MOORABOOL
SHIRE COUNCIL

RATE STRUCTURE REVIEW

Propositions Paper

December 2021

CONSULTATION

Moorabool Shire is an increasingly popular choice for those seeking rural tranquillity with a mix of an urban lifestyle. The current population of 36,344 is forecast to double in the next 20 years. The municipality contains 64 settlements of varying sizes. These range from small towns, hamlets and farming settlements to the larger districts of Bacchus Marsh and Ballan.

Moorabool Shire faces a significant financial challenge in funding this population growth from its current rates base. It is responsible for maintaining and building a road network that stretches the equivalent distance from Melbourne to Newcastle. However, it has less than one third of the rates revenue that regional city Councils can access to fund its road construction and maintenance requirements. The financial challenge will be exacerbated in peri urban Shires like Moorabool, as the burden of service provision will fall disproportionally on them in the future.

The Fair Go Rates System sets out the maximum amount Victorian councils may increase rates in a year. For the 2021-22 year it has been set at 1.50% by the Minister for Local Government independently of Victorian councils. The cap applies to both general rates and municipal charges and is calculated based on a council's average rates and charges. This is the amount (or the 'pie') that the Moorabool Shire Council determines what proportion each different category of ratepayer should pay each year.

Victorian councils may declare a range of rates and charges on rateable land including general rates, municipal charges, service rates and charges and special rates and charges. The Moorabool Shire currently levies general rates based on the valuation of properties and service rates and charges to recover the cost of waste management. Rates and charges is the largest funding source making up 47% of total revenue or $40 million for the 2021-22 year

The Moorabool Shire Council is undertaking a review of its current rating structure to ensure that it provides a fair and equitable distribution of general rates and any municipal charges across all ratepayers in the Shire. Mach2 Consulting was engaged to provide an independent review of the current rating structure which included benchmarking against other like Victorian councils and holding a number of workshops with Moorabool Shire Councillors to develop a range of rating structure options. The options were developed to address the significant growth the Shire is experiencing and in particular the increase in farm land valuations.

This Propositions Paper has been prepared to obtain feedback from the Moorabool Shire community about these rating structure options, and which one provides the most fair and equitable distribution of general rates and any municipal charges across the Shire.

None of the options proposed, have any impact on the total rates and charges raised by Council as this amount is set by the rate cap.

The community is asked to consider the financial impacts of each of the following options in Section 7. of this Paper and rank them according to which one is the most fair and equitable. Council does not favour any particular option and will make its decision after taking into account the community's feedback.

- **Option 1**: Make no change to the current number and level of differential rates as set out in section 3.2
- **Option 2**: Decrease the farm land differential from 78% to a range between 70% and 65% and extractive industries from 312% to a range between 280% and 260% of general rates and make no change to the other differential rates
- **Option 3:** Introduce a municipal charge of between $100 and $200 and make no change to the current number and level of differential rates

The community can respond by making written submissions, completing a survey or participating in the drop-in sessions.

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1. OVERVIEW

1.1 Background

The Moorabool Shire Council (the Council) recently adopted its 2021-25 Revenue and Rating Plan in accordance with the Local Government Act 2020. The Revenue and Rating Plan is a medium-term plan for how the Council will generate income to deliver on the Council Plan, program and services and capital works commitments over the next four years.

The Council has access to several funding sources including rates and charges, user charges, fees and fines, government grants, contributions, interest and other small amounts of revenue. Rates and charges is the largest funding source making up 47% of total revenue or $40 million for the 2021-22 year.

The Council did not make any changes to the rates and charges component in the Plan and is now undertaking a review to explore the various options available for levying rate and charges in accordance with relevant legislative provisions and associated guidelines or regulations.

1.2 Approach

Mach2 Consulting was engaged to provide an independent review of the current rating structure and is taking the following approach:

- Benchmarking the Council's current rating structure against other like Victorian councils
- Holding a number of workshops with Councillors to develop a range of rating structure options for levying rates and charges
- Preparing a Propositions Paper to obtain feedback from the community about the range of rating structure options
- Preparing a revised draft 2021-25 Revenue and Rating Plan and seeking formal submissions from the community for consideration by Council
- Preparing a final Revenue and Rating Plan for inclusion in the 2021-22 Annual Budget and adoption by Council.

1.3 Propositions paper

Mach2 Consulting has developed this Propositions Paper to obtain feedback from the community about a range of options for levying rates and charges on rateable properties in the Moorabool Shire. The paper sets out the legislative framework for levying rates and charges, the current rating structure, comparison against other like Victorian councils and a range of potential options including the financial impact of each on ratepayers.

1.4 Community engagement

The community is asked to consider the financial impacts of each of the options in Section 7. of this Paper and rank them according to which one is the most fair and equitable. The community can respond to this request via the following engagement opportunities:

- Written submissions
- Survey (on-line and direct contact)
- Drop in sessions (on-line and face-to-face).

Council does not favour any particular option and will make its decision after taking into account the community's feedback.

2. LEGISLATIVE FRAMEWORK

2.1 Principles

A Council must in the performance of its role give effect to the overarching governance principles set out in the Local Government Act 2020. In particular it must ensure that the Revenue and Rating Plan, seeks to provide stability and predictability in the financial impact of rates and charges on the municipal community.

2.2 Types of rates and charges

A council may declare the following rates and charges on rateable land:

- General rates
- Municipal charge
- Service rates and charges.

2.3 System of valuing land

A council may use the site value, net annual value or capital improved value system of valuation. For the purposes of calculating the site value, net annual value or capital improved value of rateable land, a council must use the current valuations made in respect of the land under the *Valuation of Land Act 1960*.

From the 2019 year general revaluations of all properties have been undertaken on an annual basis. As a result, the actual rate increase for an individual rateable property may differ from the rate cap percentage due to changes in its valuation. Where the change in an individual property valuation is higher than the average for all rateable properties, the rate increase for that property may be greater than the cap. Where the change in the property valuation is lower than the average for all properties, the rate increase may be lower than the cap. <u>The general revaluation of properties is undertaken by the Valuer-General of Victoria independently of the Council</u>**.**

The Council like most Victorian councils, uses the capital improved value of rateable land for the purposes of levying general rates which includes the value of the land and all improvements on that land.

2.4 Rate capping

The Fair Go Rates System (FGRS) sets out the maximum amount councils may increase rates in a year. For the 2021-22 year it has been set at 1.50%. <u>The rate cap is set by the Minister for Local Government independently of the Council</u>**.**

The cap applies to both general rates and municipal charges and is calculated based on a council's average rates and charges. This is the amount (or the 'pie') that the Council determines what proportion each differential rate category should pay each year <u>and is the subject of this paper</u>.

2.5 Local government rating system review

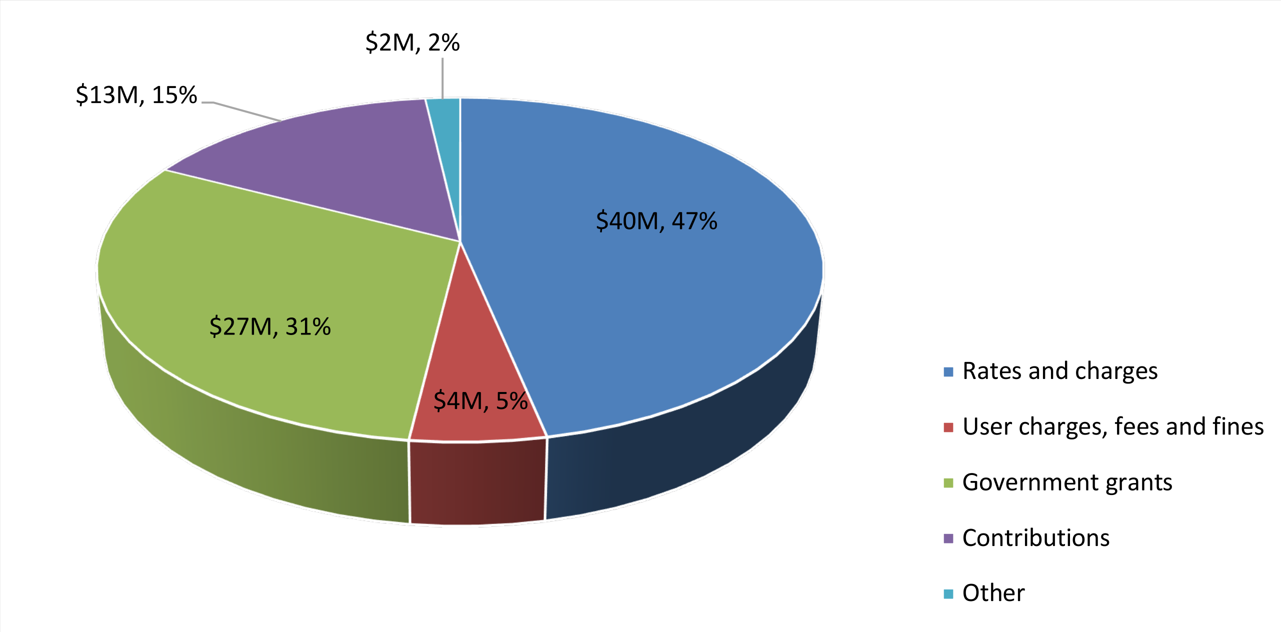
A Ministerial Panel was appointed in 2019 by the Local Government Minister to undertake a review of the local government rating system in Victoria with a key focus on the equity and fairness on the application of rates and charges. The report was submitted to the Minister in March 2020 containing 56 recommendations and the Government supported 36 recommendations in full, in principle or in part. Council advocated for several changes supporting greater flexibility within the rating options specifically:

- Sought a review of the implication of the farming rate in peri-urban areas where land speculation is driving the value of land beyond its primary use of farming
- Advocated for expansion in the municipal rates concessions under the State Concessions Act 2004 to apply to a broader category of Victorians
- Mechanisms which would lower the level of rate volatility with the implementation of centralised annual valuations.

3. REVENUE COMPOSITION

3.1 Revenue sources

The graph below shows a breakup of the revenue the Council uses to fund services and facilities for the Moorabool Shire community.



Note: Government grants includes capital grants of $15.9 million to fund capital works expenditure for the year. Contributions includes $7.5 million of infrastructure assets expected to be handed over to the Council for the year.

3.2 Rates and charges

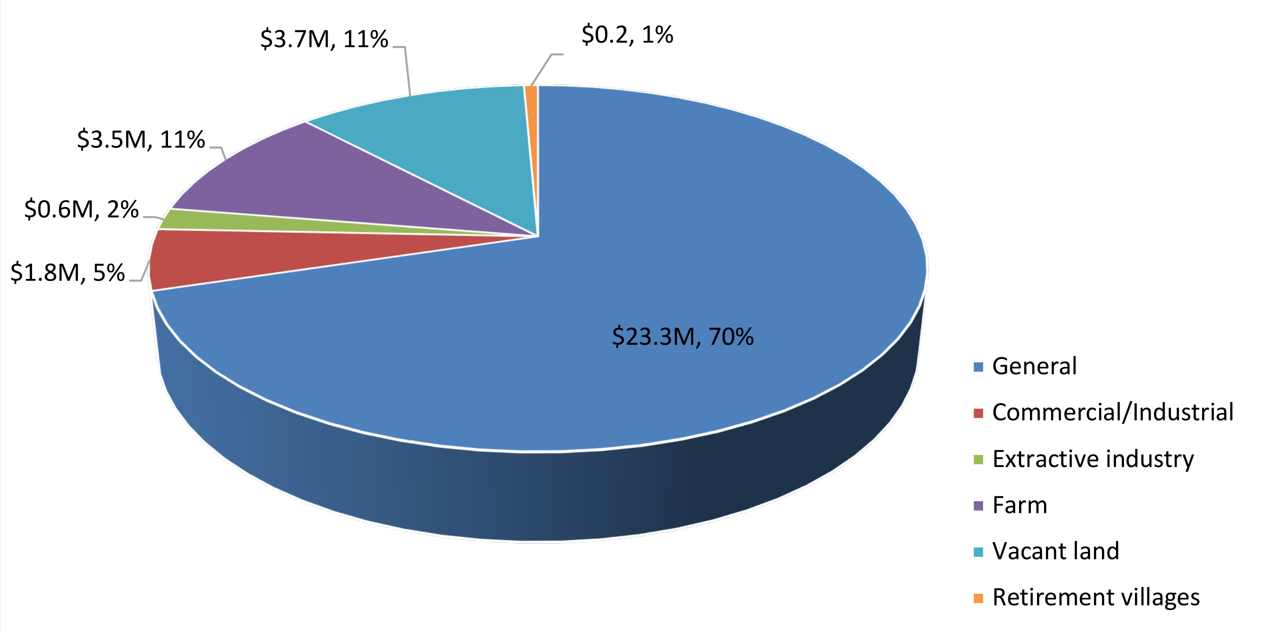
Summary

A summary of the rates and charges levied by the Council for the 2021-22 year is set out in the table below.

Details	Revenue $000
General rates	33,094
Service rates and charges	5,902
Supplementary rates	477
Revenue in lieu of rates	967
TOTAL RATES AND CHARGES	**40,440**

General Rates

The Council's general rates comprise nine differential rates. The graph below shows the proportion of the general rate represented by each differential rating category for the 2021-22 year. This is often called the 'rate burden'.



Note: The four vacant land categories have been aggregated for the purpose of the analysis.

A detailed analysis of the differential rates for the 2021-22 year and definitions are set out in the table and commentary below.

Type or class of land	Rate Cents/$CIV	Differential %	Assessments No	CIV $000	Revenue $000
General	0.3059	100	13,852	7,603,816	23,260
Commercial/industrial	0.4588	150	637	387,116	1,776
Extractive industry	0.9544	312	19	66,258	632
Farm	0.2386	78	1,273	1,452,169	3,456
Vacant land (general)	0.6118	200	606	177,434	1,086
Vacant land (comm/industrial)	0.6118	200	53	27,735	170
Vacant land (FZ & RCZ)	0.3059	100	770	378,076	1,157
Vacant land (GRZ)	0.6118	200	611	215,972	1,321
Retirement villages	0.2935	90	289	82,690	228
TOTAL			**18,110**	**10,391,266**	**33,094**

Note: CIV is the Capital Improved Value of the property which includes the value of the land and any improvements on that land. The 'Differential %' for each type or class of land is calculated by dividing each differential rate $/CIV into the General rate $/CIV

A summary of each differential rate category and definition is as follows:

- General: Is rateable land on which a dwelling is lawfully erected and occupied for the principal purpose of physically accommodating persons and which does not have the characteristics of other types of land

- Commercial and Industrial: Is rateable land which is lawfully used: for the principal purpose of carrying out the manufacturing or productions of goods; or for the principal purpose of carrying out trade in goods or services. The rate is set at 150% of the general rate
- Extractive Industry: Is rateable land which: is used primarily for the extraction, removal of minerals, earth or stone including the treatment of minerals, earth or stone; or activities for the extraction or removal of minerals, earth or stone including the treatment of minerals earth or stone have been discontinued but which has not yet been rehabilitated to environmental standards as required by a work authority issued under the Mineral Resources (Sustainable Development) Act 1990 for the land by reason of an approved rehabilitation plan for the site or the requirements of the Code for Small Quarries whichever is applicable. The rate is set at 312% of the general rate
- Farm: Is rateable land within the meaning of 'farm land' as defined by section 2(1) of the Valuation of Land Act 1960. The rate is set at 78% of the general rate
- Vacant land (general): Is rateable land on which no building is lawfully erected and which does not have the characteristics of other types of land. The rate is set at 200% of the general rate
- Vacant land (commercial & industrial): Is rateable land located within an Industrial or Business zone under the Moorabool Planning scheme which: is vacant or not lawfully developed for the principal purpose of carrying out the manufacturing or production of goods or trade in goods or services; and which does not have the characteristics of other types of land. The rate is set at 200% of the general rate
- Vacant land (FZ & RCZ): Is rateable land on which: no building is lawfully erected; is located within the Farm Zone or Rural Conservation Zone under the Moorabool Planning Scheme; and does not have the characteristics of Farm Land. The rate is set at 100% of the general rate
- Vacant land (GRZ): Is rateable land on which: no building is lawfully erected and occupied; and is located within the General Residential Zone under the Moorabool Planning Scheme. The rate is set at 200% of the general rate
- Retirement Villages: Is rateable land within the meaning of 'retirement village land' under section 3 of the Retirement Villages Act 1986. The rate is set at 90% of the general rate.

Service Rates and Charges

The Council levies the following service rates and charges for the 2021-22 year:

- Waste management: $85 per property
- Domestic waste: $205 per property
- Green waste: $77 per property
- State landfill levy charge: $53 per property.

The Council’s policy regarding setting service rates and charges is full cost recovery.

Supplementary Rates

Supplementary rates apply to properties where valuations are conducted between general revaluations because of properties physically changing such as when a building is constructed, renovated, extended, altered or demolished. It may also apply when land is subdivided, amalgamated or portions are sold off or rezoned.

Revenue in Lieu of Rates

Revenue in lieu of rates is collected under rate agreements with windfarms calculated in accordance with the Electricity Industry Act 2000 (EI Act). Under section 94(6A) of the EI Act, the Payment in Lieu of Rates (PiLoR) framework allows for councils and electricity generators to negotiate annual payments.

Municipal Charge

A council may declare a municipal charge to cover some of the administrative costs of the council. A council's total revenue from a municipal charge in a financial year must not exceed 20 per cent of the sum total of the council's total revenue from a municipal charge and total revenue from general rates.

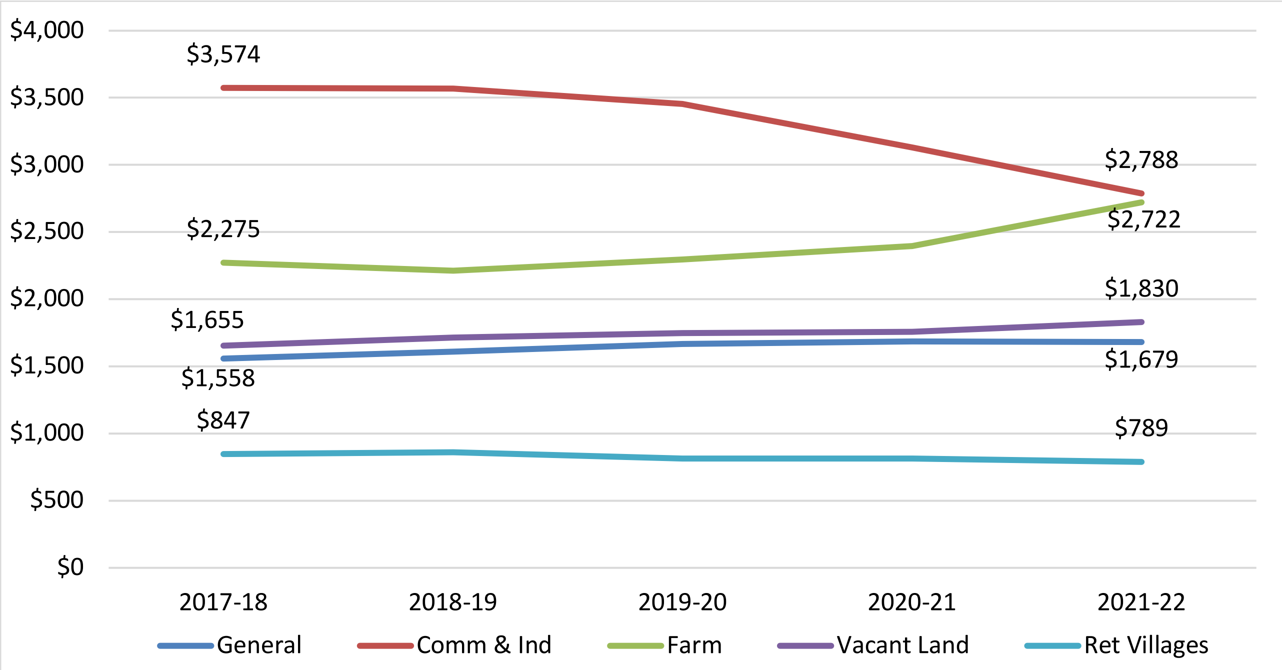
If the rateable land is farm land, a person may apply to a council for an exemption to pay a municipal charge on the basis of a farm enterprise, rather than on each rateable land assessment where the rateable land forms part of a single farm enterprise. In the case of a single farm enterprise which is occupied by more than one person, an exemption cannot be claimed in respect of more than one principal place of residence. Currently there are approximately 663 farm enterprises and 1,273 assessments.

The Council currently does not levy a municipal charge.

4. PRIOR YEAR RATING IMPACTS

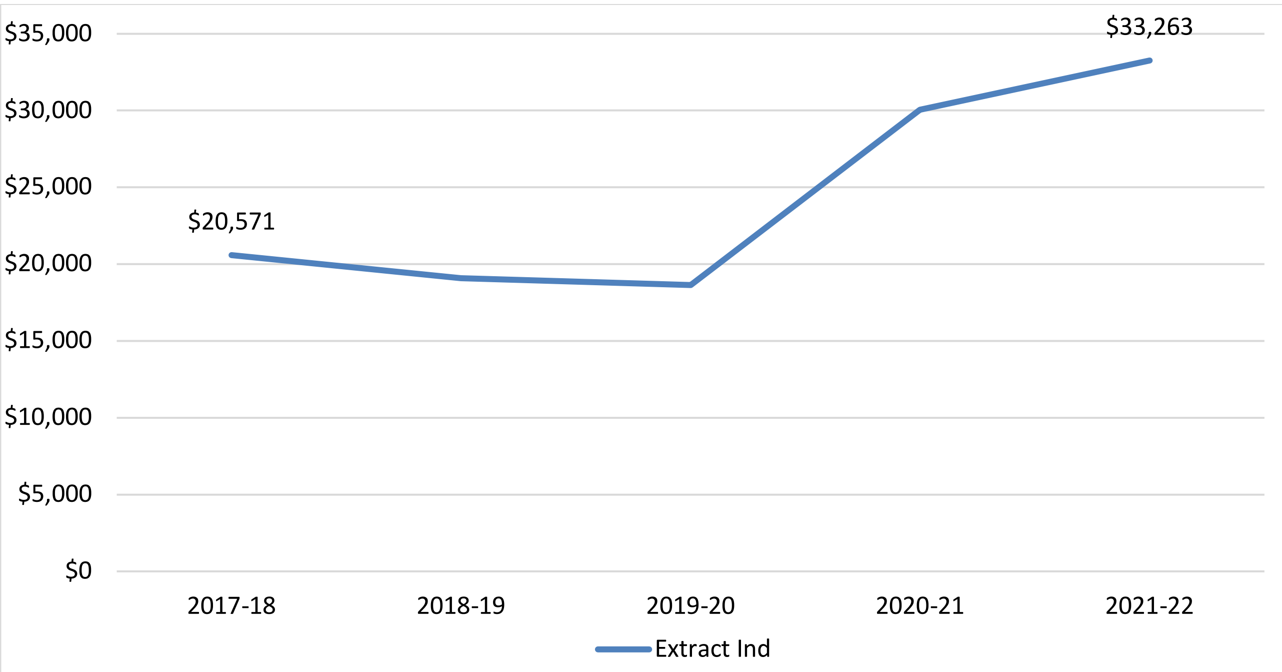
4.1 Average rate

The following graph shows the average general rates that each category of land (general, commercial & industrial, farm, vacant land, retirement villages) has paid over the past five years.



Note: The previous Rating Strategy had a strong focus on reducing the level of rates for Commercial and Industrial properties. This has been achieved through a reduction in the differential rate as well as a reduction in revaluation outcomes over the past four years.

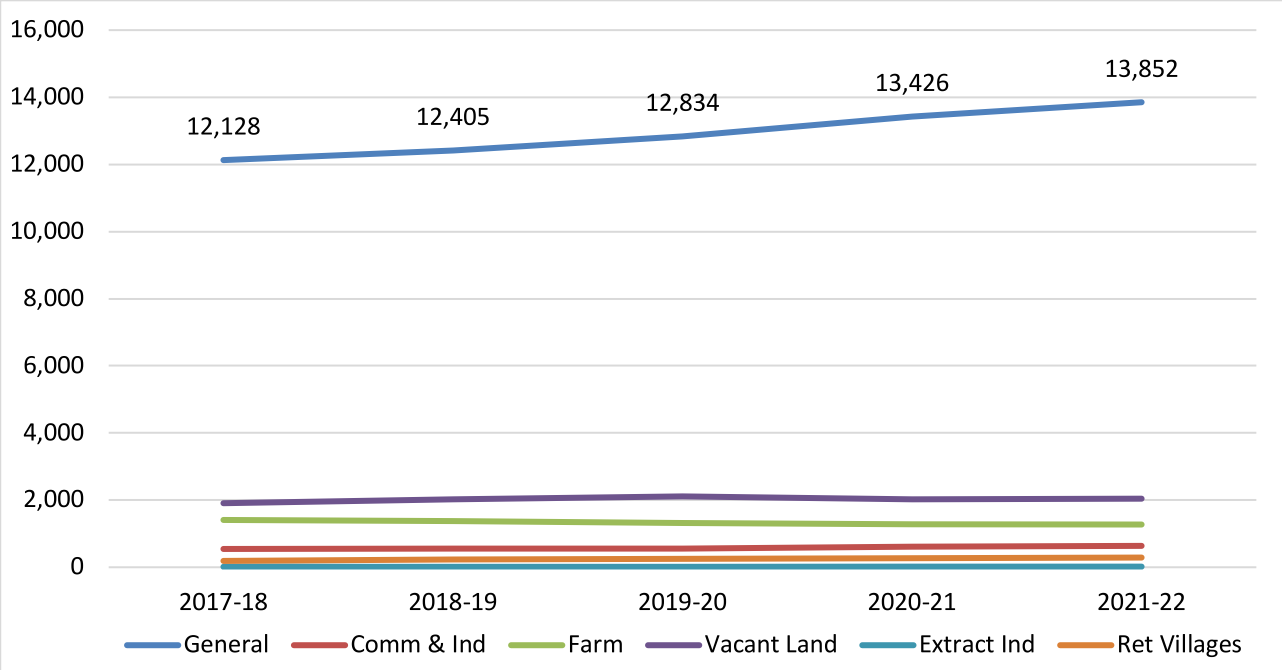
The following graph shows the average general rates that the extractive industry category of land has paid over the past five years.



Note: The increase in average rates from 2020-21 onwards is as a direct result of the increase in valuations.

4.2 Rate assessments

The following graph shows the growth in the number of assessments for each category of land (general, commercial & industrial, farm, vacant land, extractive industries, retirement villages) over the past five years.



Note: Growth in the number of general assessments is expected to continue with the Shire's population, forecast to increase by 76% from 36,344 in 2021 to 63,831 in 2041 (.id Consulting).

5. BENCHMARKING

A benchmarking exercise was conducted against similar councils to compare rating systems, structures and levels. The tables below provide a summary for general rates and municipal charges for the 2021-22 year The rate (cents/$CIV) for each category of land is shown as a percentage of the general category for comparison purposes.

5.1 General rates

Council	Rates $000	General %	Farm %	Comm & Indus %	Vacant Land %	Extract Indus %	Retirement Villages %
Bass Coast	67,102	100	80	100	150	100%	100%
Baw Baw	65,355	100	90	120	180	100%	100%
Surf Coast	58,950	100	75	190	100	100%	100%
Macedon	55,825	100	80	120	100	100%	100%
Moorabool	40,440	100	78	150	100-200	312%	90%
Colac-Otway	32,773	85-100	75	140-165	100	100%	100%
Golden Plains	25,668	100	85-100	100-120	100-200	100%	100%
Hepburn	23,547	100	65	116	100-125	100%	100%
Corangamite	23,047	100	88	100	128	100%	100%

Note: Baw Baw has a residential development rate (130%) and urban living rate (90%); Macedon Ranges has a not-for-profit housing rate (50%). Only Moorabool has a separate extractive industry rate.

5.2 Municipal charge

Council	Charge $
Bass Coast	0
Baw Baw	0
Surf Coast	215
Macedon	212
Moorabool	0
Colac-Otway	195
Golden Plains	310.60
Hepburn	0
Corangamite	205.50

6. EQUITABLE SHARING OF THE RATE BURDEN

6.1 Objectives

In distributing the rating burden across the different categories of ratepayers in the Moorabool Shire, Council is looking to achieve the following objectives:

- Having a rating structure that provides fairness and equity for the whole Shire
- Striking the right balance in terms of the number and level of differential rates and the amount of any municipal charge (if any)
- The rating structure is supported by the rating principles (see below).

6.2 Rating principles

The Victorian Government's *Local Government Better Practice Guide: Revenue and Rating Strategy 2014* states that when developing a rating structure a Council should give consideration to the following key rating principles:

- 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. Vertical Equity – those who are better off should pay more rates than those worse off
- 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 rates paid
- 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.

6.3 Council proposal

The Council has undertaken an assessment of its current rating structure of rates and charges against the rating principles and developed a number of alternative options to address the significant growth the Shire is experiencing and in particular the increase in farm land valuations. The following options are put forward for consideration and feedback from the community. Council does not favour any particular option and will make its final decision after taking into account the community's feedback.

- **Option 1**: Make no change to the current number and level of differential rates as set out in section 3.2
- **Option 2**: Decrease the farm land differential from 78% to a range between 70% and 65% and extractive industries from 312% to a range between 280% and 260% of general rates and make no change to the other differential rates
- **Option 3:** Introduce a municipal charge of between \$100 and \$200 and make no change to the current number and level of differential rates.

In regard to option 2, the reduction in the Extractive Industry differential rate is due to the requirement under the Act that the highest differential cannot be more than four times the lowest differential. The financial impact of each of these options on ratepayers is set out in section 7.

7. FINANCIAL IMPACT ON RATEPAYERS

Each of the options have been modelled and compared against the rating outcomes for the 2021-22 budget. The financial impacts on the average rate for each differential rating category is shown in the following tables based on the average property valuation for that category. 'Current' is the average rate for the current 2021-22 Budget year and 'Modelled' is the average rate for the relevant option. For the purposes of the analysis each, the top and bottom of the range for each option has been modelled as follows:

- **Option 1**: Make no change to the current number and level of differential rates as set out in section 3.2
- **Option 2A**: Decrease the farm land differential from 78% to 70% and extractive industries from 312% to 280% of general rates and make no change to the other differential rates
- **Option 2B**: Decrease the farm land differential from 78% to 65% and extractive industries from 312% to 260% of general rates and make no change to the other differential rates
- **Option 3A:** Introduce a municipal charge of $100 and make no change to the current number and level of differential rates
- **Option 3B:** Introduce a municipal charge of $200 and make no change to the current number and level of differential rates

<u>None of the options considered impact on the total rates and charges raised by Council (i.e. general rates and municipal charge) as this amount is set by the rate cap.</u>

7.1 Option 1: No change

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
General	600,000	1,835	1,835	0
Commercial and industrial	500,000	2,295	2,295	0
Extractive industry	3,000,000	28,632	28,632	0
Farm	900,000	2,147	2,147	0
Vacant land (general)	500,000	3,059	3,059	0
Vacant land (commercial & industrial)	300,000	1,835	1,835	0
Vacant land (FZ & RCZ)	400,000	1,224	1,224	0
Vacant land (GRZ)	300,000	1,835	1,835	0
Retirement villages	300,000	826	826	0

7.2 Option 2A: Farm 70% and Extractive Industry 280%

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
General	600,000	1,835	1,859	+24
Commercial and industrial	500,000	2,295	2,324	+29
Extractive industry	3,000,000	28,632	26,025	-2,607

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
Farm	900,000	2,147	1,952	-195
Vacant land (general)	500,000	3,059	3,098	+39
Vacant land (commercial & industrial)	300,000	1,835	1,859	+24
Vacant land (FZ & RCZ)	400,000	1,224	1,239	+15
Vacant land (GRZ)	300,000	1,835	1,859	+24
Retirement villages	300,000	826	837	+11

7.3 Option 2B: Farm 65% and Extractive Industry 260%

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
General	600,000	1,835	1,874	+39
Commercial and industrial	500,000	2,295	2,342	+47
Extractive industry	3,000,000	28,632	24,361	-4,271
Farm	900,000	2,147	1,827	-320
Vacant land (general)	500,000	3,059	3,123	+64
Vacant land (commercial & industrial)	300,000	1,835	1,874	+39
Vacant land (FZ & RCZ)	400,000	1,224	1,249	+25
Vacant land (GRZ)	300,000	1,835	1,874	+39
Retirement villages	300,000	826	843	+17

7.4 Option 3A: Municipal Charge of $100

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
General	600,000	1,835	1,838	+3
Commercial and industrial	500,000	2,295	2,273	-22
Extractive industry	3,000,000	28,632	27,220	-1,412
Farm[1]	900,000	2,147	2,134	-13
Vacant land (general)	500,000	3,059	2,997	-62
Vacant land (commercial & industrial)	300,000	1,835	1,838	+3
Vacant land (FZ & RCZ)	400,000	1,224	1,259	+35

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
Vacant land (GRZ)	300,000	1,835	1,838	+3
Retirement villages	300,000	826	882	+56

[1] Assumes only one farm assessment makes up the farm entity

7.5 Option 3B: Municipal Charge of $200

Differential	Average Valuation $CIV	Current $	Modelled $	Change $
General	600,000	1,835	1,842	+7
Commercial and industrial	500,000	2,295	2,252	-43
Extractive industry	3,000,000	28,632	25,808	-2,804
Farm[1]	900,000	2,147	2,121	-26
Vacant land (general)	500,000	3,059	2,936	-123
Vacant land (commercial & industrial)	300,000	1,835	1,842	+7
Vacant land (FZ & RCZ)	400,000	1,224	1,294	+70
Vacant land (GRZ)	300,000	1,835	1,842	+7
Retirement villages	300,000	826	939	+113

[1] Assumes only one farm assessment makes up the farm entity