



Moyne Shire Council

# Revenue and Rating Plan 2021-2025

Adopted 29 June 2021



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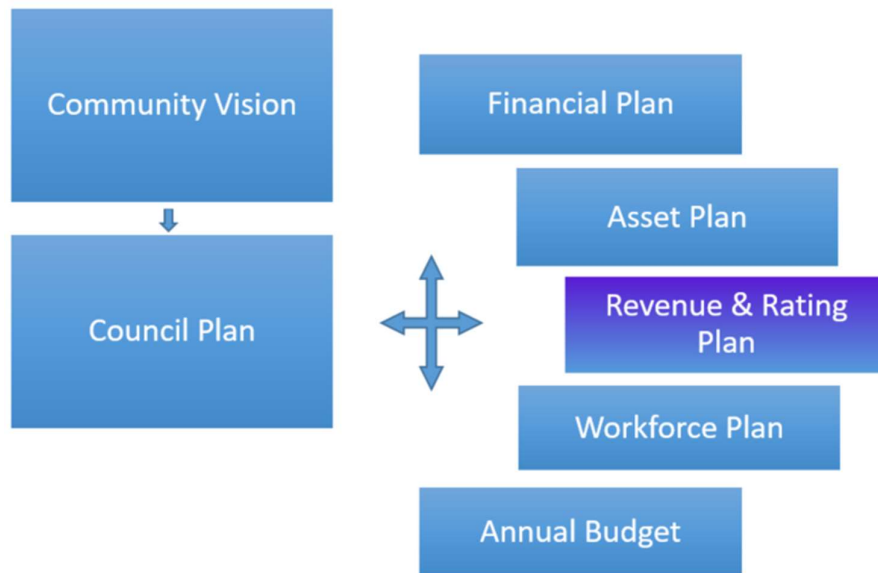
# 1 Purpose

The *Local Government Act 2020* requires each council to prepare a Revenue and Rating Plan to cover a minimum period of four years following each general Council election. The Revenue and Rating Plan establishes the revenue raising framework within which the Council proposes to work.

The purpose of the Revenue and Rating Plan is to determine the most appropriate and affordable revenue and rating approach for Moyne Shire Council which in conjunction with other income sources will adequately finance the objectives in the council plan.

This plan is an important part of Council's integrated planning framework, all of which is created to help Council achieve its vision of *"a vibrant, liveable, and prosperous community where people are diverse, resilient and feel happy and safe"*.

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



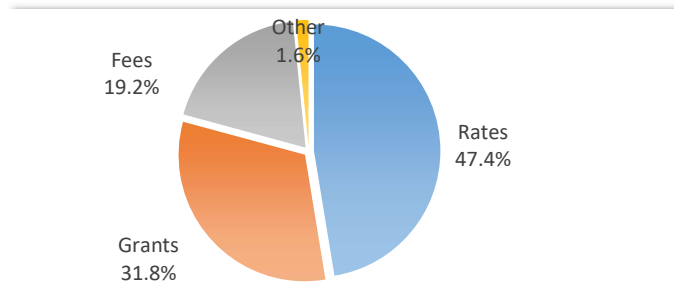
This plan will explain how Council calculates the revenue needed to fund its activities, and how the funding burden will be apportioned between ratepayers and other users of Council facilities and services.

In particular, this plan will set out decisions that Council has made in relation to 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 a number of services and facilities to our local community, and in doing so, must collect revenue to cover the cost of providing these services and facilities.



Council's revenue sources include:

- Rates and Charges;
- 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);
- Interest from investments;
- Sale of Assets.

Rates are the most significant revenue source for Council and make up approximately 47% of its 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 application is made to the Essential Services Commission for a variation. Maintaining service delivery levels and investing in community assets remain key priorities for Council.

Council provides a wide range of services to the community, often for a fee or charge. The nature of these fees and charges generally depends on whether they relate to statutory or discretionary services. Some of these, such as statutory planning fees are set by State Government statute and are commonly known as regulatory fees. In these cases, 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 set 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 sports pavilions. It is important for Council to be clear about what grants it intends to apply for, and the obligations that grants create in the delivery of services or infrastructure.

### 3 Community Engagement

The Revenue and Rating Plan outlines Council's decision-making process on how revenues are calculated and collected. The following public consultation process was followed to ensure due consideration and feedback is received from relevant stakeholders.

Revenue and Rating Plan community engagement process:

- Draft Revenue and Rating Plan prepared by officers;
- Draft Revenue and Rating Plan placed on public exhibition at (June) Council meeting for a period of 20 days and calling for public submissions;
- Community engagement through online and social media;
- Draft Revenue and Rating Plan (with any revisions) presented to (June) Special Council meeting for adoption.

### 4 Rates and Charges

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

Council has established a rating structure comprised of three 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* ;
- **Service Charges** - A 'user pays' component for council services to reflect benefits provided by Council to ratepayers who benefit from a service; and
- **Municipal Charge** - A 'fixed rate" portion per property to cover some of the administrative costs of Council.

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

Currently there are a total of **12,294** assessments in the Moyne Shire property data base.

The total comprises 4,386 residential assessments, 4,880 rural assessments, 2,688 rural lifestyle assessments, 210 commercial assessments, 130 industrial assessments, 1 power generator and 6 wind farms.

Council applies a uniform rate across all property categories.

Council also levies a municipal charge on each rateable property within the municipality with the exception of farms where a single municipal charge is payable on multiple assessments operated as a single farm enterprise. The municipal charge is a minimum rate per property and declared for the purpose of covering some of the administrative costs of Council. In applying the municipal charge, Council ensures that each rateable property in the municipality makes a contribution.

The current level of municipal charge at Moyne Shire Council raises 15% of the total rates charges.

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

- Valuation (Capital Improved Value) x Rate in the Dollar.

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

Rates and charges are an important source of revenue, accounting for over 47% of operating revenue received by Council. The collection of rates is an important factor in funding Council services.

Planning for future rate increases is therefore an essential component of the long-term financial planning process and plays a significant role in funding both additional service delivery and the increasing costs related to providing Council services.

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

Council currently utilises a service charge to fully recover the cost of Council's waste services and provide for future landfill rehabilitation costs. The waste service charges are not capped under the Fair Go Rates System.

## 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.

The recommended strategy in relation to municipal charges, service rates and charges and special rates and charges are discussed later in this document.

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 in terms of which valuation base to utilise. They are: 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 the Council's Annual Budget as required by the *Local Government Act 2020*.

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

- a) the total amount that the Council intends to raise by rates and charges;
- b) a statement as to whether the rates will be raised by the application of a uniform rate or a differential rate;
- c) a description of any fixed component of the rates, if applicable;
- d) if the Council proposes to declare a uniform rate, the matters specified in section 160 of the *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 the Council intends to apply for a special order to increase the Council's average rate cap for the financial year or any other financial year; or
- b) that the 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 specifying the average rate cap that applies for the financial year or any other financial year.

This plan outlines the principles and strategic framework that Council will utilise in calculating and distributing the rating burden to property owners, however, the quantum of rate revenue and will be determined in the annual Moyne Shire Council budget.

In 2019 the Victorian State Government conducted a Local Government Rating System Review. The Local Government Rating System Review Panel presented their final report and list of recommendations to the Victorian Government in March 2020. The Victorian Government subsequently published a response to the recommendations of the Panel's report. However, at the time of publication the recommended changes have not yet been implemented, and timelines to make these changes have not been announced.

## 4.2 Rating Principles

### ***Taxation Principles***

When developing a rating strategy, in particular with reference to differential rates, a Council should give consideration to the following good practice taxation principles:

- Wealth Tax;
- Equity;
- Efficiency;
- Simplicity;
- Benefit;
- Capacity to Pay;
- Diversity.

### ***Wealth Tax***

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

### ***Equity***

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

*Vertical equity* – those who are better off should pay more rates than those worse off (the rationale applies for the use of progressive and proportional income taxation. It implies a “relativity” dimension to the fairness of the tax burden).

### ***Efficiency***

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

### ***Simplicity***

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



### *Benefit*

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

### *Capacity to Pay*

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

### *Diversity*

The capacity of ratepayers within a group to pay rates.

The rating challenge for Council therefore is to determine the appropriate 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.

## **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. They are:

- **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 per cent 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 most commonly used valuation base 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 market value of the property.

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 on the basis that 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.
- The use of CIV allows council to apply differential rates which greatly adds to council’s ability to equitably distribute the rating burden based on ability to afford council rates. CIV allows council to apply higher rating differentials to the commercial and industrial sector that offset residential rates.

#### *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 very limited ability to apply differential rates, the implementation of Site Value in a Moyne Shire Council context would cause a shift in rate burden from the industrial/commercial sectors onto the residential sector, and would hinder council’s objective of a fair and equitable rating system.

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

### *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. Some of these owners may have much smaller/older dwellings compared to those who have smaller land areas but well developed dwellings - but will pay more in rates. A typical example is flats, units, or townhouses which will all pay low rates compared to traditional housing styles.
- The use of SV can place pressure on 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 the removal of the ability to levy differential rates.
- The community may have greater difficulty in understanding the SV valuation on their rate notices, as indicated by many inquiries from ratepayers on this issue handled by council's customer service and property revenue staff each year.

### *Net annual value (NAV)*

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

### *Recommended Rating Structure*

Moyne Shire Council applies Capital Improved Value (CIV) 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.

General rates and charges are determined in accordance with Councils adopted Rating Strategy which states that the general rating structure is comprised of two elements:

- Property values - multiplied by a uniform shire wide rate;
- Standard municipal charge - to cover the administrative costs of the Council.  
Municipal charge set to contribute 15 per cent of the income from total rate revenue.

### *Property Valuations*

The *Valuation of Land Act 1960* is the principle legislation in determining property valuations. Under the *Valuation of Land Act 1960*, the Victorian Valuer-General conducts property valuations on an annual basis. Moyne Shire Council applies a Capital Improved Value (CIV) to all properties within the municipality to take into account the full development value of the property. This basis of valuation takes into account the total market value of the land including buildings and other improvements.

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.

### *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 on a monthly basis 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 Charges Notice (Rates Notice), or within four months if the notice was not originally issued to the occupier of the land.

A property owner must lodge their objection to the valuation or the AVPCC in writing to the Moyne Shire Council. Property owners also have the ability to object to the site valuations on receipt of their Land Tax Assessment. Property owners can appeal their land valuation within two months of receipt of their Council Rate Notice (via Council) or within two months of receipt of their Land Tax Assessment (via the State Revenue Office).

## 4.4 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*, a council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the combined sum total of the Council's total revenue from the municipal charge and the revenue from general rates (total rates).'

The municipal charge applies equally to all properties and is based upon the recovery of a fixed cost of providing administrative services irrespective of valuation. The same contribution amount per assessment to cover a portion of council's administrative costs can be seen as an equitable method of recovering these costs.

## 4.5 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.

## 4.6 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.

Council currently applies a **kerbside collection service charge** for the weekly collection of waste and fortnightly collection of recycling, organics and glass recycling in certain townships and along collection routes and is payable only by those who receive the service.

Council also applies a **waste facilities service charge** to contribute to the waste facility costs including refuse disposal, site maintenance and development and the cost of post site closure rehabilitation.

A **state government landfill levy** is charged to cover the cost imposed by the state government in relation to refuse disposed at landfills.

Council retains the objective of setting the service charge for waste at a level that fully recovers the cost of the waste services, including providing for the cost of rehabilitation of the council's landfill once it reaches the end of its useful life.

It is recommended that council retain the existing waste service charges – should council elect not to have a waste service charge, this same amount would be required to be raised by way of an increased general rate – meaning that residents in higher valued properties would substantially pay for the waste service of lower valued properties.

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

## 4.7 Revenue in Lieu of Rates

Electricity generation companies have an option under Section 94 (6) of the Electricity Industry Act 2000 to enter into a rating agreement in lieu of the normal rating methodology of the Council. These rateable entities are quite different from the normal rateable properties which are valued on a capital improved basis to calculate their rates.

In reaching the current energy generator agreements, Council have applied the Order in Council made under section 94 (6A) of the Electricity Industry Act 2000 (Vic) that provides the prescribed methodology for determining the amounts required to be paid.

## 4.8 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*

In accordance with section 167(1) of the *Local Government Act 1989* ratepayers have the option of paying rates and charges by way of four instalments. Payments are due on the prescribed dates below:

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

Council offers a range of payment options including:

- in person at Council offices (cheques, money orders, EFTPOS, credit/debit cards and cash);
- online via Council's ratepayer portal;
- BPAY;
- Australia Post (over the counter, over the phone via credit card and on the internet);
- By mail (cheques and money orders only).

### *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*.

### *Pensioner rebates*

Holders of a Centrelink or Veteran Affairs Pension Concession card or a Veteran Affairs Gold card which stipulates TPI or War Widow may claim a rebate on their sole or principal place of residence. Upon initial application, ongoing eligibility is maintained, unless rejected by Centrelink or the Department of Veteran Affairs during the annual verification procedure. Upon confirmation of an eligible pensioner concession status, the pensioner rebate is deducted from the rate account before payment is required by the ratepayer.

With regards to new applicants, after being granted a Pensioner Concession Card (PCC), pensioners can then apply for the rebate at any time throughout the rating year. Retrospective claims up to a maximum of one previous financial year can be approved by Council on verification of eligibility criteria, for periods prior to this claims may be approved by the relevant government department.

### *Deferred payments*

Under Section 170 of the *Local Government Act 1989*, Council may defer the payment of any rate or charge for an eligible ratepayer whose property is their sole place of residency, allowing ratepayers an extended period of time to make payments or alternatively to forestall payments on an indefinite basis until the ratepayer ceases to own or occupy the land in respect of which rates and charges are to be levied.

The Council at its discretion can defer payment of the whole or any part of rate or charge or interest. This option is available to ratepayers facing financial hardship and appropriate applications will be considered.

Payment arrangements for any outstanding balance may be negotiated with the ratepayer. The acceptance of any payment arrangement will be entirely at the Council's discretion. A balance between a ratepayers' ability to pay and long-term recovery of the debt will be taken into consideration. Ratepayers will be required to commit to regular payments.

If approved payment arrangements are adhered to, no recovery action will be undertaken.

### *Debt Recovery*

Council makes every effort to contact ratepayers at their correct address but it is the ratepayers' responsibility to properly advise Council of their contact details. The *Local Government Act 1989* Section 230 and 231 requires both the vendor and buyer of property, or their agents (e.g. solicitors and or conveyancers), to notify Council by way of notice of disposition or acquisition of an interest in land.

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

If an amount payable by way of rates in respect to land has been in arrears for three years or more, Council may take action to sell the property in accordance with the *Local Government Act 1989* Section 181.

### *Fire Services Property Levy*

In 2016 the Victorian State Government passed legislation requiring the Fire Services Property Levy to be collected from ratepayers. Previously this was collected through building and property insurance premiums. The Fire Services Property Levy helps fund the services provided by the Metropolitan Fire Brigade (MFB) and Country Fire Authority (CFA), and all levies collected by Council are passed through to the State Government.

The Fire Services Property Levy is based on two components, a fixed charge, and a variable charge which is linked to the Capital Improved Value of the property. This levy is not included in the rate cap and increases in the levy are at the discretion of the State Government.



## 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:

- Kindergarten and Childcare fees;
- Caravan Park fees;
- Community Care service fees;
- Quarry fees;
- Leases and facility hire fees.

The provision of infrastructure and services form a key part of council's role in supporting the local community. In providing these, council must consider a range of 'Best Value' principles including service cost and quality standards, value-for-money, and community expectations and values. Council must also balance the affordability and accessibility of infrastructure and services with its financial capacity and 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. Full Cost Recovery Price;
- b. Partial Cost Recovery Price;
- c. Zero Cost Recovery;
- d. Market Price.

Full cost recovery price (a) 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.

Partial Cost Recovery pricing (b) is where council subsidises a service by not passing the full cost of that service onto the customer. The subsidy can be funded from council's rate revenue or other sources such as Commonwealth and state funding programs.

Zero Cost Recovery (c) is where the service is provided at no cost. The costs are met entirely from rates and general purpose income. Full council subsidy pricing and partial cost pricing should always be based on knowledge of the full cost of providing a service.

Market pricing (d) is where 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 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 council's full cost price, then the market price would represent council subsidising that service. If this situation exists, and there are other suppliers existing in the market at the same price, this may mean that council is not the most efficient supplier in the marketplace. In this situation, council will consider whether there is a community service obligation and whether council should be providing this service at all.*

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

- Both direct and indirect costs to be taken into account when setting prices;
- Accessibility, affordability and efficient delivery of services must be taken into account; and
- Competitive neutrality with commercial providers.

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

## 5.2 Statutory Fees and Charges

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

Examples of statutory fees and fines include:

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

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 currently \$165.22.

The rate for penalty units is indexed each financial year so that it is 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.

The value of one fee unit is currently \$14.81. 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 current value of the fee or unit. 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 of a recurrent nature and may or may not be linked to the delivery of projects.

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

When preparing its financial plan, council considers its project proposal timeline, 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.

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

## 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 the form of either cash payments or asset hand-overs.

Examples of contributions include:

- Monies collected from developers under planning and development agreements;
- Monies collected under developer contribution plans and infrastructure contribution plans;
- Contributions from user groups towards upgrade of facilities;
- Assets handed over to council from developers at the completion of a subdivision, such as roads, drainage, and streetlights.

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

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

## 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 earn the best return on funds, whilst minimising risk.

## 5.6 Borrowings

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

- Borrowings must only be applied for where it can be proven that repayments can be met in the Long Term Financial Plan;
- Borrowings must not be used to fund ongoing operations;
- Borrowings are appropriate for funding large capital works where the benefits are provided to future generations;
- Council will maintain its debt at levels which are sustainable with:
  - indebtedness <60% of rate and charges revenue; and
  - debt servicing cost <5% of total revenue.



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