



WHITEHORSE CITY COUNCIL

Draft Revenue and Rating Plan 2021-2025



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1. Introduction

Section 93 of the *Local Government Act 2020* (the Act) requires councils to prepare and adopt a revenue and rating plan for at least the next 4 financial years by the next 30 June following each general election.

The Revenue and Rating Plan (the Plan) forms part of Council's Integrated Strategic Planning and Reporting Framework. The Plan outlines how Council will fund its operations and capital works program to deliver on the City of Whitehorse's Community Vision and the Council Plan priorities over the next four financial years.

2. Purpose

The purpose of the Revenue and Rating Plan is to determine the most appropriate, equitable and affordable revenue and rating approach for the City of Whitehorse, and which will adequately finance the objectives proposed in the Council Plan. It is important to understand what charging approaches are available and how the revenue and rating system works. A coherent and well-presented Plan can help everyone involved – councillors, council staff and ratepayers – better understand the issues involved and the choices and “trade-offs” that have to be made. Also important to note is that the 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.

Section 101 of the *Local Government Act 2020* requires that the Plan must seek to provide stability and predictability in the financial impact on the municipal community.

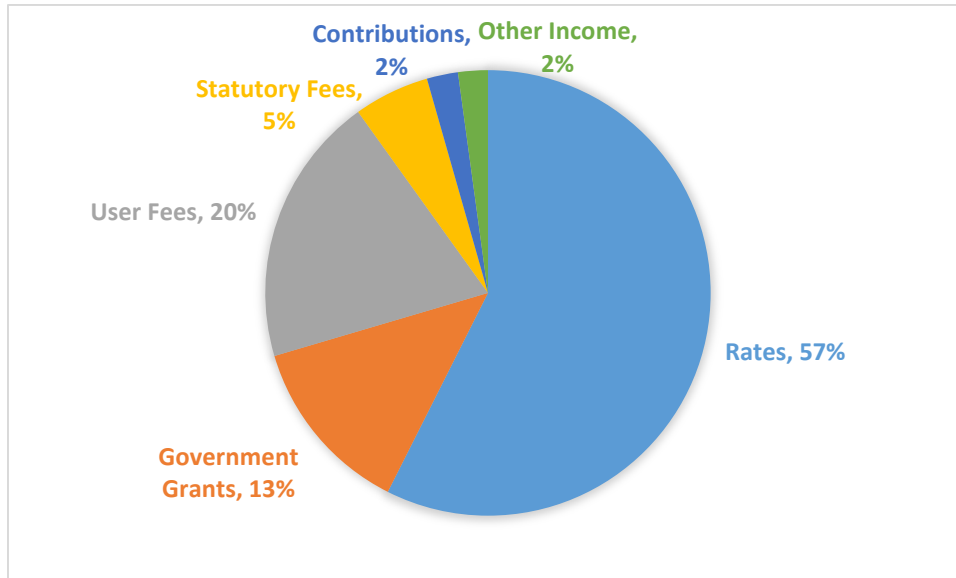
3. Pricing Policy

Whitehorse City Council requires sufficient revenue to satisfy its service delivery needs and fund its infrastructure and asset management needs. These funds come from a range of sources including:

- Rates
- Fees, charges and fines.
- Government Grants
- Contributions
- Other Income

All avenues are pursued to obtain external grant funds for prioritised works and projects. Similarly, Council actively seeks to grow its own-sourced revenue to provide additional funding for both service delivery and infrastructure projects to reduce the burden on ratepayers. Council reviews its fees and charges annually and increases/decreases the levels consistent with application of the user pays principle – that is, so far as is possible, the cost of providing a direct service will be met by the fees charged.

The graph below shows a breakdown of the sources of Council revenue based on the Proposed Budget 2021/22. The following sections outline Council's pricing policy with respect to each of its major revenue streams.



3.1 Rates

A rating strategy is the method by which Council systematically considers factors of importance that informs its decisions about the rating system. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property, after the annual valuation has been applied. The total amount to be raised is determined in the budget process and in compliance with the capping provisions contained within the *Local Government Act 2020*.

Whitehorse City Council currently receives approximately 57% of its total revenue from rates. Thus it is essential that a clear, concise rating strategy is in place underlining the process followed when undertaking rating calculations. It is also essential that Council review and sign off on the plan as well as any updates to it.

The rating system is based on property valuations which are required to be carried out annually. The distribution of rates are calculated based on these valuations. Council has several means by which it can vary the amounts which are levied, including:

- A general rate
- A municipal charge
- Differential rates
- Service rates and charges
- Special rates and charges
- Rebates, waivers, deferments, concessions and exemptions.

There are several factors to be considered when developing the most suitable rating system, such as:

- Equity – fairness in the distribution of rates burden across properties

- Efficiency – how closely the rate or charge relates to the benefit received
- Simplicity – how easily the rating system is understood by ratepayers
- Capacity to pay – a high value property doesn't necessarily mean capacity to pay higher rates
- The link between the rates levied and benefit to be derived.
- Legislative requirements in the State Government's Fair Go Rates System (FGRS).

Some of the options available when determining City of Whitehorse's rating structure include:

- The valuation base of rates, being site value (SV), capital improved value (CIV) and net annual value (NAV)
- The use of a uniform rate
- A uniform rate combined with a municipal charge
- A differential rating system with and without a municipal charge
- The use of rebates and deferment schemes
- Policy approaches for exemptions and concessions
- Rating of cultural and recreational land.

Council's Preferred Valuation and Rating System

Having reviewed the various valuation bases for determining the property value component of rates, Council made a decision in the 1997/98 financial year to apply a Capital Improved Value (CIV) system on the grounds that it provides the most equitable distribution of rates across the municipality. CIV refers to the total market value of the property including land, buildings and other improvements and is relatively easy to understand for ratepayers.

Council does not currently levy a municipal charge or a waste service charge however a project is currently in progress considering the introduction of a waste service charge, which may be introduced within the next four years. Community consultation will be undertaken with ratepayers prior to any new charges being introduced, and the rating components of this Plan will be updated as part of Council's budget adoption process.

For more details about Council's rating approach, refer to Council's Rating Strategy in section 4.

3.2 Fees, Charges and Fines

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 compulsory or discretionary services.

Statutory fees and fines relate mainly to fees and fines levied in accordance with legislation and include planning and building applications, some engineering permits and parking infringements. Increases in statutory fees are made in accordance with legislative requirements. Currently statutory fees make up 6% of Councils overall revenue.

User fees relate mainly to the recovery of service delivery costs through the charging of fees to users of Council's services. Making up 20% of Councils overall revenue, they are the second largest income item behind rates. Examples include; leisure facility fees, waste management fees, childcare fees, parking service fees and aged and healthcare service fees.

These fees are determined through market forces, with consideration given to cost recovery, community access, equity and affordability, competitor benchmarking, growth in demand or population, and competitive neutrality requirements, where relevant.

Council reviews all fees and charges annually and fees are adopted by Council as part of the budget adoption process. This may include the introduction of new fees or changes to existing fee structures to ensure fees remain relevant and appropriate for the services being delivered. A schedule of the current user fees and charges is included within Council's annual budget.

All council services can be reviewed to assess whether they are appropriate to attract user fees and charges. Attributes of a service that can affect the ability for a council to place a fee or charge include whether the operation is a public or private good in nature and if there is any state and federal government legislation or funding conditions prohibiting or setting ceilings for pricing. Generally, it is not feasible to charge a user fee in relation to consumption of public goods, as administering processes to accurately determine usage levels and charge a fair and reasonable fee would be cost prohibitive. Therefore costs of providing public goods are typically recovered through rates, grants and other revenue sources.

Cost Recovery

A general principle in setting fees and charges is that the fee charged for a service should correspond with the cost of providing the service – that is the costs borne by Council are fully recovered where possible. However there are many factors that are considered when setting fees for Council services which means full cost recovery is not always equitable, practical or achievable, and these are discussed in the next section *Other factors considered in setting fees*.

To set fees in accordance with the cost recovery principle, Council needs to be able to determine the full cost of each of its services.

Full cost

The full cost of delivering a service or providing a facility include both:

- Direct costs – those costs that can be readily and unequivocally attributed to a service or activity because they are incurred exclusively for that particular product/activity
- Indirect Costs (often referred to as overheads) – those costs that are not directly attributable to an activity, but support a range of activities across the council.

Direct Costs

Direct costs are easily identified transactions with third-parties that are recorded in Council's finance system, reported on and audited. These include:

- Labour – the wages and salaries of all staff directly working on that service. These costs include staff overheads such as allowing for annual leave, sick leave, and long service leave
- Materials and services – services and supplies provided by a third party to Council that are used in providing the service.
- Other expenses – this includes other types of payments that Council makes as part of its operations to third parties that help provide benefit to the Whitehorse community. This includes grants and contributions, leases, and councillor allowances.

Indirect Costs

Council, like most organisations, has a range of “back office” operations that are not directly tied to any service delivery, but which incur costs to support the delivery of direct services. For example, IT services ensure staff have the required hardware, software and network infrastructure to perform their jobs and the finance department ensures suppliers are paid and customers are invoiced for the services they receive.

Council allocates its indirect costs using a pro-rata approach whereby indirect costs are allocated to services on a proportionate basis by using relevant cost drivers that are easily available, such as headcount, transaction numbers or the service unit’s share of total office space.

Other factors considered in setting fees

While cost recovery is a key consideration in determining fee levels, there are a number of other factors that are also important, and the relevance of these factors vary across Council’s different services. These include:

- Do any external constraints or guidelines apply? eg statutory pricing or competitive neutrality requirements
- Is the price competitive with neighbouring councils and other local competitors?
- Is there a level of Council subsidisation that needs to be maintained or reduced?
- Does the price allow community access, equity and affordability?
- Is the price appropriate given market demand trends and current economic conditions?
- Can the required increase in Council revenue be achieved through growth in volumes rather than price? eg due to growth in demand or population
- Does the price encourage an appropriate level of utilisation of Council facilities and services?
- How sensitive are customers to price changes for a particular service?

As a government body, Council has a responsibility to ensure it sets fees at an appropriate level so as not to create an unfair disadvantage for its private sector competitors by subsidising service costs through other revenue streams.

3.3 Grants

City of Whitehorse actively pursues all avenues to obtain external grant funds for prioritised works with income from grants making up approximately 9% of total revenue each year. When preparing its financial plan, 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 does not lead to the distortion of Council Plan priorities. Grants can be both state and federally funded and can be received in one of two forms:

- **Operating** - all monies received from state and federal sources for the purposes of funding the delivery of Council’s services to residents. These funds can be spent as council sees fit in accordance with local priorities.

- **Capital** - all monies received from state and federal sources for the purposes of funding the Capital Works Program. Receipt of this income is project dependant.

Grants can also be broken down into:

- **Recurrent** – where income is provided as part of an ongoing or regular funding program. This can include both general purpose grants, which can be spent at Council’s discretion, and funding for specific services, which are tied to delivering on agreed targets or outputs.
- **Non recurrent** – one off grants provided for specific purposes, where conditions apply as to how the money is spent. Most funding received for Council’s capital works program falls in this category, as well as some operational funding for specific projects.

The annual budget contains a summary giving a breakdown of the types of grants expected to be received each year under each of the above four categories. No project that is reliant on grant funding will proceed until a signed funding agreement is in place. All grants are recognised as revenue in accordance with relevant accounting standards.

3.4 Contributions

Contributions make up approximately 3% of overall revenue and can be received in two forms:

- **Monetary** – including; monies contributed by developers, sporting clubs or residents towards development of public open space, drainage, roads, recreational facilities and other assets.
- **Non-monetary** - include donations of property and infrastructure assets, which are primarily received from developers.

Public Open Space Contributions

One example of a contribution is the Public Open Space contribution where developers must contribute when subdividing a property into three lots or more. This contribution can be in the form of either money (monetary) or land (non-monetary). If monetary, 4% of the value of the property is required to be paid to Council which is kept in one of two reserves – Public Open Space Reserve, where the funds obtained are kept specifically to be spent on public open space and Public Open Space Reserve – Land Acquisitions which is to be spent specifically on the acquisition of land. If non-monetary, the developer must agree to set aside a portion of the site specifically for the purpose of Public Open Space up to 4% of the value of the subject site. More information on the principles governing the use of these reserves can be found in the annual budget.

Council is currently undertaking a public open space review relating to the Box Hill metropolitan activity centre. The required level of contribution may be changed in future years depending on the outcomes of the review.

Developer Contributions

Council is currently in the process of developing an Infrastructure and Development Contributions Framework which will allow it to capture all relevant infrastructure funding from development in the Whitehorse area. It is seen as a first step to addressing development contributions on a municipal wide basis, analysing the factors that drive change and development in the municipality and which subsequently increase the demand on the infrastructure that Council provides. From this analysis, the Framework will predict the infrastructure needs of the municipality for approximately the next two decades, identifying specific projects and their associated costs.

Contributions to Capital Works Projects

Capital Works contributions are where an individual or group will benefit from a capital works project and will therefore be required to contribute towards the project. Common examples are from sporting clubs or community organisations for improvements to facilities that they use or lease, from neighbouring councils eg for shared road reconstruction projects, and from individual residents eg for road improvements through a special charge scheme.

Other contributions

Council actively seeks other opportunities for contributions from both the private and public sector, analysing each of these on a case by case basis.

3.5 Other Income

Other income makes up the remaining 6% of overall revenue. Examples include:

- **Interest** – Council invests surplus funds in accordance with its *Investment Policy*. The earnings on these investments provide an important additional source of revenue for Council.
- **Asset sales** – Council will sell assets either as part of a programmed changeover program, where there is a strategic purpose, or where an asset is no longer required.
 - Proceeds from the sales of plant and vehicles are used to help fund the replacement of those assets as they are changed over.
 - Proceeds from strategic property sales are added to Council's Development Reserve to provide a future source of funding for capital works projects.
 - Proceeds from lane closure sales are added to Council's Public Open Space Reserve.
- **Other income** – Council receives other income from a number of sources and for many different purposes. This includes leases and licences, sale of recyclables, and cost recovery income. Each income stream is governed by a separate agreement or arrangement.

4. Rating Strategy

The desired outcome of Council's rating strategy is to achieve sound rating practices which enable decisions that result in rates and charges that are:

- reasonable,
- reflective of the service needs and financial capacity of the local community,
- transparent,
- easy to comprehend, and
- compliant with legislative requirements in the State Government's Fair Go Rates System (FGRS).

Rates is a form of property taxation that is levied against a property, with the registered landowner being responsible for payment. It is important to note that council rates are not a sundry debtor charge (a fee for service charge) which is levied against an individual or company. Sundry debtor charges are not levied against a property.

As Rates are considered a property tax, the following broad principles of taxation are applied to the impost of Council rates:

1. the "ability-to-pay" principle
2. the "benefit" principle

NB: The State Government's FGRS considers the above mentioned "ability-to-pay" principle when setting the annual State wide rate cap.

Current Rating System:

Rating Option	Comment
Uniform rate:	<ul style="list-style-type: none"> • Considered the most transparent rating option
Advantages:	<ul style="list-style-type: none"> • Equitable distribution of rate burden
Disadvantages:	<ul style="list-style-type: none"> • All of the uniform rate is capped in accordance with the FGRS • Core Council services have cost increases greater than the FGRS • Unable to recover exact cost of waste
Officer Recommendation:	<ul style="list-style-type: none"> • Recommend that Council in the 2021-22 and 2022-23 financial years continue to use uniform rate in accordance with the FGRS.

Council currently has two adopted policies that relate to the special rate and special charge provisions of the LGA, as follows:

- Special Charge Scheme for Infrastructure Projects,
- Special Rate and Special Charge Schemes in Commercial Centres.

Rate Cap

Each year the Minister for Local Government (the Minister) sets a cap on rate increases based on the forecast Consumer Price Index and advice from the Essential Services Commission (ESC).

The rate cap decision made by 31 December each year and applies to rates in the following financial year. For the 2021-22 financial year, Victorian council rate rises have been capped at 1.50%. Given the current low inflation outlook it is envisaged that the rate cap for the duration of the Plan will remain low.

It is important to note that the rate cap applies to the percentage increase in a council's average general rate. It does not apply to an individual property's rate notice per se. The rate cap does not apply to service charges or the State Government's Fire Services Property Levy (FSPL).

Whilst Council supports the intent behind the FGRS, as Council levies a "Uniform" rate, the impact of rate capping on Council's revenue has been generally negative; this is because many core Council functions such as the removal of garbage have annual cost increases above the rate cap amount. An example of a Council cost increase rising above the annual rate cap is the Victorian Government's landfill levy which is forecast to increase from \$65.90/tonne in 2020-21 to \$105.90/tonne in 2021-22; a 60% increase.

Service Charges

Over time the gap between the cost increases associated with core Council services and rate increases associated with the FGRS will widen. The widening of this gap could, at a future date, impact Council's ability to provide core Council services to its ratepayers and residents; thereby reducing the "benefit" principle mentioned above. One option available to Council, that is being considered, to offset the impacts of long-term consequences of the FGRS, is the introduction of a service charge to recover the costs associated with the collection and disposal of refuse (garbage and waste).

The benefit of introducing a service charge is that, as stated above, the rate cap does not apply to a service charge which allows Council to recover the full cost of the garbage and waste services being provided. If Council were to introduce a service charge during the duration of the Plan, Council will fully comply with all statutory obligations, consult extensively with the ESC and undertake community consultation in accordance with Council's Community Engagement Policy.

Council acknowledges that the introduction of a service charge will require extensive rate modelling to establish the impacts on the current equitable division of the rating burden amongst ratepayers. It is important to note that the equitable division of the rating burden is annually adjusted by the application of annual municipal revaluations.

Depending on the modelling outcomes, Council may need to consider introducing differential rates to coincide with the introduction of the service charge; this is to ensure that the equitable division of the rating burden amongst ratepayers is maintained. The ESC will monitor the introduction of a service charge and in their briefing paper titled "Fair Go Rates system-Guidance for councils 2018-19" state the following:

"A council (introducing a new service rate) should provide us (the ESC) supporting documentation showing that the change has a neutral impact for the council and its community. That is, in aggregate terms, the increase in revenue from service rates... should match the reduction in general rates revenue and does not result in a windfall gain."

If the proposed service charge disadvantages ratepayers as a whole and Council is unable to explain the windfall gain, an alternative rate cap (reduced rate cap) may be set by the Minister. Additionally, the introduction of a service charge at a future date needs to be reflected in an amended Revenue and Rating Plan and that amended plan should be adopted by Council resolution. The amended Plan should clearly explain how Council accounted for ratepayers and the community's views when resolving to introduce a service charge to recovery the full cost of garbage and waste.

Future Service Charge Recommendation:

Option	Comment
Service charge:	<ul style="list-style-type: none"> • Council can introduce a service charge for the collection and disposal of refuse • Council currently allows for a 80-litre garbage bin, recycling, and residential hard waste collection in its capped uniform rate • Additional bin services are currently invoiced as a sundry debtor via the Fee-for-Service program
Advantages:	<ul style="list-style-type: none"> • Enables Council to recover the full cost of waste • Enables a charging system to be displayed on the annual valuation and rate notice
Disadvantages:	<ul style="list-style-type: none"> • Relies on data integrity and requires considerable data maintenance • Requires a two year data conversion period
Officer Recommendation:	<ul style="list-style-type: none"> • Recommend, that having completed community engagement, that Council at the commencement of the 2023-24 financial year introduce a service charge to recover the full cost of waste.

Valuations

The Act provides Council with the option of using either site value (SV), capital improved value (CIV) or net annual value (NAV) as its system of valuation. As mentioned earlier, council has made the recommendation to continue to use CIV. This recommendation is made because CIV is easily understood, as it represents the total market value of the property including land and all improvements.

Since 1 July 2018, the responsibility for rating valuations was centralised under Valuer-General Victoria (VGV); VGV are required to conduct valuations annually, as at 1 January each year. Effective 30 June 2018, Council was relieved of its responsibility to value properties within the City of Whitehorse for rating purposes.

Council currently provides a rate concession for recreational land. Under the *Cultural and Recreational Lands Act 1963*, provision is made for a Council to levy the rate for recreational lands at "...such amount as the municipal council thinks reasonable having regard to the services provided by the municipal council in relation to such lands and having regard to the benefit to the community derived from such recreational lands".

Rates Notices

The annual Valuation and Rate Notice is sent in August each year and ratepayers have the option of paying their Council rates (and FSPL) either by lump sum or by four instalments. Additionally, a number of ratepayers have their rates (and FSPL) directly debited from their bank accounts.

Since the COVID pandemic the number of ratepayers receiving their annual valuation and rate notice, instalment notices and fee-for-service debtor invoices (notices and invoices) by electronic delivery has increased. The uptake of electronic delivery of notices and invoices is being actively encouraged as a Council "Continuous Improvement" program, the uptake is expected to continue over the short to medium term. Council does not offer incentives for prompt payment of rates in accordance with the Act and Council will continue not to offer any early payment incentives.

Fire Services Property Levy

The FSPL is a State Government levy, introduced after the 2009 Victorian Bushfire Royal Commission, which Council collects on behalf of the State Government, with collected funds remitted to the State Revenue Office on a quarterly basis. The FSPL charges are set by the State Government and as mentioned above the FSPL is not subject to the FGRS.

Hardship

For ratepayers experiencing financial hardship, Council has a Rates Hardship Assistance Policy which was adopted by Council on 13 June 2013 and was amended, in response to the COVID pandemic, on 20 April 2020.

The objectives of the policy are:

1. To ensure ratepayers experiencing genuine financial hardship situations are aware of their legal entitlements regarding rating assistance available under the *Local Government Act 1989 & 2020* and the *Fire Services Property Levy Act 2012* and also make them aware of initiatives developed by Whitehorse City Council
2. To ensure appropriate assistance is granted to ratepayers enduring genuine financial hardship
3. To ensure all applications for rate and levy relief are treated respectfully and in a confidential manner

At the time of writing the Plan, the Victorian Ombudsman was conducting an investigation into Victorian councils' responses to ratepayers in financial hardship, in particular hardship resulting from the COVID-19 pandemic. This investigation is being undertaken in accordance with section 16A of the *Ombudsman Act 1973* and is expected to be tabled in Parliament during 2021. The recommendations made by the Ombudsman may require further amendment to Council's Rates Hardship Assistance Policy at a future date.



ACKNOWLEDGEMENT OF COUNTRY

Whitehorse City Council acknowledges the Wurundjeri and all peoples of the Kulin Nation as the traditional custodians of the land. We pay our respects to their Elders past, present and emerging.

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