2014/15 Rating Strategy

Darebin City Council
2014/15 Rating Strategy

Prepared April 2014

Please contact Kerrie Jordan, CFO on 8470 8619 or kjordan@darebin.vic.gov.au if you have any questions regarding this information.

Table of Contents

1 EXECUTIVE SUMMARY 4
2 CONTEXT 5
2.1 A summary of these questions 5
3 DAREBIN CITY COUNCIL CURRENT RATING FRAMEWORK 7
4 WHAT IS A RATING STRATEGY? 8
4.1 What is a rating strategy? 8
4.2 The importance of a rating strategy 8
4.3 Objectives of the Strategic Resource Plan 8
5 RATING – THE LEGISLATIVE FRAMEWORK 9
5.1 Objectives 9
5.1.1 Equity 9
5.1.2 Efficiency 10
5.1.3 Achievement of Objectives other than Equity and Efficiency 11
5.2 Problems with Property Taxation 11
5.3 What rates and Charges may a Council declare? 12
5.4 Recent legislative changes 13
5.4.1 Ministerial Rating Guidelines 13
5.4.2 Fire Services Levy 14
5.4.3 Supplementary Rates 14
6 DETERMINING WHICH VALUATION BASE TO USE 15
6.1 Site Value 15
6.2 Net Annual Value 15
6.3 Capital Improved Value 15
7 DETERMINING THE RATING SYSTEM – UNIFORM OR DIFFERENTIAL 17
7.1 Uniform rate 17
7.2 Differential rates 18
7.3 Darebin's differential rates 19
7.4 Objectives of the rate and characteristics 19
7.4.1 Business rate 19
7.4.2 Vacant land rate - business and residential 19
7.4.3 Electronic Gaming Machine Land 20
7.4.4 Cultural and Recreational properties 20
7.4.5 Fast food outlets 20
7.4.6 Vacant Retail land 20
7.4.7 Derelict business Buildings 20
7.4.8 Mixed use occupancy land 21
7.5 Advantages of a differential rating system 21
7.6 Disadvantages of a differential rating system 21
8 UNDERSTANDING THE IMPACTS OF COUNCIL REVALUATIONS 22
8.1 No Windfall Gain 22
8.2 How does this affect my rates? 23
8.2.1 2014 Valuation 23
9 MUNICIPAL CHARGE 24
9.1 Advantages of a municipal charge 24
9.2 Disadvantages of a municipal charge 24

10 SPECIAL RATES & CHARGES 25
10.1 Green Waste 25
10.2 Special Rates 25
10.3 Environmental charge 26
10.3.1 Why not fund waste services by general rates? 26
10.3.2 Ratepayers currently not receiving waste collection services 27
10.3.3 Advantages of an environmental charge 27
10.3.4 Disadvantages of an environmental charge 27
11 REBATES AN CONCESSIONS 28
11.1 Pensioner Rebate 28
11.1.1 State Government Pensioner Rebate 28
11.1.2 Council Pensioner Rebate 28
11.1.3 Advantages of a pensioner rebate 29
11.1.4 Disadvantages of a pensioner rebate 29
12 CHARITABLE AND NOT-FOR-PROFIT ORGANISATIONS 30
12.1 Charitable Housing 30
12.2 Retirement Villages 31
13 COLLECTIONS 32
13.1 Liability to Pay Rates 32
13.2 Electronic Notices 32
13.3 Payment Dates for Rates 32
13.4 Payment Methods 33
13.5 Incentives for Prompt Payment 33
13.6 Late Payment of Rates 33
13.7 Debt Recovery - Collection of Overdue Rates 34
13.8 Rates Assistance 34
13.8.1 Arrangements 34
13.8.2 Deferral of rates 34
13.8.3 Waiver of rates 34
13.8.4 Waiver of interest 34
13.9 Financial Hardship Measures 35
13.9.1 Significant increase in rates payable 35
13.9.2 Significant financial hardship 35

1 Executive Summary

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.

The existing taxation of property value method is imperfect; however the application of an alternate rating method (e.g. income tax or CIV-based rate) is not available within the current constraints of the existing legislation.

To ensure the Local Government Act rating objectives of equitable and efficient are achieved Darebin City Council applies differential ratings against various property classes that reflect the benefits received by these segments or to promote responsible land management, and provides a pensioner rebate or $130 in addition to the State Government pensioner rebate of $202.90.

With 69% of the Council's total revenue being generated by rates (or $106.62 million) it is critical that Council, when preparing the 2014/15 budget, reviews the 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 and actual rating instruments allowed under the Local Government Act to calculate property owners' liability for rates.

In order to meet the objectives set out in the Strategic Resource Plan (Council's 4 year financial plan), Council needs to raise sufficient income to:

- Maintain the scope and standard of ongoing services and allow flexibility to respond to changing community needs
- Increase the amount of expenditure allocated to asset renewal projects included in Council's capital works program
- Ensure the cost of services and capital works commitments are covered without relying on external non-recurrent income sources such as capital grants
- Ensure sufficient cash levels are maintained to meet short-term payment obligations.

The important questions that need to be reviewed for 2014/15 in relation to the Rating Strategy include:

- What differential rates should be applied and to what extend (Section 7)
- Should a municipal charge be considered? (Section 9)
- Should an environmental charge be introduced? For all properties? (Section 10.3)
- Should the pensioner rebate of $130 be retained? (Section 11.1)
- Should a prompt payment incentive be introduced? (Section 13.5)
- Are there any additional financial hardship measures that should be considered? (Section 13.9)

This paper provides the community with background information on the rating structure for 2014/15.

2 Context

In preparation for drafting of the 2014/15 budget, a critical decision that Council makes relates to rates. Council need to decide the rate increase and how the rate burden will be distributed by considering valuation base, rating system (uniform or differential), special rates and charges (municipal charge, waste charge etc.), rebates and concessions, and payment options.

This discussion paper helps to inform the community on these issues.

The important questions that have been addressed for the 2014/15 budget in relation to rates include how the Local Government Act rating objectives of equity and efficiency can be achieved by:

1) Refinement of current differential rates structure with consideration of
   a. type of differential rates; and
   b. rate to be applied as a multiplier of residential rates (4 times is the maximum permitted); (Section 7)
2) introduction of a municipal charge (Section 9);
3) introduction of an environmental charge (Section 10.3);
4) retaining the pensioner rebate of $130 (Section 11.1);
5) introduction of a prompt payment incentive (Section 13.5); and
6) refinement of financial hardship measures (Section 13.9).

2.1 A summary of these questions

The following table summarises the questions and the advantages and disadvantages of each. Further information and discussion can be found in the relevant section.

<table>
<tr><th></th><th>Question</th><th>Explanation</th><th>Advantages</th><th>Disadvantages</th><th>Recommendation</th></tr>
<tr><td rowspan="3">1</td><td>Refinement of current differential rates

(Section 7)</td><td>Currently Darebin has 8 differential rates including residential, business, vacant land, derelict business land and mixed use occupancy land.</td><td rowspan="3">Greater flexibility to distribute the rate burden between classes of property.

Reflects the investment required by Council to establish infrastructure to meet the needs of the business sector and those adversely impacted by gaming.

Encourages particular behaviour e.g. development of vacant or derelict land.</td><td rowspan="3">Difficult for various rating groups to accept and understand.

Administratively complex.

Will attract the attention of media and the Minister if trying to promote ‘social engineering agendas through rate rises’.

May not meet the objectives of the LGA of equitable and efficient.</td><td rowspan="3">Remove the differential rate for derelict business properties and increase the mixed use differential rate to 1.4 times the residential rate.</td></tr>
<tr><td>a. Type of differential rates</td><td>It has been proposed to introduce another differential rate for fast food outlets to assist with health issues of the community.</td></tr>
<tr><td>b. Rate to be applied</td><td>The LGA allows a differential rate to be set at up to 4 times the residential rate.</td></tr>
<tr><td>2</td><td>Introduction of municipal charge

(Section 9)</td><td>A municipal charge is a flat/single fee that can be charged to all ratepayers to cover Council’s administrative costs</td><td>Apply equally to all properties, irrespective of valuation.</td><td>Lower valued properties paying higher overall rates and charges.</td><td>Do not introduce a municipal charge.</td></tr>
</table>

	Question	Explanation	Advantages	Disadvantages	Recommendation
3	Introduction of environmental charge (Section 10.3)	An environmental charge is a flat fee that can be charged to all ratepayers to fund Council's waste/ environmental services	Charge is easily understood and accepted as a fee for a direct service. Raises awareness of waste management.	Lower valued properties paying higher overall rates and charges. Properties currently not receiving waste services would believe they are being overcharged.	*Do not introduce an environmental charge*
5	Refinement of pensioner rebate of $130 (Section 11)	Pensioner rates reduced by $130 in addition to the $202.90 provided by the State Government	Reduces the rate burden for pensioners.	Redistributes the rate burden with other ratepayers bearing the cost by way of higher rates. Once a rebate in introduced, difficult to remove or reduce. Cost to council is increasing as residents age. An increase of $20 would cost an additional $240,000.	*Retain the pensioner rate at $130.*
6	Introduction of prompt payment incentive (Section 13.5)	Discount for early payment of rates.	Would improve Council's cash flow.	Administratively cumbersome and costly. Generally only of benefit to cash rich ratepayers.	*Do no introduce a prompt payment incentive.*
7	Refinement of financial hardship measures (Section 13.9)	Providing assistance to ratepayers experiencing financial difficulty in meeting rate payments.	Reduces the rate burden for ratepayers experiencing financial difficulties.	Administratively cumbersome. Redistributes the rate burden with other ratepayers bearing the cost by way of higher rates. Once a financial hardship measure is introduced, difficult to remove or reduce.	*Do not make any changes to the current hardship policies.*

3 Darebin City Council current rating framework

Darebin currently receives 69% of its Total Revenue by way of property-based rates and waste charges. In 2014/15, $106.62 million is budgeted to be raised in rates, with residential rate payers contributing 79% of the total rate revenue.

The following table summarises the rates to be raised for the 2014/15 year.

Rate type	How applied	No. of assessments	Total Rates Raised	% of Rates of Total
Residential	cents in $ of CIV	60,343	83,513,549	79%
Business	cents in $ of CIV	4,448	19,041,370	18%
Vacant Land – residential	cents in $ of CIV	170	608,811	0.58%
Vacant Land – business	cents in $ of CIV	96	837,908	0.80%
Mixed-use Land	cents in $ of CIV	530	1,078,184	1.02%
Vacant Retail Land	cents in $ of CIV	53	231,511	0.22%
Derelict Business Land	cents in $ of CIV	n/a	n/a	
Cultural and Recreational	cents in $ of CIV	8	24,609	0.02%
	TOTAL Rates	**65,648**	**105,335,942**	**100%**
Pensioner Rebate	$130 per pensioner	11,923	-1,550,000	Section 11
Green Waste charge	$ per bin		2,023,716	Section 10.1
Special Rates			311,910	Section 10.2
Supplementary rates			494,481	Footnote [1]
	TOTAL Rates and Charges		**106,616,049**	

There are 825 properties exempt from rates under the Local Government Act, including providers of health services, education, religion and services to the needy. Refer to Section 12 for further information and details.

Council utilises the capital improved valuation method to value property, applies differential rates, an optional green waste charge, special rates for 4 shopping centres and offers a pensioner rebate(to increase to $130) in addition to the State Government pensioner rebate.

Council does not levy a municipal charge, or a separate service charge for collection and disposal of domestic waste.

It is common for ratepayers to complain that they get few if any services for the rates they pay. Rarely is there public or media acknowledgement of the asset-intensive nature of Local Government, the high cost of maintaining public infrastructure, and the challenges associated with raising sufficient funds to pay for these and other services.

The provision, maintenance and renewal of a comprehensive local road network, footpaths, drains, bridges and sport, recreation and community facilities is invariably taken for granted rather than being recognised as means of service provision to the community. Potholes are frequently recognised as being the responsibility of Local Government, but a kilometre of well-formed road is assumed to be part of the landscape. To a person complaining about rates, it is the Council's responsibility to find the money, as long it is obtained from someone other than the person complaining. As French philosopher Frederic Bastiat said: '*Let me have the benefits, and let others pay the costs.*'

Council has the choice between two fundamentally divergent political values or philosophies. A short-hand way of thinking about this choice is to characterise it as a choice between the values of user-pays and the values of social justice.

1: In certain circumstances valuations may be performed between general valuations, for example when a building is erected or demolished or land subdivided or rezoned. Valuations are undertaken and adjusted rate notices (known as a supplementary rate notice) are sent. Usually council receives an additional $500,000 a year from these supplementary rate notices.

4 What is a Rating Strategy?

Key points

- 69% of Darebin's total revenue is received from property-based rates
- Council has a number of different rating options available under legislation
- It is good governance for Council to review Darebin's current rating strategy annually when considering the proposed budget.

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

4.1 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 and actual rating instruments allowed under the Local Government Act (1989) to calculate property owners' liability for rates.

A rating strategy is specifically concerned with how the rates burden will be spread amongst ratepayers. The rating strategy takes the amount of revenue to be collected as given.

4.2 The importance of a rating strategy

Darebin currently receives 69% of its Total Revenue by way of property-based rates and waste charges. The development of strategies in respect of the rating base is therefore of critical importance to both Council and its citizens.

The principles of good governance further require Council to provide ongoing or periodic monitoring and review of the impact of major decisions. Over time knowledge, issues and the membership of Council may alter. Council policies are subject to refinement and change. It is therefore incumbent upon council to evaluate on a regular basis whether the current rating system best satisfies the legislative objectives to which it must have regard and those other objectives which Council believes are relevant.

Darebin completed a comprehensive rate review in 2009/10 with further reviews undertaken during the annual budget process. It is timely, prior to the adoption of 2014/15 budget, to review Council's current rating strategy.

4.3 Objectives of the Strategic Resource Plan

When reviewing the rating strategy, Council needs to meet the objectives set out in the Strategic Resource Plan (Council's 4 year financial plan). Council needs to raise sufficient income to:

- Maintain the scope and standard of ongoing services and allow flexibility to respond to changing community needs;
- Increase the amount of expenditure allocated to asset renewal projects included in Council's capital works program;
- Ensure the cost of services and capital works commitments are covered without relying on external non-recurrent income sources such as capital grants; and
- Ensure sufficient cash levels are maintained to meet short-term payment obligations.

5 Rating – the Legislative Framework

Key points

- A rating system must by equitable and efficient.
- Property based taxation does not reflect people's capacity to pay.
- From 1 July 2013, Ministerial guidelines must be followed when declaring differential rates. A new rate needs to be supported by Council consideration of the objective, suitability, simplicity and effectiveness of the new differential rate.
- A Fire Services levy was introduced from 1 July 2013 and included on rate notices. Councils are responsible for collection of this State Government imposed levy.

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 decision on the rating objectives.

5.1 Objectives

The legislation specifies a number of major objectives for the rating system:

- the equitable imposition of rates and charges
- a reasonable degree of stability in the level of the rates burden
- contribute to the equitable and efficient carrying out of its functions and
- consistent with principles of financial management, councils also generally apply principles of simplicity or transparency.

It must be acknowledged from the start that these principles can conflict.

The two objectives which the rating system must have the greatest regard are the achievement of equity and efficiency.

5.1.1 Equity

Having determined that Council must review its rating strategy in terms of the equitable imposition of rates and charges, it is a much more vexed question in terms of how to define and determine what is in fact equitable in the view of the Council.

Horizontal equity refers to justice or fairness in the treatment of like properties, in other words, that similar rates are paid by similar properties. Obviously there is a fundamental importance on which characteristics define similarity. On the assumption that Council valuations fairly reflect the true valuation of like properties, horizontal equity will be achieved.

Vertical equity refers to justice or fairness in the treatment of properties in different circumstances (e.g. different property types – residential/commercial/ vacant land/ electronic gaming machine land). It implies a "relativity" dimension to the fairness of the tax burden. In the case of property taxation it may be considered equitable for one type of property to have to bear more or less of the rates burden than another type of property. Clearly, however, affordability criteria may be a significant concern that influences views about vertical equity.

Rates are essentially a wealth tax, determined on the value of property. A pure "wealth tax" approach implies that the rates paid relate directly to the value of a ratepayer's real property. The tests of horizontal and vertical equity are solely based on property value.
There is some debate surrounding the characteristics of property owners that may impinge on the application of an equity principle. The three main ways in which positions can vary are:

- the *benefit or user pays* principle – some groups have more access to, make more use of, and benefit from more, 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.

The Benefit Principle
A popular complaint levelled at councils is that “the rates I pay have no correlation with the services I consume or the benefits I receive”. This argument is based on the benefit principle (the opposite of the wealth tax principle) that argues there should be a nexus between consumption/benefit and the rate burden.

Application of the benefit principle is difficult in practice because of the complexity and, in some cases, impossibility, of measuring the relative levels of access and consumption across the full range of council services. In some ways the arguing of the benefit principle with respect to council rates is like trying to do the same for the income tax that is used to fund a wide range of universally accessed services.

It is likely to be quite costly to regularly undertake in-depth analyses on service access, consumption patterns and costs in order to attempt to review the level of benefit. In any event many subjective assumptions will have to be introduced. Other pricing instruments such as user charges, special rates and charges and service rates and charges better lend themselves to dealing with the issue of benefit.

Capacity to Pay
Notwithstanding the practical limitations, council can make choices about the tax treatment of classes of real property insomuch as they believe that a class of property will reflect the financial position of a household or business and its capacity to pay. However, the most vexed issue related to capacity to pay is assessing it across different classes of property.

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, in 2009/10 Darebin introduced a $50 rate rebate to pensioners. This Council rebate, in addition to the State funded pensioner rate concession scheme, was increased to $100 in 2011/12 and to $130 in 2013/14. With over 11,800 pensioners in Darebin, the cost of this pensioner rebate is budgeted at $1.55million in 2014/15.

5.1.2 Efficiency

Efficiency can be defined as the ratio of ends produced (output) to means used (inputs). In other words it can be considered directly related to the cost of administering the rates system. Administration costs include the issuing of assessments, collection of rates, including maintaining and improving collection systems, monitoring outcomes, educating and informing ratepayers, and enforcement and debt recovery. It also includes the maximization of additional rate income through supplementary valuations by ensuring the timeliness and accuracy of amended rate notices.

A simple rating system is more transparent, meaning that the underlying purpose and principles behind the design of a tax are clearer - who is liable for a particular rate and how tax liability is calculated. However, it is also possible for a simple rate system to be costly if it is unpopular and results in increased appeals and higher collection costs.

Whilst a uniform rate would be simple to apply, Darebin utilises differential rates as Council considers that this will contribute to the equitable and efficient carrying out of its functions.

5.1.3 Achievement of Objectives other than Equity and Efficiency

Although the legislation explicitly refers to equity and efficiency criteria, the potential exists to facilitate other objectives related to council functions. The link between these other objectives and equity and efficiency may be indirect or tenuous.

For example, the rating system could be used to encourage the development of vacant land. Such objectives may be important but are subordinate to achieving equity and efficiency aims related to the rating system.

Darebin introduced the vacant land differential rate in 2009/10 to encourage ratepayers to maintain and develop their land, whilst in 2013/14 the vacant retail land differential rate was introduced to reactivate retail strips to stimulate economic development.

5.2 Problems with Property Taxation

Property taxes do not recognise the situation where ratepayers are “asset rich” and “income poor”. In these cases ratepayers may have considerable wealth reflected in the property they own but have a low level of income. Examples include pensioners, businesses subject to cyclical downturn, households with large families and property owners with little equity. In a commercial sense the argument has also been expressed in terms of the ability of property to generate a reasonable return.

Darebin completed an extensive strategic rate review of Darebin’s current rating strategy and the instruments available under the *Local Government Act* in 2009/10. The review explored using the property’s capital improved value, as opposed to the characteristics of the use of the land, as the basis for setting differential rates. Legal advice sought at the time indicated that a CIV-based rate would not be possible under the *Local Government Act.*

As a simple example of how a CIV-based rate might work, properties up to a certain value (say $1m) could be rated at one level, with properties over this value rated at a higher amount. Additionally, a granulation of the differential rate could be applied to the property value, similar to the income tax scale.

For example:

Property Value	Differential	Rate in $
< $1,000,000	1	$0.0025
>= $1,000,000 and < $1,500,000	1.2	$0.003
>= $1,500,000 and < $2,000,000	1.5	$0.00375
>= $2,000,000 and < $5,000,000	2	$0.005
>= $5,000,000	3	$0.075

The combination and number of thresholds to apply will depend on the spread and distribution of the CIV of properties across the Council. Financial modelling would be required to determine these thresholds.

Currently, a large business, pays the same rate in the $ as a small business, such as a stall holder at Preston Market. It would be more equitable for a large national/international business, to pay higher rates based on the value of their property than small businesses. The rationale for this CIV-based rating model is that the higher the CIV the greater the capacity to pay. This option may also prove to be more equitable and efficient as well as simple to apply.

A legal view on the use of CIV-based rate was sought from Maddocks lawyers. Maddocks considered this type of approach and concluded that, in their opinion, ‘*any differential rating regime which depends entirely on capital improved value (CIV) will be legally suspect. There* *would be a risk that the regime will offend section 161 of the Local Government Act 1989 and be beyond power.'*

In August 2011, Council wrote to the Honourable Jeanette Powell MP, Minister for Local Government requesting a change to the *Local Government Act* that would allow a CIV-based rate structure. No reply was received from the Minister.

5.3 What rates and Charges may a Council declare?

Section 155 of the Local Government Act provides that Council may declare the following rates and charges on rateable land:

Rating option	Description	Darebin structure
General rate	A general rate is applied to all properties and can be set as either a uniform rate or a number of differential rates.	Darebin applies the differential rates listed below.
Uniform rate	A uniform rate is a single rate in the dollar that is applied to the value of all properties in the municipality.	Darebin does not apply a uniform rate.
Differential rates	Differential rates are different rates in the dollar that are applied to different classes of properties and are permitted if the Council uses Capital Improved Value as the rating valuation base. The Act allows the use of differential rates if the Council considers that this will contribute to the equitable and efficient carrying out of its functions.	The following differential rates are proposed to be levied in 2014/15: • Residential • Business (set at 1.75 times the residential rate) • Cultural & Recreational (set at 50% of the business rate) • Residential vacant land (set at 3 times the residential rate) • Business vacant land (set at 4 times the residential rate) • Mixed use occupancy land (set at 1.4 times the residential rate) • Vacant retail land (set at 4 times the residential rate)
Municipal charge	A municipal charge to cover some of the administrative costs of the Council. This is a flat-rate charge applied to all properties.	Darebin does not levy a municipal charge.
Service rates and charges	Service rates or annual service charges (or a combination of both) can be levied for provision of a water supply, collection and disposal or waste, and sewerage services.	Darebin levies a service charge for residents who elect to use the optional green waste service, with a discount for pensioners.
Rebates and concessions	The Act allows Councils to grant a rebate or concession in relation to any rate or charge to assist the proper development of all or part of the municipal district, preserve buildings or places that are of historical or environmental interest, or to restore or maintain buildings or places of historical, environmental, architectural or scientific importance.	A rate rebate for pensioners of $130 is provided in the 2014/15 rating year to each owner of rateable land who is an "eligible recipient" within the meaning of the State Concessions Act 2004.
Special Rates and charges	A special rate or charge may be declared for purposes of: • Defraying any expenses or • Repaying with interest any advance made or debt incurred or loan raised by Council.	Darebin levies a special rates and charges for promotional and marketing activities to assist Retail associations. Currently there are 4 special rates for Fairfield, Northcote, Preston and Reservoir.

5.4 Recent legislative changes

5.4.1 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.

<u>Key messages from the Ministerial Guidelines</u>
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 proposed 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.

In 2011/12 and 2012/13 Darebin Council levied a differential rate on Electronic Gaming Machine Land. This differential rate, that provided an additional $270,000 in 2012/13, allowed the implementation of programs at the Darebin Intercultural Centre to provide an alternative to gambling and projects related to gambling and community issues utilising community grants, Darebin's emergency relief networks and not for profit organisations. Following the enactment of the Ministerial Rating Guidelines, the differential rate for gaming machine land was discontinued.

Council is proposing in the 2014/2015 year to temporarily discontinue the differential rates on derelict business properties. This differential rate was introduced in 2013/2014 to encourage responsible land management through appropriate maintenance and development of the land and to minimise the risks posed to safety by derelict land and the adverse effects of derelict land on public amenity. The identification of derelict land has been problematic resulting in only 3 properties identified as derelict.

The differential rate for mixed use occupancy land, introduced in 2013/2014 at 1.25 times the residential rate to address an apparent inequity for those ratepayers who reside in, and operate a business from the same building and previously required to pay rates in respect of two separate assessments will be increased in 2014/15 to 1.4 times the rates for residential properties.

5.4.2 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.

The major fire services levy issue faced by ratepayers relates to un-subdivided residential flats, commonly in blocks of up 12 occupancies. These have been categorised as Commercial and levied the higher $205 fixed levy and the higher commercial rate. Council categories these properties as residential for rating purposes. Whilst confusing for property owners, it has also resulted in an increase in the fire service levy paid. In 2013/14 one property owner has experienced an increase in their contribution from $102.22 to $1,779.00.

Council has made representation to the State Government on this issue and is hopeful that this inconsistency will be changed for 2014/15, with legislation currently before parliament.

5.4.3 Supplementary Rates

In certain circumstances valuations may be performed between general valuations to acknowledge changes in a property, for example when a building is erected or demolished or land subdivided or rezoned. Valuations are undertaken and adjusted rate notices known as a supplementary rate notice are sent.

To illustrate, if a residential property was valued at $340,000 at 1 January 2012 and subsequently redeveloped and a new valuation completed on the 1 November 2013 the ratepayer would receive the following rate notices:

Date	Rate Type	Rate in the $	Valuation	Rates for the year	Quarterly rates payable
For 2013/14 rate year					
1 July 2013	Vacant Business Property	0.00980850	$340,000	$3,334	Q1: $833 Q2: $833 Q3: $833 Q4: $833
1 November 2013	Supplementary rate notice			$4,544*	Q1: $833 Q2: $1,237 Q3: $1,237 Q4: $1,237
The supplementary rate notice replaces the original rate notice dated 1 July 2013					
For 2014/15 rate year					
1 July 2014	Business Property	0.00429122	$1,200,000	$5,149	Q1: $1,287 Q2: $1,287 Q3: $1,287 Q4: $1,287

Note: * Supplementary rate notice issued 1 November 2013 of $4,544 calculated as:

- 4 months at $3,334 = $1,111
- 8 months at $5,149 = $3,433

6 Determining which valuation base to use

Key point
- Three methods of valuing land are available – site value, net annual value (NAV) and capital improvement value (CIV).

Strategy Recommendation:
Council continues to utilise Capital Improvement Value as its valuation base.

The purpose of this section is to outline the different methods that Council can utilise to value land and the issues that Council must consider in making its decision on the valuation method.

Three methods of valuing land are allowed under the Act:
- Site Value (SV) – Value of land only
- Net Annual Value (NAV) – rental valuation based on Capital improvement Value (CIV). For residential and farm properties, NAV is calculated at 5 per cent of the CIV. For commercial properties NAV is calculated as the greater of the estimated annual rental value or 5 per cent of the CIV.
- Capital Improved value (CIV) – value of land and improvements upon the land

Darebin use capital improved value for rating valuation purposes, along with the majority of other Victorian Councils.

6.1 Site Value

There is no Victorian Council that uses this valuation base. This method places a value on the land only and does not consider any value of any buildings constructed on the land.

With valuations based simply on the valuation of the land with only very limited ability to apply differential rates, the implementation of site value in Darebin would cause massive shift in rate burden from the business sector into 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.

6.2 Net Annual Value

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 properties. Valuers derive the NAV directly as 5 per cent of the CIV.

In contrast to the treatment of residential, NAV for business properties are assessed with regard to the actual market rental. This differing treatment of business versus residential has led to some suggestions that all properties should be valued on a rental basis. There is currently no legislation that supports this suggestion.

Where a Council utilises NAV, it may only apply three differential rates. For example, City of Melbourne utilise NAV, applying a differential rate for residential and non-residential land only.

6.3 Capital Improved Value

Capital improved valuation is the most commonly used valuation method by Victorian Local Government with 72 Councils applying this methodology. Based on the value of both land and all improvements on the land, it is relatively easy to understand by ratepayers as it equates to the market value of the property.

For CIV, business properties are valued primarily by the capitalisation method of valuation. This method of valuation is the industry standard for assessing the value of business properties and has as its base sale price and market rent of the property. For this reason, rental details are sought by rating valuers every 2 years. When analysed on a per square meter basis, rents provide a means of establishing the rental market in a location.

The advantages of using CIV include:

- 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 or NAV.
- The concept of the market value of property is far more easily understood with CIV rather than NAV or Site Value.
- 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.

The major disadvantage with CIV, and indeed all the other rating methods, is that rates are based on the property value which may not necessarily reflect the income level of the property owner as with pensioners and low income earners.

As previously mentioned, the Darebin rating review undertaken in 2009/10 explored using the property's capital improved value, as opposed to the characteristics of the use of the land, as the basis for setting differential rates. Legal advice sought at the time indicated that CIV-based differential rates would not be possible under the *Local Government Act.*

7 Determining the Rating System – Uniform or differential

Key Points:

- Council can elect to apply a uniform or differential rate
- Under a uniform rate, a single rate is applied to all property values. The total rate revenue paid by each individual property or each class of property is identical to its percentage of total property valuation.
- Differential rating allows particular classes of properties to be assessed rates at different levels from the general rate set for the municipality.
- Differential ratings allows for the shifting of the rate burden from one group/class of rate payers to another.
- In 2014/15 Darebin is proposing 7 differential rates – residential, business, vacant residential, vacant business, vacant retail, mixed use occupancy, and cultural & recreational properties.

Strategy Recommendation:

Council continues to utilise differential rates for:

- Residential land
- Business land
- Vacant land
- Vacant Retail land
- Mixed Use Occupancy Land
- Cultural and Recreational properties

No new differential rates are recommended, but it is proposed to suspend the differential rate for derelict business properties.

The purpose of this section is to outline the two rating systems (uniform or differential) that Council can utilise to apply rates and the issues that Council must consider in making its decision on the rating system.

7.1 Uniform rate

If a Council declares that general rates will be raised by application of a uniform rate, the Council must specify a percentage as a uniform rate. A uniform rate will apply to the value of every rateable property within the municipality.

Rates will be determined by multiplying the percentage (the rate in the dollar) by the value of the land.

The following table illustrates the application of a uniform rate in a municipality with 5 properties. To raise the Revenue target of $3,000, a rate in the dollar of 0.00210[1] is applied to each property. Under a rating system with a uniform rate the percentage of total rate revenue paid by each individual property or each class of property (e.g. houses, shops, and gaming venues) is identical to its percentage of total property valuation.

Property	CIV $	% of CIV	Rate in $	Rate revenue $	% of rate revenue
House A	140,000	10%	0.00210	294	10%
House B	150,000	11%	0.00210	312	11%
Shop C	140,000	10%	0.00210	294	10%
Shop D	250,000	17%	0.00210	525	17%
Vacant Retail E	750,000	52%	0.00210	1,575	52%
TOTAL	**1,430,000**	**100%**		**$3,000**	**100%**

[1] The rate in the dollar is calculated by dividing the total revenue required ($3,000) by the total value of all the properties ($1,430,000)

7.2 Differential rates

Darebin has, since its inception, 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.

Council is entitled to apply many differential rates provided it used Capital Improved Valuations as its base for rating.

Section 161 of the Local Government Act outlines the regulations relating to differential rates. This section is outlined below:

(1) A Council must raise any general rates by 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, geographical 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 4 times the lowest differential rate. For Darebin, the lowest rate is the residential rate.

The following table illustrates the impact on properties by the raising of $3,000 in total rates revenue through the application of three differential rates for houses, shops and gaming venues:

Property	CIV $	% of CIV	Rate in $	Rate revenue $	% of rate revenue	Differential rate
House A	140,000	10%	0.00076	106	4%	
House B	150,000	11%	0.00076	113	4%	
Shop C	140,000	10%	0.00132	185	6%	1.75 times house
Shop D	250,000	17%	0.00132	330	11%	1.75 times house
Vacant retail E	750,000	52%	0.00302	2,266	76%	4 times house
TOTAL	**1,430,000**	**100%**		**$3,000**	**100%**	

The percentage of total rate revenue paid by each individual property or each class of property (e.g. houses, shops and gaming venues) is no longer identical to its percentage of total property valuation. In this example, the rate burden has shifted from the houses and shops to the gaming venue.

There is no theoretical limit on the number or type of differentials which can be levied.

7.3 Darebin's differential rates

The differential rates included in Council's 2014/15 budget include:

Rate	Differential
Residential rate	
Business rate	1.75 times residential
Residential vacant land rate	3 times residential + 18 month rule*
Business vacant land rate	4 times residential (2.3 times business)
Mixed Use Occupancy land	1.4 times residential
Vacant Retail land	4 times residential (2.3 times business)
Cultural and Recreational	0.5 times residential

The 18 month rule was introduced for vacant residential land in 2012/13 following community feedback. The higher vacant land residential rate will only apply when the land has been vacant for more than18 months and a valid building permit is not held.

7.4 Objectives 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.

7.4.1 Business rate

The objective of the business rate is to promote economic development objectives of the Council and to contribution to the functions of Council including the construction and maintenance of infrastructure assets and development and provision of health and community services.

Given the tax deductibility of rates for businesses, the extent of use of the council's infrastructure by business, especially the road network, the support businesses receive from Darebin's Economic Development team, (including the recently introduced WiFi in shopping strips and the commitment to increase local jobs) and the benefit businesses derive from footpath and streetscape improvements, it is desirable to retain this business differential rate.

7.4.2 Vacant land rate - business and residential

The main objective of the vacant land rate is to promote responsible land management through appropriate maintenance and development of the land so that foregone community and economic development resulting from underutilisation of land is minimised.

Since the establishment of the vacant land rate in 2010/11, the number of properties rated as of vacant has fallen from 753 in 2010/11 to 266 in 2014/15. Whilst some of this reduction can be explained by the revision of the definition of vacant land (a building permit is now required before a reduction in the higher vacant land rate is removed, previously an occupancy certificate was required) and the introduction of the 18 month rule, much of the reduction has arisen from ratepayers developing their properties. Clearly the objective of the vacant land rate is being achieved.

7.4.3 Electronic Gaming Machine Land

The *Ministerial Guidelines for Differential Rating* suggests that declaring a differential rate for electronic gaming machines venues is not appropriate. As a consequence this differential was removed from the 2013/14 budget resulting in a loss of revenue of $288,000.

7.4.4 Cultural and Recreational properties

The provision of rate relief to recreational land is provided by the Cultural and Recreational Lands Act 1963. The Act effectively provides for properties used for outdoor activities to be differentially rated unless it involves land that is being leased from a private landowner. The discretion of whether to provide a cultural and recreational lands rate rests with Council.

The eight properties that are currently defined as Cultural and Recreational properties are:

Strathallan Golf Club
Kingsbury Bowling Club
Preston Reservoir Bowls Club
Fogolar Furlan Club
Thornbury Bowling Club
Fairfield Bowling Club
Preston Northcote Angling Club

7.4.5 Fast food outlets

Darebin currently does not have a differential rate for fast food chain outlets.

In October 2012, following consultation with representatives from Obesity Policy Coalition, Darebin Community Health Centre, Diabetes Australia, North East Primary Care Partnerships and Latrobe University, Council considered the proposal to introduce a higher differential rate to discourage or penalise fast food chain outlets.

However, the Ministerial Rating Guidelines prevents the introduction of a differential rate for fast food chain outlets. The State Government has indicated that they would not support what they have termed '*social engineering agendas through rate rises'*.

7.4.6 Vacant Retail land

Darebin Council's 2013/14 budget introduced a differential rate for vacant retail land, at 4 times the residential rate and 2.3 times the business rate.

Across Darebin, 53 vacant shops have been identified resulting in less passing foot traffic, loss of trade by neighbouring retailers that encourages bill posting, graffiti and rubbish dumping.

The additional funding received from the higher differential rate will be utilised to activate these vacant shop spaces.

Since January 2013, Council has worked with 17 potential projects. The projects include businesses wanting to sell their products or looking to co-locate their operations and artists looking for space to create and showcase their work. A short film has even been recorded from one of the windows of a vacant shop.

All these projects have been well received by surrounding retailers and the community.

7.4.7 Derelict business Buildings

Darebin Council's 2013/14 budget introduced a differential rate for derelict business dwellings or buildings, at 4 times the residential rate and 2.3 times the business rate.

The objective of this differential rate was to promote the responsible management of land and buildings through the proper development and maintenance of such land and buildings so as to not pose a risk to public safety or adversely affect public amenity.

Council is proposing in the 2014/2015 year to temporarily discontinue the differential rates on derelict business properties. The identification of derelict land has been problematic resulting in only 3 properties identified as derelict.

7.4.8 Mixed use occupancy land

Darebin Council's 2013/14 budget introduced a differential rate for properties that owned and occupied by the one ratepayer and utilised as a business outlet and residences. The differential rate levied in 2013/14 was 1.25 times the residential rate. It is proposed in the 2014/15 budget to increase the differential for mixed use occupancy land to 1.4 times the rates for residential properties.

Prior to the introduction of this differential rate, ratepayers where levied the business rate (1.75 times the residential rate) for the entire property, despite utilising part of the property as their residence.

7.5 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 businesses;
- Differential rates allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs to the business sector and those adversely impacted by gambling; and
- Enables Council to encourage particular developments through it rating approach e.g. encourage building on vacant land.

7.6 Disadvantages of a differential rating system

The perceived disadvantages of utilising a differential rating system 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 were the differentials may see to be excessive. When the vacant land rate differential was increased in 2011/12, over 120 enquires (or 35% of residential vacant land ratepayers) were received.
- Differential rates can be confusing to ratepayers, as they may have difficulty in understanding the system. Some rating categories may feel they are unfavourably 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. vacant land to residential) requiring Council to update its records. Ensuring the accuracy and integrity of Council's data base is critical to ensure that properties are correctly classified into their differential rate category.

8 Understanding the impacts of Council Revaluations

Key points

- Property revaluations, undertaken every two years, do not generate extra revenue for Council but have a significant impact on the rates that individual properties are allocated as the total rates pool is redistributed based on the updated property values.
- The next revaluation will be 1 January 2016.
- Ratepayers can object to their property valuation.

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

All Victorian Councils are required under the *Valuations of Land Act 1960* to revalue properties every two years. The next revaluation will be at 1 January 2016.

The 2014 valuation, to completed in January 2014, will apply to the 2014/15 and 2015/16 rates.

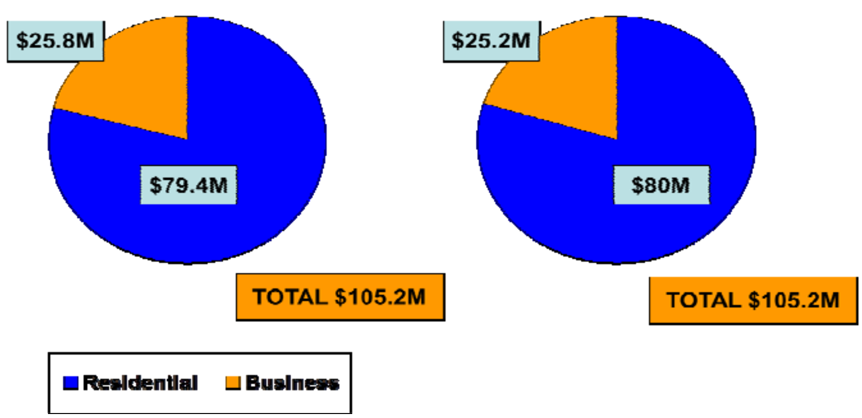
Property values are determined by qualified valuers comparing each property to the recent sales figures of similar properties in the neighbourhood. The key factors are location, land size, type of house and condition.

The Valuer General of Victoria 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 Valuer General Victoria.

8.1 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.

As illustrated below, the total rates raised (residential & business rates) for 2014/15 is $105.2m. Both pre and post the 2014 valuations, the total amount raised in rates remain unchanged. The allocation of the rates between residential and business and between individual rate payers will be the only change.

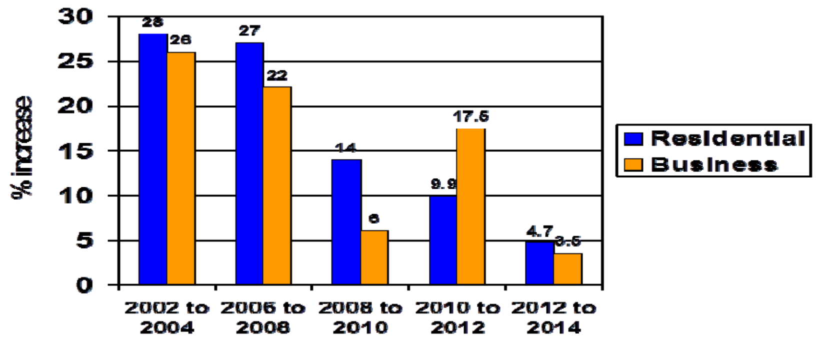


Pre 2014 Valuations Total $105.2m After 2014 Valuations Total $105.2m

8.2 How does this affect my rates?

The general revaluation process enables Council to re-apportion the rate income across the municipality in accordance with movements in property value. Properties which have increased in value by more than the average will receive a rate increase of more than the headline rate. Properties with an increase in value less than the average will receive a rate increase less than the headline rate. In 2014/15, the headline rate increase is 5%.

The following graph shows the CIV increases for the last 5 revaluations:



Property owners have the ability to object to the valuation within 2 months of receiving their notice.

8.2.1 2014 Valuation

Overall, property valuations across the municipal district have increased on average by 4.7% for the two years from 1 January 2012 to 1 January 2014. Of this increase, residential properties have increased by 4.7% and business properties by 3.5%.

The following table summarises the average valuation changes between the 2012 and 2014 general revaluations for residential properties by suburb, together with the average rating changes between the 2013/14 and 2014/15 years. Rates for individual properties will vary depending on their individual valuation outcomes.

Suburb	Valuation Change (Decrease)	Rates Change (Decrease)
Alphington	3.6%	4.2%
Bundoora	5.8%	6.5%
Fairfield	4.6%	5.2%
Kingsbury	1.8%	2.4%
Macleod	3.0%	3.6%
Northcote	7.3%	7.9%
Preston	6.4%	7.0%
Reservoir	0.7%	1.3%
Average residential	4.7%	5.3%
Average business	3.5%	4.2%

In deliberating over the setting of the differential rate structure for the 2014/15 year, Council has been mindful of the increase in residential property valuations compared to those in the business sector. If no changes were made to the rate differential, the change in property values would result in an overall increase of 5.3% in residential rates and 4.2% in business rates for the 2014/15 year.

9 Municipal Charge

Key Points
- A municipal charge is a flat/single fee that can be charged to all ratepayers to cover Council's administrative costs
- A maximum fee of $308 per rate payer could be introduced
- A municipal charge is a regressive fee, in that it does not change as the valuation of the property increases or decreases.

Strategy Recommendation:
A municipal charge is not introduced.

The purpose of this section is to outline the municipal charge that Council can utilise to apply rates and the issues that Council must consider if a municipal charge was introduced.

In addition to differential rates, Council may declare a municipal charge to cover some of the administrative costs of Council. The total revenue from a municipal charge must not exceed 20% of the sum total of the general rates and municipal charge combined in a financial year.

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. In applying the legislation, the maximum amount Darebin could levy as a municipal charge would be approximately $308 per assessment based upon the 2013/14 rates.

Darebin currently does not have a municipal charge.

9.1 Advantages of a municipal charge

The arguments in favour of a municipal charge are they apply equally to all properties and are based upon the recovery of fixed costs 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.

9.2 Disadvantages of a municipal charge

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.

10 Special Rates & Charges

Key Points

- Darebin provides an optional green waste service that is charged to residents via an annual service charge
- A special charge is utilised in four shopping centres to provide additional funds to assist in the delivery of economic and employment strategies
- An environmental charge would assist waste management by raising people's awareness.

Strategy Recommendation:
An environmental charge is not introduced.

The purpose of this section is to outline the special rates and charges that Council currently applies and new charges that could be utilised and the issues that Council must consider in making its decision when reviewing these special rates and charges.

Darebin currently imposes special rates and charges for:

- an optional green waste service; and
- retail shopping centres.

No environmental charge is imposed for general and recycled waste.

10.1 Green Waste

This is an optional green waste service which carries an annual service charge for those who elect to take this service.

The following table summarises the charges for the 2014/15 year.

	$ per bin
Green waste – 120 litre	**46.50**
Green waste – 120 litre (pensioner)	**27.00**
Green waste – 240 litre	**88.00**
Green waste – 240 litre (pensioner)	**58.50**

Council has budgeted to receive $2.02 million from Green Waste fees in 2014/15. This revenue covers the direct costs of providing the service, but not the indirect costs such as supervision, office accommodation and overheads.

10.2 Special Rates

Special rates for retail associations have been in place for several years and assist in delivering the business development and employment strategies. The special rate schemes are reviewed and approved by Council every 4 to 5 years.

Special Rates have been in place for:

- Reservoir Village Business District;
- Station Street Fairfield Shopping Centre;
- Preston Central Shopping Centre; and
- High Street Northcote Shopping Centre.

The special rates collected from the businesses operating in these shopping centres/ business districts are utilised for projects that have agreed with the shopping centre's retail association.

A decision to review these special rates occurs at the expiry of the current special rates, not during the budget discussions and is subject to separate Council discussion and approval.

10.3 Environmental charge

Waste minimisation may be viewed as an important council objective. Councils are increasingly looking at their roles in terms of broader environmental responsibilities and sustainability, particularly given pressures for land in metropolitan areas and the role of landfill gas in greenhouse effects. If council considers that waste minimisation is an important objective it follows that ratepayers should be made aware of the significant costs involved. Specific charges are the best means of providing transparency.

Council has the power to levy a service rate or service charge or combination service rate and charge to fund waste services. The most commonly used service rate or charge is that used to defray garbage collection and recycling costs. Many councils fund waste services through a separate service charge.

Waste services lend themselves to user charges. A unit charge is normally levied on each property that receives or can access the service. The recipient of the benefit of this service can clearly be identified as the property to which it is provided so it is more in the way of a private good rather than a public good. However, waste service charges need not necessarily be based on full cost recovery and consideration may be given to its pricing on the existence of levels of both private and public benefit.

Darebin currently has no separate charge for general waste and recycled collection services.

10.3.1 Why not fund waste services by general rates?

The fundamental issue with funding waste services through general rates is that there is no correlation with consumption. A popular complaint levelled at councils is that "the rates I pay have no correlation with the services I consume or the benefits I receive". The inclusion of an environmental charge improves transparency overall as ratepayers are made aware of the cost of a specific service and can quantify the amount of service they receive.

Environmental charges are consistent with sound pricing policy - they are clearly identifiable as services to property and service recipients are entitled to the same level of service consumption for a fixed price. However, environmental charges only partially reflect consumption.

Ratepayers may not be rewarded for using less than their entitlement to waste services by putting their bins out less frequently or putting out a smaller volume of refuse unless offered variable pricing options. Arrangements to better match charges with actual consumption levels usually involve up-front additional costs relating to microchip technology, vehicles and optional bin sizes. Councils may however charge more heavily for additional bins without such fuss. However, it is arguable that although the application of a single waste management charge associated with a single bin option will achieve the aim of transparency this may not necessarily lead to waste reduction.

Fixed charges are regressive. It may be argued that the effect of unbundling waste management from the basket of services funded through general rates is regressive, particularly if a waste charge cannot be tailored to actual consumption levels. This means that as the value of properties decrease the combined total of general rate and waste service charge increases as a percentage of property value. It might be argued that this is a problem because it will adversely impact lower income persons because of the tendency for them to own lower valued properties. On the other hand, some groups such as lone person pensioner households may benefit from generating lower levels of waste if this is rewarded through pricing approaches. The possibility of adversely impacting larger family households that may generate larger total waste volumes (as opposed to "per head" volumes) has also been an issue that has been raised. Thorough consideration needs to be given to the goals to be achieved and impacts for different groups.

The environmental charge that Darebin could charge for each *residential* rateable land and non-rateable land is between $155 and $200, based on a fee for service, including direct, indirect and overhead costs. The charge would be impacted by cost estimates for the introduction of Carbon Tax and the increase in the EPA levy.

10.3.2 Ratepayers currently not receiving waste collection services

Planning permits for multi dwelling properties with over 15 units require properties' Body Corporates to manage their own waste.

Requests have been received from a couple of ratepayers for a reduction in their rates for waste and recycling services that they are not receiving.

Businesses and vacant land, also, do not receive waste collection services from Council.

10.3.3 Advantages of an environmental charge

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

10.3.4 Disadvantages of an environmental charge

The argument against an environmental 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 an environmental charge as it is levied uniformly across all assessments.

If all properties are levied the charge, properties who do not receive the waste service would clearly believe they are paying for a waste service twice – through their body corporate fees and their rates. Businesses and landowners of vacant land would also object to paying for a service they do not receive.

11 Rebates an Concessions

Key Points:

- The State Government pensioner rebate for 2013/14 was $202.90 (the rate for 2014/15 is not yet available)
- Darebin introduced an additional Pensioner rebate in 2010. In 2014/15 the proposed rebate is $130.
- In 2013-14, 11,846 rate payers took advantage of the Darebin pensioner rebate at a cost of $1.54 million.

Strategy Recommendation:
Council to retain the Pensioner Rebate at $130 per eligible residential rate payer.

The purpose of this section is to outline the rebates and concessions that could be utilised and the issues that Council must consider in making its decision when reviewing these rebates and concessions.

Under the Local Government Act, Council has the power to grant a rebate or concession in relation to any rate or charge to assist ‘proper’ development and the preservation of buildings or places of historical, environmental, architectural or scientific importance within the municipality.

While the original intent of the term ‘proper’ development has a land use perspective, Councils have been known to use the provision to assist economic development. Rebates and concessions should be used with respect to *individual* properties within a property class. The legislation intended that differential rates be used to achieve an outcome for a *class* of properties.

The granting of rebates and concessions results in a higher rating effort being applied to other properties to raise the same level of rate revenue.

11.1 Pensioner Rebate

11.1.1 State Government Pensioner Rebate

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 dependant cards) may claim a rebate on their sole or principle place of residence.

For 2014-2015 the government-funded indexed rebate is provided under the Municipal Rates Concession Scheme. It has increased from $198 to $202.90 for 2013-2014 or 50% of the rate payment, whichever is the less. The State Government rebate for 2014/15 is not yet available.

11.1.2 Council Pensioner Rebate

In addition to the State Government Pensioner Rebate, in 2010 a Council funded rebate on rates of $50 to pensioner ratepayers was introduced. In 2013-14, the Darebin Council pensioner rebate was increased to $130.

In 2013-14, 11,846 pensioners took advantage of the Council funded rebate. The total rebate was $1,540,000.

The percentage of Darebin resident rate payers that are pensioners is 19%. This has fallen from 21% or 12,235 in 2012-13 (by 2% or 389 ratepayers)

The reduction in the number of pensioners is surprising as forecasts indicate that the number of pensioners will increase as a percentage of the total population and by 2030 represents 2.7% of the population. For Darebin, this could result in the number of ratepayers that are pensioners increasing by 50% to 32% of the total population by 2030.

The following table shows the predicted growth in pensioner numbers in Australia.

Age range	**1970**	**2010**	**2020**	**2030**	**2040**	**2050**
Population as at June 30 (millions)						
0-14	**3.6**	**4.2**	**4.9**	**5.4**	**5.7**	**6.2**
15-64	**7.9**	**15.0**	**16.6**	**18.2**	**20.0**	**21.6**
65-84	**1.0**	**2.6**	**3.7**	**4.8**	**5.6**	**6.3**
85 and over	**0.1**	**0.4**	**0.5**	**0.8**	**1.3**	**1.8**
Total	**12.5**	**22.2**	**25.7**	**29.2**	**32.6**	**35.9**
% of population						
0.14	**28.8**	**19.1**	**19.0**	**18.3**	**17.4**	**17.2**
15-64	**62.8**	**67.4**	**64.7**	**62.4**	**61.3**	**60.2**
65-84	**7.8**	**11.7**	**14.3**	**16.6**	**17.2**	**17.6**
85 and over	**0.5**	**1.8**	**2.1**	**2.7**	**4.0**	**5.1**

Intergenerational Report 3 (2010)

11.1.3 Advantages of a pensioner rebate

In 2010 the MAV undertook a statistical analysis of figures across Victoria that showed on average 2.25% of household expenditure was spent on Council rates. The study indicated that households occupied by old age pensioners are likely to have a higher rate burden. The advantage of a pensioner rebate reduces the financial burden on pensioner households.

11.1.4 Disadvantages of a pensioner rebate

The Council Pensioner rate rebate redistributes the rate burden with other ratepayers bearing the cost by way of higher rates and charges. The rate burden for non-pensioners is likely to be greater as the number of pensioners increases.

Once a rebate has been introduced, it is exceptionally difficult to remove this rebate. Rate payers receiving the benefit would not support the removal of this benefit.

12 Charitable and Not-for-Profit Organisations

Key Point:
- There are a number of properties exempt from rates – providers of health services, education, religion and services to the needy.
- Council does not provide a rebate to Housing organisations.

The purpose of this section is to raise awareness of non-rateable properties.

The Local Government Act provides for properties where the use is charitable, to be non-rateable. Application for exemption from rating may be made at any time during the financial year and will be assessed based on the usage of the property. Council does not generally allow for any retrospective claims.

Legal precedent has determined that charitable uses include those providing health services, education, religion and services to the needy.

Examples of non-rateable properties in Darebin include:

	Number of properties/buildings*
Aged Care Complex	14
Cemetery	4
Church / Temple / Synagogue	86
Community Health Centre	15
Community/Neighbourhood Facility	14
Disability Housing	120
Halls and Service Clubrooms	24
Museum/Art Gallery	1
Railway Passenger Terminal Facilities	11
Schools & Universities Public/Private	143
Police Facilities	2

*Note: the number shown represents the buildings/properties. One school, for example, may have a number of buildings.

These properties incur the fire brigade levy.

12.1 Charitable Housing

There are a number of organisations providing housing for people with low-income, on a voluntary and not for profit basis. The provisions of the Local Government Act preclude such residential housing from being non-rateable, even though their use may be regarded as charitable, in the everyday sense of the word.

All housing provided by Registered Agencies, Housing Associations, charitable or government organisations is rateable in accordance with legal precedent and the Local Government Act.

During 2009 the Local Government Act was amended to allow Council to grant a rebate or concession in relation to any rate or charge, to support the provision of affordable housing, to a registered agency.

Council does not provide a rate rebate to support the provision of affordable housing by registered agencies.

Assistance for low income households is already provided through the State Government and Darebin pension rebate.

12.2 Retirement Villages

Section 171 of the *Local Government Act* allows Council to the waiver rates (in full or partially) in relation to Retirement Villages. There are no Victorian councils that waiver rates for retirement villages and only a few that levy a lower differential rate for these properties. Council does not provide a waiver of rates nor levies a lower differential rate for retirement villages.

The retirement villages in Darebin comprise:

Suburb	Village	Units	2014 CIV
Reservoir	Village Drive	253	78,751,000
Reservoir	St. Margaret's	23	7,070,000
Fairfield	Fairfield Lions Village	24	6,188,000
Northcote	Veronica Gardens	115	23,429,000
Macleod	Springthorpe	89	40,356,000
Preston	Twin Parks	18	5,911,000
		522	161,705,000

Council assists ratepayer residing in Darebin's retirement village through the provision of the $130 rebate to pensioners, in addition to the rebate of $202.90 provided by the State Government.

Council is committed to a fair and equitable distribution of rates and believes this is achieved through the provision of the pensioner rebate.

13 Collections

Key Points:

- Payment of rates is available by four instalments.
- Single lump sum payment of rates in February is not available.
- Council promotes rate notices by email and online payments
- Rate payers can elect to have their savings/cheque accounts or credit card debited automatically weekly, fortnightly or monthly for rate payments
- Statutory interest of 10.5% is charged on outstanding rates

Strategy Recommendation:

Council:

- continues to support ratepayers facing hardship via waiver of interest, offering payment plans and the deferral of rates
- do not introduce an incentive for prompt payments.

The purpose of this section is to outline the rate payment options and processes, the support provided to ratepayers facing hardship and the issues that Council must consider in making its decision when reviewing these payment options and hardship provisions.

13.1 Liability to Pay Rates

The owner of the land is 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 declares the rate or charge, unpaid interest or costs to be a first charge upon the land.

13.2 Electronic Notices

Council encourages the electronic distribution of rate notices and promotes online payments.

Ratepayers can elect to receive their Rate Notice electronically via email. They can register at www.darebin.vic.gov.au/ratesforms

13.3 Payment Dates for Rates

Council, in accordance with the Local Government Act *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. The single lump sum payment option is due 15 February of each year and mandatory instalment payments are required at the end of September, November, February and May.

Darebin elected to move from the single lump sum payment method in 2004/05 for two main reasons.

The first reason relates to the levying of penalty interest on those that pay rates after the due date. Under the single lump sum payment in February option, if the due date for payment is missed by more than three days, legislation requires Council to backdate the interest charge until the commencement of the rating year (1st July of the previous year). This is a concept that is very difficult for anyone charged this interest to understand and Council was frequently embroiled in disputes with residents over this issue.

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

The second main reason to remove the single lump sum payment option relates to the improved cash flows that are associated with the instalment payment option. Council operates under a 1 July to 30 June financial year and issues a rate notice in July and then has to wait seven months (to February) to receive the majority of its revenue. During this time Council is required to continue to provide operational services and capital works which place our cash position under severe stain.

Darebin's cash and investment balances peaked in 1996 following sales of electricity assets owned by the pre-amalgamation Councils. This funding was drawn on to retire debt and allowed for an accelerated capital works program over a longer period to enhance broader community infrastructure.

Cash reached a low point of around $10 million cash in 2004 and 2005, and during this period Council required a bank overdraft for a short period each year in order to fund ongoing payments. Removing the lump-sum rates payment option at this time assisted a better smoothing of Council's cash flows, and since then cash balances have gradually increased. The increase has come partly due to higher reserves (for Developer Contribution and Public Open Space) being held, capital works being carried-forward, and profit surpluses arising from efficiencies in the delivery of services.

Installments provide a better matching of when Council receives its rate revenue against when we need to expend these same amounts.

13.4 Payment Methods

Council offers a range of payment options including direct debit, internet via www.darebin.vic.gov.au, by mail, telephone, over the counter services at Council Service Centres or Australia Post agencies.

To assist ratepayers spread the cost of rates over the year Council allows weekly, fortnightly, quarterly or 10 monthly direct debit payments. Ratepayers are able to pay via direct debit utilising their credit card or nominated cheque or savings account.

Council incurs costs of collection via agency and merchant service fees. In 2009/10 Council introduced the recovery of the credit card surcharge for payments made via credit card.

13.5 Incentives for Prompt Payment

The Local Government Act provides that incentives for prompt payment may be offered. Discount for early payment should be based on cash flow benefit to Council.

Darebin does not offer incentives for prompt payment.

The major reasons Council does not offer incentives for prompt payment are:

- Council offers a large number of payment options and methods making it easy for ratepayers to pay their rates ;
- It would be administratively cumbersome and costly; and
- Generally is only of benefit to cash rich ratepayer(s).

13.6 Late Payment of Rates

Council has determined that the application of interest penalties will be in accordance with the Local Government Act, which allows interest to be imposed on unpaid rates at the statutory rate. The statutory rate is currently 10.5% per annum.

Council cannot apply an alternative rate but has the power to exempt any person from paying the whole or part of any interest amount generally or specifically payable.

13.7 Debt Recovery - Collection of Overdue Rates

Council makes every effort to contact ratepayers at their correct address but it is the ratepayers' responsibility to properly advise Council of their contact details. Amendments to the Local Government Act require both the vendor and buyer of property, or their agents (e.g. solicitors), to notify Council by way of notices of disposal and acquisition respectively.

In the event that an account becomes overdue, Council has established procedures for the issue of an overdue final notice which may include interest pre calculated to a forward payment date.

In the event that the account remains unpaid, Council may take legal action without further notice to recover any overdue amount. All fees and court costs are recoverable from the ratepayer.

If an amount payable by way of rates in respect to land has been in arrears for three years or more, Council may sell the land in accordance with the Local Government Act – Section 181.

The purpose of the policy is to act as a genuine deterrent to ratepayers who might otherwise fail to pay rates on time, to allow Council to recover the administrative cost of following up unpaid rates and to recover any interest cost the Council may incur due to lost investment opportunities. The principle in providing for such penalty is that ratepayers who pay within the required timeframe should not have to subsidise or bear any cost of ratepayers who default in payment.

Council introduced the sending of reminder messages by SMS in 2013/14. This has resulted in many ratepayers contacting council to either pay their rates in full, or placed on payment arrangements.

13.8 Rates Assistance

Council acknowledge that some ratepayers will experience difficulty from time to time in meeting rate payments due to the effect of rising valuations, cost of Council services and personal circumstance. Council further understands that relief measures have a cost to Council which must be borne by other ratepayers either short or long term.

13.8.1 Arrangements

Ratepayers can elect to be placed on an 'arrangement' that spreads their rate payment over an agreed period. Such a plan may see a ratepayer paying $50 per month, for example. Interest is still charged at the statutory rate for all outstanding rates.

13.8.2 Deferral of rates

Ratepayers can elect to defer their rates if they are faced with financial hardship. Under this arrangement 50% of the statutory interest is charged on outstanding rates. An Application for Deferment may only be made for a residential property that is the principal place of resident of the applicant.

13.8.3 Waiver of rates

The Local Government Act permits the waiving of rates or charges on the grounds of financial hardship. A resolution of Council stating the objectives to be achieved by the waiver is required.

Darebin does not allow the wavering of rates.

13.8.4 Waiver of interest

Darebin's hardship policy does permit the waiving of interest under certain circumstances. The waiver of any interest may apply to that interest already incurred on overdue rates and charges and/or withholding of any future interest that would be incurred.

Interest waivers fall under three categories which are:

a) <u>Administrative waiver</u> – Ratepayers may have <u>interest only</u> waived in the event of an administrative issue, error or omissions which caused or significantly contributed to the failure to pay rates in a timely manner.
b) <u>Waiver on compassionate grounds</u> – Ratepayers may have <u>interest only</u> waived where they have demonstrated compassionate grounds for a payment being late. Acceptable compassionate grounds would generally relate to family illness or death.
c) <u>Financial Hardship waiver</u> – Ratepayers may have <u>interest only, or part thereof</u>, waived where they have demonstrated that the payment of such interest would cause severe financial hardship.

13.9 Financial Hardship Measures

There are some further measures Council could adopt to reduce the financial burden on rates. Other councils that have introduced additional financial hardship measures rarely need to consider application for hardships as many ratepayers prefer to agree to an arrangement for the payment of the rates over a period that is suited to an individual's particular circumstances.

Further hardship measures that could be considered by Council:

13.9.1 Significant increase in rates payable

Provide relief to qualifying ratepayers who have incurred significant increases to valuation and hence rates arising solely from an increase in valuation caused by market

A rebate to be provided to any ratepayer experiencing an increase in valuation of more than 50% provided the following criteria is met:

- the property is the principal place of residence;
- the property is rated as residential;

and have not had:

- an increase in valuation of the land for the assessment because of improvements made requiring a building permit; and
- can demonstrate financial hardship by way of:

being currently eligible as a pensioner under the State Concession Act, (Centrelink Pensioner Concession, Department of Veterans Affairs Pension Concession, Gold Card -widow or TPI specific - Cards);
or
can demonstrate that they are of low income status with a maximum income of $46,355 or less (Statement of Earnings SOE - Centrelink or most recent tax assessment notice).

13.9.2 Significant financial hardship

Consider waiver of rates on the basis of genuine hardship preferably supported by another government agency, welfare group or financial counsellor. The intent of providing a waiver will be to allow the ratepayer to overcome immediate financial difficulties with a supported financial plan to ensure that future commitments to rates and other household payments can be accommodated.

Criteria for assessment of waiver to include:

- Factual certified statement of financial position.
- Support for application via government agency, welfare group or financial counsellor.

Application for waiver will be considered as a confidential report to Council.

Many Councils, like Darebin, do not waiver rates, but, provide support via deferment or payment arrangements.