

Moorabool Shire Submission

Date: Friday 25 October 2019

To: Review Secretariat

From: Derek Madden, Chief Executive

Topic: Review into Victoria's Rating System

Moorabool Shire supports this review as a long overdue opportunity to address current provisions of the State Government legislative rating regime that Council believes are no longer relevant. Whilst Council believes that no system of taxation can be perfect, the fairness and equity of the current rating system can be improved.

Moorabool Shire believes that the following changes will enhance and improve the Victorian Local Government Rating System and in turn, outcomes for Victorian communities;

1. Consideration of sensible rating reforms that enable Councils to pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden as per S136 of the Local Government Act.
2. Consideration of removing the restriction of the 4 times rule or altering the application of the 4 times rule.
3. 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.
4. Advocating for the removal of the concessional rating of windfarms / electricity generators as currently exists under the Electricity Act 2000.
5. Advocating for the increase in the Municipal Charge to assist Councils in providing a lower level of rate volatility considering the move to centralised annual valuations.
6. Advocating for an expansion in the municipal rates concessions under the State Concessions Act 2004 to apply to a broader category of Victorians.

Key Issues

1. Consideration of sensible rating reforms that enable Councils to pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden

Section 136 of the [Local Government Act](#) provides four principles of sound financial management for councils. All councils are required to implement these principles and establish budgeting and reporting frameworks that are consistent with the principles.

The principles of sound financial management require councils to:

- manage financial risks prudently, having regard to economic circumstances
- pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rate burden
- ensure that decisions and actions have regard to financial effects on future generations
- ensure full, accurate and timely disclosure of financial information relating to the council.

Moorabool Shire believes that the current rating provisions in the Victorian Local Government Act make it almost impossible to provide its ratepayers with a reasonable level of stability in the level of the rate burden. Whilst rate capping gives effect to this aim at a “macro” or “council” level, many residents and ratepayers are left angry and frustrated by the fluctuation and volatility of rate outcomes of the current rating system in Victoria. In Moorabool’s case, the 2019/20 rating year has seen significant shifts in the land valuations of some farming communities which has resulted in some cases where 100%+ increases in rates payable have been experienced.

Based on our research, it is our view that there are several sensible improvements to the current rating systems that could be made which would provide a more efficient, effective and stable rating system being;

- Allow Councils to “cap” or set limits on the total percentage of rates to be levied from a differential rate category. For example;**

Table 1.1

Total Capped Rates \$30.0m

| Differential Category | % of Rate Cap | Total Revenue Share |
|-----------------------|---------------|---------------------|
| General / Residential | 80.0% | \$24.0m |
| Commercial | 5.0% | \$1.5m |
| Farm | 10.0% | \$3.0m |
| Vacant Land | 5.0% | \$1.5m |

Under the current rating arrangement in Victoria, differential rating categories go to “war” on an annual basis. This results in the size of the overall rate pool for a differential rate category changing, depending on the shift in overall property valuations for the differential category. Whilst Councils can adjust and revise the differential rates to smooth out the effects, Councils are generally apprehensive to do this for several reasons.

From a principle perspective, setting a cap or a percentage limit on the total revenue that is to be derived from a differential rate category ensures that the community is better able to understand how the overall rate burden is allocated. It also caps the movement in the rating burden between rating categories that can happen from year to year. For example, if significant valuation increases occur for the farm rate differential category, Councils can clearly and easily provide certainty that the overall pool of revenue is “capped” and will not materially increase.

b. Allow Council the flexibility to set different minimum and maximum rates for different differential rate categories to better reflect community need

By allowing the Council to cap the total percentage of rates to be levied from a differential rate category (as shown above), Councils would benefit from having the flexibility to set different minimum and maximum rates for different rate categories.

The current application of the Municipal Charge in Victoria is problematic and in need of some sensible reform in the way it is applied. Equally, the rationale for the current municipal charge including the 20% limit is not apparent.

Some Councils are apprehensive to apply a Municipal Charge on the basis that it shifts the rating burden from high value properties (i.e. commercial properties / farm properties) to low value properties (i.e. residential properties). The critical flaw in the current system is that the application of a uniform Municipal Charge across all rateable properties creates winners and losers.

The following worked example builds on the previous example in Table 1.1;

Table 1.2

| Differential Category | Total Revenue Share | Minimum Rate / Base Charge | Ad Voletem rate / Cents in the dollar |
|-----------------------|---------------------|----------------------------|---------------------------------------|
| General / Residential | \$24.0m | 0.0% | 100.0% |
| Commercial | \$1.5m | 25.0% | 75.0% |
| Farm | \$3.0m | 50.0% | 50.0% |
| Vacant Land | \$1.5m | 0.0% | 100.0% |

As seen above, by capping the overall revenue share for each differential rate category, some of the current problems with the application of the municipal charge are overcome. In this context, Councils can give greater effect to having a system of minimum charges / base rates that better reflect the desires of different categories of ratepayers. For example, residential ratepayers may feel that a base rate or minimum charge is an inappropriate mechanism for collecting their total revenue share of \$24m. Farm properties and Commercial businesses may want a higher level of certainty of the rate outcomes from year to year and may prefer a higher level of base rate / minimum charge.

We would recommend the quantum of any base charge / fixed charge could be up to 50% of total revenue to better reflect what is happening in other jurisdictions.

Principal 1: *Allow Councils to cap or set limits on the total percentage of rates to be levied from a differential rate category.*

Principal 2: *Allow Councils the flexibility to set different minimum and maximum rates for different differential rate categories to better reflect community need.*

2. Consideration of removing the restriction of the 4 times rule or altering the application of the 4 times rule.

Under S.161 of the Local Government Act, Councils can declare differential rates. Differential rates allow Council to apply different rates in the dollar for different types of property as long as Council “considers that the differential rate will contribute to the equitable and efficient carrying out of its functions”. When declaring differential rates, Council must ensure that the highest differential rate is no more than four (4) times higher than the lowest differential rate in the municipal district.

Moorabool Shire is advocating for a change to the 4 times rule on the basis that this rule is an arbitrary and unnecessary restriction which hinders Councils ability to ensure an “equitable and efficient” carrying out of its functions.

Within this suggested improvement there are several potential mechanisms that could be considered. For example;

1. **Advocating for the 4 times rule to be totally scrapped.** This would bring the Victorian legislation in line with most other Australian LGA jurisdictions. Most other Australian LGA’s (aside from WA) do not impose a ratio restriction on the use of differential rates.
2. **Advocating for the expansion of the ratio limit for the current 4 times rule.** Under this proposal, Council believes there is scope for the ratio limit for the current ‘4 times rule’ to be increased (i.e. to potentially a ratio limit of 8 or potentially higher). The Local Government Rating System Review discussion paper highlighted the City of Brisbane’s 77 differential categories resulted in a ratio of 23:1. As a result, an expansion of the existing 4 times rule would not appear to be unrealistic.

Principal 3: *Moorabool Shire supports the removal of the “4 times rule” or an expansion of the current ratio to ensure maximum flexibility in its Rating Strategy deliberations and in turn to facilitate an “equitable and efficient” carrying out of its functions.*

3. 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.

With land speculation for residential purposes moving beyond the interface group of Councils in Melbourne, the significant uplift in values of farm land in the Peri-Urban Group of Councils, and in Moorabool, has seen rates payable on farm land increase by over 100% on many farms. Moorabool is requesting a review of the rating framework with an examination of how best government can support farming communities.

Principle 4: *Moorabool Shire is requesting a review of the rating framework with an examination of how best government can support farming communities. Moorabool Shire is requesting a set of sensible rating reforms that are consistent with providing a reasonable degree of stability in the level of the rating burden.*

4. Advocating for the removal of the concessional rating of windfarms as currently exists under the Electricity Act 2000.

Under current longstanding arrangements under the Electricity Act 2000, electricity generators can opt into a scheme to pay rates based on energy generation capacity not property value. The discussion paper has specifically posed the following question as part of the consultation:

Should cultural and recreational land and electricity generators have alternative rating arrangements? Why?

The current arrangement under the Electricity Act 2000 places Moorabool Shire Council at a significant financial disadvantage than it would have been had the rates for electricity generators been based on property values. The following table highlights the current revenue disparity based on an actual example in Moorabool Shire.

Example 1.0

Facility Type: Windfarm
Generation capacity: 28 Mega Watts
Capital Improved Value: \$55.1m

Table 1.0 Calculated revenue outcomes for a 28MW windfarm with a capital improved value of \$55m

| Description | Amount | Year |
|---|-----------------|---------|
| Council Rates based on Electricity Act 2000 | 91,659 | 2019/20 |
| Council Rates based on Local Government Act 1989* | 292,416 | 2019/20 |
| Revenue loss | -200,757 | |

* based CIV of \$55.1m rated at Comm/Ind rate of \$0.005307 Cents / \$CIV

At the conclusion of the 2019/20 financial year, Moorabool Shire will have three windfarm facilities operating in the Shire with a total combined Mega Watt capacity exceeding 560 Mega Watts of power. Once fully commissioned, the combined revenue from the three windfarms will be less than \$900k per annum based on the current arrangements under the Electricity Act 2000. If Council were able to levy rates based on property value, the potential additional revenue per annum has been shown below;

Table 1.1 Potential additional windfarm revenue if windfarms are rated based on property values.

| Description | MW Rating | Property Value | Electricity Act 2000 | LGA Act 1989 |
|---------------------|--------------|----------------|----------------------|------------------|
| Yaloak Windfarm | 28.7 | 55.1m | 91,659 | 292,416 |
| Moorabool Windfarm* | 312 | 450m | 458,000 | 2,388,150 |
| Lal Lal Wind farm* | 216 | 300m | 326,000 | 1,592,100 |
| Total | 556.7 | | 875,659 | 4,272,666 |

* property value based on a conservative estimate

It is conservatively estimated that Moorabool Shire would be in excess of \$3.0m better off on an annual basis if rates for electricity generators were based on property values. **These additional revenues could be used to reduce the rate burden on existing rate payers.**

It is currently noted that whilst electricity generators can opt into a scheme to pay rates based on energy generation capacity (which places Moorabool Shire Council as a significant disadvantage), the State Government continues to levy Fire Services Property levies (FSPL) for windfarms based on the property value resulting in a significant cash windfall for the State Government. Once the three windfarms are fully commissioned the estimated FSPL revenue windfall for the State Government has been estimated as follows:

Table 1.2 Estimated State Government FSPL revenue compared to Moorabool Shire Windfarm revenue

| | | | State Government | Moorabool Shire |
|---------------------|--------------|----------------|------------------|-----------------|
| Description | MW Rating | Property Value | FSPL Levies | Windfarm rates |
| Yaloak Windfarm | 28.7 | 55.1m | 52,736 | 91,659 |
| Moorabool Windfarm* | 312 | 450m | 429,076 | 458,000 |
| Lal La Wind farm* | 216 | 300m | 286,126 | 326,000 |
| Total | 556.7 | | 767,938 | 875,659 |

Once fully commissioned, the State Government is conservatively estimated to generate in excess of \$0.750m per annum in FSPL levies from three windfarms within Moorabool Shire.

Moorabool Shire is advocating for a change in the methodology for the calculation of rates for electricity generators. Councils are currently constrained by the requirements of the Electricity Act 2000. Council supports the removal of the current longstanding arrangements. Alternatively, if the current legislation is to remain in place, Moorabool Shire is advocating to ensure that the arrangements contained in the Electricity Act are revised to give Councils a fairer outcome.

Principal 5: *Moorabool Shire supports the removal of current longstanding arrangements which allow electricity generators to pay rates based on electricity generation capacity. These arrangements significantly disadvantage local Councils and the communities they represent.*

Principal 6: *Moorabool Shire support the rating of electricity generators based on property values on a basis that Council considers will contribute to the equitable and efficient carrying out of its functions.*

Principal 7: *As a base minimum, Council advocates for the current longstanding arrangements for the calculation of rates under the Electricity Act 2000 be significantly increased to ensure that the municipal district and the communities they represent receive a fairer outcome.*

5. Advocating for the increase in the Municipal Charge to assist Councils in providing a lower level of rate volatility considering the move to centralised annual valuations.

A consistent topic of discussion during Rating Strategy deliberations over recent years has been the implementation of a Municipal Charge. Under S159 of the Local Government Act, a Municipal Charge may be levied on all rateable properties within a municipality “to cover some of the administrative costs of the Council”.

Currently, the Municipal Charge in any one financial year must not exceed 20% of the total revenue raised from the combination of Municipal Charge and General Rates.

In recent times, the proposed amendments to the LGA proposed the Municipal Charge will be capped at a maximum of 10% of total revenue.

Since the proposed amendments to the Local Government Act were announced, several changes to the local government rating landscape have occurred, most notably the move from biennial valuations to annual valuations. With the move to annual valuations, the future rating landscape will see increased volatility in rate outcomes on a property by property basis due to annual shift in valuations. It is noted that a Municipal Charge is a mechanism that can be used to “smooth out” fluctuations in annual valuations as it is a fixed charge on all properties.

The Local Government Rating System Discussion Paper currently notes that across Australia there is a significant disparity in the mix of fixed charges or minimum rates. It is interesting to note that South Australia, Tasmania and New South Wales have the greatest capacity to use fixed charges/minimum rates, allowing up to 50% of the rating burden to be collected via a municipal or fixed charge.

Principal 8: *Moorabool Shire supports an increase in the Municipal Charge percentage in line with other jurisdictions to provide increased decision-making flexibility.*

6. Advocating for an expansion in the municipal rates concessions under the State Concessions Act 2004 to apply to a broader category of Victorians.

The Victorian Government provides concessions to make essential services more affordable for low-income households in Victoria. The concessions apply to water, gas, electricity and municipal rates. Currently in Victoria, a ratepayer who holds a Pensioner Concession Card or a Veteran Affairs Gold Card can claim a deduction on their council rates. The rationale for the current approach is that the rates concession provides financial support to pensioners who want to continue to live in their family home. Pensioners often find it difficult to afford rates bills because they generally rely on government income payments for a much longer period than the recipients of other payment types.

Moorabool Shire believes that the current eligibility criteria are too narrow and fails to consider other categories of disadvantaged Victorians that need additional government support to make ends meet. To this end, Moorabool Shire is advocating to the State Government as part of this review to provide the municipal rate concessions to holders of Health Care Cards and Low-income Health Care Cards.

By broadening the eligibility criteria, will provide much needed financial relief to the long term unemployed, those experiencing financial hardship and other categories of vulnerable Victorians.

Principal 9: *Moorabool Shire supports and an expansion in the municipal rates concessions under the State Concessions Act 2004 to apply to holders of Health Care Cards and Low-income Health Care Cards and potentially other categories of disadvantaged Victorians.*

Conclusion

Moorabool Shire believes that the changes proposed within this submission will enhance and improve the Victorian Local Government Rating System and in turn, outcomes for Victorian communities.

Regards,

Derek Madden
Chief Executive