Revenue and Rating Plan 2021/22 – 2024/25

Manningham City Council

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1. Purpose

The *Local Government Act 2020* requires each council to prepare a Revenue and Rating Plan covering 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.

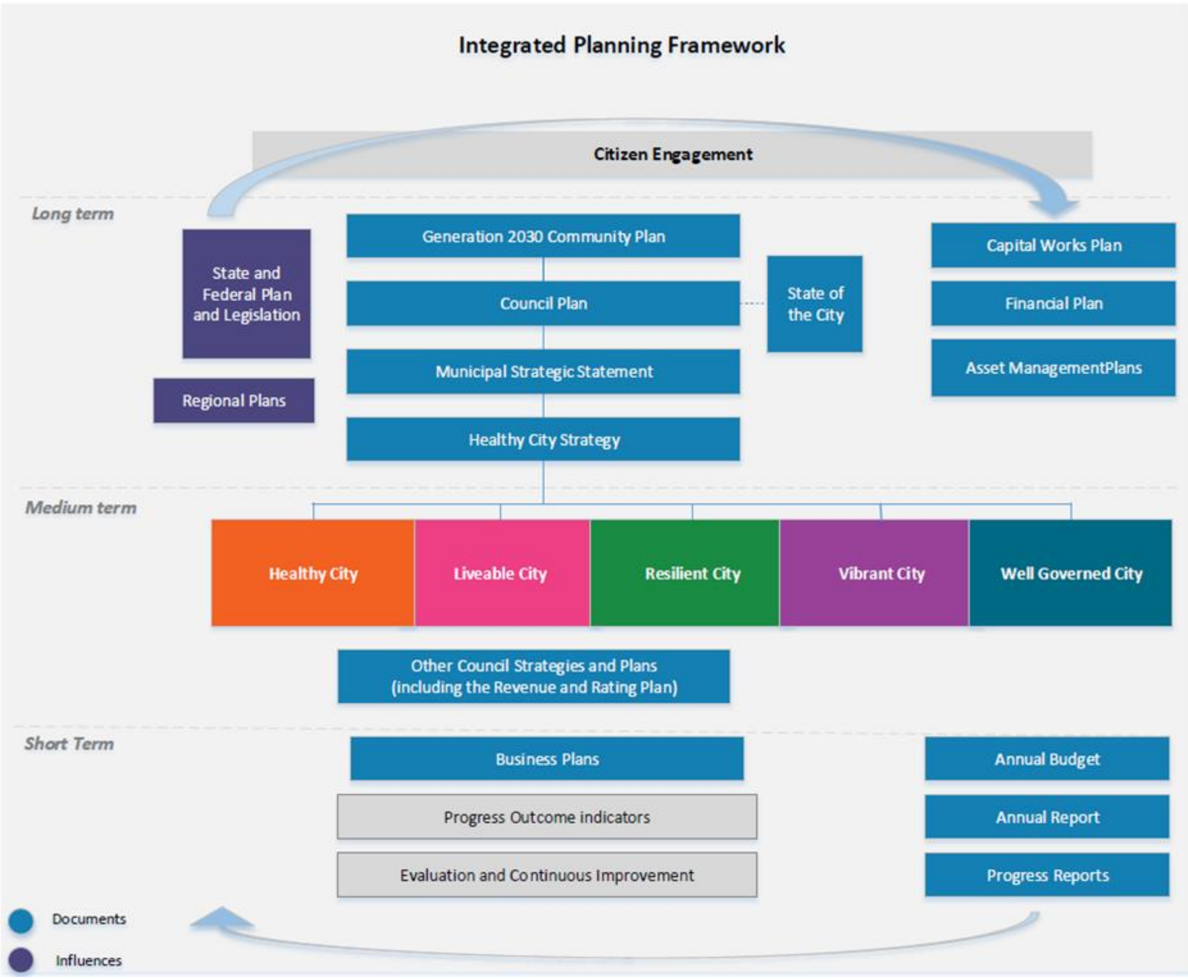
This Revenue and Rating Plan covers the four year period 2021/22 to 2024/25.

The purpose of the Revenue and Rating Plan is to determine the most appropriate and affordable revenue and rating approach for Manningham Council, which in conjunction with other income sources will adequately finance the objectives in the four year Council Plan.

This plan is an integral part of Council's Integrated Planning Framework, which is created to help Council achieve its vision.

The strategies outlined in this plan align with the objectives contained in the Council Plan and feed into our budgeting and long-term financial planning documents as well as other strategic planning documents under our Council's integrated planning framework.

Figure 1: *Integrated Planning Framework*



This plan will explain how Council calculates the revenue needed to fund its activities and how it will apportion the funding burden between ratepayers and other Council facilities and services users.

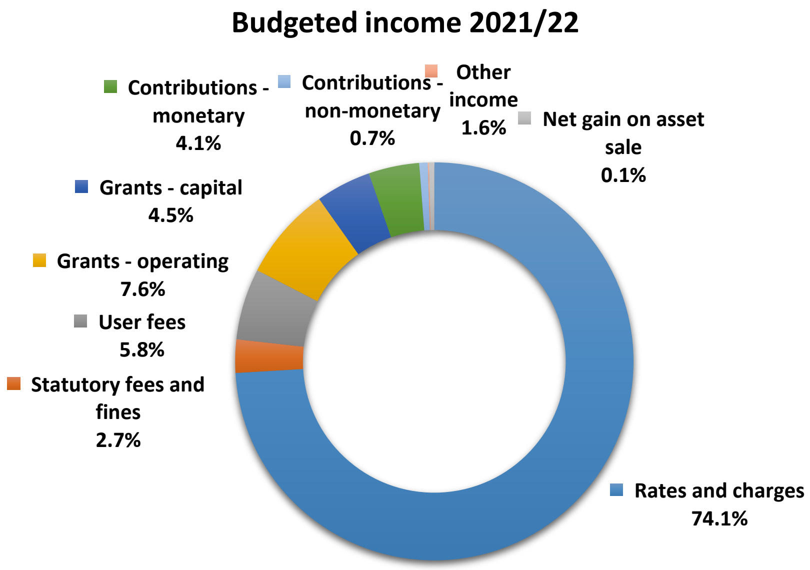
In particular, this plan will set out the decisions that Council has made concerning the rating options available to it under the *Local Government Act 2020* to ensure the fair and equitable distribution of rates across property owners. It will also set out principles that are used in decision making 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; it outlines the strategic framework and decisions that inform how Council will go about calculating and collecting its revenue.

2. Introduction

Council provides many services and facilities to our local community and, in doing so, must collect revenue to cover the cost of providing these services and facilities. Local government has limited capacity to raise revenue. Changing community and government expectations has led to an expanded range of responsibilities. Changing demographics, including increased development and population growth, results in additional infrastructure needs and service level pressures. Local government assets are aging and require investment in renewal to maintain our service levels.

Figure 2: *Budgeted Income 2021/22*



Council's revenue sources include:

- Rates and waste service 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)
- Other income including interest from investments.

Rates are the most significant revenue source for Council and make up approximately 64% of our annual income. When combined, rates and waste service charges represent 74% of our 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 continues to restrict Council's ability to raise revenue above the rate cap, unless an application is made to the Essential Services Commission for a variation. The rate cap set by the Minister for Local Government for 2021/22 is 1.5% which is in line with forecast CPI.

Maintaining service delivery levels and investing in community assets remain critical priorities for Council. This Plan seeks to reduce Council's reliance on rate income and provides options to reduce that reliance further.

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, councils usually have no control over service pricing. However, in relation to other services, Council has the ability to set a fee or charge and will determine that fee based on the principles outlined in this Revenue and Rating Plan.

Council revenue can also be adversely affected by changes to funding from other levels of government. Some grants are tied to the delivery of council services, whilst many are tied directly to the delivery of new community assets, such as roads or recreation pavilions. Council needs to be clear about what grants it intends to apply for, and the obligations that these grants create in the delivery of services or infrastructure.

3. Community Engagement

This Revenue and Rating Plan outlines Council's decision-making process on how revenues are calculated and collected.

During 2020/21 Council undertook Deliberative Community Engagement processes to assist in developing several key Council documents, including the Vision, Council Plan, Financial Plan and Asset Plan.

Community Survey

A Community Survey was undertaken in late 2020 and told us that our community places high importance on having a well-governed Council that spends its money wisely in the areas that matter most to the community.

Our community also expressed their need for Council to be financially sustainable and spend within its budget, and to ensure we provide value for money for ratepayers. This means spending money on essential services and infrastructure projects that deliver the most benefit to the community. We must also consider other priorities or initiatives that are valued by our community, and balance several priority areas while ensuring that Council remains financially sustainable.

Community Panel

A Community Panel was formed representing a cross-section of the Manningham community. Over 40 community members actively engaged in the Community Panel over four sessions in March 2021.

The Community Panel provided important feedback and input for Council on several revenue and funding strategies that helped shape the Revenue and Rating Plan. Some of the key feedback provided by the Community Panel is included in the table below.

Table 1: *Some key feedback from the Community Panel*

FUNDING STRATEGY	FEEDBACK
Government grants	Seek grants and advocate to other levels of government for funding
User Fees and Charges	Full user pays for commercial, but not for community use (Council to provide a subsidy or part-subsidy for community/not-for-profit or where benefit for the whole community can be demonstrated)
Commercial or not-for profit co-contributions / Partnerships for funding community infrastructure	Council to consider this where alignment can be demonstrated with community values
Charge rental income for tenants	Full charge for commercial tenants, subsidised for other tenants
Loan Borrowings	Council to consider loan borrowings as a source of funding if specific criteria are met (e.g. low interest rates, positive financial return, for major community infrastructure)
Asset Sales	Council to prioritise renewal of assets, rather than selling assets to fund major projects

Online community consultation via "Your Say Manningham" – April 2021

During April 2021 Council ran a two week online consultation process on the Your Say Manningham webpage inviting our community to tell us their ideas for our 2021/22 Annual Budget and Revenue & Rating Plan. During this period Council received a number of ideas from our community for Council to consider.

Online community consultation via "Your Say Manningham" – May and June 2021

During May and June 2021 Council placed the proposed Revenue & Rating Plan document on the "Your Say Manningham" website and printed hard copies which were available at the Civic Centre and libraries, seeking feedback from the community on the proposed document.

4. Rates and Charges

Of Australia's total taxes, the Commonwealth Government collects approximately 80.3% (including GST), and the State collects approximately 16.2%. Local government collects 3.5% of the total taxes collected by all levels of government, in the form of property taxes (rates).

Rates are property taxes that allow a Council to raise revenue used to fund essential public services and cater to their municipal population.

Rates are distributed between ratepayers based on the relative value of properties within the municipality. Properties are revalued every year by the Victorian Valuer-General to maintain a fair distribution of the rates burden between property owners. Property taxes do not take into account individual debt levels or income received by property owners. One of the fundamental principles of a property tax is that those with a higher valued property relative to others within a municipality generally contribute a larger amount in rates.

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 *Local Government Act 1989*; and
- **Service Charges**
  A 'user pays' component for council services, to reflect the benefits provided by Council to ratepayers who benefit from a service.

Rating Process

Once Council has identified the total amount it needs to collect in rates revenue (as determined by its prescribed annual budget process), rates and charges can be calculated.

Council establishes its rate in the dollar by dividing the balance of required budget revenue by the total value of all rateable properties in the municipality. The rate in the dollar is then multiplied by the value of individual properties (using the Capital Improved Valuation methodology) to establish the amount to be paid by each property owner. This amount is known as the General Rates.

General Rates are added to any municipal charge and any service charges and service rates set by the Council, to determine the total rates and charges payable on a property.

Example: Calculating General Rates

The total value of rateable properties within a municipality is $10,000,000,000 and Council needs to collect $40,000,000 in rates. The rate in the dollar is calculated at $0.004 ($40,000,000 / $10,000,000,000). The rates payable on a property valued at $320,000 would be $1,280 ($320,000 x $0.004).

Rate Cap and Valuation Movement

On average, general rates will increase each year by the Victorian Government's rate cap. The Minister for Local Government sets the rate cap in December for the upcoming rating year. Under the Victorian Government's rate cap, Manningham and all Victorian councils must keep the average rate increase across all properties to no more than the rate cap. The rate cap applies to the overall rate revenue collected by Council, not each individual property.

For each individual property, the change in the annual rates will depend upon the movement in the property value of that individual property relative to the average valuation movement across the municipality. The annual revaluation can significantly re-align how rates are distributed between ratepayers but of itself does not provide Council with any additional rate revenue overall.

Example: Valuation movement and rate cap

In a year where the average increase in property values was 10% across the municipality and the rate cap is 1.5%, if:

- The value of an individual property also increased by 10%, the rates for that property would increase by exactly 1.5% in line with the rate cap; or
- The value of an individual property increased by less than 10% or decreased, the rates for that property would increase by less than the rate cap of 1.5% or decrease; or
- The value of an individual property increased by more than 10%, the rates for that property would increase by more than the 1.5% rate cap.

Rates and charges (Waste Service Charges) are an important source of revenue, accounting for over 74% of operating revenue received by Council. The collection of rates is an important factor in funding Council services.

Therefore, planning for future rate increases is an essential component of the long-term financial planning process; it plays a significant role in funding both additional service delivery and the increasing costs related to providing Council services. Rate income also assists in funding Council's annual Capital Works Program. A critical budget principle is that a minimum of 33% of rate income is to fund the annual capital works program.

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 has a service charge to fully recover the cost of Council's waste services. The waste service charge is not capped under the Fair Go Rates System; however, it is set each year to cover the cost to Council of providing waste services.

4.1. Rating Legislation

The legislative framework set out in the *Local Government Act 1989* 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 *Local Government Act 1989* provides that a Council may declare the following rates and charges on rateable land:

- General rates under Section 158
- Municipal charges under Section 159
- Service rates and charges under Section 162
- Special rates and charges under Section 163

Manningham Council's strategy in relation to municipal charges, service rates and charges and special rates and charges are outlined in this Plan.

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

Section 157 (1) of the *Local Government Act 1989* provides Council with three choices regarding which valuation base to utilise: Site Valuation, Capital Improved Valuation (CIV) and 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 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 *Local Government Act 1989*;

e) if the Council proposes to declare a differential rate for any land; the matters specified in section 161(2) of the *Local Government Act 1989*;

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 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; or

b) that Council has made an application to the ESC for a special order and is waiting for the outcome of the application; or

c) that a special order has been made in respect of the Council and specifies 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 amounts will be determined within the annual Manningham City Council budget.

Rate Capping

Rate capping came into effect in the 2016/17 financial year. The introduction of a rate cap has removed Victorian Councils' autonomous ability to determine the annual level of the rate increase. The Minister for Local Government now determines Council's annual rate increase.

Individual Councils may apply to the Essential Services Commission for a variation to increase rates beyond the rate cap if they can demonstrate they need to raise additional revenue to continue to deliver the services and infrastructure for their municipality needs.

Local Government Rating System Review

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 a 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. At the time of publication, these recommended changes have not yet been implemented and no timelines for the changes have been announced.

4.2. Rating Principles

The legislation specifies a number of major objectives of 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.

Section 101(1) of the *Local Government Act 2020* states that financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community.

Taxation Principles

In considering what rating approaches are equitable, Council needs to have regard to the principles of taxation. The principles summarised below are the most significant in local government rating decisions:

- Wealth Tax
- Equity
- Efficiency
- Simplicity
- Sustainability
- 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 people's production and consumption decisions are affected by rates.

Simplicity

How easily a rates system can be understood by ratepayers and the practicality and ease of administration.

Sustainability

Does the rating system generate sustainable, reliable revenues for Council and is it durable and flexible in changing conditions?

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 balancing of competing considerations.

Rates and Charges Revenue Principles:

Property rates will:

- be reviewed annually;
- not change dramatically from one year to next; and
- be sufficient to fund current expenditure commitments and deliverables outlined in the Council Plan, Financial Plan and Asset Plan.

Differential rating (where applicable) should be applied as equitably as is practical and will comply with the *Ministerial Guidelines for Differential Rating 2013*.

4.3. Determining Which Valuation Base to Use

Under the *Local Government Act 1989*, Council has three options as to the valuation base it elects to use:

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

For residential and farm properties, NAV is calculated at 5% of the Capital Improved Value. For commercial and industrial properties, NAV is calculated as the greater of the estimated annual rental value, or 5 per cent of the CIV.

Capital Improved Value (CIV)

Capital Improved Value is the valuation base most commonly used by local government, with over 90% of Victorian councils applying this methodology. Based on the value of both land and all improvements on the land, it is generally easily understood by ratepayers as it equates to the properties market value.

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

a) It uses the capital improved value system of valuing land; and

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

Where a council does not utilise CIV, it may only apply limited differential rates in relation to farm land, urban farm land or residential use land.

Advantages of using Capital Improved Value (CIV):

- CIV includes all property improvements and hence is often supported because it more closely reflects "capacity to pay". The CIV rating method takes into account the full development value of the property, and hence better meets the equity criteria than Site Value and NAV.
- With the 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.

Disadvantages of using CIV:

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

Site value (SV)

There are currently no Victorian councils that use this valuation base. With valuations based simply on the valuation of land and with only minimal ability to apply differential rates, Site Value implementation would cause a shift in rate burden from the industrial/commercial sectors onto the residential sector. It 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 equity argument being served by the implementation of Site Value (SV).

Advantages of Site Value

- 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.
- Scope for possible concessions for urban farm-land and residential use land.

Disadvantages of using Site Value

- Under SV, there will be a significant shift from the industrial/commercial sector onto the residential sector of council. The percentage increases in many cases would be in the extreme range.
- SV is a major burden on property owners that have large areas of land. These ratepayers will pay more in rates even though some of these owners may have much smaller/older dwellings than those with smaller land areas with well-developed dwellings. A typical example is flats, units, or townhouses that will all pay low rates compared to traditional housing styles.
- The use of SV can place pressure on council 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 the use of site value.
- SV will reduce Council's rating flexibility and options to deal with any rating inequities due to removing the ability to levy differential rates.
- The community may have greater difficulty in understanding the SV valuation on their rate notices.

Net annual value (NAV)

NAV, in concept, represents the annual rental value of a property. However, in practice, NAV is loosely linked to the capital improved value for residential and farm properties. Valuers derive the NAV directly as 5% of CIV.

In contrast to the treatment of residential and farm properties, NAV for commercial and industrial properties are assessed 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, the use of NAV is not largely supported. 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.

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 (same rate in the dollar). If a council was to choose the former, under the Local Government Act 1989 it must adopt either of the CIV or NAV methods of rating.

Manningham City Council uses Capital Improved Value (CIV) for rating valuation purposes.

Capital Improved Value (CIV) applies to all properties within the municipality to take into account the fully developed value of the property. This basis of valuation takes into account the total market value of the land plus buildings and other improvements.

Property Valuations

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

The value of land is always derived by the principal 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 individual properties to ensure that rises and falls in council rates remain affordable and that rating ‘shocks’ are mitigated to some degree.

Supplementary Valuations

Supplementary valuations are carried out for a variety of reasons including rezoning, subdivisions, amalgamations, renovations, new constructions, extensions, occupancy changes and corrections.

The Victorian Valuer-General is tasked with undertaking supplementary valuations and advises council regularly of valuation and Australian Valuation Property Classification Code (AVPCC) changes.

Supplementary valuations bring the value of the affected property into line with the general valuation of other properties within the municipality. Objections to supplementary valuations can be lodged in accordance with Part 3 of the *Valuation of Land Act 1960.* Any objections must be lodged with Council within two months of the issue of the supplementary rate notice.

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 of a property or the Australian Valuation Property Classification Code (AVPCC) within two months of the issue of the original or amended (supplementary) Rates and Valuation 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 on a prescribed form to Manningham City Council.

4.4. Rating Differentials

Determining a Rating System

A general rate is applied to all rateable properties and can be set as a uniform rate or a number of differential rates.

Uniform Rate

A uniform rate is a single rate in the dollar that is applied to the value (CIV) of all rateable properties. Council has adopted a uniform rate for many years, with an exception in 2012/13 when a differential rate was introduced for Electronic Gaming Machine lands (EGM). The EGM differential rate was discontinued in the 2013/14 Budget.

<u>Advantages of a Uniform Rate include:</u>

- Equitable distribution of rate burden
- Efficient to administer
- Transparent and easy to understand

<u>Disadvantages of a Uniform Rate include:</u>

- May not be perceived as equitable as it does not take into account the level of access or benefit that a ratepayer derives from Council services

Differential Rates

A Council may determine to raise general rates by the application of a differential rate in the dollar to different classes of property if it considers that the differential rate will contribute to the equitable and efficient carrying out of its functions.

If a Council declares a differential rate for any land the Council must specify:

- The objectives of the differential rate.
- The characteristics of the land which are the criteria for declaring the differential rate.
- The rate and amount of rates payable in relation to each type or class of land.

The highest differential rate is capped at four times the lowest differential rate.

Advantages of Differential Rates include:

- Can give Council flexibility to distribute the rate burden between groups of ratepayers, linking it with capacity to pay.
- Allows Council to reflect the unique circumstances of some land classes where the application of a uniform rate may create an inequitable outcome (e.g. farming enterprises).
- Allows Council discretion in the imposition of rates to 'facilitate and encourage appropriate development of its municipal district in the best interest of the community'.

Disadvantages of Differential Rates include:

- A lower differential rate for one group results in a higher rates burden for all others.
- The impossibility of measuring relative levels of access and consumption across the full range of council services to determine the appropriate or equitable level of differential rate.
- Differential rates can be confusing to ratepayers, as they may have difficulty understanding the system. Some rating categories may feel they are unfavourably treated because they are paying a higher level of rates than other ratepayer groups.
- Complexity to administer.

Ministerial Guidelines issued in 2012 provide guidance on differential rates. Properties considered appropriate for differential rates are:

- General
- Residential
- Farm
- Commercial
- Industrial
- Vacant
- Derelict
- Cultural and recreational lands

The types and classes of land categories not considered appropriate for differential rates are:

- Electronic gaming machine venues
- Fast-food premises
- Liquor licensed venues/outlets
- Businesses defined by hours of trade

Council must consider the implementation of differential rates for farm lands and retirement villages, but are not obliged to implement differential rates for these classes of land.

Cultural and Recreational Land – charges in lieu of rates

Council currently charges two properties (Veneto Club and Yarra Valley Country Club) in lieu of rates, under Section 4(4) of the *Cultural and Recreational Lands Act*. Council is required to consider a discount for these properties under the *Cultural and Recreational Lands Act,* based on considered benefits to the community and Council's services.

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Council plans to continue its long-standing practice to raise general rates through a uniform (or single) rate in the dollar for all property types and is not proposing to introduce differential rates.

The general rate levied on a property represents a contribution toward the cost of providing universally accessible services and infrastructure - it does not and cannot reflect the level of services accessed or benefits derived by a ratepayer or group of ratepayers. Council considers that granting a rate reduction to one ratepayer group is not equitable because it shifts the rate burden onto other ratepayers.

4.5. Municipal Charge

Another principle rating option available to Councils is the application of a municipal charge. Under Section 159 of the *Local Government Act 1989*, Council may declare a municipal charge to cover some of the administrative costs of the Council. The legislation is not definitive on what comprises administrative costs, and does not require Council to specify what is covered by the charge.

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 *Local Government Act 1989*, 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).

Advantages of a Municipal Charge include:

- A municipal charge applies equally to all properties and is based upon the recovery of the fixed cost of providing administrative services irrespective of valuation. Each ratepayer contributes equally toward identified administrative costs.

Disadvantages of a Municipal Charge include:

- 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 as a percentage of their property value than they do at present.

Council does not currently levy a Municipal Charge and is not planning to implement a Municipal Charge.

4.6. Special Charge Schemes

The *Local Government Act 1989* 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 technical explanation of a Special Charge comes from legislation (under the *Local Government Act 1989*) that allows councils to recover the cost of works from property owners who will gain special benefit from that work.

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 special rate or special charges may be declared on the basis of any 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; and

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; and

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 levy a Special Rate or Special Charge and is not planning to implement a Special Rate or Special Charge.

4.7. Service Rates and Charges

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

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.

Manningham Council currently declares a cost-recovery based Waste Service Charge for the collection and disposal of refuse. Council retains the objective of setting the service charge for waste at a level that fully recovers the cost of Council's waste services.

Advantages of a Service Charge include:

- It is readily understood by residents as a fee for a direct service that they receive.
- It provides equity in the rating system in that all residents who receive exactly the same service level all pay an equivalent amount.
- Ratepayers' can vary their charge through choosing a range of waste bin options.

Disadvantages of a Service Charge include:

- 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. The equity objective in levying rates against property values is lost in a service charge as it is levied uniformly across all assessments.

Council's standard kerbside waste and recycling service is based on an 80 litre garbage bin, 240 litre recycling and 240 litre garden waste bin. Ratepayers may vary the combination of bins and bin sizes that they receive as well as order additional bins (options vary the cost of the service).

Council plans to retain the existing waste service charge structure, which is based on full cost recovery of the Council's waste services.

The mix of having annually determined waste service charges which fully recover the cost of waste services combined with valuation driven rates provides a balanced and equitable outcome.

4.8. Rebates, Waivers and Concessions

Council may grant a rebate or concession in relation to a rate or charge to assist in the proper development of the municipal district, preserve buildings or places of historical or environmental interest, and restore or maintain buildings and places of historical, environmental, architectural or scientific importance.

State Government Pension Rebate

Holders of a State Government pension card may be eligible for a State Government funded Pension Rebate (of $241 in 2020/21) and a further $50.00 rebate (in 2020/21) toward the cost of the Fire Services Property Levy. To be eligible, a ratepayer must:

- Hold a current Pensioner Concession Card from Centrelink or Veterans' Affairs or a Gold Card from the Department of Veterans' Affairs specifying War Widow (WW) or Totally and Permanently Incapacitated (TPI).
- Be responsible for payment of the rates and charges.
- Be their residential property.

The State Government fully funds these concessions.

Low Income Rebate

Council currently grants a rebate to holders of a "Low Income" Health Care Card. The rebate is $100.00 (in 2021/22) and provides additional relief to ratepayers eligible for this rebate.

Council fully funds this concession.

Rate concession for Council owned facilities

A rate concession, equivalent to the general rates, is provided to Council owned highball and recreation facilities operated by community-based organisations under lease from Council.

General Valuation Rebate

Council currently offers a concession to those ratepayers who may suffer financial hardship due to rate increases resulting from the general valuation of properties (now every year).

The concession is limited to a rebate on rates of 50% of the increase in rates, where the increase is due to changes in the CIV (valuation) above 30% of the previous year CIV (valuation) as a consequence of a general revaluation and, if granted, is only applicable to that financial year.

Council plans to continue to apply a:

- ***a) Rebate for Low Income Health Care Card holders***
- ***b) Rate concession for Council owned recreation facilities that are operated by community based organisations.***
- ***c) General valuation rebate to ratepayers who may suffer financial hardship as a result of the General Revaluation of properties.***
- **d)** ***No other rebates or waivers are planned.***

4.9. 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 facing financial hardship.

Payment options

Under section 167(1) of the *Local Government Act 1989,* Council must allow a person or ratepayer to pay a rate or charge in four instalments. The Minister sets the dates of these 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

Manningham Council also offers ratepayers the option to pay in ten instalments (via direct debit).

A Council may also allow a person to pay a rate or charge in a single lump-sum payment. Manningham Council does not provide this option and has not for over 15 years. Council also does not provide an incentive for early payment.

Council offers a wide range of payment options including:

- Direct debit - savings or cheque account
- Payment via our website
- BPAY - phone or internet
- Australia Post Billpay - in person, internet, telephone
- Payment in person at the Council Civic Centre - credit/debit card, cash or cheque.

Financial Hardship

Council acknowledges that some ratepayers will experience financial difficulty from time to time and, for some reason, may not meet able to meet payment due dates. Council has identified that it is necessary to provide assistance and relief at times and has processes in place under the *Rate Debtor Management Policy*.

Council has a range of financial hardship provisions to assist ratepayers who are experiencing financial hardship.

The objectives of these provisions are to ensure:

- appropriate assistance is granted to ratepayers enduring genuine financial hardship
- all applications for rate and levy relief are treated respectfully and confidentially

- ratepayers experiencing genuine financial hardship are treated with compassion and are made aware of their legal entitlements and initiatives provided by Manningham City Council and its service providers
- a flexible approach to the timing of debt payments, the writing off or not charging of interest.

The financial hardship provisions include:

- a Rate Payment Agreement that acknowledges the ratepayer's financial position
- a waiver of interest and legal costs
- a deferment of rates and charges to a mutually agreed date
- a partial rate rebate where a rate charge increases by over 30% as a consequence of a general revaluation.

Interest on arrears and overdue rates

Interest is charged on all overdue rates in accordance with Section 172 of the *Local Government Act 1989*. 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. Interest will be calculated from the due date of the instalment missed on the amount not paid.

State Government Fire Services Property Levy

In 2013/14, the Victorian Government introduced the Fire Services Property Levy (FSPL). Councils collect this charge on behalf of the Victorian State Government. It is included in the Rates Notice as an additional charge. This levy is not included in the rate cap, and increases in the levy are at the State Government's discretion. Council plays no role in setting the FSPL, and all FSPL receipts are remitted to the Victorian State Government every quarter.

The levy is made up of a variable component (based on the capital improved value of the property) and a fixed component. The fixed component will vary for residential properties and non-residential properties. The variable rates will also vary for residential properties and non-residential properties.

The State Government Fire Services Property Levy (FSPL) is shown as separate charges on the Valuation and Rates notice.

5. Other Revenue Items

5.1. 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:

- Childcare fees
- Leisure Centre, Gym, and Pool visitation and membership fees
- Animal Registration fees
- Aged and Health Care service fees
- Leases and facility hire fees.

The provision of infrastructure and services form a crucial 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 in the interests of 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 are provided on the basis of one of the following pricing methods:

a) Market Price
b) Full Cost Recovery Price
c) Subsidised Price

Market Pricing

Market pricing is where the 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 the council needs to meet its obligations under the government's Competitive Neutrality Policy.

It should be noted that if a market price is lower than the council's total cost price, then the market price would represent council subsidising that service. If this situation exists and other suppliers exist at the same price, this may mean that council is not the most efficient supplier in the marketplace. In this situation, council will consider whether there is a community service obligation and whether the council should provide this service.

Full Cost Recovery

Full cost recovery price aims to recover all direct and indirect costs incurred by council. This pricing should be used in particular 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.

Subsidised Pricing

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

As part of the annual budget process, Council sets the proposed fees and charges for the upcoming financial year, taking into account a number of considerations, including:

- The cost of service delivery (both direct and indirect costs to be taken into account when setting prices);
- Affordability (capacity to pay);
- The level of Council subsidy (if any) based on community benefit; and
- Competitive neutrality with commercial providers (benchmarking).

Council develops a table of fees and charges as part of its annual budget each year.

5.2. Statutory Fees and Charges

Statutory fees, fines, and charges are those that council collects under legislation or other government directives. The rates used for statutory fees, fines and charges are normally advised by the state government department responsible for the corresponding services or legislation, and generally, councils will have limited discretion in applying these fees. The fee, fine or charge set by the State Government does not always reflect the cost of service to Council. On top of this, statutory fees do not always increase in line with inflation (CPI).

Examples of statutory fees, fines and charges include:

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

Penalty and fee units are used in Victoria's Acts and Regulations to describe the amount of a fine or a fee.

Penalty units

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

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

The rate for penalty units is indexed each financial year to be raised in line with inflation. Any change to the value of a penalty unit will happen 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 $15.03 for 2021/22. This value may increase at the beginning of a financial year, at the same time as penalty units.

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

5.3. Grants

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

Council will pro-actively advocate to other government levels 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.

Council considers its project proposal 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 Council Plan priorities.

Grants from other government levels (Victorian and Australian) as a share of local government revenue have declined over time, despite local governments' roles expanding.

Government Grants and Cost Shifting

Cost-shifting by higher levels of government - one of the most common forms of cost-shifting involves a direct delegation of responsibilities from a higher level of government to the local government sector. Local Government provides many services on behalf of the Victorian and Australian Government.

Other levels of government typically set the fees a Council can charge to those who benefit from these services and usually do not reflect the costs of providing the service. The net result is that Council is obliged to use its general revenue to provide services on behalf of other levels of government.

In other cases, a higher level of government may stop providing a service that they are responsible for, leaving the Council to either provide the service from its own resources or leave a service gap.

Higher levels of government may also shift costs onto Council through new or increased compliance requirements (that is, 'raising the bar'), for which Council is not adequately compensated. Examples of this form of cost-shifting include requirements to comply with enhanced childcare and animal management regulations.

Another example of cost-shifting occurs when a government agency imposes a new or increased fee or charge on Council in order to recover its own operating expenses, with no offsetting benefit (in terms of increased services) to Council.

5.4. 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 either cash payments (monetary contributions) or asset hand-overs (non-monetary contributions).

Examples of contributions include:

- Monies collected from developers under developer contribution plans and open space contributions
- Contributions from user groups towards the upgrade of facilities
- Assets handed over to Council from developers at the completion of a subdivision, such as roads, drainage, and streetlights (non-monetary contributions).

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 by Council in a 'Reserve' to be used for specific purposes only.

Council receives monetary contributions from developers for two primary purposes:

- To improve open space and recreation (public open space contributions); and
- To improve and develop the infrastructure and amenity of the municipality (development contributions plan).

Council currently has a development contributions plan for the Doncaster Hill precinct, which is finishing in the short to medium term. Council is considering introducing a Manningham-wide development contributions plan (DCP), which would provide a source of funding from developers to improve and develop the area's infrastructure and amenity.

5.5. 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 investment policy, which seeks to maximise the return on investment whilst minimising risk.

5.6. Borrowings

Whilst not a source of income, loan borrowings can be an important cash management tool in appropriate circumstances. Loan borrowings can be a major source of funding for significant infrastructure projects that will provide benefits for future generations. This is known as 'inter-generational equity' - where future debt repayments are matched with future benefits derived from the infrastructure developed.

Loans can only be approved by council resolution.

Council has a Loan Borrowing Strategy and Principles, which provides for loan borrowings based on the following principles:

1. Financial performance indicator ratios relating to debt must be within the Local Government Performance Reporting Framework expected band and within the Victorian Auditor General low risk rating.
2. Loan duration not to exceed the lesser of 10 years or life of asset
3. Loans only for otherwise fully funded Capital projects
4. Priority for projects with above loan repayment returns
5. Loan duration to match cash flows in the funded Capital Works Program
6. Where an interest only loan is entered into then an amount equivalent to the annual principal repayment will be provided into a cash backed reserve.
7. Council will not take loans for investment in arbitrage schemes
8. Council will secure its loan funds through competitive tendering

9. No borrowings for operating expenses
10. Loan redemption payments and debt serving costs are to be included in Council's annual budget and 10 year Financial Strategy
11. Drawdown and repayment timing to minimise costs.

Borrowings will increase operating expenses through interest repayments. Borrowings could be considered within the context of Council's long term planning, asset planning, budget and long-term financial planning processes.

Borrowings could also be considered where the long-term financial return to Council is positive. Business cases would be required for any proposed undertaking and should fully consider the impacts if borrowings are proposed.

Borrowings must only be applied for where it can be proven that repayments can be met in the Long Term Financial Plan and must not be used to fund operational expenditure.