Mount Alexander Shire Council

Revenue and Rating Plan 2021-2025

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1.1 PURPOSE

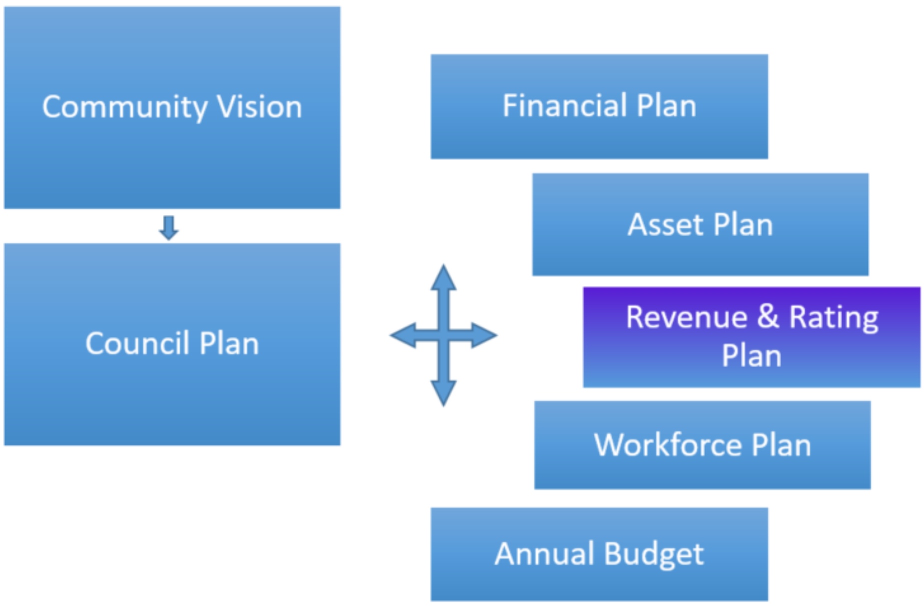
The *Local Government Act 2020* requires each council to prepare a Revenue and Rating Plan (the Plan) to cover a minimum period of four years following each Council election.

The Revenue and Rating Plan establishes the revenue-raising framework within which Council proposes to work. The purpose of the Revenue and Rating Plan is to determine the most appropriate and affordable revenue and rating approach for Mount Alexander Shire Council that, in conjunction with other income sources, will adequately finance the objectives in the Council Plan, as well as ongoing operational works and services, and capital projects.

This plan is an important part of Council's integrated planning framework, all of which helps Council achieve its vision of:

Working together for a healthy, connected shire

Strategies outlined in this Plan align with the objectives contained in the Council Plan and will feed into budgeting and long-term financial planning documents, as well as other strategic planning documents under Council's strategic planning framework.



This Plan will explain how Council calculates the revenue needed to fund its activities, and how the funding burden will be apportioned between ratepayers and other users of Council facilities and services.

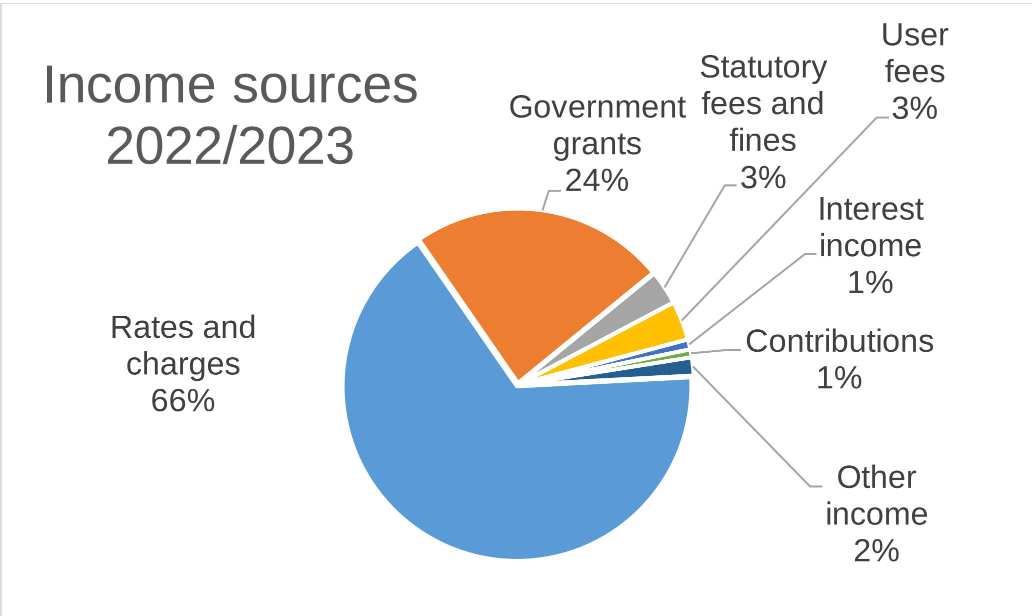
This Plan will set out decisions that Council has made in relation to rating options available to it under the Act to ensure the fair and equitable distribution of rates across property owners. It will also set out principles used in decision making for other revenue sources such as fees and charges.

It is also important to note that this Plan does not set revenue targets for Council. Rather, it outlines the strategic framework and decisions that inform how Council will calculate and collect revenue.

An annual review of the Revenue and Rating Plan will be undertaken and, at the discretion of the document owner, may be re-adopted for a further period of up to four years. This Plan has been updated with changes arising from the update to Council's Rating Strategy, which was adopted in December 2021.

1.2 INTRODUCTION

Council provides a significant number of services and facilities to the local community and, in doing so, must collect revenue to cover the cost of providing these services and facilities.



Council's revenue sources include:

- Rates and waste collection charges.
- Grants from other levels of government.
- Statutory fees and fines.
- User fees.
- Cash and non-cash contributions from other parties (i.e., developers, community groups).
- Interest from investments.
- Other income, including sale of assets and property rental.

Rates and waste collection charges are the most significant revenue source for Council and comprise over 60% of annual income.

The introduction of rate capping under the Victorian Government's Fair Go Rates System (FGRS) has brought a renewed focus to Council's long-term financial sustainability. The FGRS stipulates the annual rate cap i.e. the allowed annual increase to Council's average rates income. Council may make an application to the Essential Services Commission for a variation that is greater than rate cap. Maintaining service delivery levels and investing in community assets remain key priorities for Council.

Council provides a wide range of services to the community, often for a fee or charge. The nature of these fees and charges generally depends on whether they relate to statutory or discretionary services. Some of these, such as statutory planning fees, are set by State Government statute and are commonly known as regulatory fees. In these cases, Council usually has no control over service pricing. However, in relation to other services, Council can set a fee or charge and will set that fee based on the principles outlined in this Revenue and Rating Plan.

Changes to funding from other levels of government can adversely affect Council revenue. Some grants are tied to the delivery of Council services, whilst many are tied directly to the delivery of new, or renewal of existing, community assets, such as roads, bridges, footpaths, community halls, swimming pools or sports pavilions. Council takes a deliberately strategic approach in the grants it applies for, particularly where community assets are concerned.

1.3 RATES AND CHARGES

The Local Government Act 1989 (the Act) is primarily the governing legislation in relation to property rates and charges. At some stage, this legislation will be incorporated into the Local Government Act 2020, and any recommendations from the Local Government Rating System Review that were accepted by the State Government, will be included.

Rates are property taxes that allow councils to raise revenue to fund essential public services provided to their municipal population. Importantly, this taxation system includes flexibility for councils to utilise different tools in its rating structure to accommodate issues of equity and to ensure fairness in rating for all ratepayers.

Council has established a rating structure comprised of two key elements. These are:

- General rates – based on property values (using the Capital Improved Valuation methodology), which are indicative of capacity to pay and form the central basis of rating under the Act.
- Service charges - a 'user pays' component for services to reflect benefits provided by Council to ratepayers who benefit from a service.

Striking a proper balance between these elements will help to improve equity in the distribution of the rate burden across residents.

Council makes a further distinction when applying general rates by applying rating differentials based on the purpose for which the property is used e.g., whether the property is used for residential, commercial, or farming purposes etc. This distinction is based on the concept that different property categories should pay a fair and equitable contribution, considering the benefits those properties derive from the local community.

The Mount Alexander Shire Council rating structure comprises the following five differential rates:

- General – residential properties and home-based businesses that are conducted at residential premises. Vacant land that is not farm land and cannot be developed for residential purposes are also classified as general.
- Commercial – a 130% differential that applies to:
    - Any land that is occupied for the principle purpose of carrying out the manufacture or production of, or trade in, goods or services.
    - Residential properties that are predominately used for the purposes of short-term accommodation rental.
- Farm – applies to rateable land:
    - That is not less than 2 hectares in area; and
    - That is used primarily for grazing (including agistment), dairying, pig-farming, poultry-farming, fish-farming, tree-farming, bee-keeping, viticulture, horticulture, fruit-growing or the growing of crops of any kind or for any combination of those activities; and
    - That is used by a business:
        - That has a significant and substantial commercial purpose or character; and
        - That seeks to make a profit on a continuous or repetitive basis from its activities on the land; and
        - That is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

The farm rate is set at 90% in 2022/23 and 80% in 2023/24.

- Land management (LMR) – This 80% differential will be phased out in 2023/2024 as the reduced farm rate is phased in, with eligible LMR properties transferred across to the farm differential. This differential has been available, on application, to all properties with an area greater than 20 hectares, or land defined as farm land that undertakes a range of land management activities. The rate is currently set at 80% of the general (residential) rate.

- Vacant land – applies to rateable land that does not have a dwelling, or to vacant commercial or industrial land, and is set at 200% of the general rate.

The formula for calculating rates payable, excluding any additional charges, arrears or additional supplementary rates, is:

The differential rate in the $

X

Property value

=

Rates payable

The rate in the dollar for each rating differential category is included in Council's annual budget.

Rates and charges are an important source of revenue, accounting for over 60% of operating revenue received by Council. The collection of rates is an important factor in funding Council services.

Planning for future rate increases is therefore an essential component of the long-term financial planning process and plays a significant role in funding Council services.

Council is aware of the balance between rate revenue (as an important income source) and community sensitivity to rate increases. With the introduction of the State Government's Fair Go Rates System, all rate increases are capped to a rate declared by the Minister for Local Government, which is announced in December for the following financial year.

Council currently utilises a service charge to recover the cost of Council's waste services and to provide for future landfill rehabilitation costs. The waste and recycling collection service charge is not capped under the Fair Go Rates System, and Council will continue to allocate funds from this charge towards the provision of waste services.

1.3.1 RATING LEGISLATION

The legislative framework set out in the Act determines Council's ability to develop a rating system. The framework provides significant flexibility for Council to tailor a system that suits its needs.

Section 155 of the Act 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 strategy in relation to municipal charges, service rates and charges, and special rates and charges are discussed later in this document.

In raising rates, Council is required to primarily use the valuation of the rateable property to levy rates. Section 157 (1) of the Act provides Council with three choices in terms of which valuation base to utilise. They are:

- Site Value (SV)
- Capital Improved Value (CIV)
- Net Annual Value (NAV).

The advantages and disadvantages of the respective valuation basis are discussed further in this document. Whilst this document outlines Council's strategy regarding rates revenue, rates data will be contained in the Council's annual budget as required by the *Local Government Act 2020.*

Section 94(2) of the *Local Government Act 2020* states that Council must adopt a budget by 30 June each year (or at another time fixed by the Minister) to include:

a) The total amount that the Council intends to raise by rates and charges.
b) A statement as to whether the rates will be raised by the application of a uniform rate or a differential rate.
c) A description of any fixed component of the rates, if applicable.
d) If the Council proposes to declare a uniform rate, the matters specified in Section 160 of the Act.
e) If the Council proposes to declare a differential rate for any land, the matters specified in Section 161(2) of the Act.

Section 94(3) of the *Local Government Act 2020* also states that Council must ensure that, if applicable, the budget also contains a statement:

a) That the Council intends to apply for a special order to increase the Council's average rate cap for the financial year or any other financial year.
b) That the Council has made an application to the ESC for a special order and is waiting for the outcome of the application.
c) That a special order has been made in respect of the Council and specifying the average rate cap that applies for the financial year or any other financial year.

This Plan outlines the principles and strategic framework that Council will utilise in calculating and distributing the rating burden to property owners, however, the quantum of rate revenue and rating differential amounts will be determined in Council's annual budget.

In 2019, the Victorian State Government conducted a Local Government Rating System Review. The Local Government Rating System Review Panel presented their final report and list of recommendations to the Victorian Government in March 2020.

The Victorian Government subsequently published a response to the recommendations of the Panel's report. However, not all recommended changes have been implemented, and timelines to make these changes have not been announced.

1.3.2 RATING PRINCIPLES

Taxation Principles:

When developing a Rating Strategy, with reference to differential rates, a Council should consider the following good practice taxation principles:

- Wealth tax
- Equity
- Efficiency
- Simplicity
- Benefit
- Capacity to pay
- Diversity.

Wealth tax

The "wealth tax" principle implies that the rates paid are dependent upon the value of a ratepayer's real property and have no correlation to the individual ratepayer's consumption of services or the perceived benefits derived by individual ratepayers from the expenditures funded from rates.

Equity

Horizontal equity – ratepayers in similar situations should pay similar amounts of rates (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation).

Vertical equity – those who are better off should pay more rates 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).

Efficiency

Economic efficiency is measured by the extent to which production and consumption decisions by people are affected by rates.

Simplicity

The taxation principle of simplicity revolves around how easily the public understands the system, as well as its practicality and ease of administration.

Benefit

The extent to which there is a nexus between consumption/benefit and the rate burden.

Capacity to pay

The capacity of ratepayers or groups of ratepayers to pay rates.

Diversity

The capacity of ratepayers within a group to pay rates.

The rating challenge for Council, therefore, is to determine the appropriate balance of competing considerations.

Differential rating should be applied as equitably as is practical and will comply with the “Ministerial Guidelines for Differential Rating 2013”.

1.3.3 DETERMINING WHICH VALUATION BASE TO USE

Under the Act, Council has three options as to the valuation base it elects to use. They are:

- Capital Improved Value (CIV) – the value of land and improvements upon the land.
- Site Value (SV) – the value of land only.
- Net Annual Value (NAV) – the rental valuation based on CIV.

Capital Improved Value (CIV)

Capital Improved Value is the most commonly used valuation base by Local Government with most Victorian councils applying this methodology. Based on the value of both land and all improvements on the land, ratepayers generally understand it, as it equates to the market value of the property.

Section 161 of the Act 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 CIV, it may only apply limited differential rates in relation to farm land, urban farm land or residential use land.

The advantages of using Capital Improved Value (CIV) are that:

- It includes all property improvements, and hence is often supported on the basis that it more closely reflects “capacity to pay”. The CIV rating method

considers the full development value of the property, and hence better meets the equity criteria than SV and NAV.
- With the increased frequency of valuations (previously two-year intervals, now annual intervals), the market values are more predictable and has reduced the level of objections resulting from valuations.
- The concept of the market value of property is 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 distribute equitably the rating burden based on ability to afford council rates. CIV allows Council to apply higher rating differentials to particular sectors that offset residential rates.

The disadvantages of using 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 e.g., pensioners and low-income earners.

Site value (SV)

Currently no Victorian councils use this valuation base. With valuations on land alone, and with only very limited ability to apply differential rates, the implementation of SV in a Mount Alexander Shire Council context would cause a shift in rate burden from the commercial and vacant land sectors onto the residential and farm sectors and would hinder Council's objective of a fair and equitable rating system.

There would be further rating movements away from modern townhouse style developments on relatively small land parcels to older established homes on quarter acre residential blocks. In many ways, it is difficult to see an improvement in equity by the implementation of the site valuation method.

The advantages of using Site Value include:
- There is a perception that under site value, a uniform rate would promote development of land, particularly commercial and industrial developments. There is, however, little evidence to prove that this is the case.
- The scope for possible concessions for urban farm land and residential use land.

The disadvantages of using Site Value include:
- There will be a significant shift from the commercial and vacant land sectors onto the residential and farm sectors in the Shire. The percentage increases in many cases would be in the extreme range.
- That it is a major burden on property owners that have large areas of land. Some of these owners may have much smaller/older dwellings compared to those who have smaller land areas but well-developed dwellings - but will pay

more in rates. A typical example is flats, units, or townhouses, which will all pay low rates, compared to traditional housing styles.

- The use of SV can place pressure on councils to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately (e.g., farm land and residential use properties). Large landowners, such as farmers for example, are disadvantaged by using site value.
- It 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.

Net annual value (NAV)

NAV, in concept, represents the annual rental value of a property and, in practice, is loosely linked to CIV. For residential and farm properties, NAV is calculated at 5 per cent of the CIV. In contrast to the treatment of residential and farm properties, assessment of NAV for commercial and industrial properties is made with regard to actual market rental. This differing treatment of commercial versus residential and farm properties has led to some suggestions that all properties should be valued on a rental basis.

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

Recommended Valuation Base

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 (the 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.

Mount Alexander Shire Council applies CIV to all properties within the municipality to consider the fully developed value of the property. This basis of valuation considers the total market value of the land plus buildings and other improvements.

Under the CIV method, and using differential rating, allows councils 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.

Section 161(1) of the Act outlines the requirements relating to differential rates, which include:

a) 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.
b) If a Council declares a differential rate for any land, the Council must 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 or classes of land which are subject to the rate and a statement of the reasons for the use and level of that rate.
ii. An identification of the type or classes of land which are subject to the rate in respect of the uses, geographic location (other than location on the basis of whether or not the land is within a specific ward in Council's district).
iii. Specify the characteristics of the land, which are the criteria for declaring the differential rate.

Once the Council has declared a differential rate for any land, the Council must:

a) Specify the objectives of the differential rates.
b) Specify the characteristics of the land that are the criteria for declaring the differential rate.

The purpose is to ensure that each council has a sound basis on which to develop the various charging features when determining its revenue strategies and ensure that these are consistent with the provisions of the Act.

The general objectives of each of the differential rates are to ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of council. There is no limit on the number or types of differential rates that can be levied. The highest differential rate can be no more than four times the lowest differential rate.

Property Valuations

The *Valuation of Land Act 1960* is the principle legislation in determining property valuations. Under the *Valuation of Land Act 1960*, the Victorian Valuer-General conducts property valuations on an annual basis.

The value of land is always derived by the principle of valuing land for its highest and best use at the relevant time of valuation.

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

Supplementary Valuations

Supplementary valuations are carried out for a variety of reasons including subdivisions, amalgamations, renovations, new constructions, extensions, occupancy changes, and corrections. The Victorian Valuer-General, who advises Council on a regular basis of valuation and Australian Valuation Property Classification Code (AVPCC) changes, undertakes supplementary valuations. The AVPCC groups properties into a category based on their existing use.

Supplementary valuations bring the value of the affected property into line with the general valuation of other properties within the municipality. Lodgement of objections to supplementary valuations must be in accordance with Part 3 of the *Valuation of Land Act 1960*.

Objections to property valuations

Part 3 of the *Valuation of Land Act 1960* provides that a property owner may lodge an objection against the valuation or the Australian Valuation Property Classification Code (AVPCC) of a property:

- Within two months of the issue of the original or supplementary Rates and Valuation Charges Notice (Rates Notice); or
- Within four months if the notice was not originally issued to the occupier of the land.

A property owner must lodge their objection to the valuation or the AVPCC in writing to Council. On receiving a Land Tax Assessment Notice from the State Revenue Office, property owners can also object to the site valuation of their property. Property owners can appeal their land valuation within two months of receipt of their Council Rate Notice (via Council) or within two months of receipt of their Land Tax Assessment Notice (via the State Revenue Office).

1.3.4 RATING STRATEGY

In December 2021, Council adopted its “Rating Strategy 2022-2027”. This Strategy provides for the rating of properties in the Shire, considers issues in the current rating system and options available under existing legislation, and provides a plan to implement changes to achieve fair and equitable outcomes for ratepayers. Implementation of recommendations from the Strategy will occur over two years, to minimise financial impacts on ratepayers.

The Rating Strategy recommendations were that Council:

- Undertake a comprehensive review of the classification of rate assessments.
- Revise the definitions of the differential rate categories with particular interest to the definition of farm, land management, and commercial.
- Continues the use of the CIV model of valuation.
- Does not further differentiate the commercial rating category.
- Over a two-year period, removes the LMR category and reduces the farm rate to 80%.
- Does not further differentiate the residential properties.
- Includes commercial and industrial vacant land within the definition of the vacant land category and continues to apply the 200% differential rate.
- Review the commercial land definition to include properties that are used predominantly for short-term accommodation.
- Waits for a proponent of a solar farm to apply for the payment in lieu of rates (PiLoR) assessment, and until such time, Council continues to rate the assessment under the commercial rate category.

- Does not provide an additional rebate to pensioners as a broad instrument, but rather considers further support-targeted instruments through the Hardship Policy, such as short term and long-term deferments.
- Does not change the current rating practice for telecommunication towers.
- Does not change the current 100% rebate for Trust for Nature covenants.
- Does not change the current 100% rebate for cultural and recreational land.

1.3.5 RATING DIFFERENTIALS

Council believes each differential rate will contribute to the equitable and efficient carrying out of Council functions. Details of the objectives of each differential rate, the classes of land that are subject to each differential rate, and the uses of each differential rate are set out further below.

Advantages of a differential rating system

Summarised below are some of the advantages of utilising a differential rating system:

- 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 premises.
- Differential rating allows Council to reflect better the investment required by Council to establish infrastructure to meet the needs of the commercial sector.
- Such a system allows Council to reflect the unique circumstances of some rating categories where the application of a uniform rate may create an inequitable outcome (e.g., farming enterprises).
- Council has discretion in the imposition of rates to facilitate and encourage appropriate development of its municipal district in the best interest of the community. (i.e., vacant commercial properties still attract the commercial differential rate).

Disadvantages of a differential rating system

Summarised below are some of the disadvantages in applying differential rating:

- The justification of the differential rate can at times be difficult for the various groups to accept giving rise to queries and complaints where the differentials may seem to be excessive.
- Differential rates can be confusing to ratepayers, as they may have difficulty understanding the system. Some rating categories may feel they are treated unfavourably because they are paying a higher level of rates than other ratepayer groups.
- Differential rating involves a degree of administrative complexity as properties continually shift from one type to another (e.g., residential to commercial) requiring Council to update its records. Ensuring the accuracy and integrity of Council's data is critical to ensure the correct classification of properties into their right 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 may be difficult to prove whether the rate achieves those objectives.

<u>General Rate</u>

Definition:

Applies to residential properties and home-based businesses that are conducted at residential premises. Vacant land that is not farm land and cannot be developed for residential purposes is also classified as general.

Objectives:

To ensure that Council has adequate funding to undertake its strategic, statutory, service provision, and community services obligations, and to ensure that the differential rate in the dollar declared for defined general rate land properties is fair and equitable.

Types and classes:

Rateable land having the relevant characteristics described below:

a) Used primarily for residential purposes.
b) Home based businesses that are conducted at residential premises.
c) Vacant land that is not farm land and cannot be developed for residential purposes.

Use of rate:

The differential rate will be used to fund items of expenditure described in the annual budget adopted by Council. The level of the differential rate is the level that Council considers is necessary to achieve the above-specified objectives.

Level of rate:

100%

Geographic location:

Wherever located within the municipal district.

<u>General Farm Rate</u>

Definition:

Any land which is “farm land” within the meaning of Section 2(1) of the *Valuation of Land Act 1960*. Farm land means any rateable land:

a) That is not less than 2 hectares in area.
b) Is used primarily for grazing (including agistment), dairying, pig-farming, poultry farming, fish farming, tree farming, bee keeping, viticulture, horticulture, fruit growing or the growing of crops of any kind or for any combination of those activities.

c) That is used by a business:
    i. That has a significant and substantial commercial purpose of character.
    ii. That seeks to make a profit on a continuous or repetitive basis from its activities on the land.
    iii. That is making a profit from its activities on the land, or that has a reasonable prospect of making a profit from its activities on the land if it continues to operate in the way that it is operating.

Objectives:

To ensure that Council has adequate funding to undertake its strategic, statutory, service provision and community services obligations and to ensure that the differential rate in the dollar declared for defined general farm rate properties is fair and equitable, with considerations to:

- Maintain agriculture as a major industry in the municipal district.
- Facilitate the longevity of the farm sector.
- Achieve a balance between providing for municipal growth and retaining the important agricultural economic base.

Types and classes:

Farm land having the relevant characteristics described below:

a) Not less than 2 hectares in area; and
b) Used primarily for primary production purposes; and
c) Used by a business

Use of rate:

The differential rate will be used to fund items of expenditure described in the annual budget adopted by Council. The level of the differential rate is the level that Council considers is necessary to achieve the above-specified objectives.

Level of rate:

90% of the General Rate in 2022/2023 and 80% in 2023/2024.

Geographic location:

Wherever located within the municipal district.

<u>Commercial Rate</u>

Definition:

Commercial land is any land that is:

a) Occupied for the principal purpose of carrying out the manufacture or production of, or trade in, goods or services.
b) Residential properties that are predominantly used for the purposes of short-term accommodation rental.

Objectives:

To ensure that Council has adequate funding to undertake its strategic, statutory, service provision, and community services obligations, and to ensure that the differential rate in the dollar declared for defined commercial rate properties is fair and equitable.

The commercial businesses situated in the Shire benefit from ongoing investment by Council in services and infrastructure, as well as promotion of tourism and economic development objectives. Council also notes the tax deductibility of Council rates for commercial properties, which is not available to the residential sector, and the income generating capability of commercial based properties.

Types and classes:

Commercial land having the relevant characteristics described below:

a) Used primarily for commercial purposes.
b) Residential properties used primarily for short-term accommodation rental.

Use of rate:

The differential rate will be used to fund items of expenditure described in the annual budget adopted by Council. The level of the differential rate is the level that Council considers is necessary to achieve the above-specified objectives.

Level of rate:

130% of the General Rate.

Geographic location:

Wherever located within the municipal district.

Land Management Rate

Definition:

Land management rate land is any land:

a) That meets the definition of farm land and has an area greater than 20 hectares; or
b) From which a farm business is operated; and
c) Who undertake a range of land management activities.

This concessional rate is applied to properties that apply.

Objectives:

Council is committed to increasing native vegetation cover on public and private land and, as set out in the Environment Strategy, is also committed to supporting landowners understand and appreciate their obligations and responsibilities for land and biodiversity. The Land Management Rate enables Council to support landowners who undertaken land management activities that protect biodiversity and native vegetation.

Types and classes:

Farm land having the relevant characteristics described below:

a) An area greater than 20 hectares; or
c) From which a farm business is operated; and
d) Who undertake a range of land management activities.

Use of rate:

The differential rate is used to fund items of expenditure described in the annual budget adopted by Council. The level of the differential rate is the level that Council considers is necessary to achieve the above-specified objectives.

Level of rate:

80% of the General Rate in 2022/2023 and 2023/2024, when eligible assessments will be transferred across to the 80% farm differential.

Geographic location:

Wherever located within the municipal district.

<u>Vacant Land Rate</u>

Definition:

Vacant land is any land that is rateable land

a) That does not have a dwelling; or
b) Vacant commercial or industrial land.

Objectives:

To ensure that Council has adequate funding to undertake its strategic, statutory, service provision, and community services obligations, and to ensure that the differential rate in the dollar declared for defined vacant land rate land properties is fair and equitable.

In view of the demand for affordable housing, a high vacant land rate should discourage “land banking” and encourage development of suitable residential land.

Types and classes:

Vacant land having the relevant characteristics described below:

a) Undeveloped but suitable for building residential dwellings, or commercial or industrial buildings.

Use of rate:

The differential rate will be used to fund items of expenditure described in the annual budget adopted by Council. The level of the differential rate is the level that Council considers is necessary to achieve the above-specified objectives.

Level of rate:

200% of the General Rate.

Geographic location:

Wherever located within the municipal district.

1.3.6 MUNICIPAL CHARGE

Another principle rating option available to councils is the application of a municipal charge. Under Section 159 of the Act, 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 the charge covers.

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.

Under the Act, 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 (total rates).

The municipal charge applies equally to all properties and contributes to the recovery of the fixed costs of providing administrative services, irrespective of valuation. The same contribution amount per assessment can be seen as an equitable method of recovering this portion of Council's administrative costs.

Council does not levy a municipal charge.

1.3.7 SPECIAL CHARGE SCHEMES

The Act recognises that councils need help to provide improved infrastructure for their local communities. Legislation allows councils to pass on the cost of capital infrastructure to the owner of a property that generally receives a unique benefit from the construction works.

The purposes for which special rates and special charges may be used include road construction, kerb and channelling, footpath provision, drainage, and other capital improvement projects.

The basis of declaration of the special rate or special charges is the criteria specified by the council in the rate (Section 163 (2)). In accordance with Section 163 (3), Council must specify:

a. The wards, groups, uses or areas for which the special rate or charge is declared.

b. The land in relation to which the special rate or special charge is declared.
c. The manner in which the special rate or special charge will be assessed and levied.
d. Details of the period for which the special rate or special charge remains in force.

The special rates and charges provisions are flexible and can be used to achieve a wide range of community objectives. The fundamental principle of special rates and charges is proof “special benefit” applies to those being levied. For example, they could be used to fund co-operative fire prevention schemes. This would ensure that there were no ‘free-riders’ reaping the benefits but not contributing to fire prevention.

Landscaping and environmental improvement programs that benefit small or localised areas could also be funded using special rates or charges.

Council does not currently have any special charge schemes but has used them in the past to help fund works (usually construction of a footpath or sealing of a road).

1.3.8 SERVICE RATES AND CHARGES

Section 162 of the Act provides a council with the opportunity to raise service rates and charges for any of the following services:

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

Council currently applies a compulsory service charge for the collection and disposal of refuse for properties in designated areas across the Shire. Council retains the objective of setting the service charge for waste at a level that recovers the cost of the waste services, including providing for the cost of rehabilitation of the Council’s landfill once it reaches the end of its useful life.

Should Council elect not to have a waste service charge, the same amount of funding would be required to be raised by way of an increased general rate, meaning that residents in higher valued properties would substantially pay more for the waste service than lower valued properties.

Whilst this same principle applies for rates in general, the mix of having a single fixed charge combined with valuation driven rates for the remainder of the rate invoice provides a balanced and equitable outcome.

1.3.9 COLLECTION AND ADMINISTRATION OF RATES AND CHARGES

The purpose of this section is to outline the rate payment options, processes, and the support provided to ratepayers experiencing financial hardship.

Payment options
In accordance with Section 167(1) of the Act ratepayers have the option of paying rates and charges by way of four instalments. Payments are due on the prescribed dates below:

- 1st Instalment: 30 September
- 2nd Instalment: 30 November
- 3rd Instalment: 28 February
- 4th Instalment: 31 May.

Council offers a range of payment options including:

- Online:
  - Bpay or Bpay View (through a customer's online banking).
  - Council's website, using a credit or debit card.
- In person, using cheque, credit or debit card, or cash, at:
  - Any Australia Post outlet.
  - Council's Civic Centre.
- By phone, using a credit or debit card.
- By mail (cheques only).
- By direct debit.

Interest on arrears and overdue rates
Interest is charged on all overdue rates in accordance with Section 172 of the Act. The interest rate applied is fixed under Section 2 of the *Penalty Interest Rates Act 1983*, which is determined by the Minister and published by notice in the Government Gazette. In 2022, this rate is set at 10%.

Municipal Rates Concession rebate
Holders of a Centrelink Pensioner Concession Card or a Veteran Affairs Gold Card which stipulates Totally and Permanently Incapacitated (TPI), War Widow, Extreme Disablement Adjustment (EDA) or Prisoner of War (POW) may claim a rebate on their sole or principal place of residence. Upon initial application, ongoing eligibility is maintained, unless rejected by Centrelink or the Department of Veteran Affairs during the annual verification procedure. Upon confirmation of an eligible pensioner concession status, the pensioner rebate is deducted from the rate account.

For new applicants, after being granted a Pensioner Concession Card (PCC) or Gold Card, cardholders can then apply for the rebate at any time throughout the rating year. On verification of eligibility criteria, Council can approve retrospective claims up to a maximum of one previous financial year. For periods prior to this, the relevant government department may approve claims.

Trust for Nature Covenant rebate
An annual rebate of 100% on the general rates payable to Council is available for that portion of the site value covered by the Trust for Nature Covenant permanent agreement program. This program aims to encourage positive environmental practices.

Cultural and recreational land rebate
A 100% concession is applied to the following entities in line with Council's Rating Strategy and the *Cultural and Recreational Lands Act 1963*:

- Castlemaine Bowling Club Inc.
- Castlemaine Golf Club
- Castlemaine Art Gallery
- Castlemaine Lawn Tennis Club
- Mount Alexander Golf Club Inc.
- Maldon Golf Club
- Campbells Creek Bowling Club
- Harcourt Bowling Club Inc.
- Castlemaine Pistol Club
- Castlemaine Gun Club Inc.
- Maldon Bowling Club Inc.
- Newstead Bowling Club
- Chewton Bowmen Club
- Castlemaine Gun Club Inc.
- Maldon Racecourse Reserve Committee of Management
- Harcourt Pony Club
- Cairn Curran Sailing Club Inc.
- Maldon Croquet Club
- Small Bore Rifle Club
- Castlemaine Croquet Club
- Buda Historic House and Garden Inc.

Deferred payments
Under Section 170 of the Act, Council may allow the deferment of the payment of any rate or charge for an eligible ratepayer whose property is their sole place of residency. This allows ratepayers an extended period to make payments or, alternatively, to forestall payments on an indefinite basis until the ratepayer ceases to own or occupy the land in respect of which rates and charges are to be levied.

Deferral of rates and charges will be considered where ratepayers have discussed their financial situation with Rates Officers. Where Council approves an application for deferral of rates or charges, interest will continue to be levied on the outstanding balance of rates and charges.

Ratepayers seeking to apply for such provision are advised to discuss their situation with a member of the Rates team.

Financial Hardship Policy
It is acknowledged at the outset that various ratepayers may experience financial hardship for a range of issues and that meeting rate obligations constitutes just one element of a number of difficulties they may face. The purpose of the Financial Hardship Policy is to provide options for ratepayers facing such situations to deal with the situation positively and reduce the strain imposed by financial hardship.

Ratepayers may elect to either negotiate a rate payment plan or apply for a rate deferral. Ratepayers seeking to apply for such provision will be required to discuss their situation with a member of the Rates team.

Debt recovery
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. Section 122 of the *Local Government Act 2020* requires either the buyer of property, or their agents (e.g., solicitors or conveyancers), to notify Council by way of a Notice of Acquisition of an interest in land.

If an account becomes overdue, Council will issue an overdue reminder notice that will include accrued penalty interest. If the account remains unpaid, Council may take legal action without further notice to recover the overdue amount. All fees and court costs incurred will be recoverable from the ratepayer.

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

Fire Services Property Levy
In 2012, the Victorian State Government passed legislation requiring the Fire Services Property Levy (FSPL) to be collected from ratepayers. This was previously collected through building and property insurance premiums. The FSPL helps fund the services provided by Fire Rescue Victoria (previously the Metropolitan Fire Brigade and the Country Fire Authority), and all levies collected by Council are passed through to the State Revenue Office.

The FSPL is based on two components: a fixed charge, and a variable charge that is linked to the CIV of the property. This levy is not included in the rate cap and increases in the levy are at the discretion of the State Government.

Fire Services Property Levy rebate
Eligible pensioners are entitled to a rebate against the FSPL for their principal place of residence. If a pensioner currently receives a Municipal Rates Concession rebate, they automatically receive a concession on the FSPL.

1.4 OTHER REVENUE ITEMS

1.4.1 USER FEES AND CHARGES

User fees and charges are those that Council will charge for the delivery of services and use of community infrastructure.

Examples of user fees and charges include:

- Pool visitation fees
- Waste management fees
- Aged care service fees
- Lease and facility hire fees.

The provision of infrastructure and services form a key part of Council's role in supporting the local community. In providing these, Council must consider a range of 'Best Value' principles including service cost and quality standards, value-for-money, and community expectations and values. Council must also balance the affordability and accessibility of infrastructure and services with its financial capacity and long-term financial sustainability.

Councils must also comply with the government's Competitive Neutrality Policy for significant business activities they provide, and adjust their service prices to neutralise any competitive advantages when competing with the private sector.

In providing services to the community, Council must determine the extent of cost recovery for particular services consistent with the level of both individual and collective benefit that the services provide, and in line with the community's expectations.

Services provided are based on one of the following pricing methods:

a. Market price
b. Full cost recovery price
c. Accessible price
d. Disincentive price.

Market pricing – Council sets prices based on the benchmarked competitive prices of alternate suppliers. In general, market price represents full cost recovery plus an allowance for profit. Market prices will be used when other providers exist in the given market, and councils need to meet their obligations under the State Government's Competitive Neutrality Policy. The State Government is party to the inter-governmental Competition Principles Agreement, which is one of the three agreements that underpin National Competition Policy. Under the Competition Principles Agreement, each State and Territory are obliged to introduce and apply competitive neutrality policy and principles to Local Government and all government agencies.

If a market price were lower than a council's full cost price, then the market price would represent Council subsidising that service. If this situation exists, and there are other suppliers existing in the market at the same price, this may mean that

Council is not the most efficient supplier in the marketplace. In this situation, the Council will consider whether there is a community service obligation and whether Council should be providing this service at all.

Full cost recovery pricing - aims to recover all direct and indirect costs incurred by Council. This pricing is used where a service provided by Council benefits individual customers specifically, rather than the community as a whole. In principle, fees and charges should be set at a level that recovers the full cost of providing the services unless there is an overriding policy or imperative in favour of subsidisation.

Accessible pricing - Council subsidises a service by not passing the full cost of that service onto the customer. Subsidies may range from full subsidies (i.e., Council provides the service free of charge) to partial subsidies, where Council provides the service to the user with a discount. The subsidy can be funded from Council's rate revenue or other sources such as Commonwealth and State Government funding programs. Full Council subsidy pricing and partial subsidy pricing should always be based on knowledge of the full cost of providing a service.

Disincentive pricing - seeks to support Council policy that seeks to regulate or restrict certain behaviour. This is particularly relevant in animal management or community safety and amenity. For example, to discourage residents from keeping large numbers of pets, a permit is required to keep a number of pets in excess of those allowed by local law.

As per the Victorian Auditor General's Office report *"Fees and Charges – cost recovery by local government"* recommendations, Council has developed a Pricing Policy to help guide the fair and equitable setting of prices. The Policy outlines the process for setting fee prices and includes such principles as:

- Consideration of both direct and indirect costs when setting prices.
- Consideration of accessibility, affordability and efficient delivery of services.
- Competitive neutrality with commercial providers.

Council develops a schedule of fees and charges as part of its annual budget each year. Proposed pricing changes will be included in this table and communicated to stakeholders before adoption of the budget, giving them the chance to review and provide valuable feedback before adoption of the fees.

1.4.2 STATUTORY FEES AND FINES

Statutory fees and fines are those that Council collects under the direction of legislation or other government directives. The rates used for statutory fees and fines are generally advised by the State Government department responsible for the corresponding services or legislation and, generally, councils will have limited discretion in applying these fees.

Examples of statutory fees and fines include:

- Planning and subdivision fees

- Building and Inspection fees
- Infringements and fines
- Land Information Certificate fees.

Victoria's Acts and Regulations use penalty and fee units to describe the amount of a fine or a fee.

Penalty units

To define the amount payable for fines for many offences, penalty units are used. For example, the fine for selling a tobacco product to a person aged under 18 is four penalty units.

One penalty unit is currently $181.74, from 1 July 2021 to 30 June 2022.

Indexation of the rate for penalty units occurs each financial year so that it is raised in line with inflation. The value of a penalty unit is set annually by the Department of Treasury and Finance, and is updated on 1 July each year.

Fee units

Fee units are used to calculate the cost of a certificate, registration or licence that is set out in an Act or Regulation. For example, the cost of depositing a Will with the Supreme Court Registrar of Probates is 1.6 fee units.

The value of one fee unit is currently $15.03. The value of a fee unit is set annually by the Department of Treasury and Finance, and is updated on 1 July each year.

The cost of fees and penalties is calculated by multiplying the number of units by the current value of the fee or unit. The exact cost may be rounded up or down.

1.4.3 GRANTS

Grant revenue represents income received from other levels of government. Some grants are singular and attached to the delivery of specific projects, whilst others can be of a recurrent nature and may or may not be linked to the delivery of projects.

Council will pro-actively advocate to other levels of government for grant funding support to deliver important infrastructure and service outcomes for the community. Council may use its own funds to leverage higher grant funding and maximise external funding opportunities.

When preparing its Financial Plan, Council considers its proposed project pipeline, advocacy priorities, upcoming grant program opportunities, and co-funding options to determine what grants to apply for. Council will only apply for and accept external funding if it is consistent with the Community Vision and does not lead to the distortion of Council Plan priorities.

Detailed clearly in Council's budget document are grant assumptions. No project that is reliant on grant funding will proceed until a signed funding agreement is in place.

1.4.4 CONTRIBUTIONS

Contributions represent funds received by Council, usually from non-government sources, and are usually linked to projects.

Contributions can be made to Council in the form of either cash payments or asset hand-overs.

Examples of contributions include:

- Monies collected from developers under planning and development agreements.
- Monies collected under Developer Contribution Plans (DCP's) and Infrastructure Contribution Plans (ICP's).
- Contributions from user groups towards upgrade of facilities.
- Assets handed over to Council from developers at the completion of a subdivision, such as roads, drainage, and streetlights.

Contributions should always be linked to a planning or funding agreement. Council will not undertake any work on a contribution-funded project until a signed agreement outlining the contribution details is in place.

Contributions linked to developments can be received well before any Council expenditure occurs. In this situation, the funds will be identified and held separately for the specific works identified in the agreements.

1.4.5 INTEREST ON INVESTMENTS

Council receives interest on funds managed as part of its investment portfolio, where funds are held in advance of expenditure, or for special purposes. The investment portfolio is managed per Council's Cash Management Policy, which seeks to earn the best return on funds, whilst minimising risk.

1.4.6 BORROWINGS

Whilst not a source of income, borrowings can be an important cash management tool in appropriate circumstances. Loans can only be approved by Council resolution. The following financial sustainability principles must be adhered to with new borrowings:

- Borrowings must only be applied for where it can be proven that repayments can be met in the Financial Plan.
- Borrowings must not be used to fund ongoing operations.
- Borrowings are appropriate for funding large capital works where the benefits are provided to future generations.
- Council will maintain its debt at levels which are sustainable, with:
    - Indebtedness <40% of rate and charges revenue, and
    - Debt servicing cost <5% of total revenue (excluding capital revenue).

APPENDIX 1 - GLOSSARY

Australian Valuation Property Classification Code (AVPCC) – a classification system that assigns a code to land, based on its existing use. The AVPCC (in addition to Site Value, Capital Improved Value and Net Annual Value) forms part of every valuation in accordance with the Act.

Capital Improved Value (CIV) – the total market value of the land plus buildings and other improvements.

Essential Services Commission – an independent regulator that promotes the long term interests of Victorian consumers with respect to the price, quality and reliability of essential service.

Fair Go Rates System – establishes rate caps to limit the amount by which Victorian councils can increase rates in a year without seeking additional approval.

Net Annual Value (NAV) – the current value of a property's net annual rent (by law, Net Annual Value must be at least 5% of the Capital Improved Value for commercial property and exactly 5% of Capital Improved Value for residential property).

Payment in lieu of rates (PILOR) – allows for councils and electricity generators to negotiate annual payments under section 94(6A) of the Electricity Industry Act 2000 (EI Act).

Rate in the dollar – the total amount of money to be raised in general rates divided by the total value of all rateable properties in your area.

Services – assistance, support, advice and other actions undertaken by a council for the benefit of its local community.

Site Value (SV) – the market value of the land only.

Statement of capital works – a statement that shows all capital expenditure of a council in relation to non-current assets, as well as asset expenditure type e.g. new, renewal, upgrade or expansion.

Strategic resource plan – a plan of the financial and non-financial resources required by the council for the next four years to achieve its strategic objectives.