2023 Revenue and Rating Plan Reference Group Report

7 March 2023

1 INTRODUCTION

1.1. Introduction

An objective for a council under the *Local Government Act 2020* (the *2020 Act*) section 101(1)(c) is to ensure Council's *Revenue and Rating Plan* provides stability and predictability in the financial impact on the municipal community. It sets out a plan for the equitable imposition of rates and charges.

The Revenue and Rating Plan incorporates Wodonga Council's *Rating Strategy*. A *Rating Strategy* is the process by which Council systematically considers the factors of importance that inform its decisions about the rating system. The rating system determines how Council will raise money from properties within the municipality. It does not influence the total amount of money to be raised, only the share of revenue contributed by each property. The rating system comprises the valuation base and actual rating instruments that are used to calculate and individual property owner's liability for rates.

Council's *Rating Strategy* was significantly reviewed in the mid 1990's with the changes becoming effective from 1995/96. At that time Council moved from Site Value (land only) based rates calculations to Capital Improved Value (land plus capital improvements such as buildings). Also, at that time several new rating categories were introduced. The next significant review was conducted in 2010 with changes being made to differentials for vacant, commercial, industrial and development use land. It also saw the change from Rural 1, 2 and 3 categories to Rural Farming and Non-Farming. At that time Council resolved to review its rating strategy every four years.

A review in 2014 was undertaken but did not result in any significant changes. A further review in 2019 resulted in the addition of a one-off rebate for energy-efficient new properties and the development use land differential lifted from 1.0 compared to the general rate to 1.5 for the 2019-2022 rating period and then to 2.0 in the 2020/2021 rating period and beyond.

1.2. Revenue and Rating Plan Reference Group

At its November 2022 ordinary meeting Council appointed a Revenue and Rating Plan Reference Group to review the current Revenue and Rating Plan.

Objectives of the Reference Group

The objectives of the Revenue and Rating Plan Reference Group shall be to act as an advisory group and provide a report to Council setting out recommendations for input into the development of the next Revenue and Rating Plan. The report of the Reference Group must be presented to councillors by December 2023.

In particular the objectives of the Reference Group are to:

- Identify and recommend principles that Council should consider when striking general rates, particularly with regard to the creation and maintenance of any differential rates.
- Provide input regarding the equitable sharing of the rates burden between various categories of ratepayers – eg, Residential, Commercial, Industrial, Rural.
- Make suggestions regarding changes to the structure of current charges and their relationship to general rates, eg. Garbage, waste and Municipal Charges.
- Identify any other special rates or charges or levies it believes Council should consider. Identify any other special rates or charges or levies it believes Council should consider.

Other issues the group may consider include:

- Garbage charges cost reflectivity;
- Incentives, disincentives and other pricing signals (eg. incentives to encourage protection of heritage values);
- Mechanisms for raising funds for neighbourhood works;
- Balance between general rates funding and specific user pays fees and charges (public benefit vs individual benefit);
- Transparency of cross subsidies;
- Usage/consumption of services vs ability to pay;
- Cost reflectivity;
- Equitable share of burden; and,
- Capacity to pay.

Items considered to be outside of the Scope of this Review

Issues the Reference Group was not asked to consider or comment upon:

- The amount of total rates revenue to be collected;
- Strategies and policies of Council in general, except to the extent they relate directly to rating strategies;
- Cost effectiveness and efficiency of providing Council services;
- The merit or otherwise of the range of services and facilities provided by Council; and,
- Council's capital works program.

The group brought a variety of skills and perspectives as well as representation from the various categories of ratepayers. Community members of the group were as follows:

Person	Representation
David Brown	Resident, representing the general community and <50s demographic
Angela Collins	Resident, representing residents of retirement villages and aged care services
Chris Phillips	Resident, representing the general community
Simon Fisher	Resident, representing commercial ratepayers and is a property valuer
Mike Fraser	Resident, representing the general community
Greg Hayson	Resident, representing the business community and renters
Ray Snell	Resident, representing rural and not-for-profit ratepayers

They were accompanied by Council representatives as follows:

Person	Role
Councillor Graeme Simpfendorfer	Chairperson, Councillor
Councillor Olga Quilty	Councillor
Susanne Andres	I/Director Corporate Services
Natasha Donohue	Manager Finance
Katrina Lappin	Revenue Administrator

The group performs an advisory function by providing input and feedback on the current Revenue and Rating Plan. The group was not requested to formally vote on, or endorse, this plan in total or in part. Its input and feedback, however, provided a critical source of community input into the concepts and strategies outlined in the *Draft Revenue and Rating Plan*.

Council expresses its gratitude and appreciation and thanks the members of the group for the time and effort provided by them in the review of the plan. Council notes the committee members attended several meetings over a three-month period as well as reading significant amounts of documentation.

1.3. Legislative Requirements

The Local Government Act 1989 provides the legislative framework from which the *Revenue and Rating Plan* is derived, in particular Part 8 – Rates and charges on rateable land, including:

Section 154 – What is rateable land?

Section 155 – What rates and charges may a Council declare?

Section 157 – Which systems of valuing land may a Council use?

Section 159 – Municipal charge

Section 161 – Differential rates

Section 162 – Service rate and service charge

Section 163 – Special rate and special charge

The information in the above sections was provided to the Reference Group and discussed as part of the education process in the early meetings of the group.

1.4. Revenue and Rating Plan – Better Practice Guide

During 2014 the Victorian Government issued the *Local Government Better Practice Guide – Revenue and Rating Strategy*. This document was revised in 2021 upon the Local Government Act 2020 reforms.

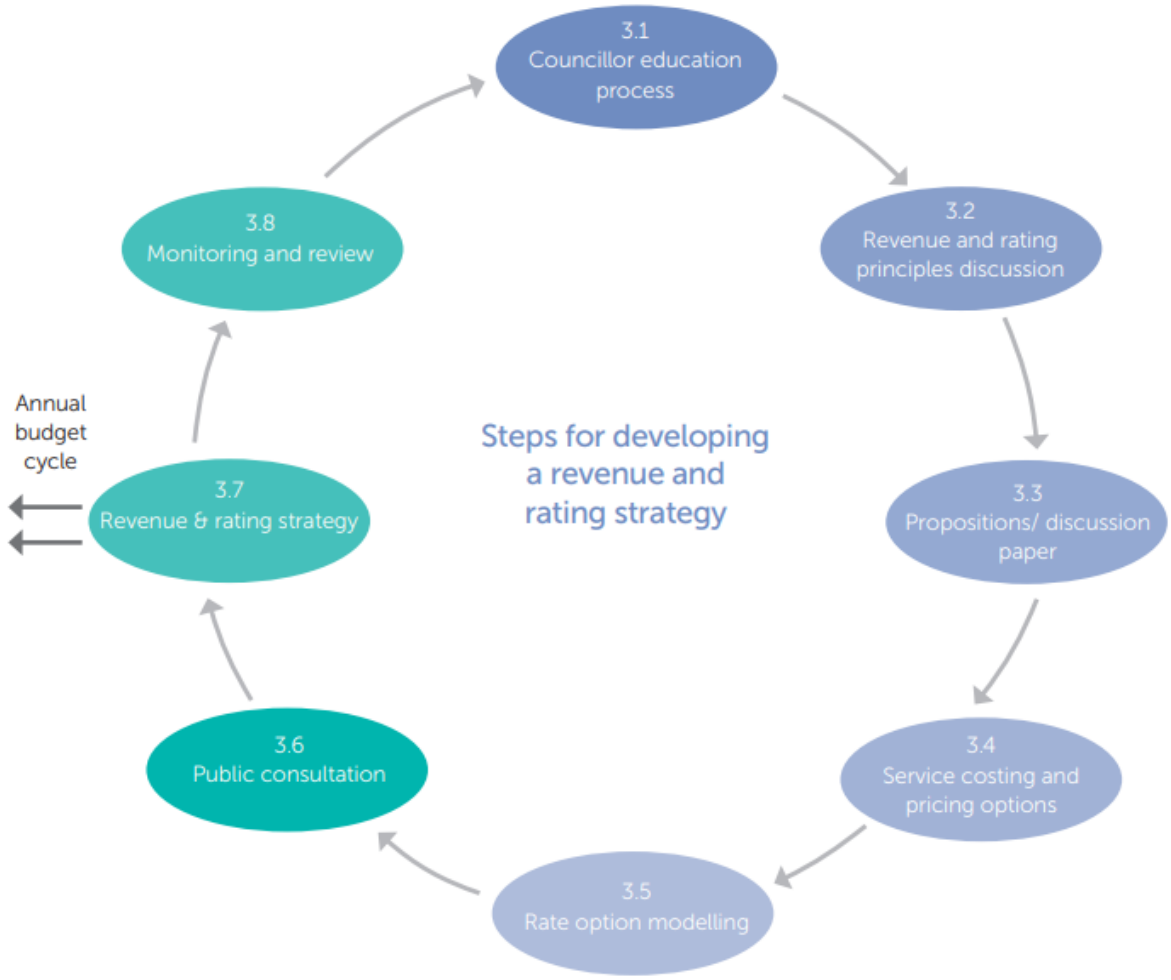
The guide provides a discussion of the major issues in revenue and rating and a method for supporting councils to take up this integrated approach, with the main points being:

- 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 rating concepts;
- A Revenue and Rating Plan must address non-rate revenue received by council;
- Deliberative community engagement while not prescribed is recommended.

This document was provided to the Reference Group.

1.5. Step by Step Outline for creating a Revenue and Rating Strategy

The Guidelines provide a number of the steps that are recommended in creating a rating strategy, these are shown in the following process diagram and discussed throughout the document:



Education process

An important aspect of developing a revenue and rating strategy includes understanding what charging approaches are available and how the revenue and rating system works, including:

- the concepts of revenue neutrality and zero sum – how the rating system determines only the share of revenue contributed by each property and does not influence the total amount of money that will be raised;
- how rates are calculated;
- fundamentals around property valuation – the valuation bases available, revaluation cycle, factors considered by valuers when valuing property and the valuation profile/s of the municipality; and
- relevant legislation and guidelines – the rating instruments that may be used by councils including municipal charges, differential rates, service rates and charges, rate rebates, concessions, waivers and payment of rates.

During the first two meetings of the Reference Group the above was presented and discussed.

Revenue and rating principles

The following rating principles were discussed in detail during the process:

- **Wealth tax principle**: The 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**: There are two main equity concepts used to guide the development of rating strategies (and taxation more generally):
  - **horizontal equity** – where ratepayers in similar situations should pay similar amounts (ensured mainly by accurate property valuations, undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation), and
  - **vertical equity** – where those who are better off should pay more 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 a tax. Setting aside taxes explicitly intended to change behaviour, a perfectly efficient tax would be one which did not distort behaviour. Efficiency is also related to the cost of administration. Administration costs include the issuing of assessments, collection of rates (including maintaining and improving collection systems), monitoring outcomes, educating and informing ratepayers, and enforcement and debt recovery;
- **Simplicity**: The principle of simplicity revolves around how easily a system can be understood by the public; namely ratepayers;
- **Benefit Principle**: A popular complaint levelled at Councils is that "the rates I pay have no correlation with the services I consume or the benefits I receive". Application of the benefit principle to rates is difficult in practice because of the impossibility of measuring the relative levels of access and consumption across the full range of Council services, for example, it might be argued that rural ratepayers derive less benefit from library services than their town counterparts, but the reverse argument can apply to the costs of repairing local roads in rural areas;
- **Capacity to pay**: Councils may decide that this principle is fundamentally reflected by property value or that the application of the wealth tax and benefit principles should be moderated for groups of ratepayers because of capacity to pay considerations.
- **Diversity**: There is no way of getting around the fact that despite the "likeness" of members of property classes, there will also be considerable diversity with each class. There is considerable diversity in the economic circumstances of households related to household income, the number of breadwinners and members, expenditure patterns and debt levels, leading to the issue of how well the assumptions made about a large class of ratepayers accurately reflect the circumstances of most of its members.

With reference to the steps for developing a rating strategy diagram above, steps 3.3 propositions/ discussion paper, 3.4 service costing and pricing options and 3.5 rate option modelling were discussed in meetings 3, 4 and 5 of the Reference Group, with outcomes detailed throughout this report.

2 BACKGROUND INFORMATION

The following table summarises key rating data in total, and by category, used in the development of the 2023/24 Budget. This data, and the underlying details for each individual ratepayer was used as the basis for modelling shown in this report.

Type of Property	Differential compared with residential property (Adopted for 2022-2023 Budget)	Cents in the $CIV	Number of Assessments	Total Value of Land (CIV) 22/23 Valuation	Rates Raised $	Rates raised Share %
Residential Occupied	1.00	0.004010	18,029	7,650,716,000	30,679,371	71.32%
Residential Vacant	1.80	0.007218	694	135,804,500	980,237	2.28%
Rural Farming	0.68	0.002727	293	386,118,000	1,052,944	2.45%
Rural Non Farming	0.95	0.003809	117	107,410,000	409,125	0.95%
Commercial Occupied	1.65	0.006616	744	708,933,000	4,690,301	10.90%
Commercial Vacant	2.05	0.008220	10	6,551,000	53,849	0.13%
Industrial Occupied	1.65	0.006616	636	657,878,900	4,352,527	10.12%
Industrial Vacant	2.05	0.008220	63	30,492,000	250,644	0.58%
Society	0.93	0.003729	3	1,394,000	5,198	0.01%
Development Use Land	2.05	0.008220	36	66,244,000	544,526	1.27%
			20,625	**9,751,541,400**	**43,018,721**	

Table 1 – Rates Summary

Property Values

The following chart shows the 2022/23 relative share of the total value of all rateable properties in the Wodonga Local Government area. The vast majority (78%) of properties, by value, are in the *Residential Occupied* category, followed by *Commercial Occupied* and *Industrial Occupied* at approx. 7% each. *Rural Farming* makes up 4% of properties, by value.

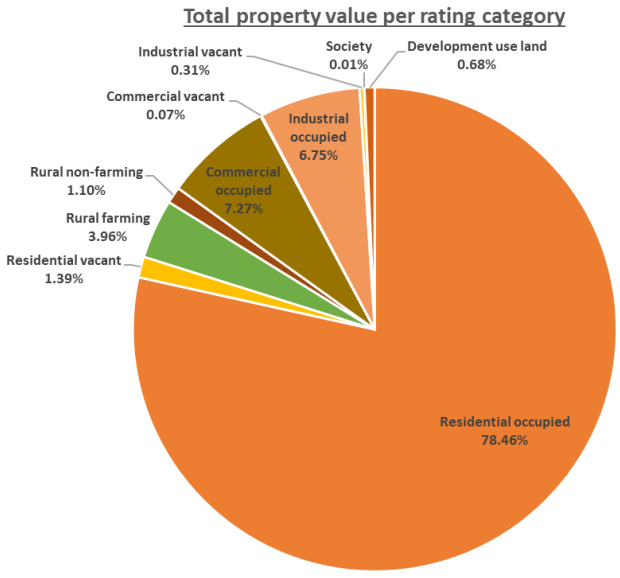


Chart 1 – Property Values – Share of total Wodonga by property type



Chart 2 – Residential property values summary

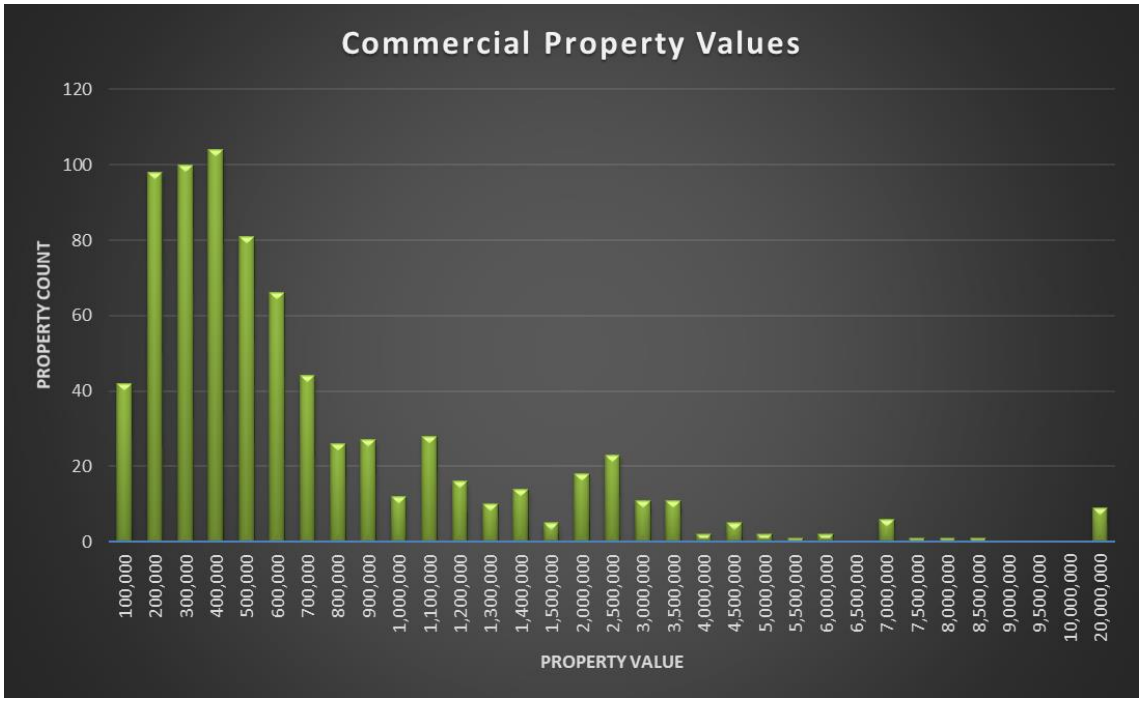


Chart 3 – Commercial property values summary

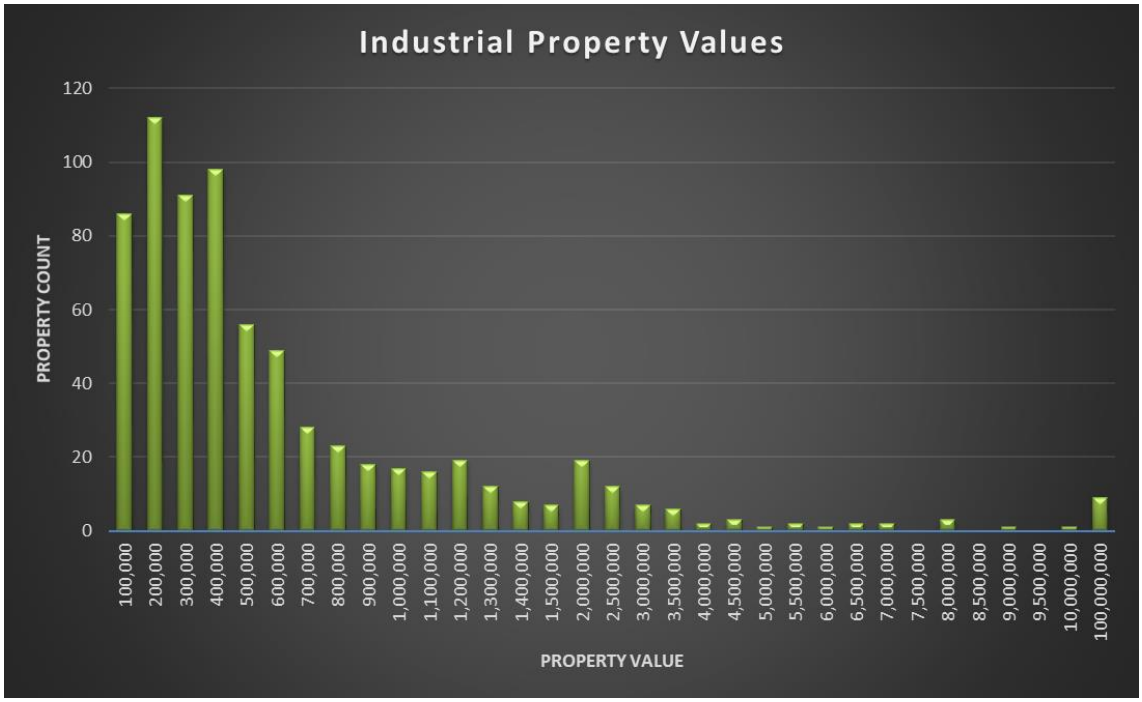


Chart 4 – Industrial property values summary

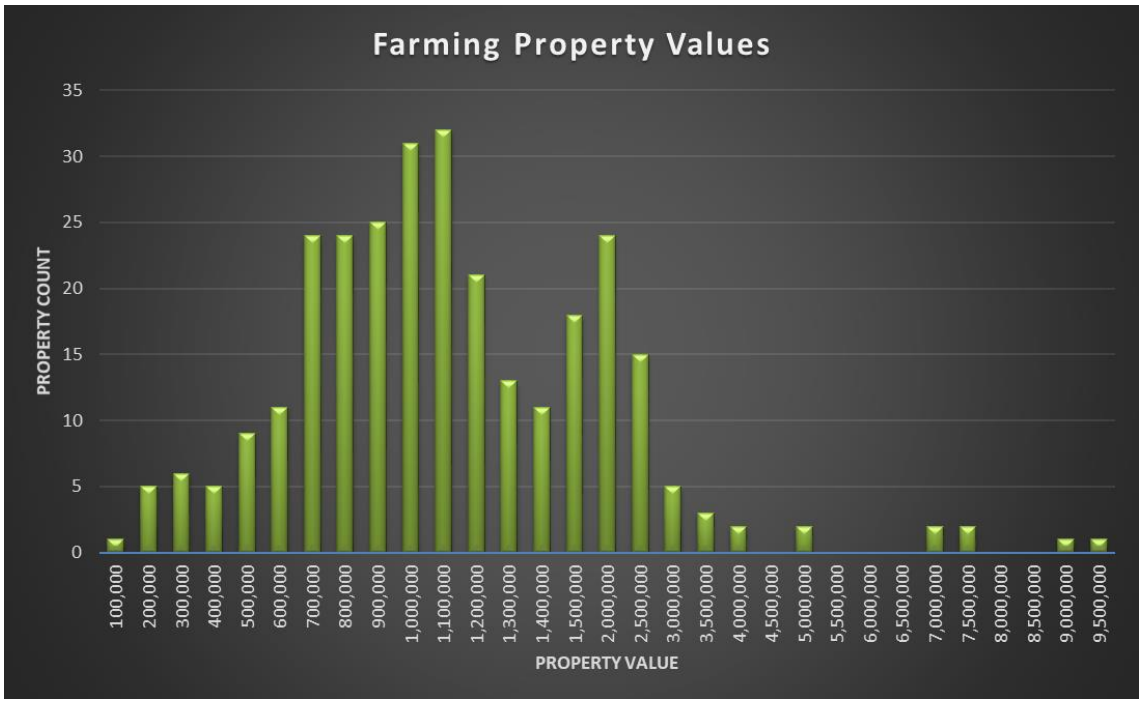


Chart 5 – Rural - farming property values summary

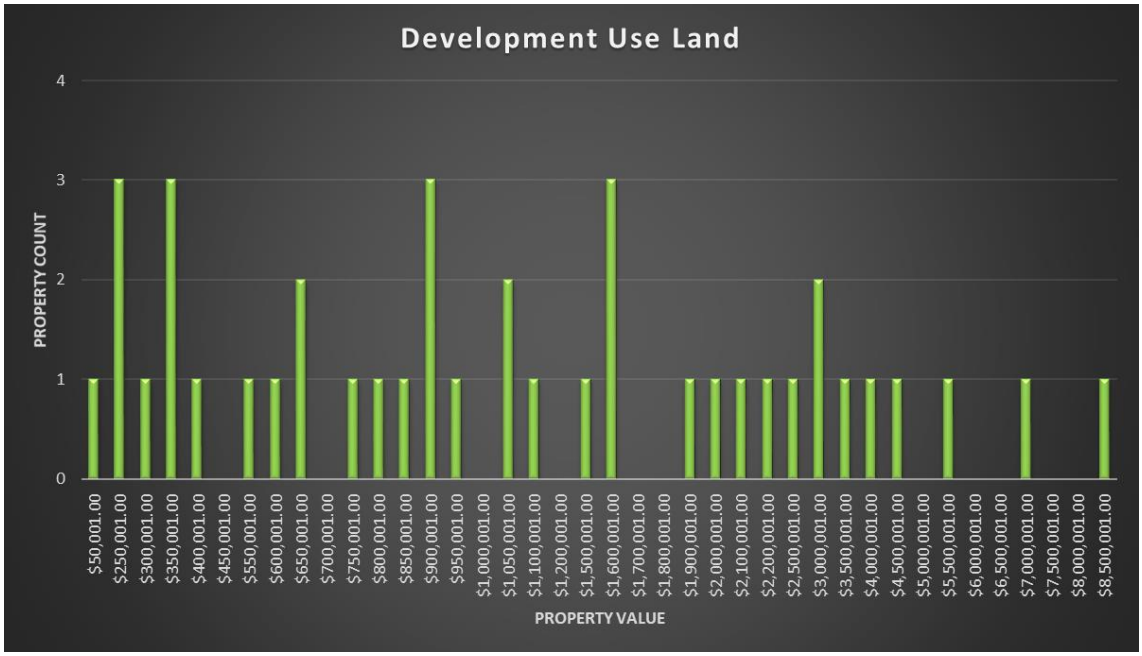


Chart 6 – Development Use Land property values summary

Rates payable (excludes Waste Management Levy)

The following charts depict the percentage of rate revenue currently raised from each rating category.

Whilst the percentages are similar it is important to note that whilst the bulk of rates comes from *Residential Occupied* properties, the rate revenue is 71.3% of the total rate revenue in comparison to property values being 78.5% of the value of all rateable properties.

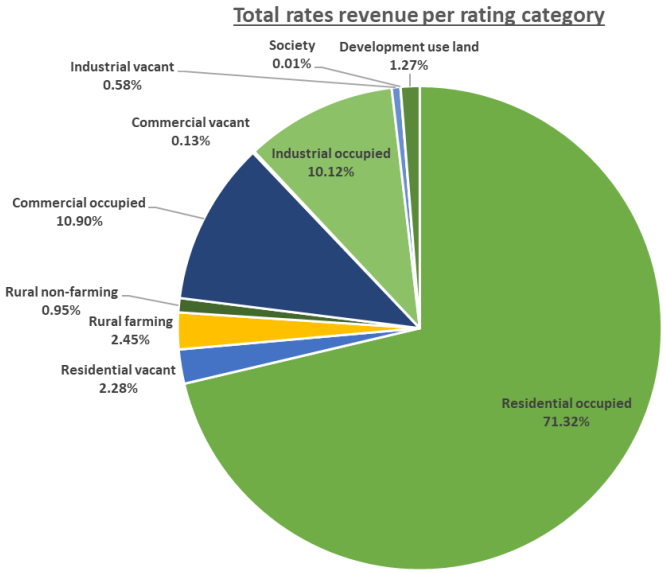


Chart 7 – Rating Revenue – Share of total by property type

3 REVIEW OF CURRENT CATEGORIES

The Reference Group was asked to consider the existing rating categories, their current differentials, and the rationale underlying that current treatment as described in Council's existing Revenue and Rating Plan 2021/22. The following section summarises the rationale, and the group's feedback and recommendation for each item.

The Reference Group at length discussed the Council decision April 2022 to adjust the rating differentials for 2022/23 due to substantially uneven variations in property valuation changes, the need to avoid rates shock and provide rating stability through a fair and equitable distribution of the rating burden. The group was presented with scenario modelling with/without the changes adopted by Council. The group discussed the need to implement a rating strategy that is wider than just setting differentials and which takes into account rating stability, predictability of individual rates and distribution of overall rating burden between the rating categories.

3.1 Rural - Farming

Differential until 2022	0.75
Current Differential	0.68
Proposed Differential	0.70

Current Rationale	Benefits of large holdings and open space
	Traditionally generally less demand upon Council services per land area held
	Considers of the traditional low economic return to large landholdings
	Is usually a place of residence
	Generally, much higher value properties relative to services provided
	Is generally the farmer's main income producing asset, but is rateable, when others have superannuation and other financial investments which are not

Reference Group Deliberations	Farming land values are "going through the roof"
	The rate was reduced by Council in April 2019 to achieve equitable sharing of the rates burden between rating categories and consistency in setting rates
	Observations compared with other councils – 0.68 benchmarked to other council and appropriate given the higher rate in the dollar that is applied when compared to other councils
	Discount seems reasonable for reasons noted
	Owners benefit of owning property and wealth creation through increased values
Recommendation	**The group proposed that the differential be set at a minimum of 0.70 (floor)**

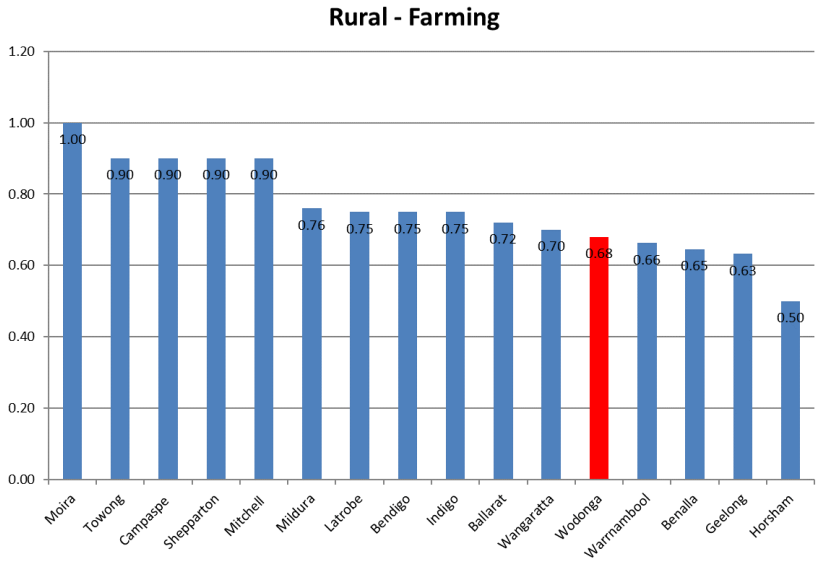


Chart 8 – Benchmarking current differential with other councils – Rural Farming

3.2 Rural non-farming

Differential until 2022	1.00
Current Differential	0.95
Proposed Differential	1.00

Current Rationale	Rural non-farming should be subject to general rate
	No reason or justification identified for either a rate premium, or a rate discount
	Most rural residential properties make generally similar claims on council expenditures to residential properties, by virtue of their main purpose and location

Reference Group Deliberations	The group discussed the category with a view to re-instating the full general rate in respect to residential properties
	Agreed with current rationale that there is no case for discount, however, this rating category experienced abnormally large increases in valuations in 2022 upon which Council adjusted the differential to achieve rates stability
	No rationale to treat differently to residential properties
Recommendation	**The group proposed that the differential be set at the same rate as residential properties at 1.00**

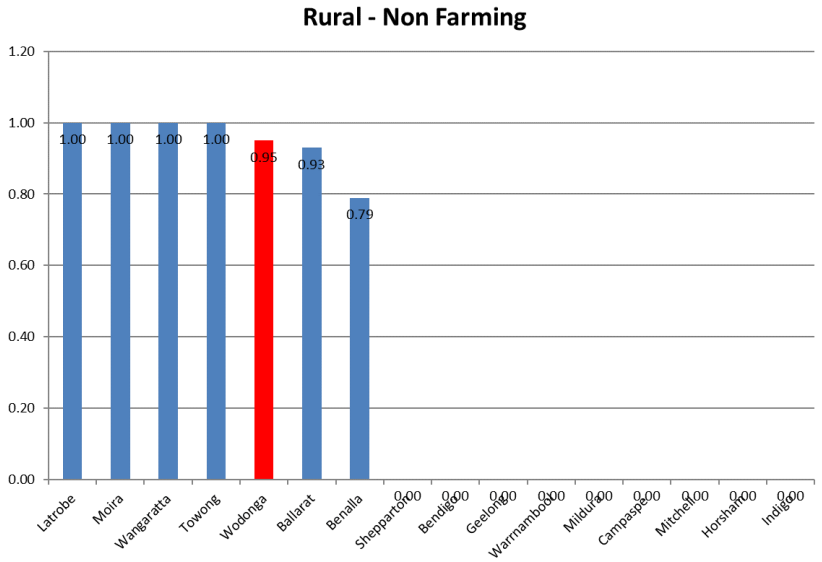


Chart 9 – Benchmarking current differential with other councils – Rural Non-Farming

3.3 Vacant land

Differential until 2022	2.00
Current Differential	1.80 (residential), 2.05 (commercial/industrial)
Proposed Differential	2.00 for all categories

Current Rationale	Vacant land differential should be higher than the general rate for the following reasons:
	• To encourage the development of land
	• To ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council
	• Development is strategically important as it has a positive effect on local employment and income, whilst speculative behaviour should be discouraged
	• Assists to partly offset the costs of servicing new land, including major infrastructure studies and implementation of interconnecting infrastructure between subdivisions

Reference Group Deliberations	The rationale is sound as it encourages building in the shorter term
	Land hoarding should be discouraged
	Residential land in particular should be developed to alleviate the current housing crisis
	While previous year differential adjustments were for good reasons, it was raised that there will be difficulties in explaining the differential in the future when the underlying reasons are forgotten
	No reason to treat residential, commercial and industrial vacant land differently, development should be encouraged in all categories
Recommendation	**The group proposed that the differential be set at 2.00**

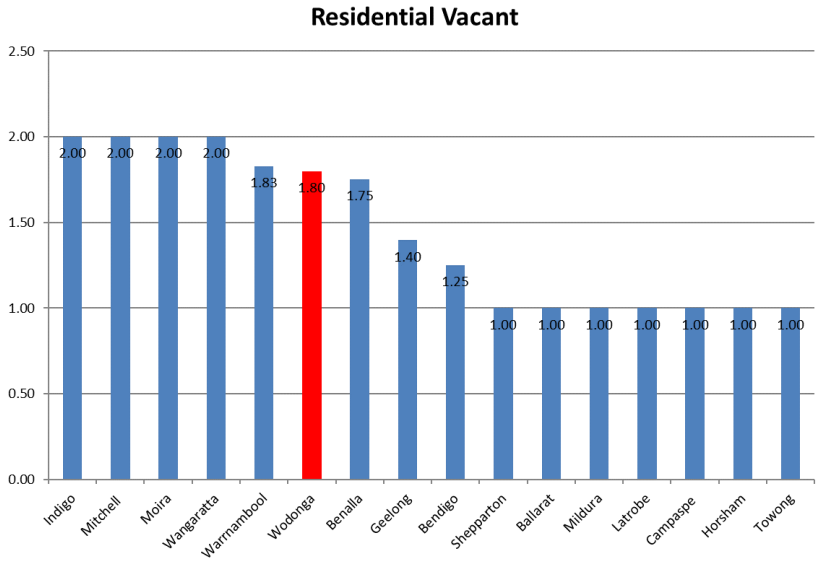


Chart 10 – Benchmarking current differential with other councils – Residential vacant

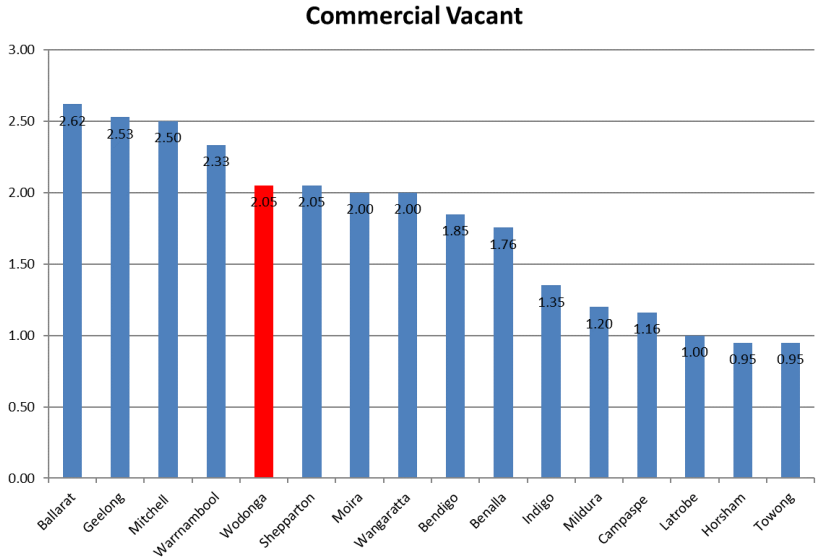


Chart 11 – Benchmarking current differential with other councils – Commercial vacant

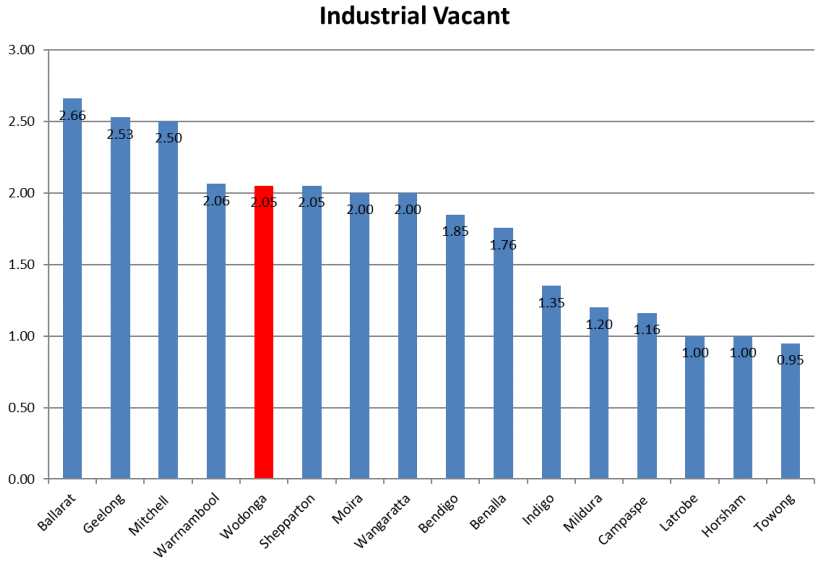


Chart 12 – Benchmarking current differential with other councils – Industrial vacant

3.4 Occupied Commercial/Industrial

Differential until 2022	1.40
Current Differential	1.65
Proposed Differential	Aim to return to 1.40 in the medium-term

Current Rationale	Council continues to make significant investment in economic development including industrial estate development, tourism, retail and general support provided for the business community
	The cost of servicing the major industrial and commercial businesses is arguably higher due to maintenance of road infrastructure (heavy trucks), increased frequency of street sweeping, street garbage collection, and so on
	There is arguably a greater capacity to pay of business generally when compared with general residential properties
	Improved land asset itself is income producing, whereas residential land generally is not (rental properties excepted)
	Rates are generally tax deductable for business, but not for residential (again rental properties excepted)

Reference Group Deliberations	The rationale is sound
	Caution needed to refrain from overtaxing small commercial enterprises who are the creators of employment
	Any increase in differential may serve to discourage investment/jobs in Wodonga
	Rates fall on tenants where properties are leased
	Property owners should get the benefit of valuation changes, however, Wodonga is comparatively low
Recommendation	**Reduce the differential and return to 1.40 over the medium-term**

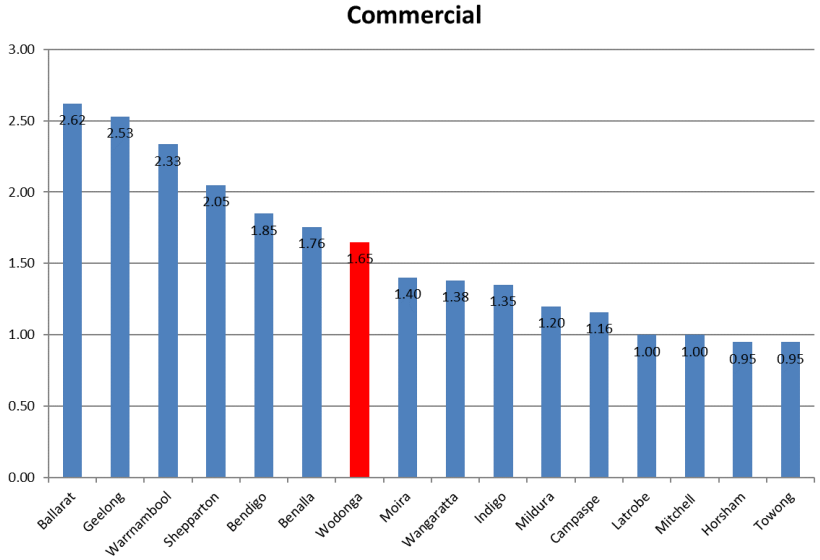


Chart 13 – Benchmarking current differential with other councils – Commercial occupied

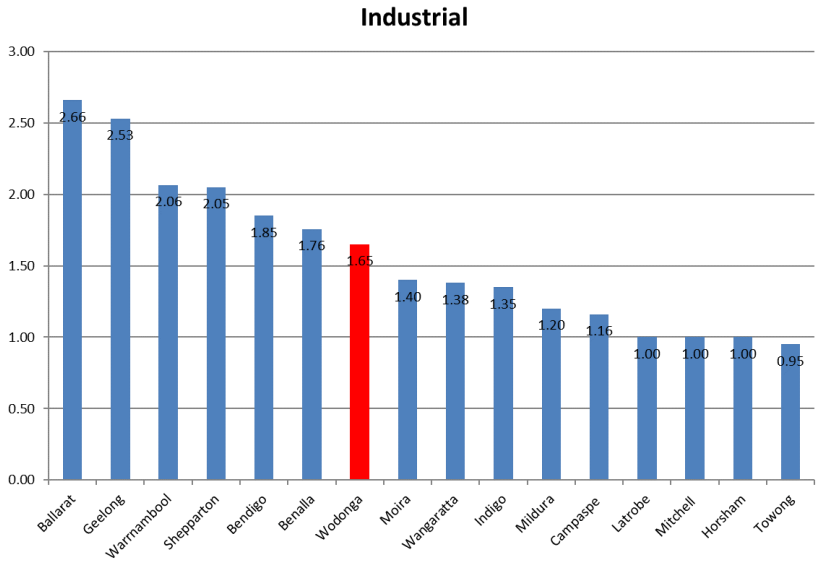


Chart 14 – Benchmarking current differential with other councils – Industrial occupied

3.5 Societies/Clubs

Differential until 2022	0.93
Current Differential	0.93
Proposed Differential	0.93

Current Rationale	All other similar clubs within the municipality are exempt from rates with the exception of three (3) entities which fall under this category
	It is felt there is no overpowering argument for this position to be amended, especially in consideration of the limited impact any change will have

Reference Group Deliberations	Agreed that there is no benefit to be gained with a change in status
Recommendation	**The group proposed that the differential remain at 0.93**

3.6 Development Use Land

Differential until 2022	2.00
Current Differential	2.05
Proposed Differential	2.05

Current Rationale	Development Use Land current differential was introduced in the previous rating strategy
	Encourage the speedy development of land
	To ensure that all rateable land makes an equitable financial contribution to the cost of carrying out the functions of Council
	Assists to partly offset the costs of servicing new land, including major infrastructure studies and implementation of interconnecting infrastructure between subdivisions

Reference Group Deliberations	This category elicited the most discussion
	The lifecycle of the development process, trigger points, number of lots and how long they were classified as Development Use Land was considered
	The group considered it fair and equitable that Development Use Land be treated equivalent to vacant land
	It was queried whether this category has fulfilled its purpose
	The category has limited application to small parcels of land under development regardless of zoning as the use of the land defines the category, eg. primary producer
	Scenario modelling was undertaken and presented to the group
	There was advocacy for the elimination of the category and moving the properties to the appropriate vacant land categories
	Note that the share of overall rating burden for this category would not change should the properties be moved to vacant land as long as the vacant land differentials are of the same value as the current Development Use category
Recommendation	**The group proposed that the differential be set at a rate of 2.05 with a minimum of 2.00 (floor) ongoing**

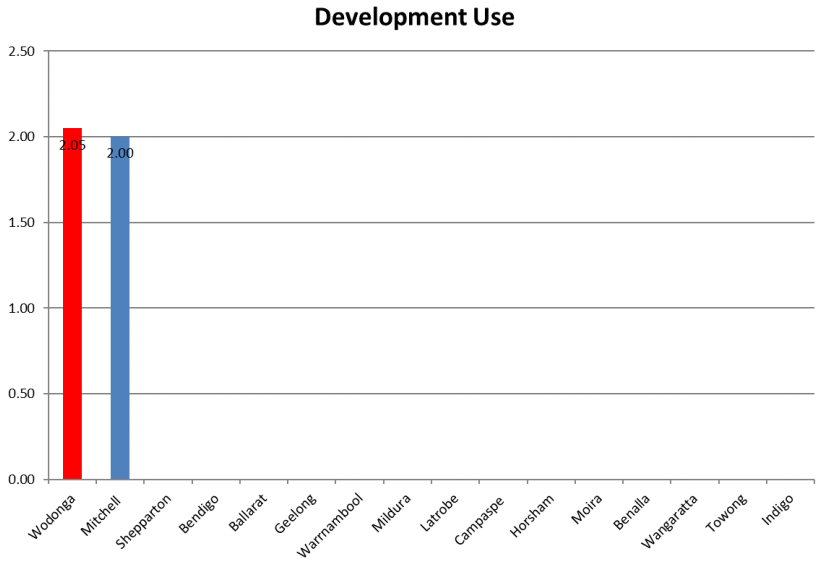


Chart 15 – Benchmarking current differential with other councils – Development use

3.7 Cultural and Recreation Land

Current Differential	0.00
Proposed Differential	0.00

The provision of rate relief to recreational land is provided by the C*ultural and Recreational Lands Act 1963*. The Act effectively provides for properties used for outdoor activities to be differently rated unless it involves land that is being leased from a private landowner.

There are currently 15 assessments that have been granted non-rateability under the *Cultural and Recreational Lands Act*.

The Reference Group discussed the reasons for rate relief under the Act. The Reference Group was satisfied as to the reasons that these properties are provided rate relief.

4 REVIEW OF OTHER ITEMS

4.1 Non-rateable land

The Reference Group discussed the reasons for rates exemptions under the Act and was provided with information around Council's Charitable Purposes Policy and exempt properties in the municipality.

The Reference Group was satisfied as to the application of the Act.

4.2 Municipal charge

Current Municipal Charge	Nil
Proposed Municipal Charge	Nil

Background	Under the Local Government Act councils may levy a Municipal Charge being a fixed charge per assessment. A Municipal Charge does not increase the overall rates levied, but rather, it reduces the amount levied via a rate on property. Overall total rates collected remain unchanged. In its current rating strategy council has determined not to include a Municipal Charge.
Recommendation	**The group did not support the introduction of a Municipal Charge**

4.3 Incentives for energy efficiency – 8 ½ star energy rating

Current rebate	1 year for new 8-star or higher-rated properties
Proposed rebate	1 year for new 8 ½-star or higher-rated properties

Current Rationale	Current rebates apply to a new build or a complete renovation, which bring the entire property up to a minimum 8 star rating
	Socially responsible and aligns with Council's sustainability plan

Reference Group Deliberations	Market based drivers already apply – ie. lower energy costs enjoyed by the ratepayers
	Incentives benefit those who, arguably can afford it, i.e. can afford the investment in energy saving initiatives
	The current minimum standard in Victoria is a 6 star rating for new builds, being lifted to 7 star from October 2023
	Given technological advances and State legislation increasing minimum standards, the level at which the rebate applies should be increased
Recommendation	**Lifting the star rating required for the rebate to apply to 8 ½ stars**

4.4 Heritage listing

Current Differential	Nil, not separately identified. Typically, these are residential properties at 1.00
Proposed Differential	No change

Discussion and proposal	No specific discussion of Heritage Listing took place, and no change is proposed.

4.5 Affordable housing

Current Differential	Nil, not separately identified. Typically, these are residential properties at 1.00
Proposed Differential	No change

Discussion and proposal	The group discussed the definition of affordable housing vs. social housing, public housing and community housing
	The Act only allows support to a *registered agency*, not individual tenants and Council does not have an avenue to ensure a rebate is fed back through a reduction in rents benefitting tenants
	Consensus that this is not a Council role
	Other ratepayers would have to make up the revenue shortfall
Recommendation	**Not to introduce a rebate for affordable housing properties**

4.6 Retirement Village Properties

Current Differential	Nil, not separately identified. Typically these are residential properties at 1.00
Proposed Differential	No change

Current Rationale	Infrastructure and services are provided at the same level as for other residential properties
	Full access to all council services
	Equity issues between those who can afford to live within a retirement village versus other retirees still required to pay full rates on their property living outside a village
	Insufficient justification for rate discount

Reference Group Deliberations	Discussion whether a separate category should be established
	Recognition that these properties do not benefit from some Council services, however, not all ratepayers use all services provided by Council
	Fairness compared to other seniors who live in their own residence
	Benefitting from lower CIVs compared to residential properties
Recommendation	**Council to monitor other LG across the State and give consideration for a separate rating category for retirement village properties in future Revenue and Rating Plans**

4.7 Short-term accommodation

Council does not currently have a strategy in place to rate short-term accommodation separately from general residential properties. The Reference Group discussed the issue in light of many Australian Councils undertaking steps to limit short-term accommodation to alleviate the current housing crisis. There are only 52 properties in Wodonga currently listed on relevant short-term letting sites. The group agreed that the number of properties is small and not currently a factor in housing affordability or availability in the Wodonga area.

4.8 Waste management levy

Current levy	**Service charge current**	**2022/23**
	Per urban residential assessment	
	Garbage and recycling	$226.50
	Waste management levy	$113.30
	Total	**$339.80**
Proposed levy	Change the rate to reflect the cost of the service to council	

Current situation	Council currently applies a service charge for the kerbside collection and disposal of refuse on urban properties (compulsory) and rural properties (optional) and providing waste services for the municipality (including but not limited to Waste Transfer Station and street litter bins)
	The user-pay principle is well understood by the community and avoids raising the funds needed through the general rates which would result in residents in higher valued properties subsidising the service to lower valued properties
	The service charge and waste management levy are set to recover the costs of the service delivered, with any surplus quarantined in and any deficit drawn from the Waste Management Reserve

Reference Group Deliberations	**The group agreed that the levy should recover the costs incurred by Council in delivering waste services**

4.9 Special Charges

Council has the power to levy a special rate or special charge, or combination of special rate and charge, to fund service provision. A special rate or charge can be used if Council deems that a special benefit is received by those properties on which it is levied. The fundamental difference in using differential rates or special rates and charges in addressing the benefit principle is magnitude. A special rate or charge is generally applied to a single or narrow group of ratepayers. Generally, the area chosen for their use can be seen clearly to directly benefit some ratepayers in the municipality.

No special rate or charges were considered by the Reference Group. Future years should be considered on a case-by-case basis by Councillors as part of their annual budget process.

5 RECOMMENDATIONS

1. That Council give regard to the differentials recommended by the group.

2. That Council carefully consider the setting of its rating strategy, the differential rating categories and the level of differentials to achieve a balanced and equitable outcome for ratepayers. It is recommended to include consideration of:
    a. the need for rates stability and predictability of individual rates;
    b. minimisation of rates shock; and
    c. distribution of overall rating burden between the rating categories.

3. That a Municipal Charge *not* be introduced;

4. That the Waste Management Charge be set to reflect the actual cost of providing waste management services to the community;

5. That Council increase the minimum requirement for a rates rebate for new and substantially renovated properties to 8½-star energy rated under the Nationwide House Energy Rating Scheme (NatHERS);

6. That Council consider the introduction of a special rate on a case-by-case basis.