# Draft Rating Strategy

December 2017

# Content

# Rating Strategy

## 1. Introduction

To ensure the Local Government Act rating objectives of equity and efficiency are achieved, it is important that Banyule City Council has a rating strategy in place that is transparent to the community and reviewed annually as part of the budget process.

The important matters to be considered in relation to the Rating Strategy include:

- The legislative framework (Section 2)
- What rates and charges can be declared (Section 3)
- The rate base (Section 4)
- Uniform or Differential rates (Section 5)
- Differential Rates (Section 6)
- Cultural and Recreational Lands (Section 7)
- Impact of Council revaluations and supplementary valuations (Section 8)
- The municipal charge (Section 9)
- Service rates and charges (Section 10)
- Special rates and charges (Section 11)
- Rebates and concessions (Section 12)
- Exempt Properties (Section 13)
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### 1.1 What is a Rating Strategy?

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

The Act requires Councils to exercise sound financial management. In particular, The Act states that the principles of sound financial management are to:

a) manage financial risks faced by Council prudently having regard to economic circumstances;
b) pursue spending and rating policies that are consistent with a reasonable degree of stability of the rates effort;
c) ensure that decisions are made and actions are taken having regard to their financial effects on future generations;
d) ensure full, accurate and timely disclosure of financial information relating to the Council

The Council articulates its objectives, strategies and activities through community consultation and the development of key documents such as:

- the Council Plan, and
- the Strategic Resource Plan, and
- the Council Budget

Generally Councils can fund their activities through revenue (including rates), capital grants and borrowing. As rates are a significant part of Councils revenue, a rating strategy is a key element in the Council exercising sound financial management.

### 1.2 Objectives of the Strategic Resource Plan

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

Council's commitment to managing resources wisely will be achieved by the following key directions as outlined in the Strategic Resource Plan:

- Develop and deliver best value services and facilities
- Provide reasonable financial management and business planning processes
- Enable good governance and accountability with minimal risk
- Create a productive and engaged workforce
- Maintain and strengthen corporate information and innovation, and
- Plan and manage the systems and assets that support Council's service delivery

The Strategic Resource Plan is updated annually.

Council's focus areas and initiatives are wide ranging and include:

- Improving preschools infrastructure
- Maintaining and upgrading of roads, drains and footpaths
- Ensuring our natural environment and tree assets are appropriately maintained
- Responding to land use planning issues in consistent, fair and timely manner
- Delivering social and economic benefits for our community
- Producing quality community festivals and events across the municipality

## 2. Rating – the Legislative Framework

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

### 2.1 Objectives

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

- the equitable imposition of rates and charges
- a reasonable degree of stability in the level of the rates effort
- contribute to the equitable and efficient carrying out of its functions
- apply principles of financial management, simplicity and transparency.

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

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

### 2.1.1 Equity

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

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

Vertical equity refers to justice or fairness in the treatment of properties in different circumstances (e.g. different property types – residential/commercial/ vacant land/ electronic gaming machine land). It implies a "relativity" dimension to the fairness of the tax burden.

In the case of property taxation it may be considered equitable for one type of property to have to bear more or less of the rates effort than another type of property. Clearly, however, affordability criteria may be a significant concern that influences views about vertical equity.

Rates are essentially a wealth tax, determined on the value of property. A pure "wealth tax" approach implies that the rates paid relate directly to the value of a ratepayer's real property. The tests of horizontal and vertical equity are solely based on property value.

There is some debate surrounding the characteristics of property owners that may impinge on the application of an equity principle.

The three main ways in which positions can vary are:

- the benefit or user pays principle – some groups have more access to, make more use of, and benefit from more, specific council services;
- the capacity to pay principle – some ratepayers have more ability to pay rates than do others with similarly valued properties;
- the incentive or encouragement principle – some ratepayers may be doing more towards achieving council goals than others in areas such as environmental or heritage protection.

*The Benefit Principle*

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

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

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

*Capacity to Pay*

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

While personal income tax is more reflective of the capacity to pay, it is not possible to expect a property tax system to deal practically with all aspects of capacity to pay based on individual households and businesses. It is also not practical or acceptable to shift, modify or manipulate the existing system to the benefit of one group of ratepayers at the expense of another unless such shift is widely accepted and for a proper purpose.

In fact, Local Government has no mandate or ability to universally apply a "capacity to pay" test.

Council has the option of introducing a Council rebate to certain groups to reduce that property's rate effort. Presently pensioners within the municipality are able to access the State Government Rebate.

### 2.1.2 Efficiency

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

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

## 2.2 Anomalies with Property Taxation

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

## 2.3 Recent legislative changes – Fair Go Rates System

The State Government introduced the Fair Go Rates System (FGRS) effective from the 2016/2017 rate year, this sets out the maximum amount councils may increase rates in a year. For 2017/2018 the FGRS prescribed cap was set at 2%. The cap applies to both general rates and municipal charges and is calculated on the basis of council's average rates and charges.

The formulae provided by the Essential Services Commission (ESC) and agreed to by the State Government is:

$$\frac{\text{Adopted General Rate and Municipal Charge Income + Annualised Supplementary Rate and Municipal Charge Income}}{\text{Number of Assessments as at 30 June}}$$

= Base Average Rate

Base Average Rate x (1 + Prescribed Rate Cap)
= Maximum allowable Capped Average Rate

The level of required rates and charges has been considered in this context, with reference to Council's other sources of income and the planned expenditure on services and works to be undertaken for the Banyule community.

In situations where the rate cap is not sufficient for Council's needs, Council can apply to the Essential Services Commission for a higher cap; this is known as a variation.

Banyule City Council did not apply for a variation to the rate cap for 2017/18.

## 3. What rates and Charges may a Council declare?

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

| Rating option | Description | Banyule structure |
|---|---|---|
| General rate | A general rate is applied to all properties and can be set as either a uniform rate or a number of differential rates | Banyule applies the differential rates listed below. |
| Uniform rate | A uniform rate is a single rate in the dollar that is applied to the value of all properties in the municipality. | Banyule does not apply a uniform rate. |
| Differential Rates | Differential rates are different rates in the dollar that are applied to different classes of properties and are permitted if the Council uses Capital Improved Value as the rating valuation base.<br>The Act allows the use of differential rates if the Council considers that this will contribute to the equitable and efficient carrying out of its functions. | The following differential rates are levied:<br>• Residential Improved<br>• Commercial/Industrial Improved (set at 1.25 times the residential improved rate)<br>• Residential Vacant Land (set at 1.5 times the residential improved rate)<br>• Commercial/Industrial Vacant Land (set at 2 times the residential improved rate) |
| Municipal Charge | A municipal charge to cover some of the administrative costs of the Council. This is a flat-rate charge applied to all properties excluding cultural and recreational properties. | Banyule does not levy a municipal charge. |
| Service rates and charges | Service rates or annual service charges (or a combination of both) can be levied for provision of a water supply, collection and disposal or waste, and sewerage services as outlined in The Act. | Banyule does not levy any annual service charges to rateable properties for a standard service.<br><br>Banyule does charge for the collection and disposal of refuse from non-rateable properties and for the collection of non-standard refuse from rateable properties. These charges are declared in the Schedule of Fees and Charges. |

| | | |
|---|---|---|
| Rebates and Concessions | The Act allows Councils to grant a rebate or concession in relation to any rate or charge to assist the proper development of all or part of the municipal district, preserve buildings or places that are of historical or environmental interest, or to restore or maintain buildings or places of historical, environmental, architectural or scientific importance. | Banyule does not offer any council rebates |
| Special Rates and charges | A special rate or charge may be declared for purposes of: <br>• Defraying any expenses or <br>• Repaying with interest any advance made or debt incurred or loan raised by Council. | Banyule levies special rates and charges for promotional and marketing activities to assist Retail associations and for street and drainage construction. |
| Cultural and Recreational Lands | In accordance with the *Cultural and Recreational Lands Act* 1963 Council may levy an amount in lieu of rates on properties that meet the definition of cultural and recreational lands. | Banyule does levy an amount in lieu of rates for cultural & recreational using the following methodology: <br>In Use Value X (Residential Improved rate X Questionnaire Weighting) X 65% (Council Services available to the entity). |

## 4. Determining which valuation base to use

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

### 4.1 Introduction

Three methods of valuing land are allowed under The Act:

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

Banyule uses CIV for rating valuation purposes, along with the majority of other Victorian Councils.

### 4.2 Site Value (SV)

This method places a value on the land only and does not consider any value of any buildings constructed on the land. It is not considered to result in the most equitable distribution of the rate effort.

With valuations based simply on the valuation of the land and with only very limited ability to apply differential rates, the implementation of site value in Banyule would cause a significant shift in rate effort from the business sector into the residential sector. In addition, there would be further rating movements away from modern townhouse style developments on relatively small land parcels to older established homes on the more typical quarter acre residential block.

There is no Victorian Council that currently uses this valuation base.

## 4.3 Net Annual Value (NAV)

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

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

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

## 4.4 Capital Improved Value (CIV)

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

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

The advantages of using CIV include:

- CIV includes all improvements and hence is often supported on the basis that it more closely reflects ‘capacity to pay’. The CIV rating method takes into account the full development value of the property, and hence better meets the equity criteria than site value or NAV.
- The concept of the market value of property is far more easily understood with CIV rather than NAV or Site Value.
- The use of CIV allows Council to apply differential rates which greatly adds to Council’s ability to equitably distribute the rating effort based on ability to afford Council rates.

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

## 5. Determining the Rating System – Uniform or differential

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

### 5.1 Uniform rate

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

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

Banyule believes that a uniform rate should not be applied to all properties because it is not equitable. In particular, such a rate does not reflect the use of Council services and infrastructure nor does it create incentive for best use of property in the municipality.

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

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

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

1) A Council must raise any general rates by application of a differential rate, if it uses the CIV system of valuing rates,

   a) Council considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.

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

   a) Specify the objectives of the differential rate, which must be consistent with the equitable and efficient carrying out of the Councils functions and must include the following:
      i. A definition of the types of classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate.
      ii. An identification of the type or classes of land which are subject to the rate in respect of the uses, geographical location (other than location on the basis of whether or not the land is within a specific ward in Councils district) and planning scheme zoning of the land, and
      iii. If there has been a change in the valuation system, any provision for relief from a rate to ease the transition for that land, and

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

The maximum differential allowed is no more than 4 times the lowest differential rate. For Banyule, the lowest rate is the residential rate.

Council has the option of increasing each respective differential rate in order to influence the behaviour of landowners.

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

## 6. Differential Rates

### 6.1 Advantages of a differential rating system

The perceived advantages of utilising a differential rating system are:

- There is a greater flexibility to distribute the rate effort between all classes of property and therefore link rates with the ability to pay and reflecting the tax deductibility of rates for businesses;
- Differential rates allows Council to better reflect the investment required by Council to establish infrastructure to meet the needs to the commercial and industrial sector; and
- Enables Council to encourage particular developments through its' rating approach e.g. encourage building on vacant land.

### 6.2 Disadvantages of a differential rating system

The perceived disadvantages of utilising a differential rating system are:

- The justification of the differential rate can at times be difficult for the various rating groups to understand, giving rise to queries, objections and complaints.
- Differential rating involves a degree of administrative complexity, as properties can change from one classification to another (e.g. vacant land to residential) requiring Council to process supplementary valuations.

### 6.3 Objectives of the rate and characteristics

Council considers that each differential rate will contribute to the equitable and efficient carrying out of Council functions.

Details of the objectives of each differential rate are set out below.

#### 6.3.1 Residential/Commercial/Industrial Vacant Land

*Objective:*

To encourage the development of land and to ensure that such rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, including the:

1) Implementation of good governance and sound financial stewardship; and
2) Construction, renewal, upgrade, expansion and maintenance of infrastructure assets; and
3) Development and provision of health, environmental, conservation, leisure, recreation, youth and family community services; and

4) Provision of strategic and economic management, town planning and general support services; and
5) Promotion of cultural, heritage and tourism aspects of Council's municipal district.

*Types and Classes*

Any rateable land on which no dwelling is erected.

*Use and Level of Differential Rate:*

The differential rate will be used to fund some of those items of expenditure and Capital Works 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.

*Geographic Location:*

Wherever located within the municipal district.

*Use of Land:*

Any use permitted under the Banyule 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 Banyule Planning Scheme.

### 6.3.2 Commercial/Industrial Improved Land

*Objective:*

To ensure that such rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council having regard to the capacity of such land to be used to yield income and the demands such land makes on Council's infrastructure.

Those functions include the:

1) Implementation of good governance and sound financial stewardship; and
2) Construction, renewal, upgrade, expansion and maintenance of infrastructure assets; and
3) Development and provision of health, environmental, conservation, leisure, recreation, youth and family community services; and
4) Provision of strategic and economic management, town planning and general support services; and
5) Promotion of cultural, heritage and tourism aspects of Council's municipal district.

*Types and Classes:*

Any rateable land which is used, or designed or adapted to be used, primarily for commercial or industrial purposes.

*Use and Level of Differential Rate:*

The differential rate will be used to fund some of those items of expenditure and Capital Works 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.

*Geographic Location:*

Wherever located within the municipal district.

*Use of Land:*

Any use permitted under the Banyule Planning Scheme.

*Planning Scheme Zoning:*

The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the Banyule Planning Scheme.

*Types of Buildings:*

The types of buildings on the land within a differential rate are all buildings that are now constructed on the land.

### 6.3.3 Residential Improved Land

*Objective:*

To ensure that such rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council, having regard to the relative benefits derived from the carrying out of such functions.

Those functions include the:

1) Implementation of good governance and sound financial stewardship; and
2) Construction, renewal, upgrade, expansion and maintenance of infrastructure assets; and
3) Development and provision of health, environmental, conservation, leisure, recreation, youth and family community services; and
4) Provision of strategic and economic management, town planning and general support services; and
5) Promotion of cultural, heritage and tourism aspects of Council's municipal district.

*Types and Classes:*

Any rateable land which is not Vacant Land, Commercial / Industrial Vacant Land or Commercial / Industrial Improved Land.

*Use and Level of Differential Rate:*

The differential rate will be used to fund some of those items of expenditure and Capital Works 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.

*Geographic Location:*

Wherever located within the municipal district.

*Use of Land:*

Any use permitted under the Banyule Planning Scheme.

*Planning Scheme Zoning:*

The zoning applicable to each rateable land within this category, as determined by consulting maps referred to in the Banyule Planning Scheme.

*Types of Buildings:*

The types of buildings on the land within a differential rate are all buildings that are now constructed on the land.

## 7 Cultural and Recreational Lands

*Objective:*

To ensure that the promotion of cultural, heritage and recreational activity occurs within Council's municipal district and that this is supported in a way that encourages appropriate activity and development.

Council has considered the service utilised by the lands and the benefit these lands provide to the community by consideration of their cultural or recreational land use, as required under The Act.

*Types and Classes:*

Under the provisions of the Cultural and Recreational Land Act 1963, the Council levies an amount in lieu of rates payable in respect of recreational lands that have the following characteristics:

Any land which is not Residential Vacant Land, Commercial / Industrial Vacant Land or Commercial / Industrial Improved Land, which is specifically set aside for the use of cultural and recreational pursuits whereby the members do not derive a financial benefit or profit from the activities.

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

The amount in lieu of rates payable in respect of each rateable land to which the Cultural and Recreations Land rate applies is determined by the following methodology:

In Use Value X (Residential Improved rate X Questionnaire Weighting) X 65% (Council Services available to the entity).

In Use Value has been determined as being 70% of the Capital Improved Value.

The Questionnaire weighting determines the level of benefit these lands provide to the community.

Currently Council has properties that are currently defined as Cultural and Recreational properties in accordance with the Cultural and Recreational Lands Act.

## 8 **The impacts of Revaluations and Supplementary Valuations**

The purpose of this section is to provide an overview of the rate revaluation and supplementary valuation processes.

### 8.1.1 Introduction

All Victorian Councils are required under the *Valuations of Land Act* 1960 to revalue properties every two years.

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

The Valuer General of Victoria is responsible for reviewing the total valuation of each municipality for accuracy before certifying that the valuations are true and correct. Valuations are conducted using Best Practice Guidelines formulated and published by the Valuer General Victoria.

### 8.2 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 effort across all properties in the municipality. Any increase to total valuations of the municipality is offset by a reduction to the rate in dollar (ad valorem rate) used to calculate the rate for each property. Total income is fixed each year as part of the budget process

### 8.3 How does this affect my rates?

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

### 8.4 Supplementary Valuations

In accordance with the *Valuation of Land Act* 1960 further Valuations are required to be carried out between General revaluations, these are known as Supplementary Valuations.

Supplementary Valuations are completed when properties are physically changed by buildings being erected, demolished or altered, when properties are amalgamated, subdivided, portions sold off, rezoned or roads constructed.

Supplementary Valuations are adopted to bring the value of properties into line with values assigned to other properties in the municipality. This is to ensure that as near as practicable the rating valuation reflects the current property condition at the date prescribed for the General revaluation.

## 9 Municipal Charge

The purpose of this section is to outline the municipal charge that Council utilises to apply rates and the issues that Council consider when applying a municipal charge.

### 9.1 Introduction

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

The application of a municipal charge represents a choice to raise a portion of the rates by a flat fee for all properties, rather than sole use of the CIV valuation method.

Banyule does not levy a Municipal Charge.

### 9.2 Advantages of a municipal charge

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

### 9.3 Disadvantages of a municipal charge

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

## 10 Service Charges

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

Section 162 of The Act allows Council to declare a service rate for specified services.

### 10.1 Advantages of a Service Charge

If a service charge is levied for collection and disposal of refuse it is easily understood by the residents as a user pays system.

### 10.2 Disadvantages of a Service Charge

The argument against a service 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 service charge as it is levied uniformly across all assessments.

### 10.3 Current use of Service Charges

Banyule does not currently levy an annual service charge for the collection and disposal of waste to all ratepayers. A standard service is provided to residential rateable properties and is funded from general rates. A service charge for non-standard refuse from rateable properties is however charged (refer 10.5).

### 10.4 Annual Charges for Non-Rateable land

Banyule charges for the collection and disposal of refuse from non-rateable properties.

These charges are declared in the Schedule of Fees and Charges.

The revenue received covers the costs of providing this service.

### 10.5 Annual Charges for Rateable land

Banyule charges for non-standard and additional collection and disposal of refuse from rateable properties. These charges are declared in the Schedule of Fees and Charges.

## 11 Special Rates

The purpose of this section is to outline the special rates and charges that Council currently applies and new charges that could be utilised.

### 11.1 Introduction

Section 163 of The Act permits councils to declare a special rate in relation to the performance of a function where Council considers that the function is or will be of special benefit to the persons required to pay the special rate.

### 11.2 Special Rates Schemes

Council currently has 13 Special Rate and or Charge schemes in operation, 11 are Promotional Schemes and one is a Construction Scheme and the other is an Aged Services Solar Program

#### 11.2.1 Promotional Schemes

These schemes are declared for strip shopping centres within the City. They are primarily for the encouragement of commerce, retail activity and employment opportunities in and around the scheme area.

Council considers that there would be a special benefit to the area as the viability of the Precinct as a business, commercial, retail and professional area the value and the use, occupation and enjoyment of the properties and the businesses included in the scheme area will be maintained or enhanced through increased economic activity.

The amount collected from the scheme is matched by council (to declared capped amounts) and payments are made to the traders on a quarterly basis.

A decision to review Special Rates and or Charge Schemes occurs at the expiry of the current scheme, not during the budget discussions and is subject to extensive consultation with stakeholders and separate Council discussion and approval.

#### 11.2.2 Construction Schemes

These schemes are declared when there is something constructed that would be of special benefit to the persons required to pay it. For example road, drain and car parking construction

The scheme that exists within Banyule is for road construction and it runs for a period of 10 years. Contributors have the option of paying the account in full at the commencement of the scheme and therefore avoiding the financing surcharge or paying it off over a 10 year period.

The Aged Services Solar Program also runs for 10 years however there is no financing surcharge applied.

These schemes are declared as required following extensive consultation with stakeholders and do not form part of the budget process.

## 12 Rebates and Concessions

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

### 12.1 Introduction

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

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

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

### 12.2 Pensioner Rebate

#### 12.2.1 State Government Pensioner Rebate

Pensioners may qualify for a maximum 50% State Government rate rebate (to a gazetted maximum) for the home in which they are living. A rebate will apply for the Fire Services Property Levy. To be eligible, a ratepayer must hold one of the following concession cards:

- Pensioner Concession Card from Centrelink or Veterans' Affairs
- Gold Card from Department of Veterans Affairs specifying War Widow (WW) or Totally and Permanently Incapacitated (TPI).

Other than administrative costs this State Government Rebate scheme is cost neutral to Council as this is fully funded by the State Government.

#### 12.2.2 Council Pensioner Rebate

Council has the option of introducing a pensioner rebate to complement the existing State Government rebate. A Council Pensioner rate rebate redistributes the rate effort with other ratepayers bearing the cost by way of higher rates and charges. The rate effort for non-pensioners is likely to be greater as the number of pensioners increases.

Once a rebate has been introduced, it may be difficult to remove. Ratepayers receiving the benefit would not support the removal of this benefit.

Council does not grant any further rebates or concessions than those afforded by the State Government Pensioner Rebate scheme.

## 13 Properties Exempt from Rates

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

### 13.1 Introduction

The Act provides for properties where the use is charitable, to be non-rateable.

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

Application for exemption from rating may be made at any time during the financial year and will be assessed based on the usage of the property. Council does not generally allow for any retrospective claims.

### 13.2 Department of Human Services Housing

In relation to the Department of Human Services (DHS) owned housing, properties are rated if occupied. Properties are not rated if unoccupied or not habitable.

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

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

Council does not provide a rate rebate to support the provision of affordable housing by registered agencies. Assistance for low income households is provided through the State Government pensioner rebate.

A pre-existing agreement is in place for the provision a 50% rate rebate in relation to certain DHS elderly persons units. This agreement has no sunset clause subject to the units remaining as housing for the elderly.

## 14. Collections

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

### 14.1.1 Liability to Pay Rates

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

The Act declares the unpaid rate or charge, interest or costs to be first charge upon the land, when the land is sold; ensuring Council receives the outstanding monies prior to the discharge of any mortgage and or charges on the land.

### 14.1.2 Payment Dates for Rates

Council, in accordance with The Act must allow for the payment of rates by four instalments per annum. The mandatory instalment payments are required at the end of September, November, February and May each year in accordance with the Gazetted dates. Council may allow a person to pay a rate or charge in a single lump sum payment.

Banyule City Council offers payment by instalments only.

## 14.2 Payment Methods

Council offers a range of payment options including direct debit, internet, BPay, BPay View, Centrepay, via mail, postbillpay, telephone, over the counter services at Council Service Centres or Australia Post agencies.

## 14.3 Incentives for Prompt Payment

Section 168 of The Act provides that incentives may be offered by Council for payment of rates and charges before the due dates.

No incentives are offered by Council for the payment of rates and charges before the dates.

## 14.4 Late Payment of Rates

Council has determined that the application of penalty interest will be applied on the sixth business day from the gazetted due date. The grace period was adopted by Council July 2014 and will remain in place unless revoked and this will be declared as part of the annual Declaration of Rates and Charges.

Interest penalties will be in accordance with Section 172 (2) of The Act, which allows interest to be imposed on unpaid rates at the rate fixed under Section 2 of the Penalty Interest Rates Act 1983.

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.

## 14.5 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 Act require the purchaser of property, or their agents to notify Council by way of notices of acquisition.

In the event that an account becomes overdue, Council has established procedures and guidelines for the collection of the debt. This creates a consistent approach to debt collection and ensures that all ratepayers are treated equally and fairly.

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

## 14.6 Waiver/Deferment of Interest, Rates and Charges under Financial Hardship

Council acknowledges that some ratepayers will experience difficulty from time to time in meeting rate payments due to any number of reasons. Council further understands that relief measures have a cost to Council which must be borne by other ratepayers either short or long term.

Many Councils, like Banyule, do not waive rates, however provides support via deferment or payment arrangements for those experiencing financial hardship.

Council recognises there are cases of genuine financial hardship requiring respect and compassion in special circumstances. In accordance with The Act Council has established a policy which includes provisions for the waiver of interest or deferment of rates and charges;

# 15 Fire Services Levy

The Victorian Government introduced a property based levy to fund the Metropolitan Fire brigade (MFB) and the Country Fire Authority (CFA) as from 1 July 2013.

The Fire Services Property Levy replaced the insurance-based funding model as recommended by the Victorian Bushfires Royal Commission.

Until now, the fire services have been largely funded by contributions made by the insurance industry and the State Government. The insurance industry passed the cost of its contribution on to Victorian policy holders through a fire services levy on insurance premiums.

Under the property-based levy:

- councils collect the levy through rates notices;
- the levy will be calculated based on the capital improved value of a property;
- the levy will consist of a fixed component plus a variable component calculated as a percentage of capital improved property values;
- the fixed component will vary for residential properties and non-residential properties; and
- the levy rate will vary for different property types such as residential, industrial, commercial and primary production.

The fire services property levy is shown separately on rate notices.

It is important to note that Council is not raising any additional revenue from the levy; it is merely acting as a collection agency on behalf of the State Government.