economists generally draw on a number of design criteria or principles. The principles summarised below are most significant in local government rating decisions:

Tax design principles

Equity: does the tax burden fall appropriately across different classes of ratepayers?

- ***The Benefit principle*** - One of the more misunderstood elements of the rating system is that residents seek to equate the level of rates paid with the amount of benefit they individually achieve. The reality is however that rates are a system of taxation not dissimilar to P.A.Y.E tax.

  In paying a tax on salaries, it is rarely questioned what benefit is received with it being acknowledged that tax payments are required to pay for critical services (Health, Education, etc.) across the nation. Local Government is not different to this outcome with Rates being required to subsidise the delivery of services and capital works that would otherwise be unaffordable if charged on a case by case basis.

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

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

Simplicity:

- Is the system practical and cost-effective to administer and enforce?
- Is the system simple to understand and comply with?

Efficiency: does the rating methodology significantly distort property ownership and development decisions in a way that results in significant efficiency costs?

Sustainability: does the system generate sustainable, reliable revenues for councils and is it durable and flexible in changing conditions (that is, can it adequately withstand volatility)?

Cross-border competitiveness: to what extent does the rating system undermine the competitiveness of the council/state as a place to live and/or own a property or operate a business?

Competitive neutrality: are all businesses conducting similar activities treated in similar ways within the municipality?

Simultaneously applying all of these criteria may not always be feasible so; there are likely to be trade-offs among them. The most efficient system may place an excessive burden on segments of the community where, from an equity point of view, this is not desirable. Alternatively, it may be too expensive for councils to administer, or for ratepayers to reasonably understand.

Therefore, the design challenge is one of appropriately balancing competing considerations. That is, the preferred design of the rating system, and the extent to which it satisfies the criteria above, hinges on the weight that councils assign to different criteria.

4.3 What Rates and Charges may a Council declare?

Section 155 of the *Local Government Act* (1989) provides that a Council may declare the following rates and charges on rateable land –

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

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

4.4 Valuation Methodology available to Council

In raising Council rates, Council is required to primarily use the valuation of the rateable property to levy rates.

Section 157 (1) of the *Local Government Act* (1989) provides Council with three choices in terms of which valuation base to utilise. They are Site Valuation, Capital Improved Valuation and Net Annual Value. The advantages and disadvantages of the respective valuation basis are discussed in Section 5 of this Strategy.

4.5 Declaring Rates and Charges

Section 158 of the *Local Government Act* (1989) provides that Council must at least once in respect of each financial year declare by 30 June the following for that year:

a) The amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges;

b) Whether the general rates will be raised by application of –

   i. A uniform rate; or

   ii. Differential rates (if Council is permitted to do so under Section 161 (1)

   iii. Urban farm rates, farm rates or residential use rates (if Council is permitted to do so under Section 161A)

Council's recommended approach to the application of differential rates is discussed in Section 8 of this Rating Strategy.

4.6 Other legislative changes

Ministerial Rating Guidelines

The Local Government Legislation Amendment (Miscellaneous) Bill 2012 was enacted in October 2012. This legislation requires the Minister to issue guidelines which Councils must have regard to before declaring a differential rate for any land.

The Minister is given the power to seek an Order prohibiting any Council from making a declaration of a differential rate if the Minister considers the declaration would be inconsistent with any guideline.

Key messages from the Ministerial Guidelines

The Ministerial Guidelines (issued April 2013) state that Council should establish the suitable use of a differential rate by considering:

- Other rating instruments available under the Local Government Act and the merits or shortcomings of each in achieving specified objectives; and
- The anticipated relative effectiveness of the differential rate to achieve the specified objectives determined by council.

The guidelines also require the specified objectives of differential rates to align to the strategic objectives set out in the Council Plan. The types and classes of land categories considered ***appropriate*** for differential rates include:

- General land;
- Residential land
- Farm land;
- Commercial land;
- Industrial land;
- Vacant land;
- Derelict land; and
- Cultural and recreations.

Types and classes of land considered ***not appropriate*** includes:

- Electronic gaming machine venues or casinos;
- Liquor licensed venues or liquor outlet premises;
- Business premises defined as whole or part by hours of trade;
- Fast food franchises or premises;
- Tree plantations in the farming and rural activity zones; and
- Land within the Urban Growth Zone without an approved Precinct Structure Plan in place.

The guidelines do not prevent the introduction of new differential rates, but do require documentation of the council’s discussion in relation to the objective, suitability, simplicity and effectiveness of the new differential rate.

Fire Services Levy

From 1 July 2013, the Victorian Government introduced a property based levy to fund the Metropolitan Fire and Emergency Services Board (MFB) and the Country Fire Authority (CFA). The Fire Services Property Levy replaced the existing insurance-based funding model as recommended by the Victorian Bushfires Royal Commission. The fire services levy is shown separately on rate notices.

Centralised Annual Valuations

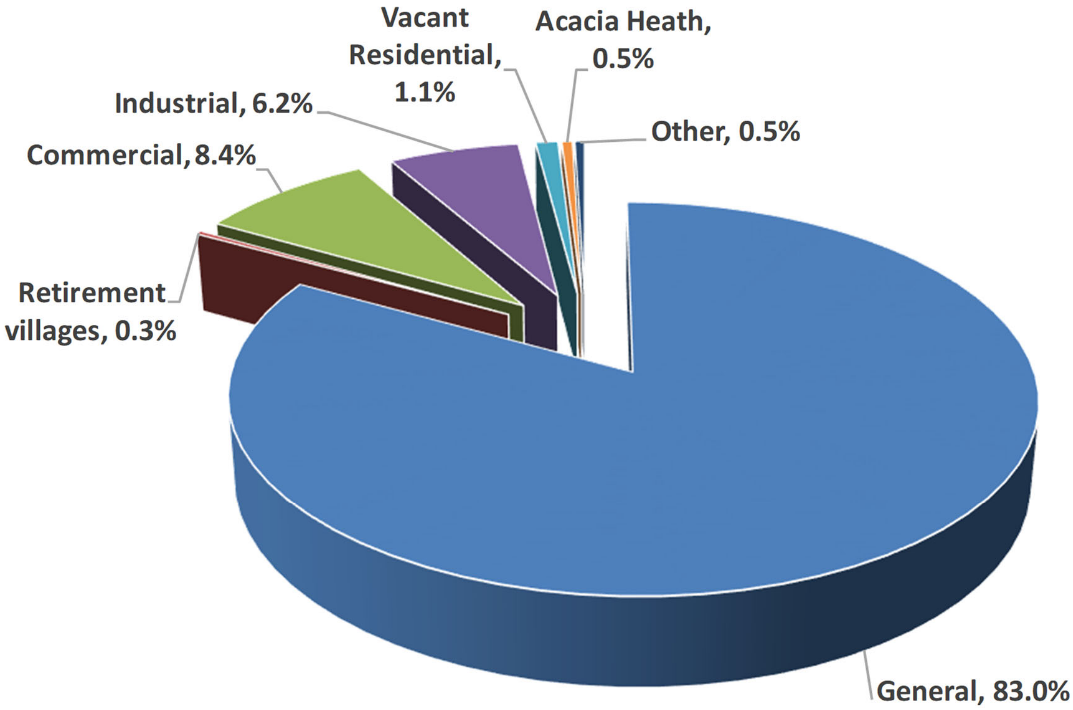
The State Taxation Acts Further Amendment Act 2017 was passed by Parliament on 14 December 2017 and received Royal assent on 19 December 2017. Significant among the reforms were changes to the process of land valuations for rating and taxation purposes. The Government have centralised valuations made for rating and taxing purposes with the Valuer-General of Victoria (VGV) and introduced annual valuations for Land Tax, Fire Services Property Levy and Council Rate setting purposes from the 2019 revaluation year onwards.

The changes recognise the VGV as the sole valuation authority which will conduct valuations of all land in Victoria for rating and taxing purposes. These general valuations will now be conducted annually.

5. Understanding the current rating framework at Frankston City Council

Frankston City Council currently applies the Capital Improved Valuation (CIV) methodology in order to levy its rates. Council currently applies differential rating (versus uniform rating) and has seven (7) differential rates in use (shaded in the table below). The below table and graph display the respective revenues from the various rate categories.

Type or class of land	No. of Assessments	2020-2021 CIV $	2020-2021 Total rates levied	2020-2021 % rates of total
Ordinary rate	56,182	32,724,840,001	76,112,389	83.03%
Retirement villages	574	151,802,500	264,800	0.29%
Commercial land	2,085	2,652,891,000	7,712,714	8.41%
Industrial land	3,143	1,965,070,500	5,713,023	6.23%
Vacant residential land	484	335,237,500	974,631	1.06%
Acacia Heath	238	201,415,000	468,457	0.51%
Farm land	5	21,225,000	39,493	0.04%
Derelict land	1	300,000	2,093	0.00%
Rateable recreational properties	5	163,515,000	259,221	0.28%
Rate by agreement (including Baxter Village)	520	103,680,000	125,135	0.14%
Total	**63,237**	**38,319,976,501**	**91,671,956**	**100.0%**
Municipal charges			10,522,763	
Waste charges			28,081,435	
Total rates and charges			**130,276,154**	



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

Type or class of land	2020-2021 cents/$CIV	Variance to general rate
Ordinary rate	0.2326	
Retirement villages	0.1744	75%
Commercial land	0.2907	125%
Industrial land	0.2907	125%
Vacant residential land	0.2907	125%
Acacia Heath	0.2326	100%
Farm land	0.1861	80%
Derelict land	0.6976	300%

Council currently utilises a service charge to fully recover the cost of the Waste function and applies special rates and charges schemes under the *Local Government Act* (1989)

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

6. Determining which valuation base to use

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

They are:

- **Capital Improved Valuation (CIV)** – Value of land and improvements upon the land
- **Site Valuation (SV)** – Value of land only
- **Net Annual Value (NAV)** – Rental valuation based on CIV. For residential and farm properties, NAV is calculated at 5 per cent of the Capital Improved Value. For commercial and industrial properties NAV is calculated as the greater of the estimated annual rental value or 5 per cent of the CIV.

6.1 Capital Improved Value (CIV)

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

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

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

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

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

Advantages of using Capital Improved Valuation (CIV)

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

Disadvantages of using CIV

- The main disadvantage with CIV is the fact that rates are based on the total property value which may not necessarily reflect the income level of the property owner as with pensioners and low income earners.

6.2 Site Value (SV)

There are no Victorian Councils that use this valuation base. With valuations based simply on the valuation of land and with only very limited ability to apply differential rates, the implementation of Site Value in a Frankston City Council context would cause a massive shift in rate burden from the industrial/commercial sectors onto the residential sector.

There would be further rating movements away from modern townhouse style developments on relatively small land parcels to older established homes on the more typical quarter acre residential block.

In very many ways, it is difficult to see an equity argument being served by the implementation of Site Valuation in Frankston City Council.

Advantages of Site Value

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

Disadvantages in using Site Value

- Under SV, there will be a significant shift from the Industrial/Commercial sector onto the residential sector of Council. The percentage increases in many cases will be in the extreme range.
- SV is a major burden on property owners that have large areas of land. Some of these owners may have much smaller/older dwellings compared to those who have smaller land areas but well developed dwellings - but will pay more in rates. A typical example is flat, units, townhouses which will all pay low rates compared to traditional housing styles.
- The use of SV can place pressure on Council to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately (e.g. farm land, urban farm land and residential use properties). Large landowners, such as farmers for example, are disadvantaged by the use of site value.
- SV will reduce Council's rating flexibility and options to deal with any rating inequities due to the removal of the ability to levy differential rates;
- The rate-paying community has greater difficulty in understanding the SV valuation on their rate notices, as indicated by many inquiries from ratepayers on this issue handled by Council's Customer Service and Property Revenue staff each year.

6.3 Net Annual Value (NAV)

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

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

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

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

6.4 Summary

It is recommended that Frankston City Council continue to apply Capital Improved Valuation as the valuation base for the following reasons:

- CIV is considered to be the closest approximation to an equitable basis for distribution of the rating burden.
- CIV provides Council with the ability to levy a full range of differential rates. Limited Differential rating only is available under the other rating bases.
- It should be noted that an overwhelming majority of Victorian Councils apply CIV as their rating base and as such, it has a wider community acceptance and understanding than the other rating bases.

Strategy Recommendation
That Frankston City Council continues to apply Capital Improved Valuation and the valuation methodology to levy Council rates.

7. Determining the rating system - uniform or differential?

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

7.1 Uniform rate

Section 160 of the Act stipulates that if a Council declares that general rates will be raised by the application of a uniform rate, the Council must specify a percentage as the uniform rate. Rates will be determined by multiplying that percentage by the value of the land.

Frankston does not adopt uniform rates, instead has adopted differential rating since amalgamation.

7.2 Differential Rates

Frankston has adopted differential rating as it considers that differential rating contributes to the equitable distribution of the rating burden. Differential rating allows particular classes of properties to be assessed rates at different levels from the general rate set for the municipality. Differential rating allows Council to shift part of the rate burden from some groups of ratepayers to others, through different "rates in the dollar" for each class of property.

Under the *Local Government Act* (1989), Council is entitled to apply differential rates provided it uses Capital Improved Valuations as its base for rating. Section 161 outlines the regulations relating to differential rates. This section is outlined below.

(1) A Council may raise any general rates by the application of a differential rate, if Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.

(2) If a Council declares a differential rate for any land, the Council must-

a) Specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of the Councils functions and must include the following:

   i. A definition of the types of classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate.

   ii. An identification of the type or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in Councils district)

b) Specify the characteristics of the land, which are the criteria for declaring the differential rate

The maximum differential allowed is no more than four (4) times the lowest differential. This is important in the Frankston City Council context as Council is very close to this limit in term of the variation between the current Retirement Village Rate and the Derelict rate.

Council, in striking the rate through the Annual Budget process sets the differential rate for set classes of properties at higher or lower amounts than the general rate. Currently there are seven (7) different levels of rates as outlined in Section 4 of this Rating Strategy.

7.3 Objective of the rate and characteristics

For the declared differential rates it is considered that each differential rate will be used to contribute to the equitable and efficient carrying out of Council's functions. The following are the objectives of the differential rates currently adopted for the different property types.

Commercial - developed and vacant land

The Commercial differential rate is applied to promote the economic development objectives for the Frankston Commercial Sector. This objective includes an ongoing, significant investment in place management to improve the functionality and appearance of activity centres, together with general economic development promotion and facilitation activities, and through the creation of business opportunities by the activation of precincts such as the Frankston Central Activation Area. The commercial businesses of Frankston are expected to be beneficiaries of this ongoing significant investment by Council.

It is further noted that the application of a commercial differential rate further recognises 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.

Taxation principles

Whilst Frankston City Council is an investor in the growth of the commercial sector (benefit principle), the key taxation principle applied by this differential rate is the relative capacity to pay of this sector, acknowledging both the taxation benefit allowed to commercial properties and the relatively lower capacity to pay by the residential sector of Council.

Industrial - developed and vacant land

The Industrial rate is to promote economic development objectives for the Frankston Industrial Sector. This objective includes an ongoing, significant investment in place management to improve the functionality and appearance of activity centres, together with general economic development promotion and facilitation activities, and through the creation of business opportunities by the activation of precincts such as the Frankston Central Activation Area. The industrial businesses of Frankston are expected to be beneficiaries of this ongoing significant investment by Council.

Taxation principles

Whilst Frankston City Council is an investor in the growth of the industrial sector (benefit principle), the key taxation principle applied by this differential rate is the relative capacity to pay of this sector, acknowledging both the taxation benefit allowed to industrial properties and the relatively lower capacity to pay by the residential sector of Council.

Vacant residential land

The residential vacant land rate is to promote housing development objectives for the municipality including the development of vacant land in residential zoned areas.

Taxation principles

The taxation principle applied in this differential is the efficiency principle where Council is endeavouring to discourage the banking of residential land and provide a financial incentive for its development.

Retirement village land

Under the Ministerial Guidelines for differential rating, Council is required to give consideration to a differential rate for retirement villages. Differential rates are provided to Retirement Villages in 5 out of the 79 Victorian Councils with the discount provided ranging from 5 per cent to 25 per cent.

Council introduced a discount to retirement villages within the municipality to acknowledge that these facilities are deemed to be on private land and as such are not entitled to such services as road maintenance, footpath maintenance, power for street lighting, upkeep of kerb and gutters and street sweeping.

Taxation principles

The key taxation principle applied with this rating differential is one of equity where retirement villages have funded the provision of their own infrastructure within their gated community and continue to pay for the ongoing maintenance of these assets including roads, footpaths, lighting, etc. In addition, there is a social benefit provided by retirement villages in providing a facility that allows elderly residents to age in their residence in a supported environment and one which provides social and recreational activities that enhance lifestyles.

Derelict land

As part of Council's move to improve its municipal streetscape a derelict land use rate was introduced on all derelict properties. This rate is three times the general rate and is not seen as a revenue-raising measure but an initiative which would give property owners a strong incentive to keep up the appearance of properties.

Taxation principles

The taxation principle applied in this differential is the efficiency principle where Council is endeavouring to discourage property owners from neglecting their responsibility to keep up the appearance and safety of their properties.

Acacia Estate land

A differential rate applied to the general rate was introduced for residents of the Acacia Heath Estate, to collect rates to fund additional maintenance works associated with the estate's reserves in accordance with the development's planning permit. From the 2020-2021 rating period, Council will consider at each annual budget process whether to apply a differential rate to the Acacia Health and Spring Hill Estate. Acacia Estate properties will have the ordinary general rate in the dollar applied for 2020-2021. Council resolved on 1 June2020 to not apply a differential rate to the Acacia Heath and Spring Hill Estate, the ordinary general rate in the dollar of 0.236 will be applied for 2020-2021.

Farm land

Council introduced a differential Farm rate to encourage the retention and expansion, where appropriate, of productive farming and agricultural activities in the Green Wedge areas. The differential Farm rate is a 20 per cent reduction of the general rate and is available to landholders of properties two hectares or greater and used as 'farm land'. Farm land means any rateable land that is used primarily for farming purposes (which may include grazing, poultry-farming, market garden or viticulture) that is used by a business that has a significant and substantial commercial purpose and is making a profit, or has reasonable prospect of making a profit from its activities, pursuant to the provisions as set out in Section 2 of the *Valuation of Land Act* (1960). The main objectives of having a farm rate are:

- To promote and support the use of sound agricultural practices
- To conserve and protect areas which are suited to certain agricultural pursuits.
- To encourage proper land use consistent with genuine farming activities.

Taxation principles

The key taxation principle applied with this rating differential is one of capacity to pay. Council farm properties are typically either just within or just beyond the urban growth boundary leading to high valuations for the respective use of the land. The farm differential applied reflects the high level of rates applied to land which is used for agricultural rather than development purposes.

7.4 Advantages of a differential rating system

The perceived advantages of utilising a differential rating system are:

- There is greater flexibility to distribute the rate burden between all classes of property, and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for commercial and industrial premises;
- Differential rating allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs of the commercial and industrial sector;
- Enables Council to encourage particular developments through it rating approach e.g. encourage building on vacant blocks;
- Allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome (e.g. Farming enterprises);
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

7.5 Disadvantages of Differential Rating

The perceived disadvantages in applying differential rating are:

- The justification of the differential rate can at times be difficult for the various rating groups to accept giving rise to queries, objections and complaints where the differentials may seem to be excessive;
- Differential rates can be confusing to ratepayers, as they may have difficulty to understand the system. Some rating categories may feel they are unfavorably treated because they are paying a higher level of rates than other ratepayer groups.
- Differential rating involves a degree of administrative complexity as properties continually shift from one type to another (e.g. residential to commercial, vacant to developed) requiring Council to update its records. Ensuring the accuracy/integrity of Council's data base is critical to ensure that properties are correctly classified into their differential rate category.
- Council may not achieve the objectives it aims for through differential rating. For example, Council may set its differential rate objectives to levy a higher rate on land not developed, however it is uncertain as to whether the differential rate achieves those objectives.

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

8. What differential rates should be applied?

The table below highlights the differential rates currently applied by Frankston City Council and the number of relevant assessments in each category.

Type or class of land	No. of Assessments	2020-2021 cents/$CIV	Variance to general rate
Ordinary rate	56,182	0.2326	
Retirement villages	574	0.1744	75%
Commercial land	2,085	0.2907	125%
Industrial land	3,143	0.2907	125%
Vacant residential land	484	0.2907	125%
Acacia Heath	238	0.2326	100%
Farm land	5	0.1861	80%
Derelict land	1	0.6976	300%

8.1 General Rates (Residential)

This category which has 56,182 assessments includes all residential properties, including flats and units which until recent years were rated under a separate differential. It contributes 83.03 per cent of the total rates levied.

This strategy recommends that Council continue applying the general rate for all residential properties, including flats and units.

8.2 Retirement Villages

Frankston City Council has 574 retirement village properties which constitute 0.91 per cent of the total assessments, contribute 0.29 per cent of the total rates raised.

This strategy recommends that the retirement village rate remain the same at a discount of 25 per cent of the general rate.

8.3 Commercial (Developed and Vacant)

Frankston City Council has 2,085 commercial properties which constitute 3.30 per cent of the total assessments, contributing 8.41 per cent of the total rates raised. The commercial CBD properties used to have a higher differential rate due to a historic agreement between Council and commercial properties. This agreement essentially included the removal of ticket parking within the CBD to be offset by a 25 per cent increase in rates to be paid by the commercial CBD properties. This differential has been removed and has been combined with all other commercial properties.

Commercial properties are defined as those selling a product or providing a service. These properties are similar to industrial properties in respect that they are businesses providing employment opportunities. The commercial differential rate is a part of a rating system which maintains, as far as possible, the current rates burden on commercial properties given the tax deductibility of rates for businesses and the extent of use of the infrastructure by business, especially the road network.

This strategy recommends that the commercial rate surcharge remain the same at 125 per cent of the general rate.

8.4 Industrial Rate (Developed and vacant)

Council has 3,143 industrial developed properties.

Industrial properties are those that are used for the purposes of manufacturing. These properties which constitute 4.97per cent of the total assessments, contribute only 6.23 per cent of the total rates raised.

Currently there is no difference in the rate in the dollar between the developed commercial and the developed industrial properties. Typically commercial entities vary more in size than industrial properties ranging from milk bar operations to major shopping centre retailers and in many cases the capacity to pay higher rates in the commercial sector is marginal. It must also be acknowledged that Council has been required (and will over the next decade) to invest heavily in the construction of infrastructure for industrial development which does not typically apply in the commercial sector.

This strategy recommends that the commercial rate surcharge remain the same at 125 per cent of the general rate.

8.5 Vacant Residential

Frankston City Council has 574 vacant residential properties which constitute 0.91 per cent of the total assessments, contribute 1.06 per cent of the total rates raised.

This strategy recommends that a vacant residential rate surcharge remain the same at 125 per cent of the general rate.

8.6 Acacia Estate

Frankston City Council has 238 Acacia Estate properties which constitute 0.38 per cent of the total assessments, contribute 0.51 per cent of the total rates raised.

Frankston City Council currently applies a differential rate to Acacia Estate to collect funds to provide additional maintenance works associated with the estates reserves in accordance with the development’s planning permit. From the 2020-2021 rating period, Council will consider at each annual budget process whether to apply a differential rate to the Acacia Health and Spring Hill Estate. Acacia Estate properties will have the ordinary general rate in the dollar applied for 2020-2021. Council resolved on 1 June2020 to not apply a differential rate to the Acacia Heath and Spring Hill Estate, the ordinary general rate in the dollar of 0.236 will be applied for 2020-2021.

8.7 Derelict land

Frankston City Council has 1 derelict properties that constitute 0.001 per cent of the total assessments, contribute 0.001 per cent of the total rates raised. Council proposes to revise the definition of ‘derelict’ properties to improve its municipal streetscape and give property owners a strong incentive to maintain the appearance of any property. For the purposes of applying the differential rate, properties will be considered derelict if they meet one or more of the following criteria:

- The building or land is destroyed, decayed, deteriorated, or fallen into partial ruin especially through neglect or misuse. This may include but not be limited to excessive dirt; peeling paint; broken windows, elements of the facade or advertising signs; loose or broken fittings, fixtures; or faulty lighting.
- The building or land constitutes a danger to health or property. This may include but not limited to:
  - The existence on the property of vermin, litter, fire or other environmental hazards
  - A partially built structure where there is no reasonable progress of the building permit
- Provides an opportunity to be used in a manner that may cause a nuisance or become detrimental to the amenity of the immediate area
- Is in such a state of repair that would prohibit its occupation
- The condition of the property or land has a potential to affect the value of other land or property in the vicinity.
- There is excessive growth of grass and or noxious weeds or undergrowth
- Affects the general amenity of adjoining land or neighbourhood by the appearance of graffiti, any stored unregistered motor vehicles, machinery (or parts thereof), scrap metal, second hand timber and or building materials, waste paper, rags, bottles, soil or similar materials.

The assessment of these properties will be completed by Council's officers authorised under the Frankston City Council General Local Law 2016 – No.8.

This strategy recommends that the derelict rate surcharge remain the same at 300 per cent of the general rate.

8.8 Farm Rate

Frankston City Council has 5 farm properties that constitute 0.01 per cent of the total assessments, contribute 0.04 per cent of the total rates raised. The main objectives of having a farm rate are:

- To promote and support the use of sound agricultural practices
- To conserve and protect areas which are suited to certain agricultural pursuits.
- To encourage proper land use consistent with genuine farming activities.

These properties receive a 'discount' of 20 per cent against the general rate. One of the key issues with the farm rate is the eligibility requirement to receive this discount. Currently to receive the discount a property must meet the definition of farmland under the Valuation of Land Act, which requires the following:

- At least 2 hectares
- Primarily used for agricultural production
- Used by a business that has a significant or substantial commercial purpose, seeks to make a profit on a continuous or repetitive basis or has a reasonable prospect of making a profit from the agricultural business being undertaken.

Most farm properties are very high in value and consequently attract relatively high rates per assessment.

Farming enterprises are also perceived as not receiving the same level of service that are received by urban ratepayers as a result of their distance from urban infrastructure and services. Historically Councils were required to levy a farm rate which had to be lower than the general rate however there is no longer this requirement in the Act. Frankston City Council's farm rate is currently 80 per cent of the general rate.

This strategy recommends that the level of discount given to farm properties remains the same at 20 per cent.

8.9 Other

Cultural & Recreational Lands: Council currently has 5 properties that are classified as cultural and recreational lands assessments. Council is required to consider a rating discount for these properties under the Cultural and Recreational Lands Act based on considered benefits to the community and the services provided by Council,

Properties that qualify for consideration as Cultural and Recreational lands are classified and rated as commercial properties with a discount then being applied to this rate. For those clubs (5) that utilise gaming machines, turf clubs and golf clubs, the discount provided ranges between 25 per cent and 60 per cent.

It is recommended that Council continue to allow a discount to Cultural and Recreational properties subject to an ongoing review every two years.

Ministry of Housing: Council currently has 102 properties that are classified as Ministry of Housing lands assessments. Council has agreed to consider a rating discount for these properties based on considered benefits to the community and the services provided by Council. Properties that qualify as Ministry of Housing lands are classified and rated with a discount of 50 per cent then being applied to this rate.

It is recommended that Council continue to allow a discount to Ministry of Housing properties.

Baxter Village: Council currently has 418 properties within the Baxter Village precinct. Council has agreed to consider a rating discount for these properties based on considered benefits to the community and the services provided by Council. Properties within the Baxter Village are classified and rated as residential properties with a discount of **30 per cent** then being applied to this rate.

It is recommended that Council continue to allow a discount to Baxter Village properties.

Strategy Recommendations

That Council continues to apply:

1. The uniform general rate for all residential properties, including flats and units and rural properties.
2. The commercial and industrial rate at an increased surcharge of 25 per cent.
3. The vacant residential land at an increased surcharge of 25 per cent.
4. The derelict rate at an increased surcharge of 300 per cent.
5. The level of discount given to retirement village properties be maintained at 25 per cent.
6. The level of discount given to farm properties be maintained at 20 per cent.
7. That Council will assess annually during the budget process if it will apply the differential rate to Acacia Estate properties to collect rates to fund additional maintenance works associated with the estate's reserves in accordance with the development's planning permit.

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

9. Understanding the impacts of Council revaluations

The purpose of this section is to provide an overview of the rate revaluation process and issues that arise from this process.

Victorian Land Valuations

From 1 July 2018, the Government centralised land valuation under the Valuer-General Victoria (VGV) and introduced a new annual cycle of valuations for Land Tax, Fire Services Property Levy and Council Rate setting purposes. These changes came into effect for the 2019 revaluation year and were used for the first time in the 2019-2020 rating period.

How are valuations undertaken?

The 2020 annual revaluations was undertaken by the VGV as the valuation authority and used by Frankston City Council in forming the 2020-2021 budget.

Previously, the State contributed 50 per cent of the cost of biennial valuations to councils, whereas, the new arrangements see the State pay for the full cost of annual revaluations, with councils paying for supplementary valuations. It is estimated that collectively councils will save $15 million every two years. The changes do not change underlying valuation principles or methodologies.

Property values are determined by qualified valuers comparing each property to the recent sales figures of similar properties in the neighbourhood. The key factors are location, land size, type of house and condition. The VG is responsible for reviewing the total valuation of each municipality for accuracy before certifying that the valuations are true and correct. Valuations are conducted using Best Practice Guidelines formulated and published by the VG.

No Windfall Gain

There is a common misconception that if a property's valuation rises then Council receives a "windfall gain" with additional income. This is not so as the revaluation process results in a redistribution of the rate burden across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction to the rate in dollar (ad valorem rate) used to calculate the rate for each property. Total income is fixed each year as part of the budget process. Council only seeks to increase the total amount of revenue required in order to account for CPI, wage and other service costs imposed upon it.

The below table highlights the impact of the 2020 Council revaluation.

Type or class of land	No. of Assessments	2019-2020 CIV $	2020-2021 CIV $	% movement in valuation
Ordinary rate	56,182	33,467,474,001	32,724,840,001	2.40%
Retirement villages	574	154,755,000	151,802,500	1.52%
Commercial land	2,085	2,673,925,500	2,652,891,000	(5.19%)
Industrial land	3,143	1,649,046,500	1,965,070,500	3.61%
Vacant residential land	484	328,790,000	335,237,500	2.11%
Acacia Heath	238	204,035,000	201,415,000	0.71%
Farm land	5	22,100,000	21,225,000	0.35%
Derelict land	1	2,040,000	300,000	1.69%
Rateable recreational properties	5	164,000,000	163,515,000	4.76%
Rate by agreement (including Baxter Village)	520	104,210,000	103,680,000	2.01%
Total	**63,237**	**38,770,376,001**	**38,319,976,501**	**1.89%**

During the 2019-2020 year, a revaluation of all properties within the municipality was carried out and will apply from 1 July 2020 for the 2020-2021 year, with the level of value date being 1 January 2020. The outcome of the general revaluation has seen a change in property valuations throughout the municipality. Overall, property valuations across the municipality have increased by 1.89 per cent. Of this increase, residential properties have increased by 2.38 per cent, commercial properties decreased by 5.19 per cent and industrial properties increased by 3.61 per cent.

Type or class of land	Annualised rates levied 2019-2020 $	Budget 2020-2021 $	Change
Ordinary rate	74,145,124	**76,112,389**	**2.65%**
Retirement villages	260,191	**264,800**	**1.77%**
Commercial land	8,114,384	**7,712,714**	**(4.95%)**
Industrial land	5,500,411	**5,713,023**	**3.87%**
Vacant residential land	952,070	**974,631**	**2.37%**
Acacia Heath	491,600	**468,457**	**(4.71%)**
Farm land	39,254	**39,493**	**0.61%**
Derelict land	2,053	**2,093**	**1.95%**
Rateable recreational properties	246,673	**259,221**	**5.09%**
Rate by agreement (including Baxter Village)	122,368	**125,135**	**2.26%**
Total amount to be raised by general rates	89,874,128	**91,671,956**	**2.00%**

Type of charge	Annualised 2019-2020 $	2020-2021 $	Change
Municipal	10,313,955	**10,522,763**	**2.00%**

Type of Charge	Annualised 2019-2020 $	2020-2021 $	Change
Residential bin 240L	6,866	**7,206**	**4.95%**
Residential bin 120L	14,689,027	**15,415,365**	**4.95%**
Residential bin 80L	5,502,783	**5,775,468**	**4.95%**
Residential bin 120L (fortnightly pickup)	103,596	**108,718**	**4.95%**
Residential bin 80L (fortnightly pickup)	75,779	**79,533**	**4.95%**
Green waste bin (incl tenants)	5,991,254	**6,184,785**	**3.20%**
Commercial bin 120L	355,867	**373,464**	**4.95%**
Commercial bin 80L	68,713	**72,118**	**4.95%**
Commercial recycling bin	17,272	**18,131**	**4.95%**
Additional recycling bin	45,890	**46,648**	**1.65%**
Total	26,857,048	**28,081,435**	**4.56%**

Type of charge	Annualised 2019-2020 $	2020-2021 $	Change
Rates and charges	127,045,131	**130,276,154**	**2.5%**

In view of the outcomes of the general revaluation of all properties within the Council's municipal district during the 2020-2021 year, Council has chosen to change the existing Acacia Heath rate differential. In aggregate, total rates and charges will increase by 2.50 per cent (general rates and municipal charges (2.00 per cent), green waste charges (3.20 per cent) and general waste charges (4.95 per cent) compared to 2020-2021. This will be achieved by increasing the rate in the dollar due to the marginal increase in property valuations of 1.89 per cent across the municipality following the 2020 general revaluation.

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

In terms of the impact on the **average** residential property in Frankston City Council, the total rates and charges annual impact is $55.15 or $1.06 per week (includes waste charges).

Average general residential rate		2019-2020		2020-2021	Variance %	Variance $
Median residential valuation in Frankston	$	569,763	$	582,479	2.23%	
Residential rate in the dollar		0.002320		0.002326		
Total rates	$	1,321.70	$	1,354.75	**2.50%**	$33.04
Municipal charge		$163.10		$166.40	**2.00%**	$3.30
Council garbage charge (120L)(No GST)		$380.20		$399.00	**4.95%**	$18.80
Total rates and charges median residential	**$**	**1,865.00**	**$**	**1,920.15**	**2.95%**	**$55.15**

The annual impact on **average** commercial properties in Frankston City Council for total rates and charges is a decrease of $102.28 or $1.97 per week (includes waste charges).

Average commercial rate		2019-2020		2020-2021	Variance %	Variance $
Median commercial valuation in Frankston	$	1,318,459	$	1,272,370	-3.49%	
Commercial rate in the dollar		0.002900		0.002907		
Total rates	$	3,823.53	$	3,699.14	**-3.25%**	($124.39)
Municipal charge	$	163.10	$	166.40	**2.00%**	$3.30
Council garbage charge (120L)	$	380.20	$	399.00	**4.95%**	$18.80
Total rates and charges median commercial	**$**	**4,366.83**	**$**	**4,264.55**	**-2.3%**	**($102.28)**

The annual impact on **average** industrial properties in Frankston City Council for total rates and charges is an increase of $58.53 or $1.13 per week (includes waste charges).

Average industrial rate		2019-2020		2020-2021	Variance %	Variance $
Median industrial valuation in Frankston	$	607,749	$	625,221	2.87%	
Industrial rate in the dollar		0.002900		0.002907		
Total rates	$	1,762.47	$	1,817.70	**3.13%**	$55.23
Municipal charge	$	163.10	$	166.40	**2.00%**	$3.30
Total rates and charges median industrial	**$**	**1,925.57**	**$**	**1,984.10**	**3.04%**	**$58.53**

Objections to Property Valuation

The *Valuation of Land Act* (1960) provides that objection to the valuation may be made each year within two months of the issue of the original Rates and Valuation Notice (Rates Notice), or amended notice when a Supplementary Valuation is undertaken during the rating period.

Objections must be dealt with in accordance with the *Valuation of Land Act* – Division 3 Sections 16-21.

The Act was amended in 2006 in order to improve the valuation objection process and reduce the number of lengthy and costly disputes. The Act specifically improves the processes and practices for lodging an objection, sharing and exchange of information, referring an objection dispute to VCAT, awarding of costs, Valuer General notifications and certification of supplementary valuations. Further information can be obtained by contacting Council or accessing the Land Victoria web site at **www.propertyandlandtitles.vic.gov.au/valuation/council-valuations**

Council will continue to advise ratepayers via the "Rates and Valuation Notice" (the Rate Notice), web site and Frankston City News, of their right to object and appeal the valuation. Property owners also have the ability to object to the site valuations on receipt of their Land Tax Assessment. Property owners can appeal their land valuation within 2 months of receipt of Council Rate Notice (via Council) or within 2 months of receipt of their Land Tax Assessment (via State Revenue Office).

Strategy Recommendations

That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council.

10. Special rates and charges

Special rates and charges are covered under Section 163 of the *Local Government Act* (1989), which enables Council to declare a special rate or charge or a combination of both for the purposes of:

- Defraying any expenses; or
- Repaying with interest any advance made or debt incurred or loan raised by Council.

In relation to the performance of a function or the exercise of a power of the Council, if the Council considers that the performance of the function or the exercise of the power is or will be of special benefit to the persons required to pay the special rate or special charge.

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

Section 185 of the *Local Government Act* (1989) provides appeal rights to VCAT in relation to the imposition of a special rate or charge. The Tribunal has wide powers, which could affect the viability of the special rate or charge. It can set the rate or charge completely aside if it is satisfied that certain criteria are met. Council should be particularly mindful of the issue of proving that special benefit exists to those that are being levied the rate or charge.

In summary, differential rates are much simpler to introduce and less subject to challenge. There may be instances however where a special charge is desirable if raising the levy by use of CIV is not equitable. It is recommended that Council utilises special rates and charges only in the instances outlined below.

Strategy Recommendations

That Council use special rates and charges in instances that fit the following circumstances:

- Funding of narrowly defined capital projects (e.g. streetscape works, private road sealing) where special benefit can be shown to exist to a grouping of property owners
- Raising funds for a dedicated purpose where the use of CIV is not the most equitable method of calculating property owner contributions.

In circumstances outside of the above two scenarios, Council will use differential rating to achieve its objectives.

11. Municipal charge

Another principle rating option available to Councils is the application of a municipal charge. Under Section 159 of the *Local Government Act* (1989), council may declare a municipal charge to cover some of the administrative costs of the Council. The legislation is not definitive on what comprises administrative costs and does not require Council to specify what is covered by the charge.

A Council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the combined sum total of the Council's total revenue from the municipal charge and the revenue from general rates. The application of a municipal charge represents a choice to raise a portion of the rates by a flat fee for all properties, rather than sole use of the CIV valuation method.

The arguments in favour of a municipal charge are similar to waste charges. They apply equally to all properties and are based upon the recovery of a fixed cost of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of Councils administrative costs can be seen as an equitable method of recovering these costs.

The argument against a municipal charge is that this charge is regressive in nature and would result in lower valued properties paying higher overall rates and charges than they do at present. The equity objective in levying rates against property values is lost in a municipal charge as it is levied uniformly across all assessments.

This strategy recommends that council continue to apply a Municipal Charge.

Strategy Recommendations
That Council continues to utilise a Municipal Charge as part of its rating strategy and will increase annually at the same level of rates increases.

12. Service rates and charges

Section 162 of the *Local Government Act* (1989) provides Council with the opportunity to raise service rates and charges for any of the following services:

a) The provision of a water supply
b) The collection and disposal of refuse
c) The provision of sewerage services
d) Any other prescribed service.

Frankston City Council currently applies a service Charge for the collection and disposal of refuse on properties that fall within the collection area. Council retains the objective of setting the service charge for waste at a level that fully recovers the cost of the waste function.

The advantages of the waste service charge is that it is readily understood and accepted by residents as a fee for a direct service that they receive. It further provides equity in the rating system in that all residents who receive exactly the same service level all pay an equivalent amount.

The disadvantage of the waste service charge is similar to the municipal charge in that it is regressive in nature. A fixed charge to a low valued property comprises a far greater proportion of the overall rates than it does to a more highly valued property.

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

Should Council elect not to have a waste service charge, this same amount would be required to be raised by way of an increased general rate – meaning that residents in higher valued properties would substantially pay for the waste service of lower valued properties. Whilst this same principle applies for rates in general, the mix of having a single fixed charge combined with valuation driven rates for the remainder of the rate invoice provides a balanced and equitable outcome.

Strategy Recommendations
That Council continues to apply a Waste Service charge as part of its rating strategy based on full cost recovery of the waste function.

13. Rebates

Rebates – LGA Section 169

A rebate is a mechanism through which a targeted group receives a discount or concession to achieve certain objectives. Essentially rebates are funded through the general rate pool. More specifically, the amount required to fund the rebate is calculated and is incorporated into the total rates and charges requirement. For transparency the amount of any rebate or concession funded by ratepayers should be declared on an annual basis.

Council may grant rebates or concessions in accordance with the *Local Government Act* (1989) to assist the proper development of the municipal district, to preserve, maintain and restore historical, environmental, architectural or scientific buildings or places of interest important within and to the municipality, to or to generally assist the proper development of all or part of the municipal district. Generally conditions or undertakings are required and if not met require the rebate or concession to be repaid in part or in full as the case may be.

In 2009 the *Local Government Act* (1989) was amended to allow Council to provide rebates to support the provision of affordable housing by a registered agency. It is not proposed to provide any rebate for the provision of affordable housing for 2019-2020.

Community Grants

Council operates the community grants, sponsorships and donations program to support a wide variety of community organisations, events and networks. Based on principles of accountability and transparency, and in lieu of the granting an application for rebates of rates, it is Councils' preference that such organisations apply for funding under this program.

Pensioner Rebates

Holders of a Centrelink or Veterans Affairs Pension Concession card, or a Veteran Affairs Gold card which stipulates TPI or War Widow (excludes Health Care and DVA all conditions, POW, EDA and dependent cards) may claim a rebate on their sole or principle place of residence.

The government-funded indexed rebate is provided under the Municipal Rates Concession Scheme. The rebate for 2020-2021 will be $241.00 ($235.15 in 2019-2020) or 50 per cent of the rate payment, whichever is the lesser amount. The government has also funded a rebate for eligible pensioners of $50.00 to partially offset the introduction of the Fire Services Property Levy in 2013-2014, this amount has not been adjusted since its introduction.

Upon initial application and verification, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veteran Affairs during the annual verification process. Upon acceptance of pensioner status the concession or rebate is deducted from the rate account before payment by the ratepayer. Applications for the concession must be lodged by 30 June in each year.

Emergency Relief

Council's Rates and Charges Hardship policy will be amend to ensure Council has an opportunity to provide temporary support measures for ratepayers who are in need of financial assistance during a State of Emergency/Pandemic/Extraordinary Circumstances. The policy will allow for the following during a State of Emergency/Pandemic/Extraordinary Circumstance:

a) Provide rate relief as determined by Council;

b) Place on hold the raising of penalty interest on overdue rates payments for a period of time;
c) Provide a rate waiver for a class or classes of property or ratepayer;
d) Provide flexible Arrangement to Pay options;
e) Provide a deferral of rates for a period of time on a case by case basis where hardship can be substantiated; and
f) Withhold all new legal action on outstanding accounts, where legal costs would be incurred by the ratepayer for a period of time as determined by Council.

Exemptions from Rating

The *Local Government Act* (1989) Section 154 declares that all land is rateable with a number of exceptions including Crown land occupied for municipal purposes, land used exclusively for charitable purposes, the residence of a practicing Minister of Religion, certain land used for mining purposes, clubs or memorials under the Patriotic Funds Act, Returned Services League and related associations as defined. Generally land is not used exclusively for public municipal or charitable purposes if it is a residence, is used for the retail sale of goods or the carrying on a business for profit.

A review of non-rateable properties is scheduled to ensure that these properties are in fact eligible for exemption for rating purposes.

Strategy Recommendations

1. That Council continues to promote the pensioner rebate provided by the Victorian Government to ratepayer who apply and qualify for the rebate.
2. The Council review non-rateable properties to ensure that they qualify for exemption from rating.

14. Rate payment collections

Liability to Pay Rates

Local Government Act (1989) Section 156 makes the owner of the land liable to pay the rates and charges on that land. In certain cases, the occupier, mortgagee or licensee holder is liable to pay the rates.

The *Local Government Act* (1989) Section 156(6) declares the rate or charge, unpaid interest or costs to be a first charge upon the land.

Current Payment Dates for Rates

Council, in accordance with the *Local Government Act* (1989) Section 167 (1) **must** allow for the payment of rates by four instalments per annum. Council **may** allow a person to pay a rate or charge in a single lump sum payment *Local Government Act* (1989) Section 167 (2).

The Minister fixes instalment and single lump sum payment dates by notice published in the Government gazette.

On 17 February 2014, Frankston City Council adopted the 'instalment only' rate payment methodology. The resolution offers ratepayers the option to pay rates by four instalments due on 30 September, 30 November, 28 February and 31 May each year, or the next working day thereafter should those days be a weekend or public holiday. Residents can elect to advance pay instalments at any point in order to opt out of the instalment dates.

Moving to this alternate rate payment methodology has a number of advantages which are:

- The time period between when the notice is first issued and the payment date is reduced (approximately 2 months) which should minimise the opportunity for the payment to be overlooked by the ratepayer and can assist in ratepayers managing financial commitments;
- Currently the application of penalty interest using the current approach causes considerable distress to residents and impacts on Council's relationship with its ratepayers. The use of the alternative payment method should reduce this distress considerably;
- This approach brings payments into line with other authority billing, such as gas, electricity and water

Under the mandatory instalment option, interest penalties are only backdated to the due date of the missed payment which is accepted generally by all.

It is Council's objective to have the most positive relationship possible with all of its residents and imposing such a punitive penalty -that is not seen as just – does not assist in achieving this.

Council operates under a 1 July - 30 June financial year and Victorian Local Government is probably the only government agency/ utility that issues an annual account in July and then has to wait seven months to receive the majority of its revenue. During this time Council is required to continue to provide operational services and capital works which places our cash position under severe strain.

When it is considered that every other utility you deal with (telephone, gas, power, water) - not one of these service providers is required to operate on the business rules that Local Government has been required to.

Whilst significant community concern was expressed when the change occurred in 2014-2015, the level of community angst has substantially reduced since this point and Council now receives little if any resident complaints in respect of penalty interest applied. It should also be noted that approximately 50 per cent of metropolitan Councils have now made the shift to mandatory instalments as the payment methodology.

This strategy therefore recommends a continuation of the current payment methodology.

Strategy Recommendations

That Council continues to apply the mandatory rate instalment payment option in future rating years combined with the option of a nine instalment payment plan to encourage greater use of the direct debit payment approach.

15. Victorian Government Levies

In recent years, Council has seen an increased propensity for Victorian Government to view Local Government as a means of collecting State taxes under the branding of Councils rate notice.

This occurred with the now defunct State Deficit Levy in the 1990's and has in recent times been revived with Councils being required to collect and remit a landfill levy to the Victorian Government. Council is now required to collect a Fire Services Property Levy (FSPL) on behalf of the Victorian Government which has added a considerably large amount to the average ratepayer's account.

From 1 July 2013 a fire services property levy appeared as a separate charge on council rates notices for the first time. All Victorian councils are required to collect this levy on behalf of the Victorian Government, and must pass the full amount collected to the State Revenue Office.

A recommendation of the 2009 Bushfires Royal Commission, the FSPL is replacing a previous fire levy that was paid through property insurance premiums (such as building and contents insurance). The FSPL will help to fund the cost of the Metropolitan Fire and Emergency Services Board (MFB) and the Country Fire Authority (CFA). To ensure everyone contributes, the Victorian Government has determined that all property owners will pay the levy - even properties that are eligible for a council rates exemption.

Separate levy rates apply in MFB and CFA areas:

- For residential properties (including vacant residential land) the fixed charge for 2020-2021 is $113 plus a variable rate set by the Government and calculated as a percentage of the capital improved value (CIV) of the property.
- For non-residential properties, the fixed charge for 2020-2021 is $230 plus a variable rate set by the Government and calculated as a percentage of the capital improved value (CIV) of the property.
- Each property classification (residential, commercial, industrial, primary production, public benefit and vacant land (non-residential)) has its own variable rate, and will be set by the Victorian Government no later than 31 May each year.

Who pays the levy?

Leviable properties include all rateable properties and a majority of current non-rateable properties. Exempt properties include properties owned by the Victorian Government as part of its core business, Commonwealth land as well as some infrastructure, including council roads and bridges. Non-core government organisations, such as water corporations, will be required to pay the levy on their property.

Council property is leviable, although the FSPL Act provides for some council-owned public recreational property (such as community parks and football ovals) to pay only the fixed charge component of the levy. There are also exemptions for some of the sector's infrastructure such as roads and bridges.

The new levy effectively attempts to ensure any person or organisations that would have contributed to the FSL through insurance premiums would continue to pay under the new model. It also aims to improve the fairness of contributions by capturing those who previously didn't contribute funding to our fire services through a failure to insure their property. The CFA and MFB will continue to be funded separately under the new FSPL.

How does the payment work?

The Act provides for a levy based on the capital improved value (CIV) of properties. The Act also specifies that a fixed fee is payable for residential properties ($113) and all other property types ($230), indexed annually.

In addition to the fixed charge, variable charges will apply to properties. Each leviable property will be categorised for the purpose of the FSPL based on its Australian Valuation Property Classification Code (AVPCC), which is a formal classification allocated by qualified valuers.

The property classifications allowable under the Act are: residential (including vacant residential land), commercial, industrial, primary production, public benefit, and vacant (excluding residential land).

Strategy Recommendations

1. That Victorian Government taxes are best collected by the Victorian Government using its own available resources such as the State Revenue Office.
2. That in the event that council is required to collect such Victorian Government taxes that these taxes be clearly identified as State charges.
3. That the Victorian Government fully reimburses Local Government for the cost of collecting State taxes.