Government Services

Local Government Better Practice Guide

Revenue and Rating Plan

Book 2: Councillor Guide

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The Local Government Better Practice Guide: Revenue and Rating Plans was compiled by a working group comprising:

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A Guide for Councillors

The setting of rates, fees and charges is one of the most sensitive issues for a Council as it affects every ratepayer and resident in their municipality. A coherent and well-presented Revenue and Rating Plan can help the public better understand their Council's decisions.

Strategic Planning Requirements

How do we raise money for the things we want?

The revenue raised by a local government is for delivering services and infrastructure to benefit those providing the revenue – the local community. The Revenue and Rating Plan is therefore linked to planned expenditure in the annual budget and long term planning documents. They cannot be separated as any increase in spending by a council must be matched by revenue.

The Revenue and Rating Plan is one component of the Integrated Strategic Planning and Reporting Framework (ISPRF) which is detailed in the *Local Government Act 2020*[1].

The development of a council's ISPRF is principles based. In discussing a draft Revenue and Rating Plan, Councillors should be considering the integration of their decisions with:

- Financial Management Principles
- Service Performance Principles; and
- Strategic Planning Principles.

Further information regarding planning and reporting can be accessed at:

https://www.localgovernment.vic.gov.au/strengthening-councils/sector-guidance-planning-and-reporting

[1] Part 4 (Planning and Financial Management)

Considering a Best Practice Revenue and Rating Plan

The *Local Government Act 2020* requires[2] that:

> 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 four financial years.

A Revenue and Rating Plan may include:

- Background discussion and research on the municipality and Council's past rating practices;
- Council's objectives and its rationale for setting its user fees and charges, and its rating structure;
- A comprehensive impact statement regarding rates, fees, and charges on its municipality;
- Explanatory material to justify Council's decisions; and
- Council's consultation practices regarding the Plan, how the public can provide feedback, and the manner in which feedback will be responded to.

During the development and consultation cycle of a Revenue and Rating Plan a Council may:

- Perform service area reviews;
- Communicate how they came to decisions;
- Inform their community through detailed and transparent engagement plans in line with relevant policies; and
- Consider the trade-offs and impacts of their decisions.

While the *Local Government Act 2020* requires a Council to adopt a Revenue and Rating Plan for a period of four financial years, should a Council propose to alter any section of the plan during this time further consultation with the community should be considered.

[2] s93

Revenue and Rating Plans

A Revenue and Rating Plan should provide clear explanations of Council decisions and revenue and rating practices, including:

Clear links under the *Local Government Act 2020* to a Council's -

- Community Vision (Section 88);
- Strategic Planning Principles (Section 89);
- Council Plan (Section 90);
- Financial Plan (Section 91);
- Asset Plan (Section 92).

Adherence to requirements under the -

- Financial Management Principles (section 101); and
- Service Performance Principles (section 106).

And -

- Information on the rating framework employed by Council and justification for the basis of the framework, including the rationale and objective behind these decisions; and
- Clear references to relevant council policies, such as waste services, pricing and cost recovery, financial hardship, advocacy, and service provision.

What does Best Practice look like?

This Guide is not prescriptive. It does not dictate what optimal rating arrangements should be. It is not a requirement that councils levy rates, and beyond the requirements of the legislation, the system affords significant flexibility for councils to levy rates in a range of ways. Best practice in revenue and rating for the purposes of this Guide is:

> Everyone involved in council revenue and rate setting fully understands the impacts of their decisions and can explain and justify them to the public.

Budgeting for Council Services and How to Fund Them

Decisions about funding council services can be challenging. Funding includes user fees and charges, government grants, or using revenue generated from rates and other sources. Adding to the complexity is where services are funded from a mix of revenue items.

Councils must in turn plan for and review services to ensure they are financially sustainable and meet community needs. During service planning and review exercises councils should ensure that that services:

- meet quality and cost standards;
- respond to community need;
- demonstrate continuous improvement; and
- be accessible to relevant members of a community.

While councils need to review service provision to ensure they are meeting their objectives, understanding the full cost of the services is important to accurately and consistently allocate overheads.

Without a comprehensive understanding of costs, councils may find it difficult to determine service levels and manage costs. The result can be waste and uncontrolled costs.

A Council should consider the following steps to ensure transparency and integrity in their decision-making:

Step 1: Determine Operating Costs

Step 2: Budget for Non-Rate Revenue

Step 3: Determine Rates and Charges

If Step 3 has resulted in Rates and Charges that exceeds the Rate Cap set by the Minister, then a Council may consider either:

- Consultation with the community on a Higher Rate Cap application through the Essential Services Commission; or
- Revisiting the process to identify cost savings and/or increased revenue from other sources.

Determining Operating Costs

Accurate costing of services impacts a council's revenue target when determining user fees and charges as well as other revenue used to cover budgeted shortfalls.

To effectively fund services, councils can undertake service planning to set clear objectives and outlines the resources required to achieve them. This is typically documented in a service plan or catalogue.

When considering particular services, direct and indirect costs ultimately influence the total cost of that service. Examples include:

Direct Costs

Labour – wages/salary, taxes, superannuation, training, worker's compensation, overtime, allowance for sick or long service leave;

Accommodation and Materials – office rent and maintenance, consumable supplies, utilities, administrative expenses;

Asset/Equipment Maintenance – servicing vehicles, plant hire, repairs, loan repayments, allowance for replacement and depreciation.

Indirect Costs

Corporate Services – salaries of support services (executives, financial services, human resources, payroll, information technology);

Asset/Equipment Maintenance – assets and equipment shared across council services such as buildings.

When determining the cost of a service, benchmarking against other councils or comparable industries can provide information on how council activities compare, which can also inform the setting of prices (see - Budgeting for Non-Rate Revenue, below).

Examining all corporate services to determine if direct and indirect activities are working efficiently can identify opportunities to achieve associated savings.

Budgeting for Non-Rate Revenue

Decisions about sources of non-rate revenue are driven by a council's service objectives, which then affects their level, affordability and frequency of access.

It is important for councils to know the cost of providing their services so they can make sound decisions when setting prices. This can include benchmarking services and pricing against other providers of similar services (whether commercial or governmental).

Directly charging the public for many services is impractical (such as walking on footpaths); however councils may offer user-pays services where possible and restrict the use of rate revenue to offset any of their associated costs. Affordability and access are commonly addressed by the introduction of pricing subsidies (or cross-subsidisation), implying that one group of users must pay higher or lower prices than another.

Cross-subsidisation exists in a number of ways:

- Fees and charges paid by different users for a specific service. A cross subsidy between users (such as concession based on age) may assist users with identifiable capacity to pay issues;
- Between users and ratepayers between one service to another. A cross subsidy between services (such as permits and libraries) may fund beneficial community outcomes; and
- The amounts of rates paid by different ratepayers. A cross subsidy between rates and charges (such as the application of Differential Rates, Service Charges, or a Municipal Charge) may provide equitable outcomes for the community as a whole.

Where councils traditionally base their levels of user-fees and charges on historic levels rather than any ongoing review of objectives and rationales set against the cost of the service, a more comprehensive approach to price setting is required.

Councils providing simple and transparent reasoning regarding how they set their user fees and charges represents a direct expression of how they intend to fund services supplied to their community.

Financial grants from other levels of government represent crucially important (but sometimes unpredictable) revenue sources for councils. They are often provided by the Federal and State Governments and may be untied or tied to funding specific services and infrastructure.

Pricing Structures

To manage the full costs of services they provide, councils should base their fees and charges on clear understanding of all related costs, as well as the societal, economic, and legal factors considered for community services.

Pricing structures can be broadly categorised as:

Subsidised pricing – where the full cost of providing the service is not passed onto the customer and is subsequently subsidised by other revenue streams;

Full cost recovery pricing – where prices are set to recover all direct and indirect costs incurred to deliver the service (also known as cost-neutral);

Profitable pricing - where prices are set based on council's desire to generate a profit which is then used to fund other services; and

Market pricing – where prices are set based on benchmarked competitive prices of alternate suppliers. This method may also result in profitable pricing or subsidised pricing, dependant on the cost of providing the service.

Financing Council Initiatives through Debt and Good Borrowing Practices

Revenue discussions may include debt finance or borrowing. Councils are, – far more than State or Federal – asset intensive, in that the majority of a council's balance sheet comprises fixed assets of roads, footpaths, drains and buildings. Such assets provide public services and do so over long time periods. For example, many councils have town halls that have been providing a public service for well over a century and will do so for decades to come.

The question a council should consider in funding such long-lived assets (either for their construction or maintenance) is whether the revenue to pay for them should come from current ratepayers and residents only – or whether to consider inter-generational equity through contributions from future residents and ratepayers.

For example, if a council in the 1890s was determined to be debt-free and did not seek finance to fund the building of a new town hall, it is unlikely to ever have been built and therefore used and enjoyed by future generations. Nor may it be prudent for a council to 'save up' for such expenditure, as this requires holding on to public money for long periods of time.

It is important for councils to have honest discussions about debt to finance the construction or maintenance of long term assets. Considered use of debt finance is part of the overall council revenue mix as adhering to a mantra such as 'debt-free' for many years can mean reduced investment in future infrastructure.

It should be noted that all financial decisions must align with the Financial Management Principles detailed in section 101 of the *Local Government Act 2020*.

Spotlight On: Cross-Subsidisation

One issue highlighted during the City of Pleasantville election was the condition of the Pleasantville Aquatic Centre, which had fallen into decline.

Data from previous years was analysed and it was determined that the cost of maintaining infrastructure and services was only partially funded by the general entry fee of $6 (with free entry for children under 6 years old). This entry fee had not changed for many years.

While Council recognised that residual service costs may be funded through contributions via their ratepayer's annual rate payments, it was clear that a substantial portion of rate revenue had been used to subsidise the aquatic centre.

Council's decision considered competing and conflicting considerations, including the cost of services offered, providing affordable access to families, low-income community members, and those seeking to access active ageing services. Council also modelled the predicted growth of the municipality and future service demands.

During their consultation, Council intends to clearly detail the costs of running the service, the impact of the proposed price changes to annual rate notices (showing "before" and "after" models), and transparent commentary regarding their decision making process.

After modelling with council officers, the cost of entry to the Pleasantville Aquatic Centre was proposed as:

Pool Access	Single Visit	10 Visit Pass
Adult	$7.00	$60.00
Concession	$6.00	$52.00
Child	$4.00	$37.00
Family	$17.50	$160.00

Pool & Gym Access	Single Visit	10 Visit Pass
Adult	$14.50	$130.00
Concession	$12.00	$110.00
Active Ageing (60+)	$7.00	$70.00

Note: All prices have been created to illustrate an example scenario for a fictional aquatic centre and are not indicative of any existing service.

Revenue and Rating in Local Government

A council's Revenue and Rating Plan is a statement of:

- How council's costing and pricing of service delivery has addressed the impact of cross-subsidisation funding for budgeted shortfalls through rates and charges;
- Where a council has used (or considering the use) rating instruments other than a Uniform Rate (such as Differential Rating, Municipal Charges and Service Charges); a detailed explanation on the impact of these instruments, including how rate reductions provided to groups of ratepayers are borne by increases to others and why;
- An explanation on how council's adopted rating system functions. This includes the council's budgeted revenue, how rates in the dollar are determined from property valuations, and how rates are calculated, billed, and recovered;
- How Council intends to apply legislative provisions for financial hardship, as well as debt recovery activities (each informed by relevant policies); and
- The fundamentals of property valuation. This includes what valuation bases were available for use, which was adopted and why, the revaluation cycle (including factors considered by the Valuer General, see *Appendix Three: Supporting Documents*), and the valuation profile of the municipality.

Councillors wishing to learn more about the rates and charges (including information pertaining to the Rate Cap Mechanism) can access information regarding how the rating system works in *Appendix Three: Supporting Documents*.

Key Principles of Revenue and Rating

The choices that councillors make regarding the design and application of a council's revenue system has real-life consequences for their community.

When considering decisions to be made for their Revenue and Rating Plan, Councillors should ask themselves:

> What is council trying to achieve, and what is the right tool for the job?

It is the application of the many tools available to councils and how they interact, that is often the cause of public criticism or confusion.

For example, applying tools such as differential rates for the sake of perceived (but untested) fairness rather than factual evidence or using too many of these tools without understanding their collective impact, can cause community frustration and confusion. This may then result in unintended consequences to their equity.

Applying Principles to Rating Decisions

Levying rates involves winners and losers – consequences that can be dispersed widely or may impact just a few. It is practically impossible for a decision maker to take every individual circumstance into account, so must rely upon some broader considerations to come to a good decision.

Applying principles to taxation decisions is a common practice which allows the merits of different arrangements to be assessed. No principle or set of principles can lead to a 'perfect' decision. Rather, they are a means of guiding discussion on a complex matter to make decisions. Common taxation principles and their application in the context of a revenue system are set out as below.

Equity

Equity is a consideration in all taxation including federal income tax, state land taxes and local government rates. Two main concepts that guide thinking are *Horizontal Equity* and *Vertical Equity*.

Horizontal Equity implies that those in similar situations (including receipt of a service or benefit) should pay similar amounts in tax, which can be exemplified by:

- Charging a general admission cost to everyone who enters a specific event;
- Properties with the same value will pay the same amounts in rates; or
- Setting a Service Charge based on the service provided to a customer, rather than what portion of that service was used[3];

Vertical Equity implies that individuals and organisations with greater capacity to pay should pay more than those with less capacity to pay (proportional taxation[4] is a common example of this concept in practice). Examples of *Vertical Equity* in practice are:

- Properties that are worth more in value than others will contribute more in rates (i.e. properties valued at $2 million pay twice as much as those valued at $1 million;
- Have a differing capacity ability to pay than others using the same service, such as providing a discount to those with a pension card or unemployed; and
- People or businesses earning greater revenue will pay more in tax than those earning less.

The application of *Horizontal Equity* and *Vertical Equity* may be complicated when determining how the costs of council services should be shared between users and ratepayers.

[3] Such as a customer charged for the collection of a bin at a set rate, though they may only partially fill their bin for collection.

[4] Federal income tax and state land tax are examples of this.

Council rates takes into consideration the principle of *Vertical Equity*, by accounting for '*Capacity to Pay*' in several ways:

- Council rates are set as a percentage of a property's value, which is based on the premise that value is a proxy for wealth, and that 'wealthier ratepayers' generally have higher valued property. Therefore, 'wealthier ratepayers' will generally pay more in rates than those with 'less wealth' in the same municipality;
- Certain lower-income groups in the community, such as age pensioners, are recognised as having limited or restricted income and therefore receive concessions on rates subsidised by the State (and, in some cases, by local governments); and
- Where hardship is identified in specific instances, support can be provided to specifically targeted ratepayers in the form of payment deferrals and waivers.

A discussion about the **equity** of rates can be challenging, specifically when considering the application of differential rating categories.[5] For instance, where a Council considers deviating from Uniform Rating and declaring a differential rate as a means to 'improve equity' within their municipality (as determined by the council), they should provide transparent evidence that supports their decision.

Conversely, the application of Service Rates and Charges or Special Rates and Charges, may allow councils to identify a specific need or special benefit to an identifiable section of the community. Application of these powers may provide 'improved equity' and can be clearly communicated to affected ratepayers.

Considerations of **equity** should consider the impact on all ratepayers in a community, not just the immediate beneficiaries of a differential rate, concession, or other rate reduction. It must also recognise that a reduction of general rates provided to one group or individual must be compensated by an increased payment for others if the same amount of revenue is to be collected.

[5] s161, *Local Government Act 1989*

Efficiency

Rates as a form of property taxes should not significantly distort decisions around property ownership, usage, and development. For example, the use of differential rating categories to incentivise or discourage the use of land may not be the most efficient method of changing property owner's behaviours.

Where councils wish to incentivise the use of particular land to attract commercial interests, direct grants and support for small business may be a more **efficient** method of support. In discouraging landowners that do not develop land (vacant land) or use it for short-stay accommodation, it may be more efficient to revisit council's planning scheme or local laws.

The principle of **efficiency** can also be considered in line with the principle of **simplicity**.

Simplicity

The principle of **simplicity** hinges on how easily a system can be understood. This principle can be straight-forward when dealing with customers who are deciding if they wish to make a once-off use of a service. It can quickly become challenging when explaining more complicated decisions made by councils, such as council rates.

A rating system should ideally be easy for the public to understand, as should the explanation of it by a council. It should be easy to administer.

Councils should provide their communities with specific evidence that justifies their rating decisions, in a clear and precise manner. Council employees and ratepayers alike should be able to reasonably discuss and understand the rating decisions made by Councillors.

Councils should also carefully consider the application of more complicated aspects of a rating system, monitor existing applications to determine if they are achieving intended goals, and focus on creating a system that is reasonably simple to maintain.

Sustainability

Council decisions should generate reliable revenues on an ongoing basis, including rating decisions that are durable over time. Determining a **sustainable** mix of user charges and rates revenue is essential to fund the vast variety of services councils provide to their community.

During a council's annual budget cycle, it is common for councillors to focus on maximising rate revenue, with less attention given to council's capacity to generate other forms of revenue.

Rather than a council automatically setting increases to rates and charges to match the Rate Cap set by the Minister of Local Government and forecasting on this basis, sustainable outcomes for councils should prioritise modelling operating costs of councils and non-rate revenue. This would create cost-saving efficiencies within these services (including daily administrative operations), before determining what rate revenue is required to cover remaining shortfalls.

Fairness

Fairness considerations are often subjective. They are informed by individual perceptions and experiences. The Local Government Rating System Review determined that fairness be considered differently from 'equity'. **Fairness** is a concept about the process and conduct associated with the rating system and how it is administered. This comprises:

Consistency – A council should administer the rating system in line with its stated policies and procedures. Adhering to policies and guidelines should ensure ratepayers are treated on like terms, and where exceptions are made (see Consideration) it is because specific circumstances have arisen that fall outside the set policy parameters.

Consideration – The legislation provides councils with the ability to consider different circumstances and apply discretion, allowing them to respond reasonably to affected ratepayers.

Councils should prioritise consideration of their own unique municipal profile rather than focus on how other councils have chosen to construct their method of rating.

Examples include payment difficulty and financial hardship practices that ensure that councils make reasonable efforts to engage (and assist) ratepayers to meet their liabilities. Only when these avenues are exhausted, council then use their formal debt recovery powers.

Transparency – Councils should provide information regarding their decisions and how they came to make them. Public transparency of council policies and procedures for the application of rates supports consistency of practices.

Accountability – Ratepayers should have access all information required for them to assess the fairness and integrity of the system, be able to engage easily with councils regarding their decisions and receive responses from councils clearly explaining their decisions in a manner that any reasonable person would be able to understand.

Councils should provide appropriate levels of public education regarding the function of rates and allow for escalation and a review of related decisions. This includes any decision made at an officer level, as well as decisions made directly by Council.

Breakout Box: Differential Rates and Average Valuation Increases

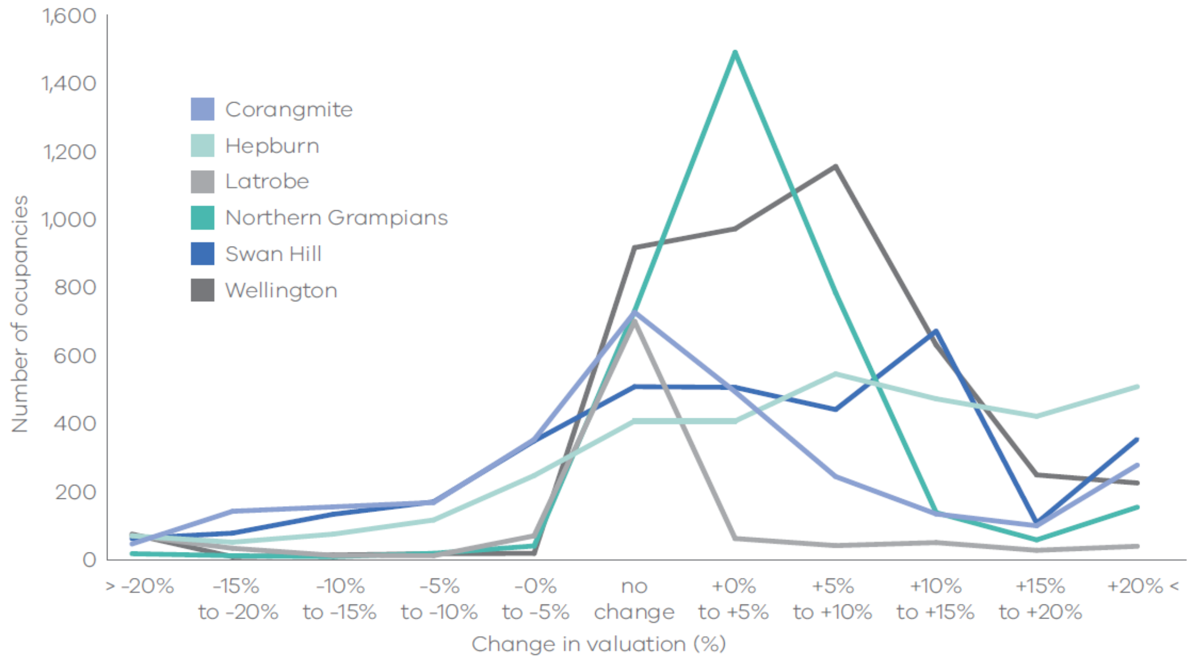
Council decisions on differential rates are often driven by perceived ideas of **equity**. One common perception is that average valuation movements of a broad property group (such as residential, commercial, farming, etc.) equally apply to each of the individual properties in that group.

Individual property values vary greatly within a property group, and valuation movements can be highly localised. While any particular property group's valuations may rise by an *average* amount in a year movements in individual property values in the same year vary.

For example, a farm land differential rating category may see an average increase of 7%, but within this category individual farm properties experience between a 20% increase to a 10% decrease in their valuation.

The Local Government Rating System Review's Report of the Ministerial Panel[6] provided some insight into the average valuation movement in rural properties:

Chart 5 – Rural properties: valuation movements by number of assessments



Source – Valuer-General Victoria, 2019 revaluation

Council officers should provide information regarding this key fact to councillors and how it affects properties within these categories.

The practice of allowing average valuation movements within differential rate categories to directly inform adjustments to rates in the dollar, is almost certain to have an erratic and inequitable effect.

[6] Page 55

Spotlight On: Improving Rate Transparency

The City of Pleasantville's previous Council had received frequent criticism about its rates. The Council had previously levied four Differential Rate categories (Farm Land, Residential Land, Industrial Land and Commercial Land), a Municipal Charge and a Service Charge (for residential waste collection). There was no consideration for rebates or concessions, and they offered no formal rate deferral or waiver arrangements which were granted on an ad-hoc basis by officers.

The rating arrangements were questioned by the new Council as the arrangements had been in place for 23 years, with only minor changes.

While assessing this structure, the Council determined that there was no evidence to support beliefs that commercial and industrial ratepayers used additional services compared to residential ratepayers and that their higher Differential Rate could not be justified or clearly explained to ratepayers.

Additionally, the perception that farming ratepayers outside of built-up areas of Pleasantville had less access to select council services in the central business area could be somewhat demonstrated but not clearly quantified, and there was no reasoning supporting how this Differential Rate was determined. It became evident that previous councils had altered the rate-in-the-dollar applied to each Differential Rate category annually without clear reasoning as to why, or for what purpose.

Council also found that their Municipal Charge was not based on identifiable administrative costs. Rather, previous Councils had simply increased the charge by CPI each year.

Finally, the Service Charge for waste had been increased by a set percentage annually without determining if it covered all applicable costs of the service. This had resulted in the service being subsidised from general rate revenue.

The new Council committed to publish evidence that justifies future rating decisions, assisting council employees and ratepayers alike to reasonably discuss and understand rating decisions made by their Councillors.

Going forward Council committed to a rating system that is easy to understand. Identifying that a simpler system is easier to administer, reducing unnecessary burden and the associated expenses of explaining decisions to the public during community engagement.

Unpaid Rates and Charges

This section provides an overview of unpaid rates and charges. Council practices are subject to *Ministerial Guidelines relating to payment of rates and charges* made under the *Local Government Act 1989* that may be found in Appendix One.

The *Local Government Act 1989* provides councils with powers to defer or waive fees, rates and charges for people experiencing financial hardship. It does not outline how or when these measures should be used. While this provides flexibility to councils to establish policies and practices suitable for their communities. It may also create uncertainty for ratepayers who do not understand the legislation and their rights within it.

The Act enables councils to charge interest on the unpaid balance, initiate legal action for recovery in the Magistrates' Court, and to sell (or claim) land to recoup rates and charges not paid.

Councils should have comprehensive policies that detail their approach to addressing both financial hardship and their debt recovery activities. These should clearly inform the community and council officers of how council addresses non-payment of rates and charges.

Councils should not discount the need to follow debt recovery activities to their conclusion. Council rates are necessary to help fund services and infrastructure for the community. It is important that councils apply an equitable imposition of rates and charges across the municipality. Failure to recover outstanding rates means it fails this objective and disadvantages the majority of ratepayers that do pay on time.[7]

Financial Hardship

A council's process for dealing with people who may be in (or placed into) financial hardship by payment of rates is where the consideration of fairness is most important. Without a reasonable consideration of a ratepayer's circumstances, that ratepayer may find themselves unfairly burdened with further debt by council debt recovery practices.

People experiencing financial hardship should have every opportunity to access assistance from council early. This assistance is part of a shared responsibility between the ratepayer and the council to work together towards payment of the debt in a way that is reasonable for both parties.

[7] Chapter 5.2: Recovery of Outstanding Rates - Protecting Integrity: Yarriambiack Shire Council Investigation

In situations where ratepayers are unable to make payment, Councils should address within their financial hardship policy what options for assistance is available. These policies should allow, and specifically address how council considers, application for:

- deferred payments (either short or long term);
- payment plans; and
- waiving any amount of the debt.

Debtors that access a council's financial hardship policies should also be able to reasonably understand how their application will be processed, when to expect a response to the application, and how the outstanding debt will be managed while the application is being processed.

Breakout Box: Family Violence

Victoria's 2015 Royal Commission into Family Violence recognised economic abuse as a form of family violence. It noted that when people leave violent relationships, they can be left in financial insecurity and debt:

Victims of family violence are more likely than others to experience financial difficulty and many experience poverty as a result of family violence, regardless of their prior economic circumstances. Research also tells us that people from culturally and linguistically diverse backgrounds and older people are at greater risk of financial insecurity following family violence and face additional barriers to accessing support. The financial consequences of family violence can be acutely damaging, and they are often long-term.

Victims' financial security is affected by partners who perpetrate economic abuse by controlling household finances, financial and utility accounts, and incurring debt in the victim's name through coercion or deception.[8]

The need to specifically address concerns regarding family violence and economic abuse is detailed further within the *Ministerial Guidelines relating to payment of rates and charges* (Appendix One).

[8] Page 74, Victorian Ombudsman's *Investigation into how councils respond to ratepayers in financial hardship*

Debt Recovery

Where a council has a robust financial hardship policy that is applied consistently and fairly, those who do not to respond or ignore attempts to collect outstanding amounts, should be subject to debt recovery.

Council's debt recovery policy should clearly state how fees, rates and charges are dealt with. Policy should detail under what circumstances a council will consider either bankrupting a debtor or selling (or claiming) a ratepayer's land[9] to recover rates debt.

Before pursuing debt formally, councils should consider the impact that these activities will have on their relationship with the ratepayer. The Local Government Rating System Review stated that:

> Legal action by councils should be a last resort, recognising that once a council decides to pursue legal action against a debtor, the relationship between the council and the debtor has 'failed' and the ramifications are likely to change the nature of the relationship between them.

In circumstances in which Councils have secured a judgement against outstanding debt on a property, it is considered best practice to review these properties on an annual basis to ensure that rate balances do not grow to unsustainable levels.

Councils' policies should also make clear what land they will consider selling (or claiming) to recover outstanding rates and charges, and what the process for the sale will be. While council officers are often responsible for the management of debt recovery activities, the decision to sell (or claim) land is often made by council (though this power may be delegated).

Where Councils choose not to proceed with the sale of any land as instructed by their individual policies, it should be made clear why this decision was made and ensure decisions are reviewed during the next annual process. It is also important that there is transparency around decisions made by a council to not pursue outstanding debts via appropriate reporting.

[9] s181, Local Government Act 1989

Drafting and Reviewing the Revenue and Rating Plan

Once council has completed their consultation process, they may proceed with adopting their Revenue and Rating Plan. Though a Revenue and Rating Plan must be adopted for at least four years, circumstances can change that requires council to revisit their decisions and consult with their community regarding potential changes.

Monitoring of a council's revenue and rating plan should involve feedback from the community supported by an analysis of the practical outcomes of the strategies adopted.

An annual review should be considered by councils to consider the effect of the plan and any changes. A council may still determine that a review is warranted at any time, and advice from its officers and a community's needs is the best position to consider the timing and scope.

Nevertheless, if a council wishes to change any aspect of their revenue and rating plan, they should communicate these alterations and consult accordingly with their community.

Councillor Consideration Checklist

Once council has completed a draft Revenue and Rating Plan, or prior to its final adoption, councillors should be comfortable that they have considered the relevant links to council plans, strategies, and the principles referred to in this section.

To assist with this process, this Guide provides a checklist located in *Appendix Three: Supporting Documents*.

Key Take-Away Points

- The cost of providing services to the community and how to fund them should be determined in the following order:
    1. Determine Operating Costs
    2. Budget Non-Rate Revenue
    3. Determine Rates and Charges
- When setting prices of services, which method/s are appropriate to apply to ensure you minimise the impact of cross-subsidisation from rate revenue:
    1. Full cost recovery
    2. Profitable
    3. Subsidised
    4. Market
- Do you fully understand the impact of applying various rating instruments (Municipal Charges, Differential Rates, Service Rates and Charges, etc.) and is this equitable?
- Do you have clear and detailed reasons that support Council's decision regarding the above rating instruments? Can you explain your decisions clearly to the public?
- If Council's proposed rates are an increase over the legislated Rate Cap, have you considered:
    1. Consulting with the community for an application for a higher rate cap, or
    2. Identifying increased revenue or innovative cost savings from services.