FLINDERS COUNCIL

Rating Information Paper

April 2017

1 EXECUTIVE SUMMARY

This Information Paper has essentially been prepared now in response to previous work by Council where it was foreshowed that the 2017 General Municipal Property Revaluation presented the ideal opportunity to modernise Council's Rate methodology to move from the current minimum rate and AAV method to a fixed charge and Capital Value methodology.

The Information Paper presents sound, logical, "principle" based reasons for the change to be implemented for the 2017/18 financial year.

Importantly it also highlights a large array of other factors and options for Council to use that will assist in a transition, improve the 2017/18 rate modelling but also provide the basis for improved public education on this vexed topic.

2 INTRODUCTION

There are many elements that make up the operation of a Council and like most structural issues there is more to them than meets the eye. Often they are complex with no real definitive answer.

Like all Councils, the subject of Council Rates is the most topical, confusing and in some ways, emotive. Perhaps it's because it is upfront and "appears" to be simple.

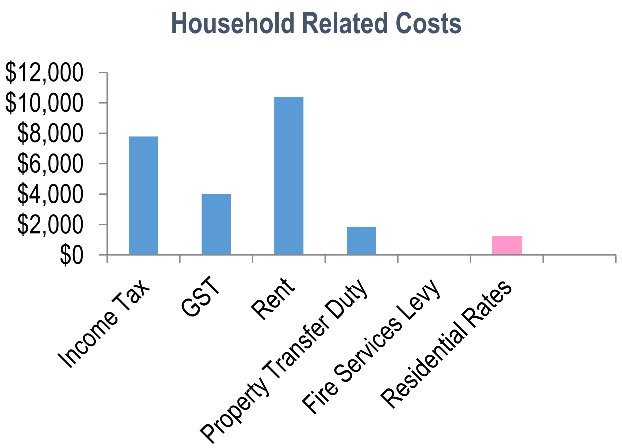
2.1 Upfront

Council rates are reviewed annually. Some Councils send out a summary of the budget and annual business plan with the first rates notice of the financial year. In this a brief explanation of major aspects including rating changes is provided. Notwithstanding that an increase in rates may have been flagged or expected, inevitably for many it's the first time a change in rates is highlighted.

On Flinders, this is further compounded as there are many properties whose ownership is "off island" and as a small remote community every $ cost is often magnified in its real or perceived impact. Yet Commonwealth taxes hit us all every day of our lives through taxation of our wages and salaries or through the GST. We all just become acclimatised. We forget that.

Below is list of typical property related household type costs which is graphed for illustrative purposes only to show relativities.

Income Tax	Tax on $50,000
GST Fuel Tax	Estimate $2,000 per household
Rent	$200 per week
Property Transfer Duty	Av valued house of $292,343 over 5 years
Fire Services Levy	Minimum
Residential Rates	Incl Waste Levy



Of course, this all adds up but it appears easiest to complain to a Council because we are here; whereas Federal and State Governments are remote with many of the taxes and charges hidden and not in one lump sum that is easily identified. Even when we do receive our tax return and see the amount of income tax we pay; we usually focus on the amount we must pay or in many instances what we receive back. We forget that all that has occurred is us receiving money that we have effectively been overcharged for!!!

2.2 Simple

We all understand rating, don't we? It's a property tax, isn't it? The higher the value our property the more we pay? True, to a point, but do you know the principles behind rating, how rates are derived, how the level is set or what controls there are on a council in making decisions about rates?

3 REASONS FOR RATES

Rates revenue is used to provide a range of services such as road construction rehabilitation, and maintenance, footpath repairs, storm water drainage, the collection of rubbish and recyclable materials, ongoing maintenance of parks, gardens and buildings, street cleaning, community economic development, planning and building, animal control, planning and enforcement of local laws, tourism support etc...

Rates are only levied to "balance the budget" for a program of works and services that are required or desired by the Community. Because these are general in nature it is not possible to identify who should pay for what, hence the need for some form of general taxation. Normally any significant increase in a council's expenditure to support a higher level of service will also have to be funded by an increase in rates or a reduction in another area of service. The price of delivering and providing these services is spread across the community in the form of rates.

4 EXPENDITURE CONSIDERATIONS

When setting rates each year, Council considers many aspects on the expenditure side of the equation such as driving the strategic plan forward, in our case toward population growth; potential expectations from the State Government regarding performance; inflation effects; community infrastructure needs and community wishes for increased service levels that are incorporated into Council's Annual Business Plan and Budget.

Council however needs to operate in a fiscally responsible manner. As far as practicable it must meet the principles of intergenerational equity to ensure that the residents and community of today pay their contribution towards the running costs of the Municipality and do not leave a burden for future ratepayers.

The simplest way to express this is that a council should strive to have a balanced operational budget; not necessarily every year but over the long term. If this occurs then depreciation, (which is essentially the recognition of the "non-cash" value of the assets that have been consumed by today's ratepayers) will be funded so that future ratepayers will not need to fund their replacement.

So, the rates that are applied every year do not necessarily relate to activities of that particular year.

5 TAXATION PRINCIPLES

The Local Government Act provides the legislative framework to allow councils to levy and collect rates. Section 86A of the Act covers the general principles in relation to the making or varying of rates as follows:

(1) A council, in adopting policies and making decisions concerning the making or varying of rates, must take into consideration the principles that

(a) rates constitute taxation for the purposes of local government, rather than a fee for service; and

(b) the value of rateable land is an indicator of the capacity of the ratepayer in respect of that land to pay rates

Accordingly, rating is a form of taxation and as such, there are several principles of taxation that apply as follows:

5.1 The Efficiency Principle

If a tax is designed to change consumer's behaviour and the behaviour changes, the tax is efficient (e.g. tobacco taxes), but if the tax is designed to be neutral in its effect on taxpayers and it changes taxpayer's behaviour, a tax is inefficient.

Within the context of rating, does the methodology significantly distort property ownership and development decisions in a way that results in significant efficiency costs? Local Government rating is typically modest compared with other costs associated with acquiring and holding property.

5.2 The Equity Principle

Does the tax burden fall appropriately across different classes of ratepayers?

Equity is a subjective concept that is difficult to define. What is considered fair for one person may be considered unfair for another. There are two main equity concepts used to guide the development of rating strategies (and taxation more generally): namely the *Benefit Principle* (Horizontal Equity) and *Capacity to Pay Principle* (Vertical Equity).

5.3 The Benefit Principle

Taxpayers should receive some benefits from paying tax, but not necessarily to the extent of the tax paid. Ratepayers in similar situations should pay similar amounts (ensured mainly by accurate property valuations undertaken in a consistent manner, their classification into homogenous property classes and the right of appeal against valuation).

Rating using land value more directly addresses the *Benefit Principle* criteria than capital value. Land values better reflect any enhancement to property values arising from Local Government property services than capital value. For example, landscaping and beautification of adjoining open spaces or provision of drainage or road infrastructure by a council, will have a similar positive impact on the market value of a vacant allotment and an adjoining developed property. The capital value of a property will be affected by all the same variables that affect land value plus the effect of any change in the level and cost of built improvements thereon.

The degree to which AAV satisfies the *Benefit Principle* again rests on the extent to which the AAV of a given property reflects its underlying value as an asset. Where it does, AAV will be consistent with land value or capital value, depending on whether the land has improvements. Where it does not, the outcome is uncertain. The 4% CV cap imposed in Tasmania also distorts the situation.

5.4 The Capacity to Pay Principle

In levying taxes the ability of the taxpayer to pay the tax must be considered. Those who are better off should pay more than those worse off (the rationale applies for the use of progressive and proportional income taxation. It implies a "relativity" dimension to the fairness of the tax burden).

Compared with land value, use of capital value or AAV allows Local Governments to better address capacity to pay considerations. In general, people who live in properties with a higher market value have higher incomes (at least over their lifetimes). Use of capital value therefore means (all other things equal) that owners of higher valued properties pay proportionately more in rates than owners of lower valued properties. Of course, cases of 'asset poor, income rich' can still face potential cash flow issues.

Similarly, higher AAV typically reflects a higher level of income (all other things equal) and is –at least over the long run – generally reflective of higher property value (whether land value or capital value). The linkages between AAV and income also mean it may be preferable from a cash flow perspective (rents are a form of cash income), however in many cases AAV is imputed and hence no cash flow is generated. The correlation between land value and wealth, though in many cases significant, is nonetheless weaker.

5.5 The Simplicity Principle

The tax must be understandable, hard to avoid and easy to collect. In this context, there are two broad concepts of simplicity namely *Administrative Simplicity* and *Compliance Simplicity*.

5.6 Administrative Simplicity

The simplicity with which the tax system is administered, and the cost-effectiveness of revenue collection, are also important design criteria. Key considerations in this regard include ease of identification of tax payers, ease of collection of tax revenue and time and effort involved in ensuring compliance and enforcement.

Local Government rates are in general hard to avoid as real property is immobile, property owners are readily identifiable and Councils have legislative powers to force property sales to recover outstanding rates. Consequently, they are relatively easily enforced compared with other forms of taxation. However, the cost and effectiveness of Local Government taxation can vary based on system design and valuation and rating practices, processes and simplicity of explanation of the methodology.

5.7 Simplicity of Compliance

Tax design must also have regard for its impacts on tax payers. A best practice tax should be easily understood and simple to comply with, ensuring that the burden placed on taxpayers is minimised. In their simplest form, Local Government rates generally satisfy these criteria well, especially compared with the onerous compliance requirements associated with many state and federal taxes. However, this can vary significantly depending on the rating base employed and the characteristics of the rating system (e.g. the number of differentials). For instance, CV rating is generally easier to explain to ratepayers than AAV as it is intuitively understood. In practice, when Rates Officers explain AAV rating to ratepayers it is usually in reference as aa percentage of CV anyway.

The overt nature of Local Government taxation (compared with, for example, the GST or personal income tax), means that community concern can readily manifest itself in a way that creates additional costs for administrators.

5.8 Sustainability

Does the system generate sustainable, reliable revenues for councils and is it durable and flexible in changing conditions (i.e. can it adequately withstand volatility)?

Managed appropriately, all available property valuation bases have the capacity to provide councils with a sustainable long term revenue stream in most cases. However, the valuation bases vary in their inherent stability. AAV is generally a more stable revenue base than capital value and especially land value, where the vast majority of movements in capital value are generated.

Rents tend to be slower to adjust than property prices, due partly to the common use of fixed term contracts which lock in rates for a given duration. Rents are also not subject to the influences of investor behaviour, which, depending on economic and financial market conditions, can be a major source of fluctuation in property markets. However, stability is also influenced heavily by the valuation process which – as the Tasmanian experience demonstrates – can be a major source of volatility itself (irrespective of the valuation base employed).

5.9 Summary

To some extent these principles conflict with each other. Governments must balance the application of the principles, the policy objectives of taxation, the need to raise revenue and the effects of the tax on the Community.

Summarising the discussion in the preceding sections, the following table *(Access Economics Rating Review - page 32)* provides an indicative quantitative assessment of each valuation base against key criteria. In undertaking this assessment, factors specific to the Tasmanian context have, to the extent relevant, been considered. For example, the added complexity generated by the 4% minimum rule has been reflected in the ranking assigned to AAV.

Naturally, in the absence of detailed analysis, an assessment of this nature is largely illustrative, in part, as there has been no weighting attached to the analysis and hence the strength of conclusions drawn from it are limited. Nevertheless, it provides a useful reference point for comparing the alternative bases available in the administration of Local Government rating.

	Economic Efficiency	Benefit Principle	Capacity to Pay	Administrative Simplicity	Compliance Simplicity	Sustainability
Land Value	5/5	4/5	2/5	4/5	3/5	3/5
Capital Value	3/5	2/5	4/5	3/5	4/5	4/5
AAV	4/5	2/5	4/5	2/5	1/5	4/5

When choosing a valuation base this is ultimately a policy decision. The key consideration would be capacity to pay and in this context, the scope to assess relative capacity to pay would be greater within property classes rated against capital value.

This view is further supported by the current practice and direction of the Valuer General who has indicated that once most councils move away from AAV towards Capital Value as a valuation base, the AAV will not be provided. When this occurs revaluation costs to all Councils will reduce.

Currently Clarence, Kingborough, George Town and Sorell all rate using Capital Value. I understand a few others are undertaking modelling for a shift. These include Devonport, Launceston and Hobart.

The Local Government Division of the Department of Premier and Cabinet have advised that the government supports this change, hence previous assistance with rate modelling that was previously provided to Council at a workshop in in February 2016.

6 RATING TOOLS

The Local Government Act provides councils with an array of options or Rating Tools by which to influence how the rating system is administered and how the tax burden is distributed across the community. Rating tools refer to the structure of the general rate (ad valorem with and without fixed and service charges); structure and range of service rates and charges; variations across classes of ratepayers (differentials); variations across the Municipality (locality) and limitations on its value (minimums, maximums or caps).

6.1 Differential Rates

Differential rates or variations in rates under Section 107 of the act allow different classes of ratepayer (e.g. properties in different localities and/or different forms of land use) to be taxed differently. The application of differential rating does not affect the amount of overall revenue raised, but can mean that properties with the same value but with different uses or in different localities pay different levels of rates.

Differentials therefore provide a tool for addressing both *Capacity to Pay* and *Benefit Principle* considerations. Commercial uses, for example, may be charged a proportionally higher rate either because their economic capacity is higher, or that the benefits they derive from council services are greater.

However, careful consideration needs to be taken in applying differentials. Too many can cause confusion. As noted above, it is probable, for example, that additional or more ready access to council benefits enjoyed by some properties relative to those elsewhere are already capitalised into property values and hence, all other things being equal, these properties will pay higher general rates. *Capacity to Pay* considerations are likely therefore to be of more criticality in determining the merit of applying differential rates.

For instance, on Flinders there would seem to be adequate opportunity to charge a separate reduced rate for Cape Barren and other islands given that they cannot access many of the services physically provided due to isolation by sea.

6.2 Fixed Charges and Minimums

The rationale for a rates minimum (i.e. in total dollar terms) or fixed charge, stems from the fact that for many aspects of council services, the benefits are distributed relatively evenly across properties and therefore ratepayers. From an optimal taxation design perspective, a fixed charge is generally preferable to a minimum rate for addressing these considerations.

Some services are people-related, or benefit all property owners equally, rather than property values proportionately and a fixed charge can best accommodate this. Application of minimums often result in some (or many) owners of low value properties paying a disproportionate share of the cost of service provision. Importantly it puts a further element of arbitrary judgement into the mix which is difficult to substantiate when reviewing this against the *Benefit* and *Capacity to Pay Principles*.

In other jurisdictions, many local governments choose to rate using capital values because it better accommodates capacity to pay considerations. While capacity to pay is more closely correlated with capital value than with land value, this correlation is far from perfect. A fixed charge has the effect of reducing the increase/decrease in rates paid by a property with higher/lower value. For example, it will result in a property with double the value of another paying something less than double the amount of rates (how much less will depend on the value of the fixed charge). A fixed charge can therefore be used to reduce the influence the value of a property has in determining the amount of rates payable.

However, over-reliance on a fixed charge – or other rating mechanisms with a similar intent – can compromise capacity to pay considerations, especially where capacity to pay (i.e. income or wealth) varies markedly across a council. In the extreme, capacity to pay is entirely undermined by a flat charge. Hence, while a significant fixed charge can also aide in generating stability, the circumstances under which this can be achieved in a non-regressive manner are limited.

The Local Government Act also restricts the application of both minimum rates and fixed charges as follows:

- A minimum rate may be set but not if there is a fixed charge. You can't have both.
- The level of a minimum rate is capped by provision within the Local Government Act.
- A fixed charge must apply equally to each rateable land assessment and the total amount collected from this aspect must not exceed 50% of the Council's general rates.

6.3 Property Valuation

This component covers the value of the property. Principally this is because it is usually the best measure of a ratepayer's "means" or ability to pay. Yet all that the property valuation attempts to do is to establish that one ratepayer with a higher valued property has more "means" than one with a lower valued property, and hence should pay more; in much the same way income tax varies with levels of income. Property value is therefore used as a "surrogate" as a measure of a property's ability to pay and importantly under section 86A(1)(b) of the Local Government Act the value of rateable land is deemed to be an indicator of the ratepayer's *"Capacity to Pay".*

Councils are required to engage an independent Valuer to carry out the task of determining property values. In Tasmania, this is carried out by the Tasmania Valuer General's Department. Unlike some other States who revalue annually, a formal revaluation of the entire municipality is only undertaken every six years. General municipal-wide adjustments through percentage change are carried out in between this period every 2 years. Properties which undertake some major change by way of redevelopment or land use change are however revalued annually. As a "general" rule valuations are of a general nature and usually 'conservative'. Any disputes over a property's valuation are dealt with by the Valuer-General, not the Council.

6.4 Land Use Differences

The Local Government Act allows rating to be varied according to a property's land use. This can be by zoning, or in our case, by designated land use categories as established by the Valuer General's Department. This method is superior as it can consider mixed land use and allow a Council to "differentiate" in the way it uses the rating system.

Unlike several Councils, we have not adopted differential rating for residential, commercial, industrial and vacant land. In other local governments, commercial and industrial rates in the dollar are slightly higher than residential rates.

One of the principal reasons stated is that commercial and industrial properties operate businesses and, therefore, the services provided by the Council assist in the property deriving a profit with rates paid being tax deductable. This also applies to General Farming operations which are businesses. In addition, the road network in an area is by far the greatest and most costly asset that a Council must maintain and it is the one most affected by traffic load. For instance, the wear and tear or axle load by one large commercial truck is equivalent to about 10,000 cars! Commercial, industrial and farm properties rely heavily on commercial vehicles hence the potential for slightly elevated contribution through differential rates.

6.5 User Charges and Service Rates / Charges

The basis for raising general rates from ratepayers is to pay for the goods and services that a local government provides to its community. Many of the services provided cannot be charged out on an individual basis. For example, you cannot charge the property owner who has a streetlight outside the property for the benefits received from the streetlight because many people share in the benefits.

However, there are goods and services that the council provides that are specifically provided to individuals and for which a user charge can be set. Councils already make such user charges – e.g. swimming pool fees, hall hire, tennis court hire, recreation centre activities. Local governments need to give careful consideration to the goods and services provided to determine whether user charges should be adopted for some goods and services.

User charges are an appropriate mechanism for councils to use to reduce the rate burden on ratepayers. From the *Benefit Principle* perspective, it is obviously fair that people pay for the services they use, if the benefit is restricted to a particular individual. This is even more important in cases where individuals from outside the Council area use the services – if the cost is recovered through general taxation, ratepayers are subsidising non-ratepayers. e.g. Airport carparking. The *Capacity-to-Pay Principle* must also be considered when setting user charges to ensure that the economically disadvantaged can still access the services. Concession fees or vouchers are appropriate means of providing such services.

Councils are also permitted to provide a separate service rate or set specific user charges for the delivery of specific services which are defined as nightsoil removal, waste management, stormwater removal, fire protection and any other prescribed service that may be defined by the State Government. This method is ideal when the benefit of a service is identical for all. From an equity viewpoint, all should pay the same charge; hence it is entirely and appropriately based on the *Benefit Principle* as it's essentially a fee for service.

An example would be a domestic kerbside waste collection service in which the actual service provided, through frequency and size, is the same to all subject properties. Another test of this principle would be that if the service was withdrawn then so to would the charge.

It should be noted that in the Flinders context the current waste levy, although classified as a service charge under the Act, is more akin to a fixed charge as the benefit currently offered is not identical, yet the levy is and it is not possible to withdraw the service as it needs to be provided anyway.

6.6 Rate Rebates and Non-Rateable Property

On a continuous basis, Council reviews all land classified within the Council area by the Valuer General. This is to ensure that those properties that are rateable under the *Local Government Act* as a separate occupancy are appropriately rated and that each makes an equitable contribution towards the costs of running the Municipality.

The provisions contained within the Act are specific, although on some occasions the interpretation is not necessarily straight forward. For those organisations that are exempt the test is usually around the notion of the property being owned and exclusively occupied for the designated community or charitable purposes.

Rate rebates however can be potentially more discretionary in nature. In a policy sense, it is incumbent of the Council to justify any discretionary rebates within a sound policy framework that avoids specific judgements that can potentially lead to precedents that can be difficult to redress and undermine the objectivity of the rates system. Use of a rate rebate for aspects of hardship may be one such application

6.7 Rate Capping

Section 88A of the Local Government Act provides the Council with the ability to cap rate increases. Whilst this aspect does provide a good mechanism to allow the Council to phase in major changes that for instance arise through a cyclic revaluation process or change in methodology, it nevertheless introduces many layers of complexity that only increase in subsequent years. For instance:

- There is a significant degree of subjectivity associated with setting applicable levels which are often hard to justify.
- It can add to the workload of the rates officer as programming the software to take into account all scenarios is difficult and manual workarounds have been done in the past to overcome anomalies.
- Unwanted unfair outcomes can result in, for example,
  - the scenario where new identical properties are created during that financial year where those properties are not capped but the existing identical property next door is capped or
  - where a property that was vacant land at the start of the financial year then has an improvement added.

For these reasons, it is not considered to be the first means of managing a change given that there are significant arrays of other mechanisms which are more soundly based in policy terms.

6.8 Separate Rates and Charges

Separate rates or charges are also a specific type of user charge. Section 100(2)(c) of the Act provides that a Council can make a separate rate or charge:

"for the purposes of planning, carrying out, making available, maintain or improving anything that in the Council's opinion is, or is intended to be, of particular benefit to

(i) the affected land or

(ii) the owners or occupiers of that land

Councils are also permitted to make a separate rate or levy for a specific area. This is usually for a specific project that only benefits the area concerned. There is virtually no limit as to the flexibility afforded so long as the provisions within the Act can be justified, although there are invariably community / political arguments to consider. One example could be a levy on a retail area for specific business support or for a specific infrastructure upgrade.

6.9 Construction Rates and Charges

Section 97 of the Act also provides Council opportunities to make a construction rate or charge to address public stormwater systems improvements for land that is more than 30m from the public stormwater system.

6.10 Summary

So, as you can see RATES are not really simple! They are very complex and involve a degree of subjectivity in their application but administratively provide a large array of options.

Alas, it's not the perfect system but it must have something going for it as it is used in most western countries to fund local government activities. It's the only system that we have. It's been around for "years" and is unlikely to go away.

7 COMPARISONS

So why are rates on a property on Flinders different than a similar valued property elsewhere?

You cannot meaningfully compare actual property valuations between two councils and the resultant rates. There are simply too many variables. For instance, let's compare two different councils each with a different valuation base but identical services.

Item	Council A	Council B
Total Capital Value	400mill	250mill
No of Properties	1250	1250
Budget Rate Income	$1,500,000	$1,500,000
Average Valuation	$320,000	$160,000
Fixed Charge	$350	$250
Rate in the dollar	0.2656 cents	0.4750 cents
Rates for a property valued at $300,000	$1,146.88	$1,675.00
Rates for an average valuation	$1,200.00	$1,010.00
Average Rate	$1,200.00	$1,200.00

As shown, even though the number of properties and budget income is identical for each Council the comparison of rates for a property valued at $300,000 and the rates for an average valuation varies markedly. Add into the potential variation in the valuation method equation - differential rates, minimum rates, fixed charges and service rates - then a meaningful comparison is virtually impossible.

7.1 So why has the valuation of my property dropped, yet my municipal rate increased?

From year to year, the total capital valuation of the Council area will vary in total, and within a specific locality. In most instances valuations increase but on some occasions the reverse may be true. - In all instances however, a property's value is derived through market forces whilst the costs of the municipality and therefore rates required are not.

"So the concept of a council receiving windfall gain from valuation movements is just another myth."

Aside from any rate increase imposed to reflect increased costs to carry out works, the same amount of revenue still needs to be raised. The rate in the $ will naturally vary to suit. If the total valuation drops, it is likely that the rate in the $ will rise to compensate. If the valuations drop the rate in the $ will increase. However, if an individual property's valuation dropped less than the average, then their rate may actually remain the same or rise.

"Contrary to popular belief, council rates are not set by a property's valuation but are instead only partly derived from the valuation"

7.2 Natural Growth

The only instances where a rate base grows is when the Council experiences growth caused not by general valuation movements but due to what is termed "Natural Growth".

There are generally three (3) forms of natural growth which justify an additional increase in the total rates collected above and beyond any general increase.

1. A property changes in value due to a capital improvement. In these circumstances the *Capacity to Pay Principle* kicks in.
2. A property land use changes into a higher classification and therefore will attract a higher rate in the $ for the valuation component of the rates calculation if a higher differential is set. e.g. residential to commercial or vacant land to capital improved land.
3. A property is subdivided either physically or by there being more than one land use on the property. The *Equity Principle* applies as there are now additional persons benefiting from the services provided by the Council and therefore should pay their proportion.

On such a small island with a small rate base it is essential that Council understands the importance and isolates this aspect so that future rates modelling reflects any growth rather than having this absorbed in any general rates increase, otherwise growth will cross-subsidise existing ratepayers.

7.3 Any other Rating Quirks?

Yes, there are other things such as contiguous land (same ownership and occupation) and tenancy apportionments (one title but separate occupancies). Also, the Fire Service Levy by the State Government obliges the Council to collect the levy on behalf of the State Government for no net gain. The levy is set as a rate in the $ on the properties AAV subject to a minimum amount and is shown as a separate charge on the rates notice.

7.4 OK. So, have we ever tried to compare rates with another area?

Of course, we all have and have all made the same error. As indicated it's impossible to compare one area with another. There are simply too many variables. It's like comparing apples with oranges. Whilst they are both fruit they look different, feel different, taste different and cost different amounts!

7.5 But if we do compare what measure can we use?

Given the large range in land use types and different types of property within an area there are only three "half" reliable measures.

The first revolves around comparing like with "like-ish". It's clearly no good comparing a rural coastal Council with one on the urban fringe. The property composition and expenditure profiles are completely different as is the land use by which rates are determined.

The second is the average rates for a particular classification, a municipality: the residential land use being a particular pointer as unlike many other classifications there are less variables. It is usually the first question someone asks as it sort of gives you a feel for the level of rating in an area. It ignores whether the area is valued highly or lowly and absorbs distortions through a fixed charge or municipal rate. At the same time, it is inherently better than a capital value of a property or the rate in the dollar.

The third is the Community's "perceived" capacity to pay. Most local governments make from year-to-year some form of value judgement at the budget time when determining whether to increase rates and by how much. For example, in rural areas when there is a drought or a poor season the following year's rate increase tends to remain static or rise only slightly. Yet in "good" years the rise may often tend to be greater. Councillors invariably have a feel for changes in their constituents' income and react accordingly.

7.6 Does Size and Location Matter?

It's obvious size and location always matters. Large councils have economies of scale whereas on Flinders we don't; notwithstanding that in part this is recognised in the distribution of Grants

Commission funds through the equalisation methodology. As an island, we also have inherent cost disadvantages which impact not just on the operations of Council but also on the island community.

7.7 What about implications for the future?

As part of the State Government's review of the Local Government sector generally, Council has been participating in a resource Sharing Project with other Northern Tasmanian Councils. Review, reform and the potential amalgamations will always be on the agenda and inter alia the analysis of revenue and expenditure of all local governments will continue to be a feature. It is inevitable that the State Government will form judgements on how much each Council is doing for itself. The State Grants Commission also undertakes revenue annually, although unlike the State Government no judgements on performance are made.

The role and level of local revenue raising and impacts on Council's underlying financial performance will always be open to scrutiny. Whether an increase in rates within Flinders above the general average increase applicable is justified through benchmarking and analysis or not remains open for consideration, especially if the Council is to have an active role in growing our population. Research and quantifying a long-term strategy is essential. The data collected as part of the Northern Tasmanian Local Government review may prove useful.

Unfortunately, this aspect is extremely important but also in the Community's eyes potentially highly emotive. In all levels of government decisions need to be taken with a long term as well as a short-term view in mind but each councillor is in for only a fixed term. For instance, our operating deficit is a consistent feature but in reality, it is in part due to previous decisions over many years. The responsibility however remains with the current and future Councils.

8 CURRENT RATES SYSTEM

Council current Rates system comprises various elements. These are described below along with comments relating to the rating principles as previously outlined.

8.1 Land Use Category as defined by the Valuer General

The land use category as defined by the Valuer General is superior to zoning as it provides opportunities to allow for mixed land use across a municipality regardless of the applicable zoning, especially given the age of Council's planning scheme and lack of specific definition of zone boundaries.

8.2 Rate in the $ based on a properties AAV

As indicated in the above analysis the use of AAV as a long term reliable modern basis to measure a property's capacity to pay is problematic in part as in the future its use will likely be discontinued. It compares poorly in relation to the *Simplicity Principles* and has the added disadvantage of having an arbitrary cap of 4% of a CV applied which weakens the *Capacity to Pay principle*. It is also less easily understood by ratepayers and the community who whilst understanding the concept of Capital Value do not as easily understand AAV.

8.3 Use of a minimum rate

Application of a minimum rate introduces a further element of arbitrary judgement into the mix which is difficult to substantiate when reviewing this against the *Benefit and Capacity to Pay Principles*. It means that each property has two elements or tests to meet in how the rates are calculated.

8.4 A fixed waste levy per property assessment

In design terms this element is strictly speaking a form of fixed charge rather than a user service fee as the benefit currently offered is not identical yet the levy is. It is also difficult to explain why this particular service and not others are treated separately.

8.5 One uniform rate in the $ for all properties

For simplicity, having one uniform rate in the $ makes it relatively simple to understand. However, many local governments adopt differential rating as a standard practice. Differentiating the ad valorem general rate based on land use and adjusting differentials on a year-to-year basis provides a strategy for managing different rates of growth across different elements of the property market (as well as satisfying other rating policy criteria). For instance, if handled sensitively a higher vacant land rate for residential properties could be applied to discourage those that do not develop. The time of a revaluation allows Council to potentially respond to the fluctuations that may be generated by introducing differential rates. As indicated in the above commentary the use of differential rates for businesses compared to residential properties has some merit.

Currently Council provides no differential rates for other locations such as Cape Barren and other Bass Strait islands. On the surface this appears inequitable simply as the means to access services on Flinders Island is by air or sea and the costs are greater. Flinders Council currently receives allowances in the Grants Commission methodology for the increased costs of transport to the island for its sea leg so arguably some allowance should apply for other islands in the Furneaux Group.

In any case, retention of the status quo or moving to a differential locational basis needs to have some justification.

9 CHANGES TO RATE METHODOLOGY

As indicated in the above commentary there are sound reasons to change the current rate methodology to more accurately accord with the relevant taxation principles associated with rating, to be more responsive to changing circumstances and more modern with respect to contemporary local government practice.

Specifically, the following changes are proposed to be implemented in a policy sense now and be implemented in the 2017/18 rating year which will include a Council wide revaluation.

(a) Abolition of a minimum rate to be replaced by a fixed charge per property assessment
(b) Change from the AAV method of rating to Capital Value method
(c) Remove waste levy as it is currently applied and incorporate this into the fixed charge
(d) Foreshadow the future use of the waste levy as a service charge for a kerbside collection waste collection, should this additional service be provided in the future.

The Local Government Division of the Department of Premier and Cabinet formally raised the matter of a change in the rating methodology with Council on 23 October 2012 with a view to transition by 1 July 2016. A detailed presentation to Council by the Department was subsequently undertaken at the February 2016 Workshop. I understand that it was then foreshadowed that Council consider a change for the 2017/18 year as part of the six-year revaluation of Council's land base.

This view accords with other councils who have introduced changes in response to variations in their revaluation, in part as it allows major movements in property valuations to be managed in a more responsible manner with less public reaction at a time when potential adverse public comment can be expected merely because of the 6-year revaluation cycle.

In addition, and as part of the rates modelling for the 2017/18 year, the following aspects should be considered:

(e) Review and introduction of differential rates per specific land use categories.

(f) Review and introduction of differential rates per specific locations for each island in the Furneaux Group and other locations that Council considers appropriate.

(g) Endeavour to ensure that the entire amount of any increase in rates associated with natural growth is delivered through rates modelling.

(h) Review and benchmark our current level of rating.

In relation to points (e) and (f), these are provided to potentially address aspects associated with the revaluation and as part of a policy improvement framework that may arise. It is considered that in the first instance these elements are sufficient and will be less problematic than the introduction of rate capping.

Point (g) ensures that in policy terms Council maximises the benefit in its efforts to maximise growth in rates and with it address in more equitable terms costs to provide for population growth.

Finally point (h) is something that all council's need to undertake. Flinders is small and more at risk financially than many.

10 SUMMARY

This paper is part of a continuous improvement process for sound policy based decisions. Whilst the initial recommendations (a), (b) and (c) can be enacted in principle with confidence now, the others require additional benchmarking work and modelling which still needs to be done.

Like all aspects of Councils operation, a sound communication process needs to be undertaken which could include a Budget and Rating Summary Flyer being included with the first rates notice.

Confused Yet??? Yes, rates are complex but the analysis and suggested responses provides a sound way forward

11 REFERENCES

Several references are available to support this Rating Paper. Some, as specifically noted below, have been referenced in the body of this report.

1. Local Government Rating - A Discussion Paper prepared for Playford Council by Skilmar Systems - December 1998. *(Skilmar Rating Review)*
2. Valuation and local government rating in Tasmania: a robust framework for the Future. Prepared for Local Government Division, Department of Premier and Cabinet (Tasmania) by Access Economics – October 2010. *(Access Economics Rating Review)*

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