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# **Identifying Rating Improvement Opportunities**

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**Report of the Project Steering Committee  
11 June 2003**



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## Introduction

In recent years many properties have experienced substantial increases in value with some, depending on type and location, rising disproportionately to others. Although some Councils were well prepared for particularly sharp changes last year, these impacts took others by surprise. As a result there was a wide level of dissatisfaction voiced about the impact of rate increases. Considerable debate flourished in the media and the Parliament. This at times highlighted confusion and misunderstanding about the reasons why Councils impose rates, insufficient or inaccessible information about the availability of relief for those in hardship and, in some cases, inadequate consideration by Councils of the impact of the rate setting decisions.

The concern expressed gave rise to a joint Project between the Local Government Association (LGA) and the Office of Local Government (OLG) initiated by the then Minister for Local Government, Hon. Jay Weatherill, to identify rating improvement opportunities for South Australian Councils.

The overall Product from the Project has four components. They are (in order of appearance)

- a Guide entitled "*Rate Setting Improvement Opportunities for 2003/04*", containing options available for Councils to consider when determining their policy approach to rate setting and to relief for ratepayers encountering extreme increases in their rates bills and/or severe financial hardship;
- a Model, known as the *Rates Impact Model* and *Instructions for using the Rates Impact Model*, to enable prediction of where rates increases will fall within a council area and whether the increases are uneven and extreme. The Model has been developed in Microsoft Excel, and is intended for immediate and longer term use;
- A longer term Resource on Rate Setting for elected members and staff of Councils for future years entitled "Addressing the Impact - Flexible Approaches to Rate Setting - A Guide"; and
- This Steering Committee Report, "Identifying Rating Improvement Opportunities", which outlines the overall Project and presents some suggestions for possible future improvement in the system of rates and rate setting in South Australia.

Advice from the Valuer-General is that there have been further significant but varying increases in property value for assessments in the past year and this may continue into the future. The increase will not be uniform across the State or within individual Council areas and some ratepayers who saw large increases in valuations last year may experience further large increases this year or in subsequent years. This suggests that the problems the Project was asked to address are likely to recur, and the Steering Committee presents its overall findings, including the resource material and suggestions for future action regarding the system of local government rates, with this in mind.

In this Report brief comments are made and suggestions set out for future system improvements relating to each of the four main components of *Addressing the Impact*, headings suggested by the Project deliverables. They are:

- The Information Base For Rate-Setting,
- The Rates Impact Model,
- Options for Rate Relief, and
- Documentation and Communication Strategies.

The Project was asked to “*identify regulatory or legislative changes that could assist in overcoming the adverse rating effects of rapid and inconsistent changes in property valuations*”. The Steering Committee is of the view that while there may be desirable legislative moves for the future there is sufficient scope in the present legislation for Councils to manage sudden extreme changes in rates liability resulting from significant changes in relative property values. The Steering Committee does not believe there is short term urgency about the regulatory changes, therefore, but encourages the LGA and the OLG to undertake the detailed analyses suggested.

The scope of the Project, as indicated by the brief, was necessarily confined to issues emerging from more systematic examination of the impacts of rate setting decisions. Impacts on individuals and groups of ratepayers were addressed and the Project has explored the actions open to Councils to manage those impacts in a responsive way while sustaining necessary revenue bases.

The process adopted to identify issues related to the impact of rate setting decisions disclosed a range of issues about rates more generally. Those that did not fall within the scope of the Project are recorded without further discussion in Appendix 4.

## **Project Objectives and Deliverables**

The brief for the Project set out the following objectives and deliverables:

### **PROJECT OBJECTIVES**

This Project seeks to provide a well researched resource for Councils to assist them to examine approaches to rating issues, including both underlying economic and demographic trends and those arising from shorter term rapid and inconsistent changes in property valuations. The Project will bring together the research undertaken by the LGA and the OLG, and through a consultative committee will develop and analyse a range of options to enhance rating approaches which seek to better manage the adverse affects that have been recently experienced by some ratepayers.

A particular focus of the Project will be the extent to which Councils are able, in practice, to identify and assess the impact of potential rating structures and decisions on classes of individuals or groups within their community prior to the declaration of rates and the issue of rate notices, the extent to which they actually do so, and ways of improving Councils' capacity to model impacts and budget and plan for appropriate relief.

### **PROJECT DELIVERABLES**

The consultant(s) will be expected to develop models for assessing the implications of different rating structures using actual valuation data from a number of representative Councils (no less than 4 Councils). These participating Councils will be identified and approached in conjunction with the Steering Committee.

Principal outcomes of the Project will be to provide tools to enable Councils to model the impacts of rating changes and valuation movements more comprehensively and to provide modelled examples of good practice in setting rates and equitable relief mechanisms, and in communicating rating information. These tools would be of technical, procedural, policy and promotional nature.

The specific objectives of the Project are:

- a) Produce a practical resource for Council staff which provides a comprehensive study of options available to overcome the adverse rating effects of rapid and inconsistent changes in property valuations.
- b) Identify regulatory or legislative changes that could assist in overcoming the adverse rating effects of rapid and inconsistent changes in property valuations.
- c) As part of producing this product it would be expected that the consultant(s) would:
  - a. Develop a rating model which assesses the impacts of various rating options. This model should be able to be applied by Councils, either directly or by applying the clearly documented principles of the model,
  - b. Explore rate relief options, including the possible introduction of a long-term deferred rates payment scheme for persons eligible for a State Seniors Card,
  - c. Develop communication models and standards for advising ratepayers of changes in rates, the basis for rating decisions and the availability of rate relief,

- d. Consult extensively with the participating Councils,
- e. Consult with relevant staff from the following organisations, and identify the options for improving outcomes for ratepayers
  - i. Office of Valuer General
  - ii. Office of Local Government
  - iii. Local Government Association
  - iv. SA Water
  - v. Revenue SA
  - vi. Department of Treasury and Finance,
- f. Identify and record best practices being undertaken by Councils and other organisations who levy property based fees,
- g. Consider the current capability of software used by SA Councils to implement changes to rating practices,
- h. Consider information that is available to Councils to assess the impact of rating changes, including information that is available, or could be made available from
  - i. Australian Bureau of Statistics
  - ii. Office of Valuer General
  - iii. Existing Rating Analyses by the LGA and OLG,
- i. Consider the legislative, policy and political issues associated with the rating approaches being considered."

## Summary of Project Proposals for Improvement

In the course of exploring the options available to Councils the Steering Committee came to identify not only legislative and regulatory improvements that could be made to the system of local government rates but also a number of an administrative nature. Proposals for improvement in both categories are summarised below. Neither the recommendations or proposals are set out in order of importance.

The Steering Committee recommends that

1. *Councils consider their rate setting approaches within a strategic framework that links their revenue and expenditure targets with the longer term goals for their communities;*
2. *the Local Government Association in conjunction with relevant professional associations including the South Australian Institute of Rate Administrators address the need for higher level skills in taxation policy and administration throughout the Local Government sector.*
3. *the Local Government Association make available suitable training courses for Councils to assist them to develop and maintain sound relationships with media and good communication practices with their communities.*
4. *the resource material "Addressing the Impact – Flexible Approaches to Rate Setting A Guide" be distributed widely to Councils;*
5. *each year training be offered to Councils on the use of the resource material and its associated modelling package before Councils finalise their budgets and adopt their rates for the following financial year;*
6. *"Addressing the Impact – Flexible Approaches to Rate Setting A Guide" be incorporated into induction training for elected members; and*
7. *the resource material "Addressing the Impact – Flexible Approaches to Rate Setting A Guide", the Rates Impact Model, the Instructions for using the Rates Impact Model and other relevant reference documents for Councils be regularly reviewed and updated.*

Further the Steering Committee proposes that

8. *the Local Government Association considers access, for all Councils, to the complete range of Australian Bureau of Statistics (ABS) publications and negotiate an appropriate fee with the ABS.*
9. *a working party be convened, which includes representation from the Local Government Association, Councils, the Office of Local Government, the Office of the Valuer-General, the Department of Treasury and Finance and other relevant taxation authorities, to investigate changing the time at which General Valuations are issued and the potential for a single valuation notice to be issued by the Valuer-General, and to make recommendations for consequential changes to the Valuation of Land Act.*
10. *consideration be given to amending the Local Government Act 1999 to permit Councils to use a rolling average of two, three or five years' valuations as the basis for rating.*
11. *consideration be given to reviewing the bases on which Councils can impose differential rates with a view to updating and, if necessary, increasing the categories of differentiation. The review should include:*
  - *determination of whether the statutory connection to the Development Act is still appropriate or should be replaced;*
  - *investigation of the definition of primary production for differential rating purposes;*

- *investigation of the possibility of raising rates based on predominant and secondary uses of land*
- *determination of the appropriate impact on rates liability, if any, of home business or other secondary activities on land*

*and should be the subject of further consultation with Councils.*

12. *consideration be given to amending the Local Government Act 1999 to include pensioners and self-funded retirees as groups to whom Councils can provide rebates.*
13. *consideration be given to extending the statutory time limit of three years for rebates in order to phase in the impact of structural changes to rates or extreme increases in valuations.*
14. *consideration be given to reviewing section 171 of the Local Government Act 1999 with a view to supporting clear relationship between rates policy, long term financial plans and strategic plans.*
15. *the Local Government Association and the Valuer-General jointly prepare a media strategy on property valuation movements each year for use by media before Councils begin preliminary budget discussions.*

## **The Project Process and Consultations**

The Project has been overseen by a Steering Committee of people representative of council professionals, together with members from the LGA, OLG, South Australian Local Government Grants Commission, Valuation SA and the Valuer General<sup>1</sup>. Consultation has been as broadly based as possible given the time frames of the rating year, which dictated tight time lines for the completion of the Project.

### **Project Steering Committee**

The Steering Committee met five times, including an early workshop held to identify issues to be addressed by the Project. Additional invitees at the initial workshop included representatives from the Centre for Economic Studies, the South Australian Council of Social Services Inc, Norman Waterhouse Lawyers, Revenue SA and SA Water.

### **Consultation With Councils**

Consultation with Councils on the topic of rating was carried out through:

- The four Councils who agreed to have their data modelled and test the generic model (Charles Sturt, Light, Mt. Barker and Whyalla);
- An information and discussion session at the General Meeting of the Local Government Association in March 2003;
- A consultative workshop to which all SA Councils were invited, held in Adelaide in March, 2003;
- An information and discussion session held at the LGFMG Seminar held in March 2003; and
- Telephone and email discussions/communications with a number of Councils.

The four councils involved in the modelling provided specific information related to their particular circumstances.

The March workshops were lively, with many varying points of view presented. Participants considered issues related to rate capping, deferral of rates, flexible payment options and the separate valuation notice and provided useful feedback to the Project.

### **Consultation With Other Organisations**

Consultation in relation to taxation policies and practices and related matters was undertaken with the following organisations:

- Office of the Valuer-General
- Valuation SA
- Office of Local Government
- Local Government Association
- South Australian Local Government Grants Commission
- Department of Treasury and Finance – Revenue SA
- SA Water
- South Australian Council Of Social Service Inc (SACOSS)
- SA Federation of Residents and Ratepayers Association

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<sup>1</sup> See Appendix 1

All these sources provided material from which the Product as a whole is drawn, especially its main resource for Councils "*Addressing the Impact – Flexible Approaches to Rate Setting – A Guide*". To do full justice to representations made to the Project by SACOSS and the SA Federation of Residents and Ratepayers Associations those representations are summarised below.

**SACOSS** have concerns about the potential inequities that might be caused by the increasing tendency of Councils to employ a 'user pays' model for funding services. They see the potential for the economically disadvantaged to be denied access to services when the services are provided on a 'user pays' basis.

It is important that Councils consider the impact of these decisions and ensure that they provide opportunities for the economically disadvantaged to use services that are provided on a 'user pays' basis. This includes building concessional arrangements in to 'user pays' charges such as STEDS and garbage collection.

SACOSS also confirmed the view that the number of pensioners and self-funded retirees on limited incomes is increasing and that they are becoming a well informed political presence. There is the potential for these well informed people to provide innovative ideas to improve the tax practices of local government.

The **SA Federation of Residents and Ratepayers Association** believes that the time has come to move away from property-based taxation as the mechanism for funding Council operations. They perceive that property value is not a reliable indicator of 'wealth' – and this is further compounded in an environment of rapidly rising property valuations which has the potential of creating a class of persons who are 'asset rich, but income poor'. They would like to see more research into other funding instruments for local government. This view appears to be increasing in popularity.

In relation to the latter representation it should be noted that in the Australian context there are constitutional limitations on basing local government taxes on anything other than rates on property. Moreover although at first glance annual personal income may appear to be a clear indication of capacity to pay, the system of income taxation is complex and lends itself to tax minimisation by those financially able to secure expert taxation advice. In the final analysis no tax base is entirely without conceptual flaws when tested against the principles of equity, benefit and capacity to pay. The challenge is to construct a framework for local government in which Councils can develop rating structures that best fit each of these principles, within the local context.

## Future Improvement Opportunities

The major part of the Project's findings are contained in the new, separately presented, resource for elected members and staff of Councils entitled *"Addressing the Impact – Flexible Approaches to Rate Setting – A Guide"*.

Because, as has been mentioned, the time for preparation of the Project materials was limited, the Steering Committee focussed first on producing a resource of immediate use to Council staff in preparing recommendations for rate setting for the 2003/04 rating year. This document is entitled *"Rate Setting Improvement Opportunities for 2003/04"* and amounts to an advance extract from the broader Guide. It contains material that could be used immediately in preparing for rate setting and does not touch on longer term matters such as structural change in the rates that require more time for public consultation before they can proceed. The advance material was made available electronically to Councils from 23 April 2003 and formed the basis of the training sessions held throughout South Australia at the end of April and in early May. Its content is re-issued within a broader treatment of the subject in *Addressing the Impact– Flexible Approaches to Rate Setting – A Guide*.

The Project brief asked for attention to be addressed to a number of matters in preparation of the practical resource for Councils.

Each of these is dealt with in detail in *Addressing the Impact– Flexible Approaches to Rate Setting – A Guide* which is intended to be widely distributed to South Australian Councils and included in training material for both staff and Councillors. It will be important that this resource is regularly reviewed and updated to include both improvements in practice and any changes in the legislative framework that occur over time.

A significant overall finding of the Project is the recognition that **good practice in rate setting features Councils' developing and administering their revenue and expenditure targets within their strategic planning framework and ensuring that this process involves ongoing discussions with their communities about future outcomes for the area and how they are to be funded.**

There is no doubt that the process of setting the rates has become more complex and more specialist, with the requirement that they be embedded in implementation of Councils' strategic plans and be undertaken in a pattern that is responsive to Councils' communities.

The Steering Committee is concerned that the skill level and qualifications of people involved in rate setting and rates administration are not always commensurate with their responsibilities or the demands placed upon them in the role. Similarly there is room for improving the skill levels available to Councils to communicate complex decisions in straightforward terms both to local media and to their communities.

The Steering Committee therefore recommends that

1. *Councils be encouraged to consider their rate setting approaches within a strategic framework that links their revenue and expenditure targets with the longer term goals for their communities;*
2. *the Local Government Association in conjunction with relevant professional associations including the South Australian Institute of Rate Administrators address the need for higher level skills in taxation policy and administration throughout the Local Government sector;*

3. *the Local Government Association make available suitable training courses for Councils to assist them to develop and maintain sound relationships with media and good communication practices with their communities.*
4. *the resource material "Addressing the Impact – Flexible Approaches to Rate Setting A Guide" be distributed widely to Councils;*
5. *each year training be offered to Councils on the use of the resource material and its associated modelling package before Councils finalise their budgets and adopt their rates for the following financial year;*
6. *"Addressing the Impact – Flexible Approaches to Rate Setting A Guide" be incorporated into induction training for elected members; and*
7. *the resource material "Addressing the Impact – Flexible Approaches to Rate Setting A Guide", the Rates Impact Model, the Instructions for using the Rates Impact Model and other relevant reference documents for Councils be regularly reviewed and updated.*

In addition to the practical resource the Project was asked to identify regulatory or legislative changes that could assist in overcoming the adverse rating effects of rapid and inconsistent changes in property valuations. Changes of this nature are incorporated with the suggestions for improved system practice in the following discussion.

### **The Information Base for Rate Setting**

The relevance and accuracy of the information about its community that underlies Council decisions is central to how well considered those decisions will be. *Addressing the Impact – Flexible Approaches to Rate Setting - A Guide* sets out information sources already readily available to Councils that can be drawn upon to support rate setting decisions.

### **The Australian Bureau of Statistics**

In particular, the Australian Bureau of Statistics (ABS) produces a range of statistical information that is useful to Councils. One of the areas in which Councils need to improve their knowledge is the capacity of their community to pay tax – generally and at the individual level.

The ABS provides, free of charge, a series of income tables from the census data, generally by local government area (or a subset of local government area). This information will be helpful to Councils to establish the community profile and in considering the communities capacity pay tax.

The ABS also produces an annual publication entitled *Regional Statistics – South Australia* (ABS Catalogue 1362.4). This provides, for each Council, six years of information on:

- Population, including an analysis of the composition of the population (youth and aged persons);
- Labour force, including unemployment;
- Number of people on income support;
- Average individual taxable income; and
- Information on agricultural production.

The ABS can further provide, on a fee-paying basis, more detailed analysis of most of the data that it provides in summary publications. For example, income and income support information can be provided by postcode. The ABS also provides access to its complete library of publications on a fee-paying basis. The LGA is exploring opportunities to purchasing access on behalf of Councils.

The Steering Committee proposes that

8. *the Local Government Association continue to explore inexpensive access for all Councils to the complete range of Australian Bureau of Statistics (ABS) publications.*

### **Timing of Valuation and Issue of Separate Valuation Notice**

Currently, the Valuer-General provides property values as at January 1 in each year. The process by which the valuations are determined means that it is April/May before Councils have the bulk of their new valuations, and those valuations are still subject to objection by ratepayers. It has been suggested that it would be helpful if the Valuer-General issue the notice of valuation, thus separating the valuation from the rates bill and increasing the transparency and accountability of the valuation and rate setting processes.

The Steering Committee therefore proposes that

9. *a working party be convened, which includes representation from the Local Government Association, Councils, the Office of Local Government, the Office of the Valuer-General, the Department of Treasury and Finance and other relevant taxation authorities, to investigate changing the time at which General Valuations are issued and the potential for a single valuation notice to be issued by the Valuer-General, and to make recommendations for consequential changes to the Valuation of Land Act.*

### **The Rates Impact Model**

The modelling capacity of the software that Councils use in rating their communities has been briefly assessed. The modelling capacity varies from limited to good. More detailed discussions with the software suppliers are planned with a view to providing some guidance on better practice rates modelling for future versions of the various software packages.

Typically, rating software should provide the capacity to model the following:

- Different revenue outcomes;
- Differential rates;
- The impact of a change in the rating structure – e.g. changing from locality to land use or changing from site value to capital value;
- The identification of changes in distribution of the rates burden;
- The impact of rapidly increasing valuations;
- The impact of separate rates, service rates or service charges; and
- The impact of proposed rate relief options.

It would be preferable if all the modelling could be done within the rating software that Councils use. However, it may be more practical for rate models to be developed in Microsoft Excel or Microsoft Access. The *Rates Impact Model* prepared for Councils by the Project has been developed in Microsoft Excel. A minimum capacity in any rates software should be the ability to provide sets of data that can be downloaded (and uploaded) for modelling purposes.

## Options for Rate Relief

In examining options for rate relief the Project found two aspects of rate setting that merit attention. The first is the rates framework, including the valuation basis and the rates structure, and the second is measures available for rate relief for groups or individual rate payers experiencing particular disadvantage within the framework adopted.

### The Rates Framework

The Council's valuation basis and rating structure set the framework for distribution of rates liability.

Under the *Local Government Act 1999* the valuation base may be site, capital or annual values; each will have a particular outcome on the distribution of the rates burden.

Within the structure of its rates a Council may use minimum rates, adjustments for specified values, fixed charges or differential rates to affect the impact of rates on various classes and categories of property. The structure adopted will in large reflect the Council's intentions about distribution of the rates and should be closely linked in reasoning with the Council's community profile and strategic objectives.

Two potential changes emerged in relation to the possible improvements in the authorised framework of rates: use of a rolling three year valuation base (whether site, capital or annual values) and revision of the categories available for differential rating purposes.

### Using a Rolling Three Year Valuation

The Queensland Local Government Act provides for Queensland councils to use valuation averaging.

Modelling suggests that this may provide a useful mechanism for Councils to overcome the impact of extreme changes in property values, but still retain the nexus between all properties provided by the valuation process. There will, however, be limitations to the use of a three-year valuation.

For example, when a property is subdivided into lots for development, in the first year the new valuation will be the basis for rating. Similarly, when properties are aggregated together, some Councils have suggested that an average based over two years may be sufficient to minimise the effect of spikes in property valuations.

Where a Council changes the basis of its valuation, for example from site value to capital value, there will be no scope for averaging, unless the Council has the previous two years' valuations. It may be more appropriate to phase in such a change to minimise the adverse impact on ratepayers from increases in the quantum of rates paid.

The Steering Committee proposes that

- 10. consideration be given to amending the Local Government Act 1999 to permit Councils to use a rolling average of two, three or five years' valuations as the basis for rating.*

### The classification of land uses

Land use is one of the methods available to Councils for differentiating rates. Currently, the Local Government (General) Regulations 1999, in Clause 10, provide for land use to be categorised into 9 categories.

They are-

- *Residential* comprising the use of land for a detached dwelling, group dwelling, multiple dwelling, residential flat building, row dwelling or semi-detached dwelling within the meaning of the Development Regulations.
- *Commercial – Shop* comprising the use of land for a shop within the meaning of the Development Regulations.
- *Commercial – Office* comprising the use of land for an office within the meaning of the Development Regulations.
- *Commercial – Other* comprising any other commercial use of land not referred to in categories 2 or 3.
- *Industry – Light* comprising the use of land for a light industry within the meaning of the Development Regulations.
- *Industry – Other* comprising any other industrial use of land not referred to in category 5.
- *Primary Production* comprising –
  - farming within the meaning of the Development Regulations;
  - horticulture within the meaning of the Development Regulations;
  - the use of land for horse keeping or intensive animal keeping within the meaning of the Development Regulations;
  - in respect of a dairy situated on a farm – the use of land for a dairy within the meaning of the Development Regulations;
  - commercial forestry.
- *Vacant land* comprising the non-use of vacant land.
- *Other* comprising any other use of land not referred to in a previous category. “

A number of Councils expressed the desire to be able to make finer gradations of land use to allow for greater capacity to differentiate rates on what they see as a more equitable basis. For example, in the case of primary production it has been suggested that the capability to distinguish between intensive and non-intensive use of the land should be provided. Similarly, it has been suggested that the residential land use should distinguish between urban (township) residential and rural living (residential living on acreage).

The issue of land use classification for differential rating purposes was addressed by the Valuation of Land Act Review carried out in 2000.<sup>2</sup> The Report from that Review recommended “...that the Valuer-General’s Land Use Classification system be further developed to meet the needs of all rating, taxing and planning authorities...” No action was taken on that recommendation. The Valuer-General categorises land use into about 4,000 separate classifications.

It is essential that in increasing the flexibility for Councils to set differential rates the principle of simplicity in taxation be retained. Further consultation with Councils is required to determine appropriate changes and the basis for these changes to the land use codes.

Also in connection with land use codes for differential rating, many Councils have expressed frustration about the application of the land use “primary production”. The frustration arises where they provide a differential for primary production land holders and those who are not seen as “genuine” primary producers (those for whom primary production is not their principal activity) can nonetheless avail themselves of this differential. The inclusion of a land use code

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<sup>2</sup> See Appendix 2 for a summary of the status of the commendations of this Review.

for rural living may solve this problem. However, further analysis of the problem should be undertaken, in conjunction with the further work recommended on classification of land uses.

Some Councils felt that the impact of home business activities or secondary use of land, either residential or primary production, should be taken into account in either valuing or rating the land. This has the potential to make both the rating and valuation processes more complex. This matter too may be more effectively addressed in conjunction with review of land use codes available for differential rating purposes.

In addition to the issues raised in relation to land use categories, it is suggested that categories of locations for differentiation be reviewed. Some alternatives that were raised for consideration of differential rating categories included coastal strips and property value ranges.

In light of the foregoing discussion, the Steering Committee proposes that

*11. consideration be given to reviewing the bases on which Councils can impose differential rates with a view to updating and if necessary, increasing the categories of differentiation. The review should include:*

- *determination of whether the statutory connection to the Development Act is still appropriate or should be replaced;*
- *investigation of the definition of primary production for differential rating purposes;*
- *investigation of the possibility of raising rates based on predominant and secondary uses of land*
- *determination of the appropriate impact on rates liability, if any, of home business or other secondary activities on land*

*and should be the subject of further consultation with Councils.*

### **Relief Options within the Framework**

Within the framework adopted, a Council can also exercise its powers to rebate, remit or defer rates or authorise special payment arrangements in ways that may affect groups of properties or individual properties. With the exception of minor aspects of the rebate provisions, the Steering Committee formed the view that overall these powers are adequate to enable Councils to provide responsive management of the impact of rate setting decisions.

The *Local Government Act 1999* provides statutory rebates of rates of up to 100% for specified uses of property:

- |   |      |
|---|------|
| • Health Services under the SA Health Commission Act  | 100% |
| • Churches & religious purposes   | 100% |
| • Public Cemeteries   | 100% |
| • Royal Zoological Society of SA  | 100% |
| • Government schools on leased land   | 75%  |
| • Registered non-government schools   | 75%  |
| • University affiliated student colleges  | 75%  |
| • Not-for-Profit Community Services<br>(emergency or supported accommodation; food, clothing or legal services for disadvantaged persons; essential services or employment support for persons with disabilities; drug rehabilitation services; research or education on diseases or illnesses; palliative care (s161)) | 75%  |

Councils have discretion to increase statutory rebates to 100% and have discretion to apply rebates to:

- secure the proper development of the area or a part of the area;

- support a business in its area;
- preserve buildings or places of historic significance;
- assist an organisation providing a benefit or service to the local community;
- common property under a community title which is available for public use.

Rebates may also be given on land used for:

- educational purposes;
- agricultural, horticultural or floricultural exhibitions;
- a hospital or health centre;
- facilities or services for children or young persons;
- accommodation for the aged or disabled;
- an approved residential aged care facility;
- a day therapy centre.

A Council's power to grant discretionary rebates of rates also include rebates to provide relief against what would otherwise amount to a substantial change in the rates payable by a ratepayer due to:

- a change in the basis of valuation used for rating (eg change from site to capital values);
- rapid changes in valuations;
- anomalies in valuations; or
- phasing in changes to the basis or structure of rates.

There is no general power for a Council to rebate rates for groups on low incomes other than on application by individuals on hardship grounds.

The attention of the Project was also drawn to the time limit on the application of a rebate designed to phase in the impact of a change to the basis or structure of rates or of extreme changes in valuation. The limit is three years. Other rebates provided in this section of the Act are for ten years or have no time limit set. Several Councils consider three years insufficient time to phase in significant rate restructuring or to cope with rapid changes in valuations.

The Steering Committee proposes that

*12. consideration be given to amending the Local Government Act 1999 to include pensioners and self-funded retirees as a group to whom Councils can provide rebates.*

*13. consideration be given to extending the statutory time limit of three years for rebates in order to phase in the impact of structural changes to rates or extreme increases in valuations.*

## Documentation and Communication Strategies

*Addressing the Impact – Flexible Approaches to Rate Setting – A Guide* cites the importance of well prepared rate setting documentation in supporting public information about rates. The present statutory requirement that Councils adopt and publish a Rating Policy has contributed to receiving some more readily available public information about rates. However the current information required by section 171 of the Act does not support good practice to the extent that it now could. The requirements could be enhanced to encourage Councils to

- develop a revenue policy, that includes rate setting and is more closely linked to the Council's strategic framework;

- support good practice approaches to informing the public about rate setting decisions and the rationale behind them; and
- explore the potential of broadening the business impact statement to enable social and environmental impacts to be addressed.

The Steering Committee proposes that

- 14. Consideration be given to reviewing section 171 of the Local Government Act 1999 with a view to supporting clear relationship between rates policy, long term financial plans and strategic plans.*

As is also indicated in *Addressing the Impact- Flexible Approaches to Rate Setting - A Guide*, providing public information about movement in valuations in advance of announcements about rate setting decisions has the potential to prepare people for changes in relative rates liability. It is not necessary that all communications of this kind be regarded as the responsibility of individual Councils. Part of a comprehensive approach to better public information could be some joint media information from the Valuer General and the LGA commenting on current valuation movements area by area across the State prior to the commencement of Council budget discussions. This should be seen as complementary to improved communication between individual Councils and their local media.

The Steering Committee proposes that

- 15. the Local Government Association and the Valuer-General jointly prepare a media strategy on property valuation movements each year for use by media before Councils begin preliminary budget discussions.*

## Appendix 1 - Acknowledgements

### Steering Committee

Andrew Stuart	CEO, DC Mt. Barker (Chair)
Neil Bray	Valuer-General
Ione Brown	Director Special Projects, Office of Local Government
Sue Forder	Senior Project Officer, Office of Local Government
Peter Fountain	Valuation SA
Jane Gascoigne	Executive Officer, Local Government Grants Commission
Stuart Mathews	Senior Policy Officer, Local Government Association
Andrew McKeegan	Project Officer, Office of Local Government
Paul Perry	representing Local Government Managers Association
Jeff Rittberger	representing South Australian Local Government Financial Managers Group Inc
Phyllis Robinson	representing South Australian Institute of Rate Administrators Inc

### Workshop Participants

In addition to the Steering Committee Members the following people attended an initial workshop.

Barry Burgan	Centre for Economic Studies
Peter Fairlie-Jones	representing South Australian Local Government Financial Managers Group Inc
Michael Kelledy	Norman Waterhouse Lawyers
Jude Scarborough	RevenueSA
Simon Schrapel	representing South Australian Council Of Social Service Inc

### The Pilot Councils

City of Charles Sturt  
Light Regional Council  
District Council of Mount Barker  
City of Whyalla

### The Project Consultants

Dr Penny Burns	AMQ International
Janet Gould	Janet Gould and Associates
David Hope	Skilmar Systems Pty Ltd

### Others

All councils and others who attended the seminar on Friday March 14, 2003 at the Chifley.

## Appendix 2 - Review of The Valuation of Land Act 1971 Status of Recommendations

PART B: SUMMARY OF THE REVIEW COMMITTEE RECOMMENDATIONS	CURRENT STATUS
<p>1. That S. 11 of the Valuation of Land Act ("the VLA") be amended to provide that for the purpose of levying or imposing any rate, tax or impost on land-used for the business of primary production, site value only be used</p>	<p>The Valuation of Land Act Review - Evaluation Project produced modelling analysis that do not support the mandating of site value for primary production land due to the significant redistributive effects to landowners.</p>
<p>2. That all relevant rating and taxing legislation be amended to differentiate between "intensive" primary production use and "non-intensive" primary production use, and that all such legislation consistently define "intensive" primary production and "non-intensive" primary production</p>	<p>The implementation of an actual use policy by the Valuer-General eliminated the requirement to implement this recommendation.</p>
<p>3. That the definitions of "annual value" and "capital value" in the VLA be amended to restore the original qualification relating to any enhancement by trees planted for the primary purpose of the commercial production of timber</p>	<p>The exemption currently exists under the Valuation of Land Regulations 1991.</p>
<p>4. That Regulation 10 of the Regulations under the VLA entitled "Fixtures and Improvements not to be included in Valuations" be amended by:</p> <ul style="list-style-type: none"> <li>• deleting from (c) thereof trees planted for the primary purpose of the commercial production of timber; and</li> <li>• including schedules specifying as necessary the items of machinery, plant or equipment that are, and are not, taken into account in determining annual or capital values of land.</li> </ul>	<p>Recommendation not implemented.</p>

PART B: SUMMARY OF THE REVIEW COMMITTEE RECOMMENDATIONS	CURRENT STATUS
<p>5. That Section 22A be retained and amended in the following respects:</p> <ul style="list-style-type: none"> <li>• To differentiate between non-intensive and intensive uses of land-used for the business of primary production;</li> <li>• That each of the two categories be clearly defined in S. 22A or elsewhere in the Act;</li> <li>• That consideration be given to amending S.22A to include the concessional value required for land subject to a registered heritage agreement under the Native Vegetation Management Act 1991; and</li> <li>• That S. 22A be amended to exclude any potential for rural living from a valuation under the section; and that rural living be defined.</li> </ul>	<p>Recommendation not implemented.</p>
<p>6. That either S. 22A or S. 34 be amended to authorise regulations prescribing the procedure to apply for the benefit of S. 22A including the definitions of eligibility, for any necessary consultation between the valuing authority and the owner or occupier of land as to the basis of the valuation, and for promotional and transitional arrangements.</p>	<p>Recommendation not implemented.</p> <p>The policy relating to the application procedures for a Notional Valuation has been effectively managed in the Office of the Valuer-General.</p>
<p>7. That the VLA be amended to provide that where land holders have received the benefit of a valuation pursuant to S. 22A in consequence of which they pay less rates and taxes, and subsequently sell their land at market value, rating and taxing legislation should provide that such land holders be required to pay rates and taxes forgone.</p>	<p>Recommendation not implemented.</p>
<p>8. That S. 23 be amended to provide that the Valuer-General forward at the same time each year a notice of valuation, ensuring that all notices be placed in the same envelope for land-holders with multiple holdings, and that sub-section (2) thereof be repealed</p>	<p>Recommendation not implemented.</p>

PART B: SUMMARY OF THE REVIEW COMMITTEE RECOMMENDATIONS	CURRENT STATUS
<p>9. That Regulation 5A entitled "Certain notices not to constitute notice of valuation unless objection period is specified" be repealed.</p>	<p>Recommendation not implemented.</p>
<p>10. That the Valuer-General, as a matter of policy, forward all necessary information to land-holders in order to make the valuation process, including notional valuations and the handling of objections, easier to understand</p>	<p>The Office of the Valuer-General provides advice through the Land Services Group internet site: <a href="http://www.landservices.sa.gov.au">www.landservices.sa.gov.au</a> and through the direct contact with the Office of the Valuer-General Customer Service Centre Ph: 1300 653 346</p>
<p>11. That in lieu of the provisions relating to the review of the disallowance of an objection by the Valuer-General, there be an appeal to a Commissioner of the Environment, Resources and Development Court and, where a question of law is involved, to a Judge thereof.</p>	<p>Recommendation not implemented.</p>
<p>12. That the provisions relating to objections, reviews and appeals under the VLA and the Local Government Act be as consistent as possible.</p>	<p>Recommendation not implemented.</p>
<p>13. That the Valuer-General's Land-use Classification system be further developed to meet the specific needs of all rating, taxing and planning authorities in a consistent manner.</p>	<p>Recommendation not implemented.</p>
<p>14. That adequate resources be provided to ensure that any deficiencies in the Valuer-General's database be remedied consistent with development of the ATLAS program.</p>	<p>The current stage of ATLAS involves a Valuation Quality Program, which will ensure that the Valuer-General's valuations are more equitable and defensible and the underlying data is of more assistance to industry and government.</p>
<p>15. That the definitions of value be amended to make it clearer that such values do include the value of any access to water, irrespective of the existence of a water licence.</p>	<p>Recommendation not implemented.</p>

## Appendix 3 – Options considered but not proposed for further work

The consultation process recorded a range of additional options that are sometimes raised when considering relief to ratepayers from financial hardship imposed by local government rates. For the sake of completeness these are recorded below, with the Steering Committee's reasons for not recommending them:

1. *Limit increase in total rate revenue to CPI.*

While this is an understandable objective, it is impractical. There are numerous reasons why Councils face revenue pressures. For example:

- Changing roles and responsibilities under legislation;
- Pressure from ratepayers for improved or new services;
- The need to replace ageing infrastructure; and
- Population growth and property development.

What is critical is that Councils determine their revenue requirements on the basis of effective strategic planning processes which include consultation with the community on community needs, long-term financial planning and a sound asset management plan. Further discussion on this issue, linking strategic planning and rate setting, is included in the resource material, *“Addressing the Impact – Flexible Approaches to Rate Setting – A Guide”*.

2. *That property value be re-assessed only on change of ownership.*

The basis for this option is that the price paid for the property at the time of purchase appropriately reflects the capacity of the ratepayer to pay. This is a simplistic argument as it assumes that the ratepayer's capacity to pay does not change over time. This is unlikely to be the case. Where the ratepayer's capacity to pay is diminished, he or she has access to the remission provisions of the Act. Prima facie, the value of a ratepayer's property is an indication of capacity to pay. The reality is that the Valuer-General (or a qualified valuer) determines the market value of all properties independently. The independent valuation of every property in a Council area, or indeed the State, creates a nexus between each property. Arbitrary valuation based on when a property was purchased is likely to lead to significant inequities in the taxation system.

3. *That property value only be increased by CPI each year.*

This would amount to abandoning the foundation of an ad valorem tax system. It would also not reflect the operation of the market in determining property values. Currently, complaints are already made about the 'lag' in the market value being reflected in the valuation. However, it would be more inequitable if the valuation of a property led the market. There is the potential for this to happen if CPI were applied to the valuation of property.

More importantly, the valuation basis would soon become significantly distorted, as 'new' properties would be valued at the market price, whereas 'old' properties would be valued on a different basis – a previous market price adjusted for CPI. This would lead to inequities in the taxation system.

4. *That mandatory long-term deferred rates payment scheme for persons eligible for a State Seniors Card be introduced*

The Project looked carefully at this option, which is already available should Councils wish to offer it. Widespread anecdotal evidence is that this is not an option generally favoured by ratepayers or seen by them as a helpful solution. A number of Councils already offer deferrals and the Legislation supports this as one element in a well considered range of possibilities.

A further reason for not pursuing further the suggestion that the offer of postponement be mandatory is that products have recently appeared in the market place (in particular at the Bank of South Australia) that would provide loans to senior citizens against properties for the purpose of payment of rates.

5. *35% Limit on Use of Minimum and Adjusted Rates*

A few Councils, whose areas are characterised by very large differences in value between the generality of properties and small enclaves of high value, are keen to see the limit raised on the proportion of assessments for which the Act authorises use of a minimum rate or adjusted rates.

Increasing the 35% limit on the proportion of properties whose rates may be adjusted by a minimum or other special adjustment is not supported. The limit resulted from extensive debate in the Parliament at a time when the Government of the day attempted to remove entirely the provision authorising imposition of minimum rates. The 35% limit represents a point at which maximum intrusion is made into the *ad valorem* principle without invalidating the principle as the underlying legislative policy of the rating system.

## Appendix 4 – Additional Issues Raised During Consultations

Some issues that lie outside the terms of reference of this Project were suggested during the consultation process. Those that did not fall within the scope of the Project are recorded without further discussion and are set out here for completeness in reporting on the consultations.

1. *Ministerial Approval for Separate Rates*

Section 154 of the *Local Government Act 1999* provides that Ministerial approval is required for the raising of separate rates. In most cases, separate rates are raised in consultation with the community. Some Councils have expressed the view that where a community has agreed to the imposition of the separate rate there should be no requirement for Ministerial approval.

2. *Changes in Valuation during the Year*

Some Councils felt that they ought to be able to vary the rates raised if the value of the land changes during the year – e.g. subdivision of broad acre land, change in land use. The Tasmanian Local Government Act provides for rates to be raised on a supplementary valuation.

3. *Definition of Valuation Inclusions*

The question was raised whether fixtures and fittings should be included in the valuation.

4. *Multiple Valuation Bases*

Some Councils would prefer to be able to use more than one valuation base, for example a combination of site values outside townships and capital values within.

5. *Regulatory Fees and Charges*

Some Councils have indicated that they believe the regulatory fees and charges have not kept pace.

6. *Alliance with REI*

It was indicated that it might be beneficial for the Local Government Sector to explore an alliance with the Real Estate Institute to provide house purchasers with rate information relative to the purchase price of the property.

7. *Reliance on Property Taxes*

The issues raised during the consultation including the reliability of property values as a basis for capacity to pay, identifying other sources of funding and the proportion of the tax base received by Local Government.