

Department of Jobs,
Precincts and Regions

Local Government Revenue and Rating Plan Guide

SUPPLEMENT TO THE *LOCAL
GOVERNMENT BETTER PRACTICE GUIDE
REVENUE AND RATING STRATEGY 2014*
(AND INCORPORATING LOCAL
GOVERNMENT ACT 2020 REFORMS)

2021

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1 Revenue and Rating Plan

1.1 Introduction

This guide has been developed to support Victorian councils in developing a four-year Revenue and Rating Plan, which is a requirement under the *Local Government Act 2020* as part of the Integrated Strategic Planning and Reporting Framework. Importantly, this guide is to be read as a supplement to the 2014 publication *Local Government Better Practice Guide Revenue and Rating Strategy* which is available at <https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting>.

The elements of the 2014 *Local Government Better Practice Guide Revenue and Rating Strategy* remain valid, including – among others - the importance of a council pricing policy, a council discussion of rating principles and transparent justification for rating and revenue decisions by Council.

1.1.1 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 Local Government Rating System Review Report (the Report) and the Victorian Government's Response were released in December 2020.

It is important to note that the *Local Government Act 2020* was passed during the review, introducing new requirements for transparency and community engagement by councils. These themes are prevalent throughout the Review report. At the time of this publication the recommendations supported by Government have not yet been implemented, and timelines to make these changes have not been announced. However some of the recommendations of the report had already commenced implementation as part of the *Local Government Act 2020* reforms.

The Report made a recommendation (Recommendation 48) for councils to report on:

- The objectives of their rating strategy within the context of the council's four-year resource plan;
- The evidence on which they have based their rating strategy to meet those objectives;
- The method by which they have engaged their communities in the consultation and discussion of the rating strategy; and
- The method by which they will review and evaluate the rating strategy.

The Government supported Recommendation 48 in principle.

Other report recommendations highlighted the importance of council transparency and the use of evidence to justify rating decisions and linking these to their other long-term plans.

The Government's response to Recommendation 47 notes that the Revenue and Rating Plan is central to greater transparency and accountability of councils in rate setting process and describing the relationship with planning and budgeting strategies.

Future iterations of guidance will fully incorporate the Government's supported recommendations arising from the Local Government Rating System Review. It will also incorporate examples of best practice by Victorian councils as they develop in future years. Further information regarding the Local Government Rating System Review can be found at <https://engage.vic.gov.au/rating-review>.

1.1.2 Revenue and Rating Plan considerations

Included in this guide are discussions of common revenue-related issues that face councils, options available to councils in raising revenue under the *Local Government Act 2020*¹, key legislative and regulatory provisions and better practice. The guide aims to provide initial support and guidance in the first planning and reporting cycle under the *Local Government Act 2020*. It has been co-designed by the Local Government Finance Professionals (FinPro) and Local Government Victoria (LGV).

¹ Note that at the time of publication most rating and revenue raising powers remain under the *Local Government Act 1989*. Accordingly, the *Local Government Act 2020* includes reference back to the *Local Government Act 1989* in places.

Importantly, a Revenue and Rating Plan should provide a clear explanation of decisions made by a council in implementing their revenue and rating practices, and should also include:

- Clear linkages to Council's Vision, the Council Plan, and other strategic documents;
- Adherence to requirements under the *Local Government Act 2020* including:
 - Strategic Planning Principles (section 89);
 - Revenue and Rating Plan (section 93);
 - Financial Management Principles (section 101); and
 - Service Performance Principles (section 106).
- Information on the rating framework employed by council and justification for the basis of the framework, including the rationale and objective behind pricing decisions;
- References to relevant council policies, such as waste services, pricing and cost recovery, financial hardship, advocacy, and service provision; and
- Consideration of the factors included in **Table 1**.

Table 1 - Revenue and Rating Plan Considerations

Requirements	Council must prepare and adopt a Revenue and Rating Plan for a period of at least 4 financial years.
Key dates	Adopt by 30 June after a general election.
Accountability and who is engaged?	<p>The Council is responsible for adopting the Revenue and Rating Plan.</p> <p>The Executive is responsible for coordinating internal processes to prepare the Revenue and Rating Plan and making recommendations to Council for adoption.</p>
Connections and relationships	<p>The Revenue and Rating Plan is a new requirement. It is for a 4-year ‘block’ period starting on 30 June in the year after each general election.</p> <p>It provides a medium-term plan for how Council will generate income to deliver on the Council Plan, program and services and capital works commitments over a 4-year period. It defines the revenue and rating ‘envelope’ within which Council propose to operate.</p> <p>It will incorporate consideration of:</p> <ul style="list-style-type: none"> – The role of rates as a form of taxation and consideration of common taxation principles. – how revenue will be generated through rates on properties (including differential rates [if any] on different property classes) and consideration against taxation principles – fixed service charges that might be applied on services such as waste or recycling – fees and charges for services and programs – including pricing policies – developer contributions and other revenue – revenue generated from use or allocation of Council assets (including the application of discounts and waivers) – recurrent and non-recurrent operational and capital grants from other levels of government – entrepreneurial, business, or collaborative activities established to deliver programs or services and generate income or reduce costs <p>Assumptions underpinning the Budget must be transparent and linked to preparation of individual service and program budgets, service standards and major initiatives (both operational and capital).</p> <p>The Revenue and Rating Plan must therefore identify each source of revenue to be included in the budget and the policy rationale/assumptions that underpin these.</p>
Implications	<p>The Revenue and Rating Plan outlines the assumptions, policy, and decisions of Council in relation to generating the required income to effectively support implementation of the Council Plan and budget for a 4-year period.</p> <p>The plan will include transparent consideration of the policy objectives and social, economic, and environmental benefit delivered through subsidies, waivers, and discounts.</p> <p>It will identify financial and revenue related risks and ensure these are mitigated and effectively managed.</p> <p>The Revenue and Rating Plan will be underpinned by policies that provide stability and predictability.</p> <p>Council’s strategic risk register should link to the Rating and Revenue Plan.</p>

1.2 Rates

Rates represent the greatest proportion of revenue for councils and can be complicated to understand. A good Revenue and Rating Plan should be able to explain the following concepts:

- Rates as a form of property taxation, as opposed to a fee for service, and a general explanation of taxation principles;
- Discussion regarding the Fair Go Rates System (FGRS) and the impact of rate capping on council revenue;
- How the Revenue and Rating Plan outlines the equitable division of the rating burden amongst ratepayers (including that it does not dictate the total amount of rates to be raised), and how it contributes to the achievement of council objectives;
- The use of property valuations in calculating rates including an explanation of the different methods available to councils, discussion on why the chosen method is used and how supplementary rates are calculated and the valuation objection process;
- Descriptions of differential rating categories if used and any evidence and justification for their use;
- Discussion on the use of the Municipal Charge (if applicable), including evidence and justification for their use;
- The council's approach to the rating of Cultural and Recreational Land
- Any forms of rebates and concessions proposed or in use by the council
- The way in which rates are collected and administered by council (i.e. Rates instalment notices, payment options available to ratepayers including those in financial hardship, how penalty interest is applied, pensioner rebates and debt recovery practices);
- Descriptions of any service rates and charges collected via the rates process, their purpose and justification;
- An explanation of the Fire Services Property Levy (FSPL) and its impact on rates notices; and
- Hardship policies and provisions available to ratepayers in financial distress.

1.3 Non-rate revenue

A Revenue and Rating Plan must also address non-rate revenue received by council. This can include:

- Statutory Fees and Fines;
- User Fees and Charges;
- Grants;
- Contributions (both cash and non-cash); and
- Asset sales.

Notably, where council sets the price of its non-rate revenue, the Revenue and Rating Plan should outline in detail the pricing policy used to set those fees and charges, including clear rationale in cases where councils may be seen as subsidising particular groups at the expense of others.

Pricing structures can be broadly categorised as follows:

1. **Market pricing** – where prices are set based on benchmarked competitive prices of alternate suppliers;
2. **Full cost recovery pricing** – where prices are set to recover all direct and indirect costs incurred to deliver the service; or
3. **Subsidised pricing** – where the full cost of providing the service is not passed onto the customer, and is subsequently subsidised by other revenue streams.

All of these pricing structures rely on councils knowing the cost of the services they provide in order to make accurate assertions when setting pricing policy.

In 2010, the Victorian Auditor General's Office (VAGO) released a report titled "Fees and charges – cost recovery by local government". The report found that the councils examined were not effectively managing the full costs of the services they provide. Further they were not basing their fees and charges on any clear understanding of these costs, or of the other societal, economic and legal factors that should be taken into account when establishing prices for community services.

The report not only highlighted the importance of councils knowing the cost of providing their services in order to make educated decisions when setting pricing policy, but also how councils should benchmark their services and pricing against other providers of similar services.

The report further outlined “user-pays” principles, where users of council services should expect to pay a fair amount for that service, which would similarly be expected from a commercial provider. The report can be found online at <https://www.audit.vic.gov.au/report/fees-and-charges-cost-recovery-local-government>.

Grants represent an important but sometimes unpredictable revenue source for councils. Often grants from other levels of government are tied to the delivery of specific infrastructure. A good Revenue and Rating Plan should explain how council prepares for grant opportunities and the advocacy methods employed to ensure council is ready to respond to any grant opportunities.

1.4 Community Engagement

Deliberative community engagement is not prescribed for a Revenue and Rating Plan in either the *Local Government Act 2020*, or the *Local Government (Planning and Reporting) Regulations 2020*. However, given the low levels of understanding around rates, the benefits of educating the community are substantial and public consultation should be viewed as an integral part of a Revenue and Rating Plan.

Community engagement on the Revenue and Rating Plan can be an effective way to better involve and educate ratepayers, customers and other stakeholders about council’s rating and revenue systems, how income is collected, and how policies are created and applied.

Community engagement may be undertaken in a number of different ways, from simple public exhibitions calling for submissions, to appointing committees or panels of interested stakeholders to inform council decisions.

2 Technical Considerations

2.1 Integrated Strategic Planning and Reporting Framework

The *Local Government Act 2020* (the Act) received Royal Assent on 24 March 2020 with proclamation to occur in stages. Part 4 of the Act addresses planning and financial management. The legislative requirements to develop strategic planning, budgeting and annual reporting documents in Part 4 came into operation on 24 October 2020.

The Act introduces strategic planning principles for Victorian councils which include an integrated approach to planning, monitoring and performance reporting. This important shift from a more prescriptive form of legislation to a new Act that is principles-based is explored further in the Integrated Strategic Planning and Reporting Discussion Paper which is available at <http://engage.vic.gov.au/local-government-act-2020>.

A component of the new Integrated Strategic Planning and Reporting Framework (ISPRF) is the Revenue and Rating Plan. By 30 June 2021 Victorian councils must develop (at a minimum) a 4-year Revenue and Rating Plan for the period 1 July 2021 to 30 June 2025.

2.2 Local Government Act 2020

The *Local Government Act 2020* includes principles and specific requirements relevant to the development of a Revenue and Rating Plan. Key provisions are included below.

2.2.1 Section 89: Strategic Planning Principles

- (1) A Council must undertake the preparation of its Council Plan and other strategic plans in accordance with the strategic planning principles.
- (2) The following are the strategic planning principles—
 - a) an integrated approach to planning, monitoring and performance reporting is to be adopted;
 - b) strategic planning must address the Community Vision;
 - c) strategic planning must take into account the resources needed for effective implementation;
 - d) strategic planning must identify and address the risks to effective implementation;
 - e) strategic planning must provide for ongoing monitoring of progress and regular reviews to identify and address changing circumstances.

2.2.2 Section 93: Revenue and Rating Plan

A Council must prepare and adopt a Revenue and Rating Plan by the next 30 June after a general election for a period of at least the next 4 financial years.

2.2.3 Section 101: Financial Management Principles

- (1) The following are the financial management principles—
 - a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
 - b) financial risks must be monitored and managed prudently having regard to economic circumstances;
 - c) 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;
 - d) accounts and records that explain the financial operations and financial position of the Council must be kept.
- (2) For the purposes of the financial management principles, financial risk includes any risk relating to the following—
 - a) the financial viability of the Council;
 - b) the management of current and future liabilities of the Council;
 - c) the beneficial enterprises of the Council.

2.2.4 Section 106: Service Performance Principles

- (1) A Council must plan and deliver services to the municipal community in accordance with the service performance principles.
- (2) The following are the service performance principles—
 - a) services should be provided in an equitable manner and be responsive to the diverse needs of the municipal community;
 - b) services should be accessible to the members of the municipal community for whom the services are intended;
 - c) quality and costs standards for services set by the Council should provide good value to the municipal community;
 - d) a Council should seek to continuously improve service delivery to the municipal community in response to performance monitoring;
 - e) service delivery must include a fair and effective process for considering and responding to complaints about service provision.

2.3 Local Government (Planning and Reporting) Regulations 2020

The Local Government (Planning and Reporting) Regulations 2020 (the regulations) came into operation on 24 October 2020. The regulations define a Revenue and Rating Plan as follows:

Revenue and Rating Plan means a Revenue and Rating Plan prepared by a Council under section 93 of the Act.

Schedule 1 of the regulations requires the governance and management checklist included in the report of operations in a council's Annual Report to include the Revenue and Rating Plan as an item. The checklist confirms whether the Revenue and Rating Plan has been adopted by council, and if so on what date. If the Revenue and Rating Plan has not been adopted the checklist allows for the inclusion of a reason as follows:

Local Government (Planning and Reporting) Regulations 2020
S.R. No. 117/2020

Schedule 1—Annual report—Governance and management checklist in
report of operations

<i>Column 1</i>	<i>Column 2</i>
<i>Governance and Management Items</i>	<i>Assessment (select relevant box)</i>
<p>5 Revenue and Rating Plan (plan under section 93 of the Act setting out the rating structure of Council to levy rates and charges)</p>	<p>Adopted in accordance with section 93 of the Act <input type="checkbox"/></p> <p>Date of adoption:</p> <p>OR</p> <p>Not adopted in accordance with section 93 of the Act <input type="checkbox"/></p> <p>Reason for not adopting:</p>