

# Rating Strategy 2015-2016

**Moreland City Council**

**April 2015**

**Moreland City Council**  
Locked bag 10  
Moreland Victoria 3058  
info@moreland.vic.gov.au  
moreland.vic.gov.au

Moreland City Council  
Switchboard and after  
hours emergency:  
T 9240 1111  
TTY 9240 2256

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<b>Italiano</b>	9280 1911	<b>Hrvatski</b>	9280 1917
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Moreland City Council

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## ***Attachments***

1. Decision-making Process for Non-rateable Properties
2. Vacant & Unoccupied Land & Building Management Rebate Policy
3. Financial Hardship (Rates and Charges) Policy

## 1. Background & Introduction

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

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

However, Council can through a process of consultation and determination, modify certain aspects of the rating system in accordance with the legislation, to assist sections of the community. Such assistance must be in the context of having wide acceptance in respect to social and equity principles while minimising any penalty, via a shift in rate burden, to other ratepayers.

Public finance theory and practice implies that taxation revenue whether it is at Federal, State or a Local level is generally used to finance various forms of "public goods, services and community obligations" not necessarily in direct relation to user benefit, but ultimately of benefit to the community as a whole. In this respect, rates are a general purpose levy not linked to user pays principles. Other charges such as waste service charges are linked to costs associated with the service.

The Council Plan is Council's primary strategic planning document which includes assumptions that real rate revenue growth above CPI is required given the estimated annual increase in costs of service delivery.

The purpose of this Rating Strategy is to consider what rating options are available to Council under the *Local Government Act 1989*, and how Council's choices in applying these options contribute towards meeting an equitable rating strategy.

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

There are a number of recommendations included in this Rating Strategy. Once adopted, the implementation of these recommendations will help to refine the assumptions included in the 5 Year Financial Plan (5YFP), and to allow the 5YFP to deliver strategic outcomes for the community.

The Rating Strategy is similar in part to a discussion paper in that it canvasses the limited range of rating options available to Council under the *Local Government Act 1989* including the following:

- a) The choice of which valuation base to be utilised (of the three available choices under the Act);
- b) The consideration of uniform rating versus the application of differential rates for various classes of property;
- c) What is the most equitable level of differential rating across the property classes?
- d) Consideration of the application of fixed service charges for the areas of waste collection and municipal administration;
- e) The application of special rates and charges;
- f) A review of non-rateable properties.
- g) Rates collections
- h) Rates Assistance

## 2. Executive Summary and Recommendations

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

There are two key platforms that have formed the basis of the current approach to rating at Moreland City Council that are recommended for continuation. They are:

- a) That rates will continue to be based principally on the valuation of the various properties with minimal fixed charges to be applied;
- b) That under the guidance of the Ministerial Guidelines for Differential Rates, Council will continue to apply differential rating against various property classes to ensure that they contribute to the equitable and efficient carrying out of Council functions.

This Rating Strategy recommends that Council adopt the following:

Section	Strategy Recommendations
Determining which valuation base to use	<ul style="list-style-type: none"> <li>That Moreland City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.</li> </ul>
Determining the Rating System- Uniform or Differential?	<ul style="list-style-type: none"> <li>That Moreland City Council continues to apply differential rating as its rating system.</li> </ul>
What differential rates should be applied?	<ul style="list-style-type: none"> <li>That Council continues to apply the general rate for all residential properties, including flats and units.</li> <li>That Council continues to apply a differential rate to all rateable vacant land properties.</li> <li>That Council continues to apply a differential rate to all rateable unoccupied land properties.</li> <li>That Council after careful consideration, does not believe there needs to be a differential rate for Retirement Villages. All Retirement Villages in Moreland will be charged the general rate.</li> <li>That Council continues to levy a charge in lieu of rates on Cultural and Recreational properties in accordance with the <i>Cultural &amp; Recreational Land Act 1963</i>.</li> <li>That Council continues to allow a rebate on the vacant and unoccupied land properties where the differential rate is applied and where the owners of these properties have met the performance criteria in accordance with Council's 'Vacant Land and Unoccupied Land and Building Management Rebate Policy'.</li> <li>That Council continues to apply the general rate to commercial and industrial properties.</li> <li>That Council reviews its differential rating system annually, with the goal that equity, efficiency and simplicity are achieved.</li> </ul>
Impact of Council Revaluations	<ul style="list-style-type: none"> <li>That Council reviews the impact of Council revaluations and assesses differential rates applied to achieve an outcome that is considered equitable by Council.</li> </ul>
Special Rates & Charges	<ul style="list-style-type: none"> <li>That Council continues to use special rates and charges to promote the commercial centres in the municipality.</li> <li>That Council may consider using special rates and charges for</li> </ul>

Section	Strategy Recommendations
	narrowly defined capital projects where special benefit can be shown to exist to a grouping of property owners.
Municipal Charge	<ul style="list-style-type: none"> <li>• That Council does not apply a Municipal Charge.</li> </ul>
Service Rates and Charges	<ul style="list-style-type: none"> <li>• That Council continues to apply a Waste Service charge.</li> </ul>
Non-rateable properties	<ul style="list-style-type: none"> <li>• That Council only grants non-rateable status to properties that meet the criteria described in the <i>Local Government Act 1989</i>.</li> <li>• That Council continue to review the non-rateable properties to ensure all meet the criteria described in the <i>Local Government Act 1989</i>.</li> </ul>
Collections	<ul style="list-style-type: none"> <li>• That Council continues to apply the mandatory rate instalment payment option.</li> <li>• That Council continues to charge interest on late payments in accordance with the <i>Local Government Act 1989</i>.</li> <li>• That Council continues to actively collect rates and pursue outstanding rate debtors.</li> </ul>
Rates Assistance	<ul style="list-style-type: none"> <li>• Rates and charges will be waived only to the extent that the amounts waived are recovered from the State Government under the Pensioner Rate Remission Scheme.</li> <li>• Consideration is given to the partial or total waiver of penalty interest, should the imposition of such interest cause severe financial hardship.</li> </ul>

### 3. What is a Rating Strategy and why have one?

The purpose of this Rating Strategy is to outline Council's approach towards rating its' community and to meet the requirements of Part 8 the *Local Government Act 1989* – Rates and Charges on Rateable Land.

This strategy is to be reviewed and adopted by Council each year as part of its budget setting process. Council aspires, through its budget, to achieve service standards, within resource allocation limits, that benefit the entire community.

#### **What is a rating strategy?**

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

#### **The importance of a rating strategy**

Moreland City Council currently receives around 74% of its Total Revenue by way of property-based rates and garbage levies. 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. It is therefore essential for Council to evaluate on a regular basis, the legislative objectives to which it must have regard and those other objectives which Council believes are relevant.

Council believes that overall policy must be underpinned by sound principles, which are well understood, communicated to ratepayers and compliant with current legislation. Equity and impact issues are best dealt with in application of all facets of rating policy, including valuation, budgetary requirements, differential rating, government taxation and concessions, collection and hardship considerations.

Council aspires to balance service levels in accordance with the needs and expectations of its community and sets taxation levels (rating) to adequately resource its roles and responsibilities.

In setting rates, Council gives primary consideration to its strategic directions, budget considerations, the current economic climate, other external factors and likely impacts upon the community.

Moreland City Council is seeking to fully document its objectives and approach to the raising of rate revenue in line with its goal of providing transparency in its decision-making.

## 4. Rating Framework

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

### 4.1 Legislative Framework

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

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

### 4.2 User Charges versus Rates

Council pricing policy centres on decisions about how much of the cost of specific services are to be funded by users/consumers and how much is to be funded generally by ratepayers.

There are some major practical considerations that will influence what type of services will attract fees and charges. Most important is whether the services being considered are either entirely or partially “public goods”.

Public goods are services that provide a broad and often unquantifiable benefit to the community rather than a particular benefit to individuals, businesses, specific groups or individual properties. The characteristics of “public goods” include:

- i. The use of or enjoyment by one person does not diminish their availability to, or enjoyment by, others (that is, they are non-rival); and
- ii. It is not practical to exclude access to them (that is, they are non-excludable).<sup>1</sup>

Examples include roads and parks and public toilets.

Private goods are those goods which are both rival in consumption (that is, one person’s use diminishes its availability or enjoyment by others) and excludable.<sup>2</sup> Examples include childcare centres, leisure centres and use of community halls.

Generally, Council should fund “Private Goods” through user charges and fund “Public Goods” through rates. However it is often difficult to define local government services as either purely public goods or purely private goods, and most will lie somewhere on the spectrum between the two. This inevitably results in a large number of Council services, although having income from user fees, being subsidised by rates.

<sup>1</sup> Differential Rates Discussion Paper, January 2013, *DPCD*.

<sup>2</sup> Differential Rates Discussion Paper, January 2013, *DPCD*.



### 4.3 Taxation Principles

In addition to the objectives above, public finance theory sets three major criteria for successful taxation policy: equity, efficiency, and simplicity.

#### Equity

In considering what rating approaches are equitable, some concepts that Council may take into account are:

- **Horizontal equity** - ratepayers in similar situations should pay similar amounts;
- **Vertical equity** – those who are better off should pay more than those worse off (the rationale applies for the use of progressive and proportional income taxation). It implies a “relativity” dimension to the fairness of the tax burden.<sup>3</sup>

In the case of property rates, 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. In achieving vertical equity in its rating strategy, Council must consider the valuation base it chooses to adopt to apply property rates and the application of the various rating tools available to it under the *Local Government Act 1989* (e.g. differential rates).

#### The Benefit Principle

This principle refers to the fact that some groups have more access to, make more use of, and benefit from more, specific council services.

It is arguable that there should be a nexus between consumption/benefit and the rate burden; however application of the benefit principle is difficult in practice due to the complexity and, in some cases, impossibility, of measuring the relative levels of access and consumption across the full range of council services. It is also common that the group of people who require less services of certain type (e.g. child care) may indeed require more frequent service of another type (e.g. aged care). It is the level of benefit across the full gamut of rates-funded services that is important in determining the amount of rates that should be paid.

One of the more misunderstood elements of the rating system is that residents seek to equate the level of rates paid with the amount of benefit they individually achieve. The reality is, however, that rates are a system of taxation not dissimilar to PAYE tax.

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

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

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<sup>3</sup> “Local Government Better Practice Guide – Revenue and Rating Strategy’, 2014, *Local Government Victoria*.

### Linkage of property wealth to capacity to pay

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

### Incentive Principle

The incentive principle aims to affect the behaviour of certain ratepayers, usually in a way deemed to be consistent with a council's broader goals.

Councils commonly use this principle to seek objectives relating to the environment or economic development, including:

- Discouraging the holding of vacant land;
- The preservation of agricultural land or land of high environmental significance;
- Eradication and maintenance of land free from weeds and pests;

### **Efficiency**

In a technical sense the tax should not unduly interfere with the efficient operation of the economy. For Local Government the tax should be consistent with the major policy objectives of Council.

For services where users are price sensitive, direct charging can influence demand patterns and thus lead to greater allocation efficiency. Conversely, the funding of services through rates (or via subsidies from other services) may result in an inflated demand for services and additional costs for councils to meet this demand.

The efficiency criterion is also 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.

### **Simplicity**

This refers to both administrative ease (and therefore lower cost) and to ensure that the tax is understood by taxpayers. The latter ensures that the tax system is transparent and capable of being questioned and challenged by ratepayers.

Simultaneously applying all of the above principles may not always be feasible; there are likely to be trade-offs among them. The challenge of a preferred rating strategy is one of appropriately balancing competing considerations. It is important that the decision making process is clear and coherent.

#### **4.4 What Rates and Charges may a Council declare?**

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

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

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

#### **4.5 Valuation Methodology available to Council**

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

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

#### **4.6 Declaring Rates and Charges**

Section 158 of the *Local Government Act 1989* provides that Council must at least once in respect of each financial year declare by 31 August the following for that year:

- The amount which Council intends to raise by way of general rates, municipal charges, service rates and service charges;
- Whether the general rates will be raised by application of –
  - A uniform rate; or
  - Differential rates (if Council is permitted to do so under Section 161 (1))
  - Urban farm rates, farm rates or residential use rates (if Council is permitted to do so under Section 161A)

The recommended approach to the application of differential rates is discussed in Section 6 of this discussion paper.

## 5. Understanding the current rating framework at Moreland City Council

### 5.1 Strategic Directions

Council has determined that its annual rate setting objectives should be developed within a framework which integrates planning from a strategic direction level through to service delivery.

The strategic directions of Council are set out in the following documents:

#### **Council Plan 2013-2017**

This document includes strategic objectives, performance indicators and the Strategic Resource Plan.

#### **Council Budget 2015-2016**

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

### 5.2 Budget Considerations

Council prepares and publishes its annual budget as a separate document in compliance with the *Local Government Act 1989*, which includes a comprehensive submissions and approval process.

As part of the financial planning and budget process, the rate revenue required to meet expenditure needs is calculated taking into account other sources of revenue.

Other revenue sources include statutory fees for building and planning through to user pays fees assessed annually in accordance with movements in CPI, wages and market factors. Council relies on Federal and State funding mainly via the Grants Commission allocations. Specific purpose grants for new services and capital works are also received.

Each year Council establishes the maintenance needs of its assets and infrastructure and the community services and facilities that will be provided in the next financial year.

After considering these other revenue sources, Council then determines the amount required to be collected in rates to meet the financial responsibilities.

The structure of the rating system is then determined, considering how rates are levied between and within the various categories of ratepayers by setting differential tariffs i.e. the Rating Strategy.

Generally, Council seeks to have a balanced budget, i.e. that revenue is equal to expenses. Any surplus or deficit result should be minor in context of the overall budget.

### 5.3 External Influences

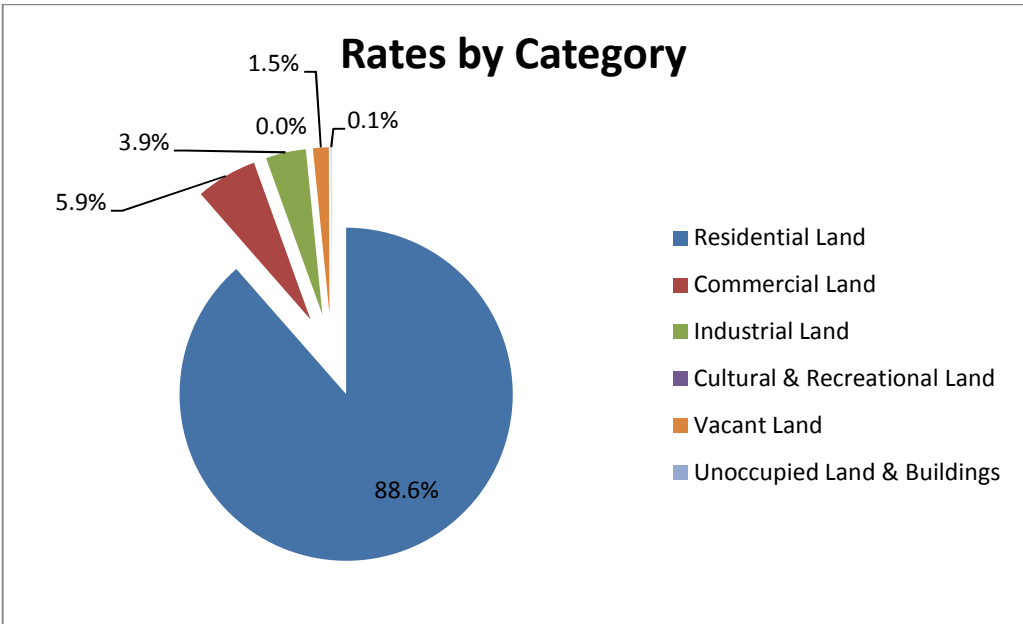
Council is subject to numerous economic factors. Since Council's major expenditure item is salaries and wages, any price index and EBA adjustments will have a significant impact on costs and subsequent rating decisions. Council is also subject to significant movements in funding from State and Federal sources. Cost shifting back to Council has been a major concern for all Councils and has been subject to a Federal Government Inquiry which found that "the extent and

effects of cost shifting as detailed are the major problems facing Local Government’s deteriorating infrastructure”. Regulatory and compliance changes affect Councils operations and changes to population and demographics will influence change particularly in the medium to long term.

### 5.4 Moreland’s Current Rating Structure

Moreland City Council currently applies the Capital Improved Valuation methodology in order to levy its rates. Council applies differential rating (versus uniform rating) and has three differential rates in use. The below table and graph display the respective revenues from the various differential rates.

Rating Category	No. Assessment 2015-16	Total CIV 2014-15	Total Rates Raised	% Rates of Total
Residential Land	67,729	35,323,200,000	103,256,778	88.6%
Commercial Land	3,095	2,369,180,000	6,925,587	5.9%
Industrial Land	2,111	1,559,108,000	4,557,585	3.9%
Cultural & Recreational Land	2	57,390,000	17,829	0%
Vacant Land	563	421,366,001	1,777,770	1.5%
Unoccupied Land & Buildings	3	5,570,000	65,129	0.1%
<b>Total Rates</b>	<b>73,503</b>	<b>39,735,814,001</b>	<b>\$116,600,678</b>	<b>100%</b>
Waste Service Charge			\$11,304,877	
<b>Total Rates &amp; Charges</b>		<b>39,735,814,001</b>	<b>\$127,905,555</b>	



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

Rating Category	Rate in the \$ 2015-16	% to General Rate
Residential Land	0.002923	100.00%
Commercial Land	0.002923	100.00%
Industrial Land	0.002923	100.00%
Cultural & Recreational Land	Charge in lieu of rates	N/A
Vacant Land	0.011692	400.00%
Unoccupied Land & Buildings	0.011692	400.00%

Council currently utilises a service charge to partially recover the cost of the waste function, and applies special rates to some business districts.

Council currently does not apply any municipal charge for the purpose of defraying administration costs of Council.

## 6. Determining which valuation base to use

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

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

### 6.1 Capital Improved Value (CIV)

Capital Improved Valuation is the most commonly used valuation base by Victorian Local Government with more than 70 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.

The key driver of using CIV is the ability to apply differential rates (should this rating option be used).

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

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

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

### Advantages of using Capital Improved Valuation (CIV)

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

### **Disadvantages of using CIV**

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

### **6.2 Site Value (SV)**

Although the Act provides for Councils to use Site Value as the basis of valuation, very few Councils have done so due to the very limited ability to apply differential rates.

#### **Advantages of Site Value**

- There is a perception that under site valuation, a uniform rate would promote development of land.
- Scope for possible concessions for urban farm land and residential use land.

#### **Disadvantages in using Site Value**

- SV does not consider the value of improvements. It shifts more of the burden to property owners that have larger areas of land. Typically, flats, units and townhouses will pay lower rates compared to stand alone houses on a suburban block of land, as the underlying land area is smaller.
- SV will reduce Council's rating flexibility and options to deal with any rating inequities due to the removal of the ability to levy differential rates;
- The rate-paying community has greater difficulty in understanding the SV valuation on their rate notices, as indicated by many inquiries from ratepayers on this issue handled by Council's Citizen Services and Property Revenue staff each year.

In very many ways, it is difficult to see an equity argument being served by the implementation of Site Valuation in Moreland City Council, therefore this method is not recommended.

### **6.3 Net Annual Value (NAV)**

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

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

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

In choosing a valuation base, Councils must decide on whether they wish to adopt a differential rating system (different rates in the dollar for different property categories) or a uniform rating



system (same rate in the dollar). If a Council was to choose the former, under the Act it must adopt either of the CIV or NAV methods of rating

#### 6.4 Summary

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

- CIV is considered to be the closest approximation to an equitable basis for distribution of the rating burden.
- CIV provides Council with the ability to levy a full range of differential rates. Limited Differential rating only is available under the other rating bases.
- It should be noted that more than 70 Victorian Councils apply CIV as their rating base and as such, it has a wider community acceptance and understanding than the other rating bases.

<b>Recommendation</b>
That Moreland City Council continues to apply the Capital Improved Valuation methodology to levy Council rates.

## 7. Determining the Rating System - Uniform or Differential?

As highlighted in Section 3, Council may apply a uniform rate or differential rates to address the needs of the Council. They are quite different in application and have different administrative and appeal mechanisms that need to be taken into account.

### 7.1 Uniform rate

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

Moreland City Council does not adopt uniform rates but has instead has adopted differential rating.

### 7.2 Differential Rates

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

Under the *Local Government Act 1989*, Council is entitled to apply differential rates **provided it uses Capital Improved Valuations** as its base for rating.

Section 161 outlines the regulations relating to differential rates. This section is outlined below.

- (1) A Council may raise any general rates by the application of a differential rate, if Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.
- (2) If a Council declares a differential rate for any land, the Council must-
  - a) Specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of the Councils functions and must include the following:
    - i. A definition of the types of classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate in relation to those types or classes of land.
    - ii. An identification of the type or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in Council’s district) and planning scheme zoning of the land and the types of buildings situated on it and any other criteria relevant to the rate.
    - iii. If there has been a change in the valuation system, any provision for relief from a rate for certain land to ease the transition for that land.
  - b) Specify the characteristics of the land, which are the criteria for declaring the differential rate

In addition to the above, new requirements relating to differential rates were introduced as part of the *Local Government Legislation Amendment (Miscellaneous) Act 2012*. These provide that (section 161):

- (2A) Council must have regard to any Ministerial Guidelines before declaring a differential rate
- (2B) The Minister may make guidelines for or with respect to the objectives of differential rating and suitable uses of differential rating powers, and the types of classes of land appropriate for differential rating
- (4) On recommendation of the Minister, the Governor in Council may by Order in Council prohibit any council from making a declaration of a differential rate in respect of a type or class of land, if the Minister considers that the declaration would be inconsistent with any guidelines made under subsection (2B)

The maximum differential allowed is no more than 4 times the lowest differential. This is important in the Moreland City Council context as Council is already at this limit in terms of the variation between the Vacant/Unoccupied Land Differential Rate and the general rate.

Council, in striking the rate through the Annual Budget process sets the differential rate for set classes of properties at higher or lower amounts than the general rate.

Currently there are two different levels of rates as outlined in Section 5 of this strategy paper.

### **7.3 Advantages of a differential rating system**

The perceived advantages of utilising a differential rating system are:

- There is greater flexibility to distribute the rate burden between all classes of property, and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for commercial and industrial premises;
- Differential rating allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs of the commercial and industrial sector;
- Enables Council to encourage particular developments through its rating approach e.g. encourage building on vacant blocks;
- Allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome; this is however limited by the new requirements introduced under section 161 (2A) and (2B) of the *Act*.
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

## 7.4 Disadvantages of Differential Rating

The perceived disadvantages in applying differential rating are:

- The justification of the differential rate can at times be difficult for the various rating groups to accept giving rise to queries, objections and complaints where the differentials may seem to be excessive.
- Differential rates can be confusing to ratepayers, as they may have difficulty 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 requiring Council to update its records. Ensuring the accuracy/integrity of Council's database is critical to ensure that properties are correctly classified into their differential rate category.
- Council may not achieve the objectives it aims for through differential rating. For example, Council may set its differential rate objectives to levy a higher rate on land not developed, however, it is uncertain as to whether the differential rate achieves those objectives.

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

## 8. What differential rates should be applied?

The table below highlights the differential rates in 2015-16 if the current rating structure continues.

Rating Category	No of Assessments	Rate in the \$ 2015-16	% to General Rate
Residential Land	67,729	0.002923	100%
Commercial Land	3,095	0.002923	100%
Industrial Land	2,111	0.002923	100%
Cultural & Recreational Land	2	Charge in lieu of rates	n/a
Vacant Land	563	0.011693	400%
Unoccupied Land & Buildings	3	0.011693	400%

### 8.1 Residential Land (General Rates)

This category includes all properties except for those that are subject to differential rates. As the rating category with the largest number of assessments, it is regarded as the General Rate.

### 8.2 Commercial and Industrial Land

Commercial properties are defined as those selling a product or providing a service. Industrial properties are those that are used for the purposes of manufacturing. These properties are similar in respect that they are businesses providing employment opportunities.

Many Victorian Councils adopt a higher differential rate for commercial and industrial properties to reflect the tax-deductible status of rates for these owners or tenants. This is regarded as creating a more equitable result after tax as residential properties are not eligible for a tax deduction.

Across Victoria, the average level of extra payment for commercial and industrial properties is 25% above the general rate, and in practice it ranges from 100% to more than 200% of the general rate.

Moreland City Council has historically applied the same rate as the General Rate (1 times the General Rate or 100%) to these properties (unless they are subject to another rating category). This acknowledges that most businesses in Moreland are small businesses and struggle to remain viable, particularly in the current economic climate. In addition, these properties provide local employment which Council regards as an important contributor to community sustainability.

It is therefore recommended that Council continue to levy the same rate as the General Rate on commercial and industrial properties in 2015/16.

### 8.3 Cultural & Recreational Lands – a charge in lieu of the general rate

Council declares the Cultural and Recreation land in accordance with the *Cultural and Recreational Land Act 1963* – Section 4.

The *Cultural and Recreational Land Act 1963* provides that “an amount be payable in lieu of rates in each year being such amount as the municipal council thinks reasonable having regard to the services provided in relation to such lands and having regard to the benefit to the community derived from such recreational lands”.

Council currently has two properties that are classified as cultural and recreational land.

a) 47-97 Glenroy Road, Glenroy (Northern Golf Club)

*Benefit to the Community*

The club operates on a membership basis and most of its services are not available to the general public, with the exception of some large functions e.g. wedding receptions. The club has approximately 1,300 members, with 50% of them being Moreland residents. This equates to approx. 0.4% of total population and 0.9% of total number of households.

On the other hand, the club's contribution to the preservation of the natural environment needs to be acknowledged and reflected in Council's decision on the amount to be charged in lieu of rates.

Council has purchased around 1.8 hectares of land from Northern Golf Club, which will allow substantial land for open space and public use. Council has also obtained the Right of First Refusal to purchase all or part of the additional land. There are benefits to Council (and thus the Moreland community) arising from the purchase of this land and the Right of First Refusal.

*Services Provided*

Council services provided to Northern Golf Club are primarily in the form of community infrastructure, which is no different to any other non-residential properties in the municipality that are levied 100% of the general rate.

b) Res 1 Outlook Road, Coburg (Coburg Basketball Stadium)

*Benefit to the Community*

The Coburg Basketball Stadium is managed by Sports Stadium Victoria and runs inclusive basketball programs for the community. It is well acknowledged by the community for its inclusive programs covering a broad age range from young children to adults.

*Services Provided*

Council services provided to the Coburg Basketball Stadium are primarily in the form of community infrastructure, which is no different to any other non-residential properties in the municipality that are levied 100% of the general rate.

In accordance with section 4(4) of the *Cultural and Recreational Land Act 1963*, the following amounts are declared as a charge in lieu of the general rate (which would otherwise be payable):

- a) 47-97 Glenroy Road, Glenroy
  - Northern Golf Club \$16,074 (10% of the General Rate)
  
- b) Res 1 Outlook Road, Coburg
  - Coburg Basketball Stadium \$ 1,754 (25% of the General Rate)

It is recommended that Council continues to treat all eligible recreational land in accordance with the *Cultural and Recreational Land Act 1963*.

## 8.4 Vacant Land and Unoccupied Land & Buildings

Moreland City Council has 563 properties attracting the Vacant Land Differential Rate and a further 3 properties attracting the Unoccupied Land & Buildings Differential Rate. Both categories are rated at 4 times the General Rate (400%).

The purpose of the Vacant Land Differential Rate and the Unoccupied Land & Buildings Differential Rate is to ensure that properties identified as vacant land, including land with buildings that are unoccupied and uninhabitable, are responsibly managed and developed by property owners. These differential rates are directly aimed at those property owners who allow their sites to become untidy or deteriorate, become unsafe and pose a risk to public safety or adversely affect public amenity.

The City of Moreland has for some years been undergoing significant urban renewal and prior to the introduction of these differential rates, Council incurred significant community criticism for not dealing with the safety and amenity problems caused by poorly managed vacant land and buildings. Council also incurred costs when using its local laws powers regarding building management (such as putting up fencing around former industrial sites with safety issues) and was seldom able to claim the cost of such enforcement from the land owners.

Council applies the additional revenue (the amount greater than 1 times the General Rate), net of the performance rebate, to fund works to improve the safety and amenity of land in Moreland. These include:

- Property inspections to identify problematic properties
- Rapid response team that addresses issues including:
  - Cleaning/improving the public interface of vacant land and vacated buildings
  - Public safety issues associated with vacant land and vacated buildings
  - Unsightly frontages, nature strips, facades
  - Dangerous boundary fences abutting public spaces
  - Installation of emergency temporary fencing
  - Checking that likely differential properties are registered with Councils Revenue & Valuations Unit
  - Identification and reporting of existing or potential problems with properties or activities associated with Differential Rate properties
  - Vandal damage both adjacent to Differential Rate properties and nearby areas
  - Minor graffiti issues particularly racially focused and crude graffiti
  - Minor litter and property clean ups
- Graffiti removal program. This includes providing paint vouchers and graffiti removal kits to residents, upper storey removal, and anti-graffiti coating etc.
- Environmental education program to encourage reduction in litter and improve community action in waste management
- Maintaining Median Strips on Major roads (Sydney Road, Bell Street), Fawkner Cemetery Nature Strip, and nature strips on Box Forest road and Murray Road.

In 2015-16, this is budgeted to amount to approximately \$594,880.

The following is the detailed description of the objective and characteristics of the Vacant Land differential rate and Unoccupied Land & Buildings differential rate which will be included in the 2015-16 Budget:

### **Vacant land differential rate**

#### Definition/Characteristics:

Any land on which no dwelling or other building designed or adapted for permanent occupation is constructed.

#### Objective

1. Promote the responsible management of land through the proper development and maintenance of such land so as to not pose a risk to public safety or adversely affect public amenity.
2. To ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including the -
  - a. Construction and maintenance of public infrastructure;
  - b. Development and provision of health, environmental, conservation and community services; and
  - c. Provision of strategic and economic management and general support services.

#### Types and Classes

Rateable land having the relevant characteristics described above.

#### Use and level of differential rate

The differential rate will be used to fund some of those items of expenditure described in the budget adopted by Council.

The level of the differential rate is the level which Council considers is necessary to achieve the objectives specified above, and is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

#### Geographic Location

Wherever located within the municipal district.

#### Use of Land

Any use permitted under the relevant planning scheme.

#### Planning Scheme Zoning

The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the relevant planning scheme.

#### Types of Buildings

None.

### **Unoccupied Land & Buildings differential rate**

#### Definition/Characteristics

Any land on which a dwelling or building is erected but which dwelling or building:

- a. Is not designed, adapted or intended for permanent occupation; or



- b. Does not have connected to it means for the transmission of electricity or water; or
- c. Is by reason of its condition, unfit for human habitation.

#### Objective

1. 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.
2. To ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including the -
  - a. Construction and maintenance of public infrastructure;
  - b. Development and provision of health, environmental, conservation and community services; and
  - c. Provision of strategic and economic management and general support services.

#### Types and Classes

Rateable land having the relevant characteristics described above.

#### Use and level of differential rate

The differential rate will be used to fund some of those items of expenditure described in the budget adopted by Council.

The level of the differential rate is the level which Council considers is necessary to achieve the objectives specified above, and is considered to provide for an appropriate contribution to Council's budgeted expenditure, having regard to the characteristics of the land.

#### Geographic Location

Wherever located within the municipal district.

#### Use of Land

Any use permitted under the relevant planning scheme.

#### Planning Scheme Zoning

The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the relevant planning scheme.

#### Types of Buildings

All buildings which are now constructed on the land or which are constructed prior to the expiry of the 2015-16 Financial Year.

### **Performance Rebate**

Property owners have the ability to reduce the Vacant Land Differential Rate and the Unoccupied Land & Buildings Differential Rate through the application of a performance incentive rebate. The rebate is subject to the property owners satisfying performance criteria in accordance with Council's 'Vacant Land and Unoccupied Land & Building Management Rebate Policy'.

The rebate in respect to the differential rate for Vacant Land and Unoccupied Land & Buildings is 62.5% of the rate levied. Properties levied at the differential rate that have a current building permit and are developing the land may be eligible for a rebate that is 75% of the rate levied. The difference between these two rebate amounts is intended to continue to provide some encouragement for landowners to develop their land, and it removes some of the effect of lower

rating caused by the land having no capital improvements (as it remains vacant land). Issuing of a building permit indicates development of the land is underway.

When these differential rates were first introduced in 2006-07 financial year, about 67% of vacant properties were maintained to the required standard and thus received the rebate. Currently, approximately 90% of vacant properties are receiving the rebate. This would indicate that the incentive process is working.

This paper recommends that Council continues the current Vacant Land Differential Rate and Unoccupied Land & Buildings Differential Rate for vacant and unoccupied land and the associated rebate.

## **8.6 Considerations Given to Retirement Villages**

The Minister, in her final Guidelines for Differential Rate (April 2013), states that “Council must give consideration to reducing the rate burden through use of a reduced differential rate include (but are not limited to):

- Farm land (as defined by the Valuation of Land Act 1960); and
- Retirement village land (as defined by the Retirement Villages Act 1986).”

Moreland does not have farm land so this does not apply.

Council has had considered whether a differential rate should be applied to retirement village land. Council has decided that it is not appropriate to apply a lower differential rate to retirement villages for the following reasons:

1. Retirement villages do receive Council services and have access to community infrastructure in the same way as other residents. In particular, retirement village residents often access Council provided aged services, which is heavily subsidised by rates.
2. Local government rates are a type of tax and not a fee for service. Rates are required to subsidise the delivery of services and capital works that would otherwise be unaffordable if charged on a case by case basis.

## 8.7 Differential Rates Checklist

The Differential Rates Discussion Paper and Draft Ministerial Guidelines provide a checklist of questions for Councils to use when considering differential rates. This section attempts to assess the recommended differential rate for 2015-16 against this checklist to ensure transparency and appropriate disclosure.

### Vacant Land Differential Rate

#### 1. Has the Council specified the objective/s of each differential rate declared (s.161(2)(a))?

Yes. Refer section 8.4 of the Rating Strategy.

#### 2. Alignment with good practice tax design principles

##### Equity – The Benefit Principle

These property owners do not necessarily have more access to, make more use of, or benefit more from, specific council services. However, where vacant land is not managed to an appropriate standard by the owner, Council has to spend more resources to address the amenity issues caused by their negligence. Without a higher differential rate, these property owners would unfairly enjoy the benefit of not having to pay for their irresponsible behaviour (allowing their property to become untidy and unsafe).

##### Equity – Linkage of property wealth to capacity to pay

The value of the property has little correlation to the issue of the impact of poor maintenance of a property on the amenity of an area, except to the extent that it is used to calculate the amount to be paid based on the tools available to Council.

Vacant land, by definition cannot be a primary residence and thus must be in the nature of an investment. An investor intending to develop vacant land is regarded as having sufficient capacity to maintain their property (or to pay the differential rate) when compared to the investment they will need to make to develop the vacant land.

##### Equity – Incentive Principle

The differential rate (together with the performance rebate) is intended to provide an incentive for property owners to maintain and develop their land. If they do this, they will receive a rebate or move back to the General Rate (post development).

##### Efficiency

Some of the affected property owners are price sensitive to the differential rate. When the differential rate was first introduced in 2006-07, about 67% of vacant properties were maintained to the required standard and thus received the rebate. Currently approximately 90% of vacant properties are receiving the rebate. This would indicate that the size of the differential rate is driving behaviour.

The differential rate is moderately complex to administer as it adds tasks to the normal rating process. These include identifying the properties, undertaking a supplementary rates process to change the rating category to vacant land differential rate, ensuring properties which receive the rebate are inspected for compliance, keeping records of inspections including photographs, processing rebates, removing rebates for non compliance, explaining the differential rate and the rebate and how they work and why they have been applied, undertaking a supplementary rates

process to change the rating category to another rating category (i.e. the General Rate for residential properties) when the land becomes occupied after development.

Simplicity

The differential rate and rebate have a strong logic and it has been relatively easy to explain, understand and implement.

**3. How relatively effective is the differential rate likely to be to achieve the specific objective?**

The effectiveness of the differential rate has been demonstrated by the steadily increasing proportion of property owners that are maintaining their land to the required standard and receiving the performance rebate.

**4. Has the Council considered other rating instruments to achieve the specified objectives?**

Yes. Council does not consider that those rating instruments would be as efficient and effective to implement.

- General Rates – no incentive or additional revenue to address issues
- Municipal Charges – not applicable
- Service Rates and Charges – not applicable
- Special rates and charges – not applicable

**5. Are there other tools available in Council’s policy toolbox that can achieve the same objective in a more direct or better targeted manner?**

No. Prior to the introduction of the differential rate, Council tried to rely on its local laws and fire hazard notice powers. These had limited impact.

**6. Has the Council formed a justification for its declaration of a differential rate and disclosed this in their annual budget documentation?**

Yes. Refer Section 8.4 above for the draft Budget disclosure.

**7. How have the total net valuations in each of the proposed classes of property the subject of a differential rate varied from the council’s last rating strategy as disclosed by the valuation swing report and previous budgets?**

There has not been a general revaluation since the last Budget.

The movements from last rating year have been:

	Number of Properties	Value
2014-15	661	\$465,168,001

2015-16	563	\$421,366,001
Difference	-98	-\$43,802,000

The movements between the last two general valuation dates have been:

	Number of Properties	Value
2012 Value	511	\$ 395,892,000
2014 Value	661	\$465,168,001
Difference	150	\$69,276,001

**8. How does the differential rate impact on the other principles of tax design? What are the trade-offs and are they consequential?**

Council considers that the key principle is the Incentive Principle in order to achieve the policy outcome of improved safety and amenity.

The relative merits of the principles are covered in section 2 above in this checklist.

**9. Would the differential rate undermine other objectives of a council's rating strategy?**

No.

**10. How does the differential rate align with competitive neutral principles, for example are businesses conducting similar activities treated in similar ways?**

Not applicable as vacant land is not being used.

**11. How does the Council compare against its neighbouring councils (based on 2014-15 data)?**

Council	Did it have a vacant land Differential Rate	Comparison to General Rate
Darebin	Yes	Residential 300%, with no rebate Business 400%, with no rebate
Hume	No	N/A
Whittlesea	No	N/A
Moonee Valley	Yes for non-residential land only	400% with no rebate.
Brimbank	Yes	175% with no rebate
Yarra	No	N/A

## Unoccupied Land Differential Rate

### 1. Has the Council specified the objective/s of each differential rate declared (s.161(2)(a))?

Yes. Refer section 8.4 of the Rating Strategy.

### 2. Alignment with good practice tax design principles

#### Equity – The Benefit Principle

These property owners do not necessarily have more access to, make more use of, or benefit more from, specific council services. However, where unoccupied land is not managed to an appropriate standard by the owner, Council has to spend more resources to address the amenity issues caused by their negligence. Without a higher differential rate, these property owners would unfairly enjoy the benefit of not having to pay for their irresponsible behaviour (allowing their property to become untidy and unsafe).

#### Equity – Linkage of property wealth to capacity to pay

The value of the property has little correlation to the issue of the impact of poor maintenance of a property on the amenity of an area, except to the extent that it is used to calculate the amount to be paid based on the tools available to Council.

Unoccupied land, by definition cannot be a primary residence and thus must be in the nature of an investment. An investor intending to develop unoccupied land is regarded as having sufficient capacity to maintain their property (or to pay the differential rate) when compared to the investment they will need to make to develop the unoccupied land.

#### Equity – Incentive Principle

The differential rate (together with the performance rebate) is intended to provide an incentive for property owners to maintain and develop their land. If they do this, they will receive a rebate or move back to the General Rate (post development).

#### Efficiency

There have been no property owners of vacant land & buildings who have applied for and received the performance rebate. It may be considered that the incentive is not large enough for land of this nature, however, Council is limited by the Local Government Act to levying rates no more than 4 times the General rate. It may possibly be an indicator of the cost of responsibly managing land of this nature that the rebate is less than the cost.

The differential rate is moderately complex to administer as it adds tasks to the normal rating process. These include identifying the properties, undertaking a supplementary rates process to change the rating category to unoccupied land differential rate, ensuring properties which receive the rebate are inspected for compliance, keeping records of inspections including photographs, processing rebates, removing rebates for non compliance, explaining the differential rate and the rebate and how they work and why they have been applied, undertaking a supplementary rates process to change the rating category to another rating category (ie the General Rate for residential properties) when the land becomes occupied after development.

#### Simplicity

The differential rate and rebate have a strong logic and it has been relatively easy to explain, understand and implement.

**3. How relatively effective is the differential rate likely to be to achieve the specific objective?**

The differential rate and the rebate do not appear to be providing sufficient incentive for property owners to manage their land to the required standard. However, the revenue raised is used to address issues arising from the land (where possible) and there has been a reduction in the number of complaints from residents since the introduction of the rebate.

**4. Has the Council considered other rating instruments to achieve the specified objectives?**

Yes. Council does not consider that those rating instruments would be as efficient and effective to implement.

- General Rates – no incentive or additional revenue to address issues
- Municipal Charges – not applicable
- Service Rates and Charges – not applicable
- Special rates and charges – not applicable

**5. Are there other tools available in Council’s policy toolbox that can achieve the same objective in a more direct or better targeted manner?**

No. Prior to the introduction of the differential rate, Council tried to rely on its local laws and fire hazard notice powers. These had limited impact.

**6. Has the Council formed a justification for its declaration of a differential rate and disclosed this in their annual budget documentation?**

Yes. Refer Section 8.4 above for the draft Budget disclosure.

**7. How have the total net valuations in each of the proposed classes of property the subject of a differential rate varied from the council’s last rating strategy as disclosed by the valuation swing report and previous budgets?**

There has not been a general revaluation since the last Budget.

The movements from last rating year have been:

	Number of Properties	Value
2014-15	3	\$5,570,000
2015-16	3	\$5,570,000
Difference	0	0

The movements between the last two general valuation dates have been:

	Number of Properties	Value

2012	7	\$ 16,049,000
2014	3	\$5,570,000
Difference	-4	-10,479,000

**8. How does the differential rate impact on the other principles of tax design? What are the trade-offs and are they consequential?**

Council considers that the key principle is the Incentive Principle in order to achieve the policy outcome of improved safety and amenity with the co-operation of land owners. However, this does not appear to be having the desired outcome.

As a result, Council considers that the key secondary principle is the Benefit Principle – that the land posing a risk to public safety and adverse public amenity contribute a higher amount of revenue to fund additional action by Council to address these issues (where it has the power to do so).

The relative merits of the principles are covered in section 2 above in this checklist.

**9. Would the differential rate undermine other objectives of a council's rating strategy?**

No.

**10. How does the differential rate align with competitive neutral principles, for example are businesses conducting similar activities treated in similar ways?**

Not applicable as unoccupied land is not being used.

**11. How does the Council compare against its neighbouring councils (based on 2014-15 data)?**

Council	Did it have a vacant land DR	Comparison to General Rate
Darebin	No	N/A
Hume	No	N/A
Whittlesea	No	N/A
Moonee Valley	No	N/A
Brimbank	No	N/A
Yarra	No	N/A



## Recommendations

1. That Council continues to apply the general rate for all residential properties, including flats and units.
2. That Council continues to apply a differential rate to all rateable vacant land properties.
3. That Council continues to apply a differential rate to all rateable unoccupied land properties.
4. That Council after careful consideration, does not believe there needs to be a differential rate for Retirement Villages. All Retirement Villages in Moreland will be charged the general rate.
5. That Council continues to levy a charge in lieu of rates on Cultural and Recreational properties in accordance with the *Cultural & Recreational Land Act 1963*.
6. That Council continues to allow a rebate on the vacant and unoccupied land properties where the differential rate is applied and where the owners of these properties have met the performance criteria in accordance with Council's 'Vacant Land and Unoccupied Land and Building Management Rebate Policy'.
7. That Council continues to apply the general rate to commercial and industrial properties.
8. That Council reviews its differential rating system annually, with a goal that equity, efficiency and simplicity are achieved.

## 9. Understanding the impacts of Council Revaluations

Every two years Council has a statutory requirement under the *Valuation of Land Act 1960* Section 13DC (5), to conduct a review of property values based on market movements and recent sales trends. For the 2014-15 rating years valuations will be based on values returned as at 1 January 2014.

Council's contract Valuers undertake a physical inspection of some properties during each revaluation. Other valuations are derived from a complex formula based on sectors, sub market groups, property condition factors (including age, materials and floor area), influencing factors such as locality and views, and land areas compared to sales trends within each sector / sub-market group. The municipality has defined sub-market groups of homogeneous property types which are reviewed during the revaluation process. Council Valuers determine the valuations according to the highest and best use of a property.

In valuing large areas of land without buildings, residential zoning, permits for subdivision or structure plans are indications of potential for subdivision. If the land is capable of subdivision it will be valued accordingly as potential subdivisional land, despite its use. The amount of valuation increase will depend on market factors at the time of valuation.

Valuations are conducted at general revaluation or where any circumstances as listed under section 13DF of the *Valuation of Land Act 1960* change the valuation and cause Council to undertake a supplementary valuation between revaluations.

Supplementary Valuations are notified to Ratepayers by the issue of a rates notice.

The Valuer General of Victoria is responsible for reviewing the valuations 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.

The total value of the municipality is used as a base against which Council strikes its rate in the dollar for each defined rating group.

### 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 in the rate in the dollar (ad valorem rate) used to calculate the rate for each property. Total rate income is set each year as part of the budget process. Council increases the total rates revenue required to deliver its services.

### Objections to Property Valuation

The *Valuation of Land Act 1960* provides that objection to the valuation may be made each year within two months of the issue of the original or amended (supplementary) Rates and Valuation Charges Notice (Rates Notice).

Objections must be dealt with in accordance with the *Valuation of Land Act 1960* – Division 3 Sections 16-21.

The Act was amended in 2006 in order to improve the valuation objection process and reduce the number of lengthy and costly disputes. The Act specifically improves the processes and practices for lodging an objection, sharing and exchange of information, referring an objection dispute to VCAT,

awarding of costs, Valuer General notifications and certification of supplementary valuations. Further information can be obtained by accessing the Land Victoria web site at [www.land.vic.gov.au/valuation](http://www.land.vic.gov.au/valuation).

Council will continue to advise ratepayers via the “Rates, Charges and Valuation Notice” (the Rate Notice), rates brochure, web site and Moreland News, of their right to object and appeal the valuation. Property owners also have the ability to object to the site valuations on receipt of their Land Tax Assessment from the State Revenue Office. Property owners can appeal their land valuation within 60 days of receipt of Council Rate Notice (via Council) or within 60 days of receipt of their Land Tax Assessment (via State Revenue Office).

The below table highlights the impact of the 2014 Council revaluation (property details are as of 16 April 2014).

Rating Type	No. of Properties	2012 Value	2014 Value	% Increase in Valuations
Residential	66,333	32,773,161,000	34,694,734,000	5.86%
Commercial	3,084	2,288,141,000	2,357,728,000	3.04%
Industrial	2,118	1,549,434,000	1,578,999,000	1.91%
Vacant Land	661	437,058,001	465,168,001	6.32%
Unoccupied Land	3	3,945,000	5,570,000	41.19%
Cultural & Rec Land	2	66,733,000	57,390,000	-14.00%
<b>Totals</b>		<b>37,118,472,001</b>	<b>39,159,589,001</b>	<b>5.50%</b>

The table highlights that overall Moreland rateable properties have increased in value by 5.50% from 2012 to 2014.

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

It is recommended that differential rating recommendations contained in Section 8 need to be viewed in conjunction with the impacts created by Council revaluations and, where required, differential rates be amended to lessen the impact of rating ‘shock’ on various rating types.

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

## 10. Special Rates & Charges

Special rates and charges are covered under Section 163 of the Local Government Act which enables Council to:

“Declare a special rate or charge or a combination of both for the purposes of:

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

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

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

Section 185 of the Local Government Act provides appeal rights to VCAT in relation to the imposition of a special rate or charge. The Tribunal has wide powers, which could affect the viability of the special rate or charge. It can set the rate or charge completely aside if it is satisfied that certain criteria are met.

Council should be particularly mindful of the issue of proving that special benefit exists to those that are being levied the rate or charge.

In summary, differential rates are much simpler to introduce and less subject to challenge. There may be instances however where a special charge is desirable if raising the levy by use of CIV is not equitable.

Moreland City Council generally applies special rate/charge schemes to commercial centres. The purpose of these schemes is to ensure the future prosperity and viability of commercial centres across the City of Moreland, and the special rates/charges are raised to assist Council in conjunction with business associations to carry out promotional, marketing and business development activities within commercial activity centres. In some instance schemes may apply to infrastructure projects that are narrowly defined.

### Recommendations

1. That Council continues to use special rates and charges to promote the commercial centres in the municipality.
2. That Council may consider using special rates and charges for narrowly defined capital projects where special benefit can be shown to exist to a grouping of property owners.

## 11. Municipal Charge

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

A Council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the combined sum total of the Council's total revenue from the municipal charge and the revenue from general rates.

The application of a municipal charge represents a choice to raise a portion of the rates by a flat fee for all properties, rather than sole use of the CIV valuation method. In applying the legislation, the maximum amount that Moreland City Council could levy as a municipal charge in 2015-16 would be approximately \$317 per assessment based upon the current rates.

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

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

This rating strategy acknowledges that Council does not currently utilise Municipal Charge, however may consider this option in future where appropriate.

Recommendations
That Council does not apply a Municipal Charge.

## 12. Service Rates and Charges

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

- c) the provision of a water supply;
- d) the collection and disposal of refuse;
- e) the provision of sewerage services;
- f) any other prescribed service.

Moreland City Council currently applies a Service Charge for the collection and disposal of refuse on properties within the municipality (the Waste Services charge). Unlike many Victorian Councils, Moreland City Council's current waste services charges do not reflect the full cost of the service and consequently Council's general rate is used to subsidise the waste management services. Council currently has 9 categories of waste services charges.

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

The disadvantage of the garbage service charge is similar to the municipal charge in that it is regressive in nature. A fixed charge to a property with a low value comprises a far greater proportion of the overall rates than it does to a property with a higher value.

The waste services charge has been designed to encourage ratepayers to reduce their waste management behaviour through the use of pricing signals. The smaller the bin size, the lower the proportional cost of each litre of bin capacity (the lower the waste services charge). This is due to the cost to Council (and thus ratepayers) of managing waste to landfill (as compared to recovering recyclable material from the waste stream which earns revenue for Council).

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

It is also acknowledge that Council does not currently fully recover the cost of waste management services through its Waste Service Charge. The rates subsidy towards the waste service in 2015/2016 is approximately \$1.4M.) Council could consider removing this subsidy from the rates by raising the waste charge to fully recover the cost of the waste services.

Recommendations
That Council continues to apply a Waste Service charge.

### 13. Non-rateable Properties

Section 154 of the *Local Government Act* (1989) provides for non-rateable properties as follows:

- (1) Except as provided in this section, all land is rateable.
- (2) The following land is not rateable land -
  - (a) land which is unoccupied and is the property of the Crown or is vested in a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes;
  - (b) any part of land, if that part—
    - (i) is vested in or owned by the Crown, a Minister, a Council, a public statutory body or trustees appointed under an Act to hold that land in trust for public or municipal purposes; and
    - (ii) is used exclusively for public or municipal purposes;
  - (c) any part of land, if that part is used exclusively for charitable purposes;
  - (d) land which is vested in or held in trust for any religious body and used exclusively—
    - (i) as a residence of a practising Minister of religion; or
    - (ii) for the education and training of persons to be Ministers of religion; or
    - (iii) for both the purposes in subparagraphs (i) and (ii);
  - (e) land which is used exclusively for mining purposes;
  - (f) land held in trust and used exclusively—
    - (i) as a club for or a memorial to persons who performed **service or duty** within the meaning of section 3(1) of the **Veterans Act 2005**; or
    - (ii) as a sub-branch of the Returned Services League of Australia; or
    - (iii) by the Air Force Association (Victoria Division); or
    - (iv) by the Australian Legion of Ex-Servicemen and Women (Victorian Branch).
- (3) For the purposes of subsections (2)(a) and (2)(b) any part of the land is not used exclusively for public or municipal purposes if—
  - (a) it is used for banking or insurance; or
  - (b) a house or flat on the land—
    - (i) is used as a residence; and
    - (ii) is exclusively occupied by persons including a person who must live there to carry out certain duties of employment; or
  - (c) it is used by the Metropolitan Fire Brigades Board.
- (3A) For the purposes of subsection (2)(b), any part of land does not cease to be used exclusively for public purposes only because it is leased—
  - (a) to a rail freight operator within the meaning of the **Transport Act 1983**; or
  - (b) to a passenger transport company within the meaning of that Act.
- (4) For the purposes of subsections (2)(c) and (2)(d), any part of the land is not used exclusively for charitable purposes if it is in any of the following categories—
  - (a) it is separately occupied and used for a purpose which is not exclusively charitable;

- (b) a house or flat on the land—
  - (i) is used as a residence; and
  - (ii) is exclusively occupied by persons including a person who must live there to carry out certain duties of employment;
- (c) it is used for the retail sale of goods;
- (d) it is used to carry on a business for profit (unless that use is necessary for or incidental to a charitable purpose).

As listed above, the Act has limited provisions for properties that should be exempted from paying rates.

Currently there are 939 properties within Moreland City Council that are treated as non-rateable, including Moreland City Council owned properties. Council reviews the non-rateable properties on a bi-annual basis and decision making charts have been developed accordingly. (*Attachment 1*)

It should be noted that whilst *the Act* provides criteria for land which cannot be rated, it does not stop Council allowing additional specific exemptions to specific properties or uses. Given the importance of rates revenue to Council, it is recommended that specific additional exemptions be avoided and other means of support used to assist organisations deemed worthy of support by Council.

### Recommendations

1. That Council only grants non-rateable status to properties that meet the criteria described in the *Local Government Act 1989*.
2. That Council continue to review the non-rateable properties to ensure all meet the criteria described in the *Local Government Act 1989*.



## 14. Collections

### Liability to Pay Rates

LGA Section 156 makes the owner of the land liable to pay the rates and charges on that land. In certain cases, the occupier, mortgagee or licensee holder is liable to pay the rates.

The LGA Section 156(6) declares the rate or charge, unpaid interest or costs to be a first charge upon the land.

### Electronic Notices

Council encourages the electronic distribution of rate notices. Ratepayers can elect to receive their Annual Rate Notice and Quarterly Rate Installment Notice electronically.

### Payment Dates for Rates

Council, in accordance with the LGA section 167 (1) must allow for the payment of rates by four installments per annum. Council may allow a person to pay a rate or charge in a single lump sum payment LGA Section 167 (2).

Moreland City Council elected to move from the lump sum payment method for the 2007/08 rating year.

The main driver behind the change relates to the improved cash flows that are associated with the instalment payment option. Council operates under a 1 July-30 June financial year and Victorian Local Government is probably the only Government agency/utility that issues an annual account in July and then has to wait seven months to receive the majority of its revenue. During this time Council is required to continue to provide operational services and capital works which place our cash position under severe strain. No other utility (telephone, gas, power, water) is required to operate under the business rules that Local Government is required to.

The move to introduce mandatory instalments is aimed at better matching when Council receives its rate revenue against when we need to expend these same amounts. The move also brings Council into closer alignment with virtually every other utility service provider.

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

The Minister fixes payment dates by notice published in the Government gazette. The due dates are the last business days in September, November, February and May.

### Payment options

Council offers a range of payment options including direct debit, Bpay, Centrepay, internet via [www.moreland.vic.gov.au](http://www.moreland.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 10 monthly direct debit.

Council incurs costs of collection via agency and merchant service fees.

The Council will assist ratepayers who are experiencing hardship by creating individual payment plans which may include deferral of rate payments in full or part, depending on individual circumstances. The interest rate on deferred rates is at the penalty interest rate that is determined by the Minister.

### **Incentives for Prompt Payment**

The LGA Section 168 provides that incentives for prompt payment may be offered. Discount for early payment should be based on cash flow benefit to Council.

Council offers payments via a number of agencies and services to provide ratepayers with choices to make it easy for them to pay their rates. Rates are due by the installment dates which reasonably provides the cashflow Council requires to operate.

In addition, Council rates are secured against the property and penalty interest is payable where payment is not received by the due dates. To provide discounts would be administratively cumbersome and potentially costly and there is no benefit to Council to do so.

It is recommended that no incentives for prompt payment be offered for the year 2014-2015.

### **Late Payment of Rates**

Council applies interest penalties in accordance with LGA Section 172.

### **Interest on Arrears and Overdue Rates**

Interest is charged on all overdue rates in accordance with LGA Section 172. The interest rate to apply is fixed under Section 2 of the Penalty Interest Rates Act 1983, which is determined by the Victorian Attorney General and published by notice in the Government Gazette. The interest rate is the applicable rate from 1 July 2014 and is currently 11.50% (as at 1 May 2014) and was last changed on 3 February 2014.

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 – LGA Section 172 (2A).

As part of the hardship provisions Council allows people who have proven financial difficulties to defer rate payments. The deferred rate payments are subject to the penalty interest rate that is determined by the Victorian Attorney General.

### **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 has the authority sell the land as long as it follows due process in accordance with the Local Government Act – Section 181.

The purpose of the policy on debt recovery is to act as a genuine deterrent to ratepayers who might otherwise fail to pay rates on time (and have not been in contact with Council regarding their circumstances), 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 subsidize or bear any cost of ratepayers who default on their payment.

### Recommendations

1. That Council continues to apply the mandatory rate instalment payment option in 2015-16.
2. That Council continues to charge interest on late payments in accordance with the *Local Government Act 1989*.
3. That Council continues to actively collect rates and pursue outstanding rate debtors.

## 15. Rates Assistance

### Rebates and Concessions - LGA section 169

Council currently only provides the Performance Rebate for the vacant and unoccupied land properties as detailed in section 8.4.

It needs to be noted that concessions to one group of ratepayers can have adverse effect on other ratepayers.

### Pensioners 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 2015-2016 the government-funded indexed rebate is provided under the Municipal Rates Concession Scheme. It will increase slightly from the 2014-2015 level of \$208.00, or 50% of the rate payment, whichever is the lesser. Upon initial application, an ongoing eligibility is maintained unless rejected by Centrelink or Department of Veteran Affairs during verification procedures. Upon acceptance of pensioner status, the concession or rebate is deducted from the rate account before payment by the ratepayer.

Applications for the concession must be lodged by 30 June in each year.

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 study recommended that the MAV should call for an increase in the State Government pension rate rebate.

Council considers that it is not appropriate for Council via ratepayer funds to make an additional rebate or offset to all pensioners.

Council's view is that pensioners receive a variety of utility and other concessions funded from general government taxation, which is appropriate. The State Government has historically accepted the need to redistribute income taxes in support of utility concessions and rebates to low income households. Council supports this view, along with annual indexation of the municipal rate concession amount. For Council to make further concessions would mean a redistribution of the rate burden with other ratepayers bearing the cost by way of higher rates and charges and having regard to these factors would unfairly penalize those ratepayers. It should be noted that approximately 20% of ratepayers are pensioners (as indicated by those currently receiving the pension rebate).

### Deferral of Rates - LGA Section 170

The option to defer rates is a legislative provision – LGA Section 170.

Deferral is appropriate where ratepayers have incurred increases to rates and immediate affordability is an issue. Council's hardship policy ("*Financial Hardship (Rates and Charges) Policy*") provides guidelines on application for deferral of rates.

If Council is satisfied on the application of a ratepayer that payment of rates in accordance with the Act would cause hardship, the Council may defer payment or part payment for such period as Council thinks fit.

Outstanding rates and charges (or part thereof) may be deferred under the following conditions:

- The ratepayer must evidence severe financial hardship as certified by a suitably qualified, independent Financial Counsellor.
- Where the financial hardship is expected to exceed one year.

The application for deferral does not change the due date for payment of rates.

### **Waiver of Rates - LGA Sections 171 and 171A**

Sections 171 and 171A of the *Local Government Act 1989* provides Council the option to waive rates or charges or interest.

Every rateable property should meet its share of rates and charges and a rate waiver should only be granted to the extent that the amounts waived are recovered from the State Government under the Pensioner Rate Remission Scheme.

Any additional waiver of rates or charges will unfairly increase the burden which falls upon other members of the Council's community. It may be considered where there is considerable benefit to Council and the Moreland community.

Where severe financial hardship is evident, consideration should be given to the waiver of penalty interest. Council's hardship policy provides detailed guidelines on application of the interest waiver.

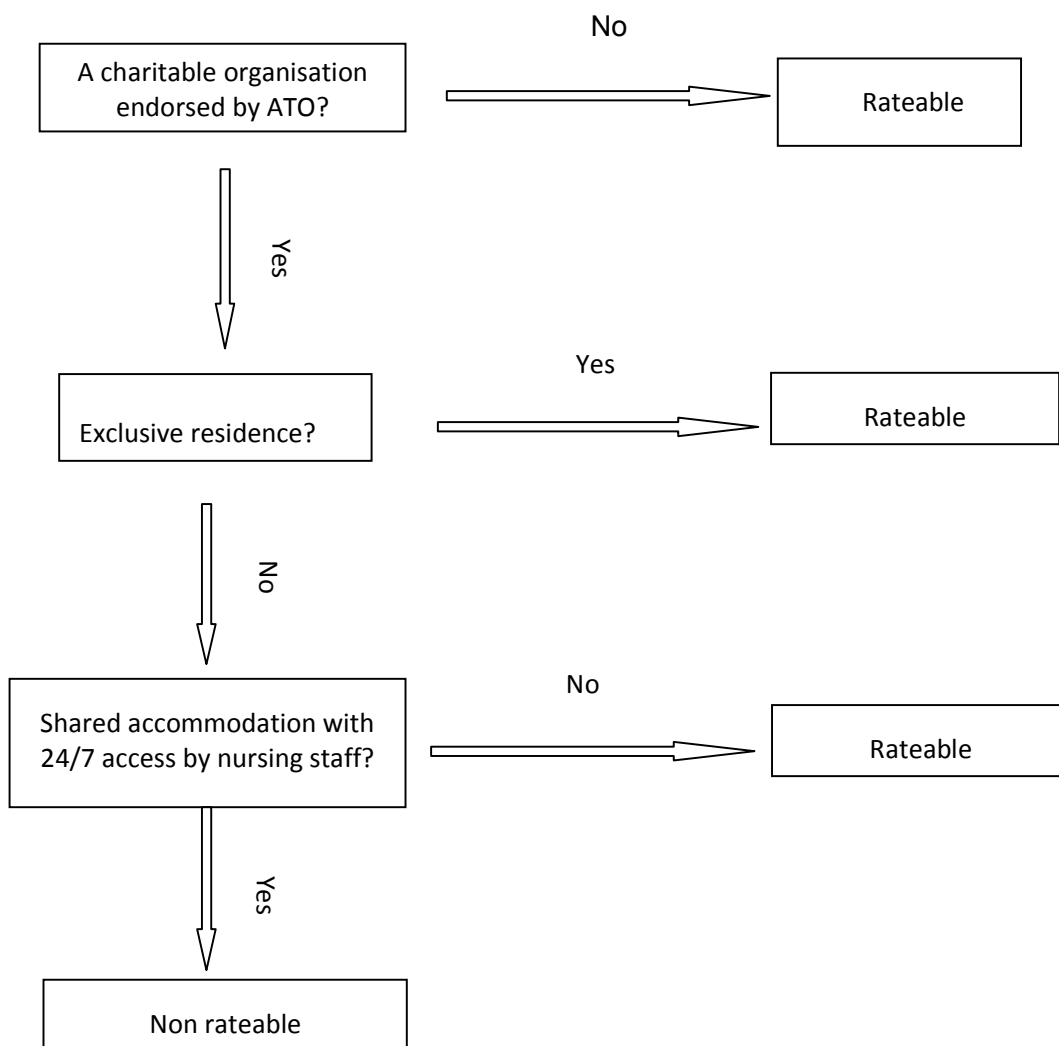
<b>Recommendations</b>	
1.	Rates and charges will be waived only to the extent that the amounts waived are recovered from the State Government under the Pensioner Rate Remission Scheme.
2.	Consideration is given to the partial of total waiver of penalty interest, should the imposition of such interest cause severe financial hardship.

### Decision Making for Aged Care Facilities

Questions to be asked:

1. Are you a charitable organisation? If yes, please provide a copy of the ATO endorsement.
2. Please provide details of the occupancy. Is it used as shared accommodation or exclusive residence? Shared accommodation should have more than one person share the room, exclusive residence means the room is used by a single person and the door is lockable. If the property is for combined use, please provide an estimate of the portion that is used for shared accommodation and the portion used as exclusive residence.
3. For the portion that is used as shared accommodation, do nursing staff members have 24/7 access to the rooms?
4. For the exclusive residence, do nursing staff members have 24/7 access, or do nursing staff members need to gain permission each and every time before they access the rooms?

Flow chart for decision making:



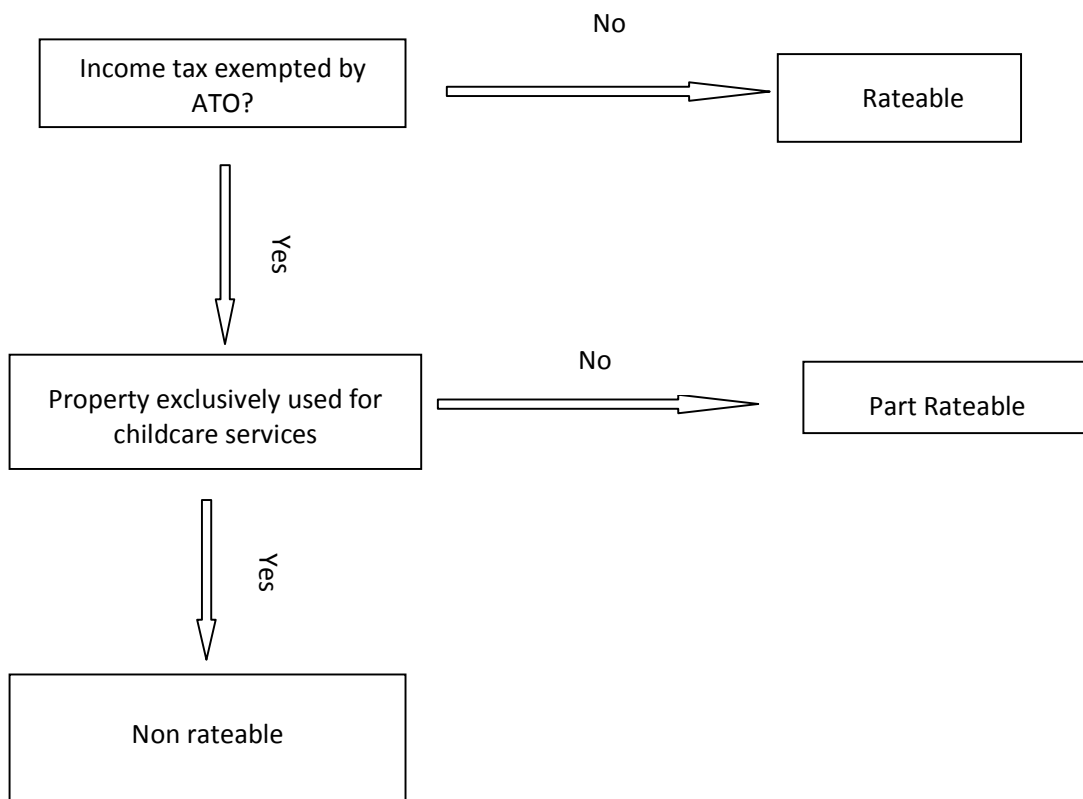
Attachment 1 – Decision Making Process for Non-Rateable Properties

**Decision Making for Childcare Centres**

Questions to be asked:

- 1. Do you hold income tax exempt status from ATO? If so, please provide a copy of the ATO endorsement.
- 2. Please provide details of the occupancy. I.e. How is the property being used? Is any part of the properties used as non-childcare business? If so, what is the percentage used as non-childcare business.

Flow chart for decision making:

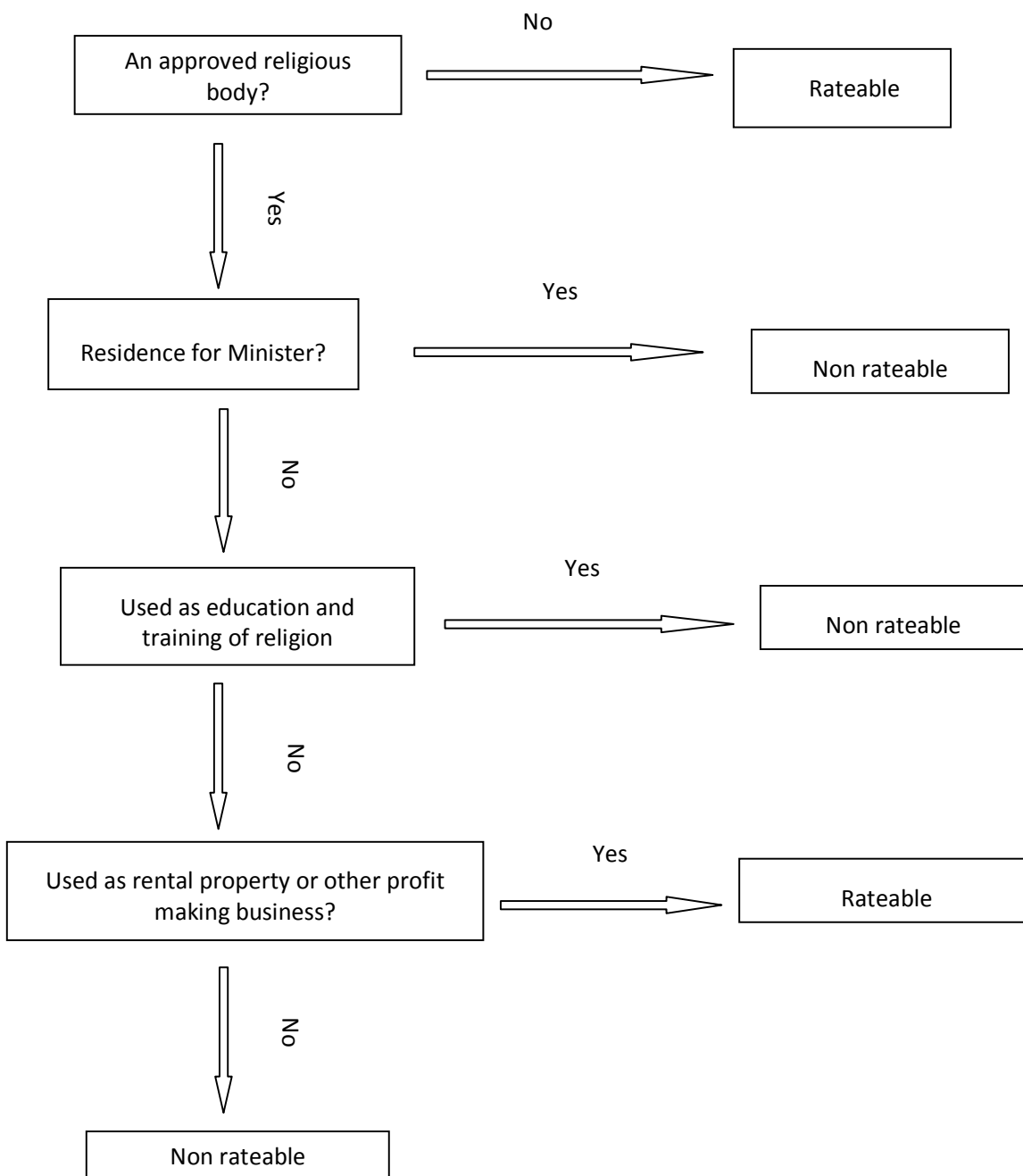


### Decision Making for Religious Bodies

Questions to be asked:

1. Please provide proof that you are a religious body
2. Please provide details of the occupancy. i.e., is the property used as residence of a practising Minister of religion? Is the property used for the education and training of persons to be Ministers of religion; Is the property used as a rental property? Or any other use?
3. If the property is for combined use, please provide an estimated portion for each use.

Flow chart for decision making:



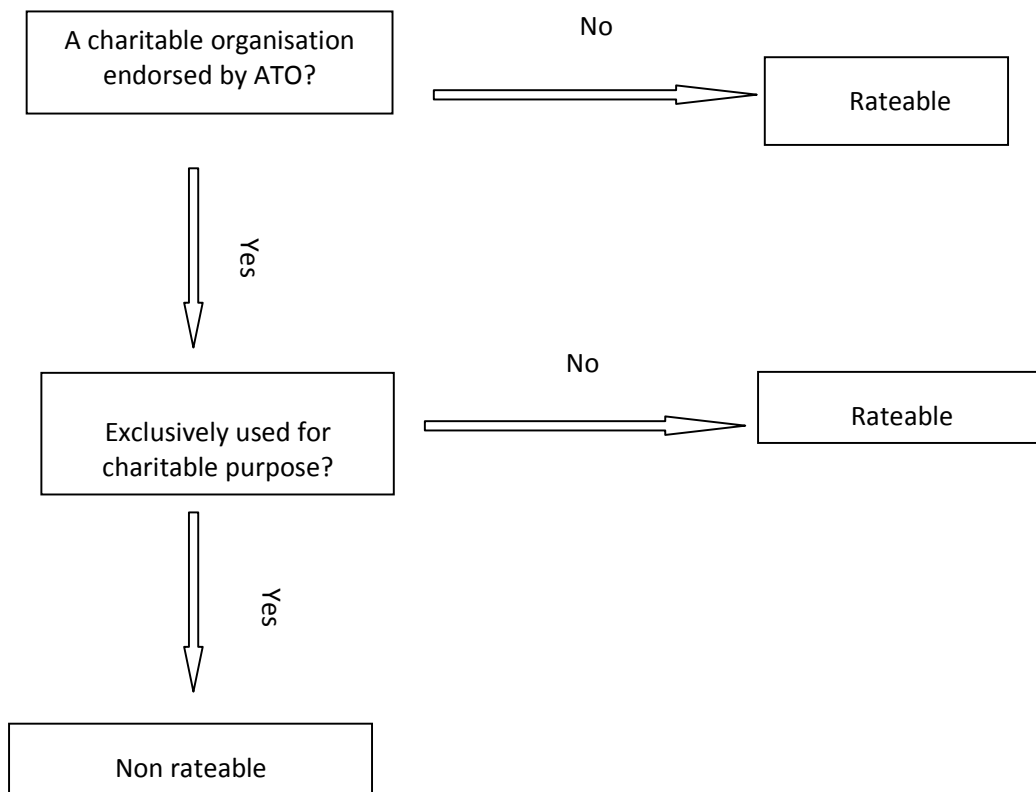


### Decision Making for Other Organisations

Questions to be asked:

1. Are you a charitable organisation? If yes, please provide a copy of the ATO endorsement.
2. Please provide details of the occupancy. Is any part of the property used as retail sale of goods or other types of income generating business? Please provide details on the nature of business that is carried out in the property.

Flow chart for decision making:





Moreland City Council

## **VACANT AND UNOCCUPIED LAND AND BUILDING**

### **MANAGEMENT REBATE**

### **POLICY**

<b>Date Resolved By Council:</b>	13 June 2012
<b>Commencement Date:</b>	13 June 2012
<b>Review Date:</b>	June 2016
<b>Responsible Department:</b>	Corporate Services

This policy has been authorised and is included on Council's Website.

**Chief Executive Officer**

13 June 2012

## 1. PURPOSE

The policy provides the guidelines for the granting of the land management rebate for those properties levied a differential rate in respect to vacant land and unoccupied land.

## 2. OBJECTIVE

The objectives of the policy through the application of a rebate are:

- To encourage property owners to responsibly manage and develop land with the characteristics of vacant land and unoccupied land; and
- To provide an incentive to property owners to reduce the rate levied for land with the characteristics of vacant and unoccupied land; and
- To establish performance criteria for the granting of the land management rebate.

## 3. BACKGROUND

Council at its meeting of 12 April 2006 resolved to include provision for the declaration of a differential rate for vacant land and unoccupied land in the proposed budget for the 2006/2007 financial year.

Council has resolved to include provision for the declaration of a rebate in respect to vacant land and unoccupied land in its subsequent budgets each financial year since 2006/2007. Section 169 of the Local Government Act 1989 allows Council to grant such a rebate in relation to any rate or charge.

The purpose of the rebate is to encourage property owners levied the differential rate, an incentive to reduce the amount of rates payable through the proper management and development of their property, including any unoccupied and uninhabitable buildings. The granting of the rebate would be subject to the property owner agreeing to and satisfying set performance criteria in the management of the land.

## 4. DETAILS

### **Benefit to Community – Section 169 (1A) of the Local Government Act 1989**

The rebate is to be granted to assist the proper development of the municipal district, and more specifically:

- To provide incentives designed to promote the responsible management of land with the characteristics of vacant land and unoccupied land; and
- To ensure that such land (or land including buildings) does not pose a risk to public safety or adversely affect public amenity.

**Performance Criteria - Section 169 (1B) (b) of the Local Government Act 1989**

All land must be kept in a manner that ensures there is no detrimental impact on the amenity of the neighbourhood, including ensuring it is free from:

- Excessive vegetation growth; and
- Accumulated rubbish and other extraneous material; and
- Unused or waste materials; and
- Unused machinery or vehicles; and
- Disused excavations.

All land must be kept free of any material, which by its nature, composition, condition or location constitutes or may constitute a danger to life or property from the threat of fire.

In the case of unoccupied land:

- All matters outlined above for all land; and
- The land must be securely fenced or hoarded to prevent unauthorized entry; and
- The buildings must be kept free of excessive levels of graffiti; and
- Building works performed under the cover of a building permit must maintain a reasonable level of progress within a 120 day period; and
- The building must not fall into a state of disrepair that would deem the building unsuitable for occupation; and
- The building is kept free of vermin, environmental and fire hazards.

A property owner who, in the opinion of a member of Council's staff who has been authorised for the purpose of this policy, satisfies the performance criteria will be eligible to receive a rebate.

The rebate in respect to the differential rate for vacant land and unoccupied land will be 62.5% of the rate levied.

Properties levied the differential rate that have a current building permit and are developing the land may be eligible for a rebate of 75% of the rate levied.

## **5. REBATE APPLICATION**

Rebate applications are required to be received by the 30 September each year following the issue of the annual rate notice.

The rebate application upon approval will only apply to the current rating period.

Any property that attracts the differential rate for vacant land or unoccupied land as a result of a supplementary valuation during the course of the current rating period shall be permitted to lodge a rebate application within one month of the issue date of the supplementary rate notice.

## Attachment 2 – Vacant & Unoccupied Land & Building Management Policy

Where the property is sold and transferred within the current rating period and no previous rebate application has been received the purchaser of the property will have the opportunity to lodge an application within one month of the transfer date.

### **6. PROPERTY INSPECTION**

Property inspections will be conducted by authorized officers of the Council upon receipt of a rebate application to ensure that satisfactory works have been undertaken to satisfy the performance criteria.

Council will also conduct random inspections throughout the rating year and especially during the Fire Danger season over the warmer summer months. Properties that have not taken steps to maintain their properties will be issued with written advice that the rebate has been withdrawn and the differential rate reinstated from the date of inspection.



Moreland City Council

Policy ID no: **DCS 5 - Council**

# Financial Hardship (Rates and Charges) Policy

## DOCUMENT CONTROL

<b>Responsible service unit:</b> Finance & Business Systems	<b>Approved by:</b> Council	<b>Version:</b> 1.0
<b>Contact position:</b> Manager Finance & Business Systems	<b>Date endorsed:</b> 9 July 2014	<b>TRIM Record Number:</b> D14/77155
	<b>Review date:</b> December 2017	<b>Status:</b> Endorsed

## **1 Purpose**

The purpose of this Financial Hardship (Rates and Charges) Policy is to provide Council with a policy framework to provide financial relief to individuals who need assistance. The policy also aims to provide ratepayers with a clear and transparent understanding of the options and assistance available if currently experiencing or at the risk of experiencing financial hardship.

## **2 Context**

Rates income is a secure and reliable source of revenue that Council uses to deliver services to the community. In considering all aspects of the rating strategy for the municipality and this Financial Hardship (Rates and Charges) Policy, Council considers the principles of fairness, transparency and equity.

It is important to note that this policy does not apply to the Fire Services Levy as that is a State Government levy and Council does not have the power to waive or defer these debts.

## **3 Principles**

The following policy principles form the basis of this hardship policy:

- Information about this hardship program will be made accessible to the community and Council will be proactive in communicating its program.
- Hardship assistance will only be granted to individuals experiencing financial hardship with regard to the rates on their primary residence.
- A range of forms of assistance will be made available.
- The form of hardship assistance provided should match the level of financial difficulty.
- The process must be simple for the ratepayer to use.
- Ratepayers are encouraged to utilise financial counselling, legal and other supports.
- Legal action to recover debt should be the last resort.

## **4 Council policy**

### **4.1 No waiver of rates & charges**

Council does not allow the waiver of rates or charges except in exceptional circumstances. This is to ensure that financial hardship assistance offered to one group of ratepayers does not adversely impact other ratepayers. Any waiver of rates or charges must be approved by Council.

### **4.2 Interest on overdue rates & charges**

Interest will be charged on overdue rates and charges in accordance with section 172 of the Local Government Act 1989, unless otherwise specified in this Policy. The interest will be calculated at the rate fixed under Section 2 of the Penalty Interest Rate Act 1983.

### **4.3 Waiver of interest on overdue rates & charges**

Council may allow the waiving of interest on outstanding rates for owner-occupied residential property. This will not be considered for property rated as other types of land including Commercial, Industrial or Vacant land, or where the ratepayer experiencing financial hardship does not reside at the property (as this is assumed to be an investment property).

The applicant must attend to the immediate settlement of all outstanding rates and charges or enter into a payment arrangement where an amount is paid on a regular basis (eg

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weekly/fortnightly) to clear all outstanding rates and charges within a period of no more than 6 months.

If payment of the outstanding rates and charges is made by payment arrangement, the waiver of interest would apply to interest already incurred to date and during the 6 month payment arrangement period.

If the payment arrangement (as above) is not maintained, the amount of interest waived will be withdrawn and the interest reinstated on the assessment.

The waiver of penalty interest will be made on a once-off basis.

### **Interest waiver categories**

There are three categories of interest waivers:

#### 4.3.1 Administrative waiver:

Ratepayers may have interest waived in the event of an administrative issue, error or omission which caused or significantly contributed to the failure to pay rates in a timely manner.

#### 4.3.2 Waiver on compassionate grounds:

Ratepayers may have interest waived where they have demonstrated compassionate grounds for a payment being late. Acceptable compassionate grounds would generally relate to family illness or death.

#### 4.3.3 Waiver on financial hardship grounds:

Ratepayers may have interest or part thereof waived subject to compliance with the following conditions:

- a) the ratepayer must be experiencing undue and unavoidable financial hardship;
- b) the ratepayer's financial circumstance must be assessed by a suitably qualified, independent Financial Counsellor.

#### Application for waiver of interest

An application for the waiver of interest charges under the categories above should be made in writing to the Coordinator Revenue Services.

#### Delegation to waive interest

The Coordinator Revenue Services is authorised to waive interest charges up to \$50 for any one property.

For requests to waive interest over \$50, the Coordinator Revenue Services will review applications in accordance with this policy and prepare a report for the Director Corporate Services for consideration and approval. The waiver of interest will be confirmed in writing once it has been approved.

The Director Corporate Services has delegated authority from Council under Section 171(A) of the Local Government Act, 1989, to waive in whole or in part, interest charges due where the application of the interest would cause financial or undue hardship.



#### **4.4 Payment deferral**

Payment deferral occurs where Council agrees to a ratepayer not making rates payments. This option would generally only apply to long term cases of extreme financial hardship.

Rates and other charges (including penalty interest) continue to be charged against the property but collection is not enforced.

Rates and charges will be deferred until such time as the ratepayer's circumstances improve or the property is sold or transferred to another owner, at which time Council would collect the outstanding amount of rates, charges and penalty interest.

Outstanding rates and charges (or part thereof) may be deferred under the following conditions:

- The ratepayer must evidence severe financial hardship as certified by a suitably qualified, independent Financial Counsellor.
- Where the financial hardship is expected to exceed one year.

Rate notices will continue to be sent to rate payers to ensure they are aware of the growing debt.

Ratepayers will be required to resubmit an application every three years to qualify for a continuation of any deferral arrangement. In addition, Council will undertake a review each year and confirm the payment deferral or advise if there will be a change.

Council may reject a deferral application or cease a deferral arrangement if the total outstanding balance of rates and charges exceeds 50% of the Property Capital Improved Value (CIV).

A deferment arrangement may be withdrawn if:

- The ratepayer advises that the hardship conditions no longer exist.
- The ratepayer no longer owns or occupies the property.
- Triennial confirmation of ongoing hardship is not received.
- The total outstanding balance for the property of unpaid rates and charges exceeds 50% of the Capital Improved Value (CIV) of the property.

##### Application for payment deferral

An application for the deferral of payment of rates and charges should be made in writing to the Coordinator Revenue Services.

##### Approval process

The Coordinator Revenue Services will review applications in accordance with this policy and if satisfied that financial hardship exists, a report will be provided to the Manager Finance & Business Systems for consideration and approval. The deferral will be confirmed in writing to the ratepayer once it has been approved.

#### **4.5 Payment plans**

A 'payment plan' is a schedule of payments agreed to by both the Council and ratepayer which provides for flexible payment of debts after their due date has lapsed. This differs from 'instalment payments' which Council offers for on-time payment of rates and charges.

Payment arrangements will attract penalty interest on outstanding balances but allow ratepayers additional time to make payments without legal action being taken by Council to recover rates and charges.

##### Application for payment deferral

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Payment plans can be arranged by contacting Council’s Revenue Services officers.

### Approval process

The Coordinator Revenue Services will review applications in accordance with this policy and if satisfied that financial hardship exists, a report will be provided to the Manager Finance & Business Systems for consideration and approval. The payment plan will be confirmed in writing to the ratepayer once it has been approved.

## **5 Other relevant information**

### **5.1 References**

#### 5.1.1 Council Plan 2013-17

- Moreland community has access to information, opportunities to participate in decision making and access to decision makers
- Moreland City Council is financially responsible taking account of current and future needs

#### 5.1.2 Section 2 of the Victorian Local Government Act 1989 sets out Council’s powers regarding payment of rates and charges.

#### 5.1.3 In addition, the Victorian Charter of Human Rights and Responsibilities Act 2006 (“Charter”) must be taken into account. In particular, the rights to:

- Recognition of equality before the law (s8);
- Privacy and reputation (s13);
- Protection of families and children (s17); and
- Property rights.

#### 5.3.4 Moreland City Council Debtor Management Policy

#### 5.3.5 Moreland City Council Rating Strategy