

Differential Rate A Regional Tourism Dream or Nightmare?

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Financial structures for regional tourism have always been the subject of intense debate. All destinations now compete on a global scale. As such marketing a destination in this extremely competitive environment remains a critical challenge. The tourism industry, by its nature and in this environment, requires a successful partnership with Government to succeed. This gives rise to the subject of differential rates as an equitable source of funding regional tourism activity.

What is a Differential Rate?

Local Government Victoria's Guide to Local Government states the following:

Differential rates are where councils set different rates in the dollar for different categories of rateable land. There is no limit for the number or type of differential rates a Council may charge. However, the highest differential rate can be no more than four times the lowest differential rate.

The Guide goes on to state: "If a council decides to apply differential rates it will usually consider three equity principles:

- the benefit or user pays principle – some groups have more access to, make more use of and benefit more from specific council services
- the capacity to pay principle – some ratepayers have more ability to pay rates than do others with similarly valued properties

- the incentive or encouragement principle – some ratepayers may be doing more towards achieving council goals than others in areas such as environmental or heritage protection"

Finally, the Guide outlines the importance of the simplicity and transparency of the system of rates and charges particularly as this assists with who is liable for a particular rate and how liability is calculated.¹

Victorian Local Government Area's striking rates for Tourism and/or Economic Development

There are a number of local councils in Victoria which generate either a differential or special rate² for the purpose of tourism and/or economic development. There are advantages in including both tourism and economic development within the rate including:

- Rate is more inclusive and can be applied to all commercial and industrial properties (allowing application of differential rate to align with current general rating)
- Businesses that consider they do not benefit from tourism are more likely to see benefit in a combined rate
- Allows tourism to be considered within a broader economic development context within council

Differential Rate Inclusions

A differential rate for tourism may include the following:

- Commercial and industrial businesses
- Short term holiday accommodation
- Holiday let residential dwellings
- Multi-tenancy accommodation hotels, motels, guest houses & caravan parks
- Holiday homes
- Houseboats
- Wineries

Generally a rate will be determined based on the capital improved value of the land - which is the total market value of the land plus buildings and other improvements.³

Expenditure of Rate Funding

An important consideration is how the revenue raised through a differential rate will be allocated. It is important that a strategic plan is in place (having followed the due consultation process) which clearly articulates the way the funds intend to be expended.

1 Guide to Local Government: <http://www.localgovernment.vic.gov.au/web22/dvclgg.nsf/headingpagesdisplay/planning+and+financehow+rates+are+calculated>

2 Special rates are struck pursuant to section 185(3)(c) of the Local Government Act 1989.

How does a Council implement a Differential Rate?

In Victoria, a Council must set its budget by August 31 each year. Amongst other things the budget must include information relating to levels of council rates, impacts of council rates, and borrowings and debt. Members of the public may make submissions to council's budget within 14 days of notice.⁴ A differential rate can be adopted each year as part of the rate setting process.

Advantages of a rate for tourism and/or economic development

- Provides stability for future planning and can reduce the need for high levels of expenditure on generating and servicing a voluntary membership base
- Inclusive - all those who benefit from tourism contribute towards it
- Allows tourism function/board to expand beyond a dominant marketing focus to include important professionalism and sustainability issues including new product development, market research and development and industry development

Disadvantages of a rate for tourism and/or economic development

- Can prevent councils from making any other investment in the industry.
- Difficult to include some businesses depending on their zoning. For example: wineries, B&Bs, Houseboats, holiday homes, home based businesses.

3 IBID

4 Guide to Local Government: <http://www.localgovernment.vic.gov.au/web22/dvclgg.nsf/headingpagesdisplay/planning+and+financeplanning+and+budgeting>

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