



Rating Strategy Overview

16 August 2018



INTRODUCTION

Under the *Local Government Act 1993 (the Act)*, Councils have a range of functions and powers including, but not limited to, the following:

- S20(1) (a) to provide for the health, safety and welfare of the community
- (b) to represent and promote the interests of the community
- (c) to provide for the peace, order and good government of the municipal area

In terms of achieving these and other objectives Council is required to develop a range of strategic and operational plans and documents that underpin the operations of the Council; the importance of which should not be underestimated.

S68	Strategic Plan
S70	Long Term Financial Management Plan
S70A	Financial Management Strategies
S70B	Long Term Strategic Asset Management Plan
S70C	Asset Management Policies
S70D	Asset Management Strategies
S71	Annual Plan
S82	Estimate (Rating)

This document addresses in part S82 as highlighted, which requires the Council to prepare Budget Estimates of the Council's revenue and expenditure for each Financial Year. A significant element includes the raising of revenue through rates.

The following Rating Strategy Overview is presented to explain the rationale, context and overall operational philosophy behind the Council's Rating Strategy and its integration with the relevant Budget Documents which represent the financial means for the development of the Flinders Community.

Effectively it provides an introductory snapshot of the past rating efforts and future predictions, leading to the eventual adoption of the rating component of future budgets.

BACKGROUND

Under the *Local Government Act 1993 (the Act)*, Councils have a range of rating powers that provide for a great deal of flexibility. In 2017/18, in part due to Council experiencing a municipal-wide revaluation process, Council took the opportunity to rationally and logically alter its rating system by moving from Annual Value with a minimum rate plus a waste Levy to Capital Value with a Fixed Charge.

This followed detailed examination of the rationale of the rating system both in practical and operational terms. This included benchmarking with other Councils, as well as for the first time, a detailed property by property analysis of the effects of variations in rates and methodologies, remembering that under the Act, rate constitutes taxation for the purposes of Local Government, rather than a fee-for-service, and that the value of rateable land is an indicator of the capacity of the ratepayer in respect of that land to pay rates.

In doing, Council also introduced rates for some property classifications that differ from the general rate with differentials applied in relation to property use (Commercial and Residential)

and location (Cape Barren Island). In part, this was because the previous Annual Value Rating Methodology had artificial caps included which, amongst other things, effectively over emphasized several commercial land uses.

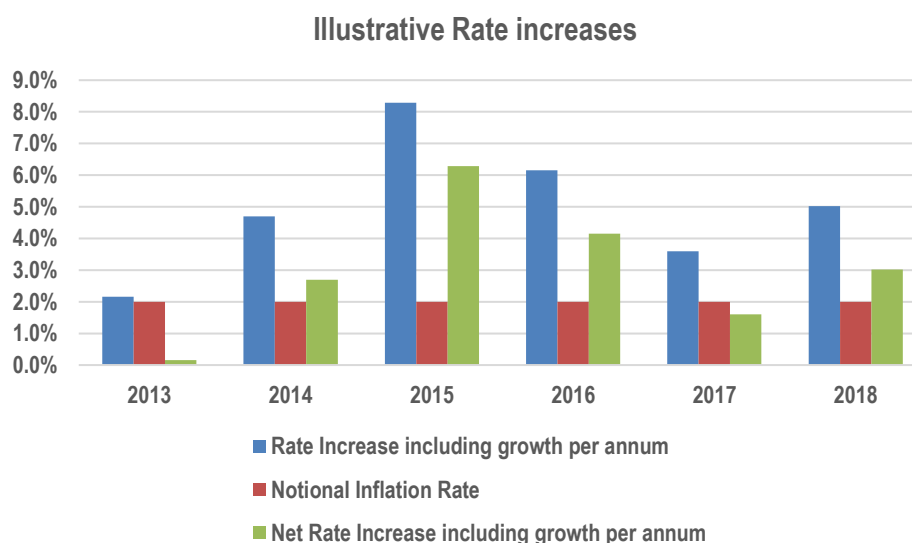
At the time there was no major change in level of rating with a 3.5% average increase applied.

The net result was that, notwithstanding what was a significant change in some instances in movements in valuations, there were very few queries from ratepayers. Importantly, apart from an improved equity of the system, Council also introduced rating not just on land use but also locality, thereby advancing several potential options into the future.

CONTEXT

In context, Council's operating revenue is broadly made up of Rates and Charges, Statutory Fees and Fines, User Fees, Grants, Contributions, Interest and Other Income. Council has minimal direct control of most elements other than Rates and Charges and User Fees where decisions are totally within the Council's control. With respect to User Fees the most significant effect relates to Airport Fees and Charges.

With respect to growth in rates, Council's performance has been unspectacular as shown by the following:



It is difficult to ascertain exactly what transpired in the past without detailed modelling of previous years rates data but essentially, what appears to have occurred is that there has been barely above inflation increases in rates with growth in rates income masked by growth in development.

For a very small municipality such as Flinders, this becomes problematical.

BENCHMARKING

Council has recently been provided with a *Rates Snapshot 2016-17* prepared by the Local Government Division of the Department of Premier and Cabinet, of rating undertaken throughout Tasmanian Local Government. Data for each Council is listed and grouped into the

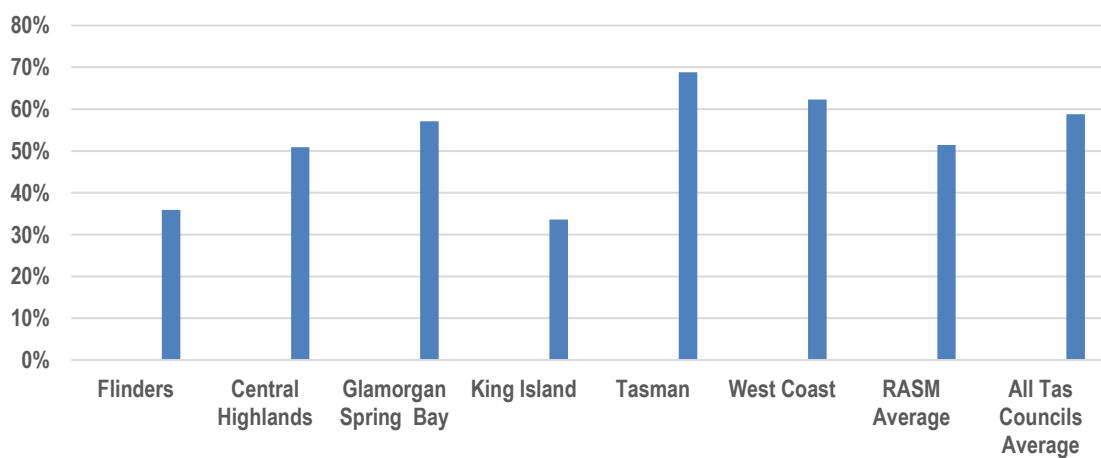
five council classifications, based on population, size and density in line with the *Australian Classification of Local Governments (ACLG)*.

Flinders is classified in the *Rural Agricultural, Small and Medium (RASM)* classification. A copy of the relevant RASM Data for 2016/17 is attached in *Appendix 1*.

A few significant points arise

- (a) Council's average rate of all rateable properties of \$1,242 is less than the RASM sector average (\$1,264) and significantly less than the state average (\$1,516).
- (b) Council's Rate revenue and a percentage of total operating revenue 35.9% is significantly less than the RASM sector average (51.4%) and significantly less than the state average (58.8%). This indicator is perhaps the most reliable one.

Rate revenue as a percentage of operating revenue



Source Rates Snapshot 2016-17 – Local Government Division Department of Premier in Cabinet

- (c) Council's average amount of operating costs per rateable property of \$4,358 is significantly greater than RASM sector average (\$2,775) as well as the state average (\$2,543).
- (d) Flinders' median weekly household income of \$1,021 is only slightly less than the state average (\$1,100) and significantly greater than many of the other RASM Councils.

The conclusions could not be clearer.

- We are small and perhaps disadvantaged in local government terms.
- We do not charge enough for our services funded through rates.
- We have the scope to significantly increase rate income and still be within the bounds of what other local governments charge.
- The notion that we are objectively "poor" is difficult to sustain.

Discussions with King Island Council have indicated that they are taking the same approach, i.e. to lift their rate revenue to something like the sector average.

In addition to the above, a separate more nuanced analysis has been undertaken over the past two years with comparisons with other Northern Tasmanian Councils.

As indicated in *Appendix 2, Comparative Rates Details of Rates for Northern Tasmanian Councils*, this conclusion is reinforced with Flinders rating within each category at generally lower levels.

Importantly, however, it seems in the residential sector Flinders is already high by comparison and that in equity terms any general rate increase should not apply as much to the residential sector as to other sectors. A general reallocation to reflect this is considered appropriate and should be undertaken with detailed rate modelling.

Council has a range of options under the *Local Government Act 1993* and as outlined in Council's Rating Policy, having differential rates based on locality, use of land and land use codes are possible options that will improve the equity of Council's rates base.

Appendices

Appendix 1 Copy of the relevant RASM Data Classification Analysis

Appendix 2 Comparative Details of Rates for Northern Tasmanian Councils

Appendix 1 Copy of the relevant RASM Data Classification Analysis

Portion of Rates Snapshot 2016-17 prepared by the Local Government Division of the Department of Premier in Cabinet of rating undertaken throughout Tasmanian Local Government.

Rates snapshot 2016-17

Introduction

This snapshot uses the latest available audited data to compare rates across Tasmania's 29 local councils. Similar councils are grouped together for the purposes of comparison.

Three performance indicators include average rates per rateable property, rate revenue to operating revenue and operating costs per rateable property. Data is presented for the following years:

- 2009-10, chosen as the baseline year for data as it was the first reporting period after council-owned water and sewage assets, and corresponding revenues, were transferred to the water corporations;
- 2014-15, showing change over a five-year interval; and
- 2016-17, being the latest available audited data.

All data is sourced or derived from publicly available information, including the Tasmanian Local Government Consolidated Data Collection, Tasmanian Auditor-General reports and Australian Bureau of Statistics catalogues. Figures in the data tables are subject to rounding. Some rounded figures may appear as discrepancies between totals or sums of components within the data tables.

See Appendix 1 for more information about data presentation and Appendix 2 for how the performance indicators are calculated.

Council rates explained

Council rates are a property-based tax collected by councils from property owners in their council area.

Rateable properties include residential and business properties.

The money raised through rates goes towards paying for the services and infrastructure provided by councils.

Every council provides different types of infrastructure and services because of differences in community needs and expectations, land area, population size, location, number of properties and industry mix. Councils make budget decisions taking into account the demand for services and the capacity of ratepayers to pay rates. Councils are accountable to their communities for these decisions.

Property values are used as the basis for levying rates across the municipality. The Tasmanian Government Valuer-General assesses the value of properties across Tasmania. Approaches to assessing property values include:

- **capital value (CV)**, which is the total value of the property, including the land, buildings and other improvements, but excluding plant and machinery; and
- **assessed annual value (AAV)**, which is the estimated rental value of the property in a year. This cannot be less than 4 per cent of the capital value.

Councils can choose which type of rateable valuation they use to set their rates.

Councils can also choose the way they distribute rates across their ratepayers. For example, some councils use a flat rating system where the same rating formula is used for all ratepayers. Other councils use a differential rating system that takes into account the diversity in ratepayers' access to and demand for council services.



To find out more about a specific council's data, including which type of rating valuation or system a council uses, please visit the council's website or contact the council directly.

See Appendix 3 for more information about how rates are calculated.

Council classifications

Information in this snapshot is grouped under five council classifications, based on population size and density and in line with the *Australian Classification of Local Governments (ACLG)*. See Appendix 1 for more information about the classifications.

This map describes each classification and shows how the groupings appear across Tasmania.

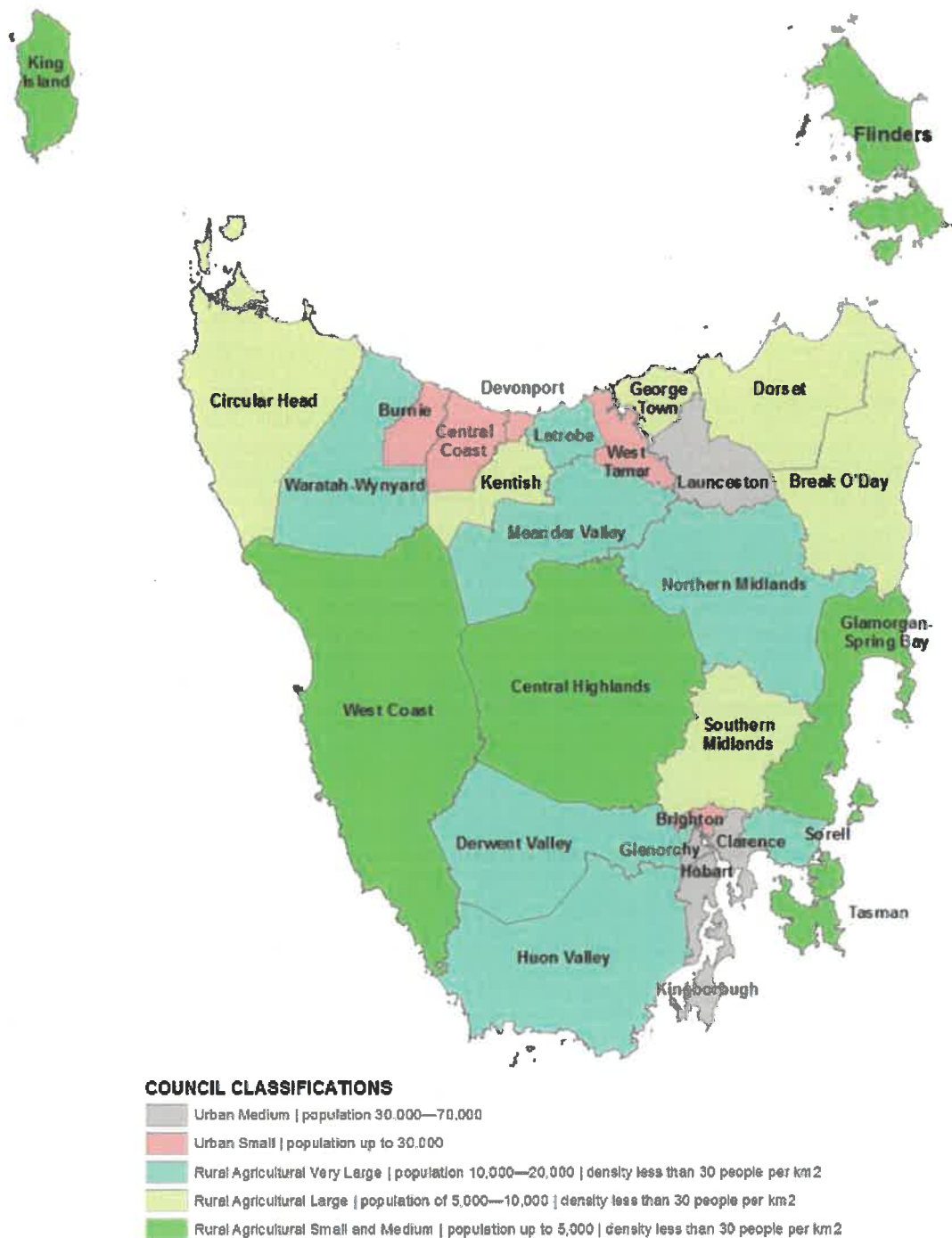


Figure 1. Tasmanian councils classified under the Australian Classification of Local Governments

LG DATA | Comparative table | Rates | All councils | 2016-17

Council	Population No.	Number of Rateable Valuations No.	Rate Revenue \$'000	Average rate per rateable property \$	Average rate per head of population \$	Median weekly household income \$
Urban medium (UM)						
Clarence	55,085	24,822	46,251	1,863	840	1,306
Glenorchy	46,397	21,048	34,582	1,643	745	1,019
Hobart	51,750	24,158	78,241	3,239	1,512	1,439
Kingborough	36,263	16,755	25,310	1,511	698	1,364
Launceston	66,864	31,366	63,568	2,027	951	1,042
UM Average	51,272	23,630	49,590	2,056	949	<i>n/a</i>
Urban small (US)						
Brighton	16,610	7,698	8,364	1,087	504	1,111
Burnie	19,304	9,734	22,563	2,318	1,169	993
Central Coast	21,851	10,823	14,543	1,344	666	1,002
Devonport	25,259	12,295	27,334	2,223	1,082	949
West Tamar	23,352	11,510	16,724	1,453	716	1,139
US Average	21,275	10,412	17,906	1,685	827	<i>n/a</i>
Rural agricultural, very large (RAVL)						
Derwent Valley	10,091	5,226	6,795	1,300	673	998
Huon Valley	16,675	10,578	11,933	1,128	716	987
Latrobe	10,940	5,881	6,930	1,178	633	1,078
Meander Valley	19,596	9,949	11,499	1,156	587	1,045
Northern Midlands	13,043	6,970	9,879	1,417	757	1,042
Sorell	14,393	9,341	12,079	1,293	839	1,132
Waratah-Wynyard	13,883	7,656	10,721	1,400	772	942
RAVL Average	14,089	7,943	9,977	1,268	711	<i>n/a</i>
Rural agricultural, large (RAL)						
Break O'Day	6,193	6,393	8,614	1,347	1,391	746
Circular Head	8,173	4,938	7,874	1,595	963	1,083
Dorset	6,746	5,269	6,930	1,315	1,027	822
George Town	6,817	4,327	7,818	1,807	1,147	854
Kentish	6,303	3,638	5,014	1,378	795	995
Southern Midlands	6,140	3,667	4,925	1,343	802	1,048
RAL Average	6,729	4,705	6,863	1,464	1,021	<i>n/a</i>
Rural agricultural, small and medium (RASM)						
Central Highlands	2,164	3,767	3,335	885	1,541	820
Flinders	926	1,252	1,555	1,242	1,679	1,021
Glamorgan Spring Bay	4,521	5,725	7,136	1,246	1,578	854
King Island	1,617	1,634	2,147	1,314	1,328	1,199
Tasman	2,396	3,392	4,392	1,295	1,833	788
West Coast	4,236	4,185	6,711	1,604	1,584	910
RASM Average	2,643	3,326	4,213	1,264	1,591	<i>n/a</i>
Average all councils	17,848	9,448	16,337	1,516	1,018	*1100

Source

Population figures derived from Australian Bureau of Statistics (ABS) cat. 3281.0 Regional Population Growth, Australia 2016, 28 July 2017

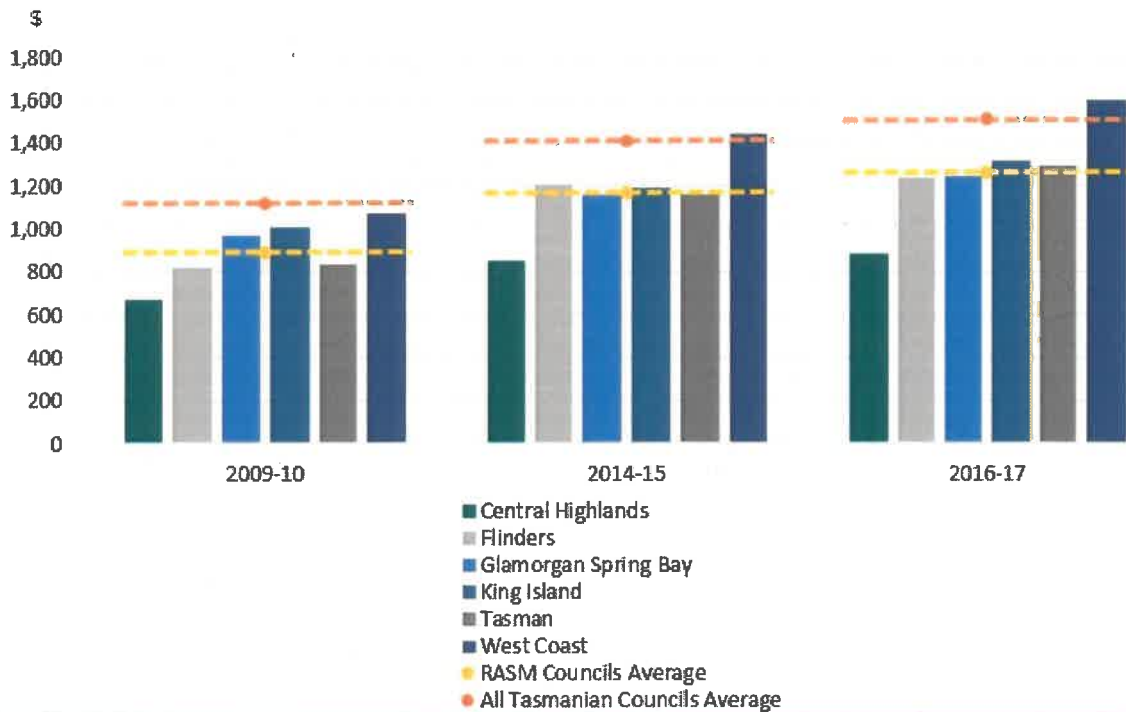
Rates information derived from the Tasmanian Local Government Consolidated Data Collection and Tasmanian Auditor-General Reports

Local Government Area median household income figures obtained from ABS - Quick Stats, Census 2016 (* Tasmanian median)

Average rate Rural agricultural, small and medium (RASM) councils

Average rate of all rateable properties

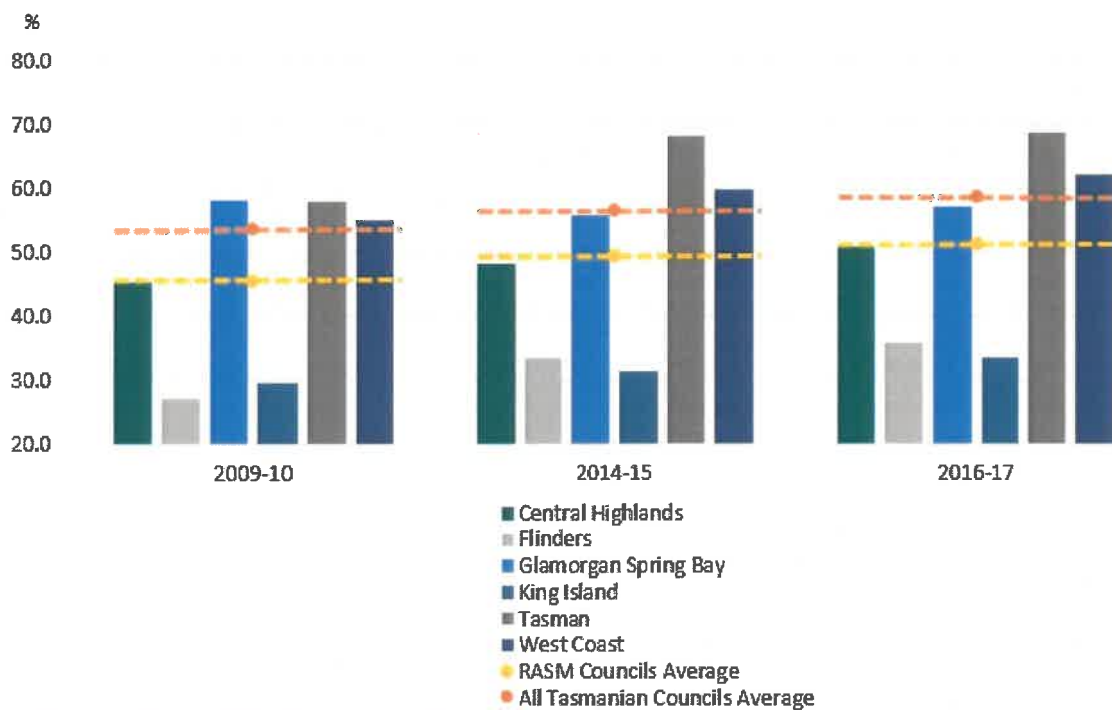
Reporting period	Central Highlands	Flinders	Glamorgan Spring Bay	King Island	Tasman	West Coast	RASM Councils Average	All Tasmanian Councils Average
	\$	\$	\$	\$	\$	\$	\$	\$
2009-10	666	820	966	1,008	836	1,073	895	1,122
2014-15	848	1,208	1,163	1,188	1,162	1,445	1,169	1,410
2016-17	885	1,242	1,246	1,314	1,295	1,604	1,264	1,516
Compound annual rate increase as a percentage between 2009-10 and 2016-17								
	4.1%	6.1%	3.7%	3.9%	6.4%	5.9%	5.1%	4.4%



Rate revenue to operating revenue Rural agricultural, small and medium (RASM) councils

Rate revenue as a percentage of total operating revenue

Reporting period	Central Highlands	Flinders	Glamorgan Spring Bay	King Island	Tasman	West Coast	RASM Councils Average	All Tasmanian Councils Average
	%	%	%	%	%	%	%	%
2009-10	45.5	27.3	58.2	29.7	58.1	55.1	45.6	53.7
2014-15	48.3	33.5	55.8	31.3	68.4	59.8	49.5	56.7
2016-17	50.9	35.9	57.1	33.6	68.8	62.3	51.4	58.8
Percentage point change between 2009-10 and 2016-17								
	5.4%	8.7%	-1.1%	4.0%	10.6%	7.2%	5.8%	5.1%



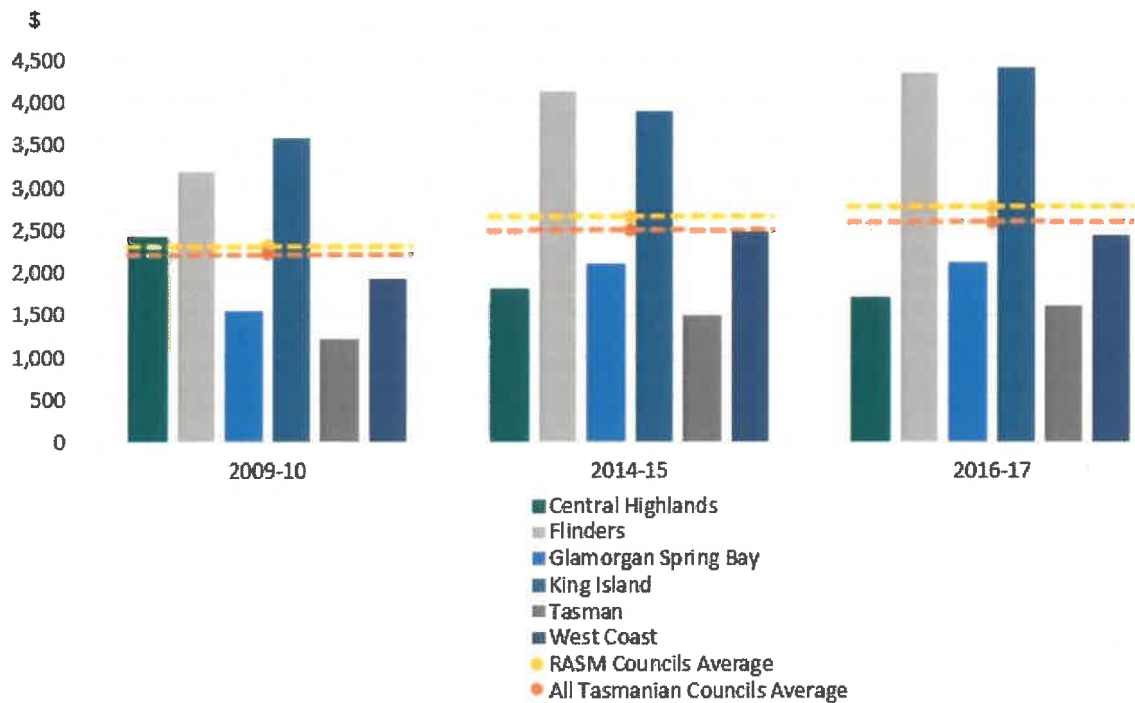
Operating costs per property Rural agricultural, small and medium (RASM) councils

The average amount of operating costs per rateable property

Reporting period	Central Highlands	Flinders	Glamorgan Spring Bay	King Island	Tasman	West Coast	RASM Councils Average	All Tasmanian Councils Average
	\$	\$	\$	\$	\$	\$	\$	\$
2009-10	2,430	3,186	1,556	3,596	1,220	1,927	2,319	2,219
2014-15	1,810	4,148	2,113	3,899	1,488	2,477	2,656	2,505
2016-17	1,707	4,358	2,115	4,415	1,616	2,440	2,775	2,593

Change as a percentage between 2009-10 and 2016-17

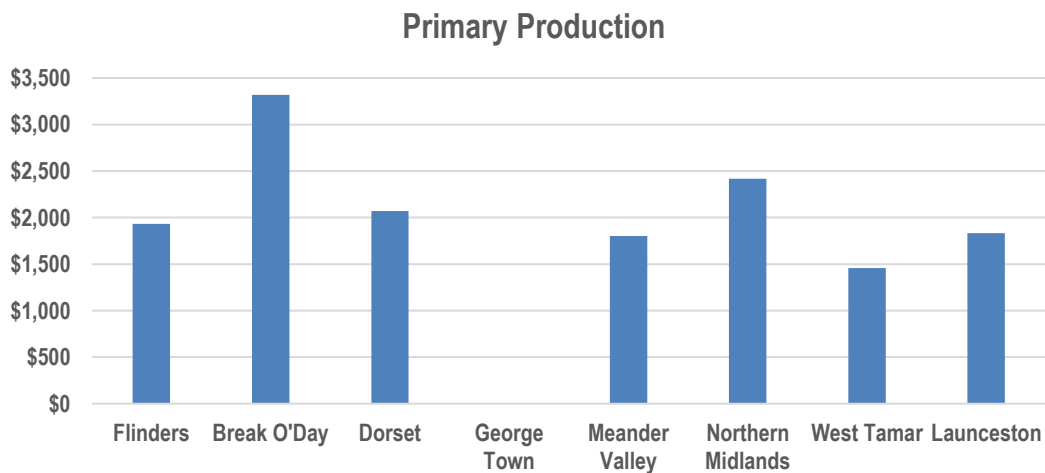
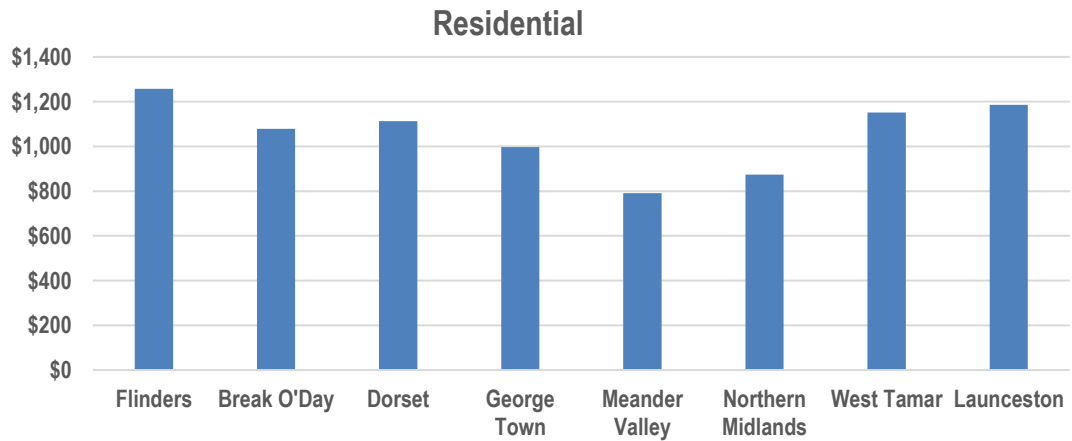
-29.8%	36.8%	35.9%	22.8%	32.5%	26.6%	19.7%	16.9%
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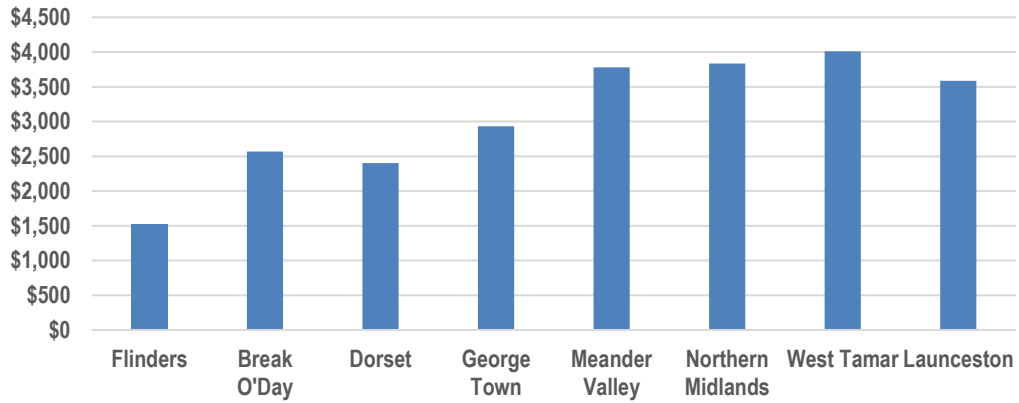
Appendix 2

Comparative Rates Details of Rates for Northern Tasmanian Councils

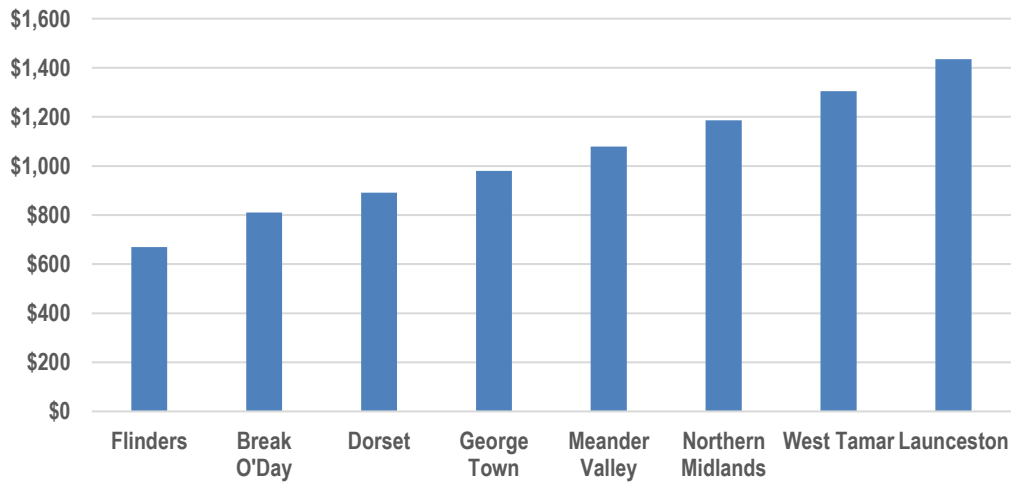
Note George Town and Meander Valley are 2016/17 figures. Balance 2017/18



Commercial



Vacant Land



Waste Charges

