

REPORT FOR:	Council		
MEETING DATE:	13 October 2020		
REPORT FROM:	Director, Corporate & Community Services		
REPORT TITLE:	Results of Rating Review Public Consultation & Next Steps		
FILE NAME:	F19/271	RECORD NO:	AR20/39983

STRATEGIC DIRECTIONS	
5	Governance and Financial Sustainability
5.1	We are inclusive, engaged and open
5.2	We have positive relationships with other levels of government and partners that deliver great outcomes for the community.
5.3	We are in a surplus financial operating position
5.5	We meet or exceed legislative and accreditation requirements for all relevant programs.

SUMMARY/ABSTRACT

In January 2020, Council resolved to undertake a public consultation process in August 2020 in relation to a proposed change in the basis of rating from the 2021/2022 rating year.

Council has recently conducted the public consultation process and the results are included within this report.

Whilst feedback from the public consultation process resulted in the majority of responders preferring to remain with site value as the basis of rating, the recommendation to Council is to proceed with the change in its basis of rating from the 2021/2022 rating year to address issues concerning equity within the community.

It is noted that since the resolution in January 2020, legislation has been introduced to State Parliament that would see all Councils required to rate on Capital Value if passed.

Discussion as to modelling results and options available to Council are also included in this report for Elected Member consideration.

If Council does resolve to change the basis of rating to Capital Value and Fixed Charge, Council will make a determination regarding the level of fixed charge and differential rates as part of the 2021/2022 budget process and Rating Policy. This will have regard to movement in property values, proposed rate capping, movement in mandatory and discretionary rebates, and any changes in the numbers of rateable properties.

RECOMMENDATION

Council:

1. Notes the results and feedback of the public consultation process.
2. Changes its basis of rating from the 2021/2022 financial year from Site Value to Capital Value.

3. Changes its basis of rating from the 2021/2022 financial year from a Minimum Rate to a Fixed Charge (with the variable component based on Capital Value) with the level of Fixed Charge to be determined during 2021/2022 budget deliberations.
4. Amends the differential rates to reflect land use (as per regulation 14 of the Local Government (General) Regulations 2013) with the additional inclusion of Coastal Homes Settlement as a differential rate.
5. Initiates community information to ratepayers in relation to the changes as part of the 2021/2022 budget process and as per Council's Communication Strategy.

BACKGROUND

JAC Comrie Pty Ltd was engaged by Port Augusta City Council to undertake a review of its rating system in the 2016/2017 financial year. Following a public consultation process, a further report was provided to Council in April 2017 where Council resolved to maintain the current basis of rating (based on site value and with a minimum rate) with further modelling to be undertaken as part of the 2018/2019 Annual Business Plan and Budget process. During the development of the 2018/2019 draft Annual Business Plan and Budget, Council agreed to delay changes to the basis of rating until after the Local Government elections held in November 2018.

JAC Comrie Pty Ltd was further engaged to consider the impact of the 2019/2020 valuations as provided by the Valuer General on the series of ten rating options that were modelled in the original report. This showed that there had been minimal rating impact differences from suggested changes compared with modelling shown in the original report and the conclusion was effectively unchanged; that there may be merit in the following possible changes to Council's rating strategy:

- Switching to capital value based rating
- Consider applying a fixed charge (but probably not at the expense of not introducing capital value based rating)
- Keeping any application of differential rating as simple as possible.
- Reviewing its policy regarding caps and concessions

Informal Gatherings were held on 6th August 2019, 23rd October 2019, and 17th December 2019 to discuss the review. A report was considered by Council on 7th January 2020 resulting in the following resolution:

1. *Notes the "Updated Modelling of Alternative Rating Options" report prepared by JAC Comrie Pty Ltd dated 14 June 2019.*
2. *Proposes a change in its basis of rating from the 2021/2022 financial year from Site Value to Capital Value (subject to further consideration following public consultation).*
3. *Proposes a change in its basis of rating from the 2021/2022 financial year from Minimum Rate to Fixed Charge (subject to further consideration following public consultation).*
4. *Proposes a change to differential rates from the 2021/2022 financial year from location and land use to land use only (subject to further consideration following public consultation).*
5. *Approves commencing a Public Consultation and Engagement process to be held in August 2020, and places an advert in the Transcontinental (AR19/47178), and additional information on Council's Facebook Page and on Council's Website and hardcopies available in the Civic Centre foyer, regarding the proposed changes.*
6. *Approves holding a Community Forum in August 2020 at the Institute Theatre, 52 Commercial Road, Port Augusta to provide the community with an opportunity to ask and have answered questions relating to the proposed changes.*

It is noted that the Rating System Review is only looking at the distribution of the general rates across various classes of ratepayers within the Port Augusta City Council jurisdiction. Effectively the rating method determines the share of total rates paid by a particular property but has no bearing on total rate revenue raised by Council.

In parallel, Council is undertaking service level and range reviews to reduce levels of expenditure to ensure financial sustainability of Council and reduce the burden of rates on the community.

DISCUSSION

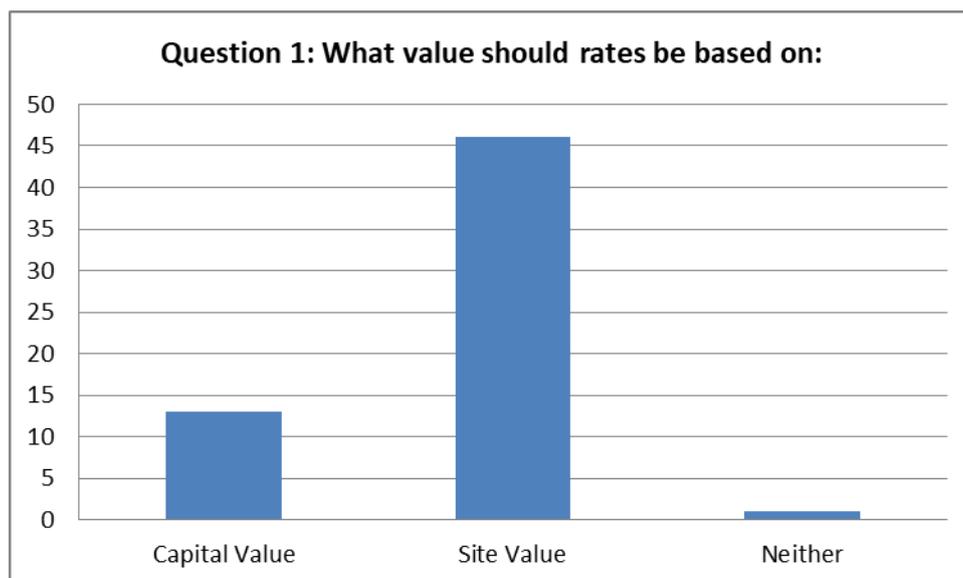
Public Consultation

As per Section 151 of the Local Government Act, a public consultation process regarding the proposed changes to the basis of rating commenced on 4th August 2020. Two public information sessions were held at Central Oval with an overview of rating being provided by Mrs Anne O'Reilly, Director Corporate & Community Services and information and modelling on the change of the basis of rating by Mr John Comrie, JAC Comrie Pty Ltd. Attendees were given the opportunity to ask questions at the conclusion of each presentation. 74 community members attended these sessions.

An e-mail invitation to attend the presentation was sent on 8th July 2020 to Port Augusta Coastal Homes Association Inc, Port Augusta Resident & Ratepayers Association, and Business Port Augusta. Advertisements were placed in The Transcontinental in two editions, Council's social media pages, Council's website and promoted through Radio 5AU.

Following the public forum, a copy of the power point presentation and other information was made available on Council's website with an online submission form to facilitate feedback. A hard copy display was also set up in the Civic Centre foyer with hard copy feedback forms available for completion.

60 submissions were received within the public consultation timeframe. A graphic summary of feedback received is below, with actual submissions attached to this report for Members' information:



Whilst the majority of respondents indicated their preference for Council to remain using site value as the basis of rating, Council will need to give clear consideration to this, particularly given the legislation before Parliament to change to Capital Value as the basis of rating for all Councils and the majority of Councils (61 out of 68) currently rating on Capital Value.

There was concern expressed that moving to Capital Value would see ratepayers penalised for keeping their yard tidy in comparison to their neighbours. The information below is from the Office of the Valuer General and outlines what is considered when determining a property's value.

https://www.sa.gov.au/data/assets/pdf_file/0017/311246/Factsheet-Statutory-Property-Valuations.pdf)

Valuation Considerations

Qualified valuers analyse property sales and market trends that occur between the General Valuation to determine levels of value.

Factors influencing property values include:



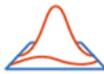
Location

Views, aspect and elevation



Site details

Land classification, zoning, land area and heritage restrictions



Site influences

Shape, topography, nearby uses and frontage



Site use

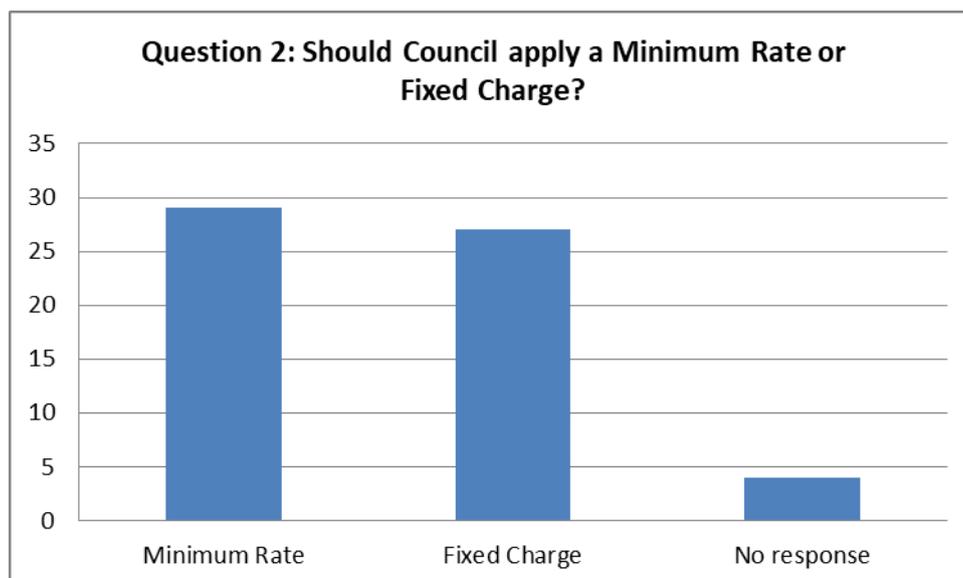
The highest and best use of the site



The building

Size, age, condition, style, improvements and construction type

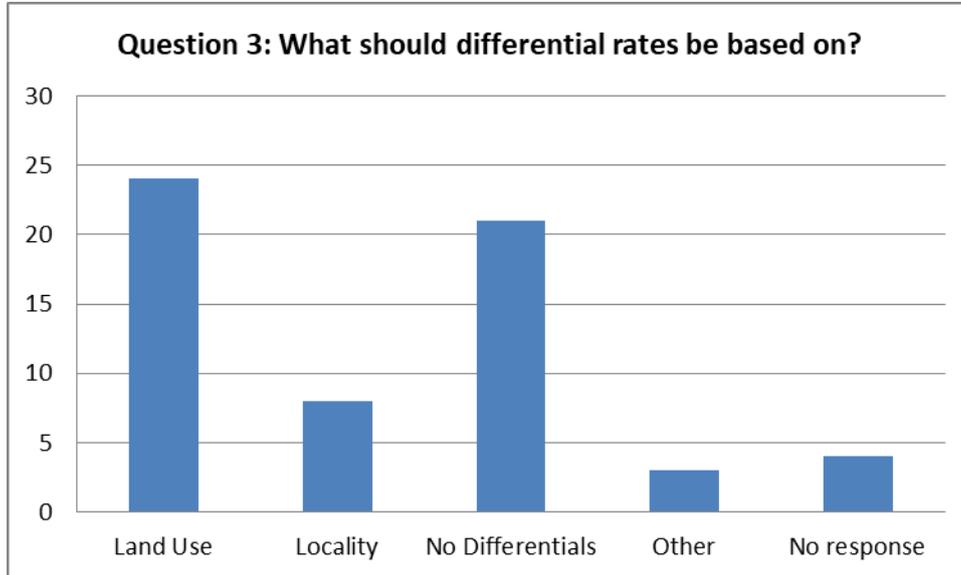
Property values are calculated by comparing properties to similar properties recently sold, with appropriate adjustments made for any differences.



It is interesting to note that there were nearly equal numbers of responses to having a Minimum Rate and a Fixed Charge. There were several comments that rates should be the same for everyone. This is not possible under current legislation. Section 151 of the Local Government Act states:

151—Basis of rating

- (1) Subject to this Act, a rate must be—
- (a) a rate based on the value of land subject to the rate;¹ or
 - (c) a rate based on two components—
 - (i) one being based on the value of land subject to the rate; and
 - (ii) the other being a fixed charge; or
 - (d) a rate based on some other factor or factors specifically allowed under this Act.



Responses to this question were very mixed. A submission was received from the Port Augusta Coastal Homes Association Inc on 19th March 2020 regarding levels of differential rates for Coastal Homes. A copy of this submission is also attached to this report.

Differential rates are determined by each Council based on its unique situation. Some Councils have a high differential rate for vacant land to encourage development of the land whilst others have the same rate in the dollar for vacant land as they do for residential land. Whyalla Council has a differential rate of 250% of the residential rate for vacant land, whilst Port Pirie Council has proposed a differential rate of between 180-220% for vacant land in 2020/21.

There was general commentary that Council rates in Port Augusta are too high regardless of the basis of rating and that Council needs to reduce expenditure. This is being considered through the Service Level & Range review being undertaken and Council has made in-roads into this over recent years.

Rate Capping

It is acknowledged that any change in the basis of rating may require extensive use of rate capping. This would be in the form of a discretionary rebate on rates through Section 166 of the Local Government Act and would be considered as part of the budget process for each rating year. It should be noted that any discretionary rebates offered to a particular group results in the rest of the community paying more to offset this amount.

The use of rate capping to 'ease in' impacts of a change to the basis of rating would effectively mean that those ratepayers that would see a reduction in rates will not reduce fully in the short term and those ratepayers who would see an increase in rates would not experience the full increase in the short term. A low percentage cap can mean that it would take many years for a property to pay what it otherwise should. Council should be wary of an over-reliance on the use of caps to "even out" rates.

Modelling Results

Modelling is based on valuations as provided by the Valuer-General as at 1st July 2020. It should be noted that results may change depending on movement of valuations in future years, mandatory & discretionary rebates, differentials applied and rate 'capping' provided.

The modelling below is based on the following differential rate percentages:

Residential - Urban	100%
Residential - Non Urban	80%
Coastal Holiday Settlement	80%
Commercial / Industrial	150%
Primary Production	80%
Vacant Land	100%
Other	100%

Modelling shown as part of the power-point presentation focussed on fixed charges of \$400 and \$900 to show the difference in impact on ratepayers of a low fixed charge versus a higher fixed charge. An Elected Member request to also provide modelling of a maximum fixed charge was undertaken. Under the Local Government Act, a maximum of 50% of general rates can be collected through a fixed charge with the balance coming through the variable rate in the dollar multiplied by the property value. Modelling of a fixed charge of \$1,100 has been included for comparative purposes.

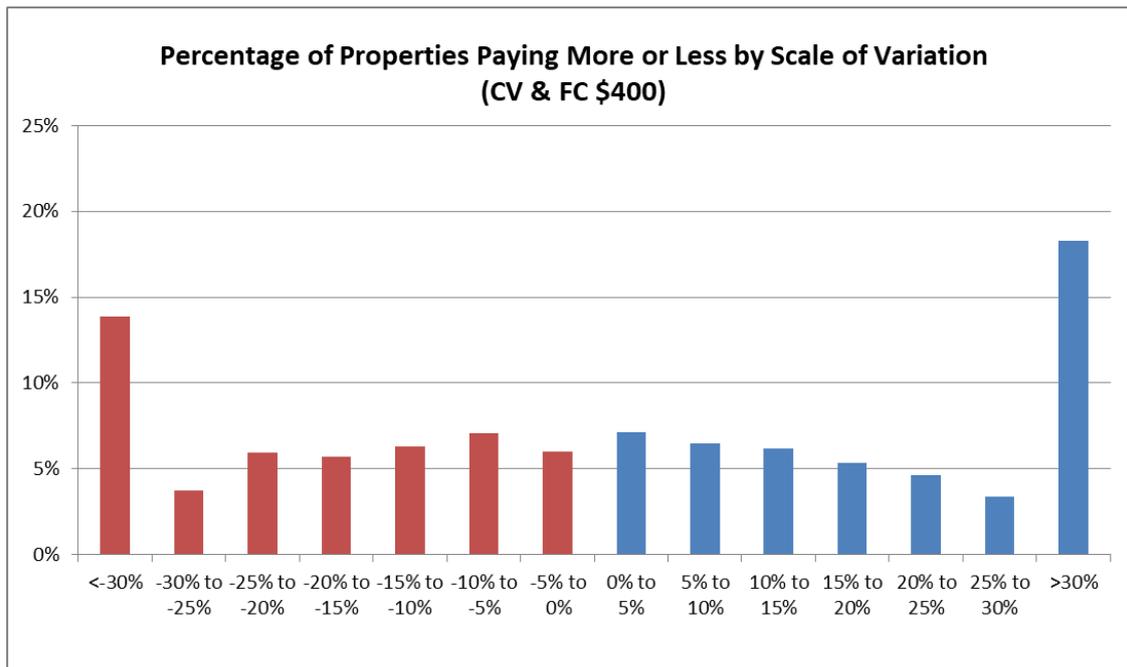
It is noted that a higher fixed charge will negatively impact on more ratepayers than a lower fixed charge. Whilst it can be argued that a higher fixed charge better reflects the community desire to have everyone pay the same in rates, it may not accurately reflect the principles of taxation where the higher value, the more tax is paid. Section 150 (a) of the Local Government Act states "*rates constitute a system of taxation for local government purposes (generally based on the value of land)*".

Fixed Charge of \$400

A fixed charge of \$400 would see approximately 17% of general rate revenue generated from the fixed charge.

FC\$400	# assessments with a DECREASE	# assessments with an INCREASE	Total Assessments
Residential - Urban	2643	3353	5996
Residential - Non Urban	101	127	228
Coastal Holiday Settlement	56	289	345
Commercial / Industrial	377	137	514
Primary Production	19	29	48
Vacant Land	488	23	511
Other	70	8	78
	3754	3966	7720

You will note that in this model, the number of ratepayers decreasing and increasing is similar. The scale of variation is also quite flat other than some anomalies at either end which will be considered in relation to rate capping.

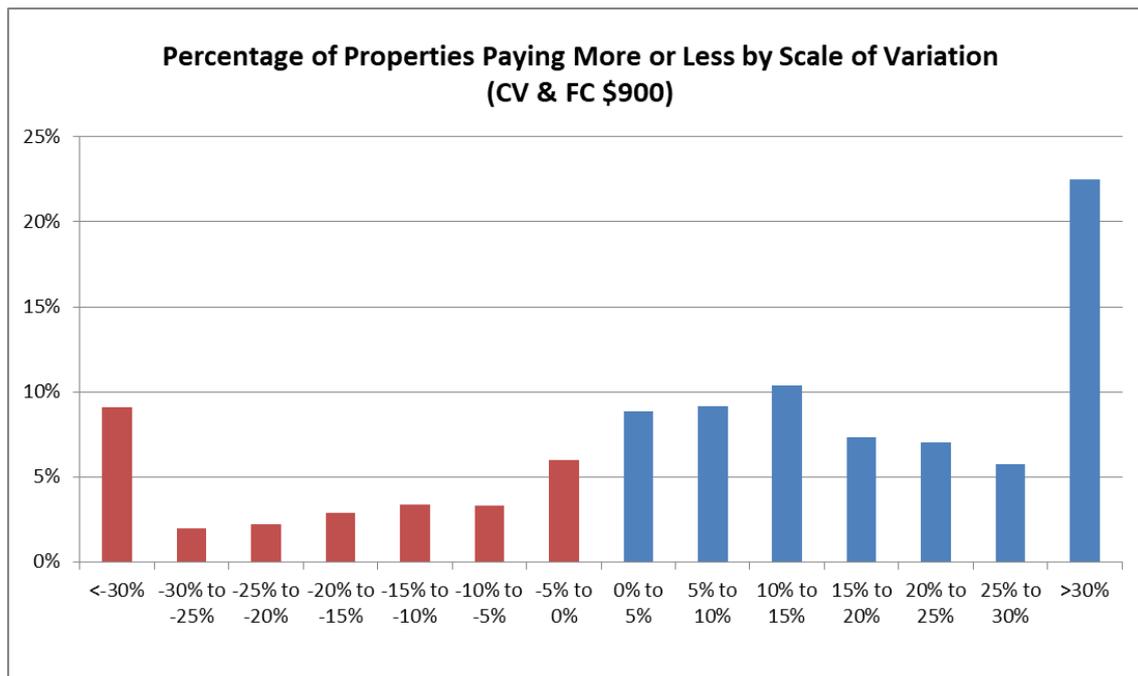


Fixed Charge of \$900

A fixed charge of \$900 would see approximately 39% of general rate revenue generated from the fixed charge.

FC\$900	# assessments with a DECREASE	# assessments with an INCREASE	Total Assessments
Residential - Urban	1878	4118	5996
Residential - Non Urban	62	166	228
Coastal Holiday Settlement	98	247	345
Commercial / Industrial	118	396	514
Primary Production	12	36	48
Vacant Land	61	450	511
Other	65	13	78
	2294	5426	7720

You will notice in this model that a higher fixed charge results in more ratepayers being adversely impacted and at a higher level.

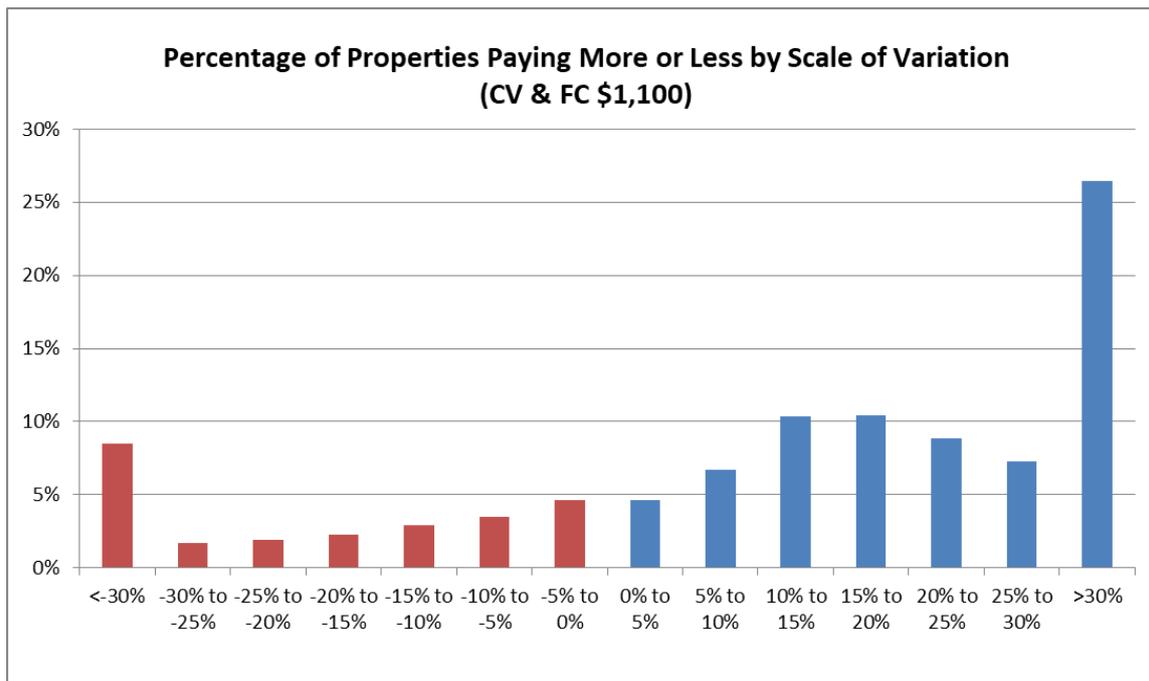


Fixed Charge of \$1100

A fixed charge of \$1,100 would see approximately 47% of general rate revenue generated from the fixed charge. This is just below the 50% limit of general rate revenue that can be generated from a fixed charge.

FC\$1100	# assessments with a DECREASE	# assessments with an INCREASE	Total Assessments
Residential - Urban	920	5076	5996
Residential - Non Urban	112	116	228
Coastal Holiday Settlement	26	319	345
Commercial / Industrial	393	121	514
Primary Production	22	26	48
Vacant Land	425	86	511
Other	61	17	78
	1959	5761	7720

This model shows that more properties increase with a higher fixed charge, particularly in the residential urban category which has the highest number of assessments as well. However, more commercial/industrial assessments would decrease.



The table below shows the impact on low, average and high capital value properties, noting that a low site value does not necessarily equate to a low capital value and vice versa.

ILLUSTRATIVE RATES PAYABLE FOR RANGE OF URBAN RESIDENTIAL PROPERTIES				
CURRENT RATING SYSTEM	RATE IN \$	LOW SV \$20K	AVERAGE SV \$50K	HIGH SV \$180K
SITE VALUE & MINIMUM RATE				
MR \$1340	0.031659	\$ 1,340	\$ 1,583	\$ 5,699
CAPITAL VALUE MODELS				
CAPITAL VALUE MODELS	RATE IN \$	LOW CV \$80K	AVERAGE CV \$175K	HIGH CV \$400K
NEW DIFFERENTIAL %				
FC \$400	0.008504	\$ 1,080	\$ 1,888	\$ 3,802
FC \$900	0.006301	\$ 1,404	\$ 2,003	\$ 3,420
FC \$1100	0.005419	\$ 1,534	\$ 2,048	\$ 3,268

It is noted that in a higher fixed charge is likely to result in higher rates on a low and average valued property, whilst the rates for a high capital value property would reduce if the fixed charge is higher. The majority of urban residential properties fall within the low and average capital value range as per the above table.

There is a mix of owner/occupier, investors and government agencies impacted by the change in basis of rating. An analysis of the top 1% of urban residential properties most adversely impacted by changing to capital value & fixed charge (based on current modelling with a fixed charge of \$1100) suggests that 48% are owner occupier, 36% are investors and 16% are Government/NGO.

Next Steps

If Council resolves to change its basis of rating, work will commence immediately on changing the parameters within Council's database and testing rating calculations in a "test" environment. Changes will be made to the "live" database once testing has been completed and results proven.

Council will make a final determination regarding the level of fixed charge and differential rates as part of the 2021/2022 budget process and Rating Policy. This will have regard to movement in property values, proposed rate capping, movement in mandatory and discretionary rebates, and any changes in the numbers of rateable properties.

Council has previously alerted the Valuer-General to the potential change in its basis of rating and will continue to liaise with the Valuer-General.

If Council does not resolve to change its basis of rating, Council will continue to monitor legislative changes before State Parliament to ensure it remains compliant with legislation.

CONFIDENTIALITY PROVISIONS

N/A

RISK MANAGEMENT

1: Financial/Budget/Asset Management

The basis of rating does not impact on the total amount of general rates collected from ratepayers and therefore does not improve or detract Council's current financial position.

2: Legal/Policy

Section 151 of the *Local Government Act 1999* provides the legislative framework in relation to basis of rating and changes to rating systems.

Council's Rating Policy is reviewed annually in line with the annual budget process.

3: Environment/Planning

N/A

4: Community

With the potential new rating system some ratepayers may experience an increase in general rates and others may have a decrease, however over time there will be a fairer and simpler system by applying important objectives relating to equity, consistency, sustainability and simplicity.

Anne O'Reilly

23/09/2020